



Market Impact Assessment of the BBC's Local Video Service

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Statement

Publication date: 21 November 2008

Contents

Section	Page
1 Executive Summary	1
2 Overview of analysis and conclusions	3
3 Introduction	34
4 Market research, modelling and take-up	39
5 Local and regional newspapers and associated web services	50
6 Local radio stations and associated web services	83
7 Regional TV and associated web services	106
8 Local TV and associated web services	120
9 Mobile TV services	126
10 Other relevant services	138
11 Possible modifications to the BBC proposed service	148
Annex	Page
1 Joint BBC Trust / Ofcom description of service	159
2 Terms of Reference	175
3 Market research – regression analysis	178
4 Modelling approach and assumptions	184
5 Broader static impact on consumer and producer surplus	198
6 Framework for assessing dynamic impacts	208
7 Summary of stakeholder submissions	210

Section 1

Executive Summary

- 1.1 Ofcom (the Office of Communications) undertakes a market impact assessment ("MIA") as part of the BBC Trust's Public Value Test ("PVT") regime to assess whether the BBC's proposals to launch new services, or to amend existing services, would be in the wider public interest. The MIA, which is carried out independently by Ofcom, assesses the likely impact of proposed BBC services on commercial providers. The MIA does not consider whether the proposal meets the BBC's public purposes in terms of likely value to licence fee payers. This is considered separately by the BBC Trust in its Public Value Assessment ("PVA").
- 1.2 This MIA looks at the BBC Management's proposal to launch a Local Video service. The proposed service would offer an enhanced version of the "BBC Local" websites (part of the bbc.co.uk website) and would be available on any internet enabled device. The service would provide local news, sports and weather in 60 geographic areas across the UK, with an additional five Welsh language news sites.
- 1.3 Our analysis has considered the potential impacts of the proposed BBC Local Video service on: local and regional newspapers and their associated web services; local radio stations and their associated web services; local and regional TV services and their associated web services; mobile TV services; and other relevant services (including third party content providers, journalistic services, and Welsh language services).
- 1.4 Overall, we conclude that the launch of the proposal would have a significant negative market impact on commercial providers. We expect the impacts on these services, as they are currently provided, to be no more than about 4% of annual revenues. However, our main concerns are about the effect of the BBC's proposal on future commercial innovation in online local news, sports and weather services.
- 1.5 Even in the absence of the BBC proposal, commercial prospects in these sectors are highly uncertain; a central issue being whether local online news services will be able to generate sufficient advertising revenues. Despite this, there are strong ambitions on the part of commercial providers to develop these areas of their business. Indeed almost every local newspaper now has its own website, although these vary widely in terms of numbers of stories, presentation, and the use of video content. The BBC Local Video service would represent a major presence in this area, and is likely to be of significantly greater scale than commercial providers could offer. Moreover, the current cyclical downturn in the economy means that the damaging effects of this proposal on commercial providers would be particularly acute if launched at this point in time.
- 1.6 Given the potentially adverse effects identified, we have looked at ways in which the proposal could be modified to limit those impacts and increase the overall net benefits of the proposal i.e. reduce the market impact without having a correspondingly negative effect on public value.
- 1.7 We conclude that there are only a very limited number of potential modifications to the proposal which the Trust might want to consider in order to mitigate its market impact. These are to:

- Give consideration to timing. Firstly, to consider whether roll out should be deferred to a point in the economic cycle when advertising revenues, which will be critical to the viability of competing commercial propositions, have returned to more normal levels. Secondly, to consider whether there is value in the BBC Management resubmitting a proposal for a similar service sometime in the future, once the commercial sector has had the opportunity to invest and test the commercial sustainability of their online services; and
- Encourage links to external websites to improve the degree to which the proposed services could be made more complementary to commercially-offered sites, by setting and monitoring a key performance target relating to the proportion of users of BBC Local sites that click-through to those of commercial operators.

1.8 We do not believe, however, that these modifications would be sufficient to offset the negative market impacts we have identified. Therefore, in our view, the PVT should turn on whether there is a strong public value finding in the BBC Trust's PVA.

Section 2

Overview of analysis and conclusions

Introduction

- 2.1 The current BBC Royal Charter and Agreement, which came into effect on 1 January 2007, established a Public Value Test (“PVT”) regime to assess whether the BBC’s proposals to launch new services in the future, or to amend existing services, would be in the wider public interest.
- 2.2 As part of the PVT, Ofcom carries out a Market Impact Assessment (“MIA”), the purpose of which is to assess the likely impact of the proposed services on products and services which are substitutes or complements for the proposed BBC Local Video service.
- 2.3 This section sets out an overview of the analysis and conclusions of Ofcom’s fourth MIA. It considers the market impact of the BBC’s proposed Local Video service. The MIA has been conducted in accordance with the Terms of Reference agreed by the Ofcom-BBC Trust Joint Steering Group, and with the MIA methodology agreed between Ofcom and the BBC Trust.¹

Overview of approach

- 2.4 Predicting the future in any market is necessarily subject to a high degree of uncertainty. In undertaking an MIA, this uncertainty is compounded, as an assessment of the future take-up of the BBC Local Video service, and how take-up will impact on demand for other services, needs to be made against projections of the future development of affected services in the absence of the BBC proposal.
- 2.5 Our approach aims to capture this uncertainty by developing a range of plausible scenarios of the potential impact of the BBC proposal. The uncertainty is explicitly recognised in drawing out implications and conclusions.
- 2.6 Under Ofcom’s standard approach to MIAs the first stage of the analysis is to identify the products and services likely to be affected by the BBC proposal. This analysis, which was based on our understanding of the markets affected and on stakeholders’ views, led us to identify the following services:
 - local and regional newspapers and associated web services;
 - local radio stations and associated web services;
 - local & regional TV services and associated web services;
 - mobile TV services; and
 - other relevant services (under which we cover third party content providers, journalistic services, and Welsh language news services).

¹ *Methodology for Market Assessments of BBC Services*, 22 May 2007, available at <http://www.ofcom.org.uk/research/tv/bbcmias/statement/statement.pdf>

2.7 There are three main elements to the MIA:

- an assessment of likely **take-up** of the BBC's proposed service;
- an assessment of the current and future prospects of the affected products and services in the absence of the BBC proposal ("**the counterfactual**"); and
- an assessment of the **impact of the proposed** BBC Local Video service on demand for affected products and services.

2.8 Drawing these together allows us to reach overall conclusions of the market impact of the proposed service.

Assessment of impact

2.9 In assessing the potential impacts of the proposed service we have considered the:

- **Static impacts** – the effects of the BBC Local Video service on affected services, without taking account of how other service providers might respond over time. In simplified terms, these are the impacts on other parties resulting from the BBC Local Video service either taking existing consumers away from the affected services, or from becoming users of those services; and
- **Dynamic impacts** – the effects of the BBC Local Video service on affected services, once they have adjusted their behaviour in response to the BBC Local Video service. In the current context, these may be in the form of increasing quality of service in response to entry from the BBC Local Video service or in terms of reduced investment, innovation or exit to the extent that the BBC Local Video service reduces potential revenues and profits.

Take-up

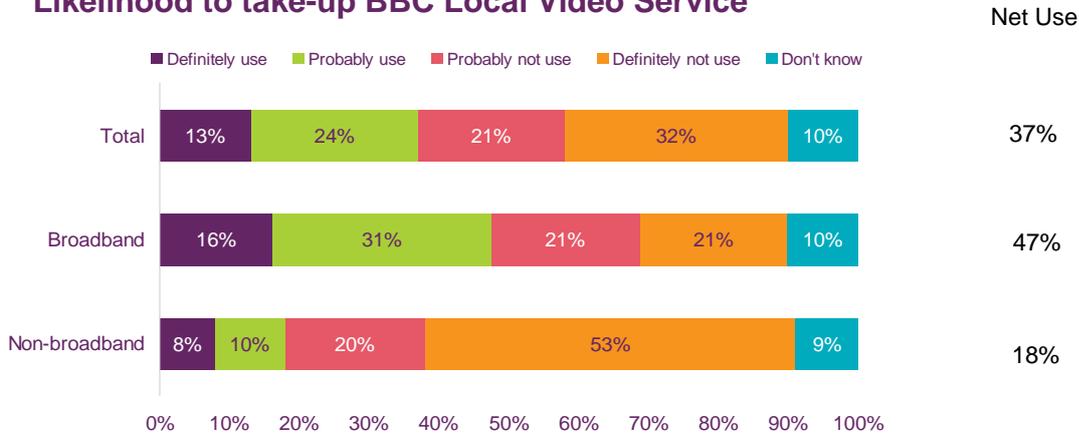
2.10 It is inevitably difficult to predict take-up of a new service accurately. Ideally, we would rely on a pilot of the service to inform take-up and also impact on demand for affected products and services. The BBC Management conducted a trial in the West Midlands in 2005 for nine months but the service was primarily a satellite and cable based offering although some elements were also available on broadband. Therefore, it is not possible to place any reliance on this as a source of evidence for take-up and impact factors, given the proposed service will only be available on broadband. In the absence of a relevant pilot, we have had to rely on insights gained from market research.

2.11 Our assessment for the BBC Local Video service is based on a consumer survey covering, in total, 2,373 respondents spread across the UK.² The survey respondents were presented with a video clip illustrating and explaining the service and then asked whether they would use it. The central findings of this are set out below.

² A quantitative research report by SPA prepared for Ofcom, *Research into the expected take-up and impact of a proposed BBC Local Video service*, 21 November 2008.

Figure 2.1:

Likelihood to take-up BBC Local Video Service



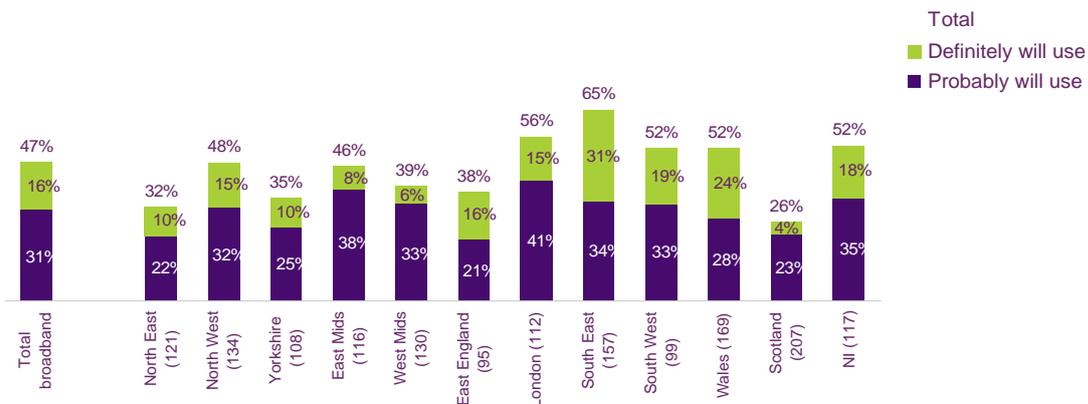
QD1 Based on the information you have just seen and heard, how likely would you be to use this local video service from the BBC if it was introduced in [LOCAL AREA]? Would you...?
 Note: Net use means the total of those who said they would definitely and probably use the service
 Base: All UK (2,195), All with broadband at home (1,625), All non-broadband (570)
 Source: Ofcom research, fieldwork carried out by SPA in June 2008.

2.12 The market research also indicated that there are different appetites for the service across the UK. Taking the market research together with the populations of the different regions indicates that the majority of users would be in the South East, Wales and London. Usage in Scotland and the North of England would be expected to be substantially lower both in absolute terms and as a percentage of the population in that region.

Figure 2.2

Likelihood to take-up BBC Local Video Service

Proportion with broadband who expect to take-up the BBC Local Video service by region



Base: All with broadband at home (1,625)
 Source: Ofcom research, fieldwork carried out by SPA in June 2008.

2.13 These regional variations in take-up are, in the main, not explained by regional demographic differences. Whilst predicted take-up amongst the whole population is

higher amongst 25-44 year olds, ABC1s, households with children and amongst rural inhabitants, these were not sufficient to explain all regional variations. The evidence obtained through the market research suggests that the pattern of regional take-up is explained by a combination of current use of websites and online video, appetite for local news and attitude towards the BBC.

Figure 2.3

Likelihood to take-up BBC Local Video Service

Proportion with broadband who expect to take-up the BBC Local Video service by key demographics

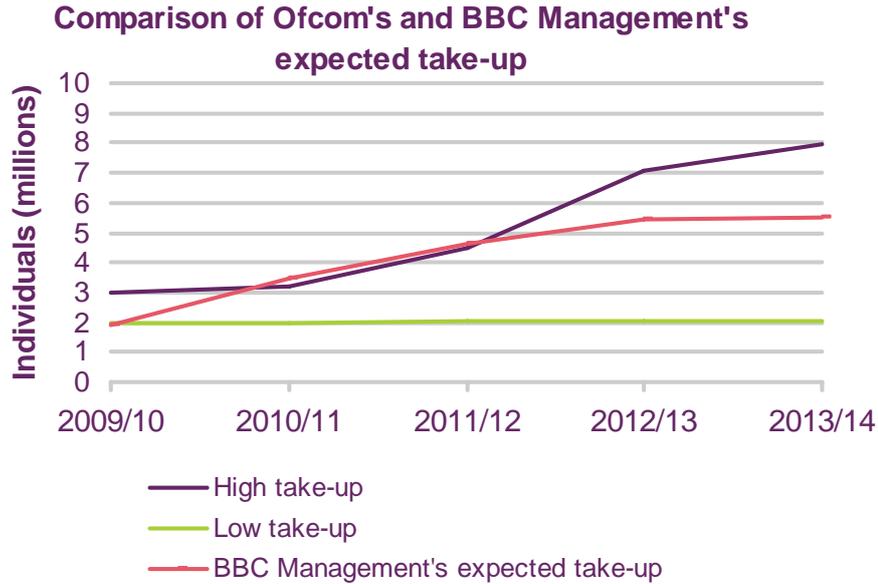


Base: All with broadband at home (1,625)

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 2.14 It is important to recognise that, however well-executed, survey responses need to be treated with caution as a predictor of actual future behaviour. Respondents, when presented with a new service, generally have a tendency to overstate their interest. In the case of a BBC Local Video service, this is potentially less so than with other new services due to the potential for cross-promotion, the strength of the BBC brand and because the service would be “networked” into the wider bbc.co.uk website. Indeed, one major group of stakeholders told us that its members believed cross-promotion to be the single biggest determinant of the proposed service’s impact.
- 2.15 Recognising the inevitable uncertainties involved, we have based our assessment on a range of take-up assumptions. Specifically, we have used the results of this market research to derive high and low forecasts of take-up (by varying the extent and speed of take-up of those who answered that they would “definitely” and “probably” use the BBC Local Video service). The projections, together with those prepared by the BBC Management in its service proposal are shown in Figure 2.4.
- 2.16 Under our assumptions take-up is expected to range from 2.1m (low scenario) to 8m (high scenario) by 2013/14. The BBC Management forecast sits largely within this range.

Figure 2.4:

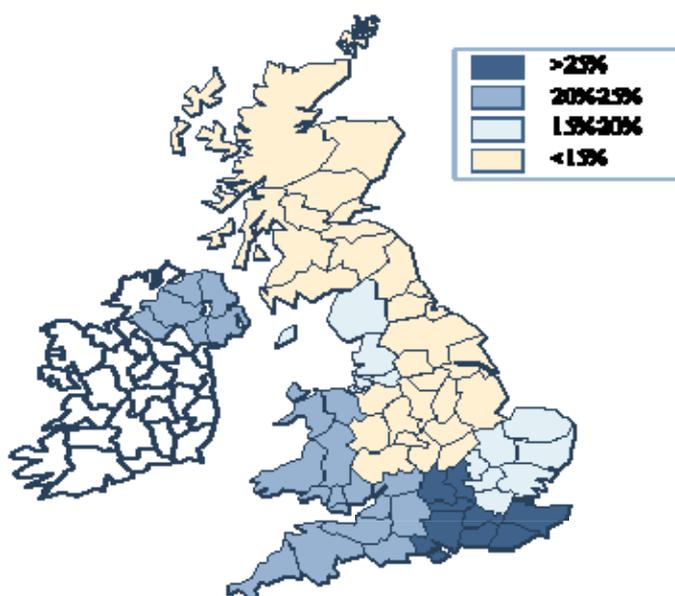


2.17 The table below shows projected take-up in 2013/14 of the BBC Local Video service in absolute terms and as a proportion of the adult population for the UK and each Government Office ("GO") region and nation under our low and high take-up scenarios. As can be seen, take-up as a proportion of the population is similar for England, Wales and Northern Ireland. However, take-up in Scotland is significantly lower. The highest expected take-up, based on our market research results, is in South East England.

Table 2.1: Take-up of the BBC Local Video service in 2013/14 for UK, GO regions and nations

	Low scenario		High scenario	
	Individuals (000s)	% of adult population	Individuals (000s)	% of adult population
UK	2,057	4%	7,979	17%
England	1,742	5%	6,700	18%
Scotland	61	1%	424	8%
Wales	154	7%	478	22%
Northern Ireland	101	6%	377	21%
South East England	558	9%	1,715	28%
London	238	4%	1,067	19%
South West England	225	6%	810	21%
North West England	220	4%	866	17%
East of England	198	5%	641	16%
Yorkshire	106	3%	450	12%
East Midlands	81	2%	497	14%
West Midlands	67	2%	456	11%
North East England	49	3%	196	12%

Figure 2.5: Take-up by GO region or nation of the BBC's proposed Local Video service: high take-up scenario



Impact on demand for affected services

- 2.18 In assessing the range of potential impacts of the proposed BBC Local Video service we need to understand how consumers might change their behaviour when faced with the new service. In particular, we need to form a view of the extent to which the launch of the new service will lead people to decrease or increase their usage of the affected services.
- 2.19 For this part of the assessment our main source of evidence was again the consumer survey. The findings of this are set out in Table 2.2 below. The majority of respondents interested in taking up the BBC service said that the new service would not impact on their use of existing services. This ranged from 78% (local newspaper websites) to 92% (local commercial radio) of current media users.
- 2.20 Of those who were likely to use the proposed BBC Local Video service and who mentioned that the new service would have an impact, the largest proportions indicated that they would reduce their use of other media either a little or a lot less. This ranged from 7% (local commercial radio) to 19% (paid daily newspapers). Online local news services were at the top end of this range (18% to 19%).
- 2.21 A proportion of users of traditional media who are likely to use the proposed BBC Local Video service also specifically mentioned that they would stop using the affected service completely. This ranged from 1% (ITV regional news) to 5% (paid weekly newspapers).

Table 2.2: Impact on consumption of commercial local news media

<i>Current weekly users who are likely to use the BBC Local Video service</i>	Stop using	Do a lot less	Do a little less	Total: Less	Do a little more	Do a lot more	Total: More
Paid for daily local newspaper (n=230)	3%	8%	11%	22%	0%	0%	0%
Local newspaper websites (n=82)	0%	5%	14%	19%	1%	2%	3%
Other websites with local news (n=84)	0%	5%	13%	18%	1%	0%	1%
ITV regional news (n=685)	1%	5%	10%	15%	1%	0%	1%
Free weekly local newspaper (n=194)	1%	5%	9%	15%	0%	0%	0%
Paid for weekly local newspaper (n=273)	5%	5%	4%	14%	0%	0%	0%
Local commercial radio (n=529)	0%	3%	4%	7%	1%	0%	1%

QD9b. What is the likely effect of the introduction of a BBC Local Video service on your use of the following? For each, please say whether the introduction of the service would stop you doing each or make you do each less, more or make you start using.

Rebased on: Total who use each type of media weekly and are likely to use the Local Video service (in brackets)

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

2.22 Again, in interpreting these figures a degree of caution is necessary for a number of reasons:

- respondents were being asked to provide their reactions to a service that does not yet exist.³ Their reaction will, therefore, necessarily be speculative and may not reflect their actual behaviour once faced with the reality of the services;
- even with an overall sample size as large as the one used in our research, the bases for many of the responses on impact are small, because the relevant groups are people who currently consume the relevant affected service *and* expect to take-up the BBC Local Video Service (e.g. only 82 people for local newspaper websites). As a consequence, the results are subject to wide confidence intervals;⁴
- given the ambitions of many providers to invest more in their online offerings in the future and to increase their user base, many respondents may not be familiar with the range of online offerings that are expected to become available. These figures may therefore not be representative;
- to the extent that many services may improve the quality of their content following increased investment, consumers' willingness to switch away from their existing services may be less than stated in the survey; and

³ Indeed the impact factors depend on a "double hypothetical": if consumers were hypothetically to take up the proposed BBC service, how they would hypothetically adjust usage of the affected services.

⁴ A confidence interval gives a range within which the true value is likely to fall. The market research results for some commercial media had a wide confidence interval because of the small sample base size for that media (based on those who are likely to use the BBC Local Video service and are likely, as a consequence, to change their consumption of that media). We have used a 95% confidence level.

- many users are likely to reach their local news content via a search website. The BBC tends to rank very highly on search sites, so to this extent those looking for a particular local story may find themselves steered towards the BBC site.
- 2.23 Given these effects, we have cross-checked our findings with those of others, such as the BBC Management's market research and the views of stakeholders. However, we have reservations about the BBC Management's market research as there appears to be a wide range of outcomes depending on how the market research data is presented. For example, based on the BMRB report,⁵ carried out on behalf of BBC Management, local news websites received a negative net audience impact of 11%⁶, whereas the preliminary market impact assessment undertaken by Human Capital on behalf of BBC Management (using the BMRB data) produced a positive net audience impact of 2%.⁷ As a result, while we have had regard to the BBC's market research, we have placed more weight on our own survey. We have modelled a high and low impact scenario based on the top and bottom confidence interval around our market research results.
- 2.24 For local and regional newspapers and local radio, we modelled the impact on audiences (readership/circulation and listeners) in each of the 60 BBC Local areas. This is to take account of geographic differences in consumption patterns. However, revenue impacts for these media have been estimated at a UK-wide level due to data limitations. Audience and revenue impacts on other affected media have also been estimated at the UK-wide level.
- 2.25 In order to estimate the range of likely revenue impacts, we modelled high and low scenarios. The greatest likely impact on revenues occurs in our model when take-up of the new service is high; growth of the affected services in the absence of the proposal (i.e. under the counterfactual) is high (or rate of decline is low); as is the proportion of users of the affected services who stop using these services as a result of the proposed BBC Local Video service. These assumptions therefore form the basis of our high scenario. The low scenario, on the other hand, is based on low take-up, low growth (or high rate of decline) in the counterfactual and a low proportion of users of the affected services who stop using these services as a result of the proposed BBC Local Video service. The range between the low and high scenario is our best assessment, based on our market research, of the range of the static impacts of the proposal.
- 2.26 In addition, we have modelled a "stakeholder scenario". This reflects the views put to us by stakeholders about the scale of the reduction in use of their services, which was substantially greater than that suggested by our market research. We have modelled these, using the same assumptions as our high scenario, but drawing on the submissions of stakeholders for the level of audience impact. Whilst stakeholders' believe their assumptions to be plausible they inevitably were unable to provide any direct evidence to support them given, for example, that they have not had the opportunity to conduct market research specific to the proposed service. For this reason, in drawing our conclusions, we have relied on the range between our high and low scenarios.

⁵ BMRB report for the BBC, *Independent Quantitative Research to feed into the Market Impact Assessment of the BBC Local Video Service*, March 2008.

⁶ This is the difference between those that said they would use less and use more.

⁷ Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals*, 11 April 2008.

Table 2.3: Scenario combinations

	Take-up	Counterfactual	Impact
Low scenario	Low	Low	Low
High scenario	High	High	High
Stakeholder scenario	High	High	Stakeholder

The counterfactual

2.27 We have examined the current position of each of the directly affected products and services and developed views on their future prospects to form an assessment of the counterfactual, i.e. what would happen in the absence of the BBC Local Video service.

The counterfactual - local and regional newspapers and associated web services

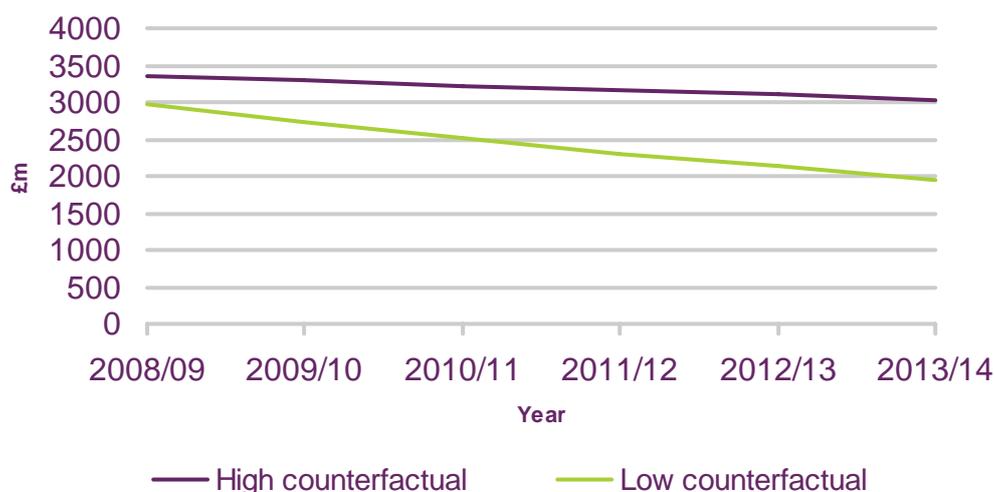
Print newspapers

2.28 There are some 1,290 local and regional newspaper titles across the UK. Some of these are weekly, some daily, some are paid for, some are funded solely from advertising revenues. Together they achieve a circulation of almost 3.3bn copies per annum. In total, local and regional newspapers generated £3.5bn in revenue in 2007; almost four-fifths of this was from advertising.

2.29 Local and regional newspaper circulation has been in structural decline. Paid daily papers have fallen, on average by 5%, each year for the last five years. Weekly titles, paid for and free, have also declined through this period albeit, at 2%, each year. Against this, there has been sharp growth in free daily titles. Overall, however, traditional print revenues are in decline.

2.30 In our counterfactual for local and regional newspapers, we have assumed that circulation will decline by 5% per annum both in our high and low scenarios. This is consistent with the views of stakeholders and market analysts. Revenue is forecast to decline by 8% per annum in our low scenario, to capture the possibility of a prolonged cyclical downturn in regional newspaper advertising, and by 2% per annum in our high scenario. The figure below shows the high and low revenue range based on these assumptions. As can be seen, by 2013/14 local and regional newspaper revenues are likely to be between £2bn and £3bn.

Figure 2.6: Newspaper revenue



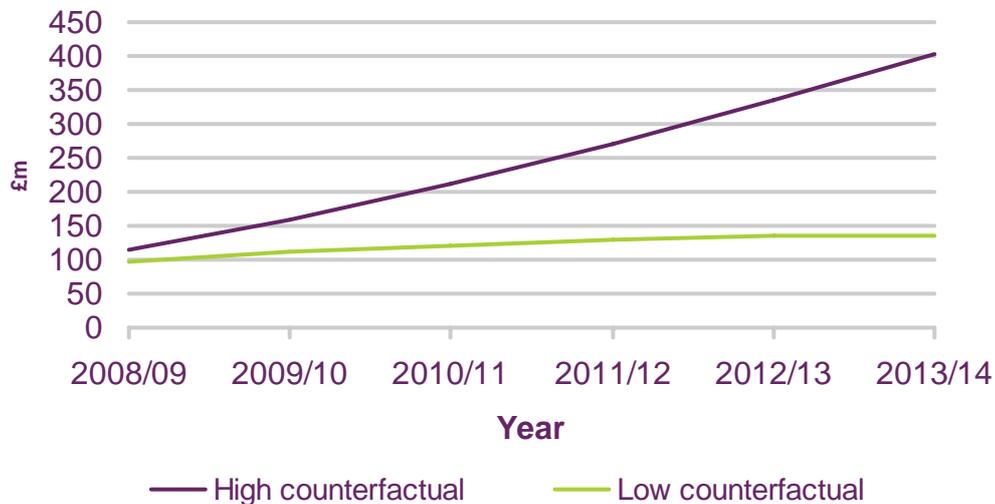
Online

- 2.31 Against this background, local and regional newspapers have increasingly developed their online presence. Almost every local and regional paper now has its own website, although these vary widely in terms of numbers of stories, presentation and the use of video content.
- 2.32 Revenues generated online still account for only a small proportion of overall revenues (about 2.5% in 2006). In part, this reflects the fact that this element of newspaper businesses is still in an early stage of development. However the challenges of generating revenue online are such that, even according to the most optimistic forecasts, falling print revenues will not be offset by online revenues. It has, by way of illustration, been estimated that it would take between 20 and 100 online users to offset the revenue loss from just one newspaper reader.⁸
- 2.33 There is an unusually high degree of uncertainty about the rate of growth in local and regional newspapers' online revenue. The evidence we have seen suggests that newspapers have a strong strategic motivation to invest in their online business and that they are capable of attracting viewers. But their ability to encourage users to stay on their websites and to generate revenue and profit on a sustainable basis (i.e. to "monetise") is not yet proven.
- 2.34 Newspaper groups have expressed their grave concerns over the BBC Local Video service proposal. Their central concern has been around the impact on the development of their own online offerings. Many submitted to us their business cases for the future, and we have taken account of these in our analysis.
- 2.35 Both our high and low counterfactual scenarios assume the same slowing growth in the number of users over time and reflect recent trends experienced by some publishers and their future expectations. In addition, the low scenario assumes flat average revenue per user ("ARPU") over time, whereas the high scenario assumes ARPU triples, due to improvements in techniques to monetise, such as improved targeting of advertising. This is to reflect the range of views we have heard from stakeholders as to prospects for local and regional newspaper websites. The figure

⁸ The Economist "More media, less news", 2006.

below shows the range of revenue projections based on these assumptions. As can be seen, revenues are expected to range from £135m to £404m by 2013/14.

Figure 2.7: Newspaper online revenues



- 2.36 We have also undertaken a range of geographic-based analyses, in addition to that relating to take-up discussed earlier. A key question is whether it is likely that geographic gaps may emerge in commercial online local news provision, such that the market impacts of the BBC's proposal in those areas will be reduced. First, our analysis has not highlighted any obvious geographic gaps in the current structure, particularly since most local and regional newspapers across the UK have an associated website. Where any gaps do emerge, it is likely that they will be in terms of differences in quality. Secondly, local and regional newspaper publishers and others have provided us with their plans to develop or introduce local news websites, believing them to be commercially viable. Again, taken together, these plans relate to all parts of the UK and there were no obvious gaps to suggest that some parts of the UK are less commercially viable than others. In addition, whilst some market analysts we spoke to questioned generally the likelihood of success, they did not identify differences between geographic areas as a particular factor. Thirdly, based on our market research, take-up of the BBC's proposal did not depend on demographic variables. Therefore, take-up and hence success of commercial local news websites is unlikely to depend, in the main, on demographic variables. As a result, it is not possible to reliably identify areas where commercial local news websites are more likely to be viable than others. Finally, our geographic analysis indicates no obvious relationship between the level of local newspaper publisher concentration in a particular area and the quality of their websites.

Impact on print newspapers

Static Impact

2.37 We have modelled the static impacts on print newspapers under three scenarios:

- **Low scenario** - This is based on the following key assumptions:
 - take-up of BBC service of 2.1m in 2013/14 (low take-up scenario);
 - 5% per annum decline in newspaper circulation (low counterfactual scenario);

- 8% per annum decline in newspaper revenues (low counterfactual scenario); and
- lower confidence interval of our market research results for proportions switching to new service (low impact scenario)⁹;
- **High scenario** - This is based on the following key assumptions:
 - take-up of BBC service of 8m in 2013/14 (high take-up scenario);
 - 5% per annum decline in newspaper circulation (high counterfactual scenario);
 - 2% per annum decline in newspaper revenues (high counterfactual scenario); and
 - upper confidence interval of our market research results for proportions switching to new service (high impact scenario);¹⁰
- **Stakeholder scenario** - This is based on the same key assumptions as our high take-up and counterfactual scenarios. However, stakeholders' assumptions on likely impacts on circulation have been used instead of our market research results. Based on stakeholders' views, we have assumed a 5% reduction in newspaper circulation as a result of the BBC's proposal.¹¹

2.38 The results are set out below:

⁹ These were: 4% for paid daily and paid weekly and 3% for free weekly local and regional newspapers.

¹⁰ These were: 20% for paid daily, 16% for paid weekly and 12% for free weekly local and regional newspapers.

¹¹ It should be noted that although the percentage audience impact figures used in our high impact scenario are higher than the stakeholder percentage figures, audience impacts are greater under the stakeholder assumptions because they apply to a wider base. Stakeholders' audience impact assumptions are based on overall consumption of the relevant media. However, our audience impact assumptions are based on the overlap between users of the BBC service and users of the relevant affected media. Hence a 10% reduction in the overlapping audience is less than a 10% reduction in overall consumption. For example, suppose 100 people read regional newspapers and 50 of these are expected to use the BBC Local Video service. A 10% reduction in overall consumption results in 10 fewer readers. A 10% reduction in those that use the BBC service and read newspapers will see five fewer readers (or a 5% reduction in overall consumption).

Table 2.4: Static impact of the BBC Local Video service on local and regional print newspapers

	Low Scenario	High Scenario	Stakeholder Scenario
Change in revenue in 2013/14 (%)	-0.1%	-2.8%	-5%
Change in revenue in 2013/14 (£m)	-1.9	-86	-152
Net present value¹² of revenue impact over five year period (£m)	-10	-247	-697

2.39 Overall, the static impact on printed newspapers is expected to be negative. It is potentially large in revenue terms, but viewed as a proportion of revenues in this sector the impact appears smaller, varying from 0.1% to about 3% in the low and high scenarios.

Dynamic Impact

2.40 Given the mature nature of the print industry, the dynamic impacts of the BBC Local Video service would not be expected to be large, even if the erosion of profitability were material. This is because the structural decline provides fewer opportunities for investment than other affected services. Overall, we do not expect a large dynamic impact from the BBC proposal on printed newspapers.

Impact on newspapers online

Static impact

2.41 Again, we have modelled the impacts using a high, low and stakeholder scenario.

- **Low scenario** - This is based on the following key assumptions:
 - take-up of BBC Local Video service of 2.1m users in 2013/14 (low take-up scenario);
 - 20% per annum growth in online users declining over time (low counterfactual scenario);
 - ARPU remains constant (low counterfactual scenario); and
 - lower confidence interval of our market research results for proportion of users likely to switch to new service is 1% (low impact scenario);
- **High scenario** - This is based on the following key assumptions:

¹² We used a real, social discount rate of 3.5%. This is the rate recommended for economic welfare assessment in the HM Treasury Green Book: [www.hm-treasury.gov.uk/d/2\(4\).pdf](http://www.hm-treasury.gov.uk/d/2(4).pdf).

- take-up of BBC Local Video service of 8m in 2013/14 (high take-up scenario);
 - 20% per annum growth in online users declining over time (high counterfactual scenario);
 - ARPU triples (high counterfactual scenario); and
 - upper confidence interval of our market research results for proportion of users likely to switch to new service is 12% (high impact scenario);
- **Stakeholder scenario:** This is based on the same key assumptions as our high take-up and counterfactual scenarios above. However, stakeholders' assumptions on likely impacts on local and regional newspaper website users have been used instead of our market research results. Based on stakeholders' views, we have assumed a 15% reduction in local and regional newspaper website users as a result of the BBC's proposal.

2.42 The results are set out below:

Table 2.5: Static impact of the BBC Local Video service on local and regional newspaper websites

	Low Scenario	High Scenario	Stakeholder Scenario
Change in revenue in 2013/14 (%)	-0.1%	-1.9%	-15%
Change in revenue in 2013/14 (£m)	-0.1	-8	-61
Net present value of revenue impact over five year period (£m)	-0.3	-17	-179

2.43 Overall, the table suggests that, under our low and high scenarios, the impacts are not expected to be large, expressed as a percentage of revenue. Given the much lower revenue base of this area of business, this also implies that in monetary terms the static impact is not expected to be large.

2.44 The assessment based on stakeholders' views suggests a very different story. Here, the revenue impact is very significant especially when assessed as a proportion of overall revenues. The difference between this scenario and the others we have modelled is a more pronounced reduction in usage following the introduction of the BBC Local Video service.

Dynamic impact

2.45 Other things equal, given the developing state of local and regional online services, we would expect the dynamic impacts to be greater than for printed news.

- 2.46 We note that local and regional newspaper publishers have a wide range of possible online investment opportunities. In addition, the innovative nature of online services and the potential for growth means that further investment opportunities may well arise in future.
- 2.47 However, it is likely that if local and regional publishers lose significant audience and revenues they would have to reconsider future investment plans and existing products.
- 2.48 The evidence on static impacts suggests that the net effect of the BBC Local Video service will be to reduce expected profitability, in particular by reducing the amount of time online by a sub-set of users of commercial websites, and so adversely affecting the ability of commercial websites to monetise these users. As such, if the BBC Local Video service wins audiences from commercial services, this is likely to lead to a lower level of investment than would take place in the absence of the BBC Local Video service. The potential scale of this impact is unclear, particularly as the extent of investment will depend on the ability of news providers to monetise their website offerings.
- 2.49 We consider that the adverse dynamic impact on commercial providers of local and regional online news is likely to be significantly larger and more important than the static impact. Our concern is that that it will have a disproportionate effect on commercial providers, especially in the context of an uncertain commercial environment. This is a central issue in the overall MIA and is returned to below.

The counterfactual – local radio and associated web services

- 2.50 There are, in total, 336 local commercial radio stations in the UK. As a whole, the commercial radio sector generated £598m in revenue in 2007. Overall, revenues have been declining by an average of 2% per year for the last five years.¹³ This trend is largely attributable to a decline in commercial listening hours, which have been falling by an average of 2% per year since 2002. This average trend however conceals wide variations across the country.
- 2.51 Like newspapers, radio stations are increasingly developing their online offerings. 93% of commercial radio stations stream their content online, and this is generally seen as the main driver of audiences to their websites. In addition to this, local radio websites generally offer some news content, including sport, travel and weather.
- 2.52 There is a large variation in the level of investment and content in the online offerings of different commercial radio stations. However, there appears to be a widespread drive in the industry to invest more online.
- 2.53 Looking to the future, forecasts suggest that commercial radio revenues will continue to decline by between 2% and 4% per annum for the next five years as commercial listeners continue to migrate to BBC and national commercial services and people spend less time listening to radio as it competes with other entertainment and information media channels such as the internet. In our counterfactual for local radio we have therefore assumed that radio listening per listener will decline by 3-4% per annum our low scenario and by 2% in our high scenario. Revenue is forecast to decline by 2% per annum in our high scenario in line with listening hours but by 7% in our low scenario, to reflect the possibility of a cyclical downturn in radio advertising.

¹³ Radio Advertising Bureau (RAB) commercial radio revenues.

- 2.54 As to their online offerings, radio groups told us that they had ambitions for future growth and development. Several said that they were looking to increase news and sports coverage to retain users who had initially been drawn to their websites to listen to the station online. The growth forecasts in terms of usage are in many instances high, as much as 50% per year, although these are from a relatively low base. In terms of revenue, most also expected some increase in revenues, although they did not necessarily expect ARPU to continue to increase each year and some predicted a decrease. Therefore in our counterfactual for radio online we have assumed that in the low scenario ARPUs would remain flat but in the high scenario they will increase. We also assumed that unique user numbers will grow in both scenarios (with a lower level of growth in the low scenario) but that that growth will level off over time.
- 2.55 Our assumptions for the counterfactual scenarios are based on stakeholders own estimates and forecasts provided by independent sector analysts. The figures below indicate how on-air revenues could decrease and online revenues could increase in these scenarios.

Figure 2.8: Radio on-air revenues

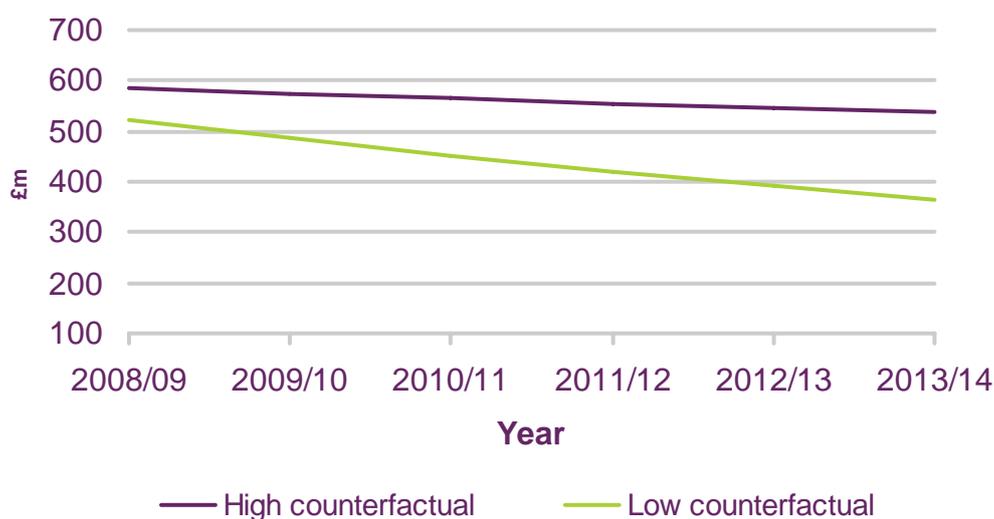
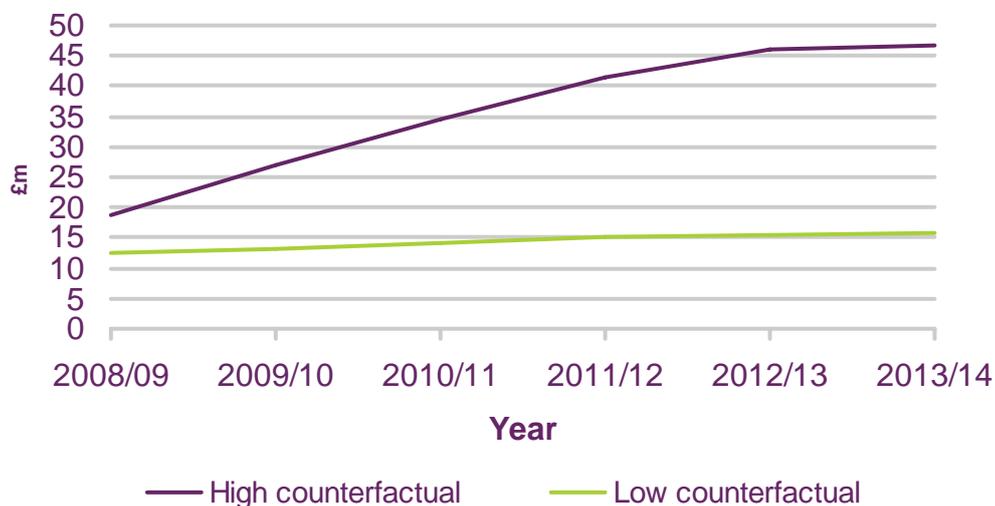


Figure 2.9: Radio online revenues



Impact on radio on-air and online

Static impacts

2.56 We have modelled the static impacts on radio under three scenarios:

- **Low scenario** - This is based on the following key assumptions for radio listening;
 - take-up of BBC Local Video service of 2.1m in 2013/14 (low take-up scenario);
 - 4% per annum decline in radio listening hours (low counterfactual scenario);
 - 7% per annum decline in radio revenues (low counterfactual scenario); and
 - 1% per annum decline in radio listening hours - lower confidence interval of our market research results (low impact scenario);

And for radio online:

- take-up of BBC Local Video service of 2.1m in 2013/14 (low take-up scenario);
 - 10% per annum growth in radio website users declining over time (low counterfactual scenario);
 - ARPU remains constant (low counterfactual scenario); and
 - 2% decline in radio website users - lower confidence interval of our market research results (low impact scenario);
- **High scenario** - This is based on the following key assumptions for radio listening:
 - take-up of BBC Local Video service of 8m in 2013/14 (high take-up scenario);
 - 2% per annum decline in radio listening hours (high counterfactual scenario);
 - 2% per annum decline in radio revenues (high counterfactual scenario); and
 - 5% decline in radio listening hours - upper confidence interval of our market research results (high impact scenario);

And for radio online:

- take-up of BBC Local Video service of 8m in 2013/14 (high take-up scenario);

- 54% per annum growth in radio website users declining over time (high counterfactual scenario);
 - ARPU increasing over time (high counterfactual scenario); and
 - 13% decline in radio website users - upper confidence interval of our market research results (high impact scenario);
- **Stakeholder scenario** - This is based on the same key assumptions as our high take-up and counterfactual scenarios above. However, stakeholders' assumptions on likely impacts on listening hours have been used instead of our market research results. Based on stakeholders' views, we have assumed a 5% reduction in radio listening hours as a result of the BBC's proposal and a 10% reduction in radio website users.

2.57 The results are set out below:

Table 2.6: Static impact of the BBC Local Video service on radio's on-air and online services

	Low Scenario		High Scenario		Stakeholder Scenario	
	Radio listening	Radio websites	Radio listening	Radio websites	Radio listening	Radio websites
Change in revenue in 2013/14 (%)	almost zero ¹⁴	-0.1%	-0.9%	-2.2%	-4.1%	-10%
Change in revenue in 2013/14 (£m)	-0.2	almost zero ¹⁵	-4.9	-1.0	-22	-4.7
Net present value of revenue impact over five year period (£m)	-0.8	almost zero ¹⁶	-14	-2.5	-101	-17

2.58 Overall, our own assessment therefore indicates that the impact of the BBC Local Video service on radio listening and radio website usage will not be very large either in absolute terms or as a proportion of revenues. We recognise that this differs from the views provided to us by radio stakeholders. Indeed, the stakeholder impact scenario shows a much greater revenue loss, particularly on radio listening revenues. This difference stems from the level of switching that radio groups expected from their services to the BBC Local Video service. This level of switching depends on whether radio is seen as a substitutable medium for online video content and whether local news is a primary driver of listening to radio and audiences to local radio websites. Whilst stakeholders have argued that consumers will switch from their services to the BBC Local Video service, the results of our market research suggest that this is not likely to be a very large effect.

¹⁴ -0.04%.

¹⁵ -£0.01m.

¹⁶ -£0.05m.

Dynamic impacts

- 2.59 Although the impacts on revenue described in the static assessment could be taken to imply that the impacts on profitability will also be very small, the levels of profitability in the radio sector are generally low, with some companies currently operating at a loss. One interpretation of this is that the impact of even a small reduction in profits could be sizeable in terms of the impact on the structure of the industry. On the other hand, there could be much stronger influences on the commercial radio sector than the BBC's potential launch of the Local Video service. In a mature industry where the returns on innovation may not be large, the dynamic effect may be less of a concern. Overall, taking these factors into account and the small static impact, we conclude that the dynamic effects on radio listening directly attributable to the BBC Local Video service are unlikely to be large.
- 2.60 The dynamic impacts on online radio, however, are likely to be more significant than the static impacts might suggest. Although the static effect on revenues and profits are not large in percentage terms, because of the dynamic nature of the service, the opportunities for investment and the low profitability of the sector, there potentially could be significant dynamic effects. However, we expect the dynamic impact to be smaller than for local newspaper online services, because local news content seems to be less central to radio online services and radio groups have less ambitious investment plans in respect of local news services.

The counterfactual - regional TV and associated web services

- 2.61 Regional TV refers to programming¹⁷ which is produced specifically in the nations and regions.¹⁸ Regional TV services are provided commercially by the four ITV licensees: ITV plc (England and Wales), STV (Scotland), UTV (Northern Ireland) and Channel TV (Guernsey and Jersey).
- 2.62 Overall, the audience for ITV regional news has fallen by 7% across the whole of the UK over the last five years. The provision of regional news is not currently profitable. Recent evidence showed that ITV's direct costs for regional news provision exceed corresponding revenues generated by almost a multiple of six.¹⁹
- 2.63 We did not receive any views or projections relating to how regional TV news audiences would change over the next five years. Given this and the lack of publicly available forecasts, we have assessed the counterfactual for regional TV broadcasting in a qualitative manner.
- 2.64 All the regional TV broadcasters have recently started to provide local video content online that includes news, sport and weather. However, broadcasters are at various stages of development in the provision of online services. The most developed website is ITV plc's, who has developed a dedicated multi-channel service for local/regional content, called ITV Local. All regional TV broadcasters use repurposed bespoke news, sport and weather content from broadcast regional news

¹⁷ Programming comprises of regionally produced news and non-news programmes, which are not part of the network production (i.e. non-network programming). We have used regional interchangeably with programmes produced in the nations.

¹⁸ Quota requirements for regional TV are regulated by Ofcom, within the framework of Tier 2 programme quotas, as set out in the Communications Act 2003.

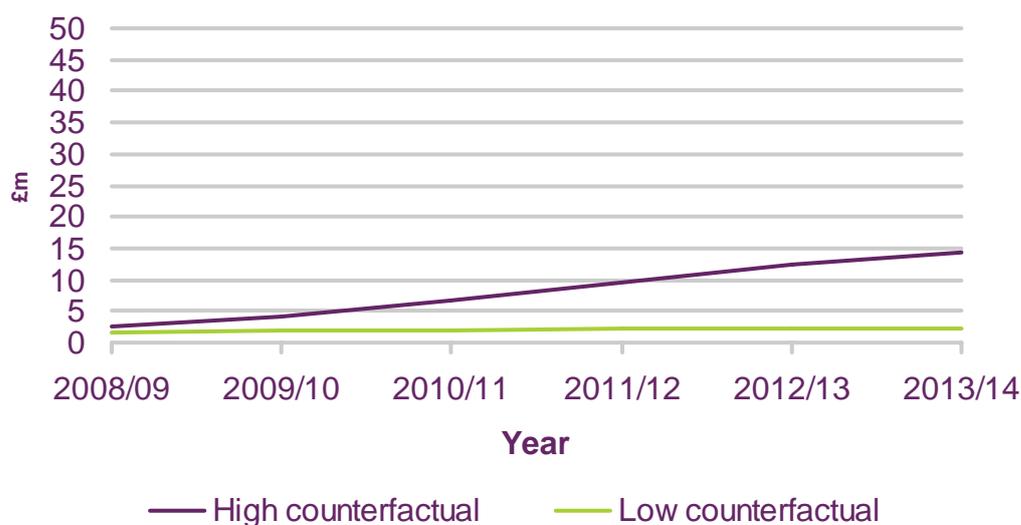
¹⁹ Ofcom, *New News, Future News*, 2007:

<http://www.ofcom.org.uk/research/tv/reports/newnews/newnews.pdf>.

programmes. This means that there is little incremental cost incurred from transferring it onto the internet.

- 2.65 We received detailed evidence from ITV plc regarding ITV Local's future projections and the assumptions. However, for other online regional TV services there is limited evidence available. We have therefore only sought to quantify the counterfactual for ITV Local. However, we have not only taken account of ITV plc's evidence, but also evidence from other online providers of news, such as newspaper and radio stakeholders, when creating our assumptions. In addition, the counterfactual for ITV Local can be used to inform the impact on other regional TV online providers, although taking into account any inherent differences between services.
- 2.66 Our assumptions for the counterfactual have been informed by independent ITV Local web usage data²⁰ and stakeholder evidence.²¹ The low scenario has been informed by stakeholders' online forecast assumptions²², whereas the high scenario has been informed by ITV plc's forecast assumptions for ITV Local, and benchmarked against other stakeholders' online forecast assumptions.²³
- 2.67 The figure below indicates how ITV Local's revenues may increase in our high and low scenarios.

Figure 2.10: ITV Local revenues



Note: This counterfactual calculation is based on our own assumptions and do not represent the views of ITV plc.

Static impacts

- 2.68 We have not sought to model the impact on regional broadcast TV. This is due to a lack of available evidence required to forecast the counterfactual (and as a result the impact) for this service. Most stakeholders believed that there was unlikely to be an impact on linear broadcast regional news services. The characteristics of regional

²⁰ Web analyst data (Comscore).

²¹ ITV Local and other stakeholders (i.e. newspaper publishers and radio groups) assumptions provided in their consultation responses.

²² Online newspapers and radio stakeholder growth assumptions.

²³ Online newspapers and radio stakeholder high scenario growth assumptions.

broadcast TV and the proposed BBC Local Video service are significantly different. For these reasons, we consider that the negative impact on regional TV viewing as a result of the BBC proposals is likely to be quite small.

2.69 We have modelled the static impacts on ITV Local under three scenarios:

- **Low scenario** - This is based on the following key assumptions for ITV Local viewing;
 - take-up of BBC Local Video service of 2.1m in 2013/14 (low take-up scenario);
 - 32% per annum growth in ITV Local website users declining over time (low counterfactual scenario);
 - ARPU declining over time (low counterfactual scenario); and
 - lower confidence interval of our market research results for proportions switching to new service is 2% (low impact scenario);
- **High scenario** - This is based on the following key assumptions for ITV Local viewing:
 - take-up of BBC Local Video service of 8m in 2013/14 (high take-up scenario);
 - 85% per annum growth in ITV Local usage, declining over time (high counterfactual scenario);
 - ARPU growing over time (high counterfactual scenario); and
 - upper confidence interval of our market research results for proportions switching to new service is 13% (high impact scenario);
- **Stakeholder scenario** - This is based on the same key assumptions as our high take-up and counterfactual scenarios above. However, stakeholders' assumptions on likely impacts on viewing have been used instead of our market research results. Based on stakeholders' views, we have assumed a 12.5% reduction in ITV Local usage as a result of the BBC's proposal.²⁴

2.70 The results are set out below:

²⁴ We have only used other stakeholders (newspapers and radio online services) assumptions to inform our assumptions for this scenario, and not those of ITV plc.

Table 2.7: Static impact of the BBC Local Video service on ITV Local

	Low Scenario	High Scenario	Stakeholder Scenario
Change in revenue in 2013/14 (%)	-0.1%	-1.7%	-10%
Change in revenue in 2013/14 (£m)	Almost zero ²⁵	-0.3	-1.5
Net present value of revenue impact over five year period (£m)	Almost zero ²⁶	-0.5	-3.8

2.71 The results of the model for ITV Local indicate that the impact on ITV Local is relatively small as a proportion of total revenues for ITV Local.

Dynamic impacts

2.72 The dynamic impacts on regional TV broadcasting are likely to be minimal. Given the mature and unprofitable nature of the market, returns to innovation are likely to be low. In addition, ITV plc plans to reduce its spending on regional news content.

2.73 This planned reduction in regional news content reduces the likelihood of substantial investment in news content on ITV Local. While other regional ITV providers have not publicly announced their intentions to reduce investment in regional TV news content, there is also no concrete evidence of investment in sub-regional news at a level of localness akin to what the BBC proposal intends.

2.74 Overall it is likely that the impact of the proposed BBC service on all regional TV online services will be small. Taking the uncertainty surrounding the investment in regional news together with our findings from the static impact on revenues implies that the dynamic impact on regional TV online services is also not expected to be large.

Local TV and associated web services

2.75 The size of the local TV industry is currently relatively small. Local TV providers include Channel M (in Manchester), SixTV (in Oxford and Southampton areas), and Channel 9 (in the North West of Northern Ireland). In addition to these, there are some not-for profit services, primarily funded by local authorities, charities or educational institutions.

2.76 Local commercial TV broadcasters have faced considerable business challenges in recent years which have contributed to slow growth and as a result some have had to close. However, increased broadband penetration has meant that the online delivery of local TV has become a more attractive proposition and a number of “hyper-local” broadband-based services have started to emerge.

2.77 The future of local TV is uncertain. Various business models exist, but few have proven commercially successful to date. It is unclear whether the provision of local video news (i.e. other than a model using predominantly low cost UGC) services will

²⁵ £1,000.

²⁶ £5,000.

develop, on a widespread scale. However, opportunities may exist for providing local TV, on DTT as well as satellite, cable and broadband. In addition, added benefits from factors such as cross-media ownership and additional funding from non-commercial sources, for example, may present opportunities for further market development if adopted.

- 2.78 Our survey results indicate that a very small proportion of local TV viewers would watch less local TV as a result of the BBC Local Video service. This is consistent with the fact that the BBC service would be carried on a different platform from most local TV services (i.e. online rather than TV). On this basis, we do not expect that the introduction of the BBC Local Video service would have a significant impact on the current revenues of local TV services.
- 2.79 It is possible that the presence of the BBC, offering some elements of the range of content which is typically provided on local TV, could be a contributing factor in deterring the creation of some marginally-viable channels, or in the closure of some existing channels. However, given that the static impact is expected to be small, the presence of the BBC service is likely to be a fairly insignificant element of the challenging environment which local TV channels are likely to face.

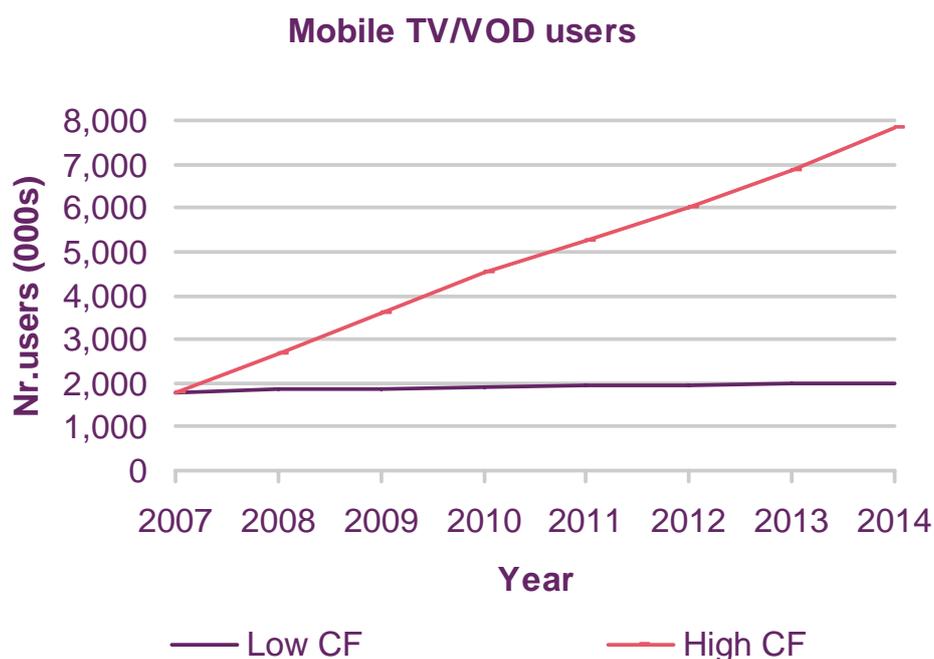
Mobile TV

- 2.80 Entertainment services²⁷, in their broadest sense, account for around 19% of overall revenues in the mobile phone market.²⁸ Local news and sports based offerings are not widespread, largely because advertisers do not currently view local content on this platform as commercially appealing. Stakeholders suggested that the number of mobile users that might be interested in local content would never be sufficient to make local advertising-funded services commercially viable. The BBC is currently the only provider of local content on mobile devices.
- 2.81 In terms of the counterfactual, significant growth is expected in the mobile TV market over the next five years, both in terms of number of users and ARPU. Figure 2.11 below shows the outcome of our forecasts in each counterfactual (CF) scenario for the number of mobile TV users.

²⁷ Entertainment services include personalisation services (e.g. ringtones and logos), the downloading and accessing of games, cartoons, music, video clips and other forms of entertainment. Messaging based on third-party content and interaction with other media (such as TV programmes) is also included in this category.

²⁸ Analysys Mason research.

Figure 2.11 – Mobile TV users for counterfactual scenarios



2.82 The results of our modelling are set out below:

Table 2.8: Static impact of the BBC Local Video service on mobile TV services

	Low Scenario	High Scenario
Change in revenue in 2013/14 (%)	0.8%	0.7%
Change in revenue increase in 2013/14 (£m)	0.85	0.75
Net present value of revenue impact over five year period (£m)	1.7	1.5

2.83 The static impact of the BBC Local Video service on mobile TV services has the potential to be positive, because it may generate an increased usage of mobile TV services and therefore lead to an increase in total revenue for mobile operators. However, the impact is likely to be relatively small, especially when compared to total revenues from mobile entertainment services.

Other relevant services

Third party content providers

2.84 Independent, or third party, content providers may also be impacted by the BBC proposals. These companies create and supply content, usually for a range of platforms, to commercial news providers. Examples include, ITN and Sky who both supply regional or national news, as well as regional news agencies (“RNAs”) who provide national and local news content to publishers across all media.

- 2.85 Some independent content providers reported that they were planning or had already initiated a number of investments in local video news content because this was emerging as an attractive market. Stakeholders were therefore concerned that the proposed BBC Local Video service would undermine and stifle innovation initiatives for producing local news content. They were primarily concerned that the introduction of the BBC Local Video service would negatively impact on their content provision by taking away audiences from commercial news services that purchased their content.
- 2.86 The impact of the BBC Local Video service on third party content providers will be closely tied to the impact on commercial news providers more generally. If commercial providers lose audience and revenues because of the introduction of the BBC Local Video service then their spend on third party content will also be affected, as well as their appetite to invest in new initiatives and content from these providers. This impact is likely to be in proportion to the impact on commercial news providers.

Journalistic services

- 2.87 Several stakeholders were concerned that the introduction of the BBC Local Video service, with six video journalists in each area, would distort the market and negatively affect their ability to recruit and retain local journalists.
- 2.88 The introduction of the BBC Local Video service could mean commercial providers would be forced to increase journalists' salaries to match the BBC. However, salary demands may be muted in the short term due to the expected cyclical downturn, although the BBC's salaries may remain relatively higher. The long term impact will depend on shortages of journalists. The BBC is planning on employing around 400 journalists in total for the proposed Local Video service, which is around 130 more than it currently employs for its current local services. This is a very small proportion of the total number of journalists in the UK. Further we have seen no evidence that the training required to turn a print or radio journalist into a video journalist is prohibitively lengthy or expensive.
- 2.89 Consequently, while the introduction of the proposed service could possibly lead to a shortage of experienced video journalists in some areas in the short term, we do not expect it to have a significant sustained negative impact on commercial providers.

Welsh language news services

- 2.90 We have considered the possible impacts that the BBC's proposed five Welsh language sites could have on existing and future Welsh language news services. Our analysis finds there is a predominance of public funding in Welsh language news media, which suggests that providing the type of service the BBC Management is proposing may not be a viable proposition for a commercial provider particularly at a regional level. However, we also find that there are some emerging commercial Welsh language online news services, for example an ITV Local Cymru site. The BBC Local Video service therefore may have a negative impact on these emerging services by taking away their audience. It remains to be seen whether these embryonic services will be commercially viable in the long-term but the establishment of the BBC Local Video service at this time could prevent them from reaching that point.

Overall conclusions on impacts

Overall static impacts of the proposed service

2.91 Table 2.9 below summarises the potential static impacts of the BBC proposed service that we have modelled. The results show that for most of the affected services the market impact will be negative. Using our market research results, the maximum static impacts under the high impact scenario are unlikely to be greater than approximately 3.5% of total revenue. Stakeholders however consider that the impacts may be greater: up to approximately 15% for newspaper websites.

Table 2.9: Summary of static impacts

Change in revenues in 2013/14 (%)	Low Scenario	High Scenario	Stakeholder Scenario
Paid daily newspaper	-0.1%	-3.5%	-5.0%
Paid weekly newspaper	-0.1%	-2.7%	-5.0%
Free weekly newspaper	-0.1%	-1.9%	-5.0%
Local radio listening	almost zero ²⁹	-0.9%	-4.1%
Newspaper website	-0.1%	-1.9%	-15.0%
Local commercial radio website	-0.1%	-2.2%	-10.0%
ITV Local	-0.1%	-1.7%	-10.1%
Mobile TV	0.8%	0.7%	n/a

2.92 In relation to the potential static impacts on affected services that we have not been modelled (community radio, regional broadcast TV, local TV, third party content providers, journalistic services and Welsh language news services), for the reasons set out above, we do not consider that they will be large.

2.93 Looking at the static impacts in our high and low scenarios, it is arguable whether the scale of the impact is of major concern. However, it is also necessary to take into account the dynamic effects.

Overall dynamic impacts of the proposed service

2.94 There is reason to have greater concerns about the dynamic effects of the proposed service. The central concern is that the service would deter or reduce commercial innovation in online news and sports services.

2.95 Dynamic impacts depend on two key factors: the profitability of incremental investment; and the innovative nature of the sector. However, solid evidence of dynamic effects will always be limited. The uncertainties associated with the assessment of static effects are exacerbated in the assessment of dynamic effects; and it is recognised that these are generally not quantifiable in any meaningful way.³⁰

2.96 In particular, we are concerned about dynamic impacts in the online provision of local news. It is a nascent sector and commercial prospects within it, even in the absence of the BBC proposal, are highly uncertain. The BBC Local Video service would represent a major presence in the area, and is likely to be of far greater scale than

²⁹ -0.04%.

³⁰ See Ofcom's *Methodology for Market Assessments of BBC Services*, 22 May 2007, p.13.

the commercial sector could provide. Further, the current cyclical downturn in the economy may mean that the negative dynamic effects of the proposed BBC Local Video service will be greater than they would otherwise be.

- 2.97 Although almost all newspaper titles and radio stations have an associated website, these vary considerably in terms of content and quality. Many newspaper publishers are at an early stage of providing video news content on their websites. Whilst a few 'flagship' websites have up to 12 new video stories per day and daily video news bulletins, the majority of websites have substantially less than this (one per day or less). Many newspaper publishers plan to invest in more video content and it is these investments that they have identified as being most at risk if the BBC's proposal goes ahead. Similarly radio groups also plan to invest more in local content online although this investment may not be specifically focussed on news content.
- 2.98 A key issue is whether commercial providers will, even in the absence of the BBC Local Video service, be able to make sufficient revenues from online news services, as online services are much harder to monetise. There is generally no subscription fee online, so users need to be encouraged to stay on the website for a sufficiently long time to generate either display or classified advertising revenue (or other revenue sources, such as e-commerce). An enhanced ability to target advertising in the future may improve the ability to monetise. But local news online services face competition from a range of other online services both in display advertising (e.g. national websites such as Yahoo or Google offering localised advertising) and in classified advertising (e.g. strong online brands such as Rightmove in property or Autotrader in motors). Some analysts have questioned whether they will be able to generate sustainable profits in online services. However, other analysts think at this early stage of market development it is difficult to predict, but that it is possible they will do so. The economic downturn has added further to this uncertainty.
- 2.99 Nonetheless, for newspaper groups in particular, the development of this area of their business is seen as imperative. For publishers faced with an inexorable decline in their print business, online services are likely to be a critical source of potential new growth. The business plans submitted by stakeholders bear out their ambitions in this direction. Many publishers have already seen substantial growth in the number of website users and revenues, albeit from a small base. For example, Johnston Press had 42% annual growth in the number of website users and 52% increase in online revenues in the first half of 2008.³¹ In total, local and regional newspaper websites generated revenues of about £71m in 2006 and our own estimate for 2007 based on publisher returns is £74m. Our own view is that it is possible, but by no means certain, that at least some will be able to develop substantial online services. However, this is unlikely to be known with certainty for some time yet.
- 2.100 Stakeholders are concerned about the scale of the BBC's proposal in terms of the amount of investment and video content. The BBC proposes to spend £23m per annum on its proposed service by 2012/13 (about £350k per site). Local and regional newspapers spent about £300m in total on editorial content in 2006 (print and online).³² This might suggest that the BBC's investment is on a much smaller scale. However, given that the BBC's spend is solely on online video content, this is much greater than the amount local and regional newspaper publishers spend on online

³¹ Johnston Press, *Interim Results*, 27 August 2008: www.johnstonpress.co.uk/jpplc/uploads/pressreleases/files/JPIInterimStatementAug2008RNS.pdf.

³² Ofcom calculations based on the Newspaper Society's, *Analysis of the Annual Regional Press Survey findings for 2006*, www.newspapersoc.org.uk/PDF/RP-Survey-2006.pdf.

video content. For example, one publisher estimates that it currently spends about £80k per website, including video content.

- 2.101 Lastly, many stakeholders have emphasised the current state of the economy as a factor that increases further the dangers to their businesses of the BBC proposal, even if the additional impact of the proposal on their levels of profitability were fairly small. The current economic downturn is likely to magnify the potential negative dynamic impacts by reducing short term revenues and profits. First, it increases the risk and reduces the short term profitability of innovation and investment. Secondly, it reduces background levels of profit. In this environment, there is the danger that even a relatively small static impact from the proposal would lead to a significantly larger dynamic impact in the form of reduced innovation, and at the extreme increasing the likelihood of firms exiting the market.
- 2.102 We consider that, given the nature of the service and, in particular, the newspaper groups' strong strategic motivation to invest, as well as other groups, there is likely to be a wide range of online investment opportunities; and that the BBC Local Video service is likely both to reduce their incremental expected profitability and perhaps to increase their riskiness (by making the ability to monetise even more uncertain).
- 2.103 Overall, therefore, our view is that because of the innovative nature of the sector, and the potential for even relatively small effects on profitability to have significant effects on innovation, the dynamic effects on online local news services could be substantial.

Possible modifications to the BBC's proposed service

BBC Management proposals

- 2.104 As part of its application, the BBC Management outlined a number of initiatives intended to help minimise the impact of the proposed service:
- **Content syndication** - The BBC would make available the majority of its branded local video content to local news sites. Local video content could be embedded in external sites allowing individuals and organisations to supplement their coverage with BBC material;
 - **Purchasing local video news** – The BBC would make available an annual fund rising to around £800,000 by 2012/13 with which to source local video news from external providers on a commercial basis;
 - **Links to external sites/click-throughs** – The BBC intends to improve existing access to external sites by linking, where possible, from individual BBC video stories to coverage of the same or related stories by other local news providers;
 - **Editorial initiatives**– The BBC would seek to develop appropriate editorial initiatives with local news providers;
 - **Community media partnerships** – The BBC would aim to build on formal partnerships with the Community Media Channel and the Community Media Association to improve digital media literacy and explore joint initiatives for assisting members of the public in making user generated content; and
 - **Training** – The BBC would seek to provide informal advice on shoot and edit skills to local non-BBC news providers, publishers and radio stations.

- 2.105 In general, the reaction of stakeholders to these proposals was negative. Several stakeholders also felt that some of the proposals, particularly links to external sites, partnerships and training, should not be contingent on the launch of the Local Video service and therefore consideration of these ideas should be disconnected from discussion of how the market impact of the service might be remedied.
- 2.106 In respect of click-throughs, stakeholders acknowledged that the proposals might potentially bring some positive benefits, although their value depended on how they were administered. However, the consensus was that any positive benefits would not sufficiently counterbalance the potential negative impacts caused by the introduction of the service. Our view is that an increased rate of click-throughs to potentially substitutable websites will act in the direction of mitigating the negative impact of the offering. We do not however believe that the effect of these will be sufficiently strong to compensate fully for the negative market impacts. There is also the potential for distortion that click-throughs may cause in terms of the choice of external sites and the order that they are presented. Nonetheless, a key performance indicator to increase the proportion of visitors to the BBC Local website clicking-through to other local websites would, on balance, be worthwhile.
- 2.107 In respect of the BBC's proposal to syndicate its content, there are three critical issues. The first is that the BBC's syndication policy means that commercial operators would not be able to present the BBC content on any pages containing advertisements. For the overwhelming majority of commercial operators this would mean that they were not able to use the BBC content. Secondly, insofar as some commercial operators are able to use the content, there would be further market distortions in that those local websites producing their own content would be at a cost disadvantage to those that were not, and moreover, the negative market impact on content providers would be increased. Thirdly, some stakeholders said they planned to syndicate their own video content in order to increase revenues and therefore the BBC content could remove a potential revenue stream for commercial providers.
- 2.108 We consider that the positive benefits from the remaining BBC Management proposals are likely to be at best minimal. The proposals would not be sufficient therefore to minimise the negative impacts of the service. In addition, some of the proposals have the potential to cause negative impacts beyond any caused by the introduction of the service itself.

Other possible modifications to the proposal

- 2.109 In accordance with our guidelines,³³ since we have identified potential adverse market impacts, we have considered ways in which the BBC proposal could be modified to remedy or limit those impacts. Our aim has been to identify changes which increase the overall net benefits of the proposal, i.e. which reduce the market impact without having a correspondingly negative effect on public value. However, as the MIA does not assess public value, a role which is undertaken by the BBC Trust, it is not possible for us alone to do a complete evaluation of these effects.
- 2.110 We have considered a range of possible modifications to the service proposal to assess whether they would substantially mitigate the market impact we have identified. These have been assessed under the following headings:
- reducing content;

³³ Ofcom, *Methodology for Market Assessments of BBC Services*, 22 May 2007.

- limiting the geographic scope of the proposal; and
- timing of the proposal.

Reducing content

- 2.111 A reduction in the amount of new content in the BBC Local Video service will act in the direction of lessening the market impact. Fewer news stories attract fewer users, suggesting that take-up of the BBC Local Video service will be lower. Similarly there will be a reduced impact if there is less overlap between the stories on the BBC Local site and those on the sites of commercial operators.
- 2.112 A central concern with this modification relates to how much reduction in impact would result from such a modification. Reducing the BBC Local Video service limits, for example, to half the number of stories specified in the service proposal, is unlikely to result in usage and impact falling by a similar proportion. The first stories to be produced under a more constrained proposal would inevitably be the more newsworthy ones, attracting a disproportionate amount of interest. Secondly, the front page of the site would look very similar under a reduced service proposal. And thirdly, the increased usage that results from the local service being “networked in” to the wider BBC services would still exist. Also, any reduction in impact would be associated with a similar reduction in public value. For these reasons, we are not recommending that the Trust consider modifying the proposal to reduce the number of stories contained.

Limiting the geographic scope of the proposal

- 2.113 The BBC proposal specifies 65 local sites covering the entire UK. A further possible modification to be considered is to limit the geographic areas where the BBC proposal is allowed to operate.
- 2.114 The market conditions in each area of the UK will inevitably vary as a result both of demand and supply factors. As such, it is more than likely that the market impacts resulting from the BBC proposal will vary considerably in different local areas. Given this, if the service were modified so that it was limited to those areas where the impact is expected to be relatively small, overall it would have a less negative impact.
- 2.115 The key issue here, however, is whether these areas can be identified in advance. Within this MIA, we have undertaken a considerable amount of geographic analysis (see previous sections in take-up and the newspaper online counterfactual). Our analysis has identified that take-up of the BBC Local Video service is expected to vary by nation and region across the UK. However, beyond that, we have not identified any objective criteria by which to assess areas where the market impact will be less negative. Moreover, even if it were possible with confidence to identify geographic factors that determined the scale of the static impact, it does not necessarily follow that these factors will also predict the potential dynamic impacts; and, as set out above, our major concerns with the market impact of the proposed service relate to the dynamic impacts.
- 2.116 In addition, a limitation on the geographic scope of the BBC Local Video service would lead to a significant reduction in its public value.
- 2.117 For these reasons, we are not recommending potential modifications to the proposal that limit its geographic scope.

The timing of the proposal

- 2.118 In the course of our discussion with stakeholders, concern has been expressed about the timing of the proposal. There are two key issues in relation to timing. First, the recent economic downturn is expected to have a negative effect on advertising revenues with the result that many businesses will struggle much more than they normally would. Rolling out the BBC Local Video service in the proposed timescale would, it is argued, have a longer term negative impact on the industry than if it were launched at a different point in the economic cycle. Secondly, many of the business plans for launching their online services are in their early stages. Once the commercial sector has proven whether these services are viable or not, it is argued, it might be possible to identify a clearer role for the BBC in this regard.
- 2.119 It is likely that launching the service at a different point in the economic cycle would have a less negative impact than would be the case if it were launched to the timescales set out in the service proposal (i.e. starting next year). Moreover, it is likely to be the case that the level of uncertainty associated with forming conclusions on this MIA will be considerably less at a later date, once the commercial sector has had the opportunity to demonstrate the extent to which it is able to provide online services in a viable manner. After such a time, the MIA of a resubmitted BBC proposal could be assessed with a greater degree of confidence. If the BBC Management were minded to resubmit a proposal at a later date, we would strongly encourage that a pilot is carried out that bears close resemblance to the proposed service.

Conclusions on recommendations

- 2.120 Given that potentially adverse effects have been identified, we have looked at ways in which the proposal could be modified to limit those impacts and increase the overall net benefits of the proposal i.e. reduce the market impact without having a correspondingly negative effect on public value.
- 2.121 Having assessed potential modifications to the proposals, we conclude that there are only a very limited number of options which the Trust, if it is minded to approve the proposal, might want to consider in order to mitigate its negative impact. These are to:
- Give consideration to timing. Firstly, if the Trust is minded to approve the proposal on the basis of the public value expected, to consider whether roll out should be deferred to a point in the economic cycle when advertising revenues have returned to more normal levels. Secondly, to consider whether there is value in the BBC Management resubmitting a proposal for a similar service sometime in the future, once the commercial sector has had the opportunity to invest and test the commercial sustainability of their online services; and
 - Set and monitor a key performance target relating to the proportion of users of BBC Local sites that click-through to those of commercial operators.
- 2.122 We do not believe, however, that these modifications would be sufficient to offset the negative market impacts we have identified. Therefore, in Ofcom's view, the PVT should turn on whether there is a strong public interest finding in the BBC Trust's PVA.

Section 3

Introduction

The role of the MIA in the PVT process

- 3.1 The current BBC Royal Charter and Agreement, which came into effect on 1 January 2007, provided for the establishment of a new Public Value Test (“PVT”) regime. The PVT must be applied before a decision can be taken to make any significant change to the BBC’s UK public services, which can include the introduction of a new service or the discontinuation of an existing one.
- 3.2 Under the new regime, the decision on whether to authorise such a change will be made by the BBC Trust (“the Trust”), following the application of a PVT. In reaching a decision on a PVT, the Trust must take into account the findings of two separate assessments:
- a Public Value Assessment (“PVA”), carried out by the Trust, which assesses the likely value of the service to licence fee payers, particularly in terms of its contribution to the BBC’s public purposes; and
 - a Market Impact Assessment (“MIA”), carried out by Ofcom, which assesses the effect of the proposed service on other services in the market. It considers both the direct impact on consumers and producers of other services, for example in terms of price and choice, and the likely impact on competition and market development, which will affect consumer and citizen interests in the longer term.
- 3.3 This report represents Ofcom’s MIA of the BBC’s proposed on-demand Local Video service. This section briefly summarises the approach we have taken to conducting this MIA. For more detail on the methodology adopted for our MIAs, see the methodology document published in May 2007.³⁴

The proposed service

- 3.4 The BBC Management is applying for permission to provide an on-demand, local video service, delivered both via fixed and mobile broadband internet connections. The full service description was agreed by the BBC Trust and Ofcom at the outset of the PVT process, drawing on the BBC Management’s PVT application to the BBC Trust. The service description is summarised here, and the full service description is reproduced at Annex 1.
- 3.5 The service would expand on the BBC’s existing network of local websites (on bbc.co.uk) and focus on 60 areas across the UK. In Wales, there would be five local sites available in both the English and Welsh languages, bringing the total number of local services to 65. The 60 geographic regions each typically cover a geographic area of more than 250,000 people (and, on average, around one million people).
- 3.6 It would offer bespoke local video news, sport and weather to complement the BBC’s existing online provision. Content would be produced locally, in and for each of the 60 areas, and it would be free at the point of use (without advertising).

³⁴ www.ofcom.org.uk/research/tv/bbcmias/statement/statement.pdf

- 3.7 The BBC Management is seeking approval to provide up to three daily bulletins for each of news, sports and weather, which could be updated up to three times per day, per area, and up to ten video stories (excluding the daily bulletins), not exceeding 20 minutes in total per day, per local area.
- 3.8 The video stories and bulletins together would not exceed 26 minutes of content, per area per day. The 'stories' could also be updated any number of times without exceeding the upper limit and user generated content produced without the assistance of the BBC would not be subject to the upper limit.
- 3.9 The intention is to make the local video content available via bbc.co.uk to internet-enabled devices on fixed and mobile broadband connections. Content may also be made available via BBC iPlayer. The proposal does not include distribution via conventional broadcast television (DTT, cable, or digital satellite) but is likely at some point to be offered on television sets via internet protocol, in line with wider BBC plans and subject to obtaining any necessary consent from the BBC Trust.
- 3.10 The BBC Management has proposed a phased roll-out of the Local Video service. Investment would increase by small increments each year in each of the 60 areas, starting in 2009/10 (no spend in 2008/09) and reaching maturity at around £23m a year in 2012/13.
- 3.11 Further enhancements to local provision on bbc.co.uk are also planned, for example improved search, navigation and site architecture, including a greater use of map-based technology. This falls outside the scope of our MIA but they will be taken into account as part of the context in which local video would operate.
- 3.12 As part of its application, the BBC Management also outlined a number of initiatives intended to help minimise the impact of the proposed service. These are considered in detail in Section 11.

Our approach to the MIA

- 3.13 This MIA has been carried out in accordance with the terms of reference published in June 2008, which are reproduced at Annex 2 of this document.
- 3.14 Under Ofcom's standard approach to MIAs the first stage of the analysis is to identify the products and services likely to be affected by the BBC proposal. This analysis, which was based on our understanding of the markets affected and on stakeholders views, led us to identify the following services:
- local and regional newspapers and associated web services;
 - local radio stations and associated web services;
 - local and regional TV services and associated web services;
 - mobile TV services; and
 - other relevant services (under which we cover third party content providers, journalistic services, and Welsh language news services).
- 3.15 The MIA process seeks to identify all of the ways in which the above products and services might be affected by the BBC's proposals, considering both 'negative' substitution effects and 'positive' market creation effects. For instance:

- the MIA considers the extent to which the BBC's proposed Local Video service is likely to induce substitution away from competing services and the ways in which that substitution could reduce investment in new services, and potentially reduce choice for consumers and citizens; and
- on the other hand, the BBC's proposals could in some cases generate benefits, both for other service providers or for consumers. They may complement other services and thereby drive increased investment. They may also lead to an increase in consumer choice. These effects would have positive implications for consumers and citizens.

3.16 There are three main elements to the MIA:

- an assessment of likely **take-up** of the BBC's proposed service;
- an assessment of the current and future prospects of the affected products and services in the absence of the BBC proposal ("**the counterfactual**"); and
- an assessment of the **impact of the proposed BBC Local Video service on demand** for affected products and services.

3.17 Drawing these together allows us to reach overall conclusions of the market impact of the proposed service.

Assessment of impact

3.18 In assessing the potential impacts of the proposed service we have considered:

- **Static impacts** – the effects of the BBC Local Video service on affected services, without taking account how other service providers might respond over time. In simplified terms, these are the impacts on other parties resulting from the BBC Local Video service either taking existing consumers away from the affected services, or from becoming users of those services.
- **Dynamic impacts** – the effects of the BBC Local Video service on affected services, once they have adjusted their behaviour in response to the BBC service. In the current context, these may be in the form of increasing quality of service in response to entry from the BBC Local Video service or in terms of reduced investment, innovation or exit to the extent that the BBC service reduces potential revenues and profits.

Static Impacts

3.19 Predicting the future in any market is necessarily subject to a high degree of uncertainty. In undertaking an MIA of this nature, this uncertainty is compounded. An assessment of the future take-up of the service and how take-up will impact on demand for other services needs to be made against projections of the future development of affected services in the absence of the BBC proposal. Our approach aims to capture this uncertainty by developing a range of plausible scenarios of the potential impact of the BBC proposal. The uncertainty is explicitly recognised in drawing out implications and conclusions.

3.20 In most cases, our assessment of static impact has been modelled, taking as inputs: the potential take-up of the BBC Local Video service; the impact on demand for affected services; and the counterfactual. As emphasised above, each of these

elements is necessarily subject to a large amount of uncertainty. We have consequently modelled the impacts under two scenarios: a high case and a low case based on the upper and lower confidence interval of our market research results. We have also run a further scenario based on industry stakeholders' assumptions with respect to impact as well as the counterfactual and our high case scenario for anticipated take-up. While we have had regard to the outputs of this scenario, our conclusions are primarily based on our own market research.

- 3.21 The static effects will be broader than those that fall on the affected services. If the affected service saw a decline in audience then advertisers that used that service might decide to switch their advertising to other commercial services. As a consequence, these other commercial services may benefit from increased revenues and profits. Because of these broader effects, the overall welfare impact is not expected to be as large as those that fall just on the affected services. These broader static impacts are discussed further in Annex 5.

Dynamic Impacts

- 3.22 The assessment of dynamic impacts builds further on the analysis of static impacts, but also requires a view of the longer term development of the sector and the potential for profitable entry and innovation.
- 3.23 The degree of uncertainty associated with dynamic impacts is even greater than that of static impacts. Solid evidence of dynamic effects will always be more limited and it is recognised that the effects are generally not quantifiable.³⁵ We have nonetheless used a framework for assessing dynamic impacts. This is set out in more detail in Annex 6. In summary, there are two key factors to examine in assessing dynamic impacts:
- **Profitability of the incremental investment** – profits are the driver of innovation, investment, entry and exit by commercial operators. To the extent that the BBC proposal will reduce the long term profitability of incremental investment in the affected services, it will be more likely to have a larger dynamic impact;
 - **The innovative nature of the sector** – in those sectors where there is the potential for significant change as a result of innovation there is more likely to be greater opportunities for investment. As a result, we would expect a smaller dynamic impact in more mature sectors, where investment opportunities and the effects of innovation are less likely to be substantial.

The sources of evidence for this MIA

- 3.24 This MIA has been informed by a full stakeholder engagement programme, consumer research commissioned specifically for this MIA, and by our desk research and analysis.
- 3.25 In order to engage fully with stakeholders, we published a stakeholder questionnaire at the start of the MIA process in June 2008. We received 52 written responses to that questionnaire in July and August 2008. Our review of these written responses was complemented by a series of meetings and discussions with interested stakeholders throughout the MIA process. We are grateful to all stakeholders who provided views and information to us. This includes the BBC Management, who

³⁵ See Ofcom's *Methodology for Market Assessments of BBC Services*, 22 May 2007, p.13.

provided us with important information and insights throughout the MIA process. A brief summary of stakeholder responses and list of stakeholders who responded to contributed the MIA is contained in Annex 7.

- 3.26 Recognising the extent of potential interest from around the UK, we set up meetings in each of our Nations offices in Belfast, Cardiff and Glasgow in early July 2008: we met local stakeholders and gathered perspectives on how the BBC Local Video proposal might impact them and the market overall. We met 21 stakeholders in those sessions. In total, we met 52 stakeholders, representing a wide range of views and interests from media, advertising and government perspectives.
- 3.27 We also commissioned SPA, a market research company, to carry out a survey of 2,300 consumers to help assess the impact of the BBC Local Video service. The SPA research report is published alongside this report.³⁶
- 3.28 The above sources of evidence have informed our own analysis of the possible market impacts. In line with the MIA methodology agreed between Ofcom and the Trust, we have sought to quantify effects where this is practical and proportionate.

Structure of the report

- 3.29 The remainder of this report is set out as follows:
- Section 4 Market research, modelling and take-up
 - Section 5 Local and regional newspapers and associated web services
 - Section 6 Local radio stations and associated web services
 - Section 7 Regional TV and associated web services
 - Section 8 Local TV and associated web services
 - Section 9 Mobile TV services
 - Section 10 Other relevant services
 - Section 11 Possible modifications to the proposed BBC service.

³⁶ *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

Section 4

Market research, modelling and take-up

Introduction

4.1 This section gives an overview of our:

- market research approach and provides an overview of the survey results;
- modelling approach for estimating take-up of the proposed BBC Local Video service, the counterfactual for the affected media (that is, what would happen if the BBC's proposed service does not go ahead) and the impact on the affected media; and
- estimated levels of take-up of the proposed BBC Local Video service and comparison with the BBC Management's projection.

Market research

4.2 We commissioned SPA, an independent research company, to conduct market research to assess the BBC Local Video proposal. The primary objective of the market research was to assess the likely take-up of the proposed service and its impact on current consumption of local news media.

4.3 SPA conducted a total of 2,373³⁷ interviews across the UK, among those with and without broadband in the home currently. Interviews were conducted in the home, face-to-face with a pen and paper questionnaire. A short video illustration and explanation of the proposed service was shown to participants.³⁸

4.4 Interviews were between 25 and 35 minutes in length and conducted between 2 June and 6 July 2008, at a total of 168 distinct locations (sampling points). An average of 14 interviews per location were completed, with at least one location in each of the 60 regions in which the BBC Management proposes to offer the Local Video service.

4.5 Specifically, the market research was designed to provide the following information:

- the current usage of existing local media sources amongst both broadband and non-broadband users;
- an assessment of the local media services and channels used, types of information accessed and local media audience profiles;
- the likely take-up of the proposed BBC Local Video service and the impact on existing consumption of existing local media sources including:
 - i) local and regional newspapers;

³⁷ This figure includes 2,195 main survey interviews plus 178 booster interviews with niche local media consumers. The main survey results are based on 2,195 interviews. See: *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

³⁸ The video was prepared by the BBC Management for its research undertaken by BMRB.

- ii) local commercial radio;
 - iii) ITV regional TV news;
 - iv) local news and information websites; and
 - v) local TV;
- demographic profile of the people who are likely or unlikely to use and be impacted by the BBC Local Video on demand service; and
 - robust database amongst current broadband users to investigate the plausibility of creating a socio-demographic model to predict the likely take-up and impact of the BBC Local Video service at a regional or area level.

4.6 To ensure that the market research would be representative of the UK when conducting analysis at an overall level, from both a demographic and media consumption perspective, a number of key local media consumption questions from the main survey were also placed on a nationally representative omnibus survey.³⁹ This data was used when reporting media consumption at a total level and to weight the main survey data where relevant.⁴⁰

4.7 Overall, the results showed that 13% of respondents said they would definitely use the service with an additional 24% reporting that they would probably use the service (see Figure 4.1 below).

Figure 4.1: Likelihood of taking-up BBC Local Video Service



QD1 Based on the information you have just seen and heard, how likely would you be to use this local video service from the BBC if it was introduced in [LOCAL AREA]? Would you...?

Note: Net use means the total of those who said they would definitely use the service.

Base: All UK (2,195), All with broadband at home (1,625), All non-broadband (570)

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

³⁹ 2,008 people representative of the British population aged 15+ were interviewed in their home, face-to-face, with an interviewer completed electronic questionnaire. Interviews were conducted between 19 and 24 August 2008.

⁴⁰ Further details of the data weighting is provided in *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

- 4.8 Take-up varied significantly by region, with 65% of respondents in the South East stating they would definitely or probably use the service compared with 32% in the North-East and 26% in Scotland.
- 4.9 The types of local content respondents would expect to use on the BBC Local Video service are broadly similar to the content currently accessed by users of different media. The relative importance of different types of content differs between the media, for example, radio is a more important source of travel news than local websites. However, each of the different types of content which the BBC Management proposes to include on its service is important to all of the commercial services shown in the Table 4.1 below.

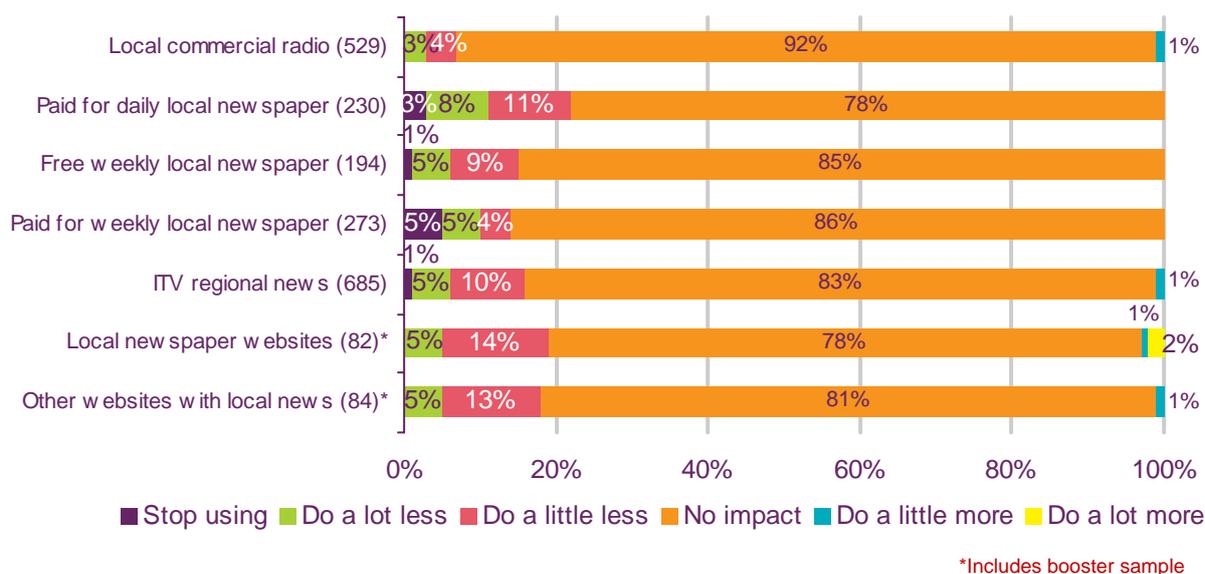
Table 4.1: Content type accessed via each type of local media

Local content accessed by media type	Would expect to use on BBC service	Currently use on local services			
		Local newspaper	Local commercial radio	Local websites	Local TV
Local news stories	88%	97%	84%	71%	85%
Local weather	68%	55%	73%	53%	83%
Local travel news	55%	46%	60%	33%	48%
Local life & community stories	52%	72%	45%	36%	58%
Local sports news	46%	55%	49%	34%	66%
Event listings	-	62%	31%	23%	-
Reviews of local shows/events	-	50%	-	-	-
Classifieds	-	49%	-	16%	-

Base: Likely users of the BBC Local Video service (782), Weekly readers of local newspapers (1,435), Weekly listeners of local commercial radio (1,392), Weekly visitors to websites with local news content (158), Monthly viewers of Local TV channels (169 including booster interviews).
Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 4.10 The market research indicated that the majority of the extra local content consumption is expected to be in addition to current media consumption as the majority of respondents interested in taking up the BBC Local Video service said that the new service would not impact on their use of existing services. This ranged from 78% (local and regional newspaper websites) to 92% (local commercial radio) of current media users.
- 4.11 Of those who said they were likely to use the proposed BBC Local Video service and who mentioned that the new service would have an impact, the largest proportions indicated that they would reduce their use of other media either a little or a lot less. This ranged from 7% (local commercial radio) to 19% (paid daily newspapers) of current media users. Local news and information websites were at the top end of this range (18% to 19%).
- 4.12 A proportion of users of traditional media who are likely to use the proposed BBC Local Video service also specifically mentioned that they would stop using the affected service completely. This ranged from 1% (ITV regional TV news) to 5% (paid weekly newspapers) of current media users. See Figure 4.2 below.

Figure 4.2: Impact on local media amongst users who are likely to take-up service



Base: Current weekly users of each local media who are likely to take-up BBC Local Video service
 Source: Ofcom research, fieldwork carried out by SPA in June 2008.

Ofcom's modelling approach

4.13 We developed a model in order to quantify, where possible, the potential static impacts on the affected product and service providers. The following affected products and services (see Annex 2) were specifically included in the model:

- local and regional newspapers;
- local and regional newspaper websites;
- local commercial radio;
- local commercial radio websites;
- ITV Local website; and
- mobile TV.

4.14 Other affected products and services were considered qualitatively. These are:

- community radio;
- regional broadcast TV;
- local TV;
- third party content providers;
- journalistic services; and
- Welsh language news services.

- 4.15 There are three stages in the modelling process. The first stage estimates take-up of the BBC's proposed Local Video service. The second stage estimates the counterfactual; that is, what would happen if the BBC's proposed service does not go ahead, for each of the affected products and services. The final stage estimates the impacts on commercial providers, in terms of change in audience, revenues and profit. Each of these stages is discussed below and further detail is presented in Annex 4.

Take-up of the BBC Local Video service

- 4.16 We estimated take-up of the BBC Local Video service for each of the 60 areas over a five year period. We assumed that the BBC Local Video service would launch in 2009/10. We developed two scenarios for take-up. In the low scenario there is an initial increase in the use of the BBC Local website when the new Local Video service is launched with usage stabilising thereafter. This scenario is based on the possibility that the addition of local video news content does not generate significant new interest in the BBC Local website over time. In the high take-up scenario there is a similar initial increase in usage which then continues to increase as people become more aware of the BBC's new Local Video service. This scenario is based on the possibility that the addition of local video news content generates significant new interest in the BBC Local website over time.
- 4.17 In developing these scenarios, we have taken account of:
- the current level of broadband penetration in each of the 60 areas and future penetration levels; and
 - our market research results on take-up of the BBC Local Video service broken down between those with broadband at home and those without.
- 4.18 Our market research showed that there is variation in likely take-up between the Government Office ("GO") regions and nations and between urban and rural areas. We have taken account of these differences in our take-up scenarios. Regression analysis undertaken on the market research survey data found that demographic variables such as age, socio-economic group and gender, were poor predictors of whether a respondent expected to take-up the BBC Local Video service. As a result, we did not model take-up in each of the 60 areas on the basis of demographic variables.⁴¹ Details of the regression analysis undertaken can be found in Annex 3.
- 4.19 We adjusted the market research take-up results in each of our scenarios to take account of possible research effects. For example, respondents had to answer a hypothetical question about their likelihood of using a BBC service that does not currently exist. Their responses will, therefore, necessarily be speculative and may not reflect their actual behaviour if the service was available. Experience from other market research suggests that people tend to over estimate their likelihood of using a hypothetical product or service. In addition, during the survey all respondents were made aware of the BBC Local Video service whereas in reality, when the service is launched, it is unlikely that the whole population will be aware of the service, therefore take-up is likely to be lower. However, these effects may be smaller in this

⁴¹ Given that take-up of the BBC's proposed Local Video service did not depend on demographic variables, then it is likely that the take-up and hence success of commercial local news websites is unlikely to depend, in the main, on demographic variables. As a result, it is not possible to reliably identify areas where commercial local news websites are more likely to be viable than others.

instance due to the potential for cross-promotion by the BBC and because the service will be 'networked' within the wider bbc.co.uk website.⁴²

- 4.20 We assumed that take-up follows a 'S' curve in our high take-up scenario, such that the adjusted market research result is achieved in 2013/14.⁴³ In our low scenario, we did not assume a 'S' curve, such that the adjusted market research result on take-up is achieved on 2009/10. Under this scenario, growth in take-up is based on assumptions on population growth⁴⁴ and broadband penetration.⁴⁵
- 4.21 Further details of our estimated range of take-up of the BBC Local Video service is discussed below. Further details of our approach are provided in Annex 4.

Counterfactual

- 4.22 We developed a counterfactual for most affected services, that is, what would happen if the BBC's proposed service does not go ahead. Given the uncertainties associated with projecting trends into the future, we used a high and low counterfactual scenario for each affected service. We took account of historical trends and the range of stakeholders' and market analysts' views in making our assumptions for each high and low counterfactual scenario.
- 4.23 The counterfactual scenarios provide a baseline from which the impact of the BBC's Local Video service, in terms of audience and revenue, can be estimated. Further details of the counterfactual scenarios are provided in Sections 5 to 9 and Annex 4.

Impacts

- 4.24 In estimating impacts for each affected media, we took account of the:
- projected take-up of the BBC Local Video service;
 - projected audience of each affected service in the counterfactual;
 - how audiences may be impacted by the BBC Local Video service; and
 - the relationship between a change in audience and a change in revenues.
- 4.25 Due to data limitations, we modelled audience and revenue impacts on each of the affected services in slightly different ways. For print newspapers and radio listening, audience impacts were estimated for each of the 60 areas. This is to take account of geographic differences in consumption patterns.⁴⁶ However, revenue impacts were estimated at a UK level as data were not available for each area. For websites

⁴² We adjusted the market research results by applying reduction factors to those that said they would definitely use and probably use the BBC Local Video service. In our high scenario we applied the weights of 0.75 and 0.3 respectively and in our low scenario we applied weights of 0.35 and 0 respectively.

⁴³ An 'S' curve has been assumed for two reasons. First, it is common for new products to have this pattern of take-up over time. Second, the BBC proposes to roll out the Local Video service over a four year period so take-up is likely to increase in line with this.

⁴⁴ 2001 census data and Economist Intelligent Unit UK population growth assumptions have been used.

⁴⁵ We assumed that UK average broadband penetration reaches 70% in 2013/14. Broadband penetration varies in each of the 60 areas in each year, although the dispersion around the average is assumed to narrow over time.

⁴⁶ The same proportionate audience impact has been applied to each area.

(newspaper, radio and ITV Local) and mobile video, both audience and revenue impacts were estimated at a UK level, due to data limitations.

- 4.26 In assessing how audiences for the affected services may be impacted by the BBC Local Video service, we considered a range of evidence. First, our market research asked those respondents who said they were likely to use the BBC Local Video service whether and how they would change their consumption of other media. This gave an estimate of the likely impact on the use of each affected service.⁴⁷ Second, stakeholders provided estimates of audience impacts on their businesses. Third, BBC Management's application to the BBC Trust included estimates, based on its market research, of impacts on other media. While we had regard to the BBC's market research, we relied on our own market research in estimating impacts (see further details in Annex 4).
- 4.27 Given the range of views and uncertainty over the possible impacts on audience, we developed three impact scenarios. Our high and low impact scenarios were based on the top and bottom confidence interval around our market research results.⁴⁸ The third impact scenario was based on stakeholders' views of potential impacts (the 'stakeholder impact scenario').
- 4.28 Due to the small sample bases⁴⁹ it is not possible to observe with confidence if the market research results for audience impacts vary between GO regions and nations. We therefore used the same audience impact results for each of the 60 areas.
- 4.29 A change in audience for a particular sort of media is likely to result in a change in revenues since revenues are closely related to the size of audience. We estimated, based on stakeholders' assumptions, the extent to which a change in audience for each affected service will affect different revenue streams (such as, display advertising, classified advertising, etc). These assumptions were expressed in terms of the ratio of the percentage change in revenue to a percentage change in audience.
- 4.30 In order to estimate the range of possible revenue impacts, we combined take-up, counterfactual and impact scenarios. Our low revenue loss estimate is based on the low take-up, counterfactual and impact scenarios (the 'low scenario'). Our high revenue loss estimate is based on the high take-up, counterfactual and impact scenarios (the 'high scenario'). Our stakeholder revenue loss estimate is based on the high take-up and counterfactual scenarios and the stakeholder impact scenario (the 'stakeholder scenario'). Table 4.2 shows the combination of take-up, counterfactual and impact scenarios used for each revenue loss estimate.

⁴⁷ We used the market research results to calculate an overall net impact for each media. This is calculated as the difference between those who said they would: (i) stop and start using, (ii) use a lot less and a lot more and (iii) use a little less and a little more. These were combined using the weights of 1, 0.66 and 0.33 respectively. The weights reflect the different degrees to which each change in usage would affect revenue. For example, someone who stops reading a regional newspaper will have a bigger impact on revenue than someone who reduces their consumption by a little, that is, by buying a newspaper less frequently or spending less time reading it.

⁴⁸ A confidence interval gives a range within which the true value is likely to fall. The market research results for some commercial media had a wide confidence interval because of the small sample base size for that media (based on those who are likely to use the BBC service and are likely, as a consequence, to change their consumption of that media). We have used a 95% confidence level.

⁴⁹ Although the sample size of the market research was 2,373 individuals, the base sizes reduce considerably when those who are likely to use the BBC service and currently use the relevant commercial local news media are considered. It is these individuals and how they will change their consumption of commercial media that is key to understanding the likely impacts.

Table 4.2: Scenario combinations

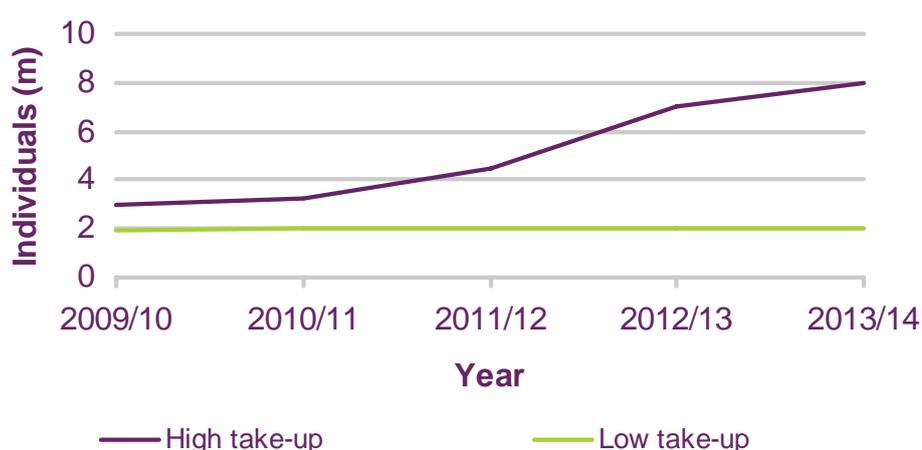
	Take-up	Counterfactual	Impact
Low scenario	Low	Low	Low
High scenario	High	High	High
Stakeholder scenario	High	High	Stakeholder

- 4.31 We have also estimated the impact on profit.⁵⁰ To do this, we made assumptions on marginal costs for each affected service. For most affected services (radio and websites) the marginal costs were assumed to be zero since the additional cost of supplying an additional user is likely to be close to zero. For these affected services, the change in producer surplus is the same as the estimated change in revenue. For print newspapers, this is not the case as a publisher could respond to a fall in circulation by printing fewer copies and by doing so, can make cost savings (such as paper and ink). We based our marginal cost assumptions on cost data provided by stakeholders.
- 4.32 We have estimated the revenue and profit loss in net present value (NPV) terms over the five year period, 2009/10 to 2013/14. We used a real, social discount rate of 3.5%.⁵¹
- 4.33 Further details of the impact scenarios, the underlying assumptions and estimates of the impacts are provided in Sections 5 to 9 and Annex 4.

Ofcom's estimated take-up of the BBC Local Video service

- 4.34 Figure 4.3 below shows the estimated number of people using the BBC Local Video service under each scenario. These estimates include people with and without broadband access at home, and therefore include those who access the service by fixed and mobile broadband networks.

Figure 4.3: Take up of the BBC local video service



⁵⁰ In this context, we estimate the effect on profit as producer surplus, the difference between revenue and marginal cost. It is the surplus revenue gained by a producer over and above the cost of supplying each unit of output.

⁵¹ This is the rate recommended for economic welfare assessment in the HM Treasury Green Book: [www.hm-treasury.gov.uk/d/2\(4\).pdf](http://www.hm-treasury.gov.uk/d/2(4).pdf)

- 4.35 Our low take-up scenario assumes that after an initial uplift in take-up following the launch of the service, the number of people using the service remains relatively flat. Under this scenario, we estimate that in 2013/14, 2.1m people will use the BBC Local website. Our high take-up scenario assumes that there is an initial uplift in take-up following the launch of the service, and that take-up then continues to rise. Under this scenario, we estimate that in 2013/14, 8m people will use the BBC Local website.
- 4.36 We compared these levels of take-up against current usage of the BBC website. The BBC website had 17.6m unique visitors⁵², the BBC News website had 7.7m visitors, the BBC Regions website had 2.2m visitors and the BBC Local website had 0.2m visitors in July 2008.⁵³ The BBC estimates that about 1.7m households used the BBC Local website weekly in July 2008.⁵⁴
- 4.37 Other comparable websites included ITV Local, which had 0.7m unique visitors in July 2008.⁵⁵ A number of regional newspaper publishers have published the number of visitors to their websites. Johnston Press said it had 11.2m monthly unique visitors in the first half of 2008.⁵⁶ Trinity Mirror reported 6.2m monthly unique visitors over the same period.⁵⁷
- 4.38 Our low scenario estimate is significantly above current usage of the BBC Local website. However it is consistent with the number of visitors to the BBC Regions website, allowing for an uplift at the launch of the BBC Local Video service. Our high scenario estimate is also significantly above current usage of the BBC Local website and, to a lesser extent, the BBC News website. It suggests that a high proportion of visitors to the BBC website would use the BBC Local site. This may not be unreasonable given the levels of cross-promotion the proposed BBC Local Video service may get and the fact that it will be 'networked' into the wider BBC website. In addition, our high scenario estimate is consistent with the recently reported figures of regional newspaper groups, especially as regional publishers tend to cover only part of the UK.
- 4.39 Figure 4.4 below shows take-up in each of the regions and nations as a proportion of the adult population. As can be seen, the South East England region has the highest expected take-up and Scotland has the lowest expected take-up. This geographic pattern is derived from the market research results. Figure 4.5 shows a map of take-up for the high take-up scenario.

⁵² Unique visitors or users is a common measure of website usage and is based on the Internet Protocol address assigned to a computer. As a consequence, this may over- or under- state the actual number of individual users. For example, the same person using several computers (e.g. at home and at work) to access the same website would be counted as two unique users. Alternatively, where several people use the same computer to access the same website, they would be counted as one unique user.

⁵³ ComScore data. This is based on the number of unique users that accessed the BBC Local website directly. This is likely to underestimate the number of actual users as it excludes those that access the BBC Local website from another part of the BBC website, such as the BBC homepage.

⁵⁴ BBC server log data showed there were about 3.7m unique users in July 2008 (based on an average of the weekly user data for July 2008). The BBC has converted this, using a number of assumptions, to a household estimate. As a consequence, there is some degree of uncertainty over the precise number of households using the BBC Local website and how many individuals this is equivalent to.

⁵⁵ ComScore data.

⁵⁶ Johnston Press has 323 websites. Johnston Press, *Interim results*, 27 August 2008, www.johnstonpress.co.uk/jpplc/uploads/pressreleases/files/JPIInterimStatementAug2008RNS.pdf.

⁵⁷ Trinity Mirror has 150 websites. Trinity Mirror, *Half-yearly financial report*, 31 July 2006, http://videos.icnetwork.co.uk/tmcorporate/2008_Interim_Statement.pdf.

Figure 4.4: Take-up of BBC Local Video by region

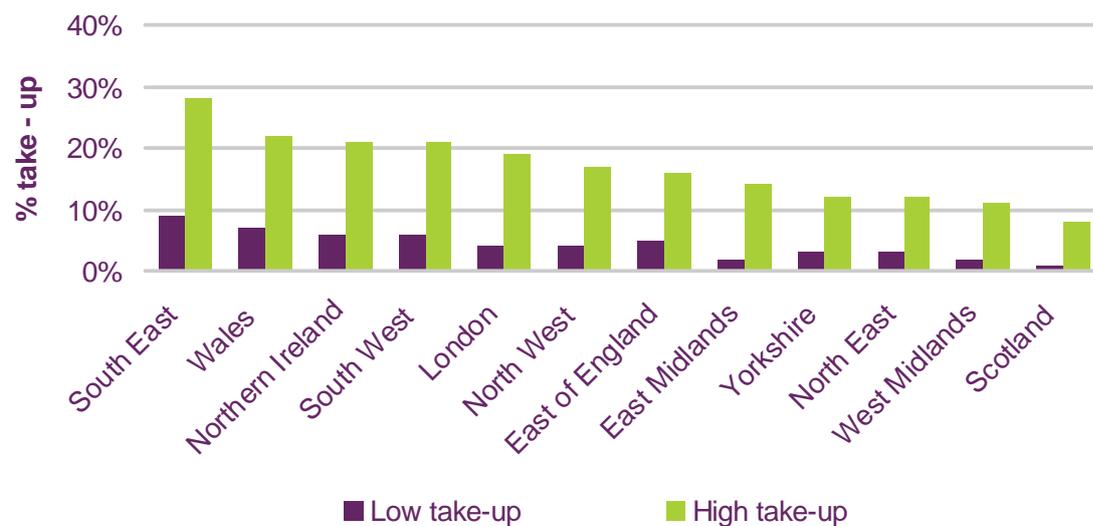
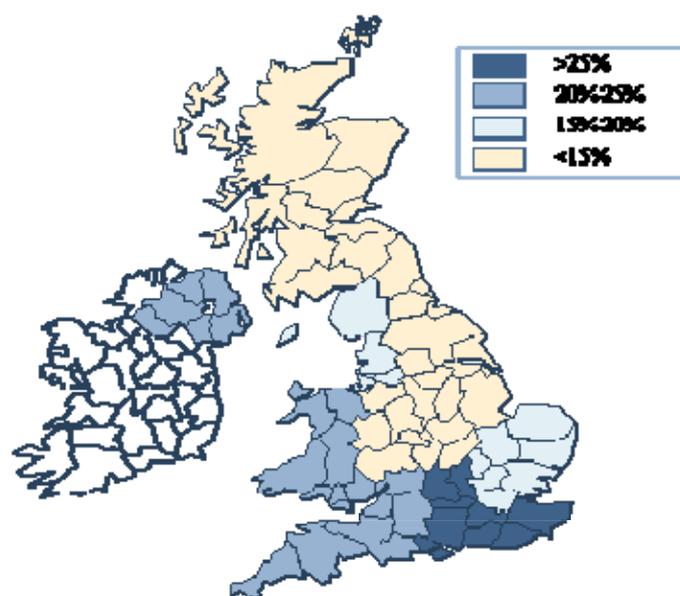


Figure 4.5: Take-up by GO region or nation of the BBC's proposed Local Video service: high take-up scenario



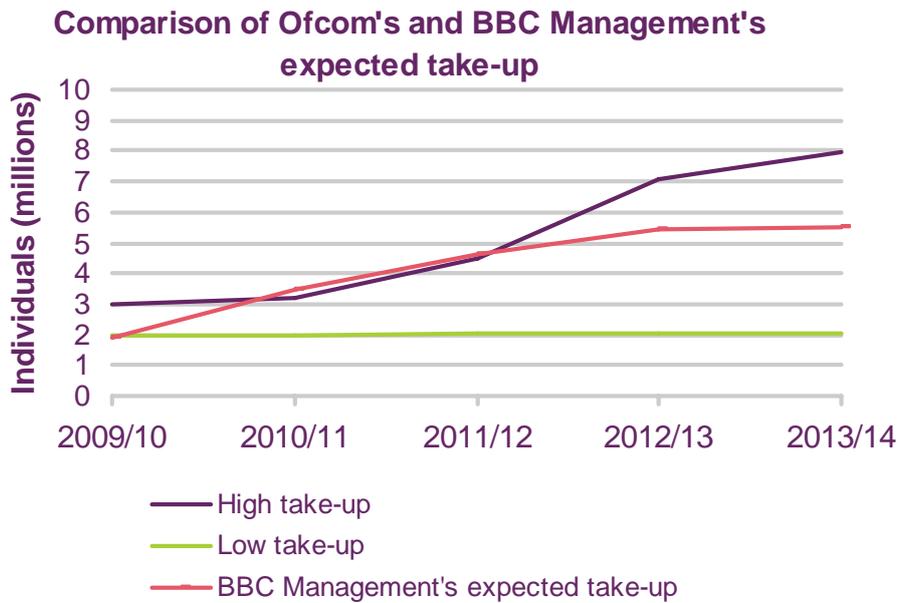
4.40 Table 4.3 below shows take-up in 2013/14 of the BBC Local Video service in absolute terms and as a proportion of adult population for the UK and each nation under the low and high take-up scenarios. As can be seen, take-up as a proportion of the adult population is expected to be similar for England, Wales and Northern Ireland. However, take-up in Scotland is expected to be significantly lower. There is significant variation between different English regions (as shown in Figure 2.5 in Section 2).

Table 4.3: Take-up of the BBC service in 2013/14 for UK and nations

	Low scenario		High scenario	
	Individuals (000)	% of adult population	Individuals (000)	% of adult population
UK	2,057	4%	7,979	17%
England	1,742	5%	6,700	18%
Scotland	61	1%	424	8%
Wales	154	7%	478	22%
Northern Ireland	101	6%	377	21%

4.41 The BBC Management's application to the BBC Trust included an estimate of take-up of the proposed BBC Local Video service. It estimated that by 2013/14, the BBC Local Video proposition would reach 11.4% of all UK households (or 17% of households with broadband), equivalent to 3.2m households. Figure 4.6 below shows how the BBC Management's projection of take-up compares to our range.⁵⁸ As can be seen, the BBC Management's projection sits largely within our range.

Figure 4.6



⁵⁸ In order to convert the number of households into the number of individuals we used a conversion factor of 1.7. This is based on Office of National Statistics (ONS) data on the number of individuals per household. This has been adjusted by an assumed 0.75 to reflect that not every individual within a household will use the BBC's proposed service.

Section 5

Local and regional newspapers and associated web services

Introduction

- 5.1 This section provides an overview of the local and regional newspaper industry and recent market trends. Local and regional newspaper circulation has been in long term decline. In addition, local and regional newspapers have seen classified advertising revenues shift online to specialist classified advertising websites. As a result, publishers have been building an online presence in order to generate new revenue streams. In recent years, publishers have seen significant growth in online audience and revenues. Besides these structural changes, the industry is currently facing a significant cyclical downturn in advertising revenues, reducing newspaper revenues further and slowing the rate of growth in online revenues.
- 5.2 This section also sets out the assumptions underlying the high and low counterfactual scenarios and the high, low and stakeholder impact scenarios we have used to estimate the revenue and profit loss for regional newspapers and associated websites.
- 5.3 The static impact of the BBC Local Video service on local and regional newspaper publishers is expected to be negative. Under our low and high scenarios, we estimate that publishers could in total lose between £10m and £264m in revenue over a five year period (for print and online). In our stakeholder scenario, the revenue loss is £876m. However, whilst the static impact is potentially large in revenue terms, it is relatively small when expressed as a proportion of total revenue. This ranges from 0.1% in our low scenario to 2.7% in our high scenario in 2012/13. In our stakeholder scenario it is 6%.
- 5.4 The final part of this section considers the potential dynamic impacts of the BBC Local Video service. The dynamic impact on print newspapers is not expected to be large given the mature nature of the print industry and their long term decline. However, the dynamic impact on local and regional newspaper websites is likely to be significantly larger and more important than the static impact given the developing state of local online news services and an uncertain commercial environment.

Overview of the local and regional newspaper industry

Size of the market

- 5.5 Local and regional newspapers generated £3.5bn in 2007, with £2.7bn from advertising and £0.7bn from circulation sales, see Table 5.1 below.⁵⁹ Classified revenues account for about 70% of regional newspaper advertising revenues. Local and regional newspaper websites generated revenues of £71m in 2006.⁶⁰ Industry

⁵⁹ This excludes free daily newspapers.

⁶⁰ Newspaper Society, *Analysis of the Annual Regional Press Survey findings for 2006* ("RPS 2006"), www.newspapersoc.org.uk/PDF/RP-Survey-2006.pdf.

operating profits were £848m in 2006.⁶¹ This equates to an operating margin of about 23%.⁶²

Table 5.1: Regional newspaper revenues, 2007

	Display advertising	Classified advertising	Circulation sales	Total
Paid daily	£329m	£744m	£563m	£1,636m
Paid weekly	£139m	£451m	£169m	£759m
Free weekly	£402m	£682m	n/a	£1,085m
Total	£871m	£1,876m	£732m	£3,479m

Source: Advertising Association, *Advertising Statistics Yearbook 2008*

- 5.6 There are 1,290 regional newspaper titles in the UK. These titles achieved a circulation of almost 3.3bn copies per annum.⁶³ Table 5.2 below provides a breakdown by type of newspaper. In addition there are 1,100 newspaper related websites with just over 20m monthly unique users in 2007.⁶⁴

Table 5.2: Newspaper titles and circulation by type of newspaper

Type of newspaper	Number of titles	Circulation (m)
Paid Daily	103	1,195
Paid Weekly	524	365
Free Weekly	640	1,170
Free Daily	23	577

Source: Newspaper Society website, as at 1 July 2008 and Advertising Association, *Advertising Statistics Yearbook 2008*.

Notes: Circulation figures for 2007. Paid weekly also includes paid Sunday titles.

- 5.7 The industry employs 44,000 people (full time equivalent), of which 12,000 are editorial staff and 14,000 are involved in advertising sales and marketing.⁶⁵

Key players

- 5.8 There are 85 local and regional press publishers in the UK. Table 5.3 below shows the top ten UK regional press publishers based on circulation. There are a large number of publishers (34) who publish just one title.

⁶¹ Newspaper Society, *RPS 2006*

⁶² More recent data for specific companies shows that in the first half of 2008 Johnston Press had an operating margin of 28% (down from 31% in first half of 2007) and Trinity Mirror's regionals division had an operating margin of 21% (down from 26% in first half of 2007).

⁶³ Equivalent to about 63m each week.

⁶⁴ Preliminary Newspaper Society estimate. This is equivalent to about one-third of the population. This is much higher than our market research results which showed only 7% of the population (10% of those with broadband at home) visit local or regional newspaper websites on a weekly basis. See: *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

⁶⁵ Newspaper Society, *RPS 2006*

Table 5.3: Top 10 regional press publishers

Publisher Group	Number of titles	Weekly Circulation (m)
Trinity Mirror plc	182	12.3
Johnston Press plc	294	9.1
Newsquest Media Group	210	9.0
Northcliffe Media Ltd	131	7.8
Associated Newspaper Ltd	3	7.2
Guardian Media Group plc	43	3.0
Archant	64	2.5
Midland News Association Ltd	18	1.9
DC Thomson and Co Ltd	6	1.8
Tindle Newspapers Ltd	65	1.4

Source: Newspaper Society website, as at 1 July 2008.

- 5.9 The top ten publishers account for almost 90% of total circulation and 95% of daily titles. In addition, there is a geographic concentration in local and regional newspaper publishing in some of the 60 areas proposed for the BBC Local Video service, with one publisher tending to account for the large proportion of newspaper circulation in that area. Table 5.4 below shows selected BBC Local areas where there is a significant local or regional newspaper publisher present within that area.

Table 5.4: Main publisher within selected BBC Local areas

BBC Local area	Main Publisher	Share of area circulation
Leeds	Johnston Press	96%
Humber	Northcliffe	84%
Norfolk	Archant	82%
Bristol	Northcliffe	77%
Cumbria	Cumbrian Newspaper Group	75%
Oxfordshire	Northcliffe	65%
Wiltshire	Northcliffe	65%
Manchester	Guardian Media Group	63%

Source: Ofcom calculations based on Newspaper Society data.

- 5.10 There are also BBC Local areas which are less concentrated where a number of publishers with similar shares are active. For example, in Cambridgeshire, Archant, Iliffe News and Media Ltd (Iliffe) and Johnston Press are active; in Kent, Kent Messenger Group and Trinity Mirror are active and in North West Wales, Trinity Mirror and NWN Media Ltd are active.
- 5.11 We compared the quality of local and regional newspaper websites in those areas where one publisher accounted for a large proportion of newspaper circulation to those in areas where a number of publishers with similar shares are present. We found no obvious relationship between the level of publisher concentration and the quality of their websites.⁶⁶

⁶⁶ For example, the local and regional newspaper websites covering the areas mentioned in Table 5.4 had very similar content, such as news, sport and weather, video stories, UGC (such as blogs, message boards, etc) and links to classified advertising.

- 5.12 Some publishers have cross-media interests within a particular locality. For example, in Manchester the Guardian Media Group owns local newspapers (such as *Manchester Evening News*), local radio stations (Smooth Radio and Century Radio), a local TV channel (Channel M) and local news and information websites. Similarly, Kent Messenger Group owns local radio stations, local newspapers and local news and information websites across Kent.

Recent market trends

Print

- 5.13 Local and regional newspaper circulation has been in long term decline. Excluding free daily titles, circulation has declined on average by 3% per annum since 2002.⁶⁷ Paid daily titles have seen the largest falls in circulation of about 5% per annum on average over the past five years. Weekly titles (paid and free) have declined by about 2% per annum on average over the same period. However, free daily titles have seen significant growth of about 23% per annum on average, due to growth in the Metro title and the recent launch of free evening newspapers, such as *thelondonpaper*. Overall, however, the number of titles has declined slightly over time.⁶⁸ Despite the decline in circulation, total readership has increased by 1.6% over the last decade.⁶⁹
- 5.14 Advertising revenues, both classified and display, have declined by about 4% per annum, on average, since 2004.⁷⁰ The decline in classified advertising has been driven by a shift to specialist national classified advertising websites such as autotrader.co.uk (cars), monster.co.uk (jobs) and rightmove.co.uk (property). Over the same period, revenue from newspaper sales has remained broadly flat, despite declining circulation.
- 5.15 Against this background, publishers have launched new titles and experimented with new business models. For example, Northcliffe recently launched 12 'Messenger' free titles in the Midlands. Some publishers have used a part-paid-part-free model for particular titles, whereby some copies are given out free and others are paid for, such as the Guardian Media Group's *Manchester Evening News*. Other publishers have changed a particular title from a daily to a weekly newspaper, such as Northcliffe's *Bath Chronicle*.

Online

- 5.16 As classified revenues have shifted from local newspapers to specialised websites, most newspaper publishers have been building an online presence in order to generate new revenue streams. Publishers are at varying stages in developing their website offerings. Even within a publisher group, individual websites are at different stages of development.
- 5.17 Newspaper websites are primarily based on the local news and information content provided in their print editions.⁷¹ Some websites provide a simple text edition of the

⁶⁷ Advertising Association, *Advertising Statistics Yearbook*, 2008

⁶⁸ At the end of 2006 there were 1,303 newspaper titles (Newspaper Society, *RPS 2006*). In July 2008 there were 1,290 (Newspaper Society website: www.newspapersoc.org.uk/Default.aspx?page=1920).

⁶⁹ Newspaper Society website, <http://www.newspapersoc.org.uk/Default.aspx?page=897>

⁷⁰ Advertising Association, *Advertising Statistics Yearbook*, 2008

⁷¹ Given that this content has already been created for the print edition then the incremental costs of putting this content on a website is minimal.

print edition. Other websites offer enhanced content such as providing updates throughout the day of developing or breaking news stories, adding video content, allowing users to comment on stories, adding blogs and UGC, and greater personalisation of content using postcode and mapping functions.

- 5.18 Newspaper websites also contain content designed to generate revenues for the publisher such as display advertising (i.e. 'banners' and 'skyscrapers' that appear on the screen) and classified advertising (i.e. homes, motors and jobs). This may be supported by other revenue generating services, such as a local business search directory and dating services.
- 5.19 Local news online revenues have grown quickly in recent years. It is unlikely however that falling print revenues can be fully offset by online revenues. The average value of a local or regional newspaper reader is substantially higher than the average value of an online user.⁷² It has been estimated that a local or regional publisher would need between 20 and 100 online users to offset the revenue loss from just one newspaper reader.⁷³ This, in part, is explained by the difference between the amount of time people spend reading local and regional newspapers and time spent using local or regional newspaper websites, making online a less effective display advertising medium.⁷⁴ There is also a greater degree of competition for online advertising, leading to lower advertising rates. Furthermore, unlike paid newspapers, publishers have generally been unable to charge website users for their local news content.
- 5.20 Publishers have been developing the content on their websites in order to attract audiences and engage with them so that they visit the website more frequently and/or spend more time when they visit. This makes the website more attractive to advertisers as users are more likely to see and act upon the advertising.
- 5.21 Most local and regional newspapers across the UK have an associated website. There are, therefore, no obvious geographic gaps in current commercial online local news provision. Indeed, Newspaper Society data shows that in each of the proposed 60 BBC Local Video areas there is at least one regional newspaper website. Below are some examples of local or regional newspaper publisher websites from each of the four nations.

⁷² For example, one publisher had an average newspaper revenue per copy sold per annum of £87 whereas its average online revenue per user was £3.50 in 2007.

⁷³ The Economist, *More media, less news*, 2006.

⁷⁴ National Readership Survey estimates the average time spent reading a daily regional newspaper is about 40 minutes. The average time spent per visit on a regional newspaper website (based on publishers' submissions) is between six and seven minutes.

Figure 5.1: Eastern Daily Press/Archant (new.edp24.co.uk)
BBC Local Video area: Norfolk



Figure 5.2: Belfast Telegraph/Independent News and Media (www.belfasttelegraph.co.uk)
BBC Local Video area: Belfast and East



Figure 5.3: Glasgow Herald/Newsquest (www.theherald.co.uk)
BBC Local Video area: Glasgow and West Scotland



Figure 5.4: Evening Leader/ NWN Media Ltd (www.eveningleader.co.uk)
BBC Local Video area: North East/West Wales



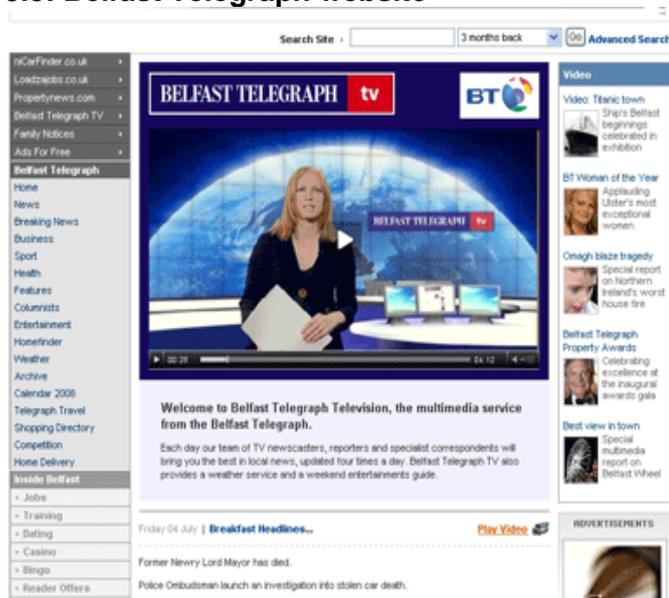
5.22 Publishers increasingly provide video content on their websites. This has meant training their editorial staff to produce video reports. For example, Northcliffe's *Hull Daily Mail* editorial team has 30 journalists producing video clips for its website.⁷⁵ Iliffe has trained over 45 journalists to produce video news stories. It is often the case that the journalist who writes the news story for the print edition will also film, narrate, edit and upload it onto the website. Johnston Press uploads about 1,300 video

⁷⁵ Northcliffe claims that, in November 2005, the *Hull Daily Mail* became the first regional newspaper publisher to produce daily video news reports on a website.

stories on its websites each month.⁷⁶ Trinity Mirror uploads about 40 to 50 video stories on its websites⁷⁷ each week.⁷⁸

- 5.23 In addition to video news stories, some publishers produce news round-up bulletins. A good example of this is the *Belfast Telegraph* website which has daily news bulletins, updated several times each day (see screen shot below).⁷⁹

Figure 5.5: Belfast Telegraph website



- 5.24 The current amount of video content on local and regional newspaper publisher websites is significantly less than the amount planned in the BBC's proposal. The BBC's proposal for each area per day is up to ten new video stories. In addition, there will be three video summary bulletins each for news, sport and weather. In total, there will be up to 26 minutes of video content in each area per day. The planned annual operating budget for the Local Video proposal is £23m by 2012/13, equivalent on average to about £350,000 per BBC Local area. This is much greater than the amount local and regional newspaper publishers spend on online video content. For example, one publisher estimates that it currently spends in total about £80,000 per website, which includes video content.

- 5.25 A number of publishers have introduced ultra-local websites, each covering a smaller area/community. These sites are based on UGC, with users submitting articles ('citizen journalists'), comments, pictures and video. Trinity Mirror has 30 hyper local websites and 50 town-level websites. Northcliffe has also developed a number of micro-sites, for example, its Croydon website⁸⁰ has 19 micro-sites.⁸¹

⁷⁶ Johnston Press has 323 websites. Johnston Press claims to be the first regional newspaper publisher to transmit live video pictures on a regional newspaper website.

⁷⁷ Trinity Mirror has 150 websites.

⁷⁸ Other publishers have also provided estimates of the amount of video content on their websites. Iliffe generates 10-12 video news clips each day for each of its larger websites and about 2 per day on some of its smaller websites. Archant typically produces about one video news story per day on a daily newspaper website, whereas a weekly title website would have about two per week.

⁷⁹ Other examples include Newbury Weekly News' website, Newburytoday.co.uk; Kent Messenger's website, Kentonline.co.uk; and Northcliffe's website, thisisbristol.co.uk which have daily video news summaries for their respective areas.

⁸⁰ www.thisscroydontoday.co.uk

Online users

5.26 Given these developments on their websites, publishers have seen substantial growth in the number of online users. For example, Trinity Mirror reported that average monthly unique users of its regional newspaper website portfolio grew year on year by about 27% to 6.2m per month in the first half of 2008.⁸² Johnston Press reported monthly unique visitor growth of 42% to 11.2m in the first half of 2008.⁸³ A number of other publishers have seen annual growth slightly above this range.⁸⁴ The Newspaper Society estimates that there were just over 20m monthly unique users of local and regional newspaper websites in 2007. In comparison, Ofcom's high take-up scenario assumes 9.3m individuals will use the BBC Local website by 2013/14.

Page impressions⁸⁵

5.27 There has also been substantial growth in local and regional newspaper website page impressions, in part reflected by the growth in the number of users. For example, Johnston Press saw monthly page impressions increase by 136% to 179.6m page impressions in the first half of 2008.⁸⁶ Page impression growth for some publishers' websites has been less rapid.⁸⁷

Page impressions per user

5.28 There has been significant variation between publishers in recent trends for growth in page impressions per user. Some publishers have seen average page impressions increase. For example, Johnston Press had about 16 page impressions per user per month in the first half of 2008.⁸⁸ This has increased from about 11 page impressions in 2007.⁸⁹ Some publishers have seen average page impressions remain flat and for others it has fallen.⁹⁰

⁸¹ Northcliffe has plans to launch a further 100 hyper-local sites across its footprint in the current business year.

⁸² Trinity Mirror plc, *Half-Yearly Financial Report for the 26 weeks ended 29 June 2008* ("Half-Yearly Financial Report"), 31 July 2008:

http://videos.icnetwork.co.uk/tmcorporate/Interim_Statement_2008.pdf

⁸³ Johnston Press, *Interim Results for the 26 weeks ended 30 June 2008* ("Interim Results"), 27 August 2008:

www.johnstonpress.co.uk/jpplc/uploads/pressreleases/files/JPIInterimStatementAug2008RNS.pdf

⁸⁴ Northcliffe saw annual user growth of 45% for its 'thisis' websites with 3m users in June 2008 (see www.guardian.co.uk/media/2008/sep/10/dmgt.pressandpublishing). Two other publishers reported annual growth of about 50%. [<] saw an increase of about 50% in the first six months of 2008, with over 222,000 unique users in June 2008. Iliffe saw an annual increase in unique users of 50% across its newspaper websites with 385,000 users in August 2008.

⁸⁵ This is another measure of usage of a website. Page impressions are the number of pages viewed on a particular website.

⁸⁶ Johnston Press plc, *Interim Results*, 27 August 2008

⁸⁷ [<] saw average monthly page impressions grow by 25% between 2006 and 2007 to about 33.1 million monthly page impressions. Northcliffe saw monthly page impressions increase by about 10% year on year for its 'thisis' websites in June 2008 to 45m pages. Iliffe saw annual growth in monthly page impressions across its newspaper websites of 25% to just under 4m pages in August 2008.

⁸⁸ Total page impressions were 179.6 million and total users of 11.2 million.

⁸⁹ Johnston Press plc, *Annual Report and Accounts 2007*. Johnston Press had 87.3m page impressions per month and 8.2m unique users per month in 2007.

⁹⁰ [<] has seen average monthly page impressions per user remain steady in recent years at about 11 page impressions. Northcliffe had 15 page impressions per user on average in June 2008; a year earlier it had 20 page impressions. Northcliffe explained that this decline was due to improved

Online revenues

- 5.29 Publishers have seen substantial growth in their online revenues on the back of growth in audience. Johnston Press recently reported that it had increased online revenues by 52% in the first half of 2008, compared to the same period in 2007.⁹¹ Trinity Mirror's Regionals division announced digital revenues of £22.3m for the first half of 2008, a 40% increase on the same period for 2007.⁹² Other publishers have seen their online revenues increase by more than this.⁹³
- 5.30 Despite this rapid growth, online revenues still account for a small proportion of publishers' total revenues. In 2006, this proportion was 2.5%.⁹⁴ This average estimate is likely to hide wide variation between publishers.⁹⁵ Given the growth in online revenues and the decline in print revenues in recent years, it is likely that the proportion has increased since 2006.

Revenue per user

- 5.31 Despite substantial growth in online audience and revenues, revenue per user for some publishers has not changed substantially and for others has fallen.⁹⁶ There are big differences between display and classified advertising, with display revenues per user substantially below those for classified revenues.⁹⁷

Cyclical trends

- 5.32 In addition to the above structural changes, the industry is facing a cyclical decline in advertising revenues as a result of the downturn in the UK economy. Trinity Mirror saw a 6% decline in advertising revenues for its regionals division in the first half of 2008.⁹⁸ Johnston Press saw a 9.5% decline in its advertising revenues over the same period.⁹⁹ These declines arose despite both companies seeing strong growth in their online revenues over the same period. Early indications suggest that advertising conditions have worsened in the second half of 2008.¹⁰⁰ Some market

functionality and navigation on their websites. [X] also saw a decline in page impressions per user from 12 pages per user in August 2007 to 10 pages in August 2008.

⁹¹ Johnston Press, *Interim Results*, 27 August 2008

⁹² Trinity Mirror plc, *Half-Yearly Financial Report*, 31 July 2008.

⁹³ [X] saw its online revenues more than double between 2006 and 2007 to £2.3m.

⁹⁴ Newspaper Society, *RPS 2006*.

⁹⁵ Based on the available data, this ranged from about 0.5% to over 5% in 2006.

⁹⁶ [X] average revenue per user was about £3.50 in 2007, up slightly from 2006 but similar to that for 2005. Johnston Press' average revenue per user was £1.88 in 2007, up slightly from 2006 but half that in 2005.

⁹⁷ [X] had an average display revenue of £0.45 per user and average classified revenue per user of about £3 in 2007. [X] had an average display revenue of about £0.4 per user and average classified revenue of £10.74 in 2007.

⁹⁸ Trinity Mirror plc, *Half-Yearly Financial Report*, 31 July 2008. Trinity Mirror also noted that this decline had accelerated during this period, from 3% in January to over 11% in June. The decline also varied by category of advertising, for example display revenues were down 1.2% and motors were down 17.6%.

⁹⁹ Johnston Press, *Interim Report*, 27 August 2008

¹⁰⁰ Johnston Press reported that advertising revenues were down 21% year on year in the first seven weeks of the second half of 2008.

analysts are predicting a significant downturn in local and regional newspaper advertising.¹⁰¹

Audience profile

Print

5.33 About 82% of British adults read a regional newspaper¹⁰² and spend about 40 minutes, on average, reading each issue.¹⁰³ Table 5.5 below shows how readership varies by region. As can be seen North East Scotland and the Border regions have the highest levels of adult readership.

Table 5.5: Proportion of adults who read a regional newspaper by ISBA¹⁰⁴ region

North East Scotland	90%
Border	89%
East	87%
Central Scotland	87%
South West	86%
North East	86%
North West	86%
Midlands	82%
South	81%
Wales & the West	79%
Yorkshire	79%
London	79%

Source: Newspaper Society website (April 2007 - March 2008).

5.34 Table 5.6 below shows the demographic profile of newspaper readers.

¹⁰¹ For example, Enders Analysts expect regional newspaper classified revenues to decline by almost half between 2007 and 2013. However, it expects regional newspaper publishers to capture an increasing share of online classified revenues (up to 25%).

¹⁰² Newspaper Society April 2007 - March 2008: www.newspapersoc.org.uk/Default.aspx?page=897. Our market research suggests that 72% of UK adults read regional newspapers on a weekly basis *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

¹⁰³ National Readership Survey: <http://www.nrs.co.uk/>. Our market research suggests that the average time spent reading a local newspaper is 32 minutes. See: *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

¹⁰⁴ Incorporated Society of British Advertisers. There are 12 ISBA regions covering Great Britain.

Table 5.6: Demographic profile of local newspaper readers

Gender	
Male	48%
Female	52%
Socio-Economic Group ¹⁰⁵	
ABC1	53%
C2DE	47%
Age	
15-34	27%
35-54	35%
55+	37%

Source: Newspaper Society, April 2008

Online

- 5.35 Based on information provided by publishers, the demographic profile of local and regional newspaper websites tends to be male, higher socio-economic groups (ABC1) and younger age ranges.¹⁰⁶ In addition, the average time spent on local and regional newspaper websites is about six to seven minutes.¹⁰⁷
- 5.36 Several local and regional newspaper publishers have conducted audience research into why people use local and regional newspaper websites. For example, one publisher found that 38% of visitors said the main reason for visiting the website was for local news and that for 22% it was to look at classified advertising (looking for a job, property, car, small ads).¹⁰⁸ Another publisher's research found that 70% of respondents said the principal reason to visit their websites was local news and sport.¹⁰⁹
- 5.37 A number of publishers have emphasised the importance of the local news sections of their websites for driving traffic to their classified websites, particularly for passive classified audiences.¹¹⁰ This is critical for generating online revenues. Figures for one publisher showed that one newspaper website's homepage generated 60% of traffic to the jobs pages and another newspaper website's homepage generated 40% of

¹⁰⁵ This is a method of classifying people by class, based on the occupation of the head of the household. There are six social classifications, A, B, C1, C2, D and E. The group ABC1 includes higher managerial, administrative and professional workers and intermediate managerial, administrative or professional workers. The group C2DE includes skilled, semi-skilled or unskilled manual workers. It also includes state pensioners and casual workers.

¹⁰⁶ [] figures for the [] website showed that 54% of users were male, 70% were between 15 and 55 and 55% were ABC1. [] figures for the [] website showed that 63% of users were male, 80% were between 15 and 54 and 63% were ABC1.

¹⁰⁷ Northcliffe's average was six minutes and 55 seconds. [] average was six minutes. Our market research suggests that the average time spent on local news websites was 28 minutes, much higher than that reported by regional newspaper publishers. See: *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

¹⁰⁸ Northcliffe's 'thisis' websites.

¹⁰⁹ []

¹¹⁰ These are people who are not actively looking for a new job, new car, etc but look at the classified pages of the website as a result of seeing the links on the news pages of the website.

traffic to the property pages.¹¹¹ Another publisher said that 86% of all visits to their jobs site originated from their newspaper website.¹¹²

- 5.38 There is also a significant proportion of people who both read a local or regional newspaper and visit its associated website. For example, figures for one publisher's newspaper title and associated website showed that 21% of the total audience used both. Of the website audience, 44% also read the newspaper. Of the newspaper audience, 29% also visited the website.¹¹³ This is consistent with data provided by another publisher.¹¹⁴

The counterfactual

- 5.39 In order to estimate the impacts of the BBC's Local Video service on local and regional newspaper publishers it is first necessary to establish what is likely to happen in the local and regional newspaper industry absent this service (the 'counterfactual'). From this baseline, the impact of the BBC's proposed service can be measured. This section considers the counterfactual under our high and low scenarios.

Print

- 5.40 It is generally accepted that local and regional newspapers are in long term decline. This is supported by numerous stakeholder submissions made during the consultation. Table 5.7 below sets out publishers' and sector analysts' expectations for circulation and revenue trends over the period 2008 to 2013.

Table 5.7: Local and regional newspaper circulation and revenue projections 2008 to 2013¹¹⁵

	Circulation	Revenue
Publisher A	Up to 7% per annum decline	0–2% per annum decline
Publisher B	6% per annum decline	5% per annum decline
Publisher C	4% per annum decline	1% per annum increase
Enders	6% per annum (paid) decline	5% per annum decline
Analysts	5% per annum (free) decline	

- 5.41 One publisher (C)¹¹⁶ expects revenues to increase (albeit slightly) despite an expected 4% per annum decline in circulation. Similarly, another publisher's (A)¹¹⁷ projections imply that revenues are not that responsive to changes in circulation. In contrast, another publisher (B)¹¹⁸ expects revenues to decline at almost the same rate as circulation.
- 5.42 Table 5.8 below shows average per annum changes in circulation and revenues over the period 2005 to 2007. For paid daily titles, circulation declined on average by 6% per annum. Classified revenue declined at a similar rate, whereas sales revenues

¹¹¹ Northcliffe data for March 2008 for the 'thisishull' and May 2008 for 'thisisbristol' websites.

¹¹² [X] data for their [X] websites.

¹¹³ Northcliffe's *Leicester Mercury* newspaper and 'thisisleicester' website.

¹¹⁴ [X]: 18% of the total audience used both. Of the website audience, 34% also used the newspaper. Of the newspaper audience, 28% also used the website.

¹¹⁵ Note that 'Publisher A', 'Publisher B', etc, does not necessarily refer to the same publisher in subsequent tables.

¹¹⁶ [X]

¹¹⁷ [X]

¹¹⁸ [X]

and display revenues declined at a slightly slower rate. For paid weekly titles, despite circulation declining on average by 3% per annum, sales revenues increased on average by 3% per annum. Advertising revenues declined by broadly similar rates as circulation. For free weekly titles, circulation, display revenue and classified revenue all declined on average by broadly similar rates.

Table 5.8: Average per annum change in circulation and revenues (2005 to 2007)

	Circulation	Sales revenue	Display revenue	Classified revenue
Paid Daily	-6%	-4%	-5%	-6%
Paid Weekly	-3%	3%	-2%	-2%
Free Weekly	-4%	n/a	-5%	-4%

Source: Ofcom calculations based on Advertising Association data.

Notes: n/a means not applicable

Local and regional newspaper counterfactual scenarios

- 5.43 In developing our local and regional newspaper counterfactual scenarios, we had regard to recent trends and to the views of publishers and market analysts. In both our high and low counterfactual scenarios we assumed a 5% per annum decline in local and regional newspaper circulation. In our high counterfactual scenario, we assumed that revenues do not decline as rapidly (by 2% per annum). In our low counterfactual scenario, we assumed that revenues decline more rapidly (by 8% per annum). The latter captures the possibility of prolonged cyclical downturn in local and regional newspaper advertising.
- 5.44 Table 5.9 below sets out our projections for regional newspaper circulation and revenues for our two scenarios.

Table 5.9: Ofcom's local and regional newspaper counterfactual projections

	Low scenario		High scenario	
	2008/09	2013/14	2008/09	2013/14
Annual circulation (bn)	2.9	2.6	2.9	2.6
Revenue (£m) ¹¹⁹	2,962	1,952	3,361	3,038

Online

Newspaper publishers' views

- 5.45 All newspaper publishers plan to develop their online offerings in order to engage with their local audiences. They intend to provide greater video content and user interaction (such as UGC, blogs and website personalisation). As a consequence, most publishers expect to see continued strong growth in the number of website visitors and page impressions, especially in the short term. Table 5.10 below sets out publishers' growth expectations for unique users, based on publisher submissions. As can be seen, one publisher (A)¹²⁰ expects the number of users to its websites to more than double over the five year period, whereas another (C)¹²¹ expects the number of visitors to its websites to triple. Projected annual user growth is consistent

¹¹⁹ We have used Advertising Association revenue data to estimate revenue for 2006/07. To this base, we have applied our revenue assumptions.

¹²⁰ [X]

¹²¹ [X]

with or below recent experience (see recent market trends section above). A number of publishers expect the annual rate of increase to slow over time, particularly as penetration of the local market audience increases.¹²²

Table 5.10: Publishers' website unique user projections

	2008-13 change	2008/09 change	2012/13 change
Publisher A	146%	27%	9%
Publisher B ¹²³	67%	23%	0%
Publisher C	202%	CAGR 25%	

Note: CAGR means compound annual growth rate

- 5.46 A number of publishers¹²⁴ said that they expect to increase the frequency of visits and time spent on their websites which will drive a much higher level of page impressions.¹²⁵ However, there was a wide range of views as to the likely growth in page impressions. For example, one publisher¹²⁶ expects to increase page impressions by a factor of six by 2013/14 whereas another only expects almost a doubling.¹²⁷
- 5.47 Publishers also have a wide range of views on growth in page impressions per user. One publisher expects only slight growth from 11 page impressions per user in 2007 to about 12 in 2013.¹²⁸ Another publisher expects to see average page impressions per user to grow from 20 in 2007 to between 61 and 130 in 2013.¹²⁹
- 5.48 Table 5.11 below shows the range of publishers' expectations for online revenue growth. As can be seen, there is a large range of views, with one publisher (A)¹³⁰ expecting to increase online revenues by a factor six over the period whereas another (publisher E)¹³¹ does not expect to even double website revenues. This is likely to be explained by a number of factors such as the different stages of development in their websites and the different development plans each publisher has, particularly in terms of generating online revenues.

¹²² [X], Northcliffe, Iliffe and Johnston Press.

¹²³ Northcliffe.

¹²⁴ Johnston Press and Northcliffe.

¹²⁵ One publisher said it expects the frequency of visits to increase from two per month to 15 per month and time spent increase from six minutes to 11 minutes by 2013. Another publisher said it plans to increase the frequency of visits from 2.5 per month to 4.3 per month by 2013.

¹²⁶ Northcliffe.

¹²⁷ [X]

¹²⁸ [X]

¹²⁹ Northcliffe.

¹³⁰ [X]

¹³¹ [X]

Table 5.11: Publishers' newspaper website revenue projections

	2008-13 change	2008-09 change	2012-13 change
Publisher A	521%	23%	50%
Publisher B ¹³²	403%	63%	19%
Publisher C ¹³³	305%	CAGR 32%	
Publisher D ¹³⁴	217%	22%	28%
Publisher E	48%	12%	15%

Note: Publisher E's figures are for a four year period: 2009/10 to 2012/13

- 5.49 There is also a wide range of publishers' expectations in terms of the average revenue per user or per thousand page impressions. Some publishers expect significant growth in average revenue per user and average revenue per thousand page impressions. For example, one publisher expects average revenue per user to be about £9.50 in 2013, compared to £3.50 in 2007.¹³⁵ It also expects similar growth in revenue per thousand page impressions. Other publishers expect average revenue per thousand page impressions to decline over time because of increasing competition in the local online market.¹³⁶
- 5.50 All publishers who submitted their plans to us believed them to be commercially viable, although some admitted they were ambitious. It is worth noting that publishers of all sizes and in all parts of the UK had such plans. Therefore it is not obvious that certain parts of the UK will be less commercially viable than others. In addition, whilst some market analysts we spoke to (see next paragraph) questioned generally the likelihood of success, they did not identify differences between geographic areas as a particular factor.

Other views and evidence

- 5.51 We spoke to a number of media market analysts for their views on the likelihood of local and regional newspaper publishers achieving their revenue growth projections. They thought, for a number of reasons, that local and regional newspaper publishers would find it very difficult to achieve significant online revenue growth. First, given the strong position of specialist classified advertising websites, particularly for property and motors, local and regional newspaper publishers would find it difficult to capture share from these websites. However, given the more fragmented nature of recruitment advertising, publishers may be well placed to capture a significant share of recruitment advertising spend.¹³⁷ Second, online display advertising was unproven and unlikely to generate significant revenue. However, some were more bullish about display advertising as they thought that technology improvements would increase the effectiveness of such advertising. On the other hand, there is likely to be significant competition from other websites for this advertising.

¹³² [X]

¹³³ [X]

¹³⁴ [X]

¹³⁵ [X]

¹³⁶ [X]

¹³⁷ An analysis of Advertising Association data, provided by the Newspaper Society, shows that regional publishers have increased their share of online recruitment advertising spend from 26% in 2005 to 29% in the second quarter of 2008. This has been at the expense of specialist recruitment websites.

- 5.52 A report commissioned by Ofcom from MTM London¹³⁸ noted that local and regional newspaper publishers faced a range of 'disruptive market forces' in achieving online revenue growth. In particular, market entrants ranging from global online specialists, such as Google and eBay, to innovative local micro-businesses, such as Manchester Confidential, are all threatening to capture a substantial market share of the local advertising market. MTM London concluded that it is too early to say at what level online local content offerings would be commercially sustainable.
- 5.53 Another factor in determining potential growth in newspaper website revenues is how the overall online advertising market will develop. Table 5.12 below shows recent trends in online advertising spend. As can be seen, between 2002 and 2007, online classified advertising grew by a factor of eight and online display advertising revenues grew by a factor of seven.

Table 5.12: Internet advertising spend

	Classified (£m)	Annual % change	Display (£m)	Annual % change
2002	70.2		84.5	
2003	92.7	32%	165.7	96%
2004	161.4	74%	232.9	41%
2005	262.2	62%	335.9	44%
2006	379.0	45%	471.2	40%
2007	585.3	54%	608.2	29%

Source: Advertising Association, *Advertising Statistics Yearbook 2008*

- 5.54 In 2006, local and regional newspaper publishers' online revenues were about £71 million¹³⁹, equivalent to an 8% share of total online spend. Growth in total internet advertising spend in 2007 is in line with that experienced recently by local and regional newspaper publishers (see recent market trends section above).

Local and regional newspaper website counterfactual scenarios

- 5.55 In developing our local and regional newspaper website counterfactual scenarios, we had regard to recent trends and the wide range of publisher and market analyst views, particularly in terms of the potential to grow online revenues. Table 5.13 below sets out our assumptions and projections for the high and low counterfactual scenarios.

¹³⁸ This was published on 25 September 2008 as part of Ofcom's *Second Public Service Broadcasting Review – Phase 2: preparing for the future* (Annex 10 – Investigation of business models for content in the online children's and local and regional market).

¹³⁹ Newspaper Society, *RPS 2006*.

Table 5.13: Ofcom's local and regional newspaper website counterfactual scenario assumptions and projections

	Low scenario		High scenario	
	2008/09	2013/14	2008/09	2013/14
Audience growth per annum	20%	0%	20%	0%
Average revenue per user	£3.70	£3.70	£4.44	£11.10
Audience (m)	26m	36m	26m	36m
Revenue (£m) ¹⁴⁰	£97m	£135m	£116m	£404m

- 5.56 Our high counterfactual scenario assumes the rate of audience growth declines over time from 20% in 2008/09 to 0% in 2013/14. This is based on the assumption that audience growth will continue at levels recently experienced by some publishers, but that publishers will find it difficult to maintain this growth rate over time, again consistent with some publishers' views. In this scenario we assumed average revenue per user is £3.70 in 2007/08, based on industry data. Average revenue per user is assumed to triple over the period. Based on these assumptions, local and regional newspaper website revenues in the high counterfactual scenario increase by about a factor of four. This is towards the top end of the range projected by stakeholders.
- 5.57 Our low counterfactual scenario is also based on declining rates of audience growth, from 20% in 2008/09 to 0% in 2013/14. In addition, average revenue per user is assumed to be constant over the period. Based on these assumptions, local and regional newspaper website revenues increase much more slowly over the period (less than double), consistent with the lower end of the range projected by stakeholders.

Mobile

- 5.58 A number of publishers have said they plan to launch mobile network internet sites offering local news, sport and information.¹⁴¹ The success of mobile network services again depends on building a significant user base in the long term to generate revenue. Mobile services are considered in more detail in Section 9.

Static impact on local and regional newspaper publishers

- 5.59 This section estimates the likely static impacts both on local and regional newspapers and their associated websites in terms of loss of revenues and loss of profit.
- 5.60 Publishers argued in their submissions that if the BBC were to launch its Local Video service then there would be a loss of newspaper readership, which in turn would reduce circulation and advertising revenues. However, only a few publishers estimated the impact on their local and regional newspapers. Other publishers

¹⁴⁰ We estimated a base for 2007/08 for the number of unique users (from Newspaper Society) and average revenue per user (from publishers' submissions). From this base, we applied our audience and average revenue assumptions.

¹⁴¹ Trinity Mirror said it planned to launch 12 regional newspaper branded mobile sites in 2008. Johnston Press has said it is interested in offering services over mobile networks. Northcliffe said it has been examining the potential of mobile internet sites for its regional titles. It currently offers a 'Sports Flash' mobile service in Hull and ran a news update trial in Exeter. In the short term, revenues were limited due to low usage, however these could be developed in the longer term if it could build a significant user base.

thought this impact would be small relative to the potential impact on their online revenues. However, given the size of local and regional newspaper revenues (£3.5bn), even very small impacts on circulation could result in a significant (absolute) loss of revenue. In addition, whilst digital revenues are forecast to grow substantially, it is likely that they will only account for a small proportion of total revenues.¹⁴² The online impacts would need to be substantially greater in order to generate a greater (absolute) revenue loss.

- 5.61 Publishers also argued that the BBC Local Video service would reduce both the number of visitors and the amount of time spent per visitor and thus their ability to generate revenue for their website offerings. Some publishers argued that the reduced online revenue would mean they were unable to support a journalist base of the same scale within a particular region, particularly in an environment where print newspaper revenues are in decline.
- 5.62 Some publishers also raised concerns about the BBC Local Video service increasing their costs, such as for journalists (this is considered in Section 10 below) and marketing (in order to compete with the BBC's cross-promotion).
- 5.63 In order to estimate the likely impacts on other local media, we commissioned market research, see Section 4 and the separately published report¹⁴³ for more details. This research asked those who said they were likely to use the BBC Local Video service: (i) how likely they would be to change their use of other local news media, and (ii) how their use would change.

Print

- 5.64 One way of assessing whether the proposed BBC Local Video service would have a significant impact on local and regional newspapers is to compare product characteristics. The greater the similarities, the more likely the impact will be significant.
- 5.65 There would be substantial overlap of the content of local and regional newspapers and the proposed BBC service, for example, local news, sport, weather and community and local life stories (see Table 4.1 in Section 4). In addition, the geographic footprint of some titles, particularly daily local and regional newspapers, would closely match the footprint of the BBC Local areas.¹⁴⁴ There is also likely to be some overlap in terms of the time period people read local and regional newspapers and are likely to use the BBC Local Video service.¹⁴⁵

¹⁴² Based on our counterfactual scenarios, the proportion of online revenues ranges from 6% in the low counterfactual to 12% in the high counterfactual by 2013/14. The expected share put forward by one publisher is 30% by 2013.

¹⁴³ *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

¹⁴⁴ Daily regional newspapers tend to cover a wide footprint, such as a county or city. For example, the *Birmingham Mail* covers Birmingham, the *Liverpool Echo* covers Liverpool, the *Shropshire Star* covers Shropshire, the *Oxford Mail* covers Oxfordshire, the *Cambridge Evening Mail* covers Cambridgeshire and the *Lancashire Evening Post* covers Lancashire. Weekly titles tend to have a smaller footprint, such as a town or part of a county or city.

¹⁴⁵ Our market research suggests that over half of those likely to use the BBC service would tend to use it at home in the evening. In addition, 45% said they would expect to use the BBC service daily and 85% said they would use it at least weekly (for news stories). This suggests substantial overlap with daily and weekly regional newspapers, and for evening regional newspapers. (*Research into the*

- 5.66 There will, however, also be significant differences. For example, local and regional newspapers contain a much broader range of content such as, what's on listings, public notices (such as, births, deaths and marriages) and classified and display advertising. The proposed daily limits on the BBC service are likely to mean that local and regional newspapers will contain a much wider range of news and sport stories. Other differences include: the proposed BBC service will be distributed via the internet (unlike newspapers), is primarily a video based proposition (rather than text) and provided free (unlike paid newspapers).
- 5.67 Table 5.14 sets out our market research results on how those who thought they would use the BBC Local Video service would change their consumption of local and regional newspapers.

Table 5.14: Ofcom's market research results for local and regional newspaper impacts

	Paid Daily Titles	Paid Weekly Titles	Free Weekly Titles
Stop using	3%	5%	1%
Use a lot less	8%	5%	5%
Use a little less	11%	4%	9%
Use a little more	0%	0%	0%
Use a lot more	0%	0%	0%

Base: Current weekly users of each media source who are likely to use the BBC Local Video service. Base sizes: paid daily titles, 230; paid weekly titles, 273 and free weekly titles, 194. Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 5.68 As can be seen, of those who thought they would use the BBC service and currently consume the relevant media, no-one expected to increase their use of that media. A small proportion said they would stop using each media. More people thought they would use the relevant media a lot or a little less, particularly for paid daily and free weekly newspapers.
- 5.69 A number of publishers provided estimates of how the BBC Local Video service might impact on their newspapers. One publisher suggested there could be a 5% to 10% impact on newspaper circulation.¹⁴⁶ Another thought there could be a 5% impact on circulation.¹⁴⁷ These estimates are higher than our market research results as they are expressed as a proportion of circulation, whereas our research results are expressed as a proportion of the smaller group that is likely both to use the BBC's proposed service and currently read local or regional newspapers.
- 5.70 The BBC Management commissioned BMRB to conduct market research which was submitted as part of its application. Table 5.15 below shows the results of the BMRB research.¹⁴⁸

expected take-up and impact of a proposed BBC Local Video service, a quantitative research report by SPA prepared for Ofcom, 21 November 2008).

¹⁴⁶ [<]

¹⁴⁷ [<]

¹⁴⁸ BMRB, *Independent Quantitative Research to feed into the Market Impact Assessment of the BBC Local Video Service*, March 2008.

Table 5.15: BMRB's market research results for local and regional newspaper impacts

	Paid Titles	Free Titles
Use a lot less	12%	9%
Use a little less	19%	17%
Use the same	57%	60%
Use a little more	2%	5%
Use a lot more	2%	3%

Base: Current users of the commercial local media who have access to broadband.

Note: The figures shown are for changes in use of commercial media for news. There are slight differences if changes in use of commercial media for any purpose were used instead.

- 5.71 Based on BMRB's results, the net impact¹⁴⁹ for paid titles is a 27% decline in usage among those who currently read paid newspapers and have access to broadband. The net impact for free titles is a 18% decline in usage among those who currently read free newspapers and have access to broadband.
- 5.72 Human Capital,¹⁵⁰ in a separate report for the BBC,¹⁵¹ took the BMRB research results and made a number of adjustments. Human Capital made a number of adjustments to the base that was used as part of the BMRB market research. Namely, Human Capital's results are based on those who:
- currently consume the relevant service;
 - have access to broadband;
 - said they would definitely use the BBC Local Video service; and
 - have used the internet in the last month from any location.
- 5.73 See Annex 4 for further discussion of the BMRB and Human Capital results. Human Capital's impact estimates are shown in Table 5.16 below.

Table 5.16: Human Capital's market research results for local and regional newspaper impacts

	Paid Titles	Free Titles
Use a lot less	2.2%	2.8%
Use a little less	2.4%	2.1%
Use the same	93.9%	92.6%
Use a little more	0.8%	1.1%
Use a lot more	0.4%	0.8%

Base: Current users of the relevant commercial local media (at least weekly) who used the internet in the last month and said they would definitely use the BBC Local Video service at least once a week.

- 5.74 Based on these results, the net impact for paid titles is a 5.4% decline in usage among those who currently read paid newspapers, have access to broadband and said they would definitely use the BBC service. For free titles, the net impact is a 3%

¹⁴⁹ The difference between the proportion that would use a lot or a little less and the proportion that would use a lot or little more.

¹⁵⁰ Human Capital is a strategy, research and development consultancy.

¹⁵¹ Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals*, 11 April 2008.

decline. As can be seen, these results are substantially different from the BMRB results. While we had regard to the BBC's market research, we relied on our own market research in estimating impacts. See Annex 4 for further discussion of the BMRB and Human Capital results.

- 5.75 There are inevitable limitations to using market research to predict actual take-up of a service. Annex 4 provides further details of the issues involved. As a consequence, we used the upper and lower confidence interval around our market research results to estimate the likely range of audience impacts.
- 5.76 Our low impact scenario is based on the lower confidence interval of our market research results. The high impact scenario is based on the upper confidence interval. For the high and low scenarios, we calculated separate net audience impacts for paid daily titles, paid weekly titles and free weekly titles.¹⁵² We also considered a third audience impact scenario, based on stakeholders' audience impact assumptions. These audience impact assumptions are shown in Table 5.17 below. For example, for paid daily newspapers, our low impact scenario assumes that, of those who read paid daily newspapers and use the BBC's proposed service, 4% will stop reading paid daily newspapers.¹⁵³ Our high impact scenario assumes that 20% of those who use the BBC's service and currently read paid daily newspapers will stop reading them. Our stakeholder impact scenario assumes that circulation will decline by 5%. This is based on the assumptions used by stakeholders (see above).

Table 5.17: Ofcom's net audience impacts for local and regional newspapers

	Low impact scenario	High impact scenario	Stakeholder impact scenario
Base	Current weekly users of each media source who are likely to use the BBC Local Video service	Current weekly users of each media source who are likely to use the BBC Local Video service	Circulation
Paid Daily Titles	-4%	-20%	-5%
Paid Weekly Titles	-4%	-16%	-5%
Free Weekly Titles	-3%	-12%	-5%

- 5.77 A change in local and regional newspaper circulation is likely to lead to a change in revenues. It is also likely that some revenue streams are more sensitive than others to a change in circulation. For example, one publisher¹⁵⁴ assumed that for every 1% decline in circulation there was a:

- 1% decline in circulation revenues;

¹⁵² The net audience impact is calculated by taking the difference between those who said they would (i) stop and start using, (ii) use a lot less and a lot more, and (iii) use a little less and a little more. See Annex 4 for further details of how these net audience impact factors were estimated.

¹⁵³ This is not the same as a 4% decline in circulation as it is based on those that use the BBC's service and read paid daily newspapers. This is a subset of all who read paid daily newspapers, since not everyone who reads paid daily newspapers will take-up the BBC's service.

¹⁵⁴ [X]

- 0.5% decline in classified revenues;
- 1% decline in national display revenues; and
- 0.5% decline in local display revenues.

5.78 This publisher made different assumptions for local and national display as national advertisers are more likely to take account of circulation changes as they purchase advertising space through advertising agencies. Local advertisers are likely to have less information about the effectiveness of advertising. It also argued that classified revenues would be affected because they are driven by audience and response rates.

5.79 Another publisher¹⁵⁵ assumed that for every 1% decline in circulation there was a:

- 1% decline in circulation revenues; and
- 0.5% decline in advertising revenues.

5.80 Based on these relationships, we assumed that for every 1% decline in circulation, all revenues decline by 0.5% in our low impact scenario and by 1% in our high and stakeholder impact scenarios.

Online

5.81 Publishers have argued that the BBC Local Video service will have substantial impacts on their online businesses. They argue that this is because the BBC Local Video service would replicate the content (local news, sport, weather and community and local life stories) and geographic coverage of local and regional newspaper publishers' websites.¹⁵⁶

5.82 Other obvious similarities are that both services are provided online and for free.¹⁵⁷ While the BBC's service is primarily a video-based service whereas local and regional newspaper websites do not currently offer substantial video content, newspaper publishers have plans to develop their video content. There are also some differences, for example, newspaper websites are likely to contain a wider range of stories (based on their print newspapers), given the BBC's proposed story limits, and other content, such as, what's on listings, local business finders, dating services and classified and display advertising.

5.83 Publishers are also concerned that cross-promotion by the BBC of its service will make it difficult for publishers to attract an online audience. In addition, they are concerned that because the BBC website usually gets a high ranking by search engines, this will mean people searching for news in a local area are more likely to be directed to the BBC Local service than a local or regional newspaper website.

5.84 This suggests that regional newspaper websites could be highly substitutable with the proposed BBC service. If so, the impact would be negative and significant.

¹⁵⁵ [X]

¹⁵⁶ The footprint of daily newspaper websites tends to be the same as that for the print version. The online footprint of weekly newspapers is either the same as the print version or, where a publisher owns a number of weekly titles within an area, may be an aggregate of the print version footprints.

¹⁵⁷ Very few regional newspaper websites have subscription/user charges.

- 5.85 Some publishers gave an estimate of how the BBC Local service might impact on their newspaper website audience. Their estimates are set out in Table 5.18 below. While publishers believed their estimates to be plausible they did not provide direct evidence to support them. Their estimates tended to be based on their understanding of the market.

Table 5.18: Publishers' impact estimates for local and regional newspaper websites

	Estimated impacts
Publisher A ¹⁵⁸	10% to 20% decline in page impressions
Publisher B ¹⁵⁹	Lose one-third of overlap audience with BBC Local
Publisher C ¹⁶⁰	6% to 12% reduction in users and a 6% to 12% reduction in average page impressions
Publisher D ¹⁶¹	40% reduction in users
Publisher E ¹⁶²	50% reduction in users

- 5.86 Table 5.19 sets out the results of our market research on how consumers of local and regional newspaper websites would change their behaviour if they used the BBC Local Video service.

Table 5.19: Ofcom's market research results for local and regional newspaper website impacts

	Local and regional newspaper websites
Stop using	0%
Use a lot less	5%
Use a little less	14%
Use a little more	1%
Use a lot more	2%

Base: Current weekly users of local and regional newspaper websites who are likely to use the BBC Local Video service. Base size: 82.

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 5.87 A small proportion of those who said they are likely to use the BBC Local Video service and currently use local or regional newspaper websites said they would use those websites more (unlike for local and regional newspapers, for which the figure was zero).
- 5.88 Table 5.20 below shows the results of the BMRB market research and Human Capital's adjustments to these figures in relation to local news websites (local newspaper websites were not separately considered).

158 [X]
 159 [X]
 160 [X]
 161 [X]
 162 [X]

Table 5.20: BBC's market research results for regional newspaper website impacts

	BMRB	Human Capital
Use a lot less	8%	1.7%
Use a little less	18%	4.3%
Use the same	48%	84.4%
Use a little more	10%	4.0%
Use a lot more	6%	4.0%

- 5.89 The BMRB results show that there would be a net negative impact of 10% on local news websites. However, the Human Capital adjusted figures show that there would be a net positive impact of about 2%. As discussed above, we have not relied on these results in our audience impact assessment (see also Annex 4).
- 5.90 As for newspapers, we modelled three impact scenarios for local and regional newspaper websites. Our high and low impact scenarios are based on the upper and lower range of the confidence interval of our market research results. This ranged from negative audience impact of 1% in the low scenario to 12% in the high scenario (based on current weekly users of each media source who are likely to use the BBC Local Video service). Our stakeholder impact scenario is based on stakeholders' audience impact assumptions. In this scenario, we used an impact of a 15% decline in local and regional newspaper website audience. This is consistent with the assumptions used by a number of publishers in their own impact estimation.¹⁶³
- 5.91 As for newspapers, a change in website usage/audience is likely to lead to a change in website revenues. Generally, publishers have assumed that website revenues decline by 1% for every 1% decline in audience when estimating the revenue impact on their newspaper websites.¹⁶⁴ We assumed the same relationship in all impact scenarios.

Local and regional newspaper revenue and profit impact

- 5.92 Table 5.21 below sets out the absolute and percentage revenue loss in 2013/14 for our three scenarios.

Table 5.21: Ofcom's estimates of local and regional newspaper publishers' loss of revenue in 2013/14

	Low scenario		High scenario		Stakeholder scenario	
	£m	%	£m	%	£m	%
Newspapers: print	1.9	0.1%	86	2.8%	152	5%
Newspapers: online	0.1	0.1%	8	1.9%	61	15%
Total	2.0	0.1%	94	2.7%	212	6%

- 5.93 As can be seen, in the low scenario there is a very slight reduction in revenues in 2013/14. In the high scenario, publishers lose £94m in revenue in 2013/14, primarily

¹⁶³ Table 5.18 sets out these assumptions. Our assumption is consistent with the mid-point of publisher A's range. In addition, publisher B, based on Human Capital's research, suggests that 39% of regional newspaper website users overlap with the BBC website. One third of this is 13%. Our assumption is also consistent with the range of assumptions used by publisher C.

¹⁶⁴ [X], [X] and [X] made this assumption.

due to a decline in newspaper print revenues. In the stakeholder scenario, publishers lose £212m in revenue in 2013/14.¹⁶⁵

- 5.94 We estimated the loss of revenue for newspaper publishers (that is, including print and online) in each scenario in NPV terms, over the five year period. The revenue loss ranges from £10 million in the low scenario to £264m in the high scenario. In the stakeholder scenario the revenue loss over the five year period is £876m.
- 5.95 We also estimated the profit loss for newspaper publishers. We made assumptions for marginal costs for local and regional newspapers and their websites to estimate the profit loss in each scenario.¹⁶⁶ The loss of profit for local and regional newspaper publishers ranges from £10m¹⁶⁷ in the low scenario to £263m in the high scenario. In the stakeholder scenario, the loss of profit is £872m. As can be seen, there is very little difference between the revenue loss estimates and profit loss estimates because of the low or zero margin costs assumed.
- 5.96 It should be noted that, when conducting a market impact assessment, we take account of impacts on total welfare on both consumers and producers.¹⁶⁸ The above assessment focuses on the loss of profit for local and regional newspaper publishers. However, there are likely to be impacts on consumers and other producers, both positive and negative. For example, there may be gains in profit for other media if some advertisers switch to alternative providers as a consequence of the BBC Local Video service. Potential broader static impacts are considered in Annex 5.

Dynamic impact on local and regional newspaper publishers

- 5.97 The following analysis assesses the likely effect of the proposed BBC service on investment in local news services. The degree of uncertainty associated with dynamic impacts is even greater than that of static impacts. The assessment of dynamic impacts builds further on the analysis of static impacts, but also requires a view of the longer term development of the sector and the potential for profitable entry and innovation.
- 5.98 There are two key factors to examine in assessing the dynamic impact of the BBC proposal:
- **Profitability of the incremental investments** – profits are the driver of innovation, investment, entry and exit by commercial operators. To the extent that

¹⁶⁵ Although the audience impact assumptions in the high impact scenario are significant (see Table 5.19 above), they result in a much smaller revenue impact. This is because the audience impact assumptions apply to the overlap audience between users of the BBC service and users of the relevant affected media. This is a subset of the overall audience of the relevant affected media since not everyone will use the BBC's service. The audience impact will therefore be lower when expressed as a proportion of the total audience than of the overlap audience. The revenue impact, when expressed as a proportion of total revenues, will also be correspondingly lower.

¹⁶⁶ For newspapers, we have assumed a marginal cost of £0.7 per copy in our low impact scenario and £0.1 per copy in our high impact scenario. These assumptions are based on local and regional newspaper cost data provided to us and reflects the cost of producing an extra copy of a newspaper (essentially newsprint). For websites, we have assumed the marginal cost is zero in both scenarios since the cost of supplying an extra website user are likely to be zero as there is no additional physical production required to supply that user.

¹⁶⁷ Given that the audience impact of the BBC Local Video service on local and regional newspapers is so small, circulation does not fall significantly in the low scenario. As a result, the marginal cost savings are very small and do not show at this level of rounding.

¹⁶⁸ Ofcom, *Methodology for Market Impact Assessments of BBC Services*, 22 May 2007.

the BBC proposal will reduce the long term profitability of incremental investment in the affected services, it will be more likely to have a larger dynamic impact;

- **The innovative nature of the sector** – in those sectors where there is the potential for significant change as a result of innovation there is more likely to be greater opportunities for investment. As a result, we would expect a smaller dynamic impact in more mature sectors where investment opportunities and the effects of innovation are less likely to be substantial.

5.99 The detailed framework for assessing dynamic impacts is set out in Annex 6.

Print

5.100 The UK local and regional newspaper industry is in structural decline as described above. As a mature industry there is limited scope for product innovation or market entry, although there are exceptions such as the distribution of free newspapers to commuters.

5.101 If the BBC service is to have a dynamic impact on local and regional print newspapers, this is most likely to be through a speeding up of decline. For example, our high scenario is that the BBC service will reduce local and regional newspaper revenues by about 3%. This would be equivalent to advancing the current industry decline (currently 3% per annum) by about one year.

5.102 How local and regional newspapers will respond to ongoing decline is unclear. At present, industry margins are typically in the 20 – 25% range. Market analysts predict that this will decline in future years. It may be that, in the short term, publishers will continue to publish the same titles but earn lower profits. However, some titles may currently be only marginally profitable, or unprofitable.

5.103 The impact of the BBC service could potentially be sufficient to cause publishers to close some such titles down. Alternatively, publishers may keep marginal titles in print, but try to reduce costs by downgrading quality or publishing less frequently (for example, turning a daily title into a weekly title).

5.104 The expected economic downturn may cause the rate of decline in newspaper revenues to accelerate over the next few years. If so, it is possible that this will lead to more titles being only marginally profitable, and vulnerable to the impact of the BBC service.

5.105 On the whole, however, it is not clear that the BBC service would have a sufficient impact to cause the closure of titles which would otherwise have survived. It is nevertheless possible that some titles would close sooner than would have been the case in the absence of the BBC service.

Online

5.106 The BBC service could potentially have two different types of dynamic effects on online services:

- it could have a positive dynamic impact of stimulating investment through increasing competition for viewers interested in online news; or

- by taking away a proportion of those viewers, it could have a negative dynamic impact of reducing the profitability of online services to local news providers, and so deterring future investment.
- 5.107 The possible extent of both of these effects should be considered in the context of the market in which online news services are trying to compete. Essentially, providers need to attract regular online visitors in large numbers in order to derive revenue from display advertising, and to divert visitors into other commercial online services, notably classified advertising.
- 5.108 Local news services currently face strong competition for online audiences and advertising revenues from a wide range of other online service providers, including those with strong national or international brands ranging from Autotrader and RightMove to YouTube. However, these service providers are competing for the attention of users and for advertisers by offering different types of content than local news. It is possible that the presence of a BBC Local Video service, by offering a direct alternative to audiences interested in local news, would be an additional stimulus to competition.
- 5.109 On the other hand, the nature of the online competition may be such that commercial local news online services already face strong disciplines and incentives to offer high quality services. If they do not offer news services that are appealing, the audience will go elsewhere and spend its time on other online (or offline) services. We considered whether there was evidence of a lack of competitive pressures in local news online services. We identified local newspaper publishers with a high share of newspaper print circulation in an area, see Table 5.4 above, and looked at their websites to see whether they had a less developed or lower quality online offering in that area. We found no clear evidence of such a relationship (see the overview of local and regional newspapers above).
- 5.110 In addition, the static impact figures which we have estimated, based on our market research, suggest that audiences would not generally see the BBC service as a close substitute to online services.
- 5.111 We conclude, therefore, that there is, in principle, the potential for the BBC Local Video service to have a positive dynamic impact by increasing competition. But the available evidence tends to suggest that this effect may be small, because commercial local news online services already face strong competitive pressures from other online services.
- 5.112 As regards the negative dynamic impacts, we consider below the evidence on the following issues before drawing our conclusions:
- the scope for investment opportunities;
 - the newspaper publishers' ambition to invest (in the absence of the BBC service);
 - the incremental profitability of online investment (in the absence of the BBC service);
 - the likely impact of the BBC Local Video service on expected profitability of investment; and
 - the likely impact of the BBC service on the uncertainty of incremental profitability and so the riskiness of investment.

Investment opportunities

5.113 Newspaper publishers told us of a wide range of opportunities for investment in local news online services, including:

- more pictures, graphics, audio, video and dynamic maps on existing websites;
- launching new websites, such as hyper-local websites;
- providing journalists with training in video and online publishing;
- increasing central staffing to ensure that newspaper businesses have the latest web publishing capabilities;
- equipping newsrooms for video output;
- improved navigation and personalisation, including geo coding and mapping;
- improved engagement through comment and UGC; and
- marketing, including advertising on Google.

5.114 Some of these investments may be scaleable, i.e. they can be increased or reduced incrementally. In addition, larger newspaper groups with a number of newspapers and associated websites in different local areas will have some scope to vary the amount of investment between areas.

Ambition to invest

5.115 Here we consider the evidence that newspaper groups are ambitious to invest in online services. Our view as to the likely profitability of such investment is discussed below. Newspaper groups told us that they have a strong strategic motivation to invest in online services, because this is an area that enables them to build on their existing content and local presence, and it is the one growth area of their business at a time of declining print revenues.

5.116 Nearly all of the UK's local and regional newspapers have a corresponding website based on news content which is produced for the print edition (the Newspaper Society reports that the industry has 1,300 newspapers and 1,100 websites, although some newspapers have more than one website). Leading newspaper groups have invested to varying extents in the different investment categories described above. For example, among the top five local newspaper groups, one reported an investment of around £1m in paid search and training of journalists, and of £2m in marketing to promote classified sites linked to its local news content. Another told us that it had invested £4m in the past two years, training journalists and recruiting staff with online publishing skills. A third reported a much higher digital investment of almost £20m in 2007, which it expected to grow to close to £100m per annum by 2013.

5.117 While in some cases the scale of investment has been relatively limited to date, newspaper groups argued strongly that they intended to invest further in online services, subject to investments being profitable, which we discuss below. Newspaper groups also described specific investments they were planning and, in some cases, provided forecasts of their investment plans. The market analysts we spoke to confirmed that newspaper groups have ambitions to invest online. Based on

the evidence we have seen, we have no doubt that there is a strong appetite to invest in online services amongst a range of market participants.

Incremental profitability

- 5.118 The profitability of incremental investment is potentially an important factor influencing the size of the dynamic effect. Other things being equal, if the profitability of incremental investment is low then a small loss in revenue, resulting from the proposed service, could have a sizeable impact on investment. Assessing the profitability of local and regional news websites is complex, and we need to distinguish between current profitability, likely future profitability, and the potential impact of the BBC service on future profitability.
- 5.119 Evidence on current profitability is mixed. Two newspaper groups provided us with figures relating to their internet businesses which suggested that revenues were currently several times higher than investment in recent years, but they did not provide sufficient information for a detailed analysis. A third provided annual data, which showed that costs accounted for only one-third to one-quarter of its online revenues. But a fourth newspaper group provided figures which suggested that its online business was currently loss-making, and would become only marginally profitable over the next five years.
- 5.120 One difficulty with assessing current profitability is that local news websites rely heavily on editorial content which has primarily been generated for their print editions. In the context of this MIA, we are interested in the incremental profitability, as this affects the incentive to make additional investments. How much, if any, of the cost of this editorial content should be allocated on an incremental basis to online services is unclear. That is, it is unclear whether editorial costs are causally related to online services (and would be lower if, hypothetically, online services did not exist).
- 5.121 Another difficulty is that newspapers are investing in online services now in order to generate future revenues. As such, it is not clear what proportion of current investment spending relates to current revenues.
- 5.122 In any case, the current profitability of these services is not necessarily a clear indication of their likely future incremental profitability. The evidence mentioned above suggests that some local newspapers that have essentially reproduced the content of their print editions for an online audience have been able to generate substantial revenues relative to the associated costs. However, this does not necessarily mean that further investment in online news services will generate profits at the same rate.
- 5.123 Indeed, local news providers have told us that they face a highly challenging market online, where they will have to invest heavily in order to generate sufficiently large audiences to attract advertising revenue in competition with established national websites. Some local news providers have suggested that they already attract large numbers of visitors. The Newspaper Society estimates that there are about 20m unique users of newspaper websites in the UK, although we note that only around one in twenty respondents to our survey said that they regularly visited newspaper

websites which, at a national level, would be broadly equivalent to around two or three million adults.¹⁶⁹

- 5.124 An additional difficulty for local news providers is in increasing the revenue per visitor, which depends on the site being able either to lead visitors to classified advertising or other revenue-generating activities, or to generate enough page impressions (i.e. visits to different pages on the site) to be of value in display advertising. The extent to which local news websites will succeed in generating revenues from website traffic in these ways, the ability to monetise is subject to considerable uncertainty.
- 5.125 Newspaper groups may face a further challenge in that, as they have told us, their online offers are based on news content. If print revenues continue to decline, some newspapers may respond by reducing their editorial spending, which would have a knock-on effect on the quality of their websites and also, potentially, on their incentive to invest in these websites. In principle, if local news websites were a commercial success, newspaper groups could have a stronger incentive to sustain the level of their editorial content, as this would have a positive impact on both print and online revenues. However, this suggests that some of the editorial costs would be incremental, i.e. causally related, to the online investment. If so, it could significantly reduce the incremental profitability of online investments. This is because online revenues are relatively small compared to editorial costs. For example, online revenues currently account for around three per cent of newspaper groups' revenues. In our model, this rises to six per cent by 2013/14 in the high scenario. Editorial costs in aggregate account for about 12% of total newspaper publisher costs.¹⁷⁰
- 5.126 The expected economic downturn is likely to put further pressure on print revenues, which, as described above, may have an effect on the quality of websites. In addition, the expected downturn could have a direct impact on the markets in which online news services are trying to compete. On the one hand, a desire to cut costs could potentially lead advertisers to place a greater proportion of their spending online. On the other hand, advertising spending overall is likely to contract. The net effect may well be a reduction in the absolute amount of spending available for online display and classified advertising. In addition, to the extent that there is uncertainty about the net effect, it could increase the uncertainty about the ability to monetise.
- 5.127 There is therefore, mixed evidence about the size of incremental profitability. One of the key points, however, is that there is a high degree of uncertainty about the ability to monetise. This is likely to be compounded by the expected economic downturn.

Impact of proposed service on expected profitability

- 5.128 Newspaper groups argued that if people stopped visiting local news websites in favour of the BBC service – or visited them less often or for shorter periods – this would substantially increase the difficulty to commercial providers of generating revenues from their websites in the ways described above. Any such loss in revenues is likely to have a direct impact on profitability, as a website does not make significant cost savings as a result of being visited by fewer people. As such, this is likely to decrease the expected profitability of at least some investment opportunities.

¹⁶⁹ Preliminary Newspaper Society estimate and *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 27 November 2008.

¹⁷⁰ Ofcom calculations based on the Newspaper Society's, *RPS 2006*

- 5.129 From our analysis of the static impact, our view is that the BBC Local Video service is likely to have relatively modest impact on commercial online services as a percentage of revenues. However, we note that the impact would be on the ability to monetise, which is the most difficult and uncertain area for local news providers. Moreover, if the incremental profit of the new investment is only low (for the reasons set out above), then even a modest impact on revenues could lead to a substantial impact on investment.

Impact on uncertainty and riskiness of investment

- 5.130 It is also possible that the BBC service will increase the uncertainty of profitability – i.e. increasing the risk attached to investment, in addition to reducing the expected level of profitability. If the BBC service increases uncertainty about the ability to monetise, which is the critical area of uncertainty (as described in the sub-section on incremental profitability), this would make investment more risky. However, as previously discussed, local online news services already face substantial uncertainty, in particular due to the extent of competition from national and international websites, and the possible impact of an economic downturn. In this context, whether the BBC service would add materially to the risk of investing is currently unclear.

Conclusion: impact on investment in online services

- 5.131 We note that local and regional news publishers have a wide range of possible investment opportunities in online services, as described above. In addition, the innovative nature of online services and the potential for growth means that further investment opportunities may well arise in the future, for example, with one local news service developing a successful add-on service that is copied elsewhere.
- 5.132 Publishers have argued that they are committed to developing their online offerings, not least in order to capture the migration of audience and advertisers. We do not doubt that local and regional newspaper publishers have a clear strategic motivation to invest in online services.
- 5.133 However, it is likely that if local and regional publishers lose significant audience and revenues they would have to reconsider future investment plans and existing products. Some publishers identified specific services, either planned or existing, that might be at risk if the BBC Local Video proposal went ahead.
- 5.134 The evidence on static impacts suggests that the net effect of the BBC service will be to reduce expected profitability – in particular by reducing the amount of time online by a sub-set of users of commercial websites – and so adversely affecting the ability to monetise.
- 5.135 In evaluating investment opportunities, we would expect commercial providers to compare the expected return on investment, and also the cost of capital required for the project. The BBC service is likely to decrease the expected return, thereby making investment and innovation less attractive. It could also increase the uncertainty around this expected return – i.e. the risk of the project. This would tend to increase the cost of capital, so further decreasing the incentive to invest.
- 5.136 There is the potential for an offsetting positive dynamic impact, if the increased competition provided by the BBC stimulates investment as a competitive response by local news providers. But we have no evidence to support the significance of this effect, so we consider it less likely than the negative dynamic impact.

- 5.137 As noted above, local news publishers face a challenging environment in competing for online revenues, and the scope to monetise further investments in news services is uncertain.
- 5.138 As such, if the BBC service wins audiences from commercial services, this is likely to lead to a lower level of investment than would take place in the absence of the BBC service. The potential scale of this impact is unclear, particularly as the extent of investment will depend on the ability of news providers to monetise their website offerings. To the extent that the expected profitability of online investment is not high, however, even a relatively small impact on revenue could lead to a substantial impact on investment.
- 5.139 In conclusion, we consider that the adverse dynamic impact on commercial providers of local online news is likely to be significantly larger and more important than the static impact. Our concern is that that it will have a disproportionate effect on commercial providers, especially in the context of an uncertain commercial environment.

Section 6

Local radio stations and associated web services

6.1 This section sets out our analysis of the potential impact of the BBC's Local Video proposition on local radio stations and associated web services and is structured as follows:

- overview of the radio industry;
- an assessment of the current and future prospects of local radio stations and associated web services in the absence of the BBC proposal (“the counterfactual”);
- an assessment of the impact of the proposed BBC Local Video service on demand for on-air and online local radio services; and
- a separate assessment of the possible impacts on community radio stations.

6.2 Overall, our assessment indicates that the static impact of the BBC Local Video service on radio listening and radio website usage will not be very large either in absolute terms or as a proportion of revenues. Nevertheless, we also acknowledge that this relatively small impact is causing a revenue loss that could be significant given the fragility and negative profitability of some radio stations.

6.3 We also find that the dynamic impact on radio stations online development could be more significant than the static impacts suggest. Many radio stations are reportedly planning to invest in the development of their online services, in particular with regard to local content. However, these investment plans are on a smaller scale than those for local newspaper publishers. The available evidence also suggests that there is not full clarity over the importance of local news content in particular to the success of those investments. Together, these factors mean that the dynamic impacts, although uncertain, are likely to be more significant than the small static impact might suggest but are unlikely to be as significant as for local newspaper online services.

Overview of the radio industry

Size of the market

6.4 There are a total of 397 analogue and digital radio stations in the UK, of which 336 are local commercial stations and 46 are BBC local stations.¹⁷¹ On average there is a choice of five local commercial radio stations per person in England, three in Scotland, two in Wales and two in Northern Ireland.¹⁷²

6.5 The commercial radio industry generated £598m in revenue in 2007, a decline from a peak of £641m in 2004.¹⁷³ The commercial radio industry is small relative to other media. For example, local newspaper advertising revenues are over five times those of commercial radio, while newspaper revenues as a whole are almost 13 times the

¹⁷¹ Ofcom, Communications Market Report (“CMR”) August 2008, p.243.

¹⁷² Ofcom, Communications Market Report: Nations and Regions, May 2008, p.129.

¹⁷³ Radio Advertising Bureau (RAB) commercial radio revenues.

size of radio's.¹⁷⁴ The industry employs 10,000 people and the average station has 30 employees.

Audience and listening

- 6.6 Local commercial radio typically attracts a younger audience, particularly compared to BBC local radio. The under 45s account for 64% of listeners on local commercial radio whereas more than half of BBC local radio listeners are over 45 years old.¹⁷⁵ Local commercial radio reaches 25m adults every week; listening for an average of 6.2 hours per week.¹⁷⁶ The reach of local commercial radio is therefore relatively high, with 49% of the population listening in 2007. Local commercial radio's share of listening hours was 31.1% in 2007 but this has been suffering from decline; in 2002 it stood at 38%.¹⁷⁷
- 6.7 In general, both across national and local stations, listening to commercial radio (in terms of number of hours listened per week) has been in decline since 2002 by around 2% per annum, and listeners are continuing to migrate away from commercial radio towards BBC and national commercial radio.¹⁷⁸ In addition, the average time per user spent with local commercial radio is falling by more than 3% per annum.¹⁷⁹ This decline in listening hours has been most prominent in the younger age groups. This suggests that young people in particular are spending less time listening to radio as it competes with other entertainment and information media channels such as the internet.¹⁸⁰
- 6.8 There is a greater preference for local commercial radio content in Scotland and Northern Ireland than in Wales and England, where the BBC network radio is more popular. Local commercial radio is the most popular category of listening in Scotland with a 43% share of radio listening hours, compared to 30% in the UK overall.¹⁸¹

Revenues

- 6.9 Local stations gain revenues from a mix of national and local advertising and sponsorship. Commercial radio revenues have been under pressure in recent years from a number of factors: declining popularity of radio overall, migration of listeners to the BBC and migration of advertisers to the internet.
- 6.10 Average revenue per listener and per listening hour tends to be higher for stations covering more concentrated local audiences such as a large town or city, measured by their total survey area ("TSA").¹⁸² For example, stations with a TSA of between 500,000 and 1 million people generated the highest revenues at around £16.15 per listener in 2007. By comparison stations with two to five million listeners generated £9.53 per listener.

¹⁷⁴ Advertising Association, *Advertising Statistics Yearbook 2008*. See also, Ofcom *Future of Radio – next phase*, November 2007, p.58.

¹⁷⁵ Ofcom, *CMR*, August 2008, pp.279-280.

¹⁷⁶ RAJAR (Radio Joint Audience Research), Q2 2008. RAJAR is the official body for measuring radio audiences and it publishes listening figures for each station every quarter.

¹⁷⁷ Ofcom, *CMR*, August 2008, pp. 277-280.

¹⁷⁸ RAJAR and Ofcom *CMR*, pp. 279-80.

¹⁷⁹ Ofcom, *CMR*, pp. 279-80.

¹⁸⁰ Ofcom, *CMR*, p. 279.

¹⁸¹ Ofcom, *CMR*, p. 281.

¹⁸² Ofcom, *CMR*, pp.250-2. Total Survey Area is a radio station's total listening audience in a specific geographic area.

- 6.11 Commercial revenue per head (rather than per listener) is higher in Scotland at £11.46 compared to £8.11 for the UK as a whole and £7.82 in England. This may be a reflection of the higher audience reach of local commercial radio in Scotland, as well as because the BBC only has a national service rather than local radio stations.¹⁸³
- 6.12 The rapid growth in radio advertising revenues before 2000 has given way to a decline in revenues and a stagnant or declining share of the overall advertising sector. This must also be set against the backdrop of a display advertising sector that has been declining in real terms since 2005.

Figure 6.1 UK radio advertising spend and share of display advertising 2001-2007



Source: *The Advertising Forecast*, World Advertising Research Centre
 Note: Chart uses 2000 prices

- 6.13 Radio advertising's share of advertising revenues has consequently fallen from 3.4% in 2002 to 2.9% in 2007. In 2004, internet advertising overtook radio advertising, which might suggest an adjustment in favour of new media.
- 6.14 Research in 2007 found that 40% of licence holding radio companies were unprofitable.¹⁸⁴ Analysis of that research showed that profits are concentrated in the hands of larger stations, which are predominantly owned by major groups. These groups often cross-subsidise much of their local radio portfolio from their most profitable stations. Smaller local stations can often have a higher reach within their local population area, however, the higher relative cost base of smaller stations means that they are less likely to be as profitable as the larger stations.
- 6.15 During the last two years, three commercial radio stations have returned their licences to Ofcom on the grounds that their businesses were not sustainable.¹⁸⁵
- 6.16 The current economic climate is also having a significant negative impact on commercial radio revenues. The latest figures for the second quarter of this year showed overall revenues were down 10% year on year, with the biggest fall in

¹⁸³ Ofcom, *CMR Nations and Regions*, May 2008, Radio charts.

¹⁸⁴ Ofcom, *The Future of Radio, the future of FM and AM services and the alignment of analogue and digital regulation*, 17 April 2007, pp.37-38.

¹⁸⁵ Star 107.9 in Stroud in September 2006, River FM in West Lothian in January 2007, and Fen Radio in Wisbech in July 2008.

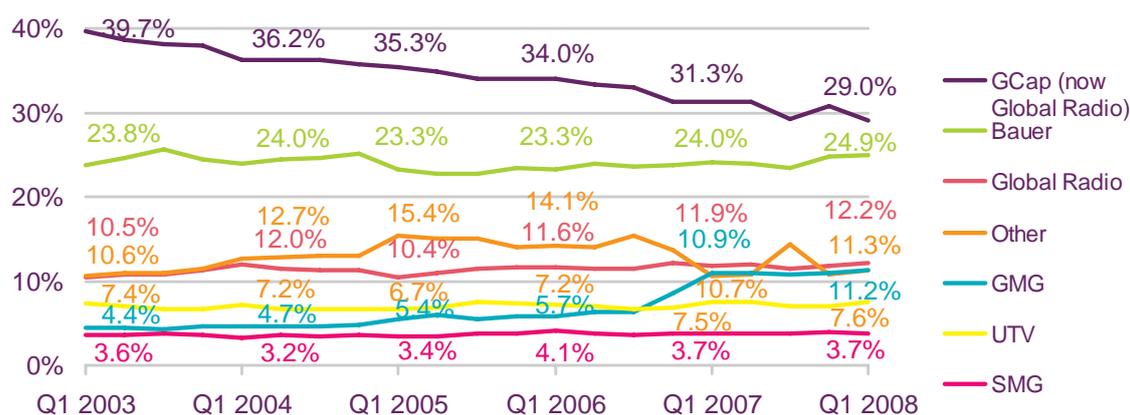
national advertising.¹⁸⁶ Several radio groups reported that the downturn was already putting significant pressure on their businesses.

Major players

6.17 Decreasing revenues have led to increasing consolidation in the market. Before the recent changes in ownership (Global Radio acquired GCap Media plc in June 2008), the three largest groups, GCap, Bauer and Global accounted for 66% of all commercial radio listening (see chart below).

Figure 6.2 Share of commercial listening hours

Percentage of listening hours



Source: RAJAR, (adults 15+)

6.18 Stations that were part of GCap have the largest proportion of listening hours. GCap had a total of 71 analogue stations and around 100 digital radio stations, including its One network of local FM stations. With its acquisition of GCap, Global has now become the largest radio group, with a potential audience of 24 million. Global's stations include three main brands; Heart, Galaxy and LBC, which operate in many of the main cities across the UK.

6.19 Bauer stations make up the second largest group. It has a portfolio of 41 local stations, which includes its Big City network of local radio stations including Glasgow's Clyde 1 and Manchester's Key 103.

6.20 Other major groups include Guardian Media Group Radio ("GMG Radio"), which has cross-media interests in newspapers, magazines, websites and local television and which owns 15 radio stations across the UK. The Local Radio Company ("TLRC") owns 21 local radio stations across the UK and has a total audience of around one million.¹⁸⁷ Its stations have a very localised focus with TSAs ranging from 42,000 adults (Minster Northallerton FM) to 330,000 adults (Minster FM in York).¹⁸⁸

6.21 Some radio groups are focussed in a specific area of the UK, for example Kent Messenger Group, who operate seven radio stations covering different locations within Kent, and Town and Country Broadcasting, who operate six radio stations covering different areas within South Wales.

¹⁸⁶ RAB, Q2 2008 Commercial Radio revenues.

¹⁸⁷ Ofcom, *CMR*, August 2008, pp. 264-265.

¹⁸⁸ TLRC submission.

- 6.22 The last 12 months have seen major changes in the commercial radio landscape with three of the top six radio groups changing ownership and the two largest commercial groups, GCap and Emap, both going into private hands. Global Radio completed its purchase of GCap in June 2008, Bauer bought the Emap radio stations in January 2008, and national commercial station Virgin (including its digital radio stations) was sold by the Scottish Media Group to the Times of India Group in May 2008.

Localness

- 6.23 According to recent Ofcom research, 11% of people claim that local radio is their main source of local news.¹⁸⁹ Local radio is therefore not most people's primary source of local news; regional TV and local newspapers are seen as more important. However, research has also shown that the majority of people say local news is one of the most important things for radio to provide and consumers expect a regular local news service from their local radio station. Radio news is therefore often complementary to other news services and consumers look to radio for immediate information on topics such as traffic, weather and local events.¹⁹⁰
- 6.24 Radio licences require the production of local news content; all local FM stations have to broadcast local news through peak time, both on weekdays (breakfast and afternoon drive) and weekends (late breakfast). This is part of an overall requirement for a minimum of ten hours a day of locally-made programming during weekday daytimes (including breakfast) and four hours a day at weekends.¹⁹¹
- 6.25 During our Future of Radio project, in which the above requirements were established (having been reduced compared to previous requirements), we found that in practice many stations broadcast more locally-made programmes than their format requirements, with several stations providing 24 hours of locally made programmes.¹⁹² Nevertheless, several of the larger groups argued for a greater reduction in their obligations in producing local content, because of the costs involved.¹⁹³ This suggests that local content may not be as important to some radio stations compared to others. A recent example of local output being reduced as stations have sought to reduce costs is Bauer's replacement of overnight local programming with regional Scottish programming and Global's announcement that they will be re-branding their recently acquired network of GCap stations to include a large amount of networked content.¹⁹⁴
- 6.26 Stations get their national news from a variety of sources, for example Independent Radio News ("IRN") or Sky. However, they produce their local news in-house, which

¹⁸⁹ Ofcom, *CMR Nations and Regions*, May 2008 Radio charts. Our market research similarly found that commercial radio would be the first choice for local news stories for 12% of people, see *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

¹⁹⁰ Ofcom, *Future of Radio* consultations, April 2007, November 2007. Our market research also found that weather and travel were ranked second and third local content types for local radio.

¹⁹¹ Ofcom, *The Future of Radio: localness on analogue commercial radio and stereo and mono broadcasting on DAB*, 7 February 2008.

¹⁹² Ofcom, *The Future of Radio*, 17 April 2007, p.58.

¹⁹³ For instance GCap's response to *the Future of Radio: the next phase consultation*, November 2007: www.ofcom.org.uk/consult/condocs/futureradio07/responses/gcap.pdf.

¹⁹⁴ *Sunday Herald*, 17 August 2008:

http://www.sundayherald.com/business/businessnews/display.var.2427125.0.swathe_of_radio_shows_and_jobs_set_to_go_in_bauer_shakeup.php and *The Guardian*, 16 September 2008, <http://www.guardian.co.uk/media/2008/sep/16/globalradio.commercialradio>.

can be expensive to fund compared to music output. One radio group¹⁹⁵ said it spent £3.5m on local news content in 2007 and another said its stations spent on average around 15% of their overheads on local news.¹⁹⁶

- 6.27 Stations typically serve fairly tightly defined areas, which are in most cases considerably smaller than any of the 60 proposed BBC Local areas. For example TLRC has a station which broadcasts on the Isle of Wight only, whereas the BBC Local area covers the whole county of Hampshire. Around 40% of local commercial stations have a Measured Coverage Area ("MCA")¹⁹⁷ of less than 250,000 adults and 18% have less than 100,000.¹⁹⁸
- 6.28 Many radio stations' TSA and the proposed BBC areas for Local Video will be largely coincident in some areas, particularly the larger cities including Liverpool, Birmingham and Manchester where several local commercial stations compete for listeners over the same area.

Local radio associated websites

- 6.29 Radio stations are increasingly developing their online offerings to make their content available 24 hours a day. 93% of commercial radio stations stream their content online and 57% produce podcasts or non-live audio.¹⁹⁹ Local news is available on 87% of those websites.²⁰⁰
- 6.30 The number of people who listen to radio via the internet (either live or listen-again services) increased to 14.5 million by May 2008 and listening online is now a weekly activity for 9.4 million people.²⁰¹ In addition, podcasting is a weekly activity for 3.7m internet users and 48% of internet users claim to have listened to the radio whilst online, an increase from 22% in 2006.²⁰²
- 6.31 There is a large variation in the level of output and investment between local commercial radios' online services. Some sites have only been launched in the last few years and the majority are still at a very early stage of development. For example GMG Radio only launched their radio websites in 2005 and Town and Country Broadcasting only started offering further information on their websites, as opposed to just streaming, in the last 12 months.
- 6.32 Local radio websites generally offer both national and local news. National news is often provided by an external source such as IRN or Sky. IRN recently launched an online video service for national news, whereby member stations get access to a video feed, supplied by ITN, of national news, sport and entertainment which they can display on their websites.
- 6.33 GCap said it published on average four to five local news stories each day. Bauer publishes a minimum of three local news stories. Other stations, for example TLRC stations offer a free listen again service for news bulletins, or have the latest local news bulletin available to download at all times of the day (see screen shot below).

¹⁹⁵ [X]

¹⁹⁶ [X]

¹⁹⁷ MCA is the coverage area of a radio licence issued by Ofcom.

¹⁹⁸ Ofcom, *CMR Nations and Regions*, May 2008.

¹⁹⁹ RadioCentre, *Action Stations! The Output and Impact of Commercial Radio*, July 2008.

²⁰⁰ RadioCentre, *Action Stations!*, July 2008.

²⁰¹ RAJAR, *Podcasting and Radio Listening Via the Internet Survey*, June 2008.

²⁰² Ofcom, *CMR*, August 2008, p.285.

Figure 6.3: Arrow FM (www.arrowfm.co.uk)



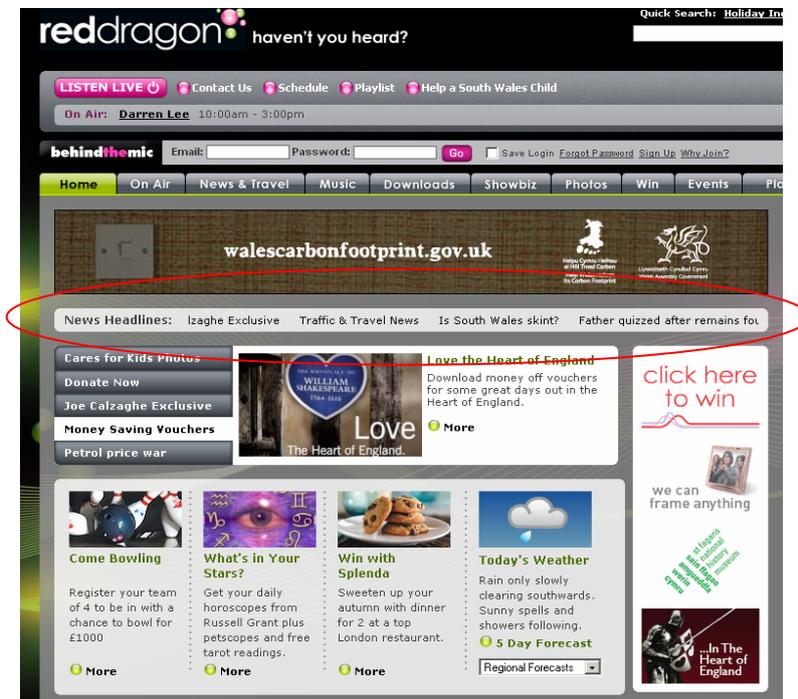
- 6.34 Currently news is only provided in text form with some audio; most stations do not have local news video content. GCap, however, does use video content on occasion with its key sites producing two or three video stories a month on average.
- 6.35 The importance of local news content to these websites varies considerably between stations. Several radio groups said the majority of page impressions came from on-air streaming and information about presenters and schedules and one group said local news did not yet rank in the most popular sections of their websites.²⁰³ One radio group told us that news (local and national) and travel was the second most popular category of their websites, after on-air information.²⁰⁴ Another said that local news (or local sport news in particular) was the most popular category of content on each of their station's websites with on average 11% of all page impressions, which was higher than any other category of content.²⁰⁵
- 6.36 There are also differences in how prominently local news is displayed on radio station's websites. On some sites it is not displayed at all on the homepage and is only available by clicking through to a news link. However, other stations display local news headlines on their homepages. For example, as shown in Figure 6.4 below, Clyde 1 FM shows local news headlines at the bottom of its homepage. GCap's One network stations (which use the same template for each of their stations) include a news ticker with both national and local news headlines but the full stories are displayed on a separate webpage.

203 [X]
 204 [X]
 205 [X]

Figure 6.4: Clyde 1 FM (www.clyde1.com)



Figure 6.5: Red Dragon FM (www.reddragonfm.co.uk – part of the GCap network)



6.37 Some local radio stations see their websites as a gateway to other local services websites, e.g. local business listings. For example GCap bought the 'welovelocal.com' sites in July 2008, which are business review sites which it is integrating into their station websites. Some radio groups reported that they were

planning to develop classified advertising sites which linked in with their station sites.²⁰⁶

- 6.38 Radio groups all reported significant increases in page impressions and users of their websites, for example one radio group saw their unique user numbers grow by 40% over the last year.²⁰⁷
- 6.39 Revenues generally come from display advertising and sponsorship. These revenue streams are dependent on the number of users and the amount of time spent on the sites. Therefore the reported increase in users has resulted in increasing revenues for several stations. One radio group reported an increase in revenues of 28% over the last three years, another of 30% over the last year.²⁰⁸
- 6.40 One radio group suggested that average revenue per user on radio station sites could be relatively high despite relatively low traffic²⁰⁹ flowing into radio websites. It said this was because radio's current online revenue was driven primarily by selling promotions and sponsorship of clients' advertising from their FM stations through to their online services. This is supported by data from other stations.²¹⁰
- 6.41 Online revenues are nevertheless still relatively small; for the largest groups revenues only make up on average around 2-3% of total revenues. Many radio stations websites are not yet generating sufficient revenues to cover the cost of provision.

The counterfactual

- 6.42 Assessing the counterfactual for the radio market poses a significant challenge. There remains a significant level of uncertainty about the exact shape that the radio industry will take over the next few years, in terms of operators, platforms, digital take-up and stations. Furthermore, the current economic climate adds an extra level of uncertainty about how the sector will evolve. This is combined with the fact that a large proportion of commercial radio stations already operate at a loss.
- 6.43 It is also particularly difficult to assess how radio stations' online offerings will develop in the next five years, because of the embryonic state of the current offerings and different expectations about the ability to generate revenue from those websites. We also found that few stakeholders were able to provide information about their expected development over the next five years; for example the very recent merger of GCap and Global meant that the merged group had little information available about future investment plans or possible online development.
- 6.44 We have nevertheless attempted to define the counterfactual by looking at existing trends as well as any stakeholder predictions about their development in the next five years.

²⁰⁶ [redacted] and [redacted]

²⁰⁷ [redacted]

²⁰⁸ [redacted] and [redacted]

²⁰⁹ e.g. [redacted] have 300,000 unique users per month.

²¹⁰ [redacted] average revenue per user ("ARPU") is £3.83. [redacted] and [redacted] have ARPU's of £2.88 and £2.80 respectively.

On-air listening

- 6.45 There appears to be a broad consensus that over the next few years local radio is likely to face increasing competitive pressure, and the challenge of responding to changing consumer demands. There are two inter-related trends in particular happening in the local commercial radio market in terms of listening: the migration of listening from commercial radio to BBC radio and the migration of listening from local radio to national radio (BBC and commercial).
- 6.46 Based on trends in listening from recent years, the average decline in total listening hours to all commercial radio has been around 2% per annum.²¹¹ However, one radio group predicted an increase in their listening hours whereas another expected listening hours to remain relatively flat.²¹² Nevertheless, another group estimated that listening hours could fall between as much as 3 to 5% per annum over the next five years.²¹³
- 6.47 Enders Analysis (Enders), an independent analyst with expertise in the radio market, predicted a drop of between 3% and 4% in listening hours per listener per annum over the next five years for all commercial radio.²¹⁴ It points out that the average time spent per user has already been falling by more than 3% per annum in recent years.²¹⁵
- 6.48 For the purpose of the counterfactual we have modelled different scenarios for the likely changes in listening hours; a high and a low scenario. In the low scenario we have assumed a 3 to 4% per annum decline in commercial radio listening hours per listener, which is in line with Enders' predictions. We have assumed a 2% decline in listening hours per listener in our high scenario, which reflects previous trends.
- 6.49 In both the high and low scenarios we have assumed that commercial radio audience reach (or number of listeners) will remain relatively stable, with only a slight decline (less than 1%) each year. This is in line with predictions from stakeholders and current trends. Reach tends to remain relatively stable (or only declines slightly) but listening hours decline faster as a result of competition for consumers' time from new media and new devices.
- 6.50 We have therefore calculated the total number of listening hours for commercial radio over the next five years by taking the number of listening hours per listener and multiplying that by the audience reach (or number of listeners).
- 6.51 These assumptions are based on currently available data. However, local commercial stations may develop other means of attracting more listeners, of moving listeners away from the BBC and away from national to local radio. Nevertheless, for the purposes of the counterfactual, we need to identify how listening trends may develop. An extrapolation of current trends, with a high and low case to take account of any variations, is the most reasonable approach in this instance.
- 6.52 Enders predicted that revenues for commercial radio as a whole could decline by 14% over the next five years, which reflects its predictions for the fall in listening hours per listener.

²¹¹ Ofcom, *CMR*, August 2008, p.278

²¹² [X] and [X]

²¹³ [X]

²¹⁴ This refers to all commercial radio listening; Enders pointed out that the industry definitions of national and local radio are not discrete i.e. some stations are considered quasi-national.

²¹⁵ RAJAR

- 6.53 Several industry bodies publish revenue forecasts for radio, which are recorded on the Radio Advertising Bureau's ("RAB") website.²¹⁶

Table 6.1: Radio industry revenue forecasts

	2008	2009	2010
Advertising Association	+1.2%	+0.8%	n/a
Zenith Optimedia	-1.1%	+2.8%	+1.7
Group M	+1.9%	n/a	n/a

- 6.54 Bauer pointed out, however, that many of these projections were made before the effects of the current 'credit crunch' and that they were likely to be considerably lower given the current circumstances. It believed that if recession triggered a structural change in the advertising market, industry revenues could fall by more than 10%. The most recent figures published have in fact revealed a 10% fall in revenues over the last quarter²¹⁷ and some of the forecasts have recently been downgraded to take this trend into account; Zenith Optimedia recently revised its June forecast of a 3.5% drop in radio advertising spend to a 6.4% drop.²¹⁸
- 6.55 As outlined above, local commercial radio stations derive the majority of their revenue from the sale of airtime to advertisers and sponsors, who are either local or national. Radio stations sell this airtime in two ways, either on a cost per thousand basis ("CPT") or as 'spot' advertising.²¹⁹ On average, national advertising and sponsorship revenues make up 65% of a station's revenue and local advertising makes up 35%. Our calculations in the counterfactual have therefore been made on that basis.²²⁰
- 6.56 Revenue from radio advertising is ultimately a function both of listening hours and audience reach. National advertising is generally sold on a CPT basis, so is a function of, amongst other things, hours listened. Several radio groups confirmed that broadly speaking a 1% decline in listening hours would result in a 1% fall in national advertising revenue and we have adopted this relationship in our counterfactual calculations.
- 6.57 However, radio groups indicated that a different relationship from that described above often existed between commercial radio stations and local advertisers. Local advertisers tend to be more loyal; they rely more on local client relationships and audience reach figures and are less likely to be directly and immediately influenced by changes in listening figures. We have therefore assumed that for local advertising revenues, every 1% drop in listening hours will lead to a 0.5% drop in revenues.
- 6.58 Based on these assumptions, a 4% decline in listening hours per listener will result in a decline in local radio's advertising revenue of 3.3%. A 2% decline (as in the high counterfactual scenario) would result in a decline of 1.67%.

²¹⁶ Radio Advertising Bureau (RAB).

²¹⁷ RAB Q2 2008 Commercial Radio revenues.

²¹⁸ Zenith Optimedia,

<http://www.zenithoptimedia.com/about/news/pdf/Adspend%20forecasts%20October%202008.pdf>.

²¹⁹ CPT refers to the cost for each thousand people that hear a 30 second ad at a certain time. Spot advertising gives a total cost to a particular period of airtime.

²²⁰ Ofcom, *Radio Advertising Market Research*, 19 October 2006, p.11 and RAB, Commercial radio revenue charts. This split between local and national advertising can vary considerably between stations in practice.

- 6.59 However, these calculations are based on the linear relationship between listening hours and advertising revenues described above, whereas there is also potential for revenues from advertising to fall faster than listening hours for other reasons, for example the current economic climate. The most recent fall in revenues has been greater than the fall in listening hours and for that reason we have also included in our high counterfactual scenario an assumption that radio revenues will fall at a faster rate than listening hours, on average by 7% each year.
- 6.60 The table below sets out the projections we have use for this MIA of commercial radio listening hours and revenues, given the above assumptions.

Table 6.2: Ofcom's commercial radio counterfactual projections

	High scenario		Low scenario	
	2008/9	2013/4	2008/9	2013/4
Listening hours(m)	442	393	433	358
Revenue (£m)	585	537	523	364

- 6.61 If radio revenues continue to fall by the amounts outlined above it could lead to less investment in content, which in turn could lead to ratings falling further, especially in comparison to the BBC (who would not necessarily have to make the same reductions in investment). In a 2007 study of news provision, we noted that "local news coverage on commercial radio has tended to be the first victim whenever stations hit financial problems".²²¹
- 6.62 Falling revenues could also cause several stations to close. As outlined in the introduction, a large proportion of stations are already loss-making and many are cross-subsidised within radio groups by larger, more profitable stations. If revenues continue to decline this cross-subsidisation may become more difficult.

Online development

- 6.63 All radio groups identified online as an area of future growth and development.
- 6.64 Radio groups predicted an increase in the number of their unique users and an equivalent rise in page impressions, particularly in the short term, as they continue to invest in and develop their website content. The table below sets out some of their expectations in terms of the rise in unique users.

²²¹ Ofcom, *New News Future News*, 26 June 2007, p.38

Table 6.3: Stakeholder predictions of online growth in unique users

	2008-09 change	2009-10 change	2012-13 change	2008-13 change
Radio Group A ²²²	52%	-	-	263%
Radio Group B ²²³	25% / 10%	25% / 5%	25% / 5%	125% / 30%
Radio Group C ²²⁴	-	50%	0%	100%
Radio Group D ²²⁵	80% by 2011			

6.65 As can be seen, radio groups are generally expecting considerable increases in the number of unique users of their websites. However, these predictions have a wide range and we have therefore adopted a high and low counterfactual scenario to take account of this range in predictions.

Table 6.4: Ofcom's local radio website user growth assumptions

	2008-09	2013-14	CAGR 2008-2013
Low scenario	10%	0%	4.5%
High scenario	54%	0%	23%

6.66 These assumptions are based on an average of the estimates of growth in users provided by radio groups. For example, the high counterfactual scenario was calculated using radio group A's estimates and the low counterfactual scenario was calculated using radio group B's lower estimates. Both scenarios assume that there will be some initial growth but that growth will level off over time as competition for users' time increases.

6.67 Radio groups also predicted a rise in revenues from their online business as a result of this increase in activity. The table below sets out some of these expectations. These revenues are starting from a very low base; some groups reported that digital revenue currently made up at most 2% of their overall revenues.

Table 6.5: Local radio online revenue growth projections

	2008 - 2013	2008-9	2010-11	2012-13
Radio group A ²²⁶		33%	34%	-
Radio group B ²²⁷	125% / 30%	25% / 10%	25% / 5%	25% / 5%
Radio group C ²²⁸	100%	-	26%	7%
Radio group D ²²⁹	75% by 2012			

6.68 Again there are significant variations between radio groups' projections of online revenue.

6.69 Both the number of unique users and page impressions are likely to play a role in changing revenues. But for the purposes of the counterfactual we have looked specifically at changes in unique users and the revenue per user. The table below sets out some radio groups' predictions for the changes in their ARPU.

²²² [X]

²²³ [X] The two different figures here reflect different predictions for different website brands.

²²⁴ [X]

²²⁵ [X]

²²⁶ [X]

²²⁷ [X] As above, the two different figures here reflect different predictions for different website brands.

²²⁸ [X]

²²⁹ [X]

Table 6.6: Radio groups ARPU predictions

	2008	2008-9	2010-11	2012-13
Radio group A ²³⁰	£3.83	£3.36	-	£1.55
Radio group B ²³¹	£2.88	-	-	£6.96
Radio group C ²³²	-	£2.75	£3.63	£3.04
Radio group D ²³³	£2.80	-	£2.50	-

6.70 There is therefore a mixture of views about growth or decline in radio groups' ARPU's.

6.71 The table below sets out our assumptions for revenue per users by 2013/14, which are based on an average of the estimates provided by radio groups above.

Table 6.7: Ofcom's radio website counterfactual scenarios – APRUs

	High scenario	Low scenario
2013/14	£3.20	£2.90

6.72 To calculate the overall changes in radio website revenues, we have assumed that a 1% drop in unique users will lead to a 1% drop in revenues, which is consistent with the views of radio groups. This same assumption has been applied when quantifying the impact of the proposed BBC service (see static impact section below).

6.73 Another factor relevant to establishing the counterfactual for radio websites is how the online display advertising market will develop; this was addressed in the newspaper counterfactual section above.

6.74 The table below sets out our projections for local commercial radio's associated websites users and revenues, given the above assumptions.

Table 6.8: Ofcom's local radio websites counterfactual

	High scenario		Low scenario	
	2008/9	2013/4	2008/9	2013/4
Number of users (m)	6	15	4.6	5.5
Revenue (£m)	19	47	13	16

6.75 The wide range between these two scenarios reflects the uncertainty about how the local radio website market will develop.

Static impact on local radio stations

6.76 This section analyses the static impact of the introduction of the BBC Local Video service on radio stations' on-air and online audiences, and the subsequent ability to generate advertising revenue.

6.77 Radio groups also outlined concerns about the impacts on their long-term investment plans. These can not be effectively measured quantitatively and we have therefore

²³⁰ [X]
²³¹ [X]
²³² [X]
²³³ [X]

analysed these separately in a qualitative manner although the scale of the static impacts sets the context for our assessment of the dynamic impacts.

Static impact on on-air audience

- 6.78 Radio stakeholders were concerned that radio listeners would substitute listening to local radio news bulletins for the local video content from the BBC and this reduction in their broadcast audience would seriously affect their revenues.
- 6.79 Some radio groups provided estimates of the potential impact of the BBC service. The table below outlines these estimates. Some of these estimates were based on the results of the BMRB research commissioned by the BBC (see below). One radio group said they expected the impact to be significant because local news was a distinctive feature of their broadcasts. Another radio group also estimated that if radio listening fell by 1-2%, the loss of revenue to the industry as a whole would be £6-12m in one year (using RAB revenue figures).

Table 6.9: Stakeholder estimates of impact on BBC service on radio listeners

	Likely reduction in listening audience
Radio Group A ²³⁴	7%
Radio Group B ²³⁵	5-10%
Radio Group C ²³⁶	1-2%

- 6.80 In terms of radio's product characteristics and how similar these are to the proposed BBC Local Video service, radio is typically viewed as a 'parallel' or mobile medium and is often listened to whilst carrying out other tasks.²³⁷ The RadioCentre's *Big Listen* research found that 95% of respondents listened to radio while doing something else. Accessing online video content can therefore require a higher level of user interaction than may be the case with most types of radio listening. In this sense, the way content is delivered and consumed via radio can be significantly different to the proposed BBC Local Video service.
- 6.81 In terms of the type of content offered, local radio is not most people's primary source of local news.²³⁸ However, consumers often look to radio for immediate information on topics such as traffic, weather and local events.²³⁹ As discussed above, the importance of local content can vary considerably between stations, often depending on their licence formats and the recent reduction in local content requirements (discussed in the introduction above) has led some groups to increase the amount of networked, as opposed to local, content that they produce. There is therefore

²³⁴ [X]

²³⁵ [X]

²³⁶ [X]

²³⁷ For example 20% of listening takes place in-car. Ofcom, *CMR*, August 2008, p. 289.

²³⁸ Ofcom, *CMR, Nations and Regions*, found that only 11% of people said local radio was their first choice for local news. Our market research similarly found that commercial radio would be the first choice for local news stories for 12% of people. *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008.

²³⁹ Our market research also found that weather and travel were ranked second and third local content types for local radio, which was higher than other types of media (quantitative research report by SPA prepared for Ofcom, 21 November 2008).

potential for some overlap between the content of local radio stations and the proposed BBC service, but this is to be expected to be generally less than local newspapers and is likely to vary considerably between stations.

- 6.82 In addition, the TSA of some radio stations, also discussed above, could closely match the footprint of the BBC Local areas, although in many cases they cover significantly smaller areas.²⁴⁰ On balance, these factors suggest that the impact of local radio as a broadcast medium may not be large.

Market research results

- 6.83 The table below sets out the results of our market research with regards to how respondents would change their behaviour as a result of the introduction of the BBC service.

Table 6.10: Ofcom's market research results for local radio impacts

Stop using	0%
Use a lot less	3%
Use a little less	4%
Use a little more	1%
Use a lot more	0%

Base: Current weekly users of local commercial radio who are likely to use the BBC Local Video service. Base size: 529

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 6.84 The BMRB research conducted for the BBC found that, if the BBC launched its Local Video service, 23% of local radio listeners with broadband access would be less likely to use local radio for news and 6% would be more likely, a net difference of -17%. It also found that 18% of local radio listeners would be less likely to use local radio for any purpose, with 10% more likely to, a net difference of -8%.²⁴¹
- 6.85 Human Capital's adjustment of these results calculated that the impact was likely to be significantly lower, with only 0.7% of local radio listeners less likely to use local radio.²⁴²
- 6.86 We have relied on our own market research rather than the BMRB research or Human Capital's analysis. Annex 4 discusses the results of our market research in more detail. We have adopted the same approach we used for newspapers when assessing the audience impact on radio. Namely we have estimated a high and low impact scenario based on the statistical confidence intervals around our market research (see Annex 4). The table below shows the net audience impacts based on the upper and lower confidence intervals around our market research results.

²⁴⁰ Around 40% of local commercial stations have an MCA ("Measured Coverage Area") of less than 250,000 adults and 18% have less than 100,000. Ofcom, *CMR Nations and Regions*, May 2008.

²⁴¹ This research was commissioned by the BBC. BMRB, *Independent Qualitative research to feed into the Market Impact Assessment of the BBC Local Video service*, March 2008, pp. 25-26.

²⁴² Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals*, 11 April 2008, p.11. Human Capital made a number of adjustments to the base on which the BMRB market research results are presented. See Annex 4 for further discussion of the BMRB and Human Capital results.

Table 6.11: Ofcom's net impacts for local commercial radio listening

	Local radio listening
Base	Current weekly users of local commercial radio who are likely to use the BBC Local Video service
Low impact scenario	-1%
High impact scenario	-5%

6.87 We have also considered a third impact scenario based on an average of the stakeholder estimates of impact on radio listening, outlined in table 6.9 above. In this scenario, we have assumed that there is a 5% decline in radio listening as a result of the BBC's proposed service.²⁴³ This scenario is for illustration and, as discussed earlier, we have placed greater reliance on our own high and low scenarios.

Relationship between listening hours and revenues

6.88 As outlined in the counterfactual section above, for the purposes of our modelling of static impacts we have assumed that for national advertising, a 1% decrease in listening hours would lead to 1% decrease in revenues. This is supported by stakeholder views. Local advertisers, who account for around one third of radio advertising revenues, are more loyal in their purchase of advertising. They are less likely to be directly influenced by RAJAR figures. We have therefore assumed a 1% drop in listening would lead to a 0.5% drop in advertising revenues from local advertisers.²⁴⁴ We have assumed the same relationship in all the impact scenarios.

Impact on local radio on-air revenues and profit

6.89 The table below sets out the results of our model in percentage terms and the absolute impact on revenue under our three scenarios.

Table 6.12: Ofcom's estimates of local commercial radio revenue loss in 2013/14

	Low impact scenario	High impact scenario	Stakeholder scenario
Revenue loss in 2013/14 (%)	almost zero ²⁴⁵	0.9	4.1
Revenue loss in 2013/14 (£m)	0.2	4.9	22
Five-year NPV revenue loss (£m)	0.8	14	101

6.90 As can be seen, in the low scenario the estimated revenue loss is only £0.2m by 2013/14 (or less than 0.1% of revenues). In the high scenario, however, the estimated revenue loss is £4.9m (or about 1% of revenues). The loss of revenue for

²⁴³ This impact assumption is based on a total percentage decline in listening hours, whereas our high and low impact scenarios are based on those that use the BBC's service and listen to local commercial radio. This is a subset of all who listen to local commercial radio, since not everyone who listens to local radio will take-up the BBC's service.

²⁴⁴ These assumptions are based on our own research, and have also been linked back to a range of external sources, including RAJAR and Enders Analysis and have been cross-checked with submissions from stakeholders.

²⁴⁵ 0.04%

radio stations over the five year period in NPV terms is between £0.8m in the low scenario and £14m in the high scenario. The estimated profit loss for radio stations is the same as the revenue loss in each scenario because we have assumed that the marginal cost for radio is zero.²⁴⁶

- 6.91 In the stakeholder scenario, the estimated revenue loss is much higher, at £22m. The five-year NPV revenue loss estimate is £101m. This scenario rests on the stakeholders' assumption that local content and news act as the unique selling point for local commercial stations and a larger proportion of listeners than has been indicated in our market research will substitute radio listening with the BBC's online video content.
- 6.92 It should be noted that a loss of revenue or profit for local radio's on-air or online business are not the only static impacts. The broader static impacts are considered in further detail in Annex 5.

Assessment of impact on local radio's on-air business

- 6.93 Our quantitative analysis suggests that the impact on radio's on-air audience is likely to be small, with a possibility of virtually no impact in the low scenario. Even in the high scenario the static impact is relatively small. This may be because the proposed BBC Local Video service is not necessarily a substitutable service for radio and because of the relative importance of local content to different stations.

Static impact on online audiences

- 6.94 All the radio groups that we received responses from were concerned about the impact of the proposed BBC service on the audience for their websites.
- 6.95 Several radio groups provided estimates of the proposed BBC service on their online audiences. These figures were either based on the results of the BBC Management's research (outlined below) or radio groups' own estimates of the likely impact.

Table 6.13: Stakeholder estimates of impact of BBC service on online audience.

	Likely reduction in audience / usage
Radio Group A ²⁴⁷	7%
Radio Group B ²⁴⁸	10-20%
Radio Group C ²⁴⁹	5-10%

- 6.96 Local commercial radio websites could be considered more comparable to the BBC Local Video service than commercial radio's on-air services. However, as with radio on-air, there is a large variation between the prominence and importance (in terms of

²⁴⁶ This is because, for the purpose of the static impact analysis, the additional cost of supplying an additional listener to local commercial radio is likely to be close to zero. The way in which radio stations might react to a loss in audience, such as by reducing investment in content, is part of the analysis of dynamic impacts.

²⁴⁷ [X]

²⁴⁸ [X]

²⁴⁹ [X]

driving audiences to those websites) of local news to local radio websites. In some cases local news does not feature at all whereas in others it is displayed in the front page on radio websites homepages, therefore local content can be less important in terms of retaining audiences for some radio stations compared to others. The importance of local news to those sites is clearly relevant to how much consumers might switch from those sites to the proposed BBC service.

- 6.97 Furthermore, radio station websites currently offer only a limited amount of video news content and therefore they will not overlap with the proposed BBC service in this sense. Nevertheless, several radio groups have indicated their intentions to invest in providing video content and local content specifically, therefore there is potential that in future the services offered by radio stations websites could more closely resemble the proposed BBC service.

Market research results

- 6.98 Very few of the respondents to our market research used local radio websites and we therefore did not have a sufficient large sample on which to base our assessment. We have therefore used the results of respondents who used local websites generally, which includes users of local radio websites as well as users of other websites with local news (apart from local newspaper websites).
- 6.99 The table below sets out the results of the consumer research for local websites:

Table 6.14: Ofcom's market research results for local website impact

Stop using	0%
Use a lot less	5%
Use a little less	13%
Use a little more	1%
Use a lot more	0%

Base: Current weekly users of other local websites who are likely to use the BBC Local Video service. Base size: 84.

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 6.100 This shows that although no-one would stop using local websites, up to 18% would use them either a lot or a little less. Only 1% said they were likely to use local websites a little more.
- 6.101 Although we have not relied on BMRB's research for the BBC Management or Human Capital's adjustments to that research, we report the findings for comparison. BMRB's market research found that 24% of local website users would be less likely to use local websites if the BBC's Local Video service was introduced, and 18% would be more likely to use them, with a net effect of 5% of people who would be less likely to use local websites. They also found, however, that 26% of people would be less likely to use local websites for news and 16% were likely to use local websites more for news, a net negative impact on local websites of 10%.²⁵⁰ The finding that the introduction of the BBC service would cause 16% of people to use non-BBC local websites more is at odds with our own consumer research and may not be reliable.

²⁵⁰ BMRB research, March 2008, pp. 25-26.

- 6.102 Human Capital's re-assessment of the BMRB results calculated that 6% of local website users were likely to decrease their usage of local websites but 8% were likely to increase their usage, leading to an overall 2% increase in usage.²⁵¹
- 6.103 As with estimating the impacts on radio's on-air listening, we have adopted a high and low scenario for the impacts on radio websites. The high and low audience impact assumptions are based on the upper and lower confidence interval around our market research results. These are explained in Annex 4. The table below sets out these audience impacts for each scenario. In addition, we have assumed a third impact scenario based on stakeholder's audience impact assumptions. In this scenario, we have assumed a 10% reduction in radio website users.

Table 6.15: Ofcom's net impacts for local websites

	Local websites
Base	Current weekly users of other local websites who are likely to use the BBC Local Video service
Low impact scenario	-2%
High impact scenario	-13%

Relationship between audience and revenues

- 6.104 There is significantly less data available on the relationship between online revenues and audiences because this is a relatively new area, with business models still being developed.
- 6.105 Nevertheless, as indicated in the counterfactual section, based on the views of stakeholders we have assumed that a 1% decrease in unique users will lead to a 1% decrease in revenues, with no divide between local and national advertising. This is because online audience figures are available quicker and all advertisers are able to see the impact of the level of audience through measures such as click-throughs. We have assumed the same relationship in all our impact scenarios.

Impact on local radio website revenues and profits

- 6.106 The table below sets out the estimated impact on radio's online revenues in percentage terms, absolute revenues and revenues in NPV terms. Again, the profit loss is the same as the NPV revenue loss because the marginal cost is assumed to be zero.

Table 6.16: Ofcom's estimates of local commercial radio websites' revenue loss

	Low impact scenario	High impact scenario	Stakeholder scenario
Revenue loss in 2013/14 (%)	0.1%	2.2%	10%
Revenue loss in 2013/14 (£m)	almost zero ²⁵²	1.0	4.7
Five year NPV revenue loss (£m)	almost zero ²⁵³	2.5	17

²⁵¹ Human Capital, *Preliminary MIA*, April 2008, p.71

²⁵² £0.01m.

²⁵³ £0.05m.

6.107 As can be seen, the estimated radio online revenue loss in 2013/14 ranges from virtually zero (or 0.1% of revenue) in the low scenario to £1m (or 2.2%) in the high scenario. The estimated revenue loss in the stakeholder scenario is much greater (£4.7m) because of the much higher audience impact assumption that has been adopted; nevertheless, the revenue loss is significantly lower than radio's on-air revenues in corresponding scenarios.

Assessment of static impacts on local commercial radio websites

6.108 The results of our model show that the static impact on radio websites is likely to be relatively small, in absolute terms, but larger in percentage terms, than the impact on on-air radio revenues. This is because digital revenues form such a small proportion of radio stations' overall revenues.

6.109 As is the case with the assessment of the impact on radio's on-air business, the impact of the proposed BBC service on radio stations online services depends on the degree to which these services rely on online news. The stakeholder responses argued strongly that it is critical and that is why they are building their online services around providing local news content.

6.110 The evidence received so far on the current importance and popularity of local news on radio stations websites varies from station to station, depending on the nature of the radio brand. Currently it appears that the ability to listen online, and on-air companion content more generally, is generally of greater importance to radio stations websites than local news content and it may be that this will continue. In addition, as with radio's on-air business, it is likely that the impact could be even less where stations have formats which do not focus so specifically on local content.²⁵⁴

6.111 In conclusion, the static impact on local commercial radio websites is likely to be small. However, there is an argument that the service will affect radio stations online development in the long term, which is discussed below.

Dynamic impact on radio stations

6.112 The following analysis assesses the likely effect of the proposed BBC service on investment in local radio services. The degree of uncertainty associated with dynamic impacts is even greater than that of static impacts. The assessment of dynamic impacts builds further on the analysis of static impacts, but also requires a view of the longer term development of the sector and the potential for profitable entry and innovation. The detailed framework for assessing dynamic impacts is set out in Annex 6.

6.113 Given the marginal or unprofitable conditions of many commercial radio stations, substantial new investment or innovation appears unlikely. Further, any loss of revenue, such as could potentially occur as a result of the BBC service, brings the risk of causing a greater rate of closure of stations than would otherwise occur. The likely contraction of advertising spending as a result of the expected economic downturn is likely to add further uncertainty to the future of local radio stations, possibly increasing the number of stations for which the business case is marginal – and which therefore may be vulnerable to any further pressure as a result of the BBC service.

²⁵⁴ For example, Global's Galaxy brand contains no local news content online currently and the main drivers of their audience are music information and social network features. However, Global's LBC brand focuses more explicitly on news and therefore overlaps more clearly with the BBC service.

- 6.114 Like newspaper websites, those of local radio websites are in an early stage of development, and their future success is uncertain. Some radio groups have argued that they are well-placed to grow profitable online businesses, but, again, they will face many of the same difficulties as local newspapers, and to date their online business has been somewhat smaller in scale than those of local newspapers.
- 6.115 Online radio investment plans are likely to be sensitive to any impact which reduces the popularity of online services. There is some risk that the BBC service will have such an impact.
- 6.116 The RadioCentre told us that commercial radio groups planned substantial investment in their online services, and that the BBC service would act as a deterrent to such investment. Submissions from individual radio groups generally supported this viewpoint although we were not provided with detailed investment plans. On the other hand, we note the current small scale of these plans in terms of local news content compared to local newspaper online services.
- 6.117 As discussed above, the BBC service would be expected to have a smaller static impact in absolute terms on commercial radio websites than on newspaper websites, but a similar percentage impact. Revenues from commercial radio websites are currently a fraction of revenues from newspaper websites, and, while local news may be important to some radio websites²⁵⁵, the RadioCentre quoted data suggesting that on-air listening was the most popular aspect of some websites, ahead of “news and travel”. We have therefore not seen sufficient evidence to demonstrate that local news content is central to the development of local radio websites, which suggests that the dynamic impact is likely to be smaller than for local newspaper online services.
- 6.118 Overall, we conclude that the impact is likely to be more significant than the small static impact might suggest. However, we expect the dynamic impact to be smaller than for local newspaper online services. This is for two key reasons. First, the likely smaller scale of the investment plans. Second, that local news content is less central to the success on online services than for local newspaper online services.

Community radio

Background and current trends

- 6.119 Community Radio is a third tier of radio, distinct from Public and Commercial Radio. Stations operate on public service principles for community benefit and are not-for-profit. We have looked into any possible impacts on community radio separately in this section, because of its distinct nature compared to commercial radio.
- 6.120 Community radio stations operate on a smaller scale than most commercial stations; they broadcast to small areas, usually within 5 kilometres (km) of their transmitter. 178 stations have now been awarded a community radio licence, and 118 of these have now launched.
- 6.121 Funding for community radio comes from a number of sources but stations should not receive more than 50% of their funding each year from any one person or source, and no station can receive more than 50% of its income from on-air advertising or

²⁵⁵ Research from RadioCentre shows that 13% of commercial local radio websites do not have local news. RadioCentre, *Action Stations!*, July 2008.

sponsorship. Other funding sources could include public funding from local or central government, other government agencies or charities.

- 6.122 If stations overlap significantly with commercial stations serving a small area they may face additional restrictions on the amount of advertising they can accept. Of the 178 stations which have a licence, 17 can not take on-air advertising and two have restrictions limiting the amount of advertising they can take to below the 50% limit. In general the revenues community stations gain from advertising are relatively small, especially in comparison with commercial stations.
- 6.123 Stations are not measured on RAJAR because they are too small and this lack of information about the number of listeners makes it difficult for stations to sell advertising space. One of the larger community stations, Future Radio, conducted a survey which indicated that 9,000 people in Norwich were regular listeners and 28,000 people occasionally listened. However, this is only one example and it is difficult to read across to other stations, which have their own local environments and communities to serve.
- 6.124 The Community Media Association ("CMA") has a Memorandum of Understanding with the BBC to help support working arrangements between community media groups and the BBC. Some community radio stations already have a good relationship with the BBC, whereby they share content or expertise.
- 6.125 Most community radio stations have associated websites and stream their content online or offer podcasts; a few websites also have some local news, or local event listings. However, because the majority are new services their websites are relatively undeveloped and most do not offer comprehensive local news on those websites or any kind of video content. The CMA said several community radio stations were developing 'quick video' community content for their internet presence, or had aspirations to do so. The CMA considered that there was potential harm in the BBC proposals in terms of the future business models for community media organisations.

Possible impacts on community radio

- 6.126 The characteristics of community radio are distinct from commercial radio and given the small scale of the service and the very specific geographic areas which they are targeting, it is unlikely that the launch of the BBC Local Video service would have a significant impact on community radio stations in the short term. This is particularly because of the funding models and the fact that stations are not-for-profit. Audience levels are a less important consideration for community radio stations than for commercial radio. Instead their focus is on establishing a position in the community as a source of local information and content for local people and engaging those people with the community.
- 6.127 However, if the BBC establishes itself as the primary source of local news and information in each of the 60 regions, stations may face greater problems in obtaining funding because the BBC will have reduced the potential audience for their services. This may particularly be the case if community stations start to develop their online offerings further and offer video content in the way that the CMA has suggested.
- 6.128 Therefore, as it is, the possible loss of audience to the BBC service is less of a threat to community radio than for commercial radio. However, the establishment of the BBC as a strong provider of local news content online could mean that in the long-term stations would face more difficulties in sustaining their funding models and developing online services.

Section 7

Regional TV and associated web services

Introduction

- 7.1 This section sets out our analysis of the potential impact of the BBC's Local Video proposition on regional TV and associated web services and is structured as follows:
- overview of the regional TV industry;
 - an assessment of the current and future prospects of regional TV and associated web services in the absence of the BBC proposal ("the counterfactual"); and
 - an assessment of the impact of the proposed BBC Local Video service on demand for regional TV and associated web services.
- 7.2 Our analysis finds that the static impact of the BBC Local Video services on broadcast regional TV and regional TV online services is likely to be small.
- 7.3 We have not quantified the impact on regional TV broadcasting. This has similar content characteristics to the BBC proposal, but does not share other characteristics such as, geographic footprint for news²⁵⁶, and distribution platform. Therefore, on balance, the negative effect on regional TV broadcasting is likely to be modest. The characteristics of regional TV online services²⁵⁷ are more similar given services are provided on the same platform, so the negative impact is likely to be relatively more significant. For ITV Local our model indicates a loss in absolute revenue of between £1k and £250k by 2013/14.
- 7.4 In terms of dynamic impacts, our analysis indicates that the proposed BBC Local Video service will have little impact on profitability and on decisions to invest.
- 7.5 For the purpose of this section the term 'regional TV' refers to programming which is produced specifically in the nations and regions.²⁵⁸

Overview of the industry

Market players

- 7.6 The BBC and the four ITV licensees – ITV plc (England and Wales), STV (Scotland), UTV (Northern Ireland) and Channel TV (Guernsey and Jersey) - are the only providers of regional TV news in the UK.
- 7.7 Licensees broadcast regional TV programming and ITV1 UK-wide programming. As part of the ITV network arrangement licensees retain regional TV programming

²⁵⁶ In relation to news content, whilst there is likely to be some overlap in news gathering, the BBC proposal will gather news at a more local geographic level.

²⁵⁷ All ITV licensees, broadly speaking, share common product characteristics to each other.

²⁵⁸ Programming comprised of regionally produced news and non-news programmes, which are not part of the network production (i.e. non-network programming). We have used regional interchangeably with programmes produced in the nations. Quota requirements for regional TV are regulated by Ofcom, within the framework of Tier 2 programme quotas, as set out in the Communications Act.

revenues but also receive a share of ITV1 advertising which is sold UK-wide (this latter function is outsourced to ITV plc). Licensees contribute towards the cost of ITV1's network budget. In addition, licensees in the nations pay a sales commission to ITV plc for its role in the sale of UK-wide ITV1 advertising.

- 7.8 Online advertising revenues currently form a relatively small proportion of ITV licensees' total revenues. For example, ITV plc's total online advertising revenue of £17million comprised 2.3% of its total net advertising revenue.²⁵⁹
- 7.9 ITV plc broadcasts news over 11 sub-regions in England and Wales, providing a total of 17 different news programmes. STV broadcasts news over two regions in North and Central Scotland. It provides two news services for these regions and, in addition, offers four five minute sub-regional opt-out news programmes, based around the cities of Dundee, Glasgow, Edinburgh and Aberdeen. UTV broadcasts news over one region in Northern Ireland. Channel TV broadcasts news over Guernsey and Jersey.
- 7.10 The proposed BBC Local Video service will provide local video content at a more local level than the ITV licensees in terms of news gathering.

Recent trends in the market

Regional TV broadcasting

- 7.11 Public Service Broadcasting ("PSB") obligations provide for regional news quotas and ensure that a minimum amount of regional news is produced in the nations and regions. Providers have been allowed to reduce the amount of regionally specific output across all regions.
- 7.12 STV news hours per year dropped by 22% between 2003 and 2007.²⁶⁰ UTV reduced its regional news output hours per year by 4% over the same period.²⁶¹ ITV news hours in England and Wales dropped by 8% over the same period.²⁶²
- 7.13 Recent evidence suggests this is likely to continue in certain regions. We are currently consulting on ITV plc's proposals for the restructuring of original regional news content, as part of the *Second Public Service Broadcasting Review - Phase two*.²⁶³ Under these proposals, ITV plc plans to reduce the volume of its regional news content, from 17 to nine news programmes. The proposed merging of a number of regions²⁶⁴ and the creation of sub-regions would mean that sub-regional opt-out programmes will be available within certain regional news programmes.²⁶⁵ ITV plc has noted that it is committed to regional news provision until at least 2012.

²⁵⁹ ITV plc, *2008 interim results*.

²⁶⁰ Ofcom, Nations & regions Communications Market Report ("CMR"), May 2008.

²⁶¹ Ofcom, Nations & regions CMR, May 2008.

²⁶² Ofcom, Nations & regions CMR, May 2008.

²⁶³ Ofcom, *Second Public Service Broadcasting Review –Phase 2: preparing for the digital future*, September 2008 ("Ofcom, *second PSB review - Phase 2*"):

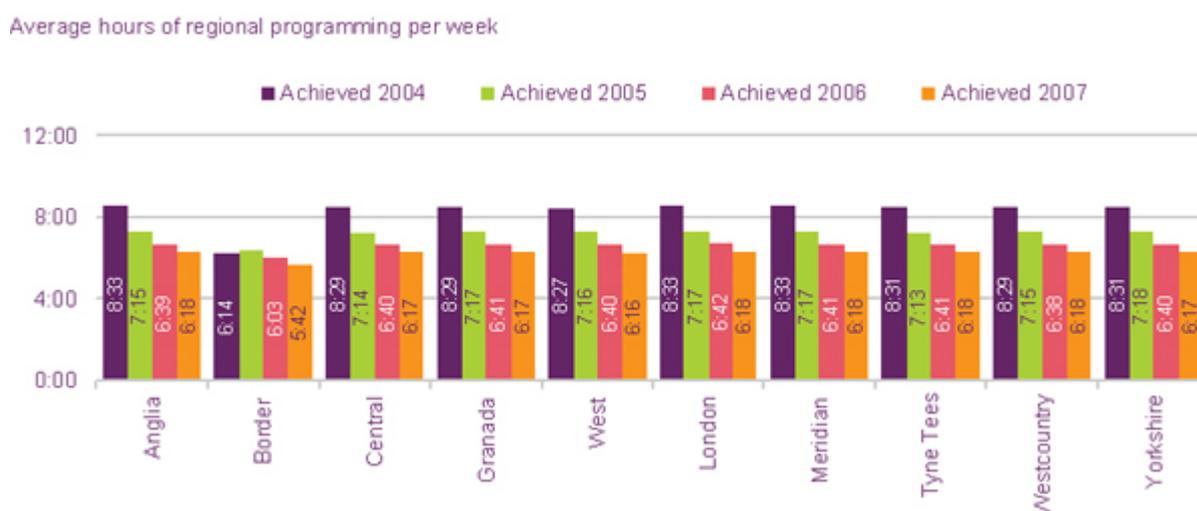
www.ofcom.org.uk/consult/condocs/psb2_phase2/psb2_phase2.pdf. Note: Ofcom is required by Parliament to review the state of public service broadcasting at least once every five years and make recommendations about how its quality can be maintained and strengthened.

²⁶⁴ Tyne-Tees and Border, Meridian and Thames Valley, West and West Country

²⁶⁵ News opt-outs, in this context, refer to separate 15 minute sub-regional variations within main regional news programmes in certain regions; and six minute sub-regional variations within main

7.14 This decline in ITV's regional programming, from 2004 to 2007, can also be illustrated across the English regions, as presented in Figure 7.1 below.

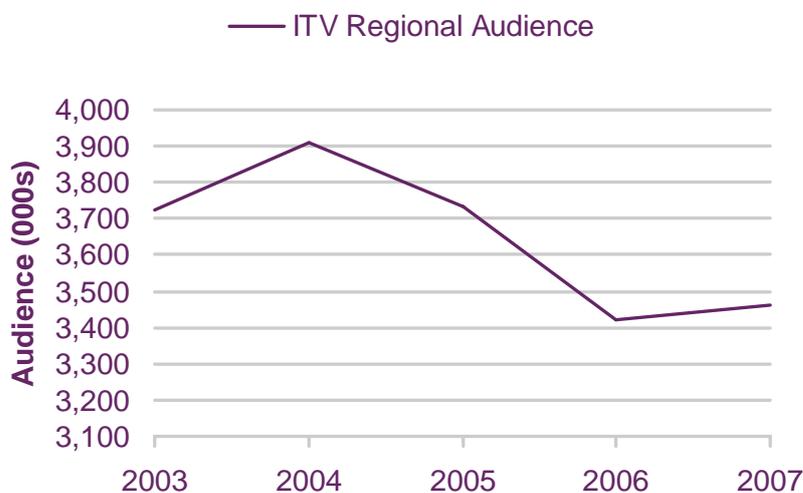
Figure 7.1: Average Hours of regional programming per week



Source: Ofcom

7.15 Overall, the audience for ITV regional news has fallen by 7%, across the whole of the UK, over the last five years. This is illustrated in Figure 7.2.

Figure 7.2: Total audience for ITV regional news



Source: BARB data (includes Ireland, England, Scotland, Wales)

7.16 ITV's regional news is more popular in Scotland and Northern Ireland, relative to the other regions. Figure 7.2 hides variations amongst different areas, and the decline in audience has been mostly characterised by falls in England and Wales, whereas audiences in Scotland and Northern Ireland have actually grown by 9% and 1%

regional news programmes within other regions. The pattern of news will remain the same as it is currently in three regions, ITV London, Wales and Granada.

respectively over this period.²⁶⁶ Similarly, ITV regional evening news viewing share has fallen in most areas, with the exceptions of Northern Ireland, Scotland, and Wales.²⁶⁷ Viewing share in Northern Ireland was 39% in 2007, which was higher than in any ITV regional area and also than the equivalent BBC evening news programme.

- 7.17 ITV's regional news viewers are predominantly comprised of an older demographic. Recent research shows that groups of over 55 year olds are more likely to use regional news than younger demographics.²⁶⁸ 72% of those aged 55 and over use ITV regional news as a source of news and are less likely to use the internet for the same function. The research also noted that younger viewers watch regional news significantly less frequently than older viewers.²⁶⁹
- 7.18 The decline of television advertising has been well documented, as multi-platform broadcasting fragments audiences even further; and also as the internet has started to compete for revenues. Television advertising as a share of total advertising fell 3.6% between 2000 and 2006 in the UK.²⁷⁰
- 7.19 Advertising derived separately from regions and nations TV programming, of which regional news forms a large part, comprises a smaller proportion compared to UK-wide network advertising revenue ("NAR") from ITV1 programmes. This varies according to licensee, but it is estimated that ITV plc's nations and regions specific revenue as a proportion of UK-wide ITV1 NAR is 13%, STV's is 22% and UTV's is 53%.²⁷¹
- 7.20 The provision of regional news is not currently profitable. Recent evidence from our report, *New News, Future News, 2007*²⁷² noted that ITV's direct costs for regional news provision exceed corresponding revenues generated by almost a multiple of six. The cost of ITV network (all providers) regional news is just under £100m per year, with revenues under £15m per year. It is estimated that ITV plc's share of this cost is approximately £85m.²⁷³

Regional TV online

- 7.21 All the regional TV broadcasters have recently started to provide local video content online that consists of news, sport and weather. However, broadcasters are at various stages of development. The most developed website is ITV plc's, who has

²⁶⁶ BARB – Scotland had 388,000, and NI 178,000, viewers in 2007. BARB is the Broadcasters' Audience Research Board. It is responsible for providing the official measurement of UK television audiences used throughout the television industry.

²⁶⁷ Ofcom, *Nations and Regions CMR*, 2008. Note: Scotland and Wales still had smaller viewing shares than the BBC for 2007, despite increases over the 4 year period.

²⁶⁸ Ofcom, *Second PSB Review - Phase 2*, September 2008, Annex 6 "Holden Pearmain, Regional News research, total sample size 3706).

²⁶⁹ 29% of 16-34 year olds watch regional news on a daily basis compared with 51% of those aged 55+. Ofcom, *Second PSB Review - Phase 2*, September 2008, Annex 6 "Holden Pearmain, Regional News research).

²⁷⁰ Advertising Association, *Advertising Statistics Yearbook*, 2007.

²⁷¹ Ofcom, *Second PSB Review - Phase 2*, September 2008, Annex 13 "Oliver & Ohlbaum Associates, The Growth of the Internet and the Implications for UK TV content".

²⁷² Ofcom, *New News, Future News*, June 2007:

www.ofcom.org.uk/research/tv/reports/newnews/newnews.pdf.

²⁷³ Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals*, April 2008. Note: this would be reduced by another £40m under the proposals for ITV plc's news restructure and reduction in ITV plc regional news quotas; both are currently under consultation as part of the our *Second PSB Review - Phase 2*, September 2008.

developed a dedicated multi-channel service for local/regional content, called ITV Local.

- 7.22 Broadcasters use repurposed bespoke news, sport and weather content from broadcast regional news programmes. This means that there is little incremental cost incurred from transferring it onto the internet.

ITV Local

- 7.23 ITV Local completed roll-out across the regions in October 2007. In addition to bespoke news/weather and sport content, UGC content is prominent on 'Your Town' and 'grass roots sport', where users can send in short clips and videos that reflect the theme of the website. Approximately, 120 minutes of repurposed video news content can be accessed on each ITV Local website per day.²⁷⁴
- 7.24 ITV Local uses banner, sponsorship and video insert advertising. In addition it has acquired a search and business directory, Scoot, to exploit opportunities in the online classified market. It has also started trialling 'overlay' advertising.²⁷⁵
- 7.25 ITV Local's unique users grew by 12%, between January and July 2008.²⁷⁶ It has seen a drop from six to five web pages per person viewed, from full roll-out in October 2007 to July 2008.²⁷⁷ The average amount of time visitors have spent online has remained broadly constant over this period.²⁷⁸

STV

- 7.26 STV currently uploads repurposed video packages and bulletins from its regional broadcasting news schedule onto its STV.tv website. The same daily bulletins can also be viewed as part of its catch-up TV video service. It has not started to use advertising to the same degree as ITV Local. It has no video inserted advertising or classified advertising content, but does currently make use of display advertising.

UTV and Channel TV

- 7.27 UTV shows video news bulletins available on-demand, as part of its wider online offering. Its video news bulletins contain advertising. Both Channel TV and UTV use display advertising and certain genres of classified advertising.

The counterfactual

- 7.28 In order to assess the impacts on regional TV broadcasting and regional TV online services of the BBC's Local Video service it is first necessary to establish what is likely to happen absent this service (the 'counterfactual').

²⁷⁴ Human Capital, *BBC Local Video Content Distinctiveness Analysis*, April 2008.

²⁷⁵ newmediaage.co.uk:

www.nma.co.uk/Articles/39814/ITV+trials+overlay+ad+formats+across+Local+site+to+boost.html - overlay advertising technology analyses videos to find suitable clear spaces to place images from brands.

²⁷⁶ Comscore net ratings - 620,000 to 695,000 users.

²⁷⁷ Nielsen net view data. Note: this is not reflective of the whole period, as there was variation. For example, January 08 and March 08 saw 11 and nine web pages viewed per person, respectively

²⁷⁸ Comscore.

Regional TV broadcasting

- 7.29 We did not receive any views or projections on how regional TV news audiences would change over the next five years. Given this and the lack of publicly available forecasts, we have assessed the counterfactual for regional TV broadcasting in a qualitative manner.
- 7.30 Analysis undergone as part of the PSB review has recognised that after digital switchover, it is likely that the costs of regional programming, of which news ranks as the most costly, will outweigh any PSB benefits. Accordingly, the current PSB arrangements, will diminish as digital switchover completion occurs across the UK. In addition, it has been recognised that it is likely that replacement funding will be needed for the provision of regional news. Some nations may need funding earlier than others to maintain the provision of news, based on when switchover occurs in each nation and region and also the commercial circumstances of the different licensees. For example, it has been estimated that the costs for STV of providing PSB national output may outweigh the benefits by 2009/2010.²⁷⁹
- 7.31 In conclusion, the regional TV broadcasting industry is a mature market, but is also currently unprofitable. Future provision is likely to require new funding to meet the needs of audiences.

Online

Stakeholder views

- 7.32 All stakeholders have highlighted the provision of online services as a potential area for growth. All are at different stages of development, but are planning to invest in online services.²⁸⁰
- 7.33 Broadcasters expect strong growth in users, but noted that online monetisation is predicated on building audiences.

Ofcom's counterfactual assumptions

- 7.34 We received detailed evidence from ITV plc regarding ITV Local's future projections. However, for other online regional TV services there is limited evidence available. We have therefore only sought to quantify the counterfactual for ITV Local. However, we have not only taken account of ITV plc's evidence, but also evidence from other online providers of news, such as newspaper and radio stakeholders, when creating our assumptions. In addition the counterfactual for ITV Local can be used to inform the impact on other regional TV online providers, although taking into account any inherent differences between services.
- 7.35 Our assumptions for the counterfactual have been informed by independent ITV Local web usage data²⁸¹ and stakeholder evidence.²⁸² The low scenario has been informed by stakeholders' online forecast assumptions²⁸³, whereas the high scenario has been informed by ITV plc's forecast assumptions for ITV Local, and

²⁷⁹ Ofcom, *Ofcom's second PSB review - Phase two*, September 2008

²⁸⁰ [X]

²⁸¹ Web analyst data (Comscore)

²⁸² ITV Local and other stakeholders' (i.e. newspaper publishers and radio groups) assumptions provided in their consultation responses.

²⁸³ Online newspaper and radio stakeholder growth assumptions.

benchmarked against other stakeholders' online forecast assumptions.²⁸⁴ Our counterfactual scenarios are set out in Table 7.1:

Table 7.1: Ofcom's counterfactual assumptions for ITV Local

	Low impact scenario		High impact scenario	
	2008/09	2013/14	2008/09	2013/14
User growth per annum	32%	5%	85%	9%
Average revenue per user (£)	1.90	1.50	2.14	3.00
Users (m)	0.8	1.5	1.1	4.8
Revenue (£m)	1.5	2.3	2.4	14.4

Note: the projections in this table represent Ofcom's analysis and not the views of ITV plc.

Static impact on regional TV services

7.36 This section estimates the likely static impacts both on regional broadcast TV and regional TV online services.

Static impact on regional broadcast TV

Summary of stakeholder views

7.37 Notably, broadcasters did not envisage any adverse direct impact on linear broadcast TV platforms, as a result of the BBC proposed Local Video service.

7.38 However, STV noted that the BBC's intentions to repurpose local video content from the proposed service onto its regional terrestrial TV service in Scotland, would adversely impact STV's broadcast channel, by reducing audiences, and revenues as a consequence.

Market research

7.39 Our market research estimated how those users who are likely to take-up the BBC Local Video service would change their consumption of ITV regional news, as shown in Table 7.2.

²⁸⁴ Online newspapers and radio stakeholder high scenario growth assumptions.

Table 7.2: Ofcom market research results of reduction on ITV regional news viewing

Stop using	1%
Use a lot less	5%
Use a little less	10%
Use a little more	1%
Use a lot more	0%

Base: Current weekly users of ITV regional news who are likely to use the BBC Local Video service (base size: 685)

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 7.40 As can be seen, of those who thought they would use the BBC Local Video service and currently watch ITV regional news, very few expected to increase their use of that media. More people thought they would watch regional TV a lot or a little less.
- 7.41 The BBC Management commissioned research from BMRB. Human Capital, in a separate report for the BBC, took the BMRB research results and made a number of adjustments. The BBC research is discussed further in Annex 4. We relied on our own market research, but the BMRB and Human Capital figures are shown in Table 7.3 for comparison.

Table 7.3: BBC Management market research results of impact on regional TV

	BMRB	Human Capital
Use a lot less	11%	2.4%
Use a little less	19%	3.2%
Use a little more	6%	1.1%
Use a lot more	2%	0.9%

Base: ITV Regional TV users with broadband access (base size: 512). Note: 55% said they would not change usage of ITV regional news if the BBC launched its service.

Source: BMRB and Human Capital. How viewers would vary consumption of ITV regional news for news alone, if the BBC launch the proposed service.

- 7.42 We used the upper and lower confidence interval around our market research results to estimate the likely range of audience impacts in our low and high impact scenarios. Based on our market research, we estimate that the confidence interval around the net audience impact on ITV regional news viewing ranges from -4% to -8%.

Assessment of static impact on regional broadcast TV

- 7.43 Our market research gives an indication of how many consumers may switch services if the BBC Local Video service was introduced. The 4% to 8% reduction in ITV regional viewing is derived from a base of those respondents who would be likely to take-up the BBC Local Video services and change behaviour as a result.²⁸⁵

²⁸⁵ Our audience impact assumptions are based on the overlap between users of the BBC service and users of the relevant affected media. Hence an 8% reduction in the overlapping audience is less than an 8% reduction in overall consumption. For example, suppose 100 people watch ITV regional news and 50 of these are expected to use the BBC Local Video service. An 8% reduction (our high impact scenario) in overall consumption results in 8 fewer viewers. An 8% reduction in those that use the BBC service and watch ITV regional news will see four fewer viewers (or a 4% reduction in overall consumption).

- 7.44 Most stakeholders did not express any concern over the direct impact from the BBC Local Video service on broadcast regional TV services.
- 7.45 Assessing similarities between the product characteristics of the BBC Local Video service and regional TV provides further indication of how significant the impact may be. The closer the characteristics of the products are, the more likely a consumer may be to switch services.
- 7.46 The BBC Local Video service features news, sport, weather, community and local life. The genres are therefore very similar to that offered by the ITV network. In addition, both services are free to the end user and there is evidence which suggests there may be some overlap in time of day and place where both regional TV and the BBC Local Video service are consumed.²⁸⁶
- 7.47 On the other hand there are differences between the two services. The mode of consumption is different, as ITV regional TV is not viewed online, unlike the BBC proposal. Indeed, recent research²⁸⁷ suggests that the majority of viewers currently do not see the internet as a substitute for PSB regional news.²⁸⁸ While both types of service are video based, the fact that ITV regional news is broadcast around a linear schedule and the BBC proposal is on-demand, suggests the modes of engagement are also dissimilar. The geographic footprint of the two services, in terms of newsgathering, is also different. Whilst there is likely to be some overlap of newsgathering, there are likely to be more stories on the proposed BBC Local Video service that could not be viewed on regional TV because of the more local level of newsgathering under the BBC Local Video service.
- 7.48 On balance, there may be a negative impact on regional TV viewing as a result of the BBC proposals; however, this is likely to be small, given the significantly different features of the two services.

Static impact on online services

Stakeholder views

- 7.49 Stakeholders were concerned about the impact that the proposed BBC service could have on regional TV online services. In particular they were concerned about:
- the impact on online audience and the knock on effect this would have on their ability to generate revenues; and
 - the impact on investment in existing and future online services.
- 7.50 All stakeholders believed that the BBC Local Video service would have a strong negative effect on their ability to grow audiences and that the service would divert viewers from commercial online services. As a consequence services would attract fewer advertisers. One stakeholder²⁸⁹ is not currently monetising local video content

²⁸⁶ Our market research suggests that 56% of consumers would use the BBC Local Video service mostly in the evening at home (*Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008). The majority of ITV regional news and other regional programming is broadcast in the evening.

²⁸⁷ Ofcom, *Second Public Service Broadcasting Review - Phase One: The Digital Opportunity*, 10 April 2008, Annex 6 "PSB Review 2008 Research findings".

²⁸⁸ The research noted that two thirds of daily internet users disagree that regions and nations' news provision on TV was redundant given the amount of information on the internet.

²⁸⁹ [X]

directly through advertising but intends to introduce classified and display advertising in the future. It argued that the majority of its online profits would come from display and classified advertising in future, and the BBC Local Video service would impact these potential revenue streams by limiting its ability to build audiences.

- 7.51 One provider predicted two impact scenarios²⁹⁰: one in which the proposed BBC Local Video service has an immediate adverse impact on its users; and another where the proposed service would have a gradual impact on its users from 2009 to 2014. Under its immediate loss scenario this provider predicted a loss of users of [redacted] in 2009 and [redacted] and 2014, respectively.²⁹¹ Under its gradual loss scenario this provider predicted a loss of users of [redacted] and [redacted] in the same years. In addition, under the immediate impact scenario it predicted a [redacted] to [redacted] adverse impact on revenues in 2009 and 2014 respectively; and under its gradual scenario an [redacted] to [redacted] in the same years.²⁹²
- 7.52 One respondent²⁹³ was concerned that the BBC's intervention, at a point in time when the online advertising market is immature, would make its business plan unviable. Another respondent²⁹⁴ also noted the timing of the BBC Local Video service was particularly challenging given the current downturn in the advertising market.
- 7.53 Some stakeholders felt that the market would be distorted, because the BBC's proposed service would be viewed without advertising, implying that its own content would be comparatively unattractive to viewers on this basis.
- 7.54 All providers argued that the content which the BBC intends to provide is very similar to that which they provide now or could do in the future.
- 7.55 One stakeholder²⁹⁵ was concerned that the BBC's geographic footprint would overlap considerably with its online footprint. In a similar vein, another provider²⁹⁶ also believed that the areas of the proposed BBC service and its own were almost identical. Another²⁹⁷ was also concerned that the BBC would offer a service similar to its own over a small, already well-served geographic area.

Market research

- 7.56 Our market research only captured a small number of respondents that used ITV Local. As a consequence, we have used the market research results for all websites with local news. For the purposes of modelling an audience impact on ITV Local, and consistent with the approach adopted for the other affected services, we have estimated a net audience impact based on the upper and lower confidence intervals around our market research results in the high and low impact scenarios respectively. In the high impact scenario, we assume that the net audience impact on ITV Local is -13% based on those said they were likely to use the BBC service and

²⁹⁰ They did not, however, provide any evidence to support these scenarios.

²⁹¹ [redacted]

²⁹² [redacted]

²⁹³ [redacted]

²⁹⁴ [redacted]

²⁹⁵ [redacted]

²⁹⁶ [redacted]

²⁹⁷ [redacted]

currently use local websites. In the low audience impact scenario this is assumed to be -2%.²⁹⁸

7.57 Table 7.4 below shows the results of the BMRB market research for the BBC Management and Human Capital's adjustments to these in relation to local news websites (ITV Local is not separately considered). As previously mentioned, we have not relied on these results in our audience impact assessment (see also Annex 4).

Table 7.4: BBC Management's market research for local websites for news²⁹⁹

	BMRB	Human Capital
Use a lot less	8%	1.7%
Use a little less	18%	4.3%
Use a little more	10%	4.0%
Use a lot more	6%	4.0%

Source: BMRB and Human Capital

7.58 Table 7.6 illustrates that BMRB research noted a net negative impact of 10% on users of local websites, whereas the Human Capital research notes a net positive impact on usage of 2%.

Ofcom model: ITV Local revenue impacts

7.59 As for the other affected services, a change in website audience is likely to lead to a change in website revenues. We have made assumptions on this relationship. These assumptions have been benchmarked against ITV Local data and other stakeholder online assumptions.³⁰⁰ We have assumed that a 1% drop in ITV Local's audience would result in a 1% reduction in display advertising revenue, 0.5% reduction in video content advertising revenue and a 0.25% reduction in sponsorship revenue. The assumptions regarding sponsorship reflect the relatively strong association it can have with surrounding web content compared other types of advertising. This means that this type of advertising is likely to be less sensitive to a reduction in users relative to other types of advertising. We have assumed the same relationships in all the impact scenarios for ITV Local.

7.60 We have estimated revenue impacts under three scenarios; a low scenario, a high scenario and a stakeholder scenario. The stakeholder scenario is based on impact assumptions provided by stakeholders in relation to other online services.³⁰¹ Our estimate impacts for each scenario are set out in Table 7.5 below.

7.61 As can be seen, the revenue loss estimate ranges from almost zero to £250k in 2013/14 under the low and high scenarios respectively. In the stakeholder scenario the revenue loss estimate is £1.5m in 2013/14.

²⁹⁸ Base: current weekly users of Local website users who are likely to take-up the BBC Local Video service. Note: the market research did not note any usage from respondents of UTV, STV and Channel TV websites. (*Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 21 November 2008).

²⁹⁹ This is the same table as used for newspaper and radio online services.

³⁰⁰ Newspaper and radio stakeholder assumptions regarding growth of ARPU and usage.

³⁰¹ Newspaper and radio stakeholder assumptions regarding ARPU and usage. ITV Local's assumptions regarding growth have not informed this scenario.

- 7.62 Our revenue loss estimate in NPV terms over the five year period, 2009/10 to 2013/14, ranges from about zero to £500k in our low and high scenarios respectively. In the stakeholder scenario this is estimated to be £3.8m. The profit loss estimate is the same as the revenue loss estimate under each scenario because we have assumed that marginal costs are zero.³⁰²

Table 7.5: Ofcom's estimates of ITV Local revenue loss in 2013/14

	Low impact scenario	High impact scenario	Stakeholder scenario
Revenue loss in 2013/14 (%)	0.1%	1.7%	10%
Revenue loss in 2013/14 (£m)	Almost zero ³⁰³	0.3	1.5
Five-year NPV revenue loss (£m)	Almost zero ³⁰⁴	0.5	3.8

Assessment of static impact on regional TV online services

- 7.63 The results of the model for ITV Local indicate that the impact on ITV Local is relatively small.
- 7.64 In addition, it is relevant to consider the similarities between the proposed BBC service and regional TV online services. Much of ITV's online content is similar to the BBC proposal in terms of genre type; both have news, sport, weather local life and community. Both also contain UGC. Some stakeholders noted that UGC is an important element of their online services, and may become a more significant feature on their websites. Under the BBC service proposal, the BBC intends to collaborate with users, through production assistance, to create assisted UGC (under the 'local life and community' genre). The BBC has noted that this content would be limited within its upper limit of ten video stories per day per area.³⁰⁵ Whilst difficult to calculate the exact amount the BBC will introduce, there is likely to be less UGC relative to other video content provided, such as news.
- 7.65 In addition, both ITV Local and the BBC's proposed service are predominantly video based, and can be viewed via the internet, meaning the method of consumption and engagement would be the same for both services.
- 7.66 On the other hand, there are differences where regional TV websites provide additional content that the BBC's proposed service does not intend to provide, such as 'what's on' listings, local business finders and classified and display advertising. However, stakeholders note that, currently, news, sport and weather are core to their online services.
- 7.67 In addition, whilst there will inevitably be some overlap of newsgathering for both services, the geographical footprint, in respect of news content, differs. ITV gathers news at a more aggregated level than the BBC proposal (17 regional and sub-regional areas, in contrast to the proposed BBC Local Video service across 60 areas with 65 services). The implication of this is likely to be that many of the local video news, weather and sports stories which the BBC will offer, whilst being of a relatively similar quality, genre, format etc, are not likely to be gathered by ITV Local. This

³⁰² This is because the additional costs of supplying an additional user is likely to be close to zero.

³⁰³ £1,000.

³⁰⁴ £5,000.

³⁰⁵ While there is a limit to assisted UGC, there is no limit to unassisted UGC.

means that the services are less likely to be substitutable in the eyes of the viewer. This is reinforced by the fact that a high proportion of ITV news centres are located around large cities, whereas the BBC news gathering proposal is likely to be relatively more evenly distributed geographically.³⁰⁶ This is likely to become more significant as the amount of news repurposed onto ITV Local lessens, if ITV plc's measures to restructure regional news are implemented. In any case there is no evidence to suggest ITV will be gathering news at a more local level in the future.³⁰⁷ Like ITV plc, STV also gathers news at a more regional level; or more strictly speaking, at a city (metropolitan/urban) level. UTV is also more regional in terms of its newsgathering than the proposed BBC service.

Dynamic impact on regional TV market

- 7.68 The market for regional TV is mature. ITV plc plans to reduce its spending on regional news content. There could, in principle, be some scope for other ITV regions to develop additional news content, if there were a demand for it, but we have seen no evidence that this is likely to be the case.
- 7.69 It is possible that the BBC Local Video service could increase the rate at which regional TV stations reduce their local news content, but the uncertain future of such content on regional TV lead to doubts over whether such a dynamic impact is likely.

Dynamic impact on regional TV online services

- 7.70 ITV plc has an ongoing plan for adding content to ITV Local websites. To date, the sites have attracted a large volume of UGC, while new online content, including traffic and crime channels, has recently been introduced. ITV has also introduced a recruitment service and a business directory.³⁰⁸
- 7.71 ITV plc's planned reduction in regional news content reduces the likelihood of substantial investment in news content on ITV Local.
- 7.72 On the other hand, it is possible that some of ITV plc's new non-news content (for example, UGC) may overlap to a degree with the BBC service. If the BBC Local Video service were to have a substantial impact on audiences, this could lead to a potential reduction in investment.
- 7.73 While other regional ITV providers have not publicly announced their intentions to reduce investment in regional news content, there is also no concrete evidence of investment in sub-regional news at a level of localness akin to what the BBC proposal intends. This reflects the fact that the future of regional news investment is currently uncertain.
- 7.74 Therefore, overall it is likely that the impact of the proposed BBC service on all regional TV online services will be small. Taking the uncertainty surrounding the investment in regional news together with our findings from the static impact on revenues implies that the dynamic impact on regional TV online services is also not expected to be large.

³⁰⁶ Human Capital, *BBC Local Video Content Distinctiveness Analysis*, April 2008 and BBC Management's, *Assessment of the public value of its Local Video proposals*, April 2008.

³⁰⁷ [X]

³⁰⁸ ITV plc, *Interim Report, 2008*

Conclusion on impact

- 7.75 Our assessment of the static impact leads us to conclude that the BBC Local Video service could reduce audiences for ITV regional news, but we believe this effect will be small. We note that the ITV regional news service is well-established, and we do not have a strong expectation that the introduction of the BBC Local Video service would, in itself, affect spending on regional news.
- 7.76 The impact on ITV Local, ITV's online service, may be relatively small in revenue terms but even a small impact could potentially lead to some reduction in investment. On the other hand, ITV Local is currently dependent, at least to some extent, on content from broadcast regional news, which ITV plc is currently planning to cut. The future development of ITV Local may therefore be in non-news services, competing less directly with the BBC Local Video service.

Section 8

Local TV and associated web services

Introduction

- 8.1 This section looks at the provision of local TV services, potential future developments, and considers the possible impact that the BBC's proposed Local Video service could have on existing and future local TV services.
- 8.2 Our analysis finds that the current market conditions for local TV are challenging, and that the industry is, generally still quite embryonic. Going forward, while there may be opportunities that benefit existing or future providers, other factors which continue to constrain business models imply greater challenges.
- 8.3 The presence of the BBC Local Video service could be a relatively small element of the challenging environment which local TV channels are likely to face. On the other hand, the entry of the BBC Local Video service could have a negative impact on the development of the local TV services. While its size is unclear, it is likely that the negative impact on local TV services will be greater where features, such as content, platform and geographical footprint, more closely resemble that of the proposed BBC service.

Overview of the local TV industry

- 8.4 The definition of 'local TV' is quite broad. For the purposes of this report we have considered local TV to include broadcasters and broadband providers who deliver original sub-regional video content. This differs from regional TV in terms of the geographical footprint of the provision of news content.
- 8.5 Local TV services can be typically characterised as one of two types of business models, summarised below, although some services combine features of both models:³⁰⁹
- commercial services that are primarily funded by local advertising and provide varying degrees of original local news, sport, weather and other content of local interest. Some also provide entertainment and lifestyle themed programming.³¹⁰ Most rely on acquired content. Some channels have partnerships with not-for profit organisations, such as universities; and
 - community services that are typically funded by local authorities, charities or educational institutions. Most provide local news, sport and weather but some also show debate, arts and local current affairs programmes. Some feature other types of content, such as local information on topics such as education and public health.
- 8.6 Local TV can be delivered over a number of different distribution platforms, such as analogue terrestrial TV, cable and satellite. Some local TV providers have set up associated websites for repurposed content from their linear broadcast channels.

³⁰⁹ For example, some players fund themselves through a mix of advertising and public funding one example is Kent TV.

³¹⁰ Note: this type of content is different to what the BBC proposal would offer. Examples of this type of content are movies and music.

Services can also be distributed solely by broadband. There are standalone broadband-only websites, showing on-demand local video content and broadband services which also stream local video on-demand content using IPTV networks.

TV broadcast services

- 8.7 There are currently around a dozen broadcasters that hold Restricted Service Licences ("RSL"). RSLs allow these channels to deliver local television via terrestrial analogue broadcasting.
- 8.8 Some of these providers also use other platforms. For example, Channel M in Manchester is available on analogue terrestrial TV, satellite and cable.³¹¹ As noted above, some providers use the broadband platform as a supplementary outlet for consumers to view their local video content.³¹²
- 8.9 A number of factors have, in the past, contributed to limited provision across the UK and slow market growth:
- variable coverage of the analogue terrestrial signal (in some cases, viewers have needed to adjust their aerials to receive the local channel);
 - short term licences for analogue terrestrial delivery (four years);
 - unreliable viewing data has meant it has been difficult to monetise content;³¹³
 - relatively high production costs for news and other original content; and
 - competition from multi-channel TV.
- 8.10 These factors have contributed, in varying degrees, to the closure of local TV stations, such as Solent TV in 2007. Other more established players have also found the market challenging. Channel M's operating margin, for the year ending 30 March 2008, fell by 129%, with a turnover of £3.4m.³¹⁴ Another commercial player, Six TV, made a decline in profits of £96k from a turnover of £76k in 2006.³¹⁵

Broadband services

- 8.11 The increase in broadband penetration and availability has enabled more local broadband services to emerge.
- 8.12 The low distribution costs associated with broadband and higher broadband penetration has enabled some rural community news services to start up.

³¹¹ Channel M is owned by Guardian Media Group, a multi-media provider, with interests in local and regional news and radio.

³¹² This video content is repurposed from their linear platforms i.e. content that is made for their broadcast channels is then also placed on their associated websites for consumption.

³¹³ Local TV players are not on BARB.

³¹⁴ Turnover increased from £2.3m (to £3.4m in 2008) year on year, from 2007. Company's House accounts, 2007 and 2008.

³¹⁵ A paper submitted by Philipa Marks to the Competition Commission, on modelling carried out by Spectrum Strategy for Ofcom's *Digital Local* report, *Comments on the "Economics of local digital audiovisual interactive services"*, 6 November 2007: www.competition-commission.org.uk/inquiries/ref2007/macquarie/provisional_findings_working_papers.htm

- 8.13 For example, Monmouth TV is a not-for-profit channel and makes use of volunteer staff. It launched in February 2008 with £30k of set-up funding and is based in the Monmouthshire area.³¹⁶ It has produced approximately 5,000 minutes worth of short local video on-demand content (in bulletin and package form) in the four months since its launch. It claims that it can reach up to 2,000 to 5,000 visitors per day. It is mainly funded through advertising, but also through media training to the community.
- 8.14 Another example is Felixstowe TV, which was established in 2004 and serves a population of approximately 30,000. It also offers free news and community content (sport, events interviews, arts and heritage etc) which is in the form of on-demand video, packaged online only. It claims to have around 80k to 100k unique visits per month. It is commercially run, primarily through sponsorship.
- 8.15 Other examples exist which are primarily funded by local authorities and councils. Kent TV is funded by Kent County Council, but also makes use of advertising. It provides local video news and information, and has entered the online market to take advantage of cost savings that are not possible through traditional print communication.
- 8.16 In addition, one relatively new IPTV provider called GDBTV, provides a worldwide IPTV service, delivering video online via a website service and off-line via a TV set top box service. It provides a range of local content, (predominantly through niche channels for communities of interest and places of interest). Some of the content is UK ultra-local bespoke news content.³¹⁷

The counterfactual

- 8.17 It is difficult to know what the market will look like over the next few years; whether operators will continue and, if so, in what form (i.e. broadband or other/commercial and/or publicly funded). As a consequence, the likely scale of market growth is uncertain. Responses from stakeholders did not contain any detailed forecasts of how local TV services would develop over the next few years.
- 8.18 Our previous modelling research, carried out as part of our *Digital local* report³¹⁸, published in 2006, suggests that by 2015 only two scenarios for local TV are likely to be profitable:
- minimal local news (8hrs/day³¹⁹) across metropolitan areas, on all platforms (DTT, broadband, cable and satellite); and
 - local news and acquired content (18hrs/day³²⁰) across metropolitan areas, on all platforms.
- 8.19 In addition, this research noted that broadband-only services would be more likely to be viable for smaller communities.³²¹ It also noted that certain commercial

³¹⁶ Monmouth town has a population of 10k, but the channel's catchment area is greater than this.

³¹⁷ For example, it features programming which is predominantly targeted at the Turkish/Kurdish speaking community in the UK.

³¹⁸ Ofcom, *Digital Local: Options for the future of local video content an interactive services*, January 2006: http://www.ofcom.org.uk/tv/psb_review/digital_local/digital_local.pdf

³¹⁹ Under this scenario the report assumed 5hrs 30mins of "first run" content (30mins of local news, 4hrs of user generated content, and 1hr of low cost content per day) and 3hrs 30mins of 'repeat' content

³²⁰ Under this scenario the report assumed 6hrs of "first run" content (1hr of which is local news) and 12hrs of "repeat" content.

circumstances could be beneficial by offering benefits such as increased viewer reach and cost savings that are less easy to exploit on a stand-alone basis, for example cross-media ownership and network affiliation between local TV services. In addition, it noted that technological change and development may also provide further opportunities in the future.

- 8.20 However, a recent re-appraisal of this analysis suggests that even these scenarios are over-optimistic and that increasingly competitive market conditions, such as multi-channel viewing and the decline in TV advertising revenue would potentially make the conditions for local TV service sustainability more difficult.³²²
- 8.21 As part of the *Second Public Service Broadcasting (PSB) Review – Phase 2*, we are currently assessing the type of funding that would be the most effective and sustainable for the future of public sector broadcasting, including considering the potential for local TV.³²³
- 8.22 As part of the Digital Dividend Review³²⁴, we are also creating opportunities for existing and new local TV channels to obtain spectrum for digital terrestrial broadcasting, by making available spectrum suitable, but not reserved, for local TV, both in areas where there are local TV channels currently operating on analogue, and in areas where we think there may be an interest in providing local TV. In October this year, we published a statement on the first phase of these awards, confirming that two frequency channels will be awarded in early 2009; one to cover Cardiff, and the other to cover Manchester.³²⁵ We expect to hold further awards for spectrum suitable for local TV where there is demand for it, as digital switchover progresses.
- 8.23 There has also been the suggestion of other broadband services being set up by various other local authorities to supply news and information.³²⁶
- 8.24 While broadband may provide opportunities for the future growth of local television, it is possible that services may gain more widespread reach with the take-up of hybrid internet enabled TV sets. In addition, local video content via IPTV may provide an opportunity for local TV broadband channels, allowing the added functionality and benefits of interactivity that the internet brings. The evidence of a business case, as yet, for local TV by IPTV is mixed. More established IPTV players such as Tiscali and BT Vision, currently do not provide local TV. However, while the number of households with IPTV is currently quite small, it has the potential to support local TV services in the future, subject to market growth. GDBTV noted in its submission that it is currently in negotiations with 13 towns and cities in the UK for the provision of local TV broadband services.
- 8.25 In conclusion, the future of local TV is uncertain. Various business models exist, but few have proven commercially successful to date. It is unclear whether the provision

³²¹ The research noted that broadband services without the combined effect of additional platforms (satellite, etc) would be likely to be more viable under low reach and audience circumstances (i.e. communities below 20k households and between 20k and 100k households).

³²² Comments on the “*Economics of local digital audiovisual interactive services*” 6 November 2007

³²³ Ofcom, *Second PSB Review – Phase 2*, September 2008:

www.ofcom.org.uk/consult/condocs/psb2_phase2/psb2_phase2.pdf.

³²⁴ The Digital Dividend Review is a project releasing the spectrum freed up by digital switchover for new use.

³²⁵ Statement, [www.ofcom.org.uk/consult/condocs/notice On 524/statement/](http://www.ofcom.org.uk/consult/condocs/notice%20On%20524/statement/); Information

Memorandum, www.ofcom.org.uk/consult/condocs/notice524/im/, October 2008

³²⁶ Local Government Chronicle, 24 July 2008.

of local video news (i.e. other than a model using predominantly low cost UGC) services will develop, on a widespread scale. However, opportunities may exist for providing local TV, on DTT as well as satellite, cable and broadband. In addition, added benefits from factors such as cross-media ownership and additional funding from non-commercial sources, for example, may present opportunities for further market development if adopted.

Static impact on local TV services

8.26 We received little evidence from stakeholders on the likely impact of the proposed BBC service. In light of this, we have not sought to quantify the static impact on local TV services. Instead, we have drawn on our market research and stakeholder views.

Overview of stakeholder views

8.27 Stakeholders were concerned about the following factors:

- the negative impact of the BBC Local Video service on ability to build audiences and generate revenues;
- the negative impact of the BBC Local Video service on ability to generate profit leading to closure of existing services; and
- the impact of the BBC Local Video service on investment in future services and new business models.

Assessment of static impact on local TV services

8.28 Consumers of local TV would be more likely to switch to the proposed BBC Local Video service the closer the characteristics of the two services are. Services with similar content genres as the BBC, namely, those who provide news, sport, weather, local life and community and UGC, are likely to be more affected by the BBC proposal than others with very different content. This is likely to be especially true for those services where news content is a key feature. Those local TV players that only provide services over broadband are also more likely to be affected, relative to TV broadcasters. The same is likely to be true for those with a virtually identical geographic footprint, in terms of newsgathering and broadcasting, for example Channel M. This implies that some local TV services may be affected more than others, in terms of consumer switching.

8.29 Given that the counterfactual is uncertain, existing and possible future factors and scenarios, which are not related to the BBC Local Video service, may determine the development of local TV more profoundly than any impact of the BBC Local Video service.

8.30 Any impact that the BBC Local Video service may have on local TV services' revenue is likely to vary according to the type of business model adopted by the provider in question. This is complicated further by the existence of some part-commercial, part-publicly funded models. Non-commercial providers may feel less of a material impact on revenues, due to lower reliance on advertising revenues.

Table 8.1 Ofcom's market research: take-up of BBC Local Video amongst local TV users & impact on local TV users

Those who expect to use BBC Local Video service	27%
Those who would change behaviour	6%

Base: Total base current weekly users of local TV who would expect to take-up the BBC Local Video service (Base size: 54).

Note: The total base includes a booster sample in Manchester area.

Source: Ofcom research, fieldwork carried out by SPA in June 2008.

- 8.31 Our market research indicates that 27% of current local TV users would take up the BBC service. This was the lowest percentage relative to other media types (i.e. newspapers, radio etc). As a result of taking up the BBC Local Video service, 6% said they would change current consumption of local TV.³²⁷
- 8.32 According to the research, take-up of the BBC service may not be large amongst local TV users, in absolute terms and relative to findings for other local media. In addition, a relatively low percentage of respondents said that they would change their consumption. However, under an interpretation of the counterfactual where the local TV market develops more positively, the market research may understate the impact in the future.

Assessment of dynamic impact on local TV market

- 8.33 Overall the static impact on local TV services is likely to be small. As discussed above, how the provision of local TV will develop is highly uncertain. However, it is possible that future opportunities for market entry and innovation will arise. This could be as a result of public funding as an outcome of the PSB Review, or from local authorities. We also expect that there will be new spectrum available for digital terrestrial delivery for TV services, as well as other existing platforms (i.e. cable, satellite).
- 8.34 But it is also possible that conditions such as the growth of multi-channel TV or a decline in advertising spend on TV will lead existing providers to exit the market. This depends on a range of factors including the state of the broader economy, and the availability of public funding. Stakeholders have concerns that the BBC Local Video service's comparative brand power may limit the chances of any nascent services developing, or undeveloped future business models starting up.
- 8.35 The presence of the BBC Local Video service, offering some elements of the range of content which is typically provided on local TV, could be a contributing factor in deterring the creation of some marginally-viable channels, or in the closure of some existing channels. However, given that the static impact is expected to be small, the presence of the BBC service is likely to be a fairly insignificant element of the challenging environment which local TV services are likely to face.

³²⁷ Given the very small base of those who would change their behaviour as result of taking-up the BBC Local Video service (three respondents) it is not possible, in a meaningful way, to breakdown any further between the different categories of impact (e.g. stop using, use lot less, use a little less, use a little more, a lot more).

Section 9

Mobile TV services

Introduction

- 9.1 This section looks at mobile TV services, potential future developments and the possible impact of the BBC's proposed service on the future development of those services. The BBC's proposed service will be available on third-generation (3G) mobile phones, i.e. phones that can receive high-speed internet access and video calls.
- 9.2 Our analysis indicates that the BBC service may have a positive impact, because it could encourage new consumers to use mobile TV services. This impact is however, likely to be relatively small.

Overview of mobile TV services

- 9.3 Mobile TV services are TV channels and video-on-demand ("VOD") services available on mobile devices. We focus on one-to-one delivery, i.e. distribution of content from a source point to a single mobile handset.³²⁸
- 9.4 We have considered mobile TV services with reference to 3G networks. Mobile entertainment services could also be deployed using frequencies other than 3G spectrum and this is discussed further below.
- 9.5 We have looked at mobile sector analysts' growth forecasts. While they all foresee a growth in revenue per end user, the variation between forecasts is considerable, reflecting the embryonic state of the market.
- 9.6 Recognising the intrinsic uncertainties of mobile TV services, our analysis for this affected service follows a structure that is slightly different from those in the previous sections. We have developed three counterfactual scenarios: the high and low scenarios are based on three sector analysts' figures and a base case scenario based on an average of those forecasts.

Other possible spectrum for mobile TV services

- 9.7 Other spectrum frequencies on which mobile TV services could be offered include the Digital Dividend Review ("DDR")³²⁹ and L-band³³⁰ spectrum. The DDR spectrum will not be available on a national basis until 2012, so it is not expected to have a significant impact with the period of years considered in the analysis.

³²⁸ Technically a mobile TV service can also be delivered using the 3G network one-way dedicated broadcasting network (one-to-many services referred also as broadcast) where a dedicated broadcasting network is used to distribute content to multiple end-users that are in the same area by means of a single transmission. This technology is still in an early stage of development because there is still a lack of an approved standard broadcasting protocol interface.

³²⁹ The DDR is a project releasing the spectrum freed up by digital switchover for new use.

<http://www.ofcom.org.uk/radiocomms/ddr/>

³³⁰ Radio spectrum in the 1452MHz to 1492MHz band, which Ofcom released to auction in spring 2008.

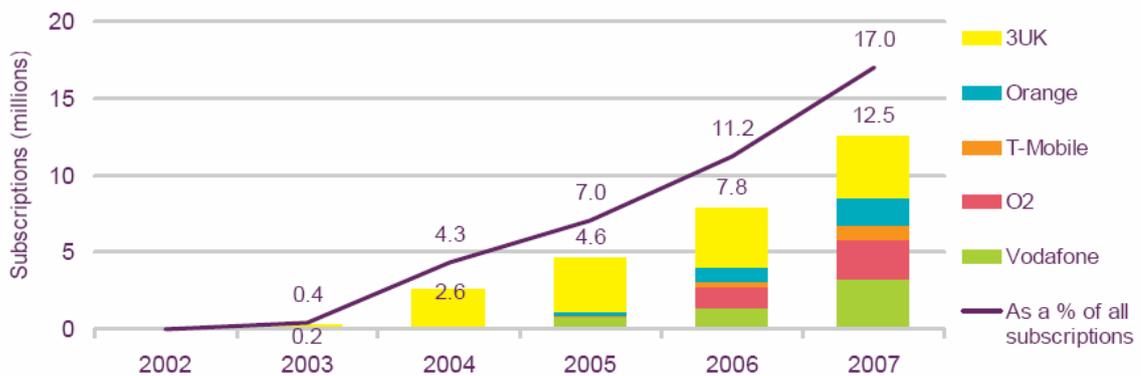
9.8 In May 2008 Qualcomm was awarded L-band spectrum, which we understand it may use to roll out a mobile TV service.³³¹ The time it takes to deploy this new platform is dependent on the scale of the rollout. Because of the uncertainties surrounding the deployment of mobile TV services on L-band spectrum we have not taken into account any dilution effect that this new technology might have on 3G-based mobile TV services.

Background and market development

9.9 Our CMR showed that in 2007 17% of mobile users had 3G-capable handsets (compared to 11% in 2006). In July 2007 there were 12.5m 3G subscribers.³³²

9.10 The same report showed strong recent growth in the number of 3G mobile subscriptions as customers continue to migrate onto 3G networks and a new generation of 3G handsets becomes available.³³³ The number of 3G subscriptions grew by 4.7m (60%) during 2007.

Figure 9.1: 3G mobile subscriptions, by network operator



Source: Ofcom, Informa

9.11 As the BBC's proposed service will be available on 3G mobile phones, we have looked at 3G growth predicted by various mobile sector analysts, particularly the forecast growth of mobile TV services.

Key players and their offerings

9.12 In mobile TV services the key players are Orange, Sky, Vodafone, '3' and the BBC amongst others. They all offer mobile TV services and at the moment, with the exception of the BBC, none of their services are available on a local scale and are mostly organised in terms of theme based packages (sports, comedy, family, videos and news). There are some other entertainment services that relate to local or regional areas but these are relatively small.

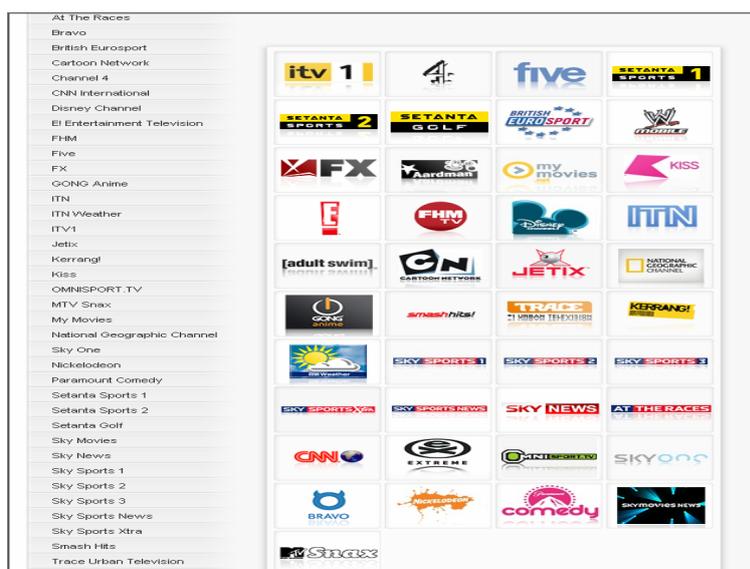
9.13 Figure 9.2 shows an example of the TV channels available on the Orange mobile portal. The majority of these channels are consistently offered across all retail mobile TV offerings available to 3G mobile subscribers.

³³¹ www.ofcom.org.uk/radiocomms/spectrumawards/completedawards/award_1452/notices/.

³³² Informa, *Mobile Communications Europe*, 22 July 2008.

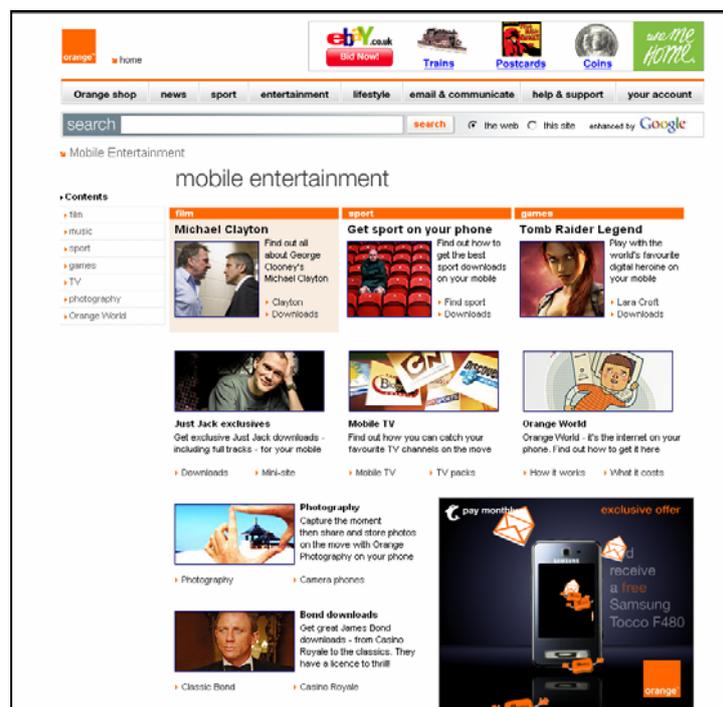
³³³ Ibid.

Figure 9.2: Orange mobile TV channels as listed on their website



9.14 Figure 9.3 shows Orange's theme-based packages as an example of the type of content offered on mobile TV packages.

Figure 9.3: Orange Mobile Entertainment contents and Sky sport packages



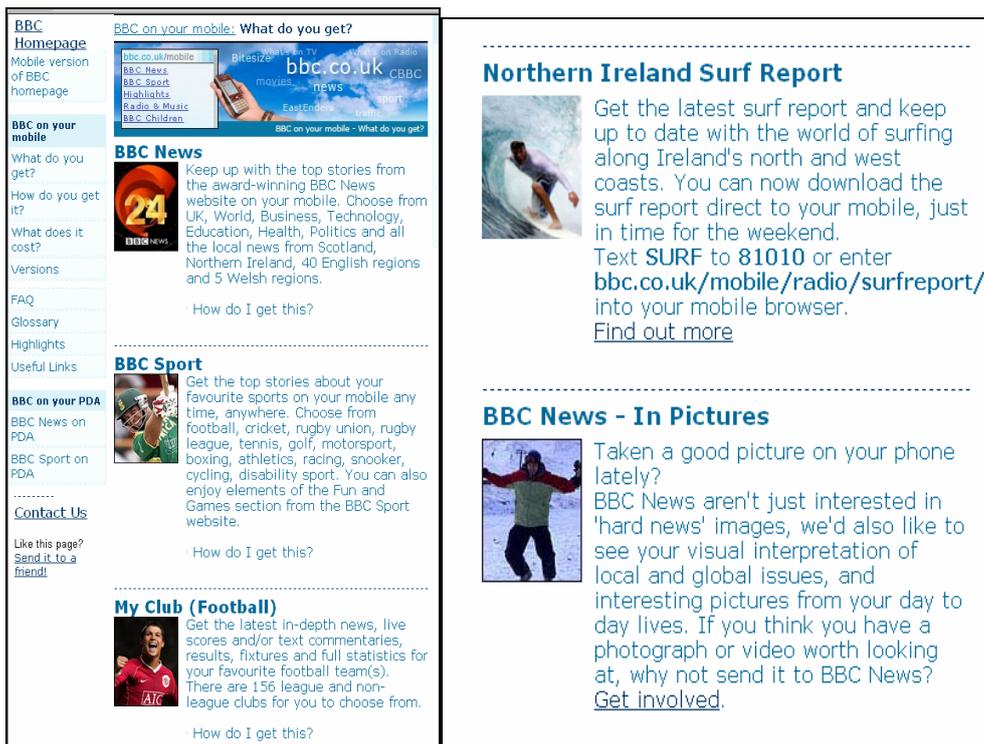
9.15 The BBC is currently the main provider of local content via mobile. The current 'BBC on your mobile' service is unique due to its strong local coverage of topics such as:

- news – relating to Scottish, Northern Irish, English and Welsh regions in audio and/or visual headlines. There is also a 'BBC news in pictures' section in which users are invited to send photos and videos about their local life;

- cultural events - guides to cultural hotspots, public art, architecture and videos by local people;
- football (My Club) - news, live scores and results of 156 league and non-league clubs; and
- weather and traffic.

9.16 Figure 9.4 shows the BBC on your mobile website, which includes an example of a cultural event and the 'BBC News – In pictures' section.

Figure 9.4: BBC on your mobile website



9.17 The BBC currently makes available video and audio news summaries on mobile devices for England, Scotland, Wales and Northern Ireland. Additional sections on business, economy, politics and education have been added recently.

Stakeholder views

9.18 Orange and the Mobile Broadband Group (“MBG”)³³⁴ both said that mobile TV content was generally offered on a national scale. They said the main reason for this is because advertisers do not view local content as commercially appealing over a mobile platform. They believe that the number of mobile users that might be interested in local content would not be sufficient to make local content commercially viable as an advertising-funded service.

9.19 Orange emphasised that mobile users seem to be very interested in content providers that have strong brands. It highlighted the results of a trial that took place in March 2007 where the BBC syndicated some of its television and radio channels to

³³⁴ The Mobile Broadband Group members includes the five network operators in the UK – O2, Orange, T-Mobile, Vodafone and 3 and the largest 'virtual' network, Virgin Mobile.

3G mobile TV providers such as Orange, Vodafone, T-Mobile, 3 and Sky's mobile content. At the end of the 12-month trial, BBC One was the second most viewed TV channel on the Orange mobile TV service.³³⁵ Orange therefore believes that the BBC is a very popular brand with mobile subscribers.

- 9.20 Orange and MBG emphasised that UGC (particularly video services) is often offered as part of entertainment packages and these services are becoming more and more popular, particularly amongst consumers aged 20 to 35. There are strong commercial players in UGC services, because the number of viewers is sufficiently large to make it an appealing platform for advertisers.
- 9.21 Orange and MBG said there was a specific audience profile associated with certain retail offerings currently available in the market. For example, male mobile users were often very loyal to football packages; and entertainment packages, such as music downloads and video clips, can be very popular with younger audiences. Orange also emphasised that video downloading is very popular with young adults.

Advertising mechanisms

- 9.22 Click-throughs and visits to webpages from a mobile can be specifically attributed to the handset's owner with a high level of confidence, which makes mobile advertising an attractive medium for advertisers. Consequently, advertising mechanisms on mobile devices can be tailored according to personal preferences to a much higher level than traditional media.
- 9.23 The latest mobile TV services that mobile network operators (MNOs) are offering show that advertising models are evolving; consumers can now decide to opt-in to advertising-funded content.³³⁶ In addition to revenue from advertisers, MNOs will receive incremental revenues from the greater data usage associated with subscribers' using click-throughs, browsing advertisers' sites and responding by SMS to advertisements.
- 9.24 In March this year, "3" introduced a trial service which offered their customers the opportunity to download free music videos to their mobile phones in exchange for watching TV-style advertising. Before and after each music video, a series of targeted adverts run on the handset for 20 seconds. BMW, Microsoft and Pepsi took part in the trial service. 3 intends to sign-on more advertisers for the service and claims that 1.4m of its 4m subscribers have used the service to date.³³⁷
- 9.25 Orange launched a similar service in July. ZAP! features a range of entertainment and topical video content from broadcasters such as ITV, Sky, the BBC and ITN with no charge to consumers.

The counterfactual

Recent market trends

- 9.26 The deployment of the High-Speed Downlink Packet Access ("HSDPA") protocol has allowed higher downlink data transfer speeds and therefore mobile users are able to

³³⁵ Orange, *Digital Media Index*, Spring 2008

³³⁶ Response rates can be easily monitored on mobile devices which allow even further targeted advertising on a per individual basis.

³³⁷ http://www.rhythmnewmedia.com/sony_musicVideos.htm

download videos and music files to their handsets in just a few seconds. This has had a positive effect on demand.

- 9.27 Improvements in mobile screen resolution have also improved end-users' experiences when accessing mobile TV. These improvements have provided more opportunities for mobile TV commercials such as pre-roll, post-roll and in-content advertising.
- 9.28 Orange, for example, has seen their mobile broadband customer base increase by 31% since November 2007. It also estimated that an average of 2.64m monthly users accessed their mobile portal (Orange World) between February and April this year, which was a 12% increase on the previous three months (November to January). Orange considers that this growth will continue over the next few years, especially for video downloads.³³⁸

Mobile entertainment services – economic value

- 9.29 The mobile industry's revenues from 3G (measured as mobile service retail spend) were £4.8bn at the end of 2007.³³⁹ Table 9.1 shows the forecast retail spend from 3G customers over the next five years by one industry analyst. This includes spend both on voice and data traffic.³⁴⁰ It is evident that significant growth is expected; in this forecast, spend reaches a peak in 2010. Because 3G-based services are expected to become cheaper and more widely available over time, it is expected that the retail spend from 3G customers may start declining beyond 2011. This growth trend is fairly common for new services as their availability becomes more widespread.

Table 9.1: Mobile service retail spend by 3G customers

UK	2008	2009	2010	2011	2012
£bn	7.9	10.9	12.3	11.9	10.3

Source – Analysys Mason

- 9.30 In 2007 3G mobile revenues for entertainment services were £0.9bn (i.e. about 18.7% of the industry revenue in 2007).³⁴¹ The entertainment service category includes personalisation services (e.g. ringtones and logos), the downloading and accessing of games, cartoons, music, video clips and other forms of entertainment. Messaging based on third-party content and interaction with other media (such as TV programmes) is also included in this category.
- 9.31 Industry forecasts for the next five years are shown in Table 9.2 along with the corresponding proportion of the overall mobile service revenue.

³³⁸ Orange, *Digital Media Index*, Spring 2008.

³³⁹ Analysys Mason, *The Western European Mobile Market: trends and forecasts 2008–2013*, August 2008.

³⁴⁰ Retail spend measures the industry revenue for voice and data less interconnect revenues (derived by mobile operators from other MNOs for call termination).

³⁴¹ Analysys Mason Research.

Table 9.2 : Mobile service revenue – entertainment services

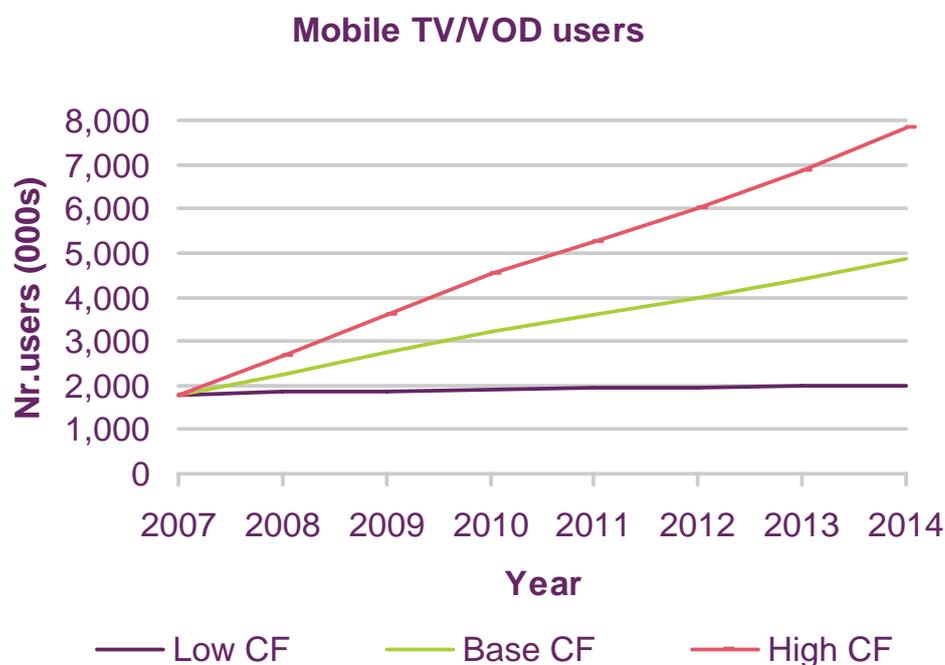
UK	2008	2009	2010	2011	2012
£bn	1.2	1.5	1.8	2.0	2.2
% industry revenue	15.1%	13.8%	14.6%	16.8%	21.4%

Source – Analysys Mason

Counterfactual scenarios

- 9.32 We have considered different scenarios in the counterfactual to reflect the wide range of forecasts. These are based on two variables. The first variable is the growth of mobile TV services in terms of the number of users. The second variable is the ARPU for mobile TV.
- 9.33 We have based our assumptions of the growth in mobile TV users on three sector analysts' forecasts: Yankee³⁴², Analysys³⁴³ and Ovum³⁴⁴, with the highest forecasts being used for the high case counterfactual and the lowest forecasts being used for the low case counterfactual. Our base case is built around an average of the three forecasts.
- 9.34 Figure 9.5 below shows the outcome of our forecasts in each counterfactual ("CF") scenario for the number of mobile TV users. We estimate that there will be between 2m and 7.8m mobile TV users by 2014. The base case scenario predicts 4.9m users by 2014.

Figure 9.5: Mobile TV users



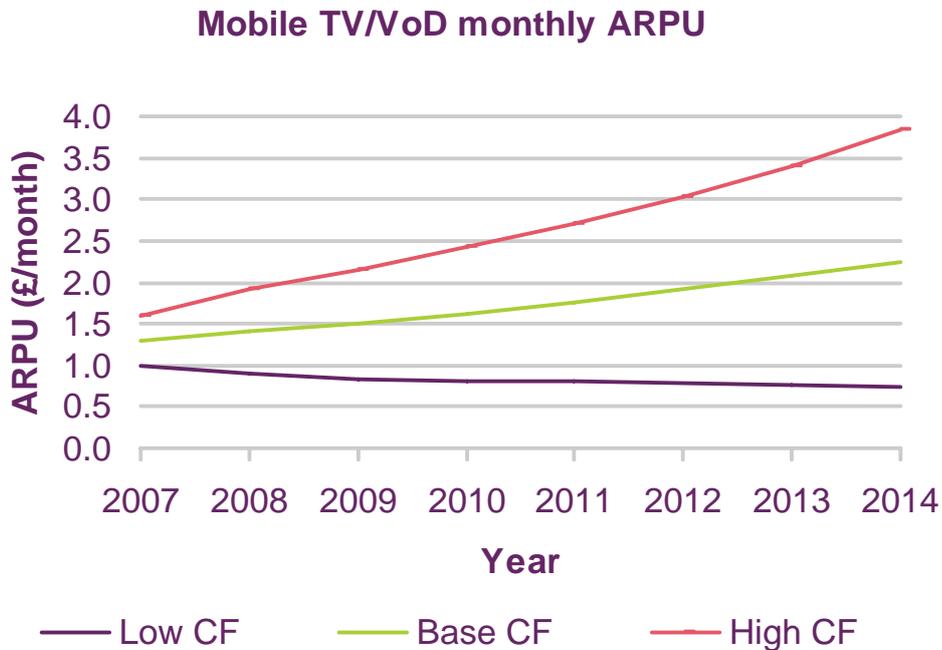
³⁴² Yankee, *Global Mobile Forecasts*, January 2008

³⁴³ Analysys Mason, *Mobile Market: trends and forecasts*, August 2008

³⁴⁴ Ovum, *Global Mobile Market 2007-12*, May 2008

- 9.35 Our predictions under the counterfactual scenario for mobile TV monthly ARPU are shown below. We estimate that ARPU will be between £0.74 and £3.83 by 2014. The base scenario forecast is of £2.25 monthly ARPU by 2014.
- 9.36 Taking the user and ARPU figures together, we estimate revenues of £18m in our low counterfactual scenario, around £132m our base scenario, and around £360m in our high counterfactual scenario in 2013/4.

Figure 9.6: Mobile TV monthly ARPU for counterfactual scenarios



Impact on mobile TV services

- 9.37 This section estimates the likely impact that the proposed BBC service could have on mobile TV service providers in terms of their total revenues and profit.

Stakeholder views

- 9.38 Orange and the MBG said on the one hand it was possible that the BBC Local Video service would not attract a significant amount of new subscribers into the mobile TV market, because current users of mobile TV appeared to have a low interest in local services. On the other hand, they also pointed out that BBC is a very popular brand and if the availability of the service was marketed very aggressively, levels of take up could be high.
- 9.39 Orange and the MBG therefore considered that, if the BBC promoted the availability of the Local Video service very effectively, it could have a positive effect on the market, because it would bring new users to mobile TV and stimulate the use of mobiles as devices to receive content.
- 9.40 However, although they did not foresee any significant negative impact for MNOs, they were concerned about the potential loss of advertising revenue if mobile users substituted video advertising-funded services for the BBC Local Video service.
- 9.41 They also expressed concern that the BBC would use the Local Video service as a way to offer a large amount of UGC. They said some commercial

players/organisations which were driven by advertising-funded and/or UGC content might not generate sufficient revenues to cover the costs of provision if the BBC took away their viewers. We have taken this effect into account in our modelling by analysing the possible percentage of advertising impressions that could be lost to these providers by the introduction of the BBC service.

- 9.42 Orange and the MBG mentioned that high take-up of the service could cause 3G capacity-constraints, especially in dense areas. However, it was felt that this would be very unlikely due to the nature of the BBC service i.e. short video services and not TV channel content. As a result, we have not considered this long term impact in our analysis.

Static impacts

- 9.43 Our market research found that 3% of respondents who had broadband at home accessed local content on their mobile phones; and 1% of respondents without broadband did so. We have used these figures to estimate the total number of users of the BBC Local Video service via mobile. We have assumed that the number of mobile users that will use the BBC Local Video service will grow in line with the growth of mobile TV services generally.
- 9.44 Very few respondents to our market research who currently used mobile TV services said they would take up the BBC service. As a result we did not attempt to estimate the impact of the BBC services on the basis of these responses.
- 9.45 We have looked separately at new and existing users of mobile TV services. The variation of the proportion of new and existing users will have an impact on MNOs' revenues. This is because new users will bring additional revenue (through increased data usage). However, existing users could potentially lead to lost advertising revenue (as they might move to the BBC Local Video service away from advertising-funded services) in addition to data usage revenue. Our analysis also takes into account any new users of the service who would have used advertising-funded services in the absence of the BBC Local Video service.
- 9.46 Based on stakeholder submissions, we have assumed that 15% of mobile TV subscribers (that use the BBC Local Video service) would be new to mobile TV services. We have undertaken a sensitivity analysis on this figure to reflect the uncertainty over the BBC's marketing approach for the Local Video service.
- 9.47 Take-up of the BBC Local Video service via mobile would be expected to have a positive effect on MNOs' ARPUs because of the increased data usage. Based on stakeholder evidence, we have accounted for this effect with an ARPU uplift value of 10%. This means that among mobile subscribers who use the BBC Local Video service (independently of whether they are a new or existing user) ARPU will be 10% higher. Again, we have undertaken a sensitivity analysis on this figure to reflect the positive effect that the BBC brand might have on take-up if the availability of the service is marketed intensively.
- 9.48 As mentioned above, existing users of mobile TV services that substitute away from advertising-funded services in favour of the BBC service will cause a reduction in the number of users watching videos on commercially funded services and therefore a reduction in the associated advertising revenue. Based on stakeholder submissions, we have assumed the impact of the proposed BBC service on existing mobile users

will cause a loss of 2.5% of advertising impressions in the low impact scenario.³⁴⁵ In the high scenario we have assumed a 5% loss of advertising impressions.

- 9.49 Table 9.3 summarises the assumptions we have used in the high and low impact scenarios and whether we have carried out a sensitivity analysis on those assumptions.

Table 9.3: Summary of assumptions

	Value		Sensitivity
	Low impact scenario	High impact scenario	
Percentage of BBC LV users on mobile who are new to mobile TV	15%	15%	Yes
Increase in new and existing mobile TV users' ARPU as result of BBC LV	10%	10%	Yes
Advertising impressions lost	2.5%	5%	No
Take up on devices from non-home BB users	1%	1%	No
Take up on devices from home BB users	3%	3%	No

- 9.50 It is important to highlight that our impact analysis for mobile TV is in principle different from the approach used in the other media sectors in terms of – a positive uplift effect on usage of mobile TV services (increasing MNOs' revenues through more users or higher ARPUs) and a negative substitution effect on commercial providers of mobile TV content. In our low impact scenario, both of these effects are assumed to be at the low end of the likely range, and the net impact is positive. However, in our high impact scenario, the uplift effect is assumed to be the same as in the low impact scenario, but the substitution effect is assumed to be greater. As a result the net positive impact is smaller in the high impact scenario.
- 9.51 Table 9.4 shows the increase in revenues in NPV terms for the low and high impact scenario. The values are based on the:
- base counterfactual scenario; and
 - take-up percentages from non-home and home broadband users when applied to the high take-up assumptions calculated from the market research results (see Annex 4 for details of how those assumptions were calculated).
- 9.52 The overall impact of the BBC Local Video service is to increase the total 2013/14 mobile TV market revenues by 0.8% in the low impact scenario, and 0.7% in the high impact scenario. As such, the net effect of the BBC service is less than 1% in both our scenarios.

³⁴⁵ An impression is measured as the number of times that an advertising banner is downloaded and presumably seen by the page visitors.

Table 9.4: Ofcom's estimates of the impact on mobile TV revenues

	Low Impact	High Impact
Percentage revenue increase in 2013/14	0.8%	0.7%
Additional revenue increase in 2013/14 (£m)	0.85	0.75
Five-year NPV revenue increase (£m)	1.7	1.5

- 9.53 Table 9.4 shows that at a higher rate of substitution (the high impact scenario), the overall positive impact of the BBC service on the mobile TV market is lower, as more mobile TV users substitute away from advertising funded services in favour of the BBC service.
- 9.54 The analysis assumes that the overall number of mobile TV users who take up the BBC service, leading to the positive uplift effect, is the same in both scenarios and that it is the level of substitution that will determine the magnitude of the positive impact.

Sensitivity analysis

- 9.55 The use of a sensitivity analysis for certain assumptions reflects the fact that some of the assumptions we have used are based on limited information received from stakeholders and indeed the general uncertainty of a developing market. We have undertaken the sensitivity analysis on our low impact scenario. As noted, the net positive impact in this scenario is £849k in year five in this scenario.
- 9.56 We have assumed that 15% of BBC users are new to mobile TV in the counterfactual. If we instead assume that 20% of BBC users are new to mobile TV, the net positive impact rises from £849k to £855k. In percentage terms, increasing the number of users who are new to mobile TV by 50% increases the net positive impact by only 0.7%. The reason for this effect is that, in our model, the amount of advertising revenues lost is dependent on the number of *existing* mobile TV users taking up the BBC service. If we assume a greater proportion of those taking up the service are new mobile TV users, the "business stealing" effect of the BBC service becomes smaller, so the loss of MNOs' advertising revenue will decrease compared to the base case.
- 9.57 The results are much more sensitive to the ARPU percentage uplift caused by users of the BBC Local Video service via mobile devices. In our base case we assume an uplift in ARPU of 10%. If we increase this to 15%, the total year five revenue effect goes up from £849k to £1.3m. In percentage terms, if our assumed increase in ARPU is 50% higher (from £142k to £213k for new mobile TV users and from £803k to £1.2m for existing mobile TV users), then the increase in total revenues will be 56% higher. The reason that total revenues increase faster than the increase in ARPU is that total revenues are calculated as the uplift effect minus the substitution effect. In this case, the uplift is 50% higher, but the substitution effect does not change, so the net effect is greater than 50%.

Dynamic impacts

- 9.58 It is possible that the idea of accessing the BBC service on a mobile phone will not prove very popular, in which case it will have a negligible or no impact on revenues or future investment decisions in mobile TV. However, it is worth considering what any such effect might look like, if the service were popular.
- 9.59 Mobile entertainment services are a growth area and it is likely that content providers will continue to innovate in this area in the coming years.
- 9.60 The impact of the BBC service on advertising-funded content providers is unclear. On the one hand, content from the BBC will be in competition with commercial content for the attention of users. This could lead to a smaller audience for commercial content than would exist in the counterfactual, which would tend to deter investment in developing new commercial content. On the other hand, the BBC service could help to entice more people to start using their mobile phones for entertainment content. This would tend to grow the market and make it more attractive to commercial investment.
- 9.61 Finally we consider the dynamic impact on mobile networks. Although there is a positive static impact, this is sufficiently small that any positive dynamic impact in terms of incentive to invest or innovate is also likely to be small. Greater use of high-volume services could create a need for investment in network capacity. However, even with strong growth assumptions, the expected scale of the mobile entertainment market is small in relation to the broader 3G mobile market. As such, the future of mobile entertainment services may have a marginal impact on the need for investment in capacity. If the BBC service has a limited impact on demand for mobile entertainment services, it is unlikely to have a discernible impact on the need for network capacity.

Section 10

Other relevant services

Introduction

- 10.1 This section looks at the impact of the proposed BBC Local Video service on other relevant services. The affected services considered in this section are:
- third party content providers;
 - journalistic services; and
 - Welsh language media.
- 10.2 These services were identified primarily as a result of the concerns expressed by stakeholders at the start of the MIA. We have separately considered Welsh language media, however, because of the specific element of the service proposal to provide five sites in Welsh.
- 10.3 Third party content providers are companies which create and supply content to commercial news providers. Our analysis notes the concerns that content providers have about the impact of the proposed BBC Local Video service on their initiatives to create and supply content. But we conclude that any impact is likely to be closely tied to the impact on commercial news providers and is likely to be in proportion to that impact.
- 10.4 The section on journalistic services looks specifically at the availability of local news journalists and how commercial news providers will be affected by the BBC's recruitment of a large number of video journalists. Providers argue that the BBC service will seriously impact their ability to recruit and maintain journalists. Our assessment finds that while the introduction of the service could possibly lead to a shortage of experienced video journalists in some areas in the short term, we do not in the longer term expect this to have a significant sustained negative impact on commercial news providers.
- 10.5 The final section looks at the current provision of Welsh language media and considers the possible impacts that the BBC's proposed five Welsh language sites could have on existing and future Welsh language news services. Our analysis finds that there is a predominance of public funding in Welsh language news media, which suggests that providing the type of service the BBC is proposing may not be a viable proposition for a commercial provider particularly at a regional level. However, we also find that there are some emerging Welsh language online news services, for example an ITV Local Cymru site. The BBC Local Video service therefore may have a negative impact on these emerging services by taking away part of their audience. It remains to be seen whether these embryonic services will be commercially viable in the long-term but the establishment of the BBC Local Video service at this time could prevent them from reaching that point.

Third party content providers

Background

- 10.6 Independent, or third party, content providers may be impacted by the BBC proposals. These companies create and supply content, usually for a range of platforms, to commercial news providers. Examples include ITN and Sky who both supply regional or national news, as well as regional news agencies (“RNAs”) who provide national and local news content to publishers across all media.
- 10.7 ITN produces network and regional London news programming to customers such as ITV plc, C4 and Virgin-Setanta. In addition, ITN produces a range of sub-channels on internet platforms which reach young audiences via websites such as YouTube, Bebo, MySpace and MSN. ITN said it was looking for opportunities to expand their business into the UK regions in partnership with ITV, local or regional publishers or local radio. It said it had already established a partnership model with the Daily Telegraph and other publishing groups whereby it produced and provided videos for their websites.
- 10.8 RNAs provide news to publishers across all media sectors. Most regional news agencies supply national newspapers, however, local and regional newspapers are also important customers. These agencies are predominantly based in specific geographic localities which form the areas that they cover most intensely. RNAs often obtain their content from local papers and then follow up certain stories which are later sold to national publishers.
- 10.9 Currently a significant amount of the news provided by RNAs is celebrity news rather than local news. In a website search on RNA activities undertaken we found that in addition to providing news to national newspapers, RNA supply celebrity magazines, broadcasters and middle-market tabloids with news, sports and photographs.
- 10.10 The National Association of Press Agencies (“NAPA”) said that, in terms of future developments in the sector absent the BBC Local Video service, it was concerned that the number of news providers was dwindling due to the increasing consolidation of some news providers. It believed this could lead to the declining role of news agencies as local news providers. However, NAPA also emphasised that the internet had opened up new opportunities for agencies and the possibility of rapid worldwide distribution. On the other hand, they said they had had difficulties obtaining separate payments from local and regional publishers for content that was used online as well as in print. NAPA also said a number of regional press agencies had already launched, or were considering launching, their own local news, sport or features websites.

Possible impact on third party content providers

- 10.11 NAPA believed that the proposed BBC service would negatively impact its members' services, albeit indirectly, because it would take away audiences from commercial news providers and therefore further reduce the demand for the content they supplied to those providers. It was also particularly concerned that if the BBC increased the number of local stories it was originating it could distort the current news distribution process. National papers would be able to source stories from BBC Local sites without going to news agencies. Consequently, NAPA believed that if the BBC acted as a source of local news, the indirect financial impact on news agencies would be material because national, regional and local publishers would

source their news from the BBC Local sites, rather than paying for content from RNAs.

- 10.12 Other third party content providers also outlined their concerns that the introduction of the BBC Local Video service would negatively impact on current content provision and their incentives to invest in local content.
- 10.13 The limitations of the BBC's syndication policy³⁴⁶ (which are discussed in more detail in Section 11) are likely to mean that the availability of the BBC's content is unlikely to impact third party content providers to a substantial degree, because commercial providers will be less able to use that content. However, we also note content providers are particularly concerned that the introduction of the BBC Local Video service will stifle initiatives to provide local news content and reduce audiences for existing content.
- 10.14 The impact on third party content providers in this respect will clearly be determined by the impact on commercial news providers more generally and those impacts are addressed specifically in relation to each media in earlier chapters. The impact will therefore be indirect, i.e. any reduction in the audience and revenues of commercial news providers' services will in turn affect their incentives or ability to purchase content from third parties. The impact on third party content providers will therefore be in proportion to the impact on commercial news providers.

Journalistic services

- 10.15 A large number of stakeholders were concerned that the introduction of the BBC Local Video service, with six video journalists in each area, would distort the market and negatively affect their ability to recruit and retain local journalists. The RadioCentre said the large scale of the service would have a particularly significant effect, because the large number of new journalists that the BBC would be looking to employ would lead to a substantial scarcity effect in the journalism market.
- 10.16 The RadioCentre, which believed commercial radio had a competitive advantage over the BBC in terms of attracting and retaining talent despite the often lower pay available, said that those advantages would be eroded by the large scale of the new BBC service and would therefore cause problems for commercial radio in attracting and retaining journalists. That would make it difficult for radio stations to maintain a sufficient number of journalists to produce its daily radio news.
- 10.17 Several newspaper publishers also outlined this as an area of concern. Belfast Media Group said the introduction of the BBC Local Video service would force wages up and lead them to lose key staff. Northcliffe Media said that it had invested significant time and money on training in multi-media skills for their journalists and if it lost those staff to the BBC that would lead to additional costs.
- 10.18 One newspaper publisher said it already faced significant recruitment problems and competition from the BBC service would exacerbate those problems, especially because the BBC could afford to pay higher salaries than the commercial sector.
- 10.19 The response of local news providers to curb the scarcity of journalist might be to increase journalists' salaries above the BBC levels in order to reach an appropriate

³⁴⁶ For example, all BBC syndicated content has to be BBC branded and can not appear on the same screen as advertising. BBC, *On-demand syndication guidelines*, www.bbc.co.uk/info/policies/pdf/syndication.pdf

level of content inputs. The overall effect would therefore be an increase in news input costs. Radio stations which are unprofitable or marginally profitable at present could be particularly sensitive to any increase in their input costs.

- 10.20 The BBC is planning to employ six video journalists per area – or around 400 journalists in total. Its service description indicates that this will amount to two additional staff per area, or 130 journalists.³⁴⁷ This is a very small proportion of the number of journalists in the UK – the National Union of Journalists currently has around 35,000 members.³⁴⁸ We have seen no evidence that any shortages exist at present, and indeed this would be unlikely, given the decline of the print and commercial radio industries.
- 10.21 It is, nonetheless, possible that staff shortages could occur in particular local areas, or for staff with special skills such as video journalism. However we have seen no evidence that the training required to turn a print or radio journalist into a video journalist is prohibitively lengthy or expensive.³⁴⁹ As such, while the introduction of the service could possibly lead to a shortage of experienced video journalists in some areas in the short term, we do not expect this to have a significant sustained negative impact on commercial providers.

Welsh language media

Background

- 10.22 The total population of Wales who understand and read Welsh is around 20% or 600,000 people.³⁵⁰
- 10.23 There are no daily Welsh language newspapers in Wales but there are two main weekly publications: *Y Cymro* (“The Welshman”) a weekly newspaper and *Golwg* (“Vision”), a weekly magazine.
- 10.24 The size and dispersed nature of the Welsh speaking community in Wales means that there are very few publications that can survive without the support of wider organizations or some element of public funding. The Welsh Books Council (“WBC”) gives financial support to 16 publications each year, including *Y Cymro* and *Golwg*.³⁵¹
- *Y Cymro* receives an annual WBC grant of £18,000. Over the past decade circulation has declined from 5,200 to fewer than 3,000. It is based in North Wales and does not have a website.
 - *Golwg* has a circulation of around 3,000 readers and receives a grant from the WBC of £75,000 which is used primarily to prepare pages promoting Welsh books. Otherwise the magazine is financed through its cover price along with subscription and advertising income. *Golwg* has its own website, which it is currently rebuilding (see below).³⁵²
- 10.25 Until very recently there was also another publication called *Yr Herald Cymraeg* but it was closed down in September 2008. It was originally a free-standing newspaper,

³⁴⁷ BBC Trust, *Local Video Public Value Test: Description of Service*, Paragraph 8.5.

³⁴⁸ Although this includes journalists in the Republic of Ireland.

³⁴⁹ NAPA told us that many journalism courses already include video training.

³⁵⁰ Based on data from the 2001 census.

³⁵¹ Institute of Welsh Affairs (IWA), *Media in Wales*, May 2008, pp. 61-65.

³⁵² The Welsh Language Board (WLB), *A Review of the Welsh Language Print Media*, January 2008

but after 2005 it was an eight-page weekly supplement published within the *Daily Post*. The *Daily Post* still contains some Welsh content but no longer has a dedicated Welsh language section. It also has an online presence and does not at present receive any funding from WBC. *Yr Herald* reportedly cost £60,000 a year to produce and its advertising revenue was negligible. A request for annual funding of £50,000 had been presented to the Welsh Language Board before the supplement was axed.³⁵³

- 10.26 There are also many locally produced monthly 'Papurau Bro', which are Welsh language community news sheets. The Welsh Language Board ("WLB") funds their publication. There are few estimates available of the exact reach of the Papurau Bro but academic research suggests approximately 82,000 issues are published monthly across Wales.³⁵⁴ They tend to be strongest in the areas of West and North Wales where the language is strongest.
- 10.27 The WLB commissioned a review of Welsh language print media in January 2008, which found that the profiles of current titles showed that the sector was fragile, uneven and incomplete. The review concluded that there was a pressing need to develop the sector to ensure its survival.³⁵⁵
- 10.28 There are no purely Welsh language commercial radio stations broadcasting in Wales. However, several stations include some Welsh language programming in their output but these stations do not appear to have any Welsh language news content available on their web sites.
- 10.29 S4C is charged with providing a Welsh language television service. It is funded primarily by a grant from the UK Department of Culture, Media and Sport ("DCMS"). It also receives not less than ten hours a week of programmes free of charge from the BBC.³⁵⁶ Part of that content includes S4C's Welsh language news service Newyddion, which has an audience of 23,000.³⁵⁷
- 10.30 In terms of online provision, BBC Wales already operates Cymru'r Byd, a Welsh language news website which is updated several times a day and claims to be the first daily Welsh language online newspaper. It carries audio and news feeds of Newyddion and the BBC's Radio Cymru news bulletins. The number of unique users has risen from a weekly average of 10,000 in January 2003 to over 28,000 in November 2007, to which a further 30% should be added to include users of Newyddion, which is provided via a separate server.³⁵⁸
- 10.31 The Daily Post has very recently launched a Welsh language news website which contains news in text and video form (see below). It is a commercially funded site that primarily focuses on news for North Wales.

³⁵³ WLB, *A Review of the Welsh Language Print Media*, January 2008, pp.15-16.

³⁵⁴ WLB, *A Review of the Welsh Language Print Media*, p.19.

³⁵⁵ WLB, *A Review of the Welsh Language Print Media*, p.3.

³⁵⁶ The BBC is required under the 1980 Broadcasting Act to provide Welsh language programmes, free of charge, to meet 'the reasonable requirements' of the Welsh Authority.

³⁵⁷ IWA, *Media in Wales*, pp. 21-26.

³⁵⁸ WLB, *A Review of the Welsh Language Print Media*, January 2008, p. 38.

Figure 10.1: Daily Post website, www.cymraeg.co.uk



10.32 In addition the ITV Local Wales website includes archive Welsh language content along with new content from S4C. ITV Local Wales was launched in June 2007 as part of the ITV Local services across England and Wales and complements ITV Wales' regional service on ITV1 Wales. The ITV Local sites are wholly commercial entities, reliant on revenues from banner advertising, click-through revenues and sponsorship income; they receive no public funding.

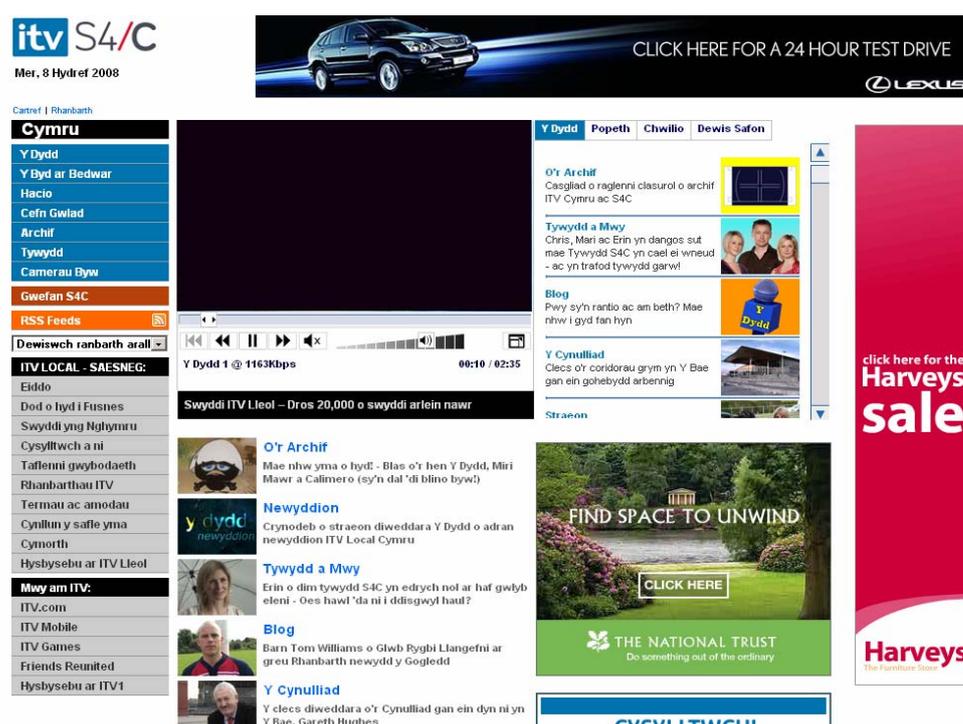
Future developments

- 10.33 Stakeholders indicated that it was unlikely that many successful commercially funded Welsh language websites would emerge offering local news and current affairs. They also indicated that there was limited scope to develop regional news services generally within Wales.
- 10.34 The WBC recently announced that *Go!wg* was the recipient of funding (an annual sum of £200,000 for a period of three years) allocated by the Welsh Assembly Government towards the development of the Welsh language press (which could cover both print and online provision).³⁵⁹
- 10.35 *Go!wg* explained that they plan to use this funding to develop a new website, which will focus primarily on news and current affairs, although they also envisage expansions to include third party material and user generated content. The site will also include audio-visual material.
- 10.36 In July 2008 ITV plc signed an agreement with S4C International for the creation of a Welsh language ITV Local site 'ITV Local Cymru', which was launched on 1 October 2008 (see below). They said the service will be the first wholly commercially funded news, current affairs and entertainment broadband site launched in the Welsh language which has no reliance on public funding.³⁶⁰

³⁵⁹ WBC Press release, 29 May 2008: www.clc.org.uk/whatsnew_PRESS_2008support.html.

³⁶⁰ [X]

Figure 10.2: ITV Cymru website, www.itvlocal.com/cymru



- 10.37 In the WLB review of Welsh language print media, *Y Cymro* reported increasing difficulties in attracting Welsh-language advertising, with some recent issues carrying as little as around 12% advertising.³⁶¹ A significant proportion of advertisers in the Welsh language are public sector bodies, notably the Welsh Assembly Government, other national institutions such as the Welsh Language Board, the WJEC and the Arts Council of Wales, and local authorities all of which, in accordance with the Welsh Language Act, must be advertised bilingually.³⁶²
- 10.38 The issues surrounding this reliance on public sector advertising was discussed in detail in the WLB review of the Welsh Language print media and it was noted that it was not clear whether advertising revenues could be increased to sustain a daily newspaper title. This leads to the question of whether they would be sufficient to support any future online developments.³⁶³

Impact on Welsh language media

- 10.39 The results of the market research showed that there was likely to be little difference in take-up of the proposed BBC service between Welsh speakers and non-Welsh speakers in Wales. The overall level of likely take-up among broadband users in Wales was 52%. Of those that said they would take-up the service in Wales only 2% said they would prefer to see the service available in Welsh, with 12% opting for both English and Welsh and 83% for English.³⁶⁴ This division roughly reflects the proportion of the Welsh population that can speak Welsh.

³⁶¹ WLB, *A Review of the Welsh Language Print Media*, January 2008, p. 9.

³⁶² [<]

³⁶³ WLB, *A Review of the Welsh Language Print Media*, January 2008, pp. 23-25.

³⁶⁴ The base for this sample was small, only 96. *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 27 November 2008.

Stakeholder views

- 10.40 Some stakeholders felt there would undoubtedly be extensive use of the proposed Local Video service in Wales because of the BBC's ability to regularly promote it on its television and radio services, particularly if the stories on the websites provided additional content to that which was broadcast on its television or radio news bulletins.
- 10.41 Stakeholders were concerned that there could be a negative impact on their online offerings. They believed it could stifle these embryonic services and prevent them from being able to emerge as a viable proposition. However, stakeholders felt there would be minimal impacts on their print titles. They considered that other sectors of the Welsh language publications market, for example the Papurau Bro (community news sheets), would also be largely unaffected. One stakeholder said the impact on its publication was likely to be minimal because it was not noted for news coverage and typically its columnists attracted more readers and that type of content was unlikely to be offered by the BBC. It also said it was more likely to develop its investigative journalism in future rather than compete with the daily news services offered by the BBC.
- 10.42 Stakeholders considered that if the BBC did not launch or delayed the launch of the Welsh language services, it would enable development of commercial online services and allow them to reach a point where they would be commercially viable and successful. If those sites had not proved to be a success after that period, then an intervention by the BBC at that time might be justified.
- 10.43 One stakeholder observed that as its older readership diminished, younger people, who make much greater use of online media to search for news, were more likely to be drawn to the BBC's Local Video sites. It believed that could result in a reduced dependence on the press as a source of information. It considered that the impact also depended on how many readers perceived Wales as a nation and sought a national newspaper to fulfil their news needs rather than regional provision within various areas within Wales. Traditionally Wales has been seen as a 'region' but the introduction of five regions in the BBC proposal could change that both for the Welsh and English language. Another stakeholder also said it was likely to face a challenge in competing with the BBC's proposed regions within Wales.
- 10.44 ITV plc said the establishment of the five proposed BBC Local Welsh language sites in addition to five English language sites, each with a separate editorial team and an annual budget far in excess of ITV plc's planned investment would divert users away from the ITV Wales and ITV Cymru sites. In so doing, the BBC's proposals would undermine ITV Local's existing commercial local services in Wales, would distort competition, would be detrimental to the plurality of news and current affairs provision and would have adverse effects on investment and innovation going forward. ITV plc therefore considered that the BBC should not be allowed to go beyond its current local news provision in Wales.

Assessment of impact on Welsh language services

- 10.45 Although data from our market research suggests that the take-up of the BBC Local Video service is likely to be the same amongst Welsh and non-Welsh speakers, it seems likely that the establishment of the Welsh language BBC Local sites in particular could have a different impact than other regions within the UK. The reliance on public funding for Welsh language news services and the prominent position of the BBC in terms of providing Welsh language news indicated that this

particular market is very different. For example, in terms of broadcast news, the BBC is the only provider of Welsh language news (through S4C) and therefore the five Welsh BBC Local video sites could end up competing with the BBC's own broadcast news provision.

- 10.46 The large element of public funding involved in Welsh language media suggests that specifically Welsh language media may not be a commercially viable proposition, particularly at a regional level. The author of a report into the Welsh language print sector published earlier in the year (commissioned by the WLB at the request of the Assembly Government) noted that "The viability of a Welsh-language daily newspaper has not been fully demonstrated nor can it be fully demonstrated on the basis of market research or the performance of comparable initiatives elsewhere".³⁶⁵
- 10.47 Furthermore, the Media in Wales review by the Institute of Welsh Affairs also noted that, even taken as a whole, Wales remains a relatively small market. Its demographic profile and relative poverty meant that for all media advertisers the economic value derived from advertising in Wales is lower than the UK average.³⁶⁶ In addition, there are the added difficulties surrounding Welsh language advertising, the revenues from which may not be able to increase sufficiently to sustain new online services.
- 10.48 We have noted the emergence of new online initiatives by ITV Local, the Daily Post and Golwg. Notably the proposed ITV Local site and the Daily Post site are entirely commercially funded. However, given that these services are very new it is difficult to know whether they will be commercially successful. The fact that nearly all existing media are in part publicly funded and that those services are already struggling to maintain advertising revenues, suggests that the commercial viability of these new services is uncertain, especially given the reliance on public sector Welsh language advertising. We noted above that advertising revenue from *Y Cymro* is already negligible. We also noted that the owners of the Daily Post site have previously applied for some level of public funding, although we are unaware whether any of this funding would be used for the new Daily Post site.
- 10.49 In addition, the ITV Local and the Golwg site will be national sites rather than local. Although new online initiatives are emerging at the national level, there is no evidence of any regional services being offered across Wales and therefore the BBC Local Video service will be unique in this respect. Stakeholders views suggest that moving into a more regionally based news, especially in the Welsh language, would not be a commercially viable proposition.
- 10.50 Nevertheless, as also noted by the stakeholders, the BBC services may have a negative impact on the embryonic online Welsh language news services, in particular the planned Golwg site, the ITV Cymru site and the new Daily Post Welsh site. The fact that these services (the ITV Local and Daily Post site particularly) are being launched at all suggests that offering a news service in the Welsh language is seen as a potential revenue stream, even if the prospects are uncertain and there is a heavy reliance on revenues from public sector advertising. Therefore the launch of the BBC Local Welsh sites at this particular time may have a negative impact on these news services, by taking away audiences and imposing a level of localness of news content which could not be matched by commercial services. As mentioned above, it remains to be seen whether these embryonic services will be successful in

³⁶⁵ WLB, *A Review of the Welsh Language Print Media*, p.41.

³⁶⁶ IWA, *Media in Wales*, p.51.

the long-term but the establishment of the BBC Local Video service at this time could prevent them from reaching that point.

Section 11

Possible modifications to the BBC proposed service

- 11.1 This final section considers potential ways of mitigating the negative effects we have identified from the BBC proposal. In considering possible modifications to the service, we look first at the proposals put forward by the BBC Management as part of the overall service proposition; we then consider other possible options.
- 11.2 Under the framework governing the PVT, the MIA only forms one element of the overall PVT, the other being the PVA carried out by the Trust. Given this, it is not for Ofcom to make recommendations as to whether the proposal should go ahead or not. Where there are potentially adverse market impacts identified, we will however look for ways that the proposal could be modified to limit those impacts. The aim here is to identify changes which increase the overall net benefits of the proposal, i.e. which reduce the market impact without having a correspondingly negative effect on public value. However, as the MIA does not assess public value, it will not be possible for us alone to do a complete assessment of these effects.
- 11.3 We have, therefore, looked at a range of possible modifications to the proposal. We looked at those proposals put forward by BBC Management in its service proposal to minimise the impacts. We also considered a number of other options.

BBC Management proposals to minimise impacts

- 11.4 As part of its application for the Local Video service, the BBC Management outlined a number of initiatives intended to help minimise the impact of the proposed service:
- **Content syndication** - The BBC would make available the majority of its branded local video content to local news sites. Local video content could be embedded in external sites allowing individuals and organisations to supplement their coverage with BBC material.
 - **Purchasing local video news** – The BBC would make available an annual fund rising to around £800,000 by 2012/13 with which to source local video news from external providers on a commercial basis.
 - **Links to external sites/click-throughs** – The BBC intends to improve existing access to external sites by linking, where possible, from individual BBC video stories to coverage of the same or related stories by other local news providers.
 - **Editorial initiatives** – The BBC would seek to develop appropriate editorial initiatives with local news providers.
 - **Community media partnerships**– The BBC would aim to build on formal partnerships with the Community Media Channel and the Community Media Association to improve digital media literacy and explore joint initiatives for assisting members of the public in making user-generated content.
 - **Training** – The BBC would seek to provide informal advice on shoot and edit skills to local non-BBC news providers, publishers and radio stations.

- 11.5 The BBC considers that these proposals would mark a significant advance in the effectiveness and scale of the BBC's collaboration with third party providers of local news and would ensure that Local Video plays its part in the development of a vibrant and diverse local news ecology.³⁶⁷
- 11.6 However, as set out below, these proposals received a mainly negative response from stakeholders. Several stakeholders felt that some of the proposals, particularly click-throughs, partnerships and training, should not be dependent on the launch of the Local Video service and therefore consideration of these ideas should be disconnected from discussion of how the market impact of the service might be remedied.
- 11.7 The overall view was that whilst the proposals might potentially bring some positive benefits, those benefits would not outweigh any negative impacts caused by the introduction of the service in the first place. In addition, the proposal for syndication of content was seen as potentially causing additional negative impacts on commercial local news providers.
- 11.8 Below we have outlined stakeholder views followed by our own assessment of the possible impact or benefits of each proposal.

Syndication of content

- 11.9 A number of stakeholders provided their views to us in their written submissions. They were overwhelmingly opposed to this syndication proposal.
- 11.10 Global Radio said that this proposal did not recognise that individual content providers had strong incentives to seek ways to distinguish themselves from other operators, particularly the BBC, and this was especially important at a time when commercial radio was fighting to retain its share of the radio market against a strong BBC. Johnston Press similarly stated that local newspapers already produced their own content and that was part of their value; using BBC content would undermine their aim to be the main source of local news.
- 11.11 Several stakeholders felt that the BBC's syndication policy was unrealistic; for example BBC branding on the content would mean they would effectively be promoting the BBC and its role as a local news provider. Furthermore, some stakeholders noted the stipulation that advertising could not appear on the same screen as the BBC content³⁶⁸, which they argued could actually de-monetise commercial audiences.
- 11.12 A number of stakeholders, including GCap and Archant, suggested therefore that this proposal would only serve to minimise the impact of the BBC service if the BBC made its raw video footage available for other news providers to use without any requirements for branding of content or restrictions on how that content was used.
- 11.13 Several stakeholders believed, however, that this particular proposal had the potential to distort the market by reducing incentives on commercial providers to invest and innovate in relation to local news gathering and production. Commercial organisations might not invest in new media capabilities or experiment when they could take free content from the BBC. Some commentators were concerned that commercial providers would become reliant on the BBC's content, although we note

³⁶⁷ BBC Management, *Assessment of the public value of its Local video proposals*, p.11

³⁶⁸ BBC *On-demand Syndication Guidelines*, www.bbc.co.uk/info/policies/pdf/syndication.pdf

that whether or not to use the BBC content would be a decision for commercial providers.

- 11.14 Some commercial local website providers were concerned that the proposal could lead to the emergence of new local content aggregators who made none of their own content and constructed new business models based on monetising the BBC content. To prevent content aggregators eroding local news providers' competitive positions, a few providers suggested that the syndication policy needed to be limited in some way, for example, by only making the BBC content available to commercial providers who already produced their own local news. The BBC's own preliminary market impact assessment by Human Capital in fact noted that syndication could help new entrants at the expense of incumbents who have already invested in local journalism, and that those incumbents could therefore see their competitive advantage eroded.³⁶⁹
- 11.15 Local TV operators were also concerned that this proposal could destroy the market for local video syndication, which could form a key revenue stream for them in future. One local TV provider said its plans to syndicate content were now at threat from the BBC service. Human Capital's preliminary MIA also noted that the syndication proposal might impact on the commercial prospects for syndication of similar material by other providers.³⁷⁰
- 11.16 Our view is that syndication of content will not be an effective means of ameliorating the negative market impacts we have identified. First, the potential for commercial providers to use syndicated content is very limited, due to the restrictions placed on use that are set out in the BBC's syndication guidelines. For example that BBC content cannot be used on webpages that also carry advertising. In effect, this will mean that commercial players, whose commercial model is significantly based on display advertising, will not be able to make use of this content. Secondly, as pointed out by Global, commercial providers will want to try to distinguish themselves from others in the market place, including the BBC. This is more likely to be the case for those commercial operators who compete most directly with the BBC. For this additional reason, there is expected to be limited appetite to use syndicated content by those commercial organisations that are most strongly impacted by the BBC proposal. Thirdly, to the extent that some commercial providers were able to carry the content, this could distort the market for local news content, as those local web services using this content would have a cost advantage compared to those which had to generate their own content, or buy it in from other commercial sources. A further competition distortion could exist, as commercial content providers would have to compete against subsidised BBC content. Our view is therefore, that at best, this proposal will have no effect, and at worst it will increase the negative impact of the proposal.

Purchasing content

- 11.17 Some stakeholders expressed interest in selling their content to the BBC. However, one local news provider pointed out that presupposed they would continue to produce video content after the BBC Local Video service was launched, which might not be the case if it had a significant negative impact on their audience and revenues.

³⁶⁹ Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local video proposals*, 11 April 2008, pp.15 & 77.

³⁷⁰ Ibid.

- 11.18 Several stakeholders felt that the size of the budget for sourcing local video news, which is a fraction of the overall budget for the proposal, would not make a significant or even discernible impact on the market.
- 11.19 Several stakeholders pointed out that providing content to the BBC could drive audiences away from their own websites. The Guardian Media Group suggested that given the BBC's power in terms of search and cross-promotion, a sizeable proposition of viewing for a particular piece of content would take place on the BBC's website rather than on the originating site and this would reduce the potential for advertising-funded models for local video to survive online. One newspaper publisher calculated that, taking into account the fact that the BBC's total budget for the service equated to less than £8,000 for each daily newspaper per year and their current online advertising rates per page impression, if the content on the BBC site created a loss of more than 0.3% of their own page impressions they would end up losing money if they sold content to the BBC.
- 11.20 Our view is that, while this proposal goes in the right direction to ameliorate the market impact, it is of a very small scale. In total it amounts to 5% of the overall budget allocated to the service, which would represent £800,000 by 2012/13. This equates to only £12,000 per area, or £200 per week per area, although it would not necessarily be distributed in this way. Nevertheless, even compared to the low end of our estimates of the static impacts, it will not have a significant effect on the overall negative impact we have identified.

Click-throughs

- 11.21 The BBC Management reported in its application to the BBC Trust for the Local Video service that existing links on its website were already generating over one million click-throughs a month, equivalent to one click-through for every six unique users.³⁷¹
- 11.22 Several stakeholders felt that the BBC's use of click-throughs could provide some positive benefits. A majority of stakeholders suggested, however, that the value gained from click-throughs could be maximised by embedding links in the story or at the end of videos, in postcode searches or even including a window to another local news providers' video content. It was also suggested that linking should be incentivised, for example the BBC having a performance target on the number of click-throughs they achieved.
- 11.23 However, some stakeholders reported that the current level of click-throughs they receive from the BBC is minimal. Two newspaper publishers reported that only 1.7% to 1.8% of their traffic in the course of a month was directed from the BBC. Some stakeholders therefore considered that click-throughs were unlikely to lead to a meaningful increase in traffic to newspaper websites and titles. These newspaper publishers felt that this current low level of click-throughs undermined any proposals for incentivising the click-throughs. For example one publisher noted that even if the BBC doubled the number of click-throughs they achieved (a target proposed in its application³⁷²) it would still only be expected to deliver less than 3.5% of visits to their websites, which would not provide any meaningful positive benefits.
- 11.24 Some stakeholders were concerned that click-throughs would not be successful because consumers would not necessarily want to read the same story on a different

³⁷¹ BBC Management, *Assessment of the public value of its Local Video service*, p.63

³⁷² BBC Management, *Assessment of the public value of its Local Video service*, p.11

site. In addition, some stakeholders were concerned that because of the positioning of the links consumers might deliberately avoid them in the same way they avoided ads in similar positions, which would also diminish their value.

- 11.25 The RadioCentre also pointed out that the number of local websites available in a given market was already high and was likely to increase exponentially over the coming years. Therefore the value of an individual link could be diminished to the point of losing its usefulness.
- 11.26 Several stakeholders were concerned about the prospect of market distortion if the BBC gave undue prominence to certain providers. ITV plc, for example, was concerned that the proposal might result in the BBC Local site giving prominence to particular alternative service providers. For example, if the BBC's external links were biased towards sites operated by local newspapers, then that would deliver a commercial advantage to those providers at the expense of ITV plc.
- 11.27 Overall, we believe that click-throughs, if effectively implemented, could lead to a small amelioration of the negative market impact. It will do this to the extent that it makes the BBC content complementary to the content provided by commercial providers. For this to happen even to a small degree, however, it needs to be implemented effectively and there needs to be recognition of the potential for distortion that click-throughs may cause in terms of the choice of external sites and the order in which they are presented. The BBC Local websites would need to have an active incentive to promote the use of click-throughs. This would encourage the BBC to consider not just the number of links, but also their prominence and attractiveness to the user. The BBC proposal states that doubling the number of click-throughs would be a key performance indicator of the proposed service.³⁷³ While having a key performance indicator based on an absolute number of click-throughs might be worthwhile, a better indicator would be increasing substantially the proportion of users of the local sites that click-through to commercial sites. For this key performance indicator to work effectively, a process would need to be in place to ensure that performance was actively monitored and reported on.
- 11.28 Should the BBC proposal go ahead, therefore, we believe that introducing a key performance indicator relating to the proportion of click-throughs would be beneficial. In the wider context, however, while we believe that this would reduce the effect, and for that reason would be worthwhile, we do not believe that this effect would be anything like sufficiently strong to compensate for the negative market impact.

Editorial initiatives

- 11.29 Some stakeholders expressed interest in partnering with the BBC with respect to the proposed editorial initiatives. However, others were concerned that these kinds of partnerships could distort the market if preference was given to certain types of news providers over others.
- 11.30 Several newspaper stakeholders felt that opportunities for editorial initiatives were limited and of little commercial benefit. They pointed out that the only example the BBC had highlighted during the West Midlands trial was the shared photographic competition run with the Shropshire Star which was not necessarily a natural extension of a local video service. One publisher suggested that local commercial media were already capable of delivering editorial initiatives and they did not need the BBC's support in this area.

³⁷³ Ibid.

- 11.31 The RadioCentre said it had not been consulted on how editorial initiatives might be taken forward with commercial radio. There was a general concern from non-newspaper stakeholders that the BBC's proposal appeared to be limited to newspapers as there was little mention of editorial partnerships with radio or TV operators.
- 11.32 Several stakeholders were of the view that the BBC was in fact a competitor to local media businesses not a collaborator and that it had no appropriate incentive to support commercial operations. One radio group believed there were few, if any, meaningful precedents where the BBC had worked easily with local commercial media. One local TV provider said it had previously tried to explore partnership opportunities with the BBC but without success.
- 11.33 Our view is that BBC support to selected commercial providers may in some circumstances provide some compensation for the negative impact and be well received. However, firstly, it will be of a very small scale. Secondly, to the extent that it cannot be provided on equal terms to all potential commercial competitors, it could distort competition between them.

Partnerships with community media

- 11.34 The Guardian Media Group said its radio stations, newspapers and associated websites already partnered with community media and saw that as a core part of its relationship with the community. ITN also suggested that all news organisations sought to build partnerships with local community media organisations in some way or other and the strength of the BBC brand was such that it could quickly dominate these partnerships.
- 11.35 The Newspaper Society considered that the proposal for a community fund was unlikely to benefit the industry.
- 11.36 The RadioCentre was also concerned that BBC partnerships with community radio stations would lead to a greater impact from community radio on commercial radio, because community radio might be put in a better position to compete directly with commercial radio for revenue and audience.
- 11.37 The Community Media Association noted its inclusion as potential partners with the BBC service to improve digital literacy. However, it questioned whether the BBC had true partnership in mind, i.e. some form of financial relationship.
- 11.38 Community Service Volunteers ("CSV"), however, said it was strongly in favour of partnerships with community media organisations, which it believed would have a positive impact by encouraging people to take an active part in their communities. It considered that such a partnership would be most effective if it also aimed to share money and resources in producing video content.
- 11.39 Because the exact nature of the partnership involved is not precisely set out in the BBC Management's application, it is not possible to form a view as to the effect of these proposals. While there may be public value benefits from such activities, with respect to the market impact, they are more likely to have a positive impact insofar as they mean that the BBC service becomes more complementary to the services of commercial organisations. The method by which they are allocated also needs to be non-discriminatory if they are not to distort competition between commercial providers.

Training

- 11.40 Several stakeholders felt that there could be some benefits from the BBC using its resources to support training for local media operators and expressed interest in taking advantage of any training initiatives, especially if it could enhance their capability to produce video content.
- 11.41 Some stakeholders considered, however, that the type of training that the BBC appeared to be offering would be of little use, because it was ad-hoc and did not involve accredited qualifications and certificates. Some newspaper publishers and local TV providers, for example Mon-TV, pointed out that they already offered their own formal training qualifications and therefore additional training by the BBC would not be useful.
- 11.42 The RadioCentre and ITV Local were concerned that the offer for training appeared to be restricted to local newspapers, for example because the BBC Management's PVT only mentioned newspaper publishers when referring to the training offer.³⁷⁴
- 11.43 Others stakeholders, including The Guardian Media Group were sceptical whether this training would be offered in practice, because the BBC had no incentive to follow through on its proposal.
- 11.44 Our view in respect of this proposal is that while the offer may be well-received by some providers, to the extent that it is not available to all, it could distort competition. Furthermore, there is the danger that it will squeeze out commercial providers of training services, and distort competition there.

Conclusions on BBC proposals to minimise impacts

- 11.45 In conclusion, we consider that the positive benefits from these proposals are likely to be small and none of the proposals are likely to sufficiently outweigh the negative impact that this BBC Local Video service could have on the revenues of commercial local news providers. Furthermore, some of the proposals have the potential to cause negative impacts beyond any caused by the introduction of the service itself.
- 11.46 Overall, we therefore conclude with respect to the BBC's proposals to minimise impacts that, for the most part, they do not provide an effective means of reducing the market impact. First, they are very small in scale compared to the overall impact of the proposed service. Secondly, there is the danger that even if they were larger in scale, they could lead to further distortions in competition. If the BBC is minded to press ahead with these proposals, it should identify a non-discriminatory basis on which to allocate its support. It is for the BBC Trust, and not for us, to assess the public value case of these proposals. But, in terms of the market impact, we do not believe that they are worth pursuing.
- 11.47 The exception to this is click-throughs, which, if implemented properly, we believe have the potential to help shape the BBC Local Video service, so that it is more complementary with the existing offerings of commercial providers than might otherwise be the case.

³⁷⁴ BBC Management, *Assessment of the public value of its Local Video proposals*, p.63.

Other possible modifications to the proposal

11.48 We have considered a range of possible modifications to the service proposal to assess whether they would substantially ameliorate the market impact we have identified. These have been assessed under the following headings:

- reducing content;
- limiting the geographic scope of the proposal; and
- the timing of the proposal.

Reducing content

11.49 A number of stakeholders have emphasised to us their concerns about the scale of the BBC proposal relative to the size of their own offerings, now and in the future.

11.50 BBC Management proposes to spend £23m per annum on its proposed service by 2012. This equates to an average of around £350,000 for each of the 65 websites.

11.51 Regional newspapers spent about £300 million on editorial content in 2006 (print and online).³⁷⁵ This might suggest that the BBC's investment is on a much smaller scale. However, given that the BBC's spend is solely on online video content, this is much greater than the amount regional newspaper publishers spend on online video content. For example, one major publisher estimated that it currently spends about £80,000 on content per website, including video content. Many publishers are at an early stage of providing video content on their website. Whilst a few "flagship" websites have up to 12 new video stories a day and daily video and news bulletins, the majority of websites have substantially less than this (one per day or less). Many publishers plan to invest in more video content and it is these investments that they have told us are most at risk if the BBC proposal goes ahead.

11.52 Annual spend by individual radio groups on website content is considerably less than the proposed annual spend on BBC's Local Video service (up to a factor of four).³⁷⁶ This is also the case for annual spend on news content (for radio and online) compared to the BBC's proposed service.³⁷⁷ In addition, other than a few exceptions, no local radio website currently provides local news video content.³⁷⁸

11.53 ITV spent about £100m per annum on regional news content for ITV regional news programmes and associated websites. This could be reduced by up to £40m in future if Ofcom, following its current PSB review consultation, permits ITV plc to reduce its regional news programming commitments. However, ITV's spend is not directly comparable to the proposed spend on the BBC Local Video service as the BBC's figure is additional spend for the BBC Local website only and does not include the BBC's spending on its regional news programmes.

11.54 The specific allocation of the budget across each of the sites is not specified in the proposal, and the BBC would consequently have discretion, within this envelope, to

³⁷⁵ Ofcom calculations based on the Newspaper Society's, *Analysis of the Annual Regional Press Survey findings for 2006*, www.newspapersoc.org.uk/PDF/RP-Survey-2006.pdf

³⁷⁶ [] spend £5.7m per annum on all of their websites. [] currently spend £40,000 on their websites.

³⁷⁷ [] spend £1m per annum on news content. [] spend £5.7m per annum.

³⁷⁸ For example, video content is only available occasionally on some of GCap's websites.

vary the budgets of each site. It does, however, set out limits in relation to the number of stories provided within each category. These are set out in Section 3 and Annex 1, and we have therefore considered whether reducing these limits would be an effective means of reducing the market impact.

- 11.55 Reducing the content provided is likely to reduce the market impact. To the extent that it will mean that take-up of the proposed BBC service will be lower, as fewer news stories attract fewer users, and similarly there is less overlap between the stories on the BBC local site and those on the sites of commercial operators, it will act in the direction of lessening the market impact.
- 11.56 A central concern with this option relates to how much reduction in impact would result from such a modification. Reducing the BBC Local service limits, for example, to half those specified in the service proposal is unlikely to result in usage and impact falling by a similar proportion. The first stories to be produced under a more constrained proposal will inevitably be the more significant ones, attracting a disproportionate amount of interest. Secondly, the front page of the site would look very similar under a reduced service proposal. And thirdly, the increased usage that results from the Local Video service being “networked in” to the wider BBC services will still exist. Also, any reduction in impact would be associated with a reduction in public value. For these reasons, we are not recommending that the Trust considers modifying the proposal to reduce the number of stories contained.
- 11.57 A closely related issue is whether there are certain types of content that are more prone to generating a big market impact than others. Our research has not enabled us to identify specific areas where this might be the case. Stakeholders have expressed concerns about all the areas of content proposed by the BBC. In reality, it is likely that different types of content would affect different sites to somewhat different degrees. For example, a site that is largely focused on local sports news would be more impacted by sports content provided by the BBC. However, the conclusions of our impact assessment, which have focused on the potential dynamic effects, explicitly recognise that the future shape of the online news sector could look very different in the future. There is, therefore, at present no robust basis on which to identify in advance certain types of the proposed content that would have less impact than others.
- 11.58 We are therefore not proposing any modifications to the service proposal relating to reducing content.

Limiting the geographic scope of the proposal

- 11.59 The BBC proposal specifies 65 local sites covering the entire UK. A further possible modification to be considered is to limit the geographic areas where the BBC proposal goes ahead.
- 11.60 The market conditions in each area of the UK will inevitably vary considerably, as a result of both demand and supply factors. As such, it is more than likely that the market impacts resulting from the BBC proposal will vary considerably in different local areas. Given this, if the service were modified so that it was limited to those areas where the impact is expected to be relatively small, overall it would have a less negative impact.
- 11.61 The key issue here, however, is whether these areas can be identified. Within this MIA, we have undertaken a considerable amount of geographic analysis. First, we looked at the factors determining take-up based on our market research by use of

regression analysis.³⁷⁹ This led to the conclusion that, although take-up of the proposed BBC service is likely to vary considerably across different parts of the country, this variation cannot be explained by conventional demographic factors. Secondly, our analysis has not highlighted any obvious gaps in the current structure; almost all local newspapers have an online service and, in total, these appear to cover the entire country. If there were gaps, then it could be argued that the BBC Local Video service would not have a static impact in certain areas. As it is, there are no obvious gaps in service provision although there are differences in quality. Local and regional newspaper publishers and others have provided us with their plans to develop or introduce local news websites believing them to be commercially viable. Again, taken together these plans related to all areas of the UK. There were no obvious gaps identified where commercial provision would be less viable. In addition while some market analysts we spoke to questioned the likelihood of success, they did not point to differences in geographic areas as a factor. Finally, our geographic analysis indicated no obvious relationship between the level of local newspaper publisher concentration in a particular area and the quality of their websites.

- 11.62 This analysis therefore yields limited objective criteria by which to assess whether the market impact will have a less negative effect in certain areas. Moreover, once it is recognised that the above discussion relates primarily to the static impacts of the BBC proposal and does not consider dynamic effects, the scale of the problem increases considerably. Dynamic impacts are subject to greater uncertainty. Even if it were possible with confidence to identify geographic factors that determined the scale of the static impact, it does not follow that these factors will also predict the potential dynamic impacts; and as set out in our overall conclusions (see above) our major concerns with the market impact of the proposed service relate to the dynamic impacts.
- 11.63 In addition, we note that a limitation on the geographic scope of the BBC Local Video service would lead to a significant reduction in its public value.
- 11.64 For these reasons we are not recommending potential modifications to the proposal that limit its geographic scope.

Timing of the proposal

- 11.65 In the course of our discussions with stakeholders, concern has been expressed about the timing of the proposal. At the heart of these concerns are two issues. First, the recent downturn has had a highly deleterious effect on advertising revenues with the effect that many businesses are struggling much more than they normally would be. Rolling out the BBC service in the proposed timescale would, it is argued, have a longer term negative impact on the industry than if it were launched at a different point in the economic cycle. Secondly, many of the business plans for launching new services are in their relatively early stages. Once the commercial sector has proven whether these services are viable or not, it is argued, it might be possible to identify a clearer role for the BBC in this regard.
- 11.66 In terms of the timing, it is likely that launching the BBC Local Video service at a different point in the economic cycle would have a less negative impact than would be the case if it were launched to the timescales set out in the service proposal.

³⁷⁹ See Annex 3 and the quantitative research report by SPA prepared for Ofcom, 27 November 2008.

11.67 Moreover, we expect that the level of uncertainty associated with forming conclusions on this MIA will be considerably less at a later date, once the commercial sector has had the opportunity to demonstrate the extent to which it is able to provide online services in a viable manner. After such a time, the MIA of a resubmitted BBC proposal could be assessed with a greater degree of confidence. If the BBC Management were minded to resubmit a proposal at a later date, we would strongly encourage that a pilot is carried out that bears close resemblance to the proposed service.

Conclusions on recommendations

11.68 Having assessed potential modifications to the proposals, we conclude that there are only a very limited number of options which the Trust, if it is minded to approve the proposal, might want to consider in order to mitigate its negative impact. These are to:

- Give consideration to timing. Firstly, if the Trust is minded to approve the proposal on the basis of the public value expected, to consider whether roll out should be deferred to a point in the economic cycle when advertising revenues have returned to more normal levels. Secondly, to consider whether there is value in the BBC Management resubmitting a proposal for a similar service sometime in the future, once the commercial sector has had the opportunity to invest and test the commercial sustainability of their online services; and
- Set and monitor a key performance target relating to the proportion of users of BBC Local sites that click-through to those of commercial operators.

11.69 We do not believe, however, that these modifications would be sufficient to offset the negative market impacts we have identified. Therefore, in Ofcom's view, the PVT should turn on whether there is a strong public interest finding in the BBC Trust's PVA.

Annex 1

Joint BBC Trust / Ofcom description of service

1. Purpose of this Document

- 1.1 This document has been drafted by the BBC Trust and Ofcom. It is intended to outline our joint understanding of the BBC's proposals for an on-demand local video service and to provide clarity on the terms and scope of the proposal that will be assessed by the Trust during the Public Value Test (PVT).
- 1.2 The PVT comprises two elements – a Public Value Assessment (PVA), carried out by the BBC Trust, and a Market Impact Assessment (MIA), undertaken by Ofcom.
- 1.3 The details provided here are intended as a guide to the nature of the proposed service, for the purposes of the PVT. They should not prejudice whether any new service licence is required for the BBC's proposals.
- 1.4 We have clarified certain details contained in the BBC Management's PVT application. For the avoidance of doubt, we have agreed with the Executive that the description contained here supersedes the description of the proposed local video offer provided in section two of the Executive's application.

2. Proposition

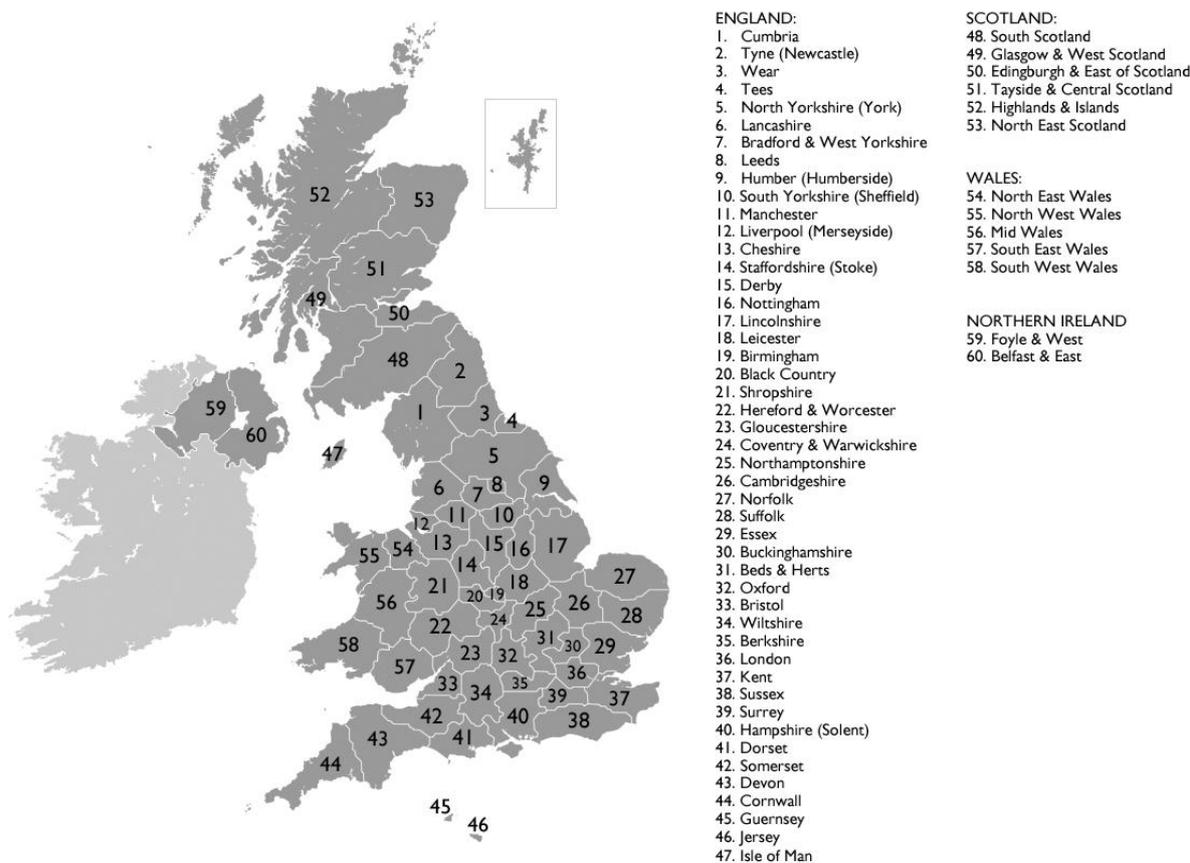
- 2.1 The BBC Management has applied for permission to provide an on-demand, Local Video service, delivered via fixed and mobile broadband internet connections. At launch, the service would not be available on any other platform (refer to section 5, distribution).
- 2.2 Local video would expand upon the BBC's existing network of local websites.³⁸⁰
- 2.3 It would be available in 60 areas across the UK, most of which cover an area of more than 250,000 people (and on average, one million);³⁸¹ equivalent to the coverage of the BBC's existing network of local websites and radio services (figure 2.1).
- 2.4 In Wales, local sites would be available in both English and Welsh, bringing the total number of local services to 65.
- 2.5 The service would offer bespoke video, focused chiefly on news and sport, but also including weather, user generated content³⁸² and knowledge-building content (for example, science, nature, heritage, history, arts, culture and faith).

³⁸⁰ BBC Local, formerly known as 'Where I Live'

³⁸¹ In 11 of the proposed local video areas, the population is below 250,000, these are: Highlands and Islands, South West Wales – Welsh, North West Wales – Welsh, Mid-Wales – English, Cardiff and South East – Welsh, North East Wales – Welsh, North West Wales – English, Jersey, Isle of Man, Mid-Wales – Welsh, Guernsey

³⁸² Produced in collaboration with the BBC, further detail can be found below.

Figure 2.1: BBC local map³⁸³



- 2.6 The service would add a new tier of local video newsgathering to local news provision on bbc.co.uk.
- 2.7 Content would be produced locally, in and for each of the 60 areas.
- 2.8 Content would be free at the point of use, without advertising, and available across the whole of the UK for broadband users.
- 2.9 Non-UK broadband users would also be able to access the service.
- 2.10 Local video would have an annual operating budget of £23 million by 2012/13.

3. Context

- 3.1 As noted, Local Video would expand upon existing local provision on bbc.co.uk.
- 3.2 bbc.co.uk offers news, information and content on a range of subjects, from business news and sporting fixtures to parenting and religion. It has grown as an on-demand platform for BBC radio and television, offering streamed and downloadable audio and video content, alongside opportunities for interaction and user generated content.

³⁸³ A full list of local video areas can be found below.

- 3.3 The site is one of the UK's leading online destinations, with an average of 16.6m users a month, out of a total UK internet population of 33m. It has an annual operating budget of £114m.
- 3.4 The site offers news coverage at an international, national, regional and local level.
- 3.5 Existing BBC Local sites serve audiences under the terms of the bbc.co.uk service licence and include:

- Audio and text news and related material
- Broadcast news bulletins and video stories linked to linear news and other television output
- Travel
- Weather
- User generated content
- Live streams
- Mobile content
- Pod casts and audio on-demand content

Local video would expand upon and sit within this context of existing local provision.

A full breakdown of existing local online provision can be found in annex I. An example of a current BBC Local site can be seen below.

Figure 3.1: existing BBC Local site for Birmingham



- 3.6 BBC Local content is available in different ways on different BBC sites. These include BBC News, BBC Local, BBC genres sites and possibly, in future, BBC

iPlayer. Local online content can also be found using external search engines and the search facility on bbc.co.uk.

Figure 3.2: accessing current BBC Local content via BBC News England



Figure 3.3: accessing current BBC Local content via BBC News regional site



Figure 3.4: accessing existing BBC Local content via BBC local homepage



3.7 Further enhancements to local provision on bbc.co.uk are planned in 2008. This ongoing modernisation of BBC Local provision falls outside the scope of this assessment and is not reliant on the approval of the local video proposal. It includes:

- Further opportunities for user participation on BBC Local sites, developing the range and quality of existing options³⁸⁴
- Bringing BBC Local sites in Scotland and Northern Ireland into line with current provision in England and Wales
- Improved search, navigation and site architecture, including a greater use of map-based technology (described further below)

³⁸⁴ Existing options include online discussion forums, auto-comments on stories and picture galleries

New investment exceeding the baseline budget for bbc.co.uk in 2008/09 will be subject to separate BBC Trust approval.³⁸⁵

3.8 This public value test will take account of planned evolutionary changes, as described above, as the context in which local video would operate.

4. Content

4.1 Local Video is a web-based proposition using broadband technology to deliver video journalism.

4.2 The proposed service is focused predominantly on local news and sport, but also includes weather, user generated content³⁸⁶ and knowledge-building genre (for example, science, nature, heritage, history, culture, arts and faith).

4.3 A summary of local video content can be found in table 4.1 below.

Table 4.1: Summary of local video content

Content type	Definition	Frequency	Limit
Video Stories	<ul style="list-style-type: none"> <u>News and related items</u>: politics, social issues, education, health, crime etc <u>Sports news</u>: coverage of minority sports and local treatment of major events (football, rugby etc)³⁸⁷ <u>Community and local life</u>: a limited amount of content linked to or deriving from linear BBC content on science, nature, outdoors, heritage, history, arts, culture, faith etc, and a limited amount of video user generated content, produced in collaboration with the BBC 	Up to 10 new stories each day, available for on-demand viewing throughout the day	Up to 20 minutes per day in total, across all stories
Video Bulletins	<ul style="list-style-type: none"> News summary Sports summary Weather summary 	Up to 3 daily bulletins of each genre for each area	Normally 45-90 seconds per bulletin
Live Streams	<ul style="list-style-type: none"> Occasional live streams of key local events to each of the 60 areas 	Maximum of 10 per year per area	Not applicable

4.4 The sum of the video stories and bulletins described above will not exceed 26 minutes of content, per area per day.

4.5 Text will accompany or introduce video stories.

4.6 A 'story' is a piece of content which can be updated a number of times in any 24-hour period.

³⁸⁵ BBC Trust, *Service Review of bbc.co.uk*, May 2008

³⁸⁶ Produced in collaboration with the BBC

³⁸⁷ The provision by BBC Sport of live and on-demand sports coverage on bbc.co.uk in line with the service licence (e.g. Wimbledon, Six Nations Rugby or Football League) is outside the scope of this assessment.

- 4.7 Upper limits on video stories do not extend to live streams.
- 4.8 Only user-generated content produced in collaboration with the BBC will be included in the upper limit on video stories.³⁸⁸
- 4.9 Video clips submitted by users and produced without the assistance of the BBC are not subject to the upper limit. They fall under existing editorial controls governing online content and are not included in this PVT assessment.³⁸⁹
- 4.10 Upper limits on the daily volume and duration of stories would be averaged across the year. BBC management believes this would allow for editorial flexibility to exceed thresholds in exceptional circumstances (for example, at times of national crisis, flooding or during national and local elections).
- 4.11 There are, in two regions, exceptions to the daily upper limits on video stories:
- London: with a population of over 10.5m, BBC Management proposes a higher volume of stories (up to 20 stories daily, or 40 minutes in total). Including bulletins this would not exceed 46 minutes of content per day.
 - Wales: the upper limit of ten video stories per area, per day, would be applied separately to the English and Welsh offers. This will allow for the creation of separate video stories in English and Welsh (and up to 20 per day in total), using teams that work alongside each other. Even when the same stories are covered, they will often receive different treatment.
- 4.12 In all other respects, the composition of the Local Video offer for both London and Wales is as described above.
- 4.13 In line with existing provision on bbc.co.uk, the Local Video proposal specifically does not include:
- Local business finders, dating, cars, holidays, recruitment and property listings and search services
 - Cinema and commercial listings
 - Advertisements and promotions/sales offers
 - Classified advertisements and listings of items for exchange or free collection
 - Reviews of products, local shops and businesses
 - Video entertainment features on such areas as horoscopes or beauty
 - Public notices, including planning applications
 - Wallpaper and e-cards

³⁸⁸ The BBC already produces around 100 of these videos on BBC Local sites per week across the whole of the UK. It is anticipated that, as a result of this proposal, this number would increase to 300. Beyond this, the BBC already publishes a range of user-generated content under existing permissions. See the Annex I to the Service Description.

³⁸⁹ Users can already submit video clips to BBC Local sites, refer to the Annex I of the Service Description.

- Message boards unrelated to BBC content and BBC story themes
- 4.14 The proposal does not include traffic or travel updates in video, although travel information is available on existing BBC Local sites.³⁹⁰
- 4.15 Each local video area will have a community producer. Their role would be to work with individuals and groups on the production of local video content.
- 4.16 The proposal includes, where editorially appropriate, the provision of links to external sites, commercial news providers and community organisations, allowing users to seek out a wider range of news sources (further details are provided in section 10).

5. Distribution

- 5.1 The proposal is for on-demand distribution via bbc.co.uk to internet-enabled devices on fixed and mobile broadband connections.³⁹¹
- 5.2 Local video content would be made available elsewhere on bbc.co.uk.
- 5.3 Content may also be available via the BBC iPlayer.
- 5.4 Material may be repurposed and broadcast on linear television.
- 5.5 Content would also be offered in a form optimised for mobile usage.³⁹² This would include access to daily news, sport and weather video bulletins. Where possible the BBC would use location-based technology, such as Global Position System (GPS), to deliver local video content to mobile devices, based on a user's location or preferences.
- 5.6 The BBC would make available the majority of its branded local video content to local news sites. This would allow the embedding of content into other websites on fair, reasonable and non-discriminating terms subject to BBC syndication guidelines and terms and conditions.
- 5.7 The BBC would use its existing network of 'big screens' to deliver local video content to urban audiences.³⁹³ (See figure 5.1)

³⁹⁰ Refer to Annex I of the Service Description

³⁹¹ Content will be repurposed in a format suitable for mobile platforms.

³⁹² Like the BBC's main website, the BBC's dedicated mobile browser already offers multimedia content across BBC genres. This includes video news and sports content as well as local information.

³⁹³ Note; big screen provision does not form part of this assessment.

Figure 5.1: the BBC uses big screens in outdoor settings



- 5.8 The proposal does not include distribution via conventional broadcast television (DTT, cable or digital satellite) but is likely at some point to be offered on television sets via internet protocol, in line with wider BBC plans and subject to obtaining any necessary consent from the BBC Trust.
- 5.9 Local video will operate 24 hours a day, seven days a week, without a predefined publication schedule.

6. Geographical Coverage

- 6.1 The proposal covers 60 geographic areas (table 6.1) and expands upon existing BBC provision:
- In 55 areas in England, Scotland, Wales and the Isle of Man, the geographical coverage of current BBC Local websites will remain unchanged.
 - In Northern Ireland, two new websites are currently under construction;³⁹⁴ and in Cheshire, Buckinghamshire and Surrey, three new local websites are planned.³⁹⁵

Table 6.1: the 60 BBC Local video areas

Existing BBC local radio station and BBC Local website	Existing BBC Local website but limited BBC radio ³⁹⁶
Newcastle	Dorset
Cumbria	Somerset
Tees	
Lancashire	Existing BBC Local website but no existing BBC local radio³⁹⁷
Merseyside	

³⁹⁴ As part of current bbc.co.uk service licence activity

³⁹⁵ As part of Local Video proposals

³⁹⁶ Dorset receives an opt-out news service from BBC Radio Solent with separate news bulletins on weekdays. The BBC also invests in separate travel and sports coverage for the county. BBC Somerset broadcasts an opt-out from BBC Radio Bristol for 44hrs pw.

³⁹⁷ The BBC does not provide the same breadth and depth of local radio coverage in Scotland as it does in England, but some news bulletin services do exist, such as for Highlands & Islands, the NE, and community services for Orkney and Shetlands.

Manchester	Bradford (served by Radio Leeds area)
Leeds	Black Country (WM radio area)
Sheffield	Wear (Newcastle radio area)
York (North Yorkshire)	
Humberside (Hull)	Highlands & Islands
Lincolnshire	North East Scotland
Staffordshire (Stoke)	Tayside & Central Scotland
Hereford and Worcester	Glasgow & West of Scotland
Birmingham (West Midlands)	Edinburgh & East of Scotland
Coventry and Warwickshire	South Scotland
Shropshire	
Leicester	North-West Wales
Nottingham	North-East Wales
Derby	Mid Wales
Norfolk	South-West Wales
Suffolk	South-East Wales.
Essex	
Northampton	Isle Of Man
Cambridgeshire	
Beds/Herts (Three Counties)	Existing BBC radio and BBC Local website in development
London	
Kent	Foyle and West
Sussex (Southern Counties)	Belfast and East
Hampshire (Solent)	
Oxford	Under-served by the BBC
Berkshire	Cheshire (parts served by Merseyside/Stoke)
Gloucester	Buckinghamshire (served by Three Counties)
Wiltshire	Surrey (served by Southern Counties).
Bristol	
Devon	
Cornwall	
Guernsey	
Jersey	

6.2 The Local Video proposal will build upon these websites; specifically:

- In 40 areas in England and the Channel Islands, Local Video will complement existing local radio and website provision.
- In 15 areas (three in England, six in Scotland, five in Wales and one in the Isle of Man) Local Video will enrich an existing local website offering.
- In two areas in Northern Ireland, Local Video will complement existing local news provision and the two BBC Local websites currently under development.
- In Cheshire, Buckingham and Surrey, areas that are currently under-served³⁹⁸ by the BBC, Local Video will add a new tier of local provision.

³⁹⁸ Parts of Cheshire are currently served by Merseyside and Stoke; Buckinghamshire is served by Three Counties; whilst Surrey currently falls into 'Southern Counties', which includes Sussex.

- In Wales, Local sites will be available in both English and Welsh, bringing the total number of local services to 65.

7. Functionality

- 7.1 Users would be able to tag, rate and share local video stories.
- 7.2 Current and archive local video content would be accessible via the bbc.co.uk site-wide search engine. In line with the overall approach to archiving on bbc.co.uk, local video content would be available in perpetuity.
- 7.3 Users would be able to access local video stories from any of the 60 geographic areas, regardless of their own location.
- 7.4 Improved navigation, including an interactive map of each of the 60 local areas,³⁹⁹ would allow users to locate text, audio and video content with greater ease (figure A7.1). It would guide users to the latest material, while offering links to the BBC's wider news, sport, travel and weather offering.

Figure 7.1: bbc.co.uk interactive map (for illustrative purposes only)



8. Cost and Reach

- 8.1 By 2013/14, local video is projected to achieve a weekly reach of around 11% of UK households (3.2m in total).
- 8.2 The BBC has assessed the cost of delivering Local Video over the five-year period 2008/09 to 2012/13. The BBC's investment in Local Video would be phased, increasing by increments each year, starting in 2009/10 (no spend in 2008/09) and reaching maturity at around £23m a year in 2012/13.
- 8.3 This equates to an average cost of around £350,000 a year for each of the 65 offers across the UK.

³⁹⁹ As noted in above, improved navigation forms part of the ongoing modernisation of BBC Local provision and will not be affected by the outcome of this assessment.

- 8.4 Proposed investment in the new Local Video service to 2012/13 is £68m. Taking account of planned incremental investment in BBC Local sites above the 2008/09 baseline budget for bbc.co.uk, this amounts to around 90% of the total.
- 8.5 The proposal provides for a gradual increase in staffing across all of the 65 offers over the five year period. A total of 60 areas are identified, each with an average of around six staff. This compares with around four staff per service for existing BBC Local online content.

9. Content Syndication and Acquisition

- 9.1 **Content syndication:** the BBC would make available the majority of its branded local video content to local news sites. Local video content could be embedded in external sites, whether not-for-profit or commercial, allowing individuals and organisations to supplement their coverage with BBC material.⁴⁰⁰
- 9.2 **Purchasing local video news:** the BBC would make available an annual fund rising to around £800,000 by 2012/13 with which to source local video news from external providers on a commercial basis.⁴⁰¹

10. Linking to External Sites

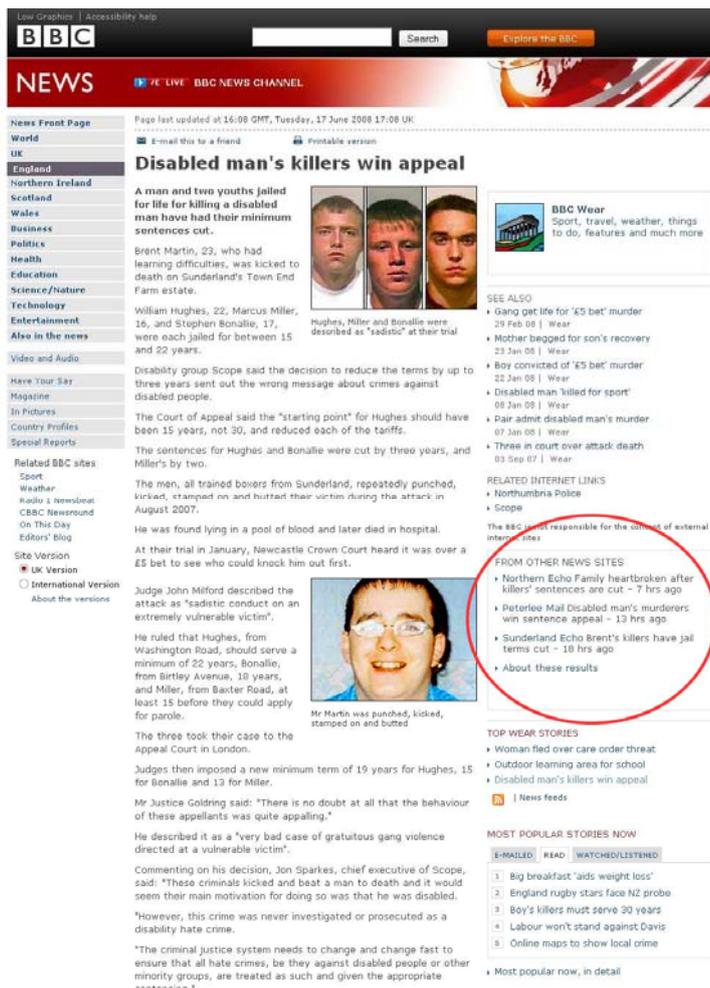
- 10.1 **Links to external sites:** bbc.co.uk already provides related internet links to external sites (figure 10.1). Under proposals BBC Management intends to improve access to external sites⁴⁰² by linking, where possible, from individual BBC video stories to coverage of the same or related stories by other local news providers.

⁴⁰⁰ Subject to BBC syndication guidelines and the BBC's terms and conditions.

⁴⁰¹ Subject to compliance with applicable regulatory requirements

⁴⁰² In line with current editorial policy

Figure 10.1: example of current external linking from BBC sites



11. Partnerships and Training

- 11.1 **Editorial:** the BBC would seek to develop appropriate editorial initiatives with local news providers.⁴⁰³
- 11.2 **Community media:** under proposals, the BBC would aim to build on formal partnership agreements with the Community Channel and the Community Media Association to improve digital media literacy.
- 11.3 **Training:** the BBC would seek to provide informal advice on shoot and edit skills to local non-BBC news providers, publishers and radio stations.

⁴⁰³ One example from the BBC's recent local television pilot in the West Midlands was a shared photographic competition with the Shropshire Star.

Annex I to Service Description: Breakdown of Existing BBC Local Online Provision

Local Video would operate in the context of existing BBC local provision, which currently serves audiences under the terms of the bbc.co.uk service licence. Existing BBC Local content in video includes approximately two to three stories per area per day. Overall local content on bbc.co.uk currently includes:

News

- The main news stories in each local area in text
- Audio is added where appropriate from radio output
- Full nations and regional TV news bulletins available on-demand
- Video stories are added when the relevant story has been filmed for regional or national output. News stories are often supported with graphics and maps
- Local information and updates in times of civil crisis like the floods of 2007
- News text, video clips and TV news programmes are available in perpetuity

News-related material

- Includes local events - for example music festivals, sporting events and local celebrations
- Stories and content to support BBC campaigns like Children in Need and Abolition (of slavery)
- In local radio areas, some online information supporting the station's output and cross-platform editorial projects across the local radio agenda

Sport

- The main stories in each local area in text. Audio from radio output is added where appropriate. Video coverage is added from BBC Sport where it has the appropriate online rights or if it has been filmed for national or regional TV output

Travel

- Updated information via live feed from a traffic information provider
- Links to traffic cameras operated by traffic agencies

Weather

- Feeds of information and graphics from BBC Weather Centre in partnership with Met Office

User generated content

- Interaction from users which fits in with the editorial purposes of BBC Local is encouraged; this includes text comments, blogs, written features, photo galleries and citizen journalism in text and video. All such content will continue to fit the sites' editorial purposes and comply with BBC Editorial Policy including guidance on moderation.

Linear derived content

- Video as part of pan-BBC projects or deriving from BBC linear content around key BBC knowledge building genres, such as nature & outdoors, heritage & history, arts & culture and faith

Live streaming

- Sites stream local radio live when they serve an area with local radio coverage. Separate streams of major local events are also offered on merit, in audio and video. Examples include sports where the BBC Sport has the rights (e.g. cricket coverage and a range of minority sports) and political debates as well as video streaming of events such as the Tall Ships Race and the Bristol Balloon festival.

Mobile

- Text and re-versioned video material is made available to internet-enabled devices such as mobile phones. Examples include the Luton festival and the Bridgewater Carnival.

Pod casts and audio on-demand

- Sites offer audio programmes and highlights on-demand, as well as podcasts of radio highlights.

Glossary of Terms

Broadband	Always on, high-speed connection to the internet, capable of supporting high bandwidth services, such as video
DTT	Digital terrestrial television (also known as Freeview)
Embedded content	Content, usually media, from another website or source that is included seamlessly within the body of a website. In many cases users can take embedded content and add it to the body of their pages / social sites instead of linking back to the original source
Global Positioning System	A satellite-based navigation system, commonly used in mobile phones, that can be used to pinpoint location
IP	Internet protocol, a method by which data (i.e. email, video) is sent from one computer to another on the internet

IP-enabled	A device capable of connecting to the internet, whether through a fixed connection (e.g. broadband or cable TV), or wirelessly (e.g. over mobile networks or WiFi)
iPlayer	Online, on-demand catch-up BBC service, which allows users to watch BBC programmes from the previous seven days
IPTV	Internet protocol television; digital television delivered over a 'closed' IP network infrastructure and engineered to provide a high quality service to the subscriber.
Linear content	Refers to scheduled broadcast television content
MIA	Market impact assessment, undertaken by Ofcom to assess the market impact of new BBC proposals. This forms part of the public value test, below
On-demand	Allows users to select, stream or download, store and view film and television programmes, usually within a certain timeframe, using a digital cable box or online service
PVA	Public value assessment, undertaken by the Trust to assess the value of BBC proposals, including value to licence fee payers, value for money and wider societal value, this forms part of the public value test, below
PVT	Public value test; any significant proposals for change from BBC management must be subject to full and public scrutiny. The means by which this scrutiny takes place is the public value test. A PVT is a thorough evidence-based process which considers both the public value and market impact of proposals. During PVTs, the BBC Trust will consult the public to ensure its decisions are properly informed by those who pay for the BBC.
Service licence	The Trust aims to ensure that the BBC offers high quality and original services for all licence fee payers. To help deliver this, it sets out the remit and expectations for each BBC service – and how that service will create public value by delivering the BBC's public purposes – in a published licence.
UGC	User generated content (text, video etc) produced by end-users as opposed to traditional media producers, broadcasters, publishers etc

Annex 2

Terms of Reference

A2.1 This section sets out the terms of reference for Ofcom's market impact assessment of the BBC's proposal for a new Local Video service.

Introduction

A2.2 The BBC's new Royal Charter and Agreement, which became legally effective on 1 January 2007, requires the BBC Trust to undertake a Public Value Test ("PVT") before a decision is taken to make any significant change to the UK Public Services. The PVT comprises two elements – a Public Value Assessment ("PVA") and a Market Impact Assessment ("MIA").

A2.3 For the purposes of conducting MIAs, Ofcom and the BBC Trust have established a Joint Steering Group ("JSG"). The JSG has set these terms of reference for the Local Video MIA. The substantive findings of the MIA will, however, remain a matter for the judgment of Ofcom.

Proposition

A2.4 The BBC Management is applying for permission to provide an on-demand, Local Video service delivered via both fixed and mobile broadband internet connections.

A2.5 The proposed offering would expand upon existing BBC Local websites (on bbc.co.uk) and focus on 60 geographic areas across the UK. In Wales, there will be offers in both the Welsh and English languages, representing a total of 65 separate local offers together covering the whole of the UK.

A2.6 There are a number of planned changes taking place under the existing bbc.co.uk service licence. This proposal is an incremental change to the BBC website in the provision of Local Video.

A2.7 The core of the proposal is the creation of bespoke local video news, sport and weather to complement the BBC's existing online provision. Local Video would be defined by; content creation, distribution and geography.

A2.8 Specifically, the service would provide additional content in the following areas:

- o local news;
- o local sport ; and
- o local weather.

A2.9 In addition to these areas, there will also be a lesser quantity of video coverage linked to, or deriving from, linear BBC content around such genres as nature, heritage, culture, arts and religion.

A2.10 Three daily bulletins for each of news, sports and weather would be available to be updated up to three times per day, per area. An upper limit of ten stories (excluding the daily bulletins), not exceeding 20 minutes in total per day, per local area, would apply.

- A2.11 The content would also be remodelled in a format suitable for mobile phone use and be available on the BBC mobile website.
- A2.12 The 60 geographic regions each typically cover a geographic area of more than 250,000 people (and on average, around one million), equivalent to the BBC's existing network of local radio services and websites.
- A2.13 Content would be free at the point of use (without advertising) and available across the whole of the UK on any internet enabled device.
- A2.14 The BBC Management has proposed a phased roll-out of the Local Video service. Investment would increase by small increments each year in each of the 60 areas, starting in 2009/10 (no spend in 2008/09) and reaching maturity at around £23m a year in 2012/13.
- A2.15 A full description of the proposed service has been agreed by the BBC Trust and Ofcom, and is published by the BBC Trust at:
http://www.bbc.co.uk/bbctrust/consult/open_consultations/local_video_pvt.html.

Objective

- A2.16 The purpose of the MIA is to assess the impact which the introduction of the proposed service would have on products and services for which the proposed Local Video service is likely to be a direct substitute or complement, and on other related products and services. The impact of the proposed service may be either positive (in the case of the impact on a complementary product or service) or negative (in the case of a substitute product or service).

Approach

- A2.17 The MIA will be carried out in accordance with the methodology which has been agreed between the BBC Trust and Ofcom.
- A2.18 The assessment of the proposed BBC service will require data and information from a number of sources. Examples of data required include information on broadband take-up, media consumption trends and future business strategies. Ofcom expects to gather this information through desk research, external market research, information provided by the BBC and through meetings with stakeholders.

Output

- A2.19 The MIA will provide an assessment and, where possible and relevant, a quantifiable evaluation of the impact on the relevant primary and other services identified. This includes an assessment of the impact on suppliers, other market participants and ultimately consumers.
- A2.20 The assessment of some effects is likely to remain purely qualitative, for example those related to investment incentives. Ofcom should, however, seek to obtain some information as to the likely impact on existing (and perhaps future) suppliers' plans.
- A2.21 The MIA analysis may also include some sensitivity analysis to:
- identify which aspects of the service may have a particularly strong impact on the overall assessment; and

- as appropriate help identify possible modifications to the service to remove/mitigate some of these effects.

Coordination between the MIA and the PVA

A2.22 Ofcom and the BBC Trust will seek to coordinate the conduct of the PVA and the MIA by:

- sharing data and collaborating on the construction of market models where appropriate;
- attempting to minimise the risks that the PVA and the MIA are built on assumptions and inputs that are not easily reconcilable at a later stage; and
- working to ensure that the PVA and the MIA cover all relevant issues.

Identification of affected products and services

A2.23 Ofcom should consider the potential impact of the Local Video proposition on the following products and services:

- local newspapers and associated web services;
- local radio stations and associated web services;
- local and regional TV services and associated web services;
- mobile TV services; and
- other relevant services.

A2.24 This list is not necessarily exhaustive. Ofcom has discretion to examine the impact on other products and services that it considers relevant in the course of conducting the MIA, subject to agreement by the JSG.

A2.25 The MIA will identify the services for which the proposed Local Video service is likely to be a direct substitute or complement (the "primary" services), as well as other related services upon which the proposed Local Video service is likely to have a significant indirect impact (the "secondary" services).

Timetable for completion

A2.26 Ofcom is required to deliver the MIA to the BBC Trust by 17 November 2008. This timetable has been agreed by the JSG. It is anticipated that the results of the MIA will be published alongside the BBC Trust's Public Value Assessment in Winter 2008.

A2.27 In the event of unforeseen circumstances, or delays caused by the unavailability of data, Ofcom may ask the JSG to approve amendments to the MIA timetable. In such cases, the JSG would make clear its reasoning and revised timetable for production of the MIA report.

A2.28 Agreed by the JSG on 19 June 2008.

Annex 3

Market research – regression analysis

Introduction

Regression modelling overview

- A3.1 In order to inform our modelling approach we conducted a regression analysis⁴⁰⁴ of the market research results to identify whether certain variables, such as demographic factors (age, gender, etc), explained in each of the 60 areas the likely take-up and impact (on each of the affected services) of the proposed BBC Local Video service. If so, then these variables could be used in the modelling approach to derive take-up and impact estimates.
- A3.2 The geographic and demographic variables for which data was available in each of the 60 areas were:
- take-up: gender, age, rural/urban classification, social grade, Government Office (“GO”) region, education attainment and children in the household; and
 - impact: gender, age, social grade, rural/urban classification and GO region.
- A3.3 We conducted four regression analyses on the market research results:
- an analysis of likely take-up based on all the local media consumption and demographic variables included in the survey;
 - an analysis of likely take-up based on the geographic and demographic variables identified above;
 - an analysis of likely take-up based on the attitudinal variables taken from the attitudinal statements in the survey; and
 - an analysis of likely impacts based on the geographic and demographic variables identified above.
- A3.4 Overall, the models for take-up and impact had a very low predictive power. This means that the variables did not explain take-up or impact to any significant extent. As a result they were not used in our modelling approach to estimate take-up or impact individually for each of the 60 regions.
- A3.5 Nevertheless, the regression models provided a valuable insight into the demographics and attitudes that affect the likelihood of take-up and potential impact. The results showed that a more complex relationship exists between current usage of the internet, regional appetite for local news and relationship with the BBC than can be captured in simplistic regression models.

⁴⁰⁴ Regression analysis is a statistical technique use to analyse numerical data on a dependent variable (in this case, take-up or impact) and one or more independent variables (also known as explanatory variables or predictors). In a regression equation, the dependent variable is modelled as a function of the independent variables. In this instance, the analysis looked at the degree to which the independent variables explained or predicted the take-up or impact of the proposed BBC service.

- A3.6 Specifically, the key variables identified were GO region, urban/rural population, use of current local news websites, experience of downloading video, text, pictures, etc online, reading a local newspaper, an interest in more and/or more in-depth local news and use of the BBC News website. Differences by GO region and rural/urban classification, which we had data available for each of the 60 areas, were incorporated into our modelling approach.

Methodology and results

- A3.7 A large sample of broadband users were recruited as part of the market research sample design (1,625), across all of the 60 geographic service areas, to provide a database to enable regression modelling of take-up and impact among the broadband population.
- A3.8 Demographic questions were asked in the survey in a manner consistent with the Office of National Statistics ("ONS") census so that the survey results and regression analysis could be directly related to the available data for each of the 60 areas.
- A3.9 Four separate regression modelling exercises were undertaken with the relevant broadband data.⁴⁰⁵ These models and their objectives are set out below:

Model 1: Take-up – Full (with all demographic and usage variables on the questionnaire)

- Objective: to compare the potential loss in predictive power caused by restricting variables, and to investigate the comparative influence of other variables.

Model 2: Take-up – Restricted (with only the demographics variables for which we had data for in each of the 60 areas)

- Objective: to provide a socio-demographic take-up equation to be integrated into an area by area take-up model.

Model 3: Take-up – Attitudinal (with only attitudinal statements and use of the BBC News website)

- Objective: to test the hypothesis that the presence of the GO variables in the demographic models, are capturing some regional attitudinal differences.

Model 4: Impact – ITV regional news

- Objective: to test the feasibility of achieving a predictive impact regression, on the largest user group (with largest absolute numbers of impacted respondents), before proceeding to other media types.

- A3.10 None of the above models achieved sufficient predictive accuracy to be used directly in the modelling. However together with the general findings from the market research survey⁴⁰⁶, the regression analysis highlighted consistent factors

⁴⁰⁵ This analysis was undertaken by Digitab and SPA in July/August 2008.

⁴⁰⁶ See: *Research into the expected take-up and impact of a proposed BBC Local Video service*, a quantitative research report by SPA prepared for Ofcom, 27 November 2008.

and demographics that influence take-up. The predictive power and significant variables achieved for each model were:

Model 1: Take-up – Full:

- predictive power of 68%; and
- variables: Use the internet, Visit websites with local news, Read a local newspaper, Watch ITV regional news, GO region.

Model 2: Take-up – Restricted:

- predictive power of 62%; and
- variables: Age 55+, Social Grade AB, Tertiary Education, Government Office region.

Model 3: Take-up – Attitudinal:

- predictive power of 62%; and
- variables: Use of BBC News Website, Disagree – Enough Local News stories, Don't pay attention to Local News, Agree – Interest in more in-depth news coverage.

Model 4: Impact – ITV regional news:

- predictive power cannot be calculated ($R^2 < 0.05$); and
- variables: Urban/Rural, GO region.

Take-up

- A3.11 The modelling objective was to predict take-up of the new service, based on a full model using the full range of demographic and other media usage factors available from the questionnaire, and a restricted model based only on the demographic factors available in the 60 areas.
- A3.12 For all take-up models a binary variable was used to predict those likely to take up the new service. Modelling was performed on the full unweighted broadband users dataset.
- A3.13 Both demographic take-up models were conducted using a forward-stepwise logistic regression. The model starts with a constant, adding a single variable at a time to the model in order of their impact on the predictor variable (QD1).⁴⁰⁷ The logistic regression proceeds until none of the remaining independent variables have a significant impact on the accuracy of the prediction (the cut-off point significance level was set to 5%).

⁴⁰⁷ QD1. How likely would you be to use this Local Video service from the BBC? Binary variable coded: 0 = those who said they would definitely/probably not use, 1 = for those who said they would definitely/probably use.

Model 1: Take-up - using all the survey demographic and attitudinal variables

- A3.14 The total number of available variables was too large to include in one regression, so the independent variables were restricted first by considering the strength of their relationship (correlation) with the likely take-up of the new BBC Local Video service. Only those variables with a significant correlation (at the 95% level) were included in the potential variable list. This resulted in 104 variables being identified. However the highest correlation achieved was 0.24, and the majority were under 0.10, indicating a relatively weak relationship with the likely take-up (a strong correlation is indicated by values in the region of 0.6 or above).
- A3.15 One of the primary assumptions when undertaking a regression is the lack of correlation amongst the independent variables. Factor analysis was undertaken to help identify variables with the least correlation amongst them, by selecting only one variable from each component or factor. From a 29 component factor analysis, 26 independent variables were selected to test in the regression model.
- A3.16 The model with the highest predictive accuracy achieved is shown in Table A3.1 below.
- A3.17 The variables included in the model indicate that current use of local websites, readership of a local paper, watching regional news, and adjustment for regional differences are predictors of likely take-up of the new service.
- A3.18 The R^2 values (a measure of explanatory power) and the resultant low predictive power, 18% above random, indicate that demographics and usage on their own do not adequately capture the drivers of take-up of the new service.

Table A3.1: Full forward logistic regression model results

Survey question/variable	B	S.E.	Signif	Exp(B)
Qb1b. Visit websites with local news - Net: At least weekly	1.347	0.168	0.000	3.845
Qb1b. Read a local newspaper - Net: At least weekly	0.456	0.114	0.000	1.578
Qb1b. Watch ITV regional news on TV - Net: At least weekly	0.483	0.151	0.001	1.621
Qe14. Government office area - North East	-0.555	0.232	0.017	0.574
Qe14. Government office area - Yorkshire and The Humber	-0.776	0.227	0.001	0.460
Qe14. Government office area - East Midlands	0.578	0.211	0.006	1.783
Qe14. Government office area - South East	0.857	0.191	0.000	2.356
Qe14. Government office area - South West	0.978	0.230	0.000	2.660
Qe14. Government office area – Wales	0.403	0.179	0.024	1.496
Qe14. Government office area – Scotland	-0.531	0.174	0.002	0.588
Qa5b. If any, do you ever use the Internet for - Net: Any media	0.829	0.106	0.000	2.292
Constant	-1.662	0.176	0.000	0.190

Cox & Snell $R^2 = 0.145$, Nagelkerke; $R^2 = 0.195$, Classification 68.36

Note: B = log coefficient (as logistic regression), S.E. = standard error, Signif = the statistical significance of the variable in the model (<0.05), Exp(B) = linear coefficient.

Model 2: Take-up - using the geographic and demographic variables for which data was available

- A3.19 A similar logistic regression was undertaken with only those independent variables for which data was available for each of the 60 areas. There were 25 independent variables, from the following socio-demographic categories: sex, age, rural/urban classification, social grade, GO region, education, children in the household.

- A3.20 The model with the highest predictive accuracy achieved is shown in Table A3.2 below.
- A3.21 The alternative variables included in the model with the removal of current media usage variables, indicate some demographics factors; Age 55+, AB social grade, Tertiary education, alongside regional adjustment can help predict likely take-up of the new service.
- A3.22 A predictive power of 62% was achieved with the restricted variables, which is 12% above random and lower but similar to the 68% achieved with all available demographic and usage variables reported above.

Table A3.2: Restricted forward logistic regression model results

Survey question/variable	B	S.E.	Signif	Exp(B)
E2 Age 55+	-0.348	0.128	0.006	0.706
Qe11. Social Grade – Net: AB	0.332	0.113	0.003	1.394
E9 Education – Tertiary	0.223	0.107	0.037	1.250
Qe14. Government office area - North East	-0.770	0.222	0.001	0.463
Qe14. Government office area - Yorkshire and The Humber	-0.538	0.212	0.011	0.584
Qe14. Government office area - East Midlands	0.444	0.203	0.029	1.559
Qe14. Government office area - East of England	-0.489	0.227	0.031	0.613
Qe14. Government office area - South East	0.862	0.185	0.000	2.368
Qe14. Government office area - South West	0.719	0.220	0.001	2.052
Qe14. Government office area – Wales	0.356	0.173	0.040	1.428
Qe14. Government office area – Scotland	-0.591	0.168	0.000	0.554
Constant	-0.396	0.093	0.000	0.673

Cox & Snell $R^2 = 0.063$, Nagelkerke; $R^2 = 0.085$, Classification 62.38

Note: B = log coefficient (as logistic regression), S.E. = standard error, Signif = the statistical significance of the variable in the model (<0.05), Exp(B) = linear coefficient.

Model 3: Take-up – based on attitudinal variables from the survey

- A3.23 Demographic based regression models did not provide a sufficient level of predictive power, for either take-up of the new service or the impact of the new service on consumption. The presence of the GO region variable in both these models, ahead of demographics indicated that attitudinal differences were implicit in the regional variables.
- A3.24 The predictive power of attitudinal statements, were investigated by undertaking a linear regression (OLS - Optimising Least Squares) to predict users of the new service. Current use of the BBC News website was included as a proxy for a measure of an existing positive attitude towards the BBC online.
- A3.25 The variables in the model indicate that an interest in additional local news coverage and a relationship with the BBC online can explain some of the predicted take-up of the new BBC Local Video service. Attitudinal variables have a similar explanatory power in the absence of government region, and demographics.
- A3.26 This simple regression achieved a low predictive power similar to both the full and restricted factor take-up models of 62% outlined above. An interest in additional local news coverage and a relationship with the BBC online do not explain take-up sufficiently on their own.

Table A3.3: Attitudinal linear regression model results

Survey question/variable	B	S.E.	t	Signif
Qc5 = More in-depth news	0.108	0.011	10.013	0.00
Qc5 = Don't pay attention to local news	-0.057	0.011	-5.362	0.00
Qc1 = BBC News Website	2.41	0.046	5.278	0.00
Qc4 = Enough local news stories	-0.058	0.28	-2.097	0.022
Constant	0.276	0.052	5.353	0.00

R = 0.346; R² = 0.118

Note: B = coefficient, S.E. = standard error, t = t test statistic, Signif= the statistical significance of the variable in the model (<0.05)

Model 4: Impact – based on demographic variables

- A3.27 The objective of the impact regression model was to predict the impact, in terms of a reduction or increase in usage for each of the potentially affected media services. This required a two stage regression model of take-up of the new service and impact on the specified media service.
- A3.28 Current media consumption data, used in assessment of the potential impact of the service in each of the 60 areas, was only available for a limited number of demographic variables. This restricted any combined take-up and impact regression model to a limited number of factors: sex, age, urban/rural, government office.
- A3.29 As the restricted take-up regression model indicated, that the demographic variables did not adequately explain take-up, a two stage predictive impact model with only reduced demographic variables was unlikely to have significant predictive power.
- A3.30 A range of two stage logistic regressions were undertaken, with alternative stages and dependent variables, to predict the impact of the new service on current viewers of ITV Regional news.
- A3.31 Only urban/rural classification and individual government office region variables were significant at any stage of the regression analysis, with no more than three independent variables in total. The highest R² value was under 0.05, so no predictive power was calculated.
- A3.32 Analysis was therefore not extended to other media services, with lower absolute numbers of impacted respondents, as there was likely to be a further decreased probability of success.

Annex 4

Modelling approach and assumptions

Introduction

A4.1 We have developed a model in order to quantify, where possible, the potential static impacts on the affected product and services. The following affected products and services were specifically included in the model:

- local and regional newspapers;
- local and regional newspaper websites;
- local radio;
- local radio websites;
- ITV Local website; and
- mobile TV.

A4.2 There are three stages in the modelling process. The first stage estimates take-up of the BBC's proposed Local Video service. The second stage estimates the counterfactual, that is, what would happen if the BBC's proposed service does not go ahead, for each of the affected products and services. The final stage estimates the impacts on commercial providers, in terms of change in audience, revenues and profit.

Take-up of the BBC Local Video service

A4.3 Take-up of the BBC Local Video service has been estimated for each of the 60 areas over a five year period. It is assumed that the BBC Local Video service will launch in 2009/10. We have developed two scenarios for take-up. In the low take-up scenario we have assumed that there is an initial increase in the use of the BBC Local website when the new Local Video service is launched with usage stabilising thereafter. This scenario is based on the possibility that the addition of local video news content does not generate significant new interest in the BBC Local website over time. In the high take-up scenario we have assumed that there is a similar initial increase in usage which then continues to increase as people become more aware of the BBC's new service. This scenario is based on the possibility that the addition of local video news content generates significant new interest in the BBC Local website over time.

A4.4 As a starting point, we used data on the following variables for each of the 60 areas:

- the urban and rural adult population (15+)⁴⁰⁸; and
- the current level of urban and rural broadband penetration.⁴⁰⁹

A4.5 We made a number of assumptions in relation to this data:

⁴⁰⁸ 2001 census data.

⁴⁰⁹ Based on data from BT and other operators collected at a six digit postcode level.

- Increased population based on Economist Intelligent Unit UK population growth estimates. We used the same growth rate for all 60 areas; and
- We assumed that UK average broadband penetration will reach 70% by 2013/14. However, broadband penetration in each of the 60 areas varies in each year. In addition, the level of dispersion around the UK average declines over time.⁴¹⁰

A4.6 Based on this data, we were able to estimate the population in each of the 60 areas for four separate groups:

- urban with access to broadband at home;
- urban without access to broadband at home;
- rural with access to broadband at home; and
- rural without access to broadband at home.

A4.7 Our market research showed there is wide variation in take-up between the GO regions and nations and between urban and rural areas. We took account of these differences in our take-up scenarios. We also took account of the difference between take-up by those with broadband at home and those without.

A4.8 We used the market research results to estimate the take-up rates for each GO region and nation by urban and rural and those with and without broadband at home. We did this in the following way:

- took the take-up estimates for those with broadband at home for each GO region and nation;
- adjusted this to estimate an urban and rural take-up rate for those with broadband at home based on the ratio of take-up between urban and rural areas at the UK level;
- took the UK take-up estimate of those without broadband at home by urban and rural areas;
- adjusted the GO region and nation take-up estimates for those with broadband at home by the ratio between the UK take-up estimate of those with broadband and without broadband; and
- further adjusted the estimate of the GO region and nation take-up to estimate this by urban and rural population.

A4.9 A further distinction was made between those who said in the market research that they will 'definitely' and 'probably' use the BBC service. This is to take account of possible research effects. For example, respondents had to answer a hypothetical question about their likelihood of using a BBC service that does not currently exist. Their responses will, therefore, necessarily be speculative and may not reflect their actual behaviour if the service was available. Experience from other market research suggests that people tend to over-estimate their likelihood of using a hypothetical product or service. In addition, during the survey all respondents were

⁴¹⁰ By 2013/14 it is assumed that the level of divergence is 40% of what it was in 2007/08.

made aware of the BBC Local Video service whereas in reality, when the service is launched, it is unlikely that the whole population will be aware of the service, therefore take-up is likely to be lower.

- A4.10 Accordingly, we applied weights to these different responses. In the high take-up scenario, we applied a weight of 0.75 to those who said they would definitely use the BBC service and a weight of 0.3 to those who said they would probably use the service. In our low scenario we assumed weights of 0.35 and 0 respectively.
- A4.11 We assumed that take-up follows an 'S' curve⁴¹¹ in our high take-up scenario, such that the adjusted market research result is achieved in 2013/14. In our low take-up scenario, we did not assume an 'S' curve, such that the adjusted market research result is achieved on 2009/10. Under this scenario, growth in take-up is based on assumptions on population growth and broadband penetration.
- A4.12 Based on these assumptions we estimated a take-up rate for each GO region and nation for each of the four separate population groups:
- urban with access to broadband at home;
 - urban without access to broadband at home;
 - rural with access to broadband at home; and
 - rural without access to broadband at home.
- A4.13 We calculated take-up of the BBC service in each of the 60 areas by applying the estimated take-up rates for each of the four population groups by the relevant population. We applied the same take-up estimates at a GO region and nation level to each BBC Local Video area that falls within that region/nation. Take-up at a UK or nation level is based on an aggregate of the relevant BBC Local areas.
- A4.14 The tables below summarise the assumptions used in the high and low take-up scenarios. Table A4.1 summarises the take-up rates for each English GO region and Table A4.2 for each GO nation. Table A4.3 summarises the other assumptions.

⁴¹¹ An 'S' curve has been assumed for two reasons. First, it is common for new products to have this pattern of take-up over time. Second, the BBC proposes to roll out the service over a four year period so take-up is likely to increase in line with this.

Table A4.1: Estimated take-up rates for English GO regions

	North East	North West	Yorkshire	East Midlands	West Midlands	East of England	London	South East	South West
Definitely use the BBC service									
Urban/ broadband at home	9%	14%	9%	8%	6%	15%	14%	29%	18%
Urban/ no broadband at home	4%	6%	4%	3%	2%	6%	6%	12%	7%
Rural/ broadband at home	10%	15%	10%	8%	6%	16%	15%	31%	19%
Rural/ no broadband at home	9%	13%	9%	7%	5%	14%	13%	27%	17%
Probably use the BBC service									
Urban/ broadband at home	21%	31%	24%	37%	32%	20%	40%	33%	32%
Urban/ no broadband at home	6%	9%	7%	11%	10%	6%	12%	10%	10%
Rural/ broadband at home	25%	36%	28%	43%	37%	24%	46%	38%	37%
Rural/ no broadband at home	11%	15%	12%	18%	16%	10%	20%	16%	16%

Table A4.2: Estimated take-up rates for each Nation

	Wales	Scotland	Northern Ireland	Wales	Scotland	Northern Ireland
	Definitely use the BBC service			Probably use the BBC service		
Urban/ broadband at home	23%	4%	17%	27%	22%	34%
Urban/ no broadband at home	9%	2%	7%	8%	7%	10%
Rural/ broadband at home	24%	4%	18%	32%	26%	40%
Rural/ no broadband at home	21%	4%	16%	14%	11%	17%

Table A4.3: Other assumptions made in the high and low take-up scenarios

	Low take-up scenario	High take-up scenario
Population growth	0.73% in 2009, declining to 0.38 in 2014	0.73% in 2009, declining to 0.38 in 2014
UK average broadband penetration in 20013/14	70%	70%
Weight applied to 'definite' respondents in market research	0.35	0.75
Weight applied to 'probable' respondents in market research	0	0.3
'S' curve applied	No S- curve applied	S-curve applied
Year (weighted) market research results applied	2009/10	2013/14

A4.15 Regression analysis of the market research results found that demographic variables such as age, socio-economic group, gender, did not explain variation in take-up to any significant extent (see Annex 3 for more details on this analysis). As

a result, we did not model take-up in each of the 60 areas on the basis of demographic variables.

Counterfactual

- A4.16 A counterfactual, that is, what would happen if the BBC's proposed service does not go ahead, was developed for each affected service. Given the uncertainties associated with projecting trends into the future, we used a high and low counterfactual scenario for each affected service. We took account of historical trends and the range of stakeholders' and market analysts' views in making our assumptions for each high and low counterfactual scenario. Further details of the counterfactual scenarios and the basis of the underlying assumptions are provided in Sections 5 to 9.
- A4.17 The counterfactual scenarios provide a baseline from which the impact of the BBC's Local Video service, in terms of audience and revenue, can be estimated. For local and regional newspapers⁴¹² and radio, the counterfactual scenarios in terms of audience (circulation and listening hours) were developed for each of the 60 BBC Local areas, based on national assumptions. For local news websites (newspaper, radio and ITV Local) and mobile, we developed the counterfactual scenarios in terms of audience at a national level. For all affected services, we estimated revenues at the national level in the counterfactual scenarios.
- A4.18 The revenue estimates in our model are in real terms based on 2007/08 prices.
- A4.19 Table A4.4 below summarises the assumptions made in the counterfactual scenarios for each affected service where impacts have been estimated.

Table A4.4: Assumptions made in the high and low counterfactual scenarios

	Low counterfactual scenario	High counterfactual scenario
Local and regional newspapers		
Circulation decline per annum	-5%	-5%
Revenue decline per annum	-8%	-2%
Ratio of display to classified advertising	30:70	30:70
Local and regional newspaper websites		
Audience growth (unique users) per annum	2008/09: 20% 2013/14: 0%	2008/09: 20% 2013/14: 0%
Audience levels (unique users)	2007/08: 22m 2013/14: 36m	2007/08: 22m 2013/14: 36m

⁴¹² A high and low counterfactual has been developed for three types of local and regional newspapers: paid daily titles, paid weekly titles and free weekly titles. These have been based on the same assumptions.

Average revenue per user (ARPU)	2007/08: £3.70 2013/14: £3.70	2007/08: £3.70 2013/14: £11.10
Revenue levels	2007/08: £80m 2013/14: £135m	2007/08: £80m 2013/14: £404m
Radio		
Audience (listeners) decline per annum	0% to 0.3%	0% to 0.3%
Listening hours per listener decline per annum	3% to 4%	2%
Revenue decline per annum	7%	2%
Ratio of national to local advertising	65:35	65:35
Radio websites		
Audience growth (unique users) per annum	2008/09: 10% 2013/14: 0%	2008/09: 54% 2013/14: 0%
Audience levels	2007/08: 4.2m 2013/14: 5.4m	2007/08: 4.2m 2013/14: 15m
ARPU	2007/08: £2.90 2013/14: £2.90	2007/08: £2.90 2013/14: £3.20
Revenue levels	2007/08: £12m 2013/14: £16m	2007/09: £12m 2013/14: £47m
ITV Local⁴¹³		
Audience growth (unique users) per annum	2008/09: 32% 2013/14: 5%	2008/09: 85% 2013/14: 9%
Audience levels	2007/08: 0.6m 2013/14: 1.5m	2007/08: 0.6m 2013/14: 4.8m
Proportion of revenues from (i) display (ii) video content (iii) sponsorship	(i) [✕] (ii) [✕] (iii) [✕]	(i) [✕] (ii) [✕] (iii) [✕]
ARPU	2007/08: £2.00 2013/14: £1.50	2007/08: £2.00 2013/14: £3.00

⁴¹³ The projections for ITV Local represent our analysis, and not the views of ITV plc

Revenue levels	2007/08: £1.2m 2013/14: £2.3m	2007/08: £1.2m 2013/14: £14m
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A4.20 Three counterfactual scenarios have been modelled for mobile TV: a high, low and base case. Three scenarios were used because of the embryonic status of this market and the high level of uncertainty in terms of future prospects. Indeed, whilst all major sector analysts predict a growing market, the forecast growth rates differ between them. For this reason, the assumed growth rates are based on three sector analysts' forecasts: Yankee, Analysys and Ovum, with the highest forecasts being used for the high case counterfactual and the lowest estimates being used for the low case counterfactual. Our base case is built around an average of the two forecasts. Further details of the mobile TV counterfactual scenarios can be found in Section 9.

Impacts

A4.21 In estimating audience and revenue impacts for each affected media, we took account of:

- the high and low take-up scenarios of the BBC Local Video service;
- the audience of each affected media under the high and low counterfactual scenarios;
- how the audience of each affected media may be impacted by the BBC Local Video service; and
- the relationship between a change in audience and a change in revenues.

A4.22 Due to data limitations, we modelled impacts on each of the affected services in slightly different ways. For print newspapers and radio listening, audience impacts have been estimated for each of the 60 areas. This is to take account of geographic differences in consumption patterns. However, revenue impacts have been estimated at a UK level as data were not available for each area. For websites (newspaper, radio and ITV Local) and mobile, we estimated both audience and revenue impacts at a UK level, due to data limitations.

A4.23 In assessing how audiences for the affected services may be affected by the BBC Local Video service, we considered a range of evidence. First, our market research asked respondents who said they were likely to use the BBC service whether and how they would change their consumption of other media. This gave an estimate of the likely impact on the use of each affected service. Second, stakeholders provided estimates of audience impacts on their businesses. Third, BBC Management's application to the BBC Trust included estimates, based on its market research, of impacts on other media. Each is considered in turn below.

A4.24 Our market research asked respondents who said they were likely to use the BBC Local Video service and currently use other commercial local media whether they were likely to change their consumption of the other media as a result. Of those that said they were likely, a further question was asked as to how their behaviour would change. They were given the options of: stop using, do a lot less, do a little less, do a little more, do a lot more or start using.

- A4.25 However, some caution has to be applied to these results as they may not accurately predict how people will change their behaviour. This is for a number of reasons. First, there is an unavoidable hypothetical nature to the survey questions. Indeed, respondents had to answer two hypothetical questions: (i) whether they would use the proposed BBC service and, if so, (ii) how would they change their current consumption of other media. Respondents may have found it very difficult to answer this question accurately and their actual behaviour may be different were the service actually available.
- A4.26 Second, despite a large overall sample size used in the market research, the bases for many of the responses on impacts are small. This is because the relevant group are those that (i) said they were likely to use the BBC service and (ii) currently consume the relevant affected service. For example, for local newspaper websites, the base size is only 82. As a consequence the results are subject to wide confidence intervals. Third, respondents' answers are based on current availability and quality of commercial local media. If these improve in the future due to investment then actual switching may be less than stated. This is particularly the case for online offerings given that many commercial local news providers plan to develop these. Fourth, many users will access local news online using a search website. Given that the BBC website tends to rank very highly on these websites the actual switching from commercial online media may be higher than stated.
- A4.27 Given these uncertainties, we used the upper and lower confidence intervals around the market research results to estimate audience impacts in the high and low impact scenarios. We used a 95% confidence level.
- A4.28 We calculated upper and lower net audience impacts for each affected service. The net audience impacts are calculated as the difference between those who said they would: (i) stop and start using, (ii) use a lot less and a lot more and (iii) use a little less and a little more.⁴¹⁴ These were combined to produce an overall net audience impact using the weights of 1, 0.66 and 0.33 respectively.⁴¹⁵ The weights reflect the different degrees to which each change in usage would affect revenue. For example, someone who stops reading a regional newspaper will have a bigger impact on revenue than someone who reduces their consumption by a little, for example, by buying a newspaper less frequently or spending less time reading it.
- A4.29 Due to the small sample base sizes (see above) it is not possible to observe if the market research results for audience impacts vary between GO regions and nations. We have therefore used the same audience impact results for each of the 60 BBC Local areas.
- A4.30 In their submissions, stakeholders provided us with their assumptions on potential audience impacts. These were higher than our market research results (even under the upper bound of the confidence interval). We noted the extent to which a number of stakeholders reached similar conclusions. We therefore estimated a third impact scenario based on stakeholders' views of potential impacts (the 'stakeholder impact scenario'). This scenario gives an upper bound on the range of plausible impacts.

⁴¹⁴ The upper and lower bounds were calculated around each of these net audience impacts.

⁴¹⁵ We weighted the three upper bound estimates together in an arithmetic sum to produce an upper bound overall net audience impact and the three lower bound estimates to produce a lower bound overall net audience impact.

- A4.31 The BBC Management commissioned BMRB to conduct market research which was submitted as part of its application to the BBC Trust.⁴¹⁶ Human Capital, in a separate report for the BBC Management⁴¹⁷, took the BMRB research results and made a number of adjustments. These changes have a significant impact on the audience impact results. For example, local news websites had a net negative audience impact of 10% in the BMRB report, whereas Human Capital reported a net positive audience impact of 2%. These differences can be explained by the base to which these impacts relate.
- A4.32 The BMRB report states that its audience impact estimates are based on those who (i) currently consume the relevant media and (ii) have access to broadband. However, Human Capital adds that the BMRB results are also based on those who (i) said they would change their consumption even if they said they would not use the BBC Local Video service, and (ii) have used the internet in the last month from specific locations, such as, home, work, library, etc. Neither of these points is made in the BMRB report. Clearly those who said they would change their consumption even if they said they would not use the BBC service should be excluded when trying to assess the impact of the BBC service.
- A4.33 Human Capital's results are based on those who (i) currently consume the relevant media, (ii) have access to broadband, (iii) said they would definitely use the BBC service, and (iv) have used the internet in the last month from any location. However, we are concerned that Human Capital's adjustments are sensitive to assumptions. Small changes to the way Human Capital has calculated its audience impact estimates leads to significant changes to those estimates. For example, if those who said they were likely to use the BBC service were included (as well as those who said they would definitely use the service) then those who said they would reduce their consumption of paid newspapers increases from 4.6% to 13.6%.
- A4.34 Human Capital argued that it excluded those that said they were likely to use the BBC service to account for two research effects. First, there is an overstatement effect, that is, the difference between people claiming that they will use a service and actually using it in practice. Second, there is an awareness effect, that is, the market research makes everyone participating in the survey aware of the service whereas as in reality many people will not be aware of it.
- A4.35 However, it is not clear to us that excluding those that said they were likely to use the BBC service is an adequate way of addressing these effects, especially as they are also likely to affect those who said they would definitely use the service as those that said they were likely to use the BBC service. In addition, these effects seem to relate more to the likely take-up of the BBC service rather than impact on other services. As a result, whilst we had regard to the BBC's market research, we relied on our own market research results in estimating impacts. Table A4.5 below shows the audience impacts that we used in our three impact scenarios.⁴¹⁸

⁴¹⁶ BMRB report for the BBC, *Independent Quantitative Research to feed into the Market Impact Assessment of the BBC Local Video Service*, March 2008.

⁴¹⁷ Human Capital, *An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals*, 11 April 2008.

⁴¹⁸ It should be noted that although the percentage impact figures used in our high impact scenario are higher than the stakeholder percentage figures, impacts are greater under the stakeholder assumptions because they apply to a wider base. Stakeholders' audience impact assumptions are based on overall consumption of the relevant media. However, our audience impact assumptions are based on the overlap between users of the BBC service and users of the relevant affected media. Overlap users are a subset of the overall level of consumption of the affected media. Hence a 10%

Table A4.5: Audience impact assumptions made in the low, high and stakeholder impact scenarios

	Low impact scenario	High impact scenario	Stakeholder impact scenario
Source	(i) Lower bound of Ofcom's market research results	(i) Upper bound of Ofcom's market research results	(ii) stakeholder assumptions
Base	Current weekly users of each media source who are likely to use the BBC Local Video service	Current weekly users of each media source who are likely to use the BBC Local Video service	Consume relevant media
Local and regional newspaper – paid daily	4%	20%	5%
Local and regional newspaper – paid weekly	4%	16%	5%
Local and regional newspaper – free weekly	3%	12%	5%
Local and regional newspaper websites	1%	12%	15%
Radio	1%	5%	5%
Radio websites	2%	13%	10%
ITV Local	2%	13%	12.5%

Note: These are all negative impacts.

A4.36 In order to apply the market research based audience impact assumptions, we estimated the likely overlap in audience between the BBC Local website and each of the affected media. This is because the market research audience impact results are expressed as a proportion of those who said they were likely to use the BBC service and currently consume the relevant affected media. We estimated the overlap audience by applying the proportion of the population consuming the relevant affected media to the take-up estimate of the BBC service.

reduction in the overlapping audience is equivalent to a less than 10% reduction in overall consumption. For example, suppose 100 people read regional newspapers and 50 of these are expected to use the BBC Local service. A 10% reduction in overall consumption results in 10 fewer readers. A 10% reduction in those that use the BBC service and read newspapers will see five fewer readers (or a 5% reduction in overall consumption).

- A4.37 A change in audience is likely to result in a change in revenue. This change in revenue is caused by two effects: (i) a change in volumes (audience), and (ii) a change in the price caused by the change in volumes. We did not estimate these two effects separately. Rather we made an assumption on the responsiveness of revenue to a change in audience (the “revenue elasticity”) for each affected service. The revenue elasticity captures both effects. We used these revenue elasticity assumptions to estimate the revenue loss for each affected service as a result of the audience impact caused by the BBC service. Our revenue impact estimates include a price and quantity effect. Therefore, it is more meaningful to consider the overall reduction in revenue rather than to consider the underlying changes in either audience or price.
- A4.38 We based our revenue elasticity assumptions on stakeholders’ assumptions. Table A4.6 below shows the revenue elasticity assumptions made in the low, high and stakeholder impact scenarios.

Table A4.6: Revenue elasticity assumptions made in the low, high and stakeholder impact scenarios

	Low impact scenario	High and stakeholder impact scenarios
Regional newspapers	All revenues: 0.5 ⁴¹⁹	All revenues: 1
Regional newspaper websites	All revenues: 1	All revenues: 1
Radio	National Advertising: 1 Local Advertising: 0.5	National Advertising: 1 Local Advertising: 0.5
Radio websites	Display: 1	Display: 1
ITV Local	Display: 1 Video content: 0.5 Sponsor: 0.25	Display: 1 Video content: 0.5 Sponsor: 0.25

- A4.39 For mobile TV, we estimated impacts based on lost advertising impressions. The low impact scenario assumes a 2.5% reduction in advertising impressions whereas the high impact scenario assumes a 5% reduction. Further details can be found in Section 9.
- A4.40 In order to estimate the range of likely revenue impacts, we modelled high and low scenarios. The greatest likely impact on revenues occurs in our model when take-up of the new service is high; growth of the affected services in the absence of the proposal (i.e. under the counterfactual) is high (or rate of decline is low); as is the proportion of users of the affected services who stop using these services as a result of the proposed BBC Local Video service. These assumptions therefore form the basis of our high scenario. The low scenario, on the other hand, is based on low take-up, low growth (or high rate of decline) in the counterfactual and a low proportion of users of the affected services who stop using these services as a result of the proposed BBC Local Video service. The range between the low and

⁴¹⁹ This means that for every 2% decline in audience there is a 1% decline in revenue.

high scenario is our best assessment, based on our market research, of the range of the static impacts of the proposal.

A4.41 In addition, we have modelled a “stakeholder scenario”. This reflects the views put to us by stakeholders about the scale of the reduction in use of their services, which was substantially greater than that suggested by our market research. We have modelled these, using the same assumptions as our high scenario, but drawing on the submissions of stakeholders for the level of audience impact. Whilst stakeholders’ believe their assumptions to be plausible they inevitably were unable to provide any direct evidence to support them given, for example, that they have not had the opportunity to conduct market research specific to the proposed service. For this reason, in drawing our conclusions, we have relied on the range between our high and low scenarios.

Table A4.7: Scenario combinations

	Take-up	Counterfactual	Impact
Low scenario	Low	Low	Low
High scenario	High	High	High
Stakeholder scenario	High	High	Stakeholder

A4.42 We also estimated the impact on profit. To do this, we made assumptions on marginal costs for each of the affected services. For most affected services (radio and websites) the marginal costs are assumed to be zero since the additional cost of supplying an additional user is likely to be close to zero (and since the model of static impacts does not take account of suppliers’ responses to a loss of users, such as a reduction in quality to reduce costs, which is part of the dynamic impact analysis). For print newspapers, this is not the case as a publisher could respond to a change in circulation by printing fewer copies. We based our assumptions on marginal costs on cost data provided by stakeholders. In our low impact scenario we assumed a marginal cost saving of £0.7 per copy, in our high and stakeholder impact scenario we assumed a marginal cost saving of £0.1 per copy.

A4.43 We estimated the revenue and profit loss in NPV terms over the five year period, 2009/10 to 2013/14. We used a real, social discount rate of 3.5%.⁴²⁰

A4.44 When assessing the suppliers’ responses to the impact of the BBC’s proposed service, as in the dynamic impact analysis, we recognise that they will base their decisions on a higher, risk-adjusted cost of capital. We have taken this into account in our dynamic impact analysis (see Annex 6).

A4.45 Table A4.8 below sets out the data and sources used in the model.

⁴²⁰ This is the rate recommended for economic welfare assessment in the HM Treasury Green Book: [www.hm-treasury.gov.uk/d/2\(4\).pdf](http://www.hm-treasury.gov.uk/d/2(4).pdf)

Table A4.8: Data and data sources used in the model

Data	Source
Population	Census 2001, National Statistics
Urban/rural classifications	National Statistics Postcode Directory
Urban/rural broadband penetration	Ofcom data from BT and other operators
Regional newspaper circulation and readership (excluding Northern Ireland)	Newspaper Society/JICREG
Regional newspaper circulation (Northern Ireland)	Audit Bureau of Circulation
Regional newspaper revenues	Advertising Association's Statistics Yearbook 2008
Regional newspaper website unique users	Newspaper Society
Regional newspaper website revenues	Ofcom estimate based on stakeholder submissions
Local commercial radio reach and listening hours	RAJAR
Local commercial radio revenues	RAB / Enders Analysis
Local commercial radio website unique users	Ofcom estimate based on stakeholder submissions
Local commercial radio website revenues	Ofcom estimate based on stakeholder submissions
ITV Local unique users	ComScore

Annex 5

Broader static impact on consumer and producer surplus

- A5.1 This Annex considers the broader static impacts of the BBC proposed service on consumer and producer surplus. Consumer surplus is the value to a consumer of a good, less the price paid for the good. For example, if someone is willing to pay up to £1 for a bar of chocolate, but actually purchases it for 40p, the consumer surplus from the purchase is 60p. Producer surplus is the revenue the producer receives from the sale of the good, less the “avoidable” cost of producing the good i.e. the cost that would not have been incurred if that unit of the good had not been produced. For example, if the cost of producing the bar of chocolate is 15p (including labour, ingredients, packaging), then the producer surplus is the 40p price minus the 15p cost, i.e. 25p. In the context of the present MIA, we are interested in the producer and consumer surplus derived from producing and viewing local news services, and also the producer and consumer surplus from the sale of goods which are advertised on these services.
- A5.2 If local news media lose audiences to the BBC, the total number of advertising impacts⁴²¹ will fall. Some advertisers will respond by switching spending to alternative media. Others will stop advertising or spend less. The consequence is that a significant part of the loss in revenue and profit, suffered by suppliers of local news media, is offset by gains to suppliers of alternative media through increased advertising revenue. Overall, therefore, the net impact on welfare is significantly smaller than the static impact figures on local news media reported in Sections 5 to 9.
- A5.3 Figure A5.1 shows the impact on local newspaper advertising, although switching away from commercial radio or online local news will follow a broadly similar pattern. The boxes represent the *change* in revenues/spending as a result of the BBC service, not the total revenues of the firms affected.
- A5.4 Boxes A to D illustrate the switching of advertising revenue to alternative media, while boxes E and F represent “lost” advertising.
- A5.5 To begin with switching, Boxes A and B illustrate the pre-BBC situation.

Box A

- A5.6 The height of Box A represents spending and surplus by advertisers and consumers of the advertised products. But it only shows the spending and surplus of those advertisers who switch to alternative media when the audience of local news switches to the BBC service, and the surplus enjoyed by consumers of these advertisers' goods.
- A5.7 Firms spend money to advertise goods in local news media, shown as (i) in Box A. This advertising leads to a sales uplift. Consumers who buy because of this advertising enjoy a consumer surplus (i.e. the value of the good to them, less the

⁴²¹ An advertising impact is achieved when one person (often defined in terms of a particular target market e.g. males aged 16-25) sees an advert once.

price they pay for it), shown as (iii). Advertisers enjoy producer surplus (i.e. profit) from the sale, shown as (ii).

A5.8 The size of the surplus may differ between display and classified advertising.

A5.9 For display advertising, the surplus may be smaller:

- Advertisers bid against each other for advertising impacts. If this bidding is efficient, advertisers may be paying a price per impact such that the value to them (in sales uplift) of the last pound they spend on advertising is small.
- Some display advertising is about persuading consumers – e.g. to buy one brand rather than another. The additional benefit to customers of choosing a particular product (in response to advertising) over a close substitute may be small.
- Whereas for classified advertising, the benefit to both parties may be high relative to the cost of the advert (e.g. finding the right job or the right candidate for a job).

Box B

A5.10 The height of Box B represents costs and surplus affected by audience switching to the BBC service and by advertisers switching to alternative media as a consequence.

A5.11 This box has four components. The first two components, (i) and (ii), represent the split between cost and profit of the initial spending of advertisers that is switched away from local news media to alternative media component (i.e. these two components in total are the same as (i) in Box A). The first component is shown as (i) in Box B:

- Local news media incur a cost in providing services to viewers/listeners. We are interested in the 'avoidable' costs, i.e. those costs that will no longer be incurred if some consumers switch to the BBC service, and some advertisers switch to alternative media.
- For newspapers, this may be the cost savings of printing fewer papers – although such savings will only be achieved if the newspapers (can) respond to the reduction in readership by printing fewer papers.
- Radio stations and websites have very low marginal costs – i.e. the service does not cost less to supply if the number of listeners/users.
- However, if some newspapers, radio stations or websites closed down due to the reduction in audiences, the cost savings as a result of no longer producing these services could be somewhat greater. Of course this does not imply that such closures would be a positive market impact, but the lost benefit, which we discuss below, must be weighed against the costs which are no longer being incurred.

A5.12 The second component is that local news media also enjoy a producer surplus from associated advertising revenues, shown as (ii) in Box B.

A5.13 The third component, (iii), is the producer surplus lost by local news media from sales of services to consumers (e.g. sales of newspapers).

- A5.14 These first three components, (i) to (iii) in Box B, are the static impact that we estimated for the affected local news media services and reported in Sections 1 to 10.
- A5.15 The fourth component relates to the audience that switches to the BBC Local Video service from local news media. Consumers enjoy a surplus from reading, watching or listening to the local news. As shown in the figure, that part of the audience which switches to the BBC service will expect to enjoy a consumer surplus which will be larger than the surplus they are giving up (which is shown as (iv) in Box B). Otherwise the audience would not choose to switch. This effect on consumers of the BBC service is part of the PVA conducted by the BBC Trust and so is not assessed in our MIA.
- A5.16 But note that:
- If loss of audience causes business closures, consumers who would have preferred to continue using those services will experience a loss of consumer surplus which may not be compensated by the BBC (they may not like the BBC service).
 - Similarly, if the loss of audiences deters businesses from developing new services or improving existing ones – a point we discuss further in the next section – the net impact may again be a loss in consumer surplus.

Box D

- A5.17 For ease of exposition we will first explain Box D and thereafter Box C. If the number of advertising impacts that can be achieved through local news print has fallen, some advertisers will respond by switching to alternative media. Others may simply stop advertising (or reduce their spending on advertising). Those who switch to alternative media will expect to find these media less effective, in terms of the sales uplift they can achieve for a given advertising spend (otherwise they would already be spending this money on the alternative media). This is shown as an increase in advertising spending, shown as (ii) in Box D in addition to (i), the initial level of spend. We are assuming that the advertiser achieves the same sales uplift as before, but spends more to do so. This is shown as a reduction in advertisers' producer surplus (i.e. the producer surplus of advertisers shown as (ii) in Box A declines to (iii) in Box D by the amount of the extra spending on advertising, shown as (ii) in Box D). In Box D, as drawn, the size of consumer surplus obtained by consumers of advertised products from the sales uplift remains unchanged (i.e. (iv) in box D is the same size as (iii) in Box A). However, the loss of producer surplus could also be a proxy for loss of consumer surplus, as higher advertising costs feed through to higher prices for the advertised products.
- A5.18 The extent of this loss in effectiveness, and any switching costs, will depend on the media and the advertiser. For example, an advertiser switching from radio to online may have to produce entirely different advertising, and may find online advertising less effective in reaching or persuading its target audience. On the other hand, switching advertising spending from a local news website to another local content website or a pure classified website may entail very little switching cost or loss in efficiency.

Box C

- A5.19 If advertisers do switch spending to alternative media, then the suppliers of those alternative media will gain and increase in advertising revenue. The breakdown of this additional revenue between cost, shown as (i), and producer surplus, shown as (ii) in Box C, is uncertain. (We are concerned here only with the additional cost incurred to supply the switching advertisers – i.e. the marginal or avoidable cost.) For example, an advertiser could switch to direct mail, which may have substantial marginal costs (of printing and distributing leaflets) and no consumer surplus (as the advertising does not fund any content that is of value to consumers⁴²²). On the other hand, an advertiser could increase its spending on online advertising. The short-term impact of this could be an increase in revenues for certain websites with no increase in cost – i.e. pure producer surplus (and no additional consumer surplus). In the longer term, competition for this increased revenue could encourage these websites, or others, to spend more on content, thereby increasing costs and consumer surplus at the expense of producer surplus.
- A5.20 It is not clear whether the producer and consumer surplus would be higher or lower for alternative media than for local news media. We assume that switching to alternative media will not lead to an increase or decrease in surplus.

Overall effect of switching advertising revenue from local news to alternative media

- A5.21 The overall effect of switching advertising revenue is:
- Loss of incremental profit for producers of local news media, shown as (ii) and (iii) in Box B;
 - a gain in incremental profit for producers and consumers of alternative media, shown as (ii) in Box C; and
 - higher advertising costs for advertisers to have the same sales uplift as before, shown as (ii) in Box D.
- A5.22 Gains, or positive impacts, are highlighted in green, and losses or negative impacts in red. Given our assumption that incremental producer surplus from alternative media is the same as from local news media, the net impact is the loss to advertisers who will have to spend more to achieve the same sales uplift, and the loss of any consumer surplus due to business closures.

Boxes E and F

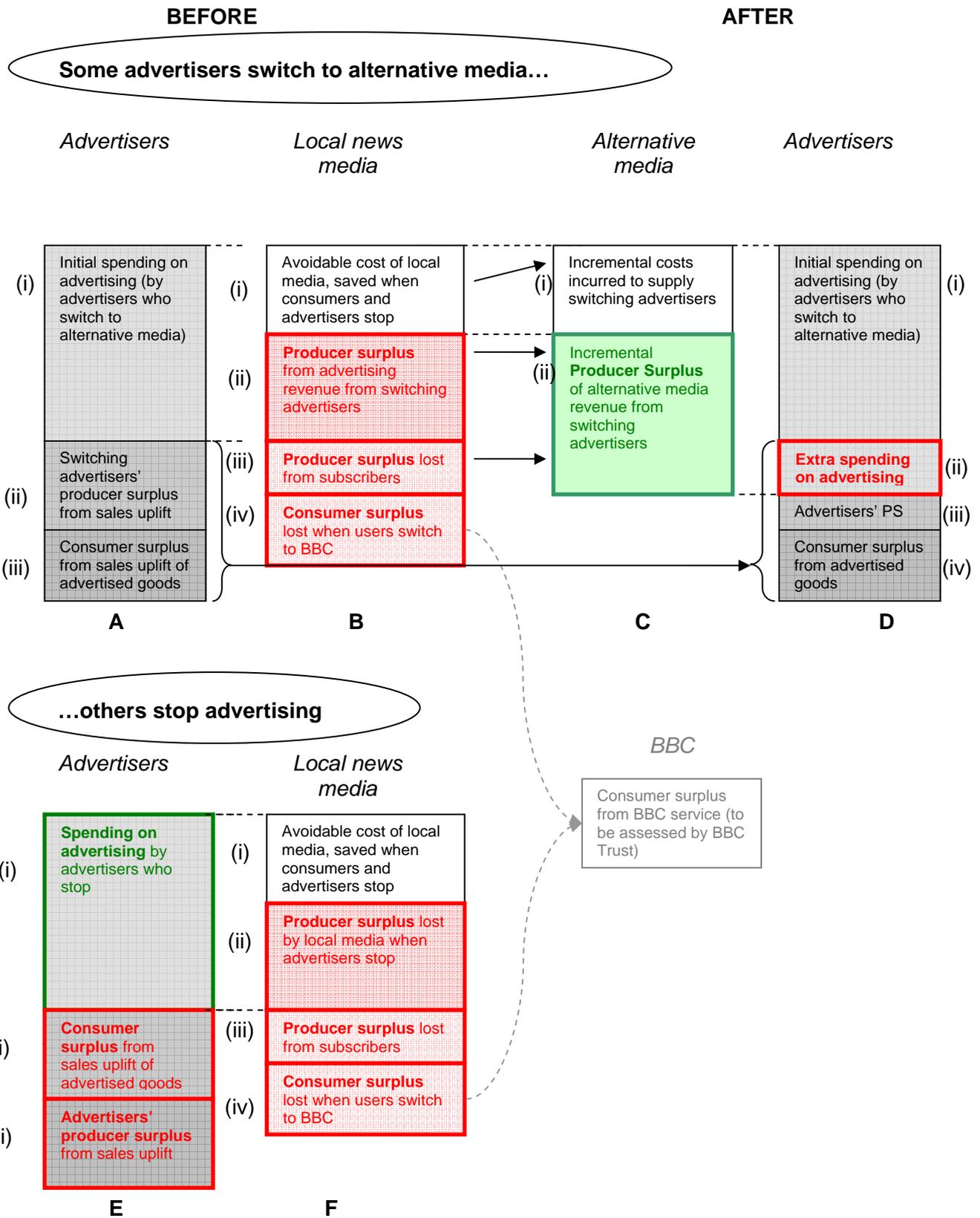
- A5.23 We assumed in Boxes A to D that advertisers switched between substitute advertising media in response to the loss of local news media audience caused by the BBC service. In Boxes E and F we consider the case of advertisers who respond by reducing their advertising spend on local news media but without increasing it elsewhere.
- A5.24 Again this would lead to a loss in producer surplus for the local news media, shown as (ii) in Box F. But there would be no corresponding gain in surplus for alternative

⁴²² In other words, direct mail is not a two-sided market, such as local newspapers which have to attract both readers and advertisers.

media. However, the advertiser would save the cost of advertising, shown as (i) in box E.

- A5.25 The reduction in advertising spending would remove the sales uplift. So the advertisers' producer surplus from these increased sales of their products would be lost, shown as (iii) in Box E. For the same reason, the consumer surplus on the lost sales uplift would also fall away, shown as (ii) in Box E.
- A5.26 As such, the net negative impact will be the loss of consumer and producer surplus both from local news media and from advertising sales uplift (highlighted in red), minus the cost of advertising (highlighted in green). Of these effects, the static impact we have quantified in Section 5 to 9 relates only to the lost producer surplus of local news media, shown as (ii) and (iii) in Box F. Like Box B (iii), Box F (iii) shows the loss of producer surplus to local news media from sales of services to consumers. Although shown separately in B and F, this effect is not dependent on the response of advertisers (i.e. whether they switch or stop advertising). Rather, it depends on the response of consumers, as does the consumer surplus effect which is also shown separately in B (iv) and F (iv).
- A5.27 The illustration can be used to describe the impact on both display and classified advertising, although the relative sizes of the boxes may differ between the two. For example, classified advertisers may find it easier to switch to alternative media (notably some well-established online websites); readers of local news may derive more direct benefit from classified than display adverts and/or more consumer surplus from buying the goods that are advertised.

Figure A5.1



Broader impact on consumer and producer surplus

- A5.28 We have developed a simple model based on the flows set out in Figure A5.1. The model takes as an input the results from our static impact model. It then calculates changes in net producer and consumer surplus, and the net present value of these changes.
- A5.29 Our model indicates that the net value of broader static impacts is somewhat less than the direct impact of the proposed service on the local news industry, as described below. Essentially this is because the loss of advertising revenue experienced by local news advertisers is balanced against a gain in revenue for other media. In setting up this model, we have used conservative assumptions – in the sense that we have tried to ensure that the assumptions do not exaggerate the extent to which the broader static impact is less than the direct static impact. Our assumptions are set out in Table A5.1.
- A5.30 In considering likely switching rates, we took account of the fact that substantial advertising revenues have already switched from print and radio to alternative media – particularly online – and this trend is expected to continue. We therefore assumed that at least half of any advertising spend lost to local newspapers and radio as a result of the BBC service would be diverted to alternative media.
- A5.31 Local newspaper groups told us that their online services operated in a highly competitive online environment, and on this basis we assumed that any advertisers who reduced spending on local news websites would divert that spending to other websites.
- A5.32 Our estimate of local newspaper profit margins is consistent with evidence from stakeholders. There is considerable uncertainty as to the margins on websites and alternative media, so we have assumed, conservatively, that all of the loss of revenue to local news websites would be a loss of profit margin, while only 20% of advertising revenue gained by alternative media would be profit margin.
- A5.33 Again, considering the ongoing switching from traditional media to online, and the extent of competition between websites for advertising revenue, we assumed a small reduction in advertising effectiveness from advertisers switching to alternative media. We assumed that every £1 spent on advertising would lead to a sales uplift of £1.10 – i.e. a net benefit of 10p, and that the total combined producer and consumer surplus from these goods is 40%.

Table A5.1

Assumptions in broader static impact analysis**% of ad revenue that will switch to other media**

Local newspapers	50%
Newspaper websites	100%
Local radio + associated websites	50%

Margins

Local newspaper margins	20%
Local news website and radio margins	100%
Margins on alternative media	20%

Other variables

Loss in advertising effectiveness from switching to alternative media	-5%
Per unit sales uplift from advertising	110%
Consumer + producer surplus from marginal sales by advertisers	40%
Discount rate	10%

A5.34 The results are shown in Table A5.2. We have used the direct static impacts from our “high” scenario to generate these results. The direct static loss of advertising revenue for the local news industry is £100 million in year five. But across the entire economy, the net impact is less than half of this, at £38 million.

Table A5.2

	Discounted NPV	Year 5
CHANGE IN REVENUE	£m	£m
<i>Direct revenue impact on affected media</i>	-258	-100
<i>Revenue switched to other media</i>	136	54
Net revenue loss	-122	-46
CHANGE IN SURPLUS		
<i>Margins lost by affected media</i>	-64	-26
<i>Margins gained on revenue switched to other media</i>	27	11
<i>Additional advertising costs for other media</i>	-7	-3
Net loss of surplus (margins) by media	-43	-18
Loss of surplus due to fall in net level of advertising	-53	-20
Net loss of surplus	-97	-38

Source: Ofcom

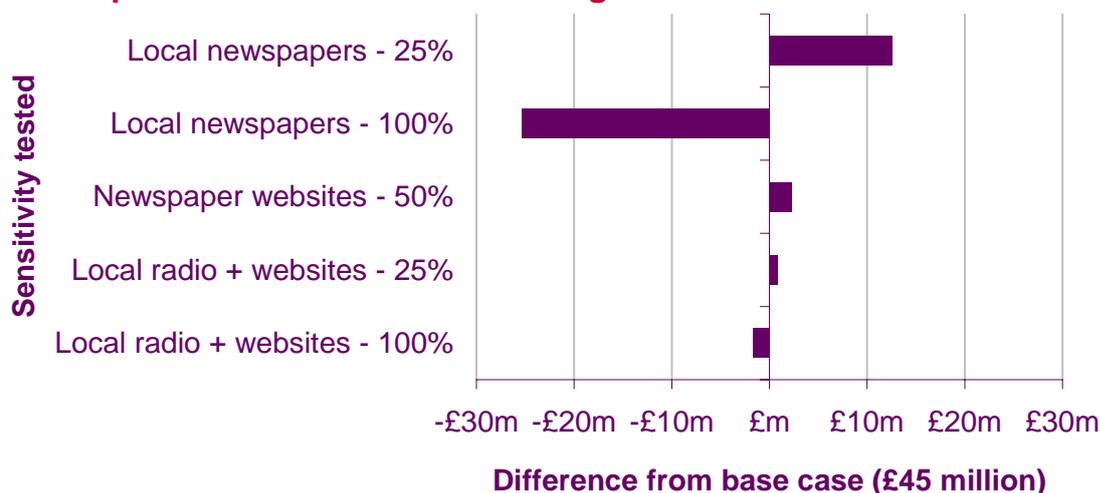
A5.35 We also considered the sensitivity of the results in Table A5.2 to the assumptions in Table A5.1: if we change the assumptions, how much do our results change? In doing so, we focused for simplicity on the year five result. In most cases we have considered the effect of halving the assumption (e.g. assuming 25% of revenue will switch rather than 50%) or doubling it (e.g. from 50% to 100%).

A5.36 Figure A5.2 shows the results of our sensitivity testing of switching rates. The results are sensitive to the assumed rate of switching from newspapers. The first bar shows that if only 25% of lost advertising revenue switches to other media, then the impact increases by a further £12m – from £38m to £50m. On the other hand,

the second bar shows that if all lost advertising revenue switched to other media, then the impact of the BBC service would be reduced by £25m – i.e. from £38m to £13m. Changes in the assumptions for online offers has only a small impact on the result.

Figure A5.2

Assumptions: % of revenue switching to other media



A5.37 Figures A5.3 and A5.4 show the sensitivity of the results to margin assumptions and other assumptions. The broader impact would be greater if local newspaper margins were higher – e.g. if they were earning 40% margins the impact would increase to around 55%. On the other hand, higher margins on alternative media would reduce the overall figure (by giving greater weight in the calculation to revenues which had switched to alternative media).

A5.38 The assumed rate of lost advertising effectiveness also has an effect on the result. Figure A5.4 shows that if the effectiveness of advertising were only half as great on other media the broader impact would be greater by around £25m. Increasing the assumed consumer and producer surplus on sales of advertised goods would also increase the impact.

A5.39 In each case, we have changed only one variable while keeping the others constant. By changing several variables at once it is possible to reach a figure which is higher than the original direct impact. For example, by assuming lower switching to alternative media, higher newspaper margins, a greater reduction in advertising effectiveness and a higher loss in surplus from advertised goods, one can calculate an impact of around £115m, higher than the direct impact of £100m. However, as noted, the “base” assumptions – used in Figure A5.3 to calculate a broad impact of £38 – have been chosen to be conservative, and strong assumptions would be needed to increase the broader impact to a level close to or above the direct impact.

Figure A5.3

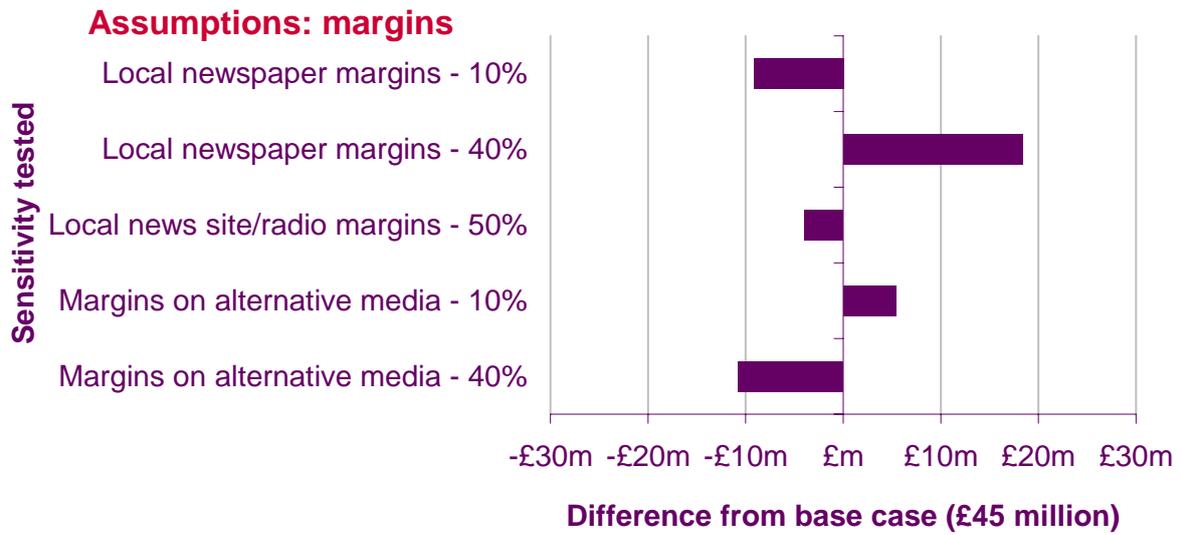
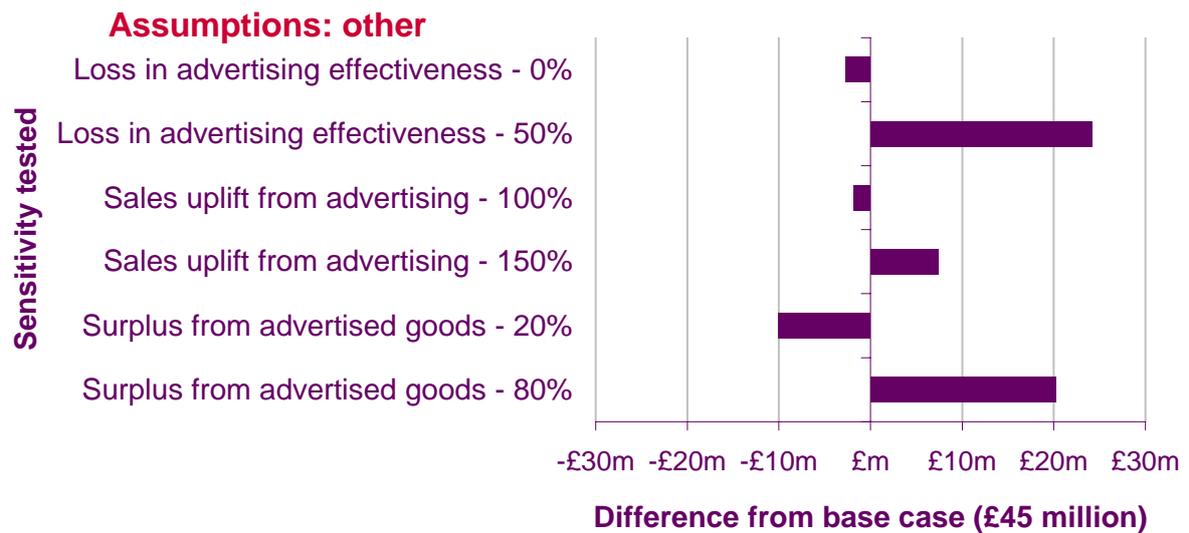


Figure A5.4

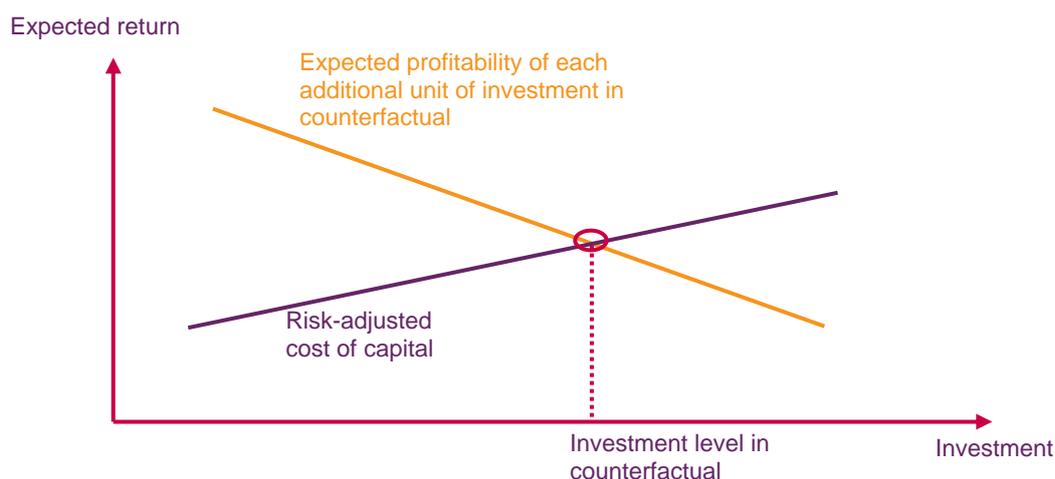


Annex 6

Framework for assessing dynamic impacts

- A6.1 The potential impact of the BBC service on incentives to invest is illustrated in Figure A6.1. The downward-sloping line represents a series of investment opportunities, each of which will lead to an expected return on investment. As a firm invests more (moving from left to right across the Figure), the expected return on each additional unit of investment declines (because the firm will make the most profitable investment first (i.e. those with the highest expected return)). If the line is relatively flat, then the expected return of the marginal investment falls slowly as the firm invests more. If it is steep, then the expected return falls quickly. The figure assumes that the marginal profitability line is straight. Alternatively, it is possible that there are a limited number of profitable investments that can be made in online news services, in which case the line could fall more steeply at higher levels of investment.
- A6.2 The upward-sloping line on the figure represents the cost of capital used by the firm in deciding to make the investment – this is the minimum return that will be needed for the firm to invest in the project (or investment opportunity), including a risk premium to compensate for the uncertainty that the investment will make the required return. It is upward sloping because some investment opportunities are more risky than others. The firm will make every investment up to the point where the expected return of the marginal investment is just enough to cover the cost of capital. We have assumed for simplicity that the risk of each additional investment is higher as the firm invests more, and as the expected return declines. In practice, some investments may have a high risk and a high expected return.

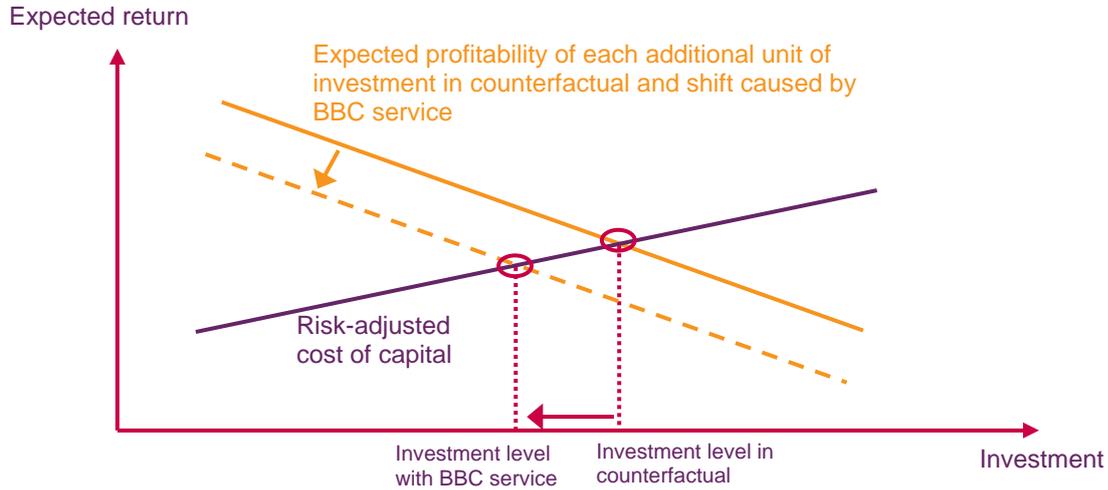
Figure A6.1: Profitability of each additional investment opportunity in counterfactual



- A6.3 If the BBC service were to reduce the profitability of commercial services, this would cause the marginal profitability line to shift down and to the left. The result would be a reduction in investment levels as illustrated in Figure A6.2. The figure assumes that the profitability of all investments will fall by the same amount (i.e. the new line is parallel to the old one). Alternatively, the BBC service could have a bigger impact

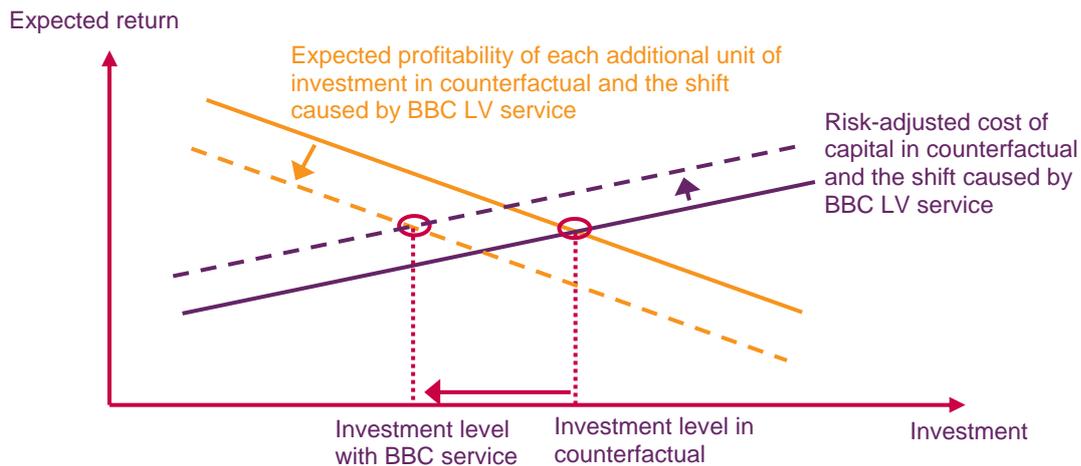
on the profitability of some investment opportunities than others. This could potentially change the shape of the marginal profitability line. One way it could do this would be to make the line flatter – i.e. making investment plans more sensitive to the cost of capital.

Figure A6.2: Effect of BBC Local Video service on profitability of each additional investment opportunity



A6.4 The introduction of the BBC service could also increase the risk of investment projects – particularly in early years, before the full impact of the service is known. This is illustrated in Figure A6.3. If investments are riskier, this could potentially lead to an increase in the cost of capital – as the firm will only invest if the expected return is high enough to compensate for the risk. This could exacerbate the reduction in the level of investment caused by the BBC service.

Figure A6.3: Effect of BBC Local Video service on profitability and risk of each additional investment opportunity



Annex 7

Summary of stakeholder submissions

A7.1 We received around 52 written submissions from stakeholders. Many of these responded directly to the questionnaire that we published in June, while others only identified specific areas that were of direct relevance to them. Of the non-confidential responses that we received, the main issues that were raised are briefly outlined below

Newspapers

A7.2 All newspaper publishers objected to the BBC's Local Video proposal. The main causes of concern were the scale of the BBC's proposal and the cross-promotion of the service across the BBC's range of services. They claimed that this would make it difficult for publishers to compete as they were unable to match the BBC's investment, given the current economic climate, nor could they promote their services to the same extent.

A7.3 Publishers were primarily concerned that the BBC's proposal, if it went ahead, would take away online audience from their developing online businesses. They argued that this would reduce their ability to generate online revenues. Concerns were also expressed about the impact the proposal would have on their print business, especially as these were in long term decline. Publishers thought that there could be a significant revenue loss arising as a consequence.

A7.4 Publishers expressed concerns that the loss of revenue would impact on their ability to invest in their print and online businesses, in particular, there would be less investment in local journalism. This would reduce the quality of their newspaper and online offerings.

A7.5 We received written consultation responses from and/or met with the following stakeholders:

Regional Newspaper Publishers

Archant
Barnsley Chronicle
Belfast Media Group
Clyde Forth Press
CN Group
DC Thomson
Guardian Media Group
Iliffe News and Media
Independent News and Media (Belfast Telegraph)
Johnston Press
Kent Messenger
Midlands News Association
Newsquest Media
Northcliffe
NW Ireland Printing and Publishing Company
NWN Media
Trinity Mirror
Wyvex Media (Oban Times)

Societies/Associations

National Association of Press Agencies
Newspaper Society
Scottish Daily Newspaper Society
Scottish Newspaper Publishers Association

Sector Analysts

Enders Analysts
Goldman Sachs
Merrill Lynch
Morgan Stanley

Advertising

Ad.com
Lyle Bailie

Radio

- A7.6 All stakeholders in the radio industry were against the launch of the BBC Local Video service at the current time. They believed it would take away audiences from both their on-air broadcasts and their nascent radio online offerings, with a resulting loss in advertising revenues. One stakeholder provided research which it believed demonstrated that a significant proportion of listeners would substitute radio listening for the BBC Local Video content. Radio groups were particularly concerned about the demographic that the BBC intend to target, because the 18-45 age group is viewed as the heartland of commercial radio's audience.
- A7.7 Another primary concern of the radio groups was that the proposed BBC service would foreclose planned investments in developing their online local content services, which they said was a key growth area. In addition, radio groups were also concerned that the level of expenditure proposed by the BBC could distort the market and make many, already marginal, local radio news services unviable. The majority of groups were also concerned about the impact on their input costs and in particular the ease with which commercial radio was able to hire and retain journalists.
- A7.8 Some radio stakeholders were particularly concerned that the impact of the introduction of the BBC service was likely to be greater in the Nations (particularly Scotland), because of the current absence of BBC local radio in those areas. They said the introduction of a new level of localness put commercial radio's business model in the nations under threat.
- A7.9 Ofcom received written responses from and/or met with the following stakeholders:

Radio stations / groups

Abbey FM
Bauer
GCap Media
Global Radio
Guardian Media Group
Kent Messenger Group

Midlands News Association
The Local Radio Company
Town and Country Broadcasting Ltd

Associations / industry bodies

The Community Media Association
RadioCentre

Sector analysts

Enders Analysis

Other

Independent Radio News
First Radio Sales

Television

- A7.10 All regional TV stakeholders believed the BBC Local Video service should not be launched, on the basis of the strong negative impact it would have on their online services. They believe online is a key area of growth and were primarily concerned that the BBC proposal would reduce audience from their nascent online services, and as a consequence reduce their ability to generate revenues. All believed that the service would duplicate their services, in terms of content offered; while some were also concerned that the geographic footprint the BBC intends to cover would be similar. They were also concerned that the BBC's scale of investment and its ability to cross promote its proposed service would exacerbate any impact.
- A7.11 Regional TV stakeholders also argued that the service could prevent them from investing further in online services; and some were concerned about the negative impact this would have on profitability, and that it could precipitate closure of services. One mentioned that the presence of the cyclical advertising downturn could also exacerbate any effect the BBC Local Video service could have on its online service.
- A7.12 The majority of local TV stakeholders were concerned that the BBC proposal would have a negative impact on their services. Like regional TV stakeholders, they believed the BBC proposal would take away audience and reduce advertising revenues. Some were also concerned about the BBC's scale of investment and ability to cross promote the Local Video service. Some stakeholders were concerned that the BBC proposal would deter capital investment in new start-up services. One stakeholder was concerned that the impact of the proposed service on its service could cause it to exit the market.
- A7.13 We received written responses from and/or met with the following stakeholders:

Regional TV

UTV
ITV plc/ITV Wales
STV
Channel TV

Local TV players

GMG

Felixstowe TV
Kent TV
Six TV
Mon TV
Media Trust
Northern Visions
Insider Knowledge

IPTV players

GDBTV
BT Vision

Associations / industry bodies/others

Community Media Association
Fife and Tayside local TV working group
Institute of Local Television
Voice of the Listener and Viewer
Scottish Screen

Mobile TV

A7.14 We did not receive any written submissions from the mobile TV industry. However, data was received from the Mobile Broadband Group and Orange.

Other stakeholders

A7.15 We also received written responses from and/or met with the following stakeholders:

Community Service Volunteers
Internet Service Provider Association
MediaTrust
Ofcom Advisory Committee Scotland