

16 September 2014

Alex Towers
BBC Trust
180 Great Portland Street
London
W1W 5QZ

Yih-Choung Teh
Competition Group

Dear Alex,

BBC Trust Significance Test – BBC Radio 1 in BBC iPlayer proposals

In accordance with the Terms of Reference of 9 July 2014 and the Addition to the Memorandum of Understanding¹ regarding significance tests, this letter sets out Ofcom's views on the potential impact on others ("others" being providers or potential providers of alternative products and services) of the BBC Executive's proposed changes to the BBC Radio 1, 1Xtra and iPlayer public services which arise as a result of the BBC Executive's proposals for a BBC Radio 1 presence in the iPlayer ('the Proposals').

Our views are provided in order to inform the BBC Trust's decision on the significance of the Proposals. All aspects of the Proposals (including impact on users) are being considered by the Trust Unit and it is the Trust's decision as to whether the Proposals are considered significant for the purposes of Clause 25 of the BBC's Framework Agreement.

The Proposals relate to the launch of a BBC Radio 1 branded space within the BBC iPlayer, populated by video content commissioned by BBC Radio 1. The content would be similar to existing content found on the BBC Radio 1 website, linked to a particular programme and targeted at younger audiences. Like other iPlayer content the intention is for programmes to be available for 30 days. Traffic would be driven to the iPlayer via on-air calls to action and links from BBC Radio 1's YouTube channel.

Consideration of the broader public value of the addition of BBC Radio 1 and 1Xtra content to BBC iPlayer and the impact on users is a matter for the Trust and outside the scope of our input.

Ofcom's approach to this assessment

We have reviewed the Proposals, information held by Ofcom, and further information provided by the BBC at our request.² We have not commissioned any additional market research, obtained any new information or data specifically for this work, or consulted with stakeholders – some of which may have particular views about the impacts of the Proposals.

¹ See <http://www.ofcom.org.uk/about/how-ofcom-is-run/committees/ofcom-bbc-joint-steering-group/addition-to-the-memorandum-of-understanding-bbc/>

² Specifically, information relating to the scope of the Proposals, the counterfactual and BBC Radio 1/1Xtra audience profiles on different media.

We have also considered the potential impacts against the counterfactual set out in the Proposals; that is, continued incremental growth in the number of BBC Radio 1/1Xtra viewers and hours of video consumed on YouTube and the BBC website over time.

Scope of the Proposals

The BBC Executive is proposing to launch a BBC Radio 1 branded channel within the iPlayer, leading to the introduction of a BBC Radio 1 logo on the iPlayer navigation bar along with promoted content on the iPlayer home page.

While similar video content targeted at younger audiences is already available on the BBC Radio 1 channel on YouTube and the BBC Radio 1 website, the BBC Executive describes the proposal as a way to provide an 'on-ramp' to the iPlayer. It would therefore enable onward journeys around BBC content within the iPlayer and help establish a relationship between younger audiences and the BBC.

At launch, BBC Radio 1 would create its own programming which would include content such as BBC Radio 1's *Live Lounge*, artist interviews and 'Best of' DJ programmes. It is expected that these programmes would be longer and more comprehensive than the current offerings.³ There would be no full length promotional music videos. The BBC anticipates it would create approximately 300 programmes over the course of a year for this new channel, each available on the iPlayer for the soon-to-be standard 30 day window.⁴

Impact

The BBC Executive has forecast that the launch of the BBC Radio 1 iPlayer channel will lead to an incremental 310,000 hours of viewing per month of content on the iPlayer. According to the BBC Executive, this would be achieved by migrating viewers from existing BBC Radio 1 content on YouTube and the BBC Radio 1 website on to the iPlayer, as well as by gaining incremental viewers from other related, existing services.

The type and nature of the content offering is likely to be a key determinant of the impact of the Proposals and the extent of substitution away from other services. Consistent with the approach taken by the BBC Executive, we have considered this question by examining different types of providers, focusing our analysis where we consider the effects are likely to be felt more strongly: music TV channels, radio stations and music websites.⁵ In addition, we have considered the impact on local radio stations and specialist music websites, not

³ Programmes will most commonly be around 15 minutes in length, with occasional programmes of longer duration. Current web-based content averages approximately six minutes.

⁴ We note that the BBC Executive has written a blog post on its plans for BBC Radio 1 and 1Xtra content on iPlayer in which it set out its plans in line with the Proposals we have considered. See <http://www.bbc.co.uk/blogs/aboutthebbc/posts/Radio-1-for-the-head-down-generation>

⁵ The Executive also analysed the potential impact on websites of music themed print publications and on digital recorded music purchases.

explicitly addressed in the BBC Executive's submission, where we felt the potential impact may be greater.

Many providers now offer services across multiple platforms, e.g. radio stations often have websites, and some have associated music TV channels. We have categorised providers with reference to their main services, while also taking account of their associated services.

The Proposals are for a low volume of new content relative to that already available on commercial services, which has led the BBC Executive to forecast low levels of incremental viewing to the iPlayer. While we have reservations about some aspects of the forecast methodology⁶, we agree that the small scale of the Proposals is likely to limit its impact. After examining its approach and considering a scenario where the forecast impact is doubled, we agree with the BBC Executive's overall view that the scale of the impacts is, in general, likely to be limited.

However, there may be specific effects which merit further consideration. We question the BBC Executive's assumption that the impact of the Proposals would be spread evenly across all services within the various categories, given heterogeneous interests in music-centric content.⁷ The Proposals may be a closer alternative for some services than for others depending on their content, implying that the potential impact is unlikely to be uniform.

We consider the following categories of providers that could be affected, in turn:

- Music TV channels;
- Radio stations – national;
- Radio stations – local;
- Music websites – video content aggregators; and
- Music websites – specialist websites.

Music TV channels

Due to the absence of full length promotional music videos on the proposed BBC Radio 1 iPlayer channel, we consider there to be a limited degree of overlap between the content on offer from broadcast music TV channels⁸ (e.g. MTV Hits, The BOX) and that included in the Proposals, thereby mitigating the most significant potential impact on these providers.

We consider that the Proposals are likely to have limited overlap with other youth-oriented general entertainment TV channels and their websites. However channels with a greater editorial focus on celebrity and entertainment personalities, as well as those that feature live

⁶ For example the high/medium/low usage case analysis varied the audience size alone while holding the average viewing time per user constant in each scenario, therefore not capturing the potential effect of users watching for more or less time on average between scenarios.

⁷ This is evident in the way music content is often segmented by genre and style to appeal to particular demographic groups or communities of interest.

⁸ TV channels whose broadcast output is mainly promotional music videos

music and award ceremonies, for example MTV1, are more likely to have audiences who find the BBC Radio 1 iPlayer channel an attractive substitute.⁹ Some music channels may therefore be affected more than others, and the mix of programming adopted by the BBC may be a factor which influences the level of impact. Any effects should be considered in the context of the declining viewing share of some music channels, separate from the launch of the BBC Radio 1 iPlayer channel.¹⁰

While conscious of concerns raised by some music TV channel providers to the BBC Trust, the relatively small scale of output¹¹, coupled with a reasonably broad range of content types, is likely to mitigate the impact where there is overlap between the Proposals and existing commercial offerings. However the Trust may wish to consider the implications of how the service offering may evolve in the future, not least given the ambition to increase the amount of content offered should the Proposals prove successful.

Radio stations – National/quasi-national radio stations

The Proposals have potential to impact on broadcast radio stations in two ways: direct substitution for (i) broadcast radio listening; and (ii) a radio station website.

Within the scope of this exercise we have not conducted an in-depth quantitative analysis of the potential impact on radio stations. Instead we draw the Trust's attention to a number of relevant considerations for larger radio stations with coverage across multiple regions.

Firstly, and more generally, we do not consider online video content and broadcast radio to be direct substitutes for one another because of the different consumption habits associated with each medium. Radio is typically a passive, background medium¹² while online video tends to be more actively consumed, commanding greater direct attention. However we note that audio consumption habits are changing, especially for younger age groups,¹³ so this distinction may be less apparent for the audience most affected by the Proposals.

We also note the BBC Executive's observations that 80% of visitors to the BBC Radio 1 website arrive with the express intention of listening to the live station. As a result we think it

⁹ We consider that the content offered by general entertainment channels with a 16-34 year old target demographic, e.g. E4, ITV2, makes them sufficiently different to experience minimal impact from the Proposals, as long as the current BBC Radio 1 iPlayer commissioning profile remains as set out in the Proposals.

¹⁰ BARB TV rating analysis provided by the BBC Executive indicated that the audience share for a group of 20 music channels, including those from Viacom and Bauer Media, declined from 2.0% in 2010 to 1.1% in 2013. The BBC Executive pointed to the competition from online video aggregators as a contributing factor.

¹¹ An average of one piece of new content per day.

¹² YouGov Sixth Sense survey: New Generations and the Future of Radio, May 2013

¹³ See for example *The Communications Market Report*, Ofcom, 2014

http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CMR.pdf

unlikely that any additional website traffic generated by the Proposals will lead to noticeably reduced listening to commercial broadcast radio stations.

Secondly, some radio stations already offer similar video content to BBC Radio 1 and 1Xtra Online, for example Capital FM via its website.¹⁴ However, we consider that the video content outlined in the Proposals is longer in duration and different in character from that typically offered on commercial radio websites (e.g. not including full length promotional music videos), and so may be sufficiently different for viewers to consider it less of a direct alternative.

We have also considered the potential for the Proposals to erode what was described as the “brand building” effect of radio stations’ websites. Since the Proposals will be embedded in the BBC iPlayer, with prominence given to the iPlayer branding, rather than a separate BBC Radio 1 or 1Xtra property, we think it likely to have only a limited effect in this regard.

Local radio stations

The factors outlined above for national and quasi-national broadcast radio stations also apply to local radio stations. However, there is the potential for these effects to be felt more acutely by local radio stations, given their typically smaller audiences and scale, and hence the potential to be less robust to adverse changes.¹⁵ This merits careful consideration given factors which may mitigate the risk of a high impact. In particular several key characteristics which attract listeners to local radio cannot be offered by the Proposals, e.g. live broadcast, local information, live interaction, etc.¹⁶ The absence of these factors would appear to mitigate the risk of substitution for live radio, but not the level of impact, were it to take place.

Music websites – video content aggregators

On the information available to us within this exercise, we are minded to agree with the BBC Executive’s analysis that the Proposals are unlikely to have a material impact on websites that aggregate video content. This is primarily due to the relatively small scale of the Proposals, to the extent that there is an overlap in the type of content offered. As noted above, the volume of content already available on commercial services is typically considerably greater, particularly in the case of YouTube.¹⁷

¹⁴ See <http://www.capitalfm.com/>

¹⁵ We note the wider context of adverse market trends affecting radio listening in general, especially among younger audiences. See for example *The Communications Market Report*, Ofcom, 2014 Section 3 http://stakeholders.ofcom.org.uk/binaries/research/cmr/cmr14/2014_UK_CM.R.pdf

¹⁶ See *Radio: The Listeners’ Perspective*. Ofcom/Essential, 2013 <http://stakeholders.ofcom.org.uk/binaries/research/radio-research/ressearch-findings13/listeners-perspective.pdf>

¹⁷ The BBC Radio 1 YouTube channels receive an average of 5.5m video requests and 0.3m hours of viewing time per month. The corresponding figures for the BBC Radio 1 website are 0.4m requests and 0.1m hours. The 18 month forecast figures for BBC Radio 1 in iPlayer are 2.6m video requests

Music websites – specialist websites

We consider that some of the content types outlined in the Proposals – namely the extended video coverage of BBC Radio 1 and 1Xtra live music and DJ sessions – have the potential to reduce traffic to specialist music websites, diminishing their ability to generate revenue.¹⁸ Our qualitative analysis has identified several factors which suggest the potential impact could be more pronounced for these services. Key among them is the overlap in content. We note the BBC Executive's comments that the live music content will focus more on niche and emerging artists, which increases the likelihood of the Proposals affecting specialist music websites. These sites tend to attract relatively small audiences, meaning they will experience a large relative impact from small absolute reductions in their audience. Ultimately the degree of any impact will be influenced by the editorial mix implemented by the BBC Executive. It is uncertain how far the audience for specialist live music content will consider the Proposals' video content a substitute or a complement for similar content on offer from alternative sources. There may be merit in ensuring that BBC Radio 1's iPlayer content remains distinctive from commercial offerings or of sufficient range, rather than becoming focused on one particular type of music, to avoid disproportionate effects on a particular type of specialist music website.

Conclusion

Overall we consider the Proposals are likely to have some impact on commercial providers but that impact is likely, in general, to be small in size. We draw the Trust's attention to the particular risks of greater impact on local radio stations and specialist music websites. Both these groups could suffer a larger relative impact from small changes to their audience size as a result of the Proposals. Our analysis is based on an assumption that the number of hours of content would remain small in scale so this consideration may merit greater scrutiny in the context of ambitions to increase the volume of BBC Radio 1 video content in the future. The Trust should also consider how the type and nature of the content offering may evolve in the future given this is likely to be a key determinant of the impact on others.

Looking forward beyond this assessment, we note that other changes to the BBC iPlayer are being considered by the BBC Executive, in particular changes to move BBC Three to the iPlayer and further commissioning of original content for the iPlayer. Changes to the iPlayer have also been considered recently in the context of the move to a 30 day window and the proposals for BBC Store.

and 0.5m hours per month. By comparison data from the BBC Executive states that YouTube users view between 400m to 3,300m hours of music video content per month.

¹⁸ In this case specialist music websites refers to sites that focus on video and audio footage of mainstream and genre music, with an emphasis on live music. It includes commissioned and non-commissioned live sessions, e.g. Yahoo!'s recently announced deal to showcase coverage of Live Nation concerts; live streams and VOD footage of DJ sets and concerts held by the Boiler Room, Red Bull Studios.

The increase in content specifically commissioned for the iPlayer, representing a shift away from a purely 'catch-up' service, is an important development.¹⁹ The BBC Trust expects to conduct a Public Value Test for the BBC Three proposal²⁰ which would provide an opportunity for the Trust to revisit the framework within which the iPlayer operates and develops. It could also allow the Trust to consider the impact of changes in the round. For example, the changes relating to BBC Three would be likely to interact with the Proposals considered here given the objective of attracting younger audiences to other BBC content. A series of separate smaller changes may have a cumulative effect in the way, for example, younger audiences interact with the BBC, with implications for the effect on providers of other services.

Yours sincerely

A handwritten signature in black ink that reads "Yih-Choung Teh". The signature is written in a cursive, flowing style.

Yih-Choung Teh

¹⁹ In 2006 Ofcom conducted a BBC Market Impact Assessment (MIA) of the BBC's on-demand proposals (e.g. BBC iPlayer). In that MIA we recommended that a further MIA be conducted if the BBC included specially commissioned content in its proposed services. See Para 1.12 xii in <http://stakeholders.ofcom.org.uk/binaries/research/tv-research/bbc-mias/bbc-new-ondemand.pdf> The current Proposals for BBC Radio 1 in iPlayer include specially commissioned content.

²⁰ See http://www.bbc.co.uk/bbctrust/news/press_releases/2014/bbc_three.html