



Methodology for Market Impact Assessments of BBC services

Statement

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Section 1

Introduction

Purpose of MIAs, how they fit into PVT

- 1.1 The new 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.
- 1.2 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 reviews:
 - a Public Value Assessment (PVA), carried out by the Trust Unit, 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.
- 1.3 This document sets out the approach which Ofcom intends to take in carrying out MIAs. It represents our current view of best practice, and is likely to be updated as our experience in conducting MIAs grows.
- 1.4 The guidelines set out below are intended to inform stakeholders about the approach Ofcom will take to MIAs. We may depart from this approach in particular cases but if we do so we will explain why.

Identification of impacts

- 1.5 The aim of Ofcom's MIA is to be comprehensive in identifying all the significant market impacts arising from the BBC proposal. We seek to identify all of the ways in which other services are likely to be affected by the BBC proposal. We consider the effects on consumers and producers of other services, including those that compete with the proposed service as well as those in related upstream (e.g. suppliers), downstream (e.g. buyers) or two-sided (e.g. advertising) markets. We also ask what these impacts mean for consumers and citizens.
- 1.6 Account will be taken of both 'negative' substitution effects and 'positive' market creation effects.
 - The MIA considers the extent to which the BBC's proposals are likely to induce substitution away from competing services and the ways in which that substitution may reduce investment in new services, and potentially reduce choice for consumers and citizens.

- On the other hand, the BBC's proposals are likely in some cases to generate substantial benefits to consumers and citizens. 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.

1.7 In general, the substitution effects are likely to be more significant and, as a result, MIAs may often propose modifications or conditions designed to limit the negative impacts which have been identified.

Impact on competition

1.8 It is important that identified impacts are traced through into implications for consumers and citizens. The fact that the proposed services are free at the point of delivery (although ultimately funded by the licence fee) potentially creates issues for competition and investment at various stages of the supply chain. To assess what the identified impacts mean for viewers and listeners, we need to ask how they affect competition and market outcomes i.e. price, service quality, innovation etc.

1.9 MIAs will consider both static and dynamic effects on services and markets and will adopt a total welfare approach, assessing changes in welfare for both consumers and producers:.

- Static effects are concerned with the immediate, first-order impact of the BBC service on the demand for other services without taking account of how other service providers might respond, for example by altering their pricing policies or investment plans. This static assessment involves estimating the change in consumer surplus¹ and producer surplus associated with shifts in demand for competing services.
- Beyond the static effects of the BBC's proposals, we are concerned with assessing dynamic effects on market behaviour, and the resulting impact on competition and market development. In particular, we are interested in the extent to which the BBC's proposals might deter innovation and investment by the commercial sector, and potentially in the longer term by the BBC itself, if the market fails to grow as it otherwise might. Were commercial providers to be deterred from seeking to offer competing services this would ultimately have the effect of reducing choice for listeners and viewers, to the detriment of the public interest as a whole.

1.10 In some cases, the introduction of the proposed licence fee funded services would lead to a reduction in the usage of other BBC services.

- Effects on other BBC public services (i.e. those funded through the licence fee) are excluded from Ofcom's analysis, as they should be taken into account in the PVA. New licence-fee funded services may well impact other BBC licence-fee funded services, particularly if they involve the distribution of licence-fee funded content across new platforms.
- Effects on the BBC's commercial services (e.g. those offered through BBC Worldwide) are included in Ofcom's analysis. For the purposes of the MIA, the BBC's commercial subsidiaries (including BBC Worldwide) are treated in the

¹ This reduction in consumer surplus will need to be offset against the gross gain in consumer surplus from use of the BBC services – the latter will, by definition, exceed the former.

same way as any other commercial provider. So it is important to note that where constraints are proposed on the scope of the licence-fee funded service under review, there are likely to be benefits which accrue to the BBC's commercial subsidiaries and which are therefore available to licence fee payers through additional commercial revenue from the secondary and tertiary exploitation of licence fee funded content.

- 1.11 The assessment of effects is generally challenging because the proposed services are likely provided in newly emerging markets, the future size and characteristics of which are unknown, and difficult to predict. As a result, there will inevitably be a considerable degree of uncertainty around any estimates of likely impacts. As a general rule we will aim to quantify the quantifiable in a proportionate manner, taking account of uncertainty by expressing our findings as ranges where appropriate, through sensitivity analysis, and by attaching appropriate weight to qualitative, as well as quantitative, analysis.

Other regulation of the BBC

- 1.12 Apart from the PVT process, the BBC is subject to a number of other regulatory regimes which may address concerns raised by the MIA. It is important to take these alternative measures into account when considering possible modifications to the service:

- The Trust's Fair Trading regime is designed to ensure that the BBC's commercial activities are properly separated from its licence fee funded activities. The Trust is under a duty in the BBC Agreement to have regard to competition issues in ensuring the delivery of the BBC's public purposes. The Trust has ex ante competition powers which can be used to prevent the BBC engaging in anti-competitive activities. The Trust will publish a new system of ex ante codes in areas where competition problems are likely to arise.
- The Competition Act 1998 and Enterprise Act 2002 give Ofcom and the OFT ex post competition powers to deal with any anti-competitive behaviour by the BBC. If the BBC enters into anti-competitive arrangements (Chapter I) or abuses a dominant position in a market (Chapter II), Ofcom can investigate the BBC's activities and may penalise the BBC in accordance with the Competition Act. Similarly, Ofcom could include the BBC in a Market Investigation under the Enterprise Act.

- 1.13 In particular, although the MIA only applies to licence fee funded BBC services, concerns may arise in the MIA about the interaction between the BBC's licence fee funded services and the BBC's commercial subsidiaries, particularly BBC Worldwide. As pointed out above, the interaction between the BBC's commercial subsidiaries and its licence fee funded services is regulated by the Trust's Fair Trading regime and the competition implications of the BBC's commercial activities are regulated by Ofcom as part of our concurrent jurisdiction over the broadcasting sector (Competition Act and Enterprise Act). However, to the extent that the relationship of a proposed public service to the BBC's commercial arm is likely to alter the impact of the public service, Ofcom may consider this relationship and its implications for market impact as part of the MIA.

Section 2

Managing the process

Information provision

- 2.1 Before starting an MIA, it will be important to ensure that both Ofcom and stakeholders are provided with sufficient information about the BBC's proposed service. In general this information will be contained in the BBC's application for a new service licence or a change to an existing licence. It may also be contained in documentation supplied in support of the application. Where necessary information is not contained in these documents, Ofcom will request it from the BBC
- 2.2 The basic level of information required by Ofcom before a MIA can commence is as follows:
- A detailed description of the proposed service. This description needs to include as much detail as is available about the service. Only the key features of the service will be used to describe it in the service licence. However, it is important that a full, detailed description is provided so that both Ofcom and external stakeholders can understand what the key features of the proposed service are and can therefore determine the impact it is likely to have. Arguably not every detail of the proposed service should be subject to approval. However, it is important that the defining features of the service should be determined in the light of the MIA, rather than being pre-judged in the BBC application.
 - Indications of how significant the service is likely to be in terms of its size and budget. A service offering access to the entire archive of all BBC radio recordings is very different to a service offering access to just recordings from Radio One in 2003. Similarly, a service with a budget of £100m in a market where the average budget is £20m is very different to a service with a budget of £15m in the same market. Relevant indicators of the intended scale of the service also include projections of the future take-up of the service and of competing/related services.
- 2.3 This information will normally be contained in some or all of the following:
- The BBC's PVT application.
 - The documents supporting this application including relevant market research and the results from any trials. Ideally Ofcom would prefer the underlying results of the research. However, summary tables and presentations may be sufficient.
 - The BBC's assessment of the feasibility of the service including any calculations of the public value it is likely to generate and/or its likely market impact. This may include spreadsheet models of the service such as pro forma projections of market and platform development and the usage of the proposed BBC service.
- 2.4 It will be important to ensure that Ofcom and the Trust are assessing the same thing – a detailed description of the proposed service will therefore be agreed between the Trust, Ofcom and the BBC. This description will then be published by the Trust. It should cover all the key features of the service and provide enough additional detail for a reader to understand what the service is and how it will work. It is this description that will be used by stakeholders to assess what impact the service is likely to have on them. As this description provides clarity on the application

submitted by the BBC Executive important features not included in the description are unlikely to be assessed as part of the PVT and might need to be subject to a separate PVT.

- 2.5 In some cases, Ofcom will have follow-on requests for information referred to in the application or elsewhere. If Ofcom needs additional information from the BBC during the course of the MIA, it will request it directly from BBC management, and keep the Trust informed. BBC management will be required to respond to any information requests within an appropriate timescale. Concerns regarding the timing or content of information supplied by BBC management may be escalated to the JSG, which could in certain cases re-consider the timeframe for the MIA.
- 2.6 At or before the commencement of the MIA, the BBC Executive's application will be published by the Trust, together with supporting research and, where appropriate, results from trials. Some redactions may be necessary for commercial reasons but the Trust will aim to keep these to a minimum.

Timetable

- 2.7 The PVT process is initiated by the Trust on the basis of the PVT application from the BBC Executive. It is the Trust's decision that the application requires a PVT that starts the PVT clock. Once the Trust has received an application it will forward a copy to Ofcom.
- 2.8 Ofcom will then draw up draft terms of reference for the MIA and submit them to the Joint Steering Group (JSG). The terms of reference will include a brief description of the services under review and a high level indication of the potentially affected services and markets Ofcom will examine as part of its analysis, as well as setting out the timetable for completing the MIA. At the start of each MIA, Ofcom will also submit an indicative budget to the JSG.
- 2.9 The overall PVT will normally last six months (26 weeks) in total. During the six month period, Ofcom will carry out the MIA; the Trust Unit will carry out the PVA; the Trust will take account of the results of the MIA and PVA in its PVT, consult on its provisional PVT findings, and then reach a final decision.
- 2.10 The clock starts on the MIA once the JSG agrees the terms of reference. The BBC Charter and Agreement provide for three months as the duration for a MIA. While Ofcom will in general aim to adhere to this provision, the actual timetable for an individual MIA may vary according to the particular nature of the proposal. The timetable will be proposed by Ofcom and agreed by the JSG.
- 2.11 The timetable for each MIA will depend on a number of factors including the number of different services being reviewed (i.e. the BBC might include multiple services in a single PVT application), the complexity of these services, whether market research is required, the amount of information initially provided by the BBC and the number of affected stakeholders (since the more stakeholders who are affected, the longer it takes for Ofcom to engage with them all).
- 2.12 In general, during the formal timetable, Ofcom will do the following:
- Request written submissions from stakeholders. The request for submissions will usually be published on the day the MIA commences, or shortly thereafter. The closing date for submissions will generally be four weeks after the request has been issued, or longer if the overall MIA timetable is longer than three months.

- Meet with stakeholders. For MIAs of average or longer duration, Ofcom will generally want to meet with stakeholders to discuss their views on the proposed service. However, for simplified MIAs (see below), this may not always be possible.
- Undertake research and analysis. Ofcom will rely on analysis and research carried out by the BBC, information from other stakeholders and publicly available sources of data. It will encourage the BBC to gather information relevant to the MIA during the trials of the proposed service.

2.13 The period of the MIA will generally end with the submission of the MIA report to the JSG. Ofcom may, however, be involved in follow-up meetings with the Trust, and possibly with stakeholders, up to the point at which the PVT has been completed.

Simplified approach

2.14 In accordance with section 30(3)(c) of the BBC Agreement, the JSG may determine, after public consultation, that a simplified approach is appropriate to be used for a particular assessment. It is expected that, where this option is pursued, the MIA will be completed in significantly less than the standard 3-month timeframe. This option may be considered by the JSG where, on the basis of a preliminary review by Ofcom, it appears that:

- The BBC proposal is unlikely to have a significant market impact on other services; and
- No market research is required as part of the MIA.

2.15 If the JSG determines that a simplified approach may be appropriate in a particular case, Ofcom will publish a consultation document setting out the relevant considerations. A period of at least two weeks will be allowed for the submission of responses, following which the JSG will decide whether to proceed on this basis.

Stakeholder engagement

2.16 Receiving input from stakeholders is a critical part of the MIA process. The request for stakeholder submissions issued at the start of the MIA timetable will usually set out the questions in which Ofcom is particularly interested. It will also set out how stakeholders need to submit their views and by when. In general, Ofcom asks that stakeholders support their views with evidence. Unsupported views are also taken into account but may be given less weight.

Coordination with the Trust

2.17 The PVA and MIA are two parts of a single PVT assessment that needs to be comprehensive, coherent and consistent. However, the nature of the PVT is such that the divide between the PVA and the MIA is not always clear. It is therefore important for Ofcom and the Trust to work closely to identify areas or issues which are relevant to both the MIA and PVA, to discuss these 'overlaps' and to then seek agreement on who should be addressing the area/issue and how it should be addressed. It is also important that Ofcom and the Trust coordinate on certain procedural issues. In particular, Ofcom and the Trust will coordinate over:

- the gathering of information on proposed services. It will be unnecessarily burdensome for the BBC to receive information requests from both Ofcom and

the Trust – where possible, information requests will therefore be designed to meet the requirements of both parties. In the same vein, the Trust and Ofcom need to be assessing the same thing – the description of the service under review will be agreed between Ofcom and the Trust;

- Projections of take-up and usage, where quantification is undertaken; and
- The analysis of possible modifications to the BBC proposals (see section 3 below).

2.18 In addition, and in accordance with the Memorandum of Understanding between Ofcom and the BBC Trust (MOU),² Ofcom will seek to coordinate with the Trust over the timing of MIA publication. Ofcom will aim to publish the MIA at the same time as the Trust publishes the PVA, and in any event at least one week before the provisional PVT findings are published by the Trust.

2.19 To achieve this coordination, Ofcom officials will meet regularly with Trust officials during an MIA.

Confidentiality

2.20 It is acknowledged that certain material provided to the Trust by the BBC and certain material provided to Ofcom by stakeholders will be confidential in nature and/or commercially sensitive.

2.21 In order to conduct a comprehensive MIA, it is vital that Ofcom has access to this confidential material and Ofcom will use this material on the terms as specified in Annex 6(b) of the MOU, which is reproduced below:

“The Trust will endeavour to ensure that Ofcom has access to all relevant information which will assist it in conducting the MIA element of any PVT initiated by the Trust on a service proposition from the BBC. In particular, the Trust will supply any information submitted to it as part of a PVT application relevant to the assessment of the market impact of the proposal. The Trust will usually make available a complete copy of the application document to Ofcom subject to the following terms:

- (a) any material will be supplied in confidence to the head of the MIA case team nominated by Ofcom to undertake the MIA. It must not be shared with anyone outside that team, other than staff or Board Members relevant to the MIA in question or the JSG, except where Ofcom is performing its statutory functions under the Competition Act 1998, Enterprise Act 2002, Communications Act 2003 or any other legislation it administers. Ofcom must have in place appropriate safeguards to ensure that the material cannot be accessed by anyone not authorised to do so;
- (b) where such material contains information that is highlighted as being commercially or otherwise sensitive, such information shall not appear in full or in part in any published results of the MIA;
- (c) material supplied to Ofcom for purposes of conducting an MIA is supplied for use for that purpose only and may not be used for any other purpose within or outside Ofcom except where Ofcom is performing its statutory functions under the Competition Act 1998, Enterprise Act 2002, Communications Act 2003 or any other legislation it administers; and

² <http://www.ofcom.org.uk/about/accoun/mou/>.

- (d) the material provided will obviously be wider than strictly pertinent to the MIA, for example in relation to considerations of public value or value for money. Ofcom will be expected to disregard such information as appropriate and restrict its commentary to relevant market impact considerations.”
- 2.22 In order to conduct its PVT, Ofcom will generally provide the Trust with material provided to Ofcom while carrying out the MIA, where Ofcom has the agreement of the stakeholder to provide this material to the Trust. This material will be provided to the Trust on such terms as agreed between Ofcom and the stakeholder.
- 2.23 Ofcom will usually make such material available to the Trust on the following terms as set out in Annex 6(b) of the MOU:
- (a) where such material has been supplied to Ofcom by a third party respondent and that party has agreed that the information may be disclosed to the Trust;
 - (b) where such material contains information that is highlighted as being commercially or otherwise sensitive, such information shall not appear in full or in part in any published results of the PVT; and
 - (c) all such material supplied to the Trust shall be held by the Trust in confidence and shall not be used for any purpose other than the carrying out of the PVT for the service about which it has been submitted.
- 2.24 The Trust shall not disclose such material to any persons other than Trust Members, Trust staff who are part of the team carrying out the PVT and to any consultants notified to Ofcom who are assisting the Trust in this exercise.

Section 3

Undertaking the analysis

Evidence

- 3.1 The assessment of market impacts will be especially difficult if the market for the proposed service is at an early, formative stage in its development. This may mean there is considerable uncertainty about what the BBC service will actually look like when it is finally launched. Very little data may be available on either the proposed or the affected services. The scope for empirical analysis may consequently be much more limited than it would be in a more mature market.
- 3.2 We will base our analysis as far as possible on empirical evidence and expert opinion. This will include:
- *BBC information.* One of the main sources of evidence for the MIA will be the BBC. It has most information about what the service will be and how it might change over time. It will also generally have undertaken some market research and will have modelled its take-up, market positioning and costs. This planning work may be quite detailed and valuable.
 - *Market research.* Obtaining reliable results from market research is especially problematic in nascent markets where interviewees have only a limited understanding of new or planned services. We therefore recognise the inevitable limitations of any market research we might undertake.
 - *Stakeholder interviews and submissions.* We may want to meet with stakeholders to discuss their views about the possible effects of a proposed BBC service. For longer MIAs, we may also invite stakeholders to provide written submissions. To help structure submissions Ofcom may issue a stakeholder questionnaire focusing on the way the BBC's proposed services might affect stakeholders' future plans. This questionnaire would ask stakeholders to focus on providing evidence to support their analysis, particularly empirical data.
 - *Desk research.* Our analysis will often be underpinned by considerable amounts of desk research. We will draw on secondary data and analysis from several sources including brokers, economics and strategy consultants and market researchers.

Stages of analysis

- 3.3 In general, new entry into a market is likely to enhance competition and therefore bring benefits to consumers. By definition, viewers and listeners will only switch to the new services if they derive greater benefit from those services than from alternatives.
- 3.4 The launch of new BBC services may also benefit the providers and consumers of other services, in a variety of ways: by increasing demand for upstream inputs, such as audio or video content; by boosting demand for complementary services; or by increasing consumer interest in, and familiarity with, new services and technologies.
- 3.5 However, while the entry of the BBC will undoubtedly generate benefits to consumers and citizens, it may raise concerns for a number of reasons. Because the BBC's

public service activities are funded from the licence fee, the usual presumption that an increase in competition will be welfare enhancing may not apply. The fact that the proposed services are free creates a significant challenge for the BBC's commercial competitors. There is a very real concern that the BBC's services may distort competition in a way that ultimately harms consumers, including the consumers of its own services.

- 3.6 There are several different potential sources of consumer harm, but some of the most important include:
- firstly, the BBC's entry into nascent markets may deter entry or force exit of competitors in those markets. This could prevent the markets from developing at all (beyond the BBC's offering) and directly reduce choice for consumers;
 - secondly, even where the BBC's entry does not eliminate competition from particular markets, it may significantly reduce the potential scale of commercial rivals in those markets. Again, this will reduce choice for consumers; and
 - thirdly, to the extent that commercial providers are unable to develop profitable offerings of their own, both their willingness and their ability to invest more generally are likely to be reduced.
- 3.7 Overall, unrestrained expansion of the BBC into a range of new markets may significantly constrain the development of a vibrant media industry in the UK.
- 3.8 Against this background, there are two main purposes of a MIA: first, the MIA needs to identify the ways in which the BBC's proposals will impact on the demand for and supply of competing services, and second, it needs to assess the extent to which they may distort competition. This assessment will typically combine quantitative and qualitative assessment of the BBC's proposed services.
- 3.9 The main stages of analysis will normally be as follows:

Stage 1: identification of products and services likely to be affected

- 3.10 The first step in the analysis is to identify the range of products and services likely to be affected by the BBC proposal. This will generally involve analysis of the relevant features of the BBC service and an assessment of potential substitutes and complementary services. The analysis will be based on our understanding of the market, stakeholder views and the results of any relevant market research.
- 3.11 Consideration will also be given at this stage to the geographic basis on which the market impact should be assessed e.g. whether a UK-wide assessment would be appropriate, or whether a regional or local evaluation is required.
- 3.12 Future changes in services and markets also need to be taken into account in our analysis. The relevant 'forecast' period may vary from case to case but will typically tend to be about five years. In our view, five years provides a reasonable balance between the need to consider the impact on nascent services as they evolve towards maturity, and the desire to avoid unduly speculative projections.
- 3.13 It should be noted that this analysis is not a competition law market definition exercise. Our focus is on assessing the impact of the BBC's proposals on services in a range of related markets, and not on defining markets for the purpose of assessing dominance.

- 3.14 There is nevertheless a degree of overlap between competition law market definition and what Ofcom does here – to assess impact we need to identify the products and services for which the BBC service is a substitute. We therefore employ some of the tools used when defining markets in competition law since these tools are useful for identifying and assessing substitutability. For instance, in gauging substitutability, we identify the relevant characteristics of the service in question and identify potential demand side substitutes taking into account similarity of characteristics, consumer research and secondary data.

Stage 2: analysis of take-up and usage

- 3.15 The purpose of this stage of the analysis is to assess the likely take-up and usage of the proposed services over the relevant projection period, which as noted above is likely to be about five years ahead.
- 3.16 Where the BBC's PVT application includes usage projections, these will normally provide the starting point for our analysis. We will review those projections in the light of other available information, including stakeholder submissions and market research findings. Some technical analysis may be required at this stage, in order to understand how the hardware and software involved in service delivery are likely to affect usage. Following this review, the management projections may be amended by Ofcom as appropriate.
- 3.17 If the Trust develops its own usage projections for the purposes of the PVA, it is likely to go through a parallel exercise, involving the review of the BBC's usage forecasts. Ofcom will liaise with the Trust over the development of usage projections, and where possible seek to agree a set of projections that would then provide a common basis for the both the MIA and the PVT. If it is not possible to reach agreement with the Trust on this matter, Ofcom may carry out some sensitivity analysis in the later stages of the MIA, in order to illustrate the potential market impact of the Trust's preferred usage forecasts.

Stage 3: static analysis of market impact

- 3.18 The next step is to assess the static or 'first order' effects of the BBC service on other services i.e. without taking account of how other service providers might respond over time, for example by altering their pricing policies or investment plans. Consideration will be given to the negative impact on substitute services and, where relevant, positive "market creation" effects may also be assessed.
- 3.19 It will be important at this stage to define clearly the counter-factual, against which the effects are measured. In principle, the counter-factual will be the world as it would look in the absence of the proposed BBC service, and with no other changes. If the future impact of the service will depend critically on the unknown outcome of a (known) future event, more than one scenario may be defined, for the purposes of the impact analysis.
- 3.20 Where possible, this stage of analysis will include a quantitative estimation of the impact on consumer and producer surplus. Equal weight will be given to consumer and producer surplus estimates.
- 3.21 The assessment of substitutional effects is a particularly complex area. The extent to which the BBC services are substitutes for commercial offerings depends on a range of factors (e.g. the platform over which the service is offered, the time period over which content is made available and the type of content).

- 3.22 The MIA will take account of the reduction in consumer surplus associated with the reduction in demand for commercial services, whether offered by the BBC or other providers. In this context, BBC Worldwide will be treated in the same way as any other commercial service provider. However, account will not be taken of the reduction in consumer surplus associated with the reduction in demand for other BBC public services – this effect is relevant to the PVA rather than the MIA.
- 3.23 The MIA may also take account of resource costs which are incurred directly in the provision of the BBC service, but by entities other than the BBC.
- 3.24 In some cases, stakeholders may raise concerns about cross-promotion between BBC public services and BBC commercial services, such as those offered by BBC Worldwide. Issues of this kind are regulated by the Trust through its fair trading policy and guidelines, and are outside the scope of an MIA. Ofcom may nevertheless note such stakeholder concerns in its MIA reports, to ensure that they are brought to the attention of the Trust. It will be for the Trust to ensure that the regulation in this area is effective.

Stage 4: analysis of dynamic effects

- 3.25 The purpose of this stage of the analysis is to assess the dynamic effects of the BBC proposal on other services and service providers. The main focus here will be on the likely competitive response of other providers, in both the short and longer term. Suppliers of substitute services may, for example, respond by reducing their prices and/or improving the quality of their services, in order to maintain their competitiveness. In the near term, these effects would be beneficial for consumers. In the longer term, however, the negative impact on the revenues and profits of competing providers may lead to a reduction in investment and innovation. It could deter market entry by new providers or prompt existing suppliers to withdraw services. In other words, there may be longer term consequences which are detrimental to consumer interests.
- 3.26 Consideration may also be given to the structure of the market(s) for affected services. The impact of a new BBC service on the competitive process may for example depend on the degree of concentration in the relevant markets.
- 3.27 Given the inevitable uncertainty over the response of competing providers, particularly over a period of several years, dynamic effects will generally be evaluated on a qualitative basis. Our analysis of these effects will take account of evidence from stakeholders (e.g. effects on business plans), together with a consideration of past behaviour where relevant.
- 3.28 It will be clear from the above that static and dynamic effects are closely related: the former being concerned with the direct impact of the BBC service on the demand for other services, and latter focusing on supplier responses and the longer term impact on market development.

Stage 5: assessment of wider impacts

- 3.29 The assessment of wider impacts may include consideration of the effect on upstream markets (e.g. for media content) or downstream markets (e.g. for products using BBC services as a free input) or for complementary services (e.g. platforms involved in service delivery). This analysis will normally be qualitative in nature and is likely to be based primarily on evidence from stakeholders.

Stage 6: analysis of possible modifications

- 3.30 Finally, where potentially adverse market impacts have been identified, we will look for ways in which the BBC proposal could be modified to remedy or limit those impacts. This analysis may be quantitative or qualitative in nature.
- 3.31 The aim here will be 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 Ofcom alone to do a complete evaluation of these effects.
- 3.32 Where possible, we will liaise with the Trust over the analysis of possible modifications, so that the effect of a particular change on both public value and market development can be assessed – the former in the PVA and the latter in the MIA.
- 3.33 In addition, we may focus on looking for modifications which would bring down the market impact by more than they would affect usage i.e. that will reduce the negative impact of the service, without having a similar (proportionate) effect on usage.

Outputs

- 3.34 The outputs of a MIA will normally include:
- An assessment of the static effects of the BBC proposal on other services, in quantitative terms where possible;
 - A qualitative evaluation of dynamic effects on competition and market development.
 - A discussion of possible wider impacts.
 - A discussion of possible modifications.
 - A summary of main findings and recommendations.