

Discovery Response to Ofcom Review of Competition in Issues in the UK Advertising Airtime Trading Mechanism

Discovery Networks in the UK has 13 media brands which it sends out via 22 network feeds to more than 120 million cumulative subscribers, received in 85% of UK homes. The Discovery Channel has been the number one factual channel throughout its 20 year history in the UK. It has a 47 percent share of the pay-tv factual market and is funded by a combination of carriage fee and advertising revenue. Discovery Networks welcomes the opportunity to comment on the Review of Competition in Issues in the UK Advertising Airtime Trading Mechanism. We have aggregated the questions Ofcom asks into a number of sections below.

Market Structure and Development

Discovery recognises the definition of the structure of the market for broadcast advertising laid out in the Ofcom consultation document. However we do have some comments about how Ofcom has analysed that structure and its possible effects on all the players in the market.

Firstly, we do not believe a market where the trading system has not changed significantly is necessarily one which has ceased to evolve, as suggested by the Ofcom paper. It is Discovery's opinion that the market has not altered a great deal because it has worked well for its users. We do not believe this lack of change can be linked entirely to the CRR agreement. If the market has changed little since the early 90s, the effect of an agreement which was put in place ten years after that should not be overstated.

Secondly, Discovery rejects the thesis put forward in the paper that an emphasis on ratings in the advertising market may have discouraged broadcasters from experimenting with new types of programming. The UK market for broadcast content remains one of the most vibrant and diverse in the world. It has evolved and continues to evolve successfully. It is natural that broadcasters should want as many viewers as possible to watch their content. Whilst advertising revenue may well be linked to audience levels, there is no significant evidence to suggest that broadcasters have limited their creativity in order to maximise viewer figures.

Thirdly, Discovery believes that the potential role of technological convergence in altering the way airtime is traded over the next few years has been underestimated by Ofcom in its analysis. Whilst we agree that it is the case that internet advertising and broadcast advertising are not yet interchangeable, we believe that the uptake of technology which 'blurs the lines' of what is on TV and what is online will increase rapidly over the next few years and by the time any potential review by the Competition Commission is complete, the interchangeability of internet and broadcast advertising may well have altered significantly. It is yet to be seen how the market will adapt to this new reality but it does not seem logical to try to regulate a scenario which has not yet happened.

Transparency

It is Discovery's experience that there is an adequate level of transparency in the market. Both revenues and impacts are published for review and there are regular audits in place. We agree with Ofcom's statement that the players in this market understand the way in which it has evolved and operates. The market is unique and complex but this does not necessarily mean that it is not working effectively and in a transparent manner for those who are using it.

Bundling

Discovery believes that bundling of advertising across channels is an efficient way of trading the huge number of impacts in the market. It can deliver targeted audiences and can be tailored to individual clients. Whilst Discovery does have some concerns about the effect of larger players in the market bundling advertising time across their schedules, we believe that it is perfectly possible to switch. We are concerned that alternative models in this area would have little mitigating effect and could potentially do more harm than good.

Removing the option to bundle advertising time could contribute to making the market less transparent, as a higher number of individual deals would need to be made for airtime. Furthermore, unbundling could potentially drive up the price of peak time minutage on larger incumbent channels, leading to a knock-on negative effect on smaller 'niche' channels as spend moves away from them and towards the larger general interest channels which can deliver mass audiences. It could also potentially make peak air time more difficult for smaller advertisers to access or afford.

Is a Referral Necessary?

Ofcom has identified three main concerns:

- Possible poor transparency of pricing signals;
- Bundling of airtime may limit switching; and
- Possible barriers to evolution of the trading model

Discovery does not believe that the issues identified by Ofcom are limiting competitiveness in the market. We have outlined the reasoning for this conclusion above.

Basically, the market is complicated and perhaps not perfect but we believe it works for the vast majority of those who use it.

Furthermore, we are concerned that a referral of the broadcast advertising market to the Competition Commission could have a potentially damaging effect on the industry. An investigation of this nature is unlikely to be short in duration. The attendant uncertainty that this would bring for those who operate within the market while the investigation is ongoing could potentially do more harm than good.

Most importantly, Discovery is concerned that any investigation of the wider broadcast advertising market would not sufficiently address the remaining significant market power of ITV. Any review which weakens the controls in place as part of the CRR remedy is unlikely to have a positive effect on the market as a whole.

As we have already mentioned in this response, we do not believe the current CRR remedy is having a negative effect on the competitiveness of the broadcast advertising market.

Discovery therefore believes that a referral of the UK broadcast advertising market to the Competition Commission is not appropriate at this time.

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