



***Ofcom's second public service broadcasting review
Phase One: The Digital Opportunity***

***Response from Yahoo! UK & Ireland
June 2008***

Introduction

Yahoo! UK & Ireland welcomes the opportunity to respond to this consultation. The consultation touches on many issues which are key to the future development of digital media. Our comments relate mainly to the impact Ofcom's proposals could have on this commercial environment and observations on other options which merit consideration in phase two of the review.

Consultation questions

Section 5

Do you agree with Ofcom's assessment of the implications of different economic scenarios for the UK TV market for the future prospects for the delivery of the public purposes?

Ofcom makes frequent references to the abundance of provision of content and the extreme fragmentation of audiences. It identifies these factors as "*an important new barrier to public service content achieving reach and impact*". Ofcom goes on to wonder whether intervention may be possible to enhance the reach and impact of existing public service content and make it more discoverable.

It is clear that the transition from linear broadcasting to digital media presents challenges for traditional distribution channels. The fragmentation of audiences challenges in particular the economic model which commercial broadcasters have relied on. It seems implicit in Ofcom's analysis that PSBs will continue to be the main channels for both the production (or commissioning) and distribution of public service content. There are, however, a range of other possible scenarios which draw on technologies and distribution models in digital and online media and can aggregate audiences and serve as effective 'channels' to deliver public service content in the future. Ofcom may be prematurely narrowing its assessment by focusing heavily on broadcasters and not exploring these options in more detail. We touch on these options in more detail below.

Ofcom also highlights the value users place on search engines to discover content on the internet. Ofcom goes on to suggest that search is "*consolidating its position as the starting point for the vast majority of online experiences*". This is over-stated. Search is one starting point for many users but by no means the only one. Branded portals, community sites and social networking services are increasingly valued by internet users as a means of connecting with like-minded individuals and navigating the web through recommendations from peer groups and via editorial. We comment further on the role of search below.

Section 6

In maximising the reach and impact of public service content in the future, what roles can different platforms and services play?

Ofcom suggests that it could work with market providers of search to boost the reach of online public service content. In other words, this could be a necessary step to ensure that search engines “*give the prominence desired by their users to online public service content, whatever its source*”. This analysis misunderstands the incentives behind search.

Internet users turn to search engines to find content and information online which they are looking for. Search engines compete on their ability to deliver results which are most relevant to the query and therefore to the user. If users do not find what they are looking for, they may go elsewhere. And they do.

Yahoo! strives to return the most relevant results to its users, in all markets. Local results are an important part of this, and Yahoo! has invested resources to give local results the appropriate priority when matching the user’s intent. Our years of experience and testing have shown that this local tuning provides results that are most relevant to the user (expressed in their search query). For example, if the user was searching on a brand name of an international company, the local company web site would be the most relevant result. Hence the results on a local Yahoo! search in the UK (yahoo.co.uk) are different to yahoo.com

Yahoo! invests in improving relevance for UK internet users for all types of content, including audiovisual content which users may be searching for. In addition, as part of Yahoo!’s open policy, tools are now available for webmasters to create richer results which improve the user experience¹.

The quality of the results depends partly on the terms the user types in the search box, the quality of sites and the way in which they are indexed for search engines (known as “search engine optimisation”). This is in the hands of the media owner and outside the control of the search engine. Thus, search is most useful as a way to achieve reach and impact of online public service content only if the user knows what he/she is looking for. Search cannot be considered a substitute for the role content programming plays in traditional broadcasting by introducing viewers to content they would not otherwise look for. For example, a broadcaster can schedule a documentary after a popular soap in the hope that some of the audience continue watching rather than switch over or switch off. The closest online equivalent would be recommendations from peers in online communities or social networking sites, or edited selections surfaced by a provider.

Working with search engine providers would only get you so far. Ofcom does not discuss the contribution alternative channels or means of aggregating audiences could make to improve the reach and impact of public service content online. Providers of public service content would have to exhaust a number of innovative distribution models before the manipulation of search results could be considered a proportionate policy response. These options merit further examination during phase two.

¹ See <http://developer.yahoo.com/searchmonkey/>

Section 7

What are your views of the high-level options for funding public service broadcasting in the future?

Yahoo! strongly supports the general principle set out by Ofcom in this consultation that the regulation and provision of public service content should not crowd out or compete unfairly with commercial business models. The same principle also applies to potential sources of funding. We see merit in exploring in more detail the possibility of creating a public fund for commissioning content which is independent of the delivery channels. This would permit a more flexible delivery model which could secure greater reach and impact through the use of non-exclusive, innovative rights models and distribution via multiple channels. We feel that Ofcom has overlooked the potential of distribution partnerships with commercial online service providers and aggregators as a means of generating revenue for content creation. Ofcom should explore advertising supported models (including revenue share) in phase two. We discuss these options in more detail below.

Of the four possible models for long-term delivery of public service content, which, if any, do you consider the most appropriate and why? Are there any alternative models, or a combination of models, that could be more appropriate and why?

Ofcom raises two questions: should some or all publicly funded PSBs retain special roles in the delivery or public purposes in future and should funding be available beyond the BBC. Yahoo! has no objection in principle to some of the existing commercially-funded PSBs retaining some role in the delivery of public purposes. PSBs have an important role to play in the UK's media landscape and promote high standards throughout the industry. It is however important to assess the scope of their remit with respect to online content and, if market provision is sufficient, narrow the scope of public service provision to only those areas where the market does not make adequate provision. It is also less clear that this role should be 'special' in the sense that it is exclusive.

Yahoo! strongly agrees with the requirements of a future model which Ofcom sets out in fig 48. Complementarity is an important test to ensure that public service provision does not crowd out or discourage market provision. This assessment will be particularly important for any future recommendations about *online* provision. The BBC already accounts for a significant proportion of the UK's online audience and creates a difficult landscape for other media owners to compete. If there were plans to grant further preferential treatment to public service *providers* of online content services, we would expect a similar market impact assessment process to be in place. We ask that Ofcom weights its assessment in phase two accordingly.

Models 3 and 4 consider the possibility of some competitive funding. We believe that Ofcom is right to consider alternative funding. However, Ofcom's analysis seems to define "providers" as both creators *and* distributors of content. A theme of the first public service broadcasting review was the importance attached to broadcasting *rather* than broadcasters. We believe this remains very relevant for the second review in respect of online content. If audiences are fragmenting and moving away from traditional channels but still value public service content, Ofcom has a responsibility to explore alternative

ways of making this content available to users in the online spaces *where they are now*. These innovative and risky business models (i.e.: where the production of content and distribution are carried out by separate entities) will take time to develop, but it will be important that Ofcom does not prematurely narrow the discussion by failing to consider them at all.

With respect to online content, models 3 and 4 could also explore the following options:

- A content producer could bid for funding to develop content to meet a public service purpose that is not met by the market. He could then partner with one or more online service providers who have an audience in the target group to deliver the content.
- The funding body could commission the content from a producer to meet a particular public service purpose and negotiate distribution agreements itself. The content could be made widely available via a range of online channels.

Both these models open the possibility commercial arrangements to share advertising revenue, with a share returning to the funding body to invest in more public service content. Advertising-supported video services are still in their infancy and it would take some time for this to be a meaningful revenue stream, but it is worth exploring for the longer term and should certainly not be ruled out at this stage.

Both models also overcome the difficulties often associated with distributing public service content today, that is the refusal to supply by a media owner who both commissions the content and controls the sale of distribution rights. If content is produced using public funds, ownership is less of an issue and the rights model can be more open. Funding via an agency also opens the possibility of using a rights model (such as Creative Commons) which allows the audience to view, consume and mash the content to create new works. This was explored in the work that Ofcom did on the Public Service Publisher idea. This is worth exploring again in phase two.

Section 9

To what extent do you agree with Ofcom's assessment of the likely future long-term issues as they apply to the nations, regions and localities of the UK?

Internet users continue to value content which is local to where they live. There are also new opportunities to target and monetise local services in the fixed internet and mobile environment. We would expect this market to develop in the future.

It will be important that Ofcom also applies the framework it set out in fig 48, particularly the test of complementarity, to the options it considers for regional content *online*. Providers of online services who aggregate rather than commission or produce their own content will look to the market for potential sources. This model relies on this downstream market being as competitive as possible. This raises two issues for the review. First, it will be important that obligations placed on public service providers do not crowd out investment by competing providers such as news agencies, local newspapers or local production companies. Second, where there are limited sources of this content, public service providers or recipients of public funds should also be incentivised to make the content available to alternative distribution channels on fair terms.

Section 10

Do you agree with our assessment of the possible short term options available relating to children's programming; are there any other options available?

Ofcom's analysis focuses heavily on traditional broadcasting at a time when evidence shows that the internet (and mobile internet in particular) will be a child's medium of choice in the future. Ofcom's approach to providing content for children needs to explore this in more detail in phase two.

There is a range of potential models to provide public service content for children online. However, it is likely that many will flow from distribution models that rely on an ability to advertise to this audience. The environment for developing such models in the UK market, however, remains hostile for new investors. It is not that the current regulatory framework is unfavourable, rather the threat of new and burdensome regulation feels very real to media owners and advertisers. Ofcom should consider in its analysis in phase two how this uncertainty could impact the development of quality online content for children.

Additional comments

Implications for content regulation

Ofcom makes some preliminary observations in section 7 about the potential implications of new models of public delivery for content regulation more generally. Ofcom has a clear duty to ensure that content which is produced with public funds or by bodies which benefit from special public service status meet appropriate standards of quality. We agree that a difference in regulatory frameworks between public service and other content is not undesirable.

There is, however, a tension between commercial PSBs and non-PSB providers of content, usually because the former can feel disadvantaged by the additional costs they incur because of the high quality standards imposed by the PSB framework. This has, in the past, led to calls for *all* content providers to be subject to the standards set by the PSB framework. Ofcom needs to consider this tension in its assessment of the frameworks to be presented in phase two. It will be important that the future regulation of PSBs is not so harsh as to further weaken their business model (or make business transformation harder) and incentivise calls for a framework that will strengthen it at the expense of providers who have chosen an alternative, commercial model. This would not be in the long-term interests of the UK's media and creative industries as a whole.

Conclusions

Ofcom's starting point for its analysis of public service broadcasting in the UK is the changing expectations and viewing habits of the UK public with respect to current broadcast services. Ofcom is right to focus at this stage on the pressure these changes are placing on the obligations PSBs have under the existing framework. However, it must be careful not to continue the review along such narrow lines but to widen its perspective in phase two and focus on how to meet users' expectations and developing needs from digital and traditional, broadcast media in the future. It is a fact that

audiences have moved away from traditional broadcasting to other media and many will not return. The challenge now is to explore the wider options in the media landscape as a whole.

These options will touch on nascent business models in the new media space. We strongly encourage Ofcom to engage with these non-traditional stakeholders to understand these business models in detail. It will be important to ensure that there are no unintended consequences for these models arising from options Ofcom considers for future provision of public service content.

About Yahoo! UK & Ireland

Yahoo! UK & Ireland is a subsidiary of Yahoo! Inc., a leading global Internet brand and one of the most trafficked Internet destinations worldwide. Yahoo! is focused on powering its communities of users, advertisers, publishers, and developers by creating indispensable experiences built on trust. Yahoo! is headquartered in Sunnyvale, California.

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