

Information seminar: Market Impact Assessment of the BBC's new on-demand proposals

Monday 18 September
Riverside House

Welcome & introduction

Kip Meek

Chief Policy Partner, Ofcom

Agenda

- **Background and framework** **20 minutes**
Chris Woolard
Head of Compliance & Value for Money, BBC Governance Unit
- **Methodology for Market Impact Assessments** **20 minutes**
Gareth Davies
Project Director, Market Impact Assessment, Ofcom
- **BBC's new on-demand proposals** **30 minutes**
Tony Ageh
Controller, Internet, BBC
- **The information gathering process** **20 minutes**
Guy Nesdale
Project Manager, Market Impact Assessment, Ofcom
- **Questions** **15 minutes**
All



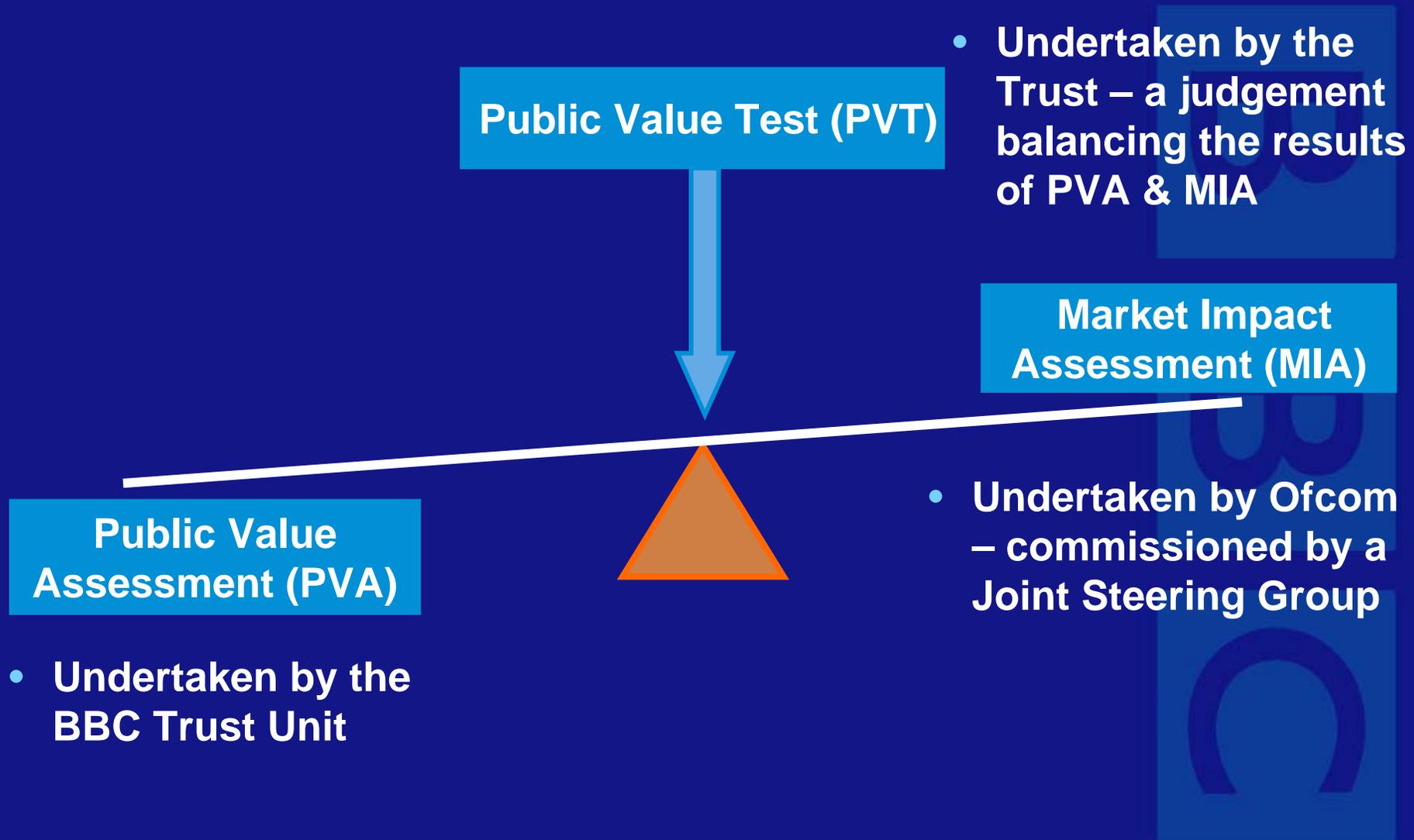
The Public Value Test

Christopher Woolard
Head of Compliance and VFM

September 2006



The Public Value Test process comprises three parts



Joint Steering Group

Ofcom and the BBC Governance Unit

Kip Meek, Chief Policy Partner

Tim Suter, Partner Content and Standards

Peter Culham, Chief Economist

Richard Tait, BBC Governor

Nicholas Kroll, Director of Governance

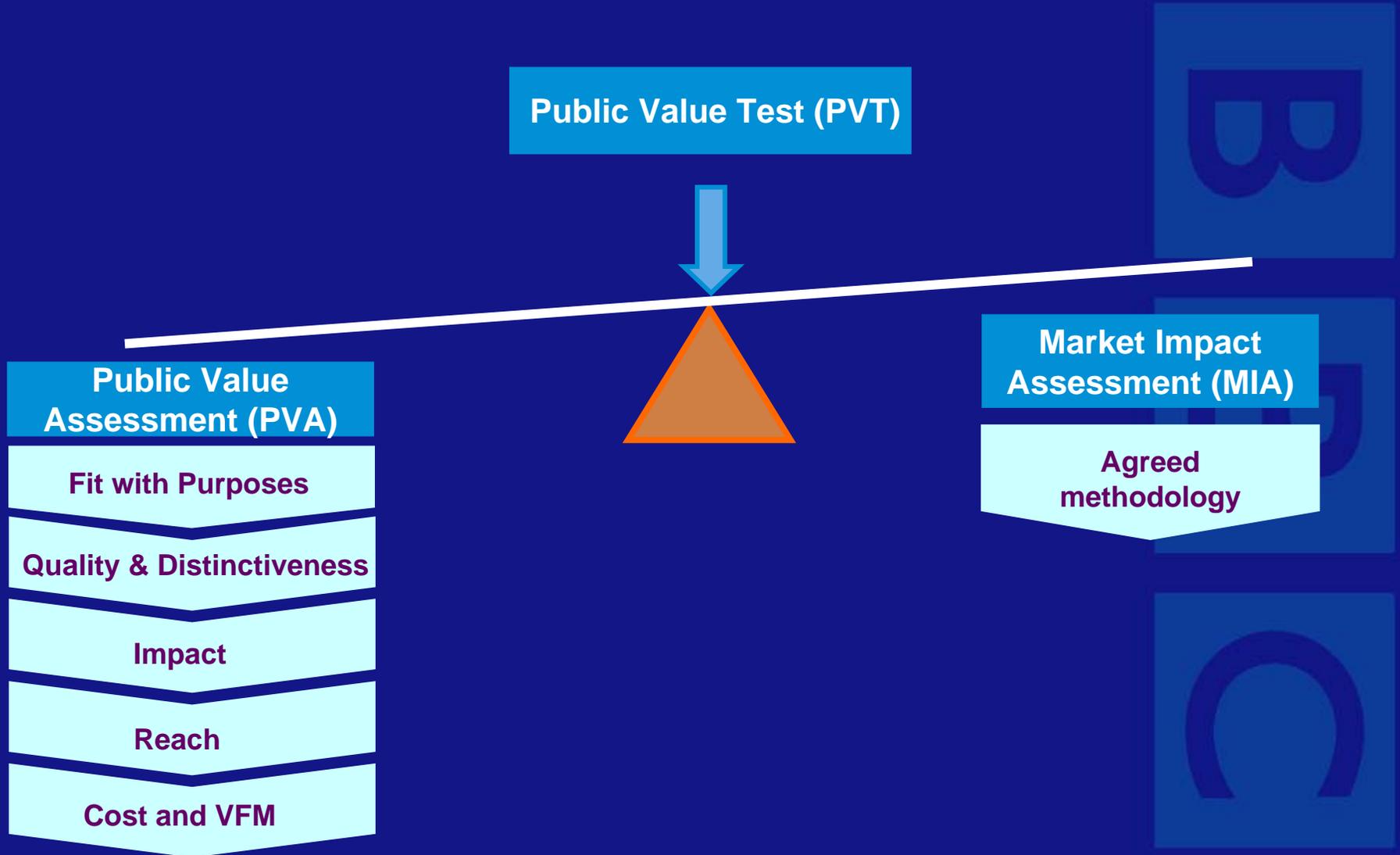
Christopher Woolard, Head of
Compliance and Value for Money

The JSG:

- Sets the terms of reference for the MIA
- Agrees the potential relevant markets for the assessment after considering advice from Ofcom
- Ensures the MIA is conducted in a manner appropriate to the nature of the Public Value Test and to a suitable schedule



BBC Management proposals are considered against the key drivers of public value and market impact

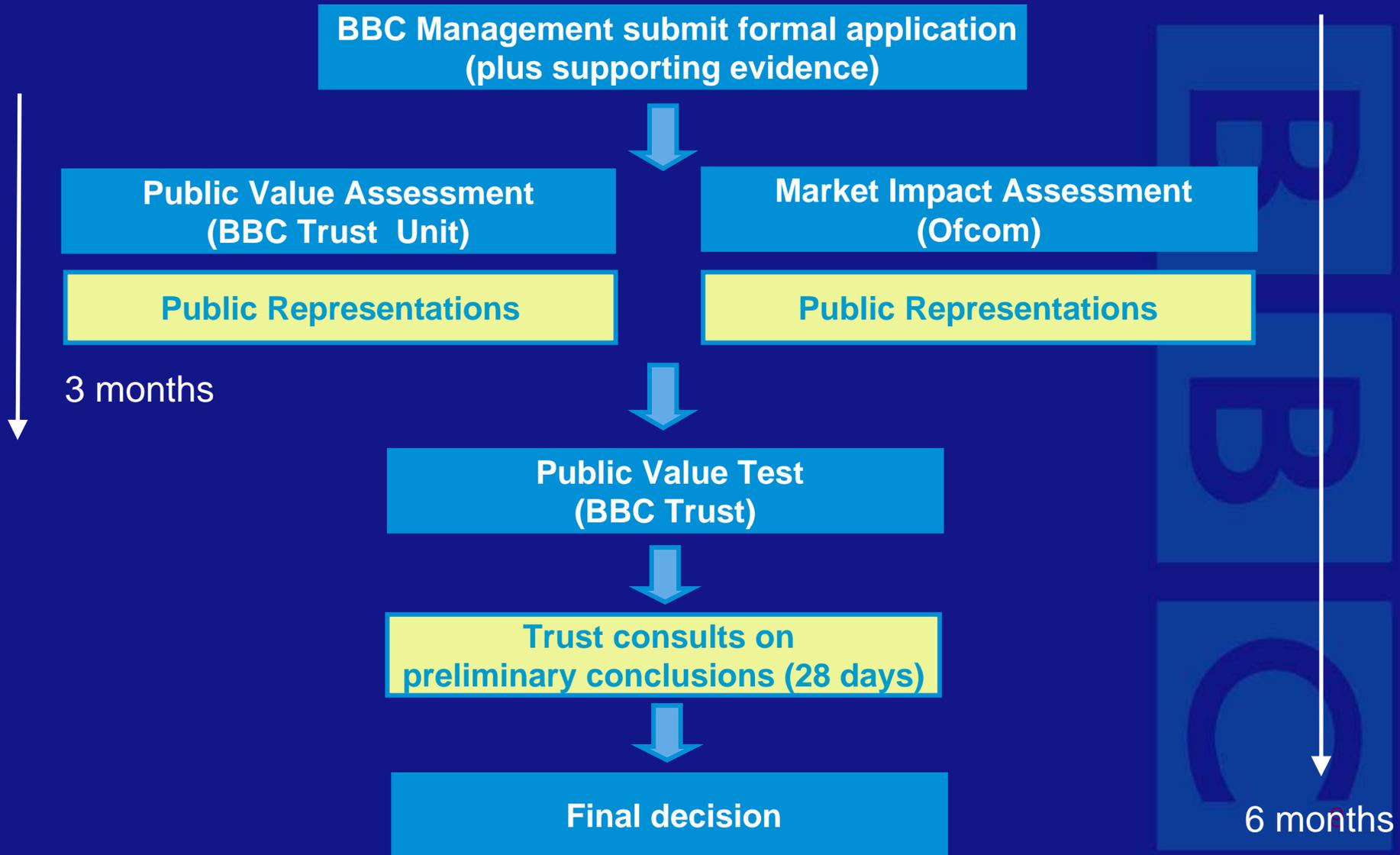


The PVA and MIA

The PVA and MIA components of the Public Value Test must be:

- a) **Comparable** – the costs and benefits they estimate must be considered together in the final balancing act of public value and market impact
- b) **Comprehensive** – all relevant costs and benefits should be considered, either in the PVA or MIA
- c) **Coherent** – they should be based on the same core data and assumptions (having regard to any overriding confidentiality obligations) and they should not “double count” the same costs or benefits

The Trust balances the likely public value created against market impact before reaching its decision



What next?

- Invitation to make representations
- More details at www.bbcgovernors.co.uk
- Questions?



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The proposed structure of the MIA

- Step I: **Market definition**
 - Ofcom defines the relevant markets
 - The MIA will identify the market to which the service belongs, as well as other related markets where the service is likely to have a significant indirect impact
- Step II: **Impact analysis and assessment**
 - The MIA will assess the static and dynamic effects of the introduction of the service in the market to which the service belongs
 - The MIA will also evaluate the wider effects in other markets (taking into account the potential areas of overlap with the PVA)
 - We will also consider key aspects of the service that could be amended to improve the overall impact of the service

STEP 1: Market definition (i)

- The MIA analysis should be structured by clearly defining the markets where the service is going to have its most immediate impact i.e. the 'own' market
- The key question for this analysis is which services are likely to be impacted by the new BBC service?
- Consideration of other markets may be relevant at this stage:
 - markets for derived or related downstream services
 - markets for inputs to the BBC service
 - markets for products offered on the same platform

Market definition (ii)

- The market definition exercise will follow the practice and methods adopted in competition policy, but:
 - Markets are likely to be defined more broadly than in competition policy cases, since the focus of the MIA is not on the constraints on market power, but on comprehensive impact assessment
 - Markets defined in previous regulatory investigations and competition policy decisions are likely to provide useful starting points for the analysis (but not substitutes for it)
 - Broader sector characterizations provided in market research/industry surveys can also be useful
- Market definition will be only a step in the analysis and no conclusions will rely exclusively on the market definition adopted for the analysis
- Due to the differences with competition policy, market definitions are not likely to be relevant (and certainly not binding precedent) for Ofcom's competition investigations & enquiries

STEP 2: Impact analysis and assessment

- **Static analysis in the service's own market**
 - Impact of the new BBC service on the usage of other services in the same market
 - (Short term) reactions of the actual competitors in terms of prices and product positioning
- **Dynamic analysis in the own market**
 - Impact of the new BBC service on incentives for long-term investment in the market to which the service belongs (including entry and exit decision)
 - Possible network effects in this market
- **Analysis of the “wider” impact in other markets**
 - Impact on input markets, downstream markets, and platform development
 - Creation of new markets
 - Increased investment risks in other markets where BBC entry may occur

Both the negative and positive effects will be examined and considered in step 2

The final output of the MIA

- The MIA will provide an evaluation of the impact on consumers, producers, advertisers and other participants in related markets. It will most likely comprise a list of likely “costs” and “benefits” and an attempt to compare them
- The assessment of some effects is likely to remain purely qualitative, especially those related to
 - investment incentives and innovation
 - platform development
 - creation of new markets
- The MIA analysis may also include some sensitivity analysis to
 - point out which dimensions of the new BBC service have a particularly strong impact on the overall assessment and
 - help identify possible modifications to the service to remove/mitigate some of these effects

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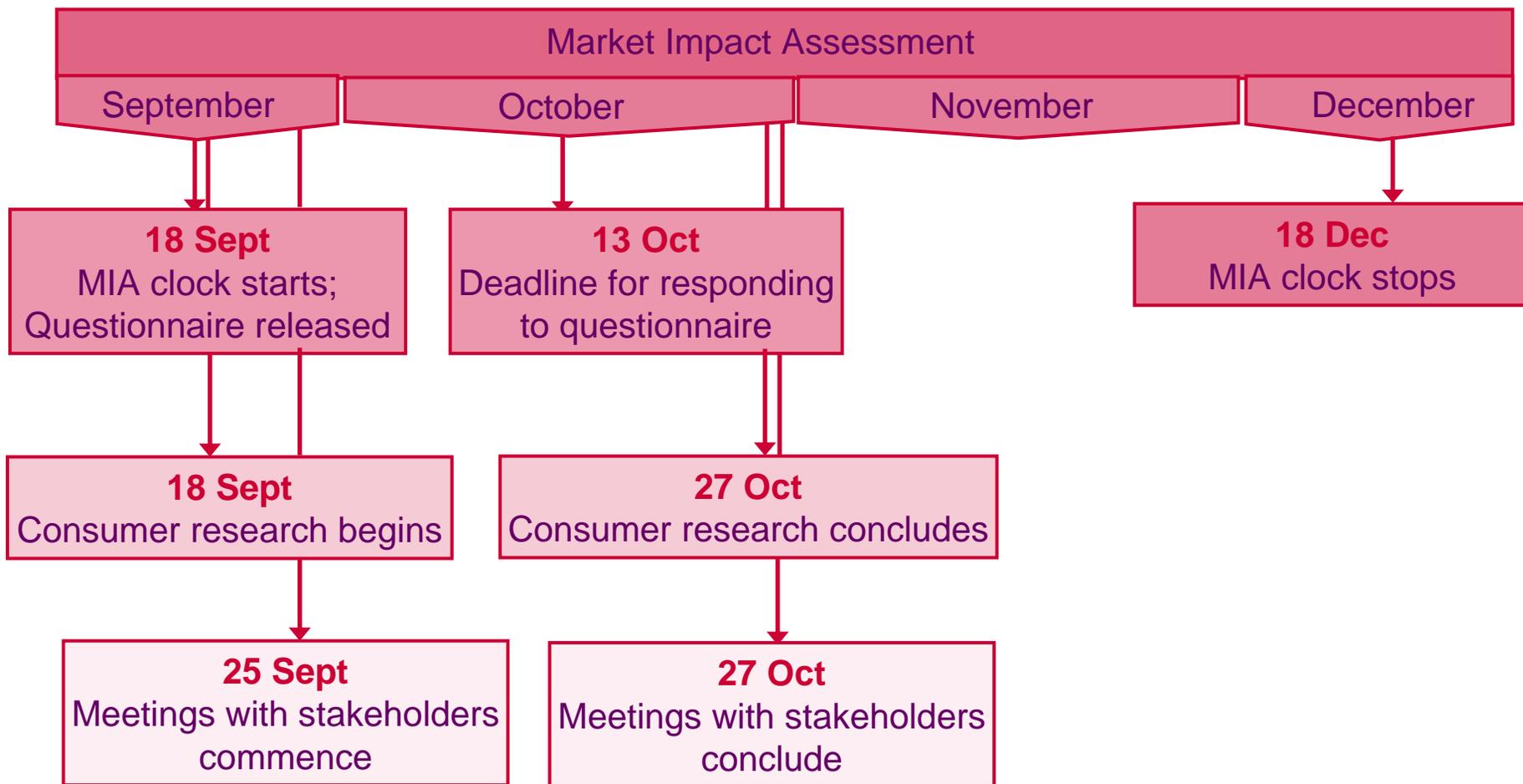
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Information gathering

- We will be gathering information by three main mechanisms:
 - Consumer research
 - Written questionnaire for stakeholders – written submissions
 - One-to-one meetings
- Only comments and points substantiated by evidence can be taken into account in the MIA
- Very tight timetable so it is critical we meet deadlines.

Information gathering timetable



Questionnaire

- Available to download on the Ofcom website
- Any stakeholder may respond
- Designed to provide structure to responses, but allows for other information to be submitted too
- 2 sections:
 - Short form questions – overall summary setting out key questions
 - Long form questions – fuller set of questions
- Prefer respondents to answer long form questions but we recognise this may not be possible for all stakeholders so the short form option is available
- Responses should be submitted by 5pm Friday 13 October to rhona.parry@ofcom.org.uk

Stakeholder meetings

- We will be available to meet stakeholders either individually or in small groups at Riverside House from 25 September to 27 October
- Please let us know if you would like to meet with us
- We will also be seeking meetings with certain stakeholders to help us gather important evidence
- To discuss the impact of this MIA only – not MIAs in general
- Will complement written responses to questionnaire

Confidentiality

- All responses received by Ofcom will be treated as non-confidential unless respondents specify that part or all of the response is confidential and should not be disclosed
- Please place any confidential parts of a response in a separate annex and also clearly state why you consider these parts to be confidential
- Non-confidential responses will be shared with the BBC Trust unless a separate MIA response is prepared which is clearly marked as for Ofcom only

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Questions

Useful resources:

<http://www.bbccharterreview.org.uk>

<http://www.ofcom.org.uk/research/tv/bbcmias/ondemand/>

Contacts:

Ofcom – Rhona.Parry@ofcom.org.uk

BBC – James.Heath@bbc.co.uk