An Independent Preliminary Assessment of the Market Impact of the BBC's Local Video Proposals

FINAL REPORT

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Contents

Preface

Human Capital has been asked by BBC Management to undertake a preliminary and high level market impact assessment of the proposed Local Video Proposals[1]. The Terms of Reference for the study require an assessment of the approaches likely to be taken by Ofcom and the key issues to be addressed. The following elements should be included:

- Define the relevant markets in which the BBC's Local Video proposals will operate;
- Identify other economic activities that may be affected by the BBC's proposals;
- Identify a suitable counter-factual – i.e. considering how the relevant markets may develop in the absence of the BBC's proposed offering;
- Assess the impact on these proposed markets of the BBC's proposition, including impact on size and speed of market development, competition, innovation and investment.

This report, undertaken by Robin Foster and Robert Kenny, sets out the results of this analysis. After the Executive Summary, it examines first the approaches to defining the relevant markets, and then assesses likely market developments in the absence of the BBC's proposed offerings. Next it turns to the possible impact on the market of the BBC's involvement, and finally comments on the key issues and uncertainties. This report is a preliminary analysis and does not contain a full market impact assessment. It draws largely on existing market analysis, competition cases, and research, and does not quantify in detail the possible impacts of the BBC's proposals.

[1] We shall use 'local video news' in this document as a shorthand description for the proposed service, although acknowledge that it does include related non-news content.

Executive Summary

The BBC proposal

The BBC proposes to launch local video news offerings to complement its current provision of regional video, local audio and local text news content. The new offerings will be available in 60 cities and counties across the UK (five will be in both English and Welsh), at a cost of £23m[2] a year, and will be distributed on-demand via broadband. Up to 20 minutes of original video stories per area will be made each day, and users will be encouraged and helped to add their own content. The offerings will be embedded within the BBC's other local online content, which is currently available on the "BBC Local" sites, and will also be syndicated to third parties.

The new proposition has been designed to offer content in ways which are different from those currently offered or likely to be offered by other providers. They are largely based around the geographic coverage of the BBC's local radio services, rather than on the smaller and more localised areas which are typically covered by most local newspapers. They will focus on local news, sports, travel, weather and community whereas local newspapers and their associated online sites offer a wider range of content. Unlike the more extensive bulletins offered by regional TV providers, the BBC will provide relatively short stories available individually on-demand.

The BBC's offering will be distinct from all other local services in that it will be UK-wide, and that it will have production assistance for user generated video. Relative to almost all the online alternatives, it will have each of higher production quality, higher visual appeal, and more in-depth journalism[3]. It will also be impartial and free of advertising.

Arguably, the BBC's proposals could help benefit the overall market for local news provision, by familiarising users with local on-demand news content and formats and by encouraging demand and usage for such services.

Nevertheless, if the BBC is successful in attracting audiences to its new offerings, there will be an impact on the performance of some other local news providers, however indirectly they compete. This high level assessment examines the nature and likely scale of that impact in the different markets which might be affected by the BBC's plans.

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[2] 2012/13

[3] See separate Distinctiveness Analysis for a detailed analysis

Note that in this report we have considered only the market impact of the addition of local video. We have not considered the impact of the "BBC Local" sites, which are an existing service. The "BBC Local" sites already provide local news, sports, weather and travel information in text and still picture format. In addition a small amount of video, primarily reversioned material from BBC Regional News, is also available through the "BBC Local" sites. These sites reach approximately 5m unique UK users per week. In assessing the impact of local video, we have factored in the additional impact that may result from the promotional advantages of this existing traffic base.

Relevant markets

First, we consider which markets should be examined by the MIA. The complexities involved are significant, especially given rapid change in the provision of local news and other local services, and prospective developments in broadband markets which are as yet still not mature. At its narrowest, the MIA might focus solely on other providers of online video local news, while a broader perspective would take into account broadband multi-media services, especially as many local newspapers are transferring their content online, and are beginning to offer audiovisual content alongside their more conventional text-based services. More widely still, the relevant market might encompass local print newspapers and local commercial radio stations, both of which currently supply local news as part of their content mix.

For this paper, we have examined existing relevant competition cases, assessed likely market developments and conducted some new consumer research.

Competition analysis

The standard competition policy approach has tended to take the view that there are discrete and separate economic markets for different local media (e.g. local newspapers have been found to exist in a different economic markets to local radio). This has been judged to be the case both for the end-user market (listeners, viewers or readers are thought to use different media in different ways, and do not see them as close substitutes for each other), and the advertising market (advertisers have been judged to use different local media for quite different marketing purposes, and cannot easily replace one medium with another).

If this analysis were to be extended to the BBC's proposed local news offerings, it would suggest that the BBC's offerings would be largely complementary to other sources of local news rather than competing with them.

Market developments

Our market assessment, however, suggests that a wider perspective may be needed. Technology and consumer change is leading to the erosion of old market boundaries, and creating new potential market opportunities. Local television services may emerge, using broadcast and broadband distribution. In the new broadband world, services which have been designed initially for broadcast television will increasingly compete with those which began life as a print newspaper. Convergence means that markets become wider, and more diverse, and new services can emerge, posing new competitive threats to the incumbents. This MIA needs to consider the key trends in this rapidly changing world, and assess whether the BBC's proposals will have any material impact on likely developments.

Consumer research

Consumer research undertaken for this preliminary market impact assessment reveals that most people use a broad range of media for local news (63 per cent[4] of those surveyed use three or four different sources), suggesting that the different media are often complementary to each other, rather than direct competitors. In particular, those who are the keenest consumers of local news seem likely to seek it from as many different sources as are available. The great majority of respondents would not change their consumption of other sources of local news, even if the BBC's new video offerings become available.

These findings were generally supported by the (limited) evidence available from the West Midlands pilot, and by previous BBC experience with local broadband services in Hull.[5]

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[4] BMRB consumer research 2008

[5] Although – see later – in Hull, data suggests that the local newspaper may have experienced an above average circulation decline during the period of the Hull broadband trial. Roger Laughton's report for the BBC contains further analysis of both the West Midlands and the Hull experiences.

Drawing on this analysis, we have therefore assessed the possible impact of the BBC's proposals in the following (broadly defined) markets:

- Offline services
  - Local print newspapers;
  - Local commercial radio;
  - Regional TV;
  - Local television;
- Online services
  - Local online services provided by newspaper publishers and other established media providers;
  - Other local broadband developments.

However, we note that the BBC's proposals do not directly replicate any of the existing or proposed services in those markets.

Geographic Dimension

Clearly, the relevant markets for this assessment will also have a geographic dimension. The impact of the BBC's proposition might, for example, vary depending on the nature of the local area being served (densely populated or rural), the extent to which strong commercial players already exist or might emerge, and the relative strength of potential commercial demand in each area. Competition cases reviewed for this assessment have focused on the local markets defined, for example in terms of local radio coverage or local newspaper circulation.

However, it would not be appropriate for an MIA to be carried out at the level of each of the 65 BBC offerings. The work needed would be disproportionate to the scale of investment proposed and to its likely impact. Further, the results would offer only a snapshot in time, which would be of little value as future guidance in a rapidly changing and uncertain market. Finally, many of the key determinants of market impact – consumer propensity to use different media, competitive threats from new entrants, developments in community media, costs of news provision and so on – are common across the UK.

Our conclusion therefore is that the MIA should begin by examining the general trends and developments that will affect all areas covered by the BBC's new proposition, and which will provide a broad overview of the benefits and costs associated with it. We then consider the extent to which those impacts might vary across four broadly defined area types, in order to capture any key variations from the general results. Those areas are defined as: metropolitan, urban, mixed and rural. These four types, we believe, allow a sensible level of disaggregation of the analysis.

Scale of BBC intervention

Before looking at each of these markets in more detail, we have compared the scale of the BBC's proposed intervention with that of existing competing operators.

Resources

Although we have been unable to access data in sufficient depth to conduct a detailed comparison, our preliminary assessment suggests that the BBC's proposed investment is not significantly out of line with the amounts currently being allocated to local services by other media. The BBC's local video proposals will involve total annual spend rising to £23m in 2012/13 [redacted]. In addition, they will be able to call on some editorial support from the BBC's wider regional news operation, which has a budget of around £100m (for a total of £123m).

These figures are higher than ITV's budget – it spends £114m on regional news and non-news TV programming[6], of which £85m is estimated to be on news[7], but significant reductions are expected. In addition ITV spends an estimated £32m[8] on itv.com and itvlocal.com combined though this figure is inflated by the relaunch of itv.com and the full roll out of itvlocal.com nationally. Of course the amount spent on new local video (comparable to the BBC's £23m) is likely to be much smaller than £32m total ITV online budget.

The proposed BBC spend (regional news plus video news) is far below the total annual spend by local newspapers which have total costs of £2.6bn, and total editorial staff costs estimated at around £320m. As an example, Johnston Press had cost-of-sales of £312m (costs other than administration and distribution), and had 63 staff in its central digital team (supporting local digital efforts) and invested £9m in its digital operations.

Individual local newspapers vary significantly in size from place to place, and between daily and weekly papers, but data reported by the Newspaper Society suggests that the total staff costs are £1.15bn with a total number of

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[6] ITV 2007 results press release

[7] NUJ estimate, reported in *The Guardian*, "ITV slashes regional news budget", 12/9/07

[8] Human Capital estimate, based on ITV plc 2007 results announcement and Friends Reunited 2006 margins. A split between itv.com and itvlocal.com is not available

1303 titles. This seems to imply staff costs of around £880,000 per newspaper with an average of 33 full time equivalent staff (9 of which are editorial staff). Local daily newspapers in larger towns and cities are likely to have significantly higher revenues and editorial budgets. On average each BBC Local News offering will serve an area covered by approximately 22 local newspapers[9].

Precise figures for radio are not available, but Ofcom has very roughly estimated the cost of local content on commercial radio at £290m per year[10]. At a micro level, the BBC's projected spend equates to £350,000 per offering per year[11] [redacted]. The scale of existing local TV services varies, but Channel M spent £6.20m in the year ending 2 April 2007 (up from £2.26m in 2006), of which staff costs accounted for about a third.

Projected reach

The BBC's local video offerings will build up over a period of four years, and will attain "steady state" in 2012/13, by when the projected weekly household reach is 11% per cent.

This is a reasonably modest target, and compares with current weekly reach in relevant geographic areas of 49 per cent of individuals for local commercial radio[12] (BBC local radio at 20 per cent), 63% for BBC regional TV[13], around 11 per cent for local TV[14], and a range of local newspaper reach figures[15]:

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9 1303 newspapers vs 60 areas

10 Ofcom, *The Future of Radio*, November 2006

11 For 2012/13

12 RAJAR

13 3 min consecutive BBC 1 regional news average weekly household reach, Q4 2007, from BARB

14 Figure for Channel M quoted in *Manchester Evening News.* Note that North West Television Services (owners of RSL Channel 9) claims over 60% in *Response to 'Digital Dividend Review – A Consultation' Issued by Ofcom on 19 December 2006*

15 JICREG

Type	Title	Reach	Target population	%
Metropolitan	Manchester Evening News	1,008,000	3,896,917	26%
Urban	Liverpool Echo	533,000	1,165,308	46%
Mixed	Coventry Telegraph	226,000	704,921	32%
Rural	Gloucestershire Echo	106,000	436,256	24%

In other words, the BBC is not proposing a disproportionate scale of investment, or planning an excessively high reach for its offerings.

Impact assessment

Impact on local print newspapers and local radio

Our view is that the BBC's proposed offering will have a relatively low impact on local print newspapers or local commercial radio. It will have markedly different characteristics from those of local newspapers and radio, and will likely be used in different environments. People will turn to local newspapers for a wide range of local news, information, public notices and classified advertisements. They will listen to local radio for music, entertainment and chat.

Moreover, even when looking specifically at news, different media are not direct substitutes, in the sense that consumers will generally consume news from several different sources. BBC research conducted by BMRB shows that 63% of respondents consumed local news via three or more different media (and potentially even more different outlets).

Of people surveyed in 2008 research[16], 93.9 per cent would not change their readership of paid-for local newspapers, and 94.3 per cent would not change their radio listening, if the BBC introduced new local video offerings[17]. In each case, fewer than 5 per cent would reduce consumption either slightly or by a lot.[18]

It is unlikely that any such decrease, if replicated in the actual marketplace would have more than a marginal impact on revenues and profitability (and newspapers' offline revenue represented 98.1% of total revenue[19]). The BBC's offerings will not compete with either newspapers or radio for advertising revenue. There may be a marginal impact on news costs (see later), which could affect local radio news provision especially by some smaller commercial radio stations. The scale of this impact would require further detailed analysis.

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[16] BMRB research for the BBC, March 2008

[17] Note that there is an important (unavoidable) research effect in the BMRB results. A prime barrier to consumption online is awareness – people might use a particular site if they knew of it, but they simply never discover it. However, the survey itself makes respondents aware of the offering. To allow for this, in these impact figures we have included only those who would 'definitely' use the offering (and have access to broadband). Those who said they were 'likely' users have been excluded from this impact analysis. (Had they been included, those reducing their paid newspaper consumption, for example, would rise from 4.6% to 13.6%)

[18] Note: some respondents indicate that their consumption of newspapers and radio would increase.

[19] Newspapers Society figures for 2006 (total revenues £3.87bn, digital ad revenue £71m, digital publishing revenue £0.6m)

Impact on regional television

Our expectation is that the BBC's proposed offering would have very limited impact on the viewing to news output of regional TV services in similar geographic areas. The mode of engagement, the relatively small amount of time spent with online video content and the different audience demographics will all act to keep the impact low. This is supported by the results of the trials of a BBC local TV service in 2006. This was a significantly greater threat than the currently proposed service in that it included both a broadcast and an online version, but nonetheless there was no detectable impact on regional TV viewing.

The 2008 BMRB research tells a similar story. Less than 6% of ITV regional news watchers were likely to see a reduction in their consumption as a result of the launch of the BBC local video proposals.

Impact on local television

The impact of the BBC's proposals on Local TV services is less clear, given considerable uncertainty as to the development of this sector, but it is expected to be relatively limited. There are currently a small number of local TV operators in the UK, primarily making use of spare analogue spectrum (Channel M and MATV are available on Virgin and Sky). Their economic viability is marginal, their future is uncertain, and there is currently no digital spectrum earmarked for the continuation of such services (though Ofcom plans to auction blocks of interleaved spectrum suitable for, but not reserved to, Local TV). Ofcom, in its report on Digital Local services[20], examined the potential commercial viability of local TV services, and concluded that, outside of the main metropolitan areas, prospects were poor.

Our conclusion, based partly on a review of the Ofcom modelling, suggests that in many parts of the UK, (around two-thirds of the 60 news areas proposed) commercial local TV will not be viable. In the 5 -10 largest metropolitan areas, in contrast, the Ofcom modelling suggested that commercial local TV might be able to prosper, especially if backed by organisations which are able to share costs and promotional activity across a number of different media.

However, market developments since Ofcom's modelling suggest that the economics of local TV may be even more challenging than expected. No new channels have launched, and several have closed. Even Channel M, the

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[20] Ofcom, *Digital Local*, 2006. In its more recent report on the Digital Dividend Review, Ofcom however proposes to make available spectrum packages in the interleaved spectrum which would be suitable for local TV.

prime example of the integrated player that might prosper, continues to be substantially loss making, with margins of -170%.

Thus in many areas, the BBC's local news proposition may well be a unique video offering (given patchy roll-out by local newspapers of such services).

<u>Impact on local newspapers online</u>

All the major local newspaper publishers have indicated that they see broadband online services as a core part of their future strategy, and they view local news as an important component of their service proposition. It is important here to distinguish between the longer term dynamic effects of the BBC's proposals, and the short term or static impacts.

In the longer term, our assessment is that the BBC's proposals will have a relatively small effect on the plans of newspaper publishers and other established media players in the local broadband market, *compared with other market forces already in play*.

Local newspaper publishers, although experiencing a declining market for their traditional print medium, generally continue to enjoy high margins and have access to strong brands and extensive news resources. They face threats from new competitors in the online marketplace (for example, strong competition for revenues from online specialist advertising and classified advertising sites), and will need to respond to those threats by creating attractive new online products to retain their audience in the new medium. The BBC's relatively modest plans for local video news are unlikely to deter major newspaper or other established media investors from seeking opportunities in this emerging market, and will be much less influential than the proposals being developed by many more direct competitors for local newspaper revenues. In particular, the BBC's offer will not include classifieds, which are an important driver of traffic to newspaper sites. However, newspapers' websites are generally still making small or negative return, and there could be a chilling effect where business plans look most fragile. In some areas, in which further consolidation of the local newspaper market has occurred (or is likely to occur in the future), the BBC's offerings may be a modest but welcome source of additional choice for consumers.

However, the BBC local video content will enhance the attractiveness of the BBC Local sites and, at the margin, could shift some usage from local newspaper sites, which – to the extent that this translates into a reduction in advertising revenues - might have a small indirect effect on their profitability in the short term. 6.0 per cent of respondents to the 2008 survey said they would decrease consumption of other website local news services if there was a local video offering from the BBC.[21]

Impact on new local services

It is impossible to predict with certainty the extent or nature of new developments in the provision of local services in a more advanced broadband world. Indications are that many smaller groups and organisations, some of which are commercial, some not-for-profit, are interested in establishing local services. These range from ITV's existing ad-funded ITV Local service, to many smaller community TV proposals, which are based largely on user-generated content. While major cross-media companies (including ITV and many newspapers) may be well placed to make large scale investments in this emerging market, many smaller start-up companies will be less well positioned. The BBC's plans, if not sufficiently well-defined or clearly limited, could have a dampening effect on newer and smaller companies, given payback uncertainties and the perception that the BBC is likely to launch on a much larger scale than can be afforded by smaller start-up ventures. There are steps the BBC can take to address these concerns, including seeking new ways of collaborating or partnering with new ventures.

If the BBC is able to establish an early and clear lead in the provision of local online video news, then other providers, especially start-ups, could find it difficult to enter the market at a later stage with a viable business model. In particular, the embedding of the videos within the BBC Local sites will give them an immediate substantial audience not directly available to new entrants. However, this advantage will be significantly offset by the BBC's plans to include links to other organisations' local sites from the BBC Local sites. This will be particularly beneficial to smaller, independent sites that lack cross promotion from a traditional media player.

Other potential impacts

The main focus of this assessment is on the retail or downstream markets for local video news and related content. It is the impact of the BBC on consumer demand for content which will have most effect on other providers, by potentially reducing the consumption of those rival services, and indirectly their advertising revenues. However, we also look at key inputs for the proposed offering.

[21] But at the same time, 8.0 per cent of respondents said they would increase use of other local news websites, perhaps as a result of the outward links planned from the BBC site

The BBC's local video proposals could have an effect on the supply of inputs into the provision of local news resources. For example, by establishing a high quality local offering, the BBC could raise the entry costs for commercial providers, who might need to establish a more resource intensive news operation than they otherwise would have done to retain audiences. Our assessment is that this is unlikely to materially affect the main potential commercial local service providers (like newspapers and many larger local radio stations) who will be able to benefit from their own extensive resources, and currently spend substantial amounts on local newsgathering. However, increases in the costs of manpower and other inputs could affect smaller local providers disproportionately – small local commercial radio stations make only marginal profits, for example, and any increase to them in the costs of local news provision could have a significant adverse effect on their viability. Again, there are steps the BBC could take to address this concern

Positive impacts

The new offering is likely to have a number of broad positive impacts, including:

- Encouraging all audience groups to access and value local news
- In certain regions with limited providers of local news, providing an important extra element of choice for consumers and plurality of views for citizens
- Encouraging adoption of broadband (though this impact may be small)
- Supporting skills development for local video services
- Nurturing local production talent
- In some regions acting as a spur to the rest of the market to innovate and invest (though note that currently a number of newspapers lead the BBC in the provision of online local video news).

More specifically, the BBC is including a number of elements in its plans that will directly benefit third party providers (and by extension their audiences). Most importantly, these include:

- *Syndication of content.* Subject primarily to certain controls on appropriate context, the BBC would allow its local video content to be embedded in third-party websites (though note that local newspapers and others investing in their own journalism may find this widely erodes their competitive advantage)
- *Purchasing third-party content.* The BBC's budget for local video news will include funds for purchasing content from third parties, both in the form of a nationwide tender, and ad-hoc at a local level

- Links to 3rd party sites. The BBC plans to significantly expand its outward links from the BBC Local sites, both to the home pages of other local content providers, but also directly to individual stories. This will refer traffic across, but will also enhance the search ranking of these other sites.

Geographic variations

We are confident that the broad conclusions set out above will apply to a large degree in a similar manner across the UK, in each of the areas covered by the BBC's proposition. However, there may be some small but quite complex differences in the relative importance of each type of impact identified, depending on the type of area covered – as noted above, we have looked at four generic areas which we believe capture the main likely variations; metropolitan, urban, mixed and rural.

In metropolitan areas for example:

- The commercial market and competitive dynamics are likely to ensure entry and growth of existing and new commercial players, especially those able to operate across different media
- Many of the commercial players will have their own skills and resources and have less need for support from the BBC - promotional or otherwise
- The BBC's proposition may have a direct and adverse effect on consumption of these commercial services at the margin but they in turn, being better funded and with a diverse range of content, will be better able to prosper in the market.

In rural areas:

- The uncertain economics in these areas mean that there is a risk that the BBC's presence could deter entry or growth by commercial players offering local video content - although in some areas there is unlikely to be any commercial provision at all with or without the BBC, meaning users will depend on the BBC
- Smaller community based local services may feel outgunned by the BBC's better resourced proposition
- On the other hand, if the BBC can offer support to smaller local players and help promote their services, it could have an important positive effect on their longer term success.
- Moreover, in these areas both new and existing services will almost all be more local than the BBC' s offering, which will offset some of the BBC's advantages

In urban and mixed areas the impact is more balanced, lying between the two situations above.

The net effect of these different impacts is hard to predict with certainty. In larger markets, the BBC will operate alongside stronger commercial players who will be better placed to sustain any loss of consumption. And there are steps the BBC can take to offset some of the risks to smaller players in weaker mixed and rural markets.

Conclusions and observations

Overall impact

The BBC’s proposals might have a modest positive effect on overall demand for local news, could provide a competitive spur to the marketplace, and could help encourage the move to broadband, although only at the margin. They are unlikely to compete head-on with any single alternative provider of local news and content, but they could have an impact on the revenues and profitability of some of those organisations who might seek to provide local video news as part of a wider local proposition, the scale varying dependent on the player’s circumstances.

In general the impact will be lesser on existing, offline players, and greater on recent or potential online players. The former are in a stronger financial position, and will also feel less effect from an enhancement to a service in a different medium than will those themselves operating in that medium.

Turning to the longer term, or dynamic, competitive effects, the BBC’s proposals are not on a disproportionate scale compared with the resources of other established market players, and do not present any obvious and significant barriers to competition. There are, in any event, many other potentially more influential competitive developments which will affect commercial sector business prospects and investment plans, whether or not the BBC’s proposals go ahead. A concern, however, is the dampening effect that the BBC’s plans might have on the level of investment in new local broadband services, especially investment associated with small and potentially innovative start-ups.

Issues for consideration

There are several ways in which the BBC can design its local news proposition and how it interfaces with other providers, to address the identified concerns.

First, the BBC can offer reassurance to others regarding the scale and scope of investment planned now and into the future for its local video proposals. Competing providers need to understand how much the BBC will be spending, and to have a reasonable degree of certainty about the BBC's future planned developments. A detailed and transparent investment timetable would help.

Second, the BBC could delay the launch of its offering, to allow the market to develop and commercial players to plan, in the context of certainty as to the nature and timing of the BBC's local video plans.

Third, the BBC could be very clear about the range of content and information that would be available via broadband alongside the local news offering, and it could also set out the limits to its plans for local user generated content (other than assisted production). This will be a major concern of smaller community based sites, but also of rival commercial providers – if the BBC at an early stage becomes the market focus for local community networking, it will be very difficult for alternative competing services to emerge.

Fourth, the BBC could publicise its willingness to link to third parties, and the qualification criteria to receive such links. The traffic such links could generate may be a meaningful benefit to other sites, particularly smaller ones, and to build sustainable businesses they will need to understand how to obtain and retain these links.

Fifth, the BBC could publicise its budget for third party content, and explain what content will be most attractive for it to buy, to allow other organisations to factor this into their business planning. This spend on third party content will have the greatest external benefit if the level and distribution of the budget is such that individual third parties can actually receive meaningful sums.

The relevant markets

- Competition analysis suggests the existence of separate economic markets for different local media
- BBC proposals do not directly replicate any existing service, and will be used in different ways
- Wider market assessment concludes that we need to take a broader view of market definition, especially with the advent of convergence
- Consumer research and evidence from trials indicates that local news media are largely complementary, but that there will be competition for users at the margin – hence the BBC's proposition could have a small direct impact on the revenues and costs of competing local news providers
- While strictly each of the 65 BBC services may be said to operate in its own distinct market, there is enough commonality of market dynamic across these markets that market impact can be reasonably assessed on an an aggregate basis, or by region type

The BBC's Local Video Proposition

The BBC proposes to launch a local video news offering, which it believes will make a significant contribution to future public value. The offering will involve the creation and distribution of local video news content online to augment the BBC's current provision of regional video, local audio and local text news content. This proposal is at the heart of the BBC's long term digital strategy:

- It will address public demand for more localised video news services, which better reflect local and community interests and concerns (the current English regions, for example, are seen as being too large to be relevant to many local communities);
- It will provide more accessible, convenient and on-demand ways of consuming high quality local news and information, consistent with evolving audience needs in the broadband world;
- It will help address a longer term decline in audiences for conventional regional news programming, and introduce younger audiences to local news services;
- It will build on the BBC's existing local radio network and resources, to provide a truly cross-media offering focused on serving local communities.

Up to 20 minutes of new video stories per area will be created each day in each local area. This will be made up of a mixture of news, sports, travel, weather and community stories and information appropriate to the time of day (e.g. weather and travel).

This content will be made in 60 cities and counties across the UK. There are expected to be 10 local offerings in Wales (5 in each language), six in Scotland and 2 in Northern Ireland, with 47 covering England. This is a similar level of granularity to that of BBC local radio and the BBC's online *BBC Local* sites in England.

The new content will be available on demand over IP (i.e. methods using internet protocol), mainly over fixed broadband or via wireless devices such as 3G phones.

While aiming to deliver clear public value, the BBC recognises that it must avoid a disproportionately adverse effect on the relevant markets in which the new offerings will operate. The new offerings have already been designed to address some potential market impact concerns:

- Unlike existing local TV channels which currently offer long form news programming and other content, the BBC's offering will consist of relatively short stories generally only available online (they may from time to time be used on other platforms);
- These stories are based around the geographic coverage of the BBC's local radio services, rather than on smaller, more localised areas, which might overlap more directly with areas served by local newspapers (compared with the BBC's proposed 65 local news propositions, there are some 1,303 daily and weekly local newspapers in the UK);[22]
- They will focus on video news and news related content, rather than on the wider mix of local listing information, advertisements and other content which is likely to be offered by commercial local services (such as horoscopes, lonely hearts or find a plumber/car/house etc);
- In the West Midlands trial, the BBC has already successfully experimented with the potential for partnerships with other local service providers, demonstrating the scope for a complementary rather than a competitive approach to provision in each local area.

[22] Newspaper Society, *Analysis of the Annual Regional Press Survey Findings for 2006*

Nevertheless, if the BBC is successful in attracting audiences to its new offerings, this could have some impact on the performance of competing services, however indirectly. Such impact might be positive (for example, through stimulating an interest in and demand for local content, or through a contribution to training local video journalists) as well as negative (for example, by reducing demand for or increasing costs of rival services). The rest of this report considers the scale and scope of such impacts.

Introduction to market definition

To begin, it is important to be clear about which markets need to be included in the market impact assessment (MIA). Ofcom's guidance states that:

- *"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;*
- *Consideration of other markets may be relevant (for example, markets for downstream services, inputs, or products offered on the same platform);*
- *The market definition exercise will follow the practice and methods adopted in competition policy, but:*
    - *Markets are likely to be defined more broadly, as the focus of the MIA is not on the constraints on market power but on comprehensive impact assessment,*
    - *Markets defined in previous regulatory investigations are likely to provide useful starting points for the analysis,*
    - *Broader sector characterisations provided in market research/industry surveys can also be useful"*

The complexities involved in determining the relevant markets for this exercise are significant, especially since the BBC's proposals do not directly replicate any existing or planned commercial services. Should we consider just local or regional online video news services, or look more widely across other media, such as newspapers and radio?

Local newspaper operators have suggested that a BBC local news offering might draw readers away from the local press, which is already experiencing a long term circulation decline. Moreover many local newspapers have plans to or are already developing broadband versions of their titles, which will include audiovisual content as well as text. They argue that the BBC's local news, especially if incorporated as part of the BBC Local online sites, or their successors, will compete directly with their proposals.

As importantly, we need to assess the impact of the BBC's proposals on potential future competitors in markets which are not yet developed at all – for example, the emerging market for local broadband services, or (potentially, and subject to available radio spectrum) for local digital TV services. It is not at all certain how such markets will develop, with or without the BBC's presence, and hence any analysis will be subject to a significant degree of uncertainty. In such cases it is probably more important to consider the effect of the BBC's activities and plans on the process of competition over time, than to try to calculate precise economic impacts in what is a very unpredictable environment. As in previous MIAs for new BBC offerings, a distinction must also be made between the impact of the BBC on usage of rival services (viewers, readers etc) and the knock-on effect, if any, on their revenues, for which the publicly-funded BBC is not directly competing.

Finally we need to consider the geographic dimension. How does the local nature of the offering affect market definition, and how should we factor this into our analysis?

Previous competition policy approaches

As a starting point, and as recommended by the Ofcom guidance on MIAs, we have looked at previous competition policy decisions regarding local media consumption and advertising. There have been several recent competition cases involving local newspapers and local commercial radio stations, which give some indication of how markets could be defined. In considering a range of competition issues, both the Office of Fair Trading (OFT) and the Competition Commission (CC) have concluded in the main that local newspapers and local radio stations operate in separate markets from each other and from other media, such as television or the internet. The analysis which has led the OFT/CC to these conclusions is summarised below.[23]

It should be noted that most local media providers can be considered to operate in so-called "two-sided" markets. That is, companies compete against each other to attract audiences and readers, which they then sell to advertisers in the form of "impacts". Our focus is principally on competition between the different media for end users (viewers/listeners/readers), but we

[23] For example, Competition Commission Inquiries including: Archant Ltd/Independent News & media plc; Newsquest/Independent News & Media; Gannett UK Ltd/SMG plc; Johnston Press/Trinity Media; Vibe Radio Services Ltd/Galaxy Radio Wales &West Ltd; and Office of Fair Trading Inquiries, including: Aberdeen Journals; SMG plc/Scottish Radio Holdings plc;Capital Radio plc/GWR Group plc;Emap plc/Scottish Radio Holdings plc;Vibe Radio Services Ltd/Galaxy Radio Wales and West

are also interested in the markets for advertising, as we need to estimate the monetary value of any market impact.

Competition for end users

Assessing end-user markets and the degree of competition in them is complicated by the fact that many local media are not paid for directly by consumers (many local weekly newspapers are free, and local commercial radio is funded by advertisers, too). This means that it is not always possible to carry out the type of standard competition policy analysis which defines economic markets in terms of the ability of a monopoly supplier in that market to charge prices above a competitive level for a sustained period of time. Nevertheless, the characteristics of the various products and services can be compared, and consumer trends over time can be assessed. Based on these approaches, the general view taken so far by the competition authorities has been that, from the end-user or consumer perspective, local newspapers, radio and television are complementary rather than competitive media.

All three local media (newspapers, radio and TV) contain some elements of similar content, which suggests that users can choose to an extent between them when looking for that content. For example, on any given day, the same news story may be covered – in varying depth – by all three media. Information about local events may be found in both local newspapers and on local radio (but are less likely to be found on regional TV). Traffic and weather reports are carried on both local radio and regional TV.

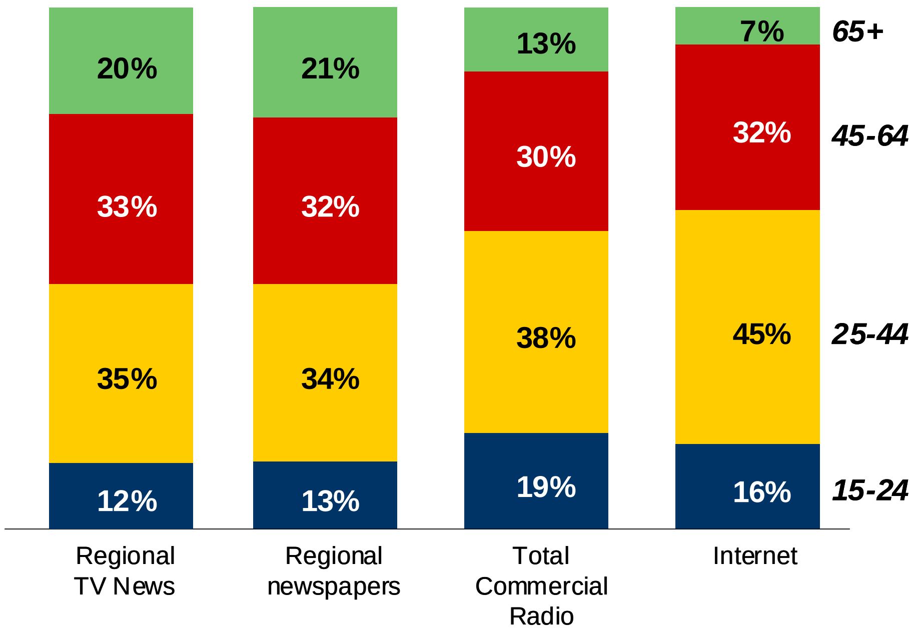
Nevertheless, the competition authorities have concluded that the different local media have quite distinctive characteristics and are used by consumers in different ways. In a range of cases (see footnote) they have concluded that:

- Local newspapers carry the widest range of news and information, are typically aimed at smaller geographic markets than other media, achieve higher penetration rates in their circulation areas, and are essential for those who have a general interest in what is going on in a particular area. They are used by their readers to obtain a diverse mix of information on local community activity, for “what’s on” listings, for public notices such as births, marriages and deaths, and for local classified advertising content – which is unavailable at such a detailed level in broadcast media;
- Local radio is mainly used for music and entertainment and its local news and information is much less extensive in scope and detail than is that provided by newspapers. It is often consumed on the move, at work, and as a background to other activities;

- Regional TV news contains fewer stories, is regional rather than local, and is less accessible, being viewed in the home, and only available at set times of the day.

There are some marked demographic differences between consumers of the different local media, too.

Audience for Regional Media by Age (Dec 2007)



Sources: BARB Q4 2007, JICREG Oct 2007, RAJAR Q4 2007, Nielsen Dec 2007

The audience for commercial radio is younger than for regional TV news and newspapers, whilst the internet is skewed even more heavily against over 65s. Regional newspapers and commercial radio possess a greater proportion of ABC1 consumers (53 per cent[24] for both) than regional TV news (49 per cent). There is also a digital divide, with 91 per cent of people from homes with incomes over £50,000 having access to the internet versus 39 per cent of those from homes with less than £12,500.[25]

Previous competition cases have tended to play down the importance of the internet as a competitor for local newspapers and local radio, in view of its (so far) more limited take-up (although this is clearly rapidly changing). However, local newspapers themselves increasingly believe that their own online sites are not substitutes for their print products. Regional newspaper group Archant

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[24] JICREG Oct 2007, RAJAR Q4 2007

[25] Oxford Internet Survey, 2007

has commented[26] that "Web activity is complementary to the printed product and this is evidenced by the minimal impact on paid for sales". A 2007 City University study[27] based on interviews with national and regional newspaper executives concluded that "[newspapers recognise] that online and print editions are different products, even if they carry the same content. They have different advantages, and are consumed in different ways".

Clearly a newspaper's own website is the most exact online substitute for the print version, and if newspapers are not seeing significant substitution stemming from their own websites, this is at least suggestive that other websites are unlikely to have dramatic impact on print readership and by extension that the markets are distinct.

Reference is made in some recent competition investigations to the long term circulation decline of local newspapers, which it is suggested might indicate that people are increasingly looking for alternative sources of news and information – perhaps a hint that the authorities might in future consider a wider market definition.

Competition for advertising

Most of the competition analysis concentrates on competition for advertising, given that this is the main source of local newspaper and radio revenues.

Overall, the view so far has been that local newspaper advertising forms a separate market, although it is acknowledged that other print media, such as specialist advertising publications, might impose some competitive constraint on local newspapers for some categories of advertising, and that the growth in consumption of new media such as the internet could at some point change this conclusion. Radio and TV advertising are generally seen as complements rather than substitutes for advertising in local newspapers, especially in the key classified advertising areas[28].

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[26] Archant *Annual Report*, 2006

[27] *Paid content strategies for news websites: An empirical study of British newspapers' online business models*, Neil Thurmann & Jack Herbert, 2007

[28] The relevant product market is typically considered to be local newspapers, rather than wider local advertising media, and – in some cases – a separate market for weekly local newspapers has been determined. Weekly paid for and free newspapers have usually, but not always, been seen as being in the same market. In some cases, it has been concluded that the relevant market might extend to other publications, in particular specialist advertising-only publications. The relevant geographic market is typically considered to be similar to the footprint (circulation or distribution area) of the newspapers being investigated, although in some cases wider markets have been considered.

A similar conclusion has so far been reached in local radio competition investigations, although there appears to have been slightly more sympathy for the view that other media, especially local newspapers can provide effective competition for certain types of local radio advertising (note: the view that newspapers offer effective competition for local radio, but not vice versa is perfectly consistent).

The competition authorities have so far maintained the view that, as far as advertisers are concerned, different media have different characteristics, and are largely in different economic markets:

- National newspapers support national advertising campaigns and carry largely display advertising, while local papers focus on local campaigns and classified ads;
- Regional newspapers – may be more overlap with local newspaper advertising, but again not sufficient to include in the relevant product market;
- Niche advertising-only titles, such as cars, property and recruitment – more potential for providing effective competition to local newspapers, and could be an increasingly important area, especially as they increasingly incorporate usage of the internet alongside print titles;
- Posters – tend to be used for brand building and special events advertising;
- Directories – contain some of the same advertising as local papers, but are updated infrequently, and used in different ways by consumers;
- Direct mail – much more highly targeted to specific households/consumers, and serves very different advertiser needs;
- Internet – insufficient penetration, and still a low percentage of total advertising – hence not yet seen to be an effective substitute for local newspaper advertising in many categories, although property, recruitment, and motors advertising on the internet appear to be growing;[29]
- Local radio – possible competition for "display" type advertising (local retail, events etc), but not seen to be an effective competitor for the vast amount of classified advertising which is vital for local newspapers;
- Regional TV – very high cost of inserting local advertising, and unsuitable for classified ads.

[29] Clearly the internet market is developing very rapidly, and a review by the competition authorities today might take a different view

Statistical evidence

The competition authorities have noted that it is difficult to carry out standard SSNIP test analysis in the local newspaper market, because of the absence of transparent pricing, and the role played by price negotiations in determining advertising rates (although this is contested by some newspaper publishers). They have therefore carried out some telephone surveys which attempt to gauge the extent to which advertisers would switch to other media in the event of a 5 or 10 percent sustained across the board increase in local newspaper advertising rates.

For example, in the Johnston Press/Trinity Media case[30], local newspaper advertisers were asked how they would respond to a 10 per cent increase in prices. 30 per cent said they would do nothing, but almost 40 per cent said they would cut back/cut out/switch advertising in response. An Indepen report[31] for the CRCA carried out a similar survey for local radio advertisers, and obtained fairly similar results. Faced with a 5 per cent increase in prices, 42 per cent of radio advertisers surveyed would have not altered their budgets, but 30 per cent would have cut back or switched their advertising[32].

The results suggest a higher propensity to switch media than would be expected from the market analysis summarised above, although there are acknowledged problems with the methodologies used, and the competition authorities ultimately appear to have placed little emphasis on these survey findings in reaching their final judgements.

A wider sectoral approach

The competition-based analysis, therefore, indicates that there are likely to be separate economic markets for different local media. This would suggest that the BBC offering would not directly compete with the local news components provided via offline media (such as newspapers or local radio).

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[30] Johnston Press plc/Trinity Media plc: A Report into the Proposed Merger, Competition Commission, May 2002

[31] Radio Mergers are not Substantial: Indepen Report for CRCA, February 2004

[32] Indepen argues that in any given year media buyers tend to have a fixed budget for advertising, which they will divide between different advertising media, depending on factors such as relative price, effectiveness, and the objectives of the campaign. They argue therefore that the different media (for example local radio and local newspapers) do compete for a share of this fixed budget.

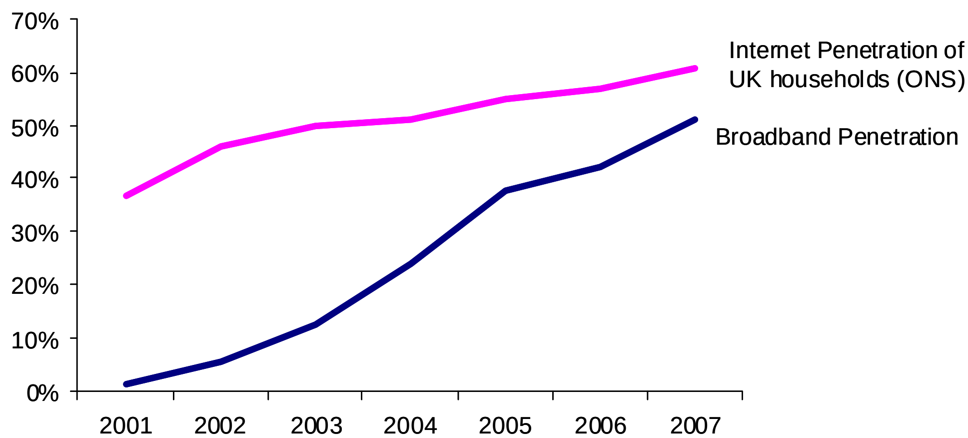
Ofcom, however, also suggests taking a wider sectoral approach when thinking about market impact. This is especially relevant in a rapidly changing world, in which old market boundaries might be breaking down, and both consumers and advertisers are becoming increasingly flexible in their use of different media. There are indeed clear indications that both consumers and advertisers increasingly seek out a range of media for their different needs, which would support the case for taking a wider approach, and in particular looking at new local broadband services.

User behaviour

Regarding media consumption, recent trends suggest users are increasingly choosing between different media as well as between different types of content in a single medium:

- Although overall TV viewing and radio reach have remained relatively stable (despite a vast increase in available channels and stations), total consumption by younger audiences has slightly declined;
- Devices such as MP3 players and iPods, combined with easy and reasonably priced access to downloadable music, including sites which profess to 'learn' one's personal preferences (such as Last FM) offer significant challenges to music formats on radio, which comprise the majority of commercial radio stations;
- Use of the internet and of broadband has been increasing rapidly, especially among younger and higher income demographic groups, and a recent surveys suggest that this usage is at the expense of TV viewing;

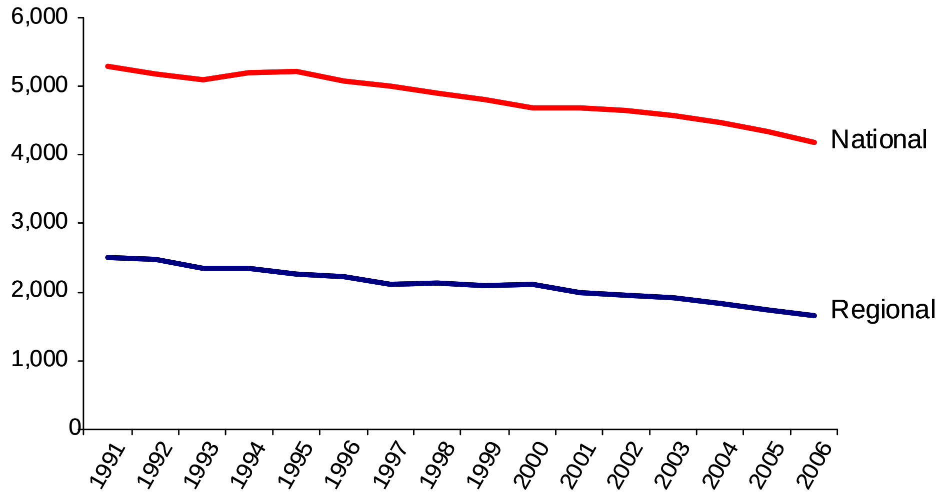
Internet and Broadband Penetration of UK households



Sources: ONS, Ofcom

- Both national and regional newspaper readership has steadily declined;

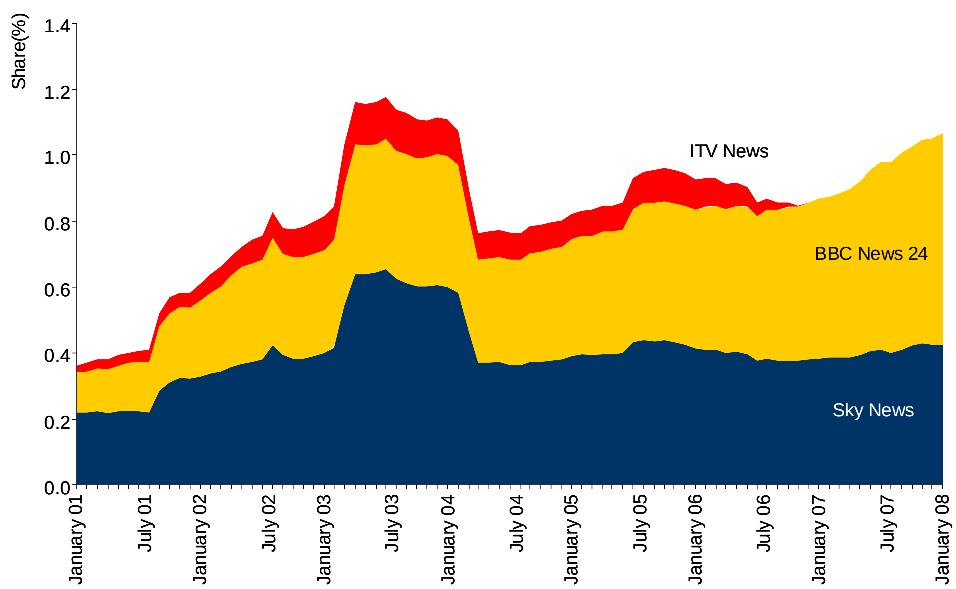
Newspapers - Copies sold per annum (m)



Source: WARC

- Consumption of the main TV news bulletins has declined and internet news and 24 hour news channels have taken an increasing share of total news consumption, especially among younger demographics;

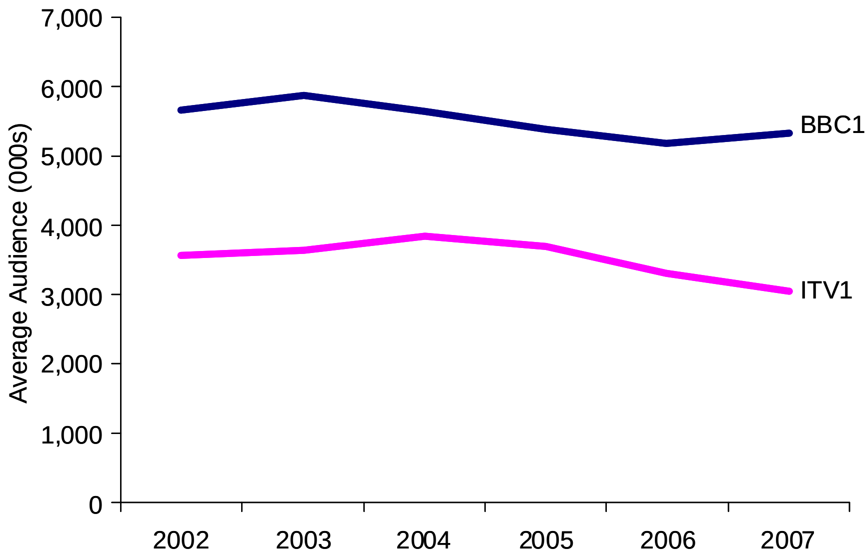
Share of 24 Hour News Networks - 12 mth rolling Average - All households 2001-2008



Source: BARB

- Viewing of the early evening regional news bulletins has declined on both the BBC and ITV. ITV has always had a significantly smaller audience, and the BBC saw a moderate recovery in 2007;

Average Audience for Early Evening Regional News, 2002 – 2007



Source: BARB

- New internet-based social networking sites have rapidly grown in popularity. Facebook, MySpace and bebo are among the top 50 most visited sites in the UK.

Social Networking Sites: Usage data (December 2007)

Site	Unique users (millions)	Active reach (%)
Facebook	8.9	26.8
MySpace.com	5.3	15.9
bebo.com	4.2	12.5
Friends Reunited	1.5	4.3

Source: Nielsen/Netratings
Note: reach is defined here as the number of unique users visiting a website, expressed as a percentage of the current internet population.

In summary, consumption – particularly amongst younger and more affluent audiences – appears to be shifting from traditional media such as TV, radio and newspapers to the internet (though there is also substantial consumption alongside traditional media). While there seems to be some direct substitution of content from 'old media' to 'new' – such as reading news stories online rather than in printed newspapers – the fastest growing internet sites are those which provide opportunities for people to interact, share interests and self-publish. In response to the above trends, media companies are increasingly developing cross-media or multi-media strategies, to brand and offer content to their readers and audiences in forms which are convenient to use and make the most of the new opportunities provided by digital and broadband.

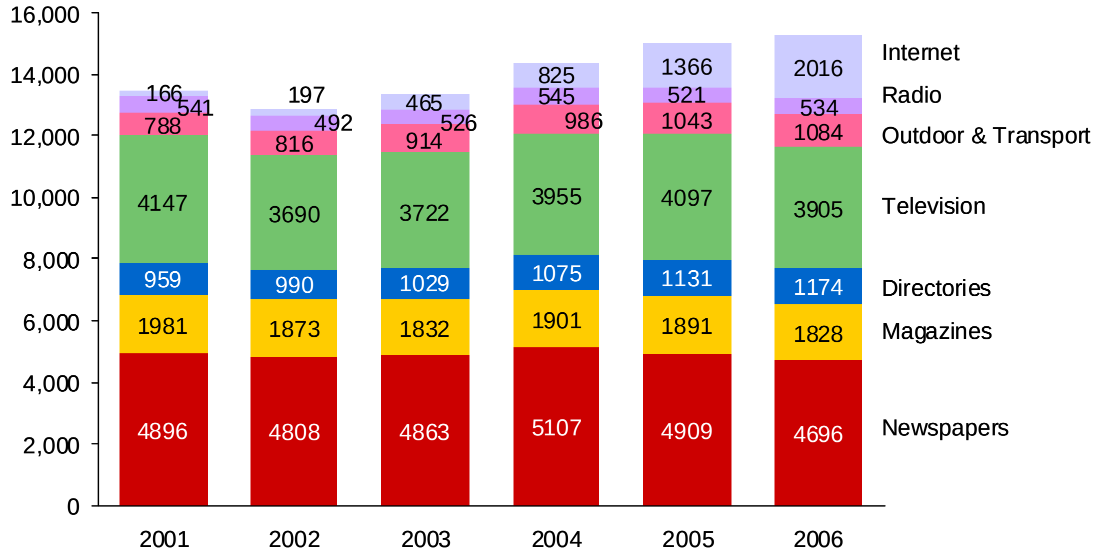
Advertiser behaviour

Likewise, although different media remain only imperfect substitutes for each other, advertisers have shown that they are prepared to switch their advertising budgets around from medium to medium in response to changes in prices or reductions in effectiveness.

For example:

- Over the last ten years the share of internet advertising has increased from zero to 11 per cent;
- Newspapers' share of UK advertising spend has decreased from 30.5% per cent in 2003 to 26.5% per cent in 2006 and is forecast to fall further;
- Advertisers clearly do react to changes in the cost of the impacts they can buy via the different media, and are exploring different types of advertising in order to increase the effectiveness of their spend – for example, cost-per-click and cost-per-action online ads, which many see as an effective way to ensure adspend is directly linked to additional sales

UK Advertising Expenditure by Sector (£m)

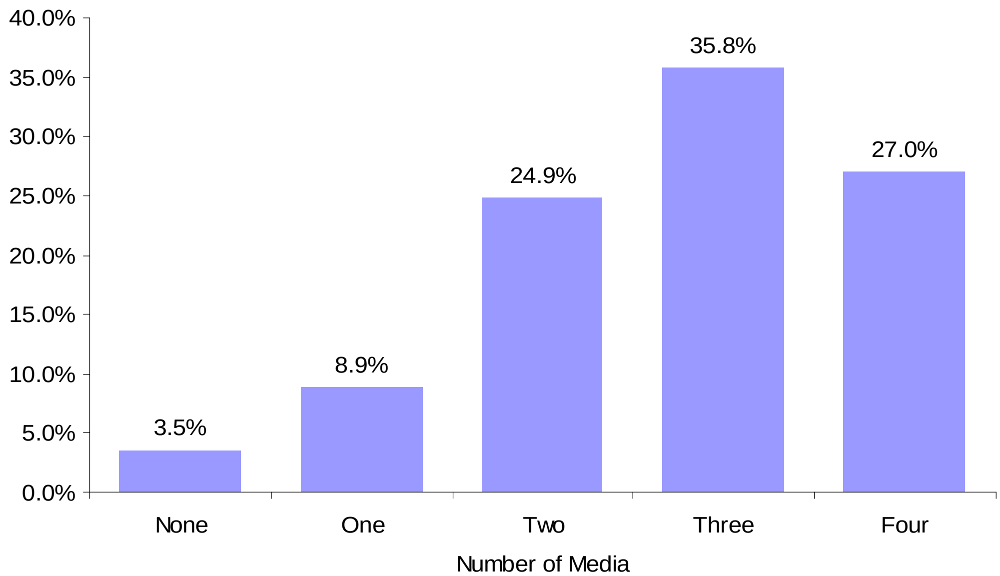


Source: Advertising Association / WARC

Consumer research findings

In March 2008 the BBC commissioned research, undertaken by BMRB, into people's local news consumption patterns across different media to help assess the extent to which the different services compete with or complement each other. A key finding was that most people use a broad range of local

Proportion of people using different numbers of local media



Source: BMRB / Human Capital analysis

The different media are used for different types of content. Local news is an important component of local newspapers, local radio and local websites, but so are many different aspects of their respective propositions – music, weather and traffic information for local radio; events, gossip and classified ads for local papers, and local information and business for local websites.

In 2006 the BBC commissioned research uncdertaken by Human Capital and YouGov to understand audiences' reasons for using different local media. In this, local newspapers were seen as being the best medium for the widest range of content – for example, local news, local sports, listing, gossip, births etc, and classified ads. TV scored especially well for news, radio for weather and traffic. Interestingly, the internet seems to have a similar broad content profile to that of local newspapers, although not rating as highly (yet) in most categories.

Ratings of medium for different types of content (out of 5)

Content / Medium	Local news	National news	Local sports	Travel	Weather	Local business	Local events listings	Local gossip	Features	Births etc	Planning & local Gov	Classified Ads	Average
Commer-cial Radio	3.90	3.38	3.95	4.02	4.03	3.33	3.53	3.32	3.04	1.92	2.58	2.76	**3.31**
News-papers	4.01	2.68	4.23	3.10	3.13	3.84	4.12	3.84	3.82	4.34	3.97	4.31	**3.78**
TV BBC/ITV	3.73	3.49	3.43	3.17	4.05	2.78	2.57	2.66	3.00	1.95	2.56	2.10	**2.96**
TV Local	3.77	3.62	3.71	3.31	3.92	3.05	2.81	3.08	3.00	1.99	2.62	2.56	**3.12**
Internet	3.63	2.80	3.46	3.13	3.50	3.38	3.56	3.07	3.59	2.43	3.23	3.22	**3.25**
Average	**3.81**	**3.20**	**3.76**	**3.35**	**3.73**	**3.28**	**3.32**	**3.19**	**3.29**	**2.53**	**2.99**	**2.99**	

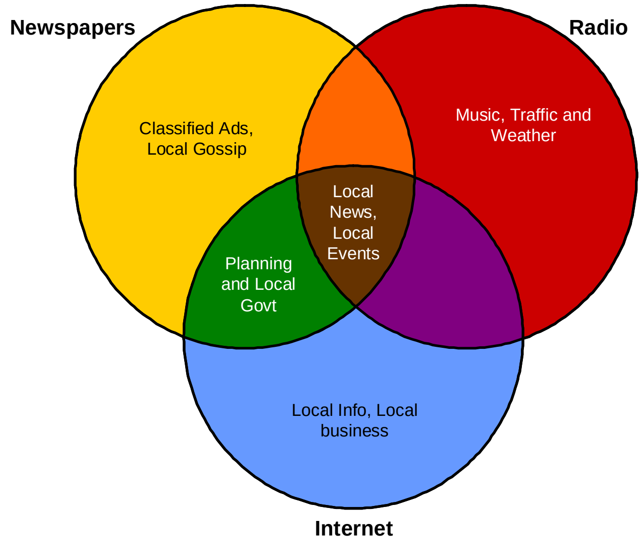
Average score for various media consumed per month, on a scale 1-5

High | High-Medium | Medium | Low-Medium | Low

Source: Human Capital / YouGov

In summary, the research suggests that there is an element of overlap between the different media we have analysed, but that each is consumed for a range of reasons/types of content, and each has its own "USP". This is represented in the following chart.

All the services overlap on local news but each has its USP



Note: Top five reasons to consume for each media
Source: Human Capital / YouGov

The geographic perspective

For local services local markets are distinct. A news bulletin about Newcastle upon Tyne is not a substitute for one on Newcastle-under-Lyme. Thus the 65 BBC offerings strictly operate in at least 65 different markets, and arguably more – one BBC county-wide offering might in fact be a player in several more narrowly defined local news markets, each served by its own local newspapers and radio stations. However, we believe that there is enough commonality across these distinct markets that it is appropriate to analyse market impact generically across them, or where appropriate by category (metropolitan / urban / mixed / rural), in the expectation that such analysis will provide a good approximation of the impact in each of the 60 distinct geographic markets.

Relevant markets: conclusion

Drawing on the above analysis, a clearer picture emerges of the markets we should include in this preliminary MIA. In particular, given the changes underway, it is important to distinguish between existing and future markets.

First, consistent with previous competition analysis which recognises separate economic markets for different local media, and with the 2008 BMRB consumer research, we conclude that the BBC's proposed local online video news offering is more likely to be complementary to than competitor of existing local newspapers, regional TV, local TV and radio services. The

BBC's offering will offer a more limited news proposition than do local newspapers, cover largely different geographic areas, and will not venture into the provision of local listings, public notices and commercial information. It also represents a very different product from local radio news, and is likely to be used at different times of the day and in different ways. Moreover, the BBC's offerings will not accept advertising or subscriptions, and hence will not directly compete with local radio or local newspapers for revenues.

Second, given the trends towards convergence outlined above, this MIA will need to take a wider market view in the multi-media world. Although the different local media currently occupy largely discrete and separate markets, it is likely that local multi-media services, delivered via broadband, will compete with one another, whether they are developed in the first instance by TV, radio or newspaper companies – or by any other provider. It should also be acknowledged that local newspaper websites are, in some instances, driving towards a comprehensive multimedia offering that has significant overlap with the combination of the BBC Local sites and the new video offering (though of course only the latter requires approval).

<u>Other related markets</u>

The focus of this assessment is on the retail or downstream markets for local video news and related content. It is the impact of the BBC on consumer demand for content which will have most effect on other providers, by potentially reducing the consumption of those rival services, and indirectly their advertising revenues. However, the analysis would not be complete without a brief consideration of other related markets.

As a buyer of inputs, the BBC could also affect the market, by creating shortages and/or pushing up prices. By establishing a certain quality level for local news provision, the BBC could in effect increase the entry costs for rivals who would be obliged to replicate that level in order to attract users. While this might be a material issue for new entrants, especially those which are small and not well funded, it is likely to be less significant for the larger well-funded cross media players, who have access to their own news resource base, and who currently spend significantly more on local news gathering than is implied by the BBC's proposals. The BBC's plans could lead to some short term shortages, however, for example for video journalists, which may need to be addressed by commitments to training on behalf of the industry as a whole.

The counter-factual – possible market developments in the absence of the BBC's proposed local video offerings

- **Local print newspapers will continue to decline in circulation, with consequent impact on revenues, and further market consolidation will occur; new entrants will continue to attack their lucrative classified advertising business (e.g. specialist online classifieds firms)**
- **Local radio will similarly face increasing competitive pressure, and the challenge of responding to changing consumer demands**
- **Local TV faces uncertain prospects, especially as spectrum availability is in question, and stations may only succeed commercially in the main metropolitan markets; the longer term prospects for commercially provided regional TV news are also not promising**
- **New local cross-media services (taking advantage of print, broadband and possibly broadcast), may emerge, backed by the main newspaper publishers or other media and internet groups – they will offer an increasing amount of local audiovisual content and news, financed by advertising and other commercial income (e.g. transactions)**
- **Alongside the above, we may see innovative and creative start up ventures, using lower cost broadband distribution platforms to provide new community-based local services, with significant use of user generated content and social networking**
- **But overall, market prospects and viability of business models are very uncertain, and we may see the emergence of only a patchwork of local services – with some (mainly urban) markets well served, but others with very little provision.**

Overview

To establish the impact of the BBC's proposed local video news services on the markets identified above, it is first necessary to develop a sufficiently robust counter-factual: what would those markets look like over the next 5 – 10 years without the BBC's intervention? This is a difficult task, given the unpredictability of market trends, in particular at a moment when market boundaries are being redrawn, and many new players are poised to enter the arena.

In this section, we first examine possible trends in local newspapers (focusing in particular on their broadband strategies), we then move on to local broadcast TV and radio sectors, and move on to consider new media and multi-media developments, consistent with the market definitions already discussed. There are of course potential overlaps between these different markets, which we also consider. Finally we summarise the characteristics of different categories of regional markets.

Local newspapers

<u>The current position</u>

There are over 1300 local and regional newspaper titles in the UK, covering areas ranging from small towns and villages to whole counties, but with the majority serving narrow footprints: the Newspaper Society says that the USP of the Regional Press is ‘ultra-local’. There are 12,045 FTE editorial staff employed[33]. Local and regional newspapers typically carry a mix of news, local listings and notices, local display and classified advertising. Total industry revenues are around £3.9 billion per annum, comprising 73 per cent advertising and sponsorship and 15 per cent circulation revenue. The remainder is comprised predominantly of revenue from inserts, contract printing, internet publishing and retail.

Circulation of paid for titles has been in steady decline for over 20 years, falling from over 3 billion copies sold annually in 1980 to 1.67 billion in 2006. We have not had access to detailed financial data for local newspapers. However, analysis of Johnston Press information suggests that (although there are wide variations from local market to local market), the average local newspaper has revenues of £3.0m, 33 staff, including around 9 editorial staff, and an implied editorial spend of around £245,000 a year.[34] Clearly the figures for the main metropolitan daily newspapers will be very different from those for weekly newspapers in more rural areas: data from earlier competition inquiries suggests that local daily newspapers in larger towns could have revenues of around £10m per year and above per title, for example.

In addition to differences in scale, papers in different markets face different levels of competition. Local newspapers in urban and metropolitan areas have higher circulation than those in rural areas, but in general they face higher

[33] Newspaper Society, *Analysis of the Annual Regional Press Survey Findings for 2006*

[34] ibid

levels of direct competition and hence may have lower margins. The starkest case is London, which is served by the Evening Standard, London Lite, thelondonpaper and Metro, in addition to a large number of more localised papers. Taking the Standard as an example, it has a circulation[35] of 291,150, far more than most papers in rural areas, but is loss making[36]. Competition and by extension margins may be a factor in papers' ability to invest in new services - generally, the London papers' websites have little video available, in contrast to many sites serving less densely populated areas. However in many markets multiple newspapers may not in fact represent great competition, since they are often under common ownership.

Examples of Local Newspaper Ownership

Location	Newspapers	Daily / Weekly	Ownership
Bristol	Bristol Evening Post	Daily	Northcliffe
	Bristol Observer Series	Weekly	Northcliffe
	Western Daily Press	Daily	Northcliffe
Leeds	Yorkshire Evening Post	Daily	Johnston Press
	Yorkshire Post	Daily	Johnston Press
	Leeds Weekly News Series	Weekly	Johnston Press
	Wharfe Valley Times	Weekly	Johnston Press
	Morley Observer	Weekly	Johnston Press
Liverpool	Liverpool Echo	Daily	Trinity Mirror
	Mersey Mart & Star	Weekly	Trinity Mirror
	Daily Post - North West	Daily	Trinity Mirror
	Crosby Herald	Weekly	Trinity Mirror
Manchester	Manchester Evening News	Daily	GMG
	Manchester Metro News Weekly	Weekly	GMG
	Middleton & North Manchester Guardian	Weekly	GMG
	North East Manchester Advertiser	Weekly	GMG
	Prestwich Advertiser	Weekly	GMG
	Salford Advertiser	Weekly	GMG
	South Manchester Reporter	Weekly	GMG
	Sale & Altrincham Messenger	Weekly	Newsquest

There has also been consolidation within the local newspaper market over recent years. More than £7.4bn has been spent on mergers and acquisitions amongst local newspaper groups since 1995 in the UK. The Newspaper Society estimates that the twenty largest firms now account for 96.5 per cent of total weekly circulation and 88.3% of local and regional titles. The three largest firms, Trinity Mirror, Newsquest and Johnston Press all own more than

[35] ABC April – September 2007, from www.esclassified.co.uk/circulation.htm

[36] DMGT Annual Report, 2007

two hundred titles and have sought to develop economies of scale by purchasing smaller competitors. Newspaper groups tend to have dominance within cities and regions of the UK as it is very hard to sustain competition within a regional market. For example, Johnston Press owns the majority of newspapers in Leeds, GMG owns the majority in Manchester and Trinity Mirror is dominant in Liverpool.

As with all media, the economics of local and regional newspapers are being challenged by the explosion in digital take-up. Along with consumers, both classified and display advertising spend is migrating online. Classifieds have migrated fastest, primarily for jobs, property and cars. Newspaper groups are participating in this migration: for example Trinity Mirror and Guardian Media Group Regional Newspapers have joined forces to develop Fish4 which is a nationwide classified advertising service for jobs, motors and homes. However, the online market is extremely competitive, with numerous substantial, focused players such as eBay, Monster and Rightmove.

<u>Possible future developments</u>

Local and regional newspapers have active online strategies, and many offer or are planning audiovisual news content. Likely future developments in local and regional press include:

- A further shift from paid for to free titles. Despite the long term decline in circulation of paid for newspapers, the recent success of local free newspapers, such as the Metro titles in 13 cities suggests that while there is still demand for the portability and simplicity of hard copy, many consumers are very price (and possibly convenience) sensitive. While advertising and other revenues are sufficient to sustain these titles, they will continue to prosper. However, with fixed costs relatively high, if advertising revenues continue to migrate away from newspapers even these will be under threat;
- Further development of location-based online brands. Newspaper groups are behind sites such as ‘This is…’ and ‘…Online’ which offer local news, information, classifieds, and services such as dating. These could present opportunities to create local and community ‘networks’ in addition to the published content, which could lock in regular and frequent users;
- Development of cross-media, location-based news and entertainment brands. GMG is pursuing such a strategy in Manchester, with Channel M and ManchesterOnline building on the Manchester Evening News This strategy leverages local staff and knowledge and has the potential to build deep connections with the community; however the economics seem unlikely to be attractive outside metropolitan areas.

The main newspaper publishers have developed extensive online services affiliated to regional newspapers, and have plans to upgrade them further. The top 10 publishers of regional newspapers publish 1,030 titles and more than 800 websites. Johnston Press, for example, announced in June 2006 the merger of its online and print operations, with the formation of 70 digital news hubs around the UK. In its press statement, it noted that it had far more resources on the ground than does the BBC. Journalists are being retrained to produce on camera reports for the websites. Trinity Media also emphasises the importance of its online strategy – with 132 regional newspaper websites, and specialist classified sites.

The most advanced sites have video bulletins of local and national news, sport and entertainment news. These bulletins are available on demand via internet streaming. Local content is often original, consisting of pieces to camera and interviews, often on location. Many sites provide national news, sport and entertainment bulletins, sourced from the Press Association. In some of the stories on Trinity Mirror local newspaper sites, clips from YouTube are embedded in the webpage.

Summary

Local newspapers will continue to face competitive pressures in future, as consumers increasingly expect news to be available free of direct charge, and the advertising revenues which have historically supported local journalism are unbundled from news products altogether (in the case of classifieds) or are insufficient to support local teams (in the case of display). Also eating into traditional local newspaper territory are the specialist online sites in areas such as recruitment, property and cars. Local business listings and what's on guides are also increasingly common.

However, developing new broadband services is seen as a key strategic priority, and it is almost certain that local newspaper groups will continue to enhance their online propositions, using more audiovisual content to complement the wide range of local information and services that they are already providing. Even without the BBC, therefore, we are likely to see a rapidly growing provision of local news broadband sites, linked to local newspaper brands. They are likely to cover more localised areas than planned by the BBC, although in the larger towns and cities there will be a greater similarity between the geographic coverage of local newspaper sites and that of the BBC's news offerings. It is hard to tell whether the video content provided on the newspaper-backed sites will be as rich as that planned by the

BBC, but it will certainly be there, and will be offered alongside a wider range of local information and other services than is proposed by the BBC[37].

Local commercial radio

The current position

Local commercial radio stations typically serve fairly tightly defined markets: there are 267 local commercial radio stations (listed on RAJAR) across the UK (vs. e.g. 46 BBC local stations). They are funded primarily by display advertising, with around 16 per cent of total commercial radio revenues (national and local) coming from sponsorship. Local news, traffic and weather bulletins tend to be a small part of total output but an important differentiating feature of most local radio services. Nevertheless, they are costly to provide, and local radio operators are keen to find more cost-effective means of provision – for example with the use of news hubs serving a number of adjacent stations. In a recent statement, Ofcom has reduced the requirements for local content provision for radio stations.[38]

According to Ofcom research, only 10 per cent of people say that local radio is their main "source of news about what is going on in your local area", compared with 46 per cent for TV, and 29 per cent for local newspapers[39].

There is a significant difference between the news resources at the large metropolitan stations, and those at smaller rural stations. Examples of local news provision by local commercial radio operators are[40]:

- Radio City (Merseyside): news editor plus team of 7, producing 700 minutes of news every week;
- Metro FM (Newcastle): 5 journalists;
- BRMB (Birmingham): 5 journalists;
- Compass FM (Lincolnshire): only 6 full time staff with 1 dedicated journalist, producing 272 minutes of local news a week;
- Two Lochs Radio (Gairloch and Loch Ewe): 1 journalist and 1 back-up.

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[37] See the companion paper on content analysis for further discussion.

[38] *The Future of Radio : Localness on analogue commercial radio and stereo and mono broadcasting on DAB*. Ofcom, February 2008

[39] *Communications Market*, Ofcom, August 2006

[40] December 2006 figures

London is the most competitive market for local radio, with 15 different London-wide analogue stations owned by 8 different companies. Other major cities such as Birmingham, Manchester and Glasgow have several analogue radio stations, whilst less populous areas are likely to be covered by only one station. No media group owns local radio stations across the UK but several have regional strongholds. For example, GCap Media have a large presence of chart-led mainstream stations in the South of England and Midlands, whilst Emap have a greater presence in cities in the North of England.

Local radio audiences are typically considerably younger than BBC or national commercial audiences, with 66% of listening being by those under 45 (compared with 29 per cent for BBC Local / Nations and 47 per cent for national commercial radio listeners[41]). This has been an attractive model for advertisers.

However, in recent years, while overall radio listening hours have increased amongst younger audiences, so has the number of options available to them. Increased competition from national commercial radio and the BBC, digital radio services, and alternative media have put particular pressure on these audience groups. Local commercial radio lost listening hours across all age groups except over 55's between 2001 and 2006, including a 30 per cent drop in listening by 25-34's. From 2006 to 2007 the 25-34's dropped a further 2.5% whilst over 55's remained relatively flat, losing just 0.4%. As a result, local commercial radio has seen both reach and share fall in recent years[42].

Alongside this drop in audiences, local commercial radio revenues fell 8.7% per cent in 2006 to £158 million (at current prices).[43] The largest radio group, GCap, suffered a fall of 10% in revenues in the 2006/07 period (down to £200.1m) and a 35% fall in profits (down to £14.4m)[44]; although this was driven in part by station-specific circumstances.

In response, local radio companies have continued to consolidate in order to gain economies in sales, marketing and promotions. 65 per cent of commercial radio stations in the UK are now owned by seven groups. They have also shifted their formats, reflecting the ageing audience: in Q1 2001, 53 per cent of commercial radio revenue came from chart-led mainstream stations. By Q1 2007, this had fallen to 29 per cent, whilst revenue from adult

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[41] RAJAR

[42] Reach fell from 56% in 2003 to 49% in Q4 2007, and share of all radio listening fell from 38% in 2001/2 to 31.1% in 2007. Source: RAJAR.

[43] Advertising statistics Yearbook, AA

[44] Ofcom Communications Market report, 2007

mainstream stations had risen from 24 per cent to 28 per cent in the same period. And they have launched digital formats, making services available over DAB, digital television and the internet.[45]

So far, commercial radio's online presence has been relatively limited, focusing on streaming of the broadcast service, and marketing and promotional activity. Radio-locator.com lists 364 UK radio stations available streamed over the internet, of which the majority are local commercial stations. Some of these sites are augmented with content such as playlists, webcam feeds from the studio, presenter blogs etc.

Possible future developments

Possible future developments in local commercial radio include:

- Further consolidation as companies seek to extract further economies of scale in reducing costs and extending successful formats;
- Extension of the most successful radio brands into multiplatform, multimedia entertainment properties via digital platforms, such as Kerrang! is doing;
- Some rationalisation of operational activities, such as combined news rooms;
- Exploring alternative business models to find new sources of revenue, such as deeper sponsorship, subscription.

As far as local news provision is concerned, though, we are not aware of any significant plans for local commercial radio to build an enhanced online news presence. In fact, as demonstrated by on-going representations to Ofcom regarding rationalisation of their news resources, many local commercial operators would like to reduce the costs of their news obligations, an area which is likely to be the subject of continuing regulatory debate.

Regional and Local TV

The current position

Broadcast television services for regional and (occasionally) local audiences in the UK have been largely shaped by spectrum planning priorities and the long-established analogue transmission map. ITV was the first television channel to offer regionalised services. Today, ITV provides news and other local content in the form of network opt-outs to relatively large geographic

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[45] Ofcom Communications Market report, 2007

areas (such as the North West of England, or Wales). Even though ITV also offers some sub-regional opt-outs (for example for different parts of the southern England licence area), most would agree that their content is insufficiently local to meet the appetites of audiences, revealed in many surveys, for local and community news. Moreover, the commercial viability of regional news on ITV is in doubt – although its provision is one of ITV's remaining PSB obligations, the long term future of these obligations and how they can be funded will no doubt be part of the ongoing PSB debate. Over the past 3 years, viewing of ITV's early evening regional news has declined from an average audience of 3.8m in 2004 to 3.0m in 2007[46].

The BBC, which introduced local services later than ITV, broadly follows the same transmitter pattern, and has similar regional coverage areas. BBC local radio, in contrast, with many more individual stations, enables a much more localised coverage of news. Similarly, in some other markets around the world, a much more localised approach to the provision of TV news has been adopted – in the US, Canada and Spain for example.

In more recent years, a small number of local TV services have been launched, using Restricted Service Licences (RSLs), which were made available by the regulator to take advantage of spare analogue radio frequencies. However these services have tended to struggle, and there are now 9 such licences in operation (down from 11 two years ago). The leading survivor is Channel M in Manchester.

The RSLs have encountered problems in attracting viewers and establishing a viable business model. Reasons for this include: poor coverage, requirements for viewers to re-position their household TV antennas, and the high cost of content compared with available audiences. Channel M, for example, had an operating loss of £3.9m on revenues of £2.3m in the year ended 1 April 2007, and we believe no other RSLs have achieved even these turnover levels. The future of RSLs is uncertain – their analogue spectrum will disappear on switchover, and they have no guarantee that they will have access to any digital terrestrial spectrum to replace it (they can of course negotiate carriage on digital satellite or cable).

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[46] BARB

Existing Local TV RSLs

Channel	City	On air? (as of Jan 2006)	On air? (as of Mar 2008	Community / commercial
Northern Visions	Belfast	y	y	Community
Capital TV Ltd	Cardiff	y	n	Commercial
Carlisle TV Ltd	Carlisle	intermittent	n	Commercial
Channel 9	Coleraine	y	y	Commercial
Channel 9	Derry	y	y	Commercial
Six TV	Fawley	n	n	Commercial
Solent TV	Isle of Wight	y	n	Community
MATV	Leicester	y	y	Commercial
Channel 9	Limavady	y	y	Commercial
Channel M	Manchester	y	y	Commercial
TV Norwich	Norwich	n	n	-
Six TV	Oxford	y	y	Commercial
Six TV	Portsmouth	n	n	Commercial
Six TV	Reading	n	n	Commercial
Six TV	Southampton	y	y	Commercial
City Broadcasting	Teesside	intermittent	?	Commercial
TV York	York	y	y	Commercial

Source: Ofcom and channel websites

Nevertheless, there has been some interest in establishing new local digital TV services from a variety of parties, including local production companies based in the regions, supported by regional development agencies and similar bodies. Their plans typically include both broadcast television (for which they argue they need terrestrial transmission capacity alongside cable and satellite) and the use of broadband distribution. A number of them lobbied for spectrum to be allocated to Local TV during the Digital Dividend Review, though whether they remain interested now that this spectrum is to be auctioned is less clear.

There are also several small broadband-only local content providers, who are experimenting with various forms of local audiovisual content, provided over high speed broadband connections.

Both the broadcast TV-focused groups, and those concentrating on broadband, have been encouraged in their aims by Ofcom's PSB review, which identified the potential value of local TV, and suggested that it might be a beneficiary of the then proposed PSP (public service publisher) fund. The DCMS is also thought to be generally supportive of the aims of local TV.

Ofcom has released a report[47] on local TV and other local services, which explored the issues arising, and looked at options for its delivery in future.

Possible future developments

Existing regional TV news on ITV faces uncertain prospects, and local TV is still untested.

ITV's regional news obligations, enforced as part of their PSB licences, may remain in all ITV regions until the end of the switchover process. Ofcom's PSB Review, however, noted that they are costly, and do not necessarily maximise profits for their time slot. Ofcom estimated that ITV Regional News has direct revenues of £14m and direct costs of £98m[48] – a fully commercial ITV might not be committed to their provision in the longer term, especially as their audiences decline in number and grow older. Indeed, ITV is already seeking a reduction in the number of regional programmes it is obliged to produce (from 17 to 9), in parallel with the DSO process.

Local TV is seen by some as a means of addressing the shortcomings of regional TV news, by offering a more relevant and localised service. Although there is substantial interest in local TV from both commercial and community bodies, the economics involved and the challenges posed by possible spectrum scarcity suggest that its future development may be limited. Ofcom's recent Digital Dividend Review does, however, propose making available 40 to 100 packages of interleaved spectrum after switchover, which would be suitable for local TV services. These packages, it is proposed, would be allocated via an auction process, and their use would not be limited to local TV.

Ofcom's local digital services report gives a good indication of the potential viability of local TV in the UK. Ofcom modelled the provision of local services in four different types of market, ranging from the smallest "micro-community" to the largest "metropolitan" area, with a range of assumptions made about content, revenues, and distribution platforms. Its broad conclusions were that:

- A local news and originated content service (the richest mix tested) would reach break even only in areas with over 1.7m users – i.e. the largest metropolitan areas;
- A less expensive local news and acquired content service could reach break even in areas with over 1.3m users – again, large metropolitan areas;

[47] *Digital Local*, Ofcom, January 2006

[48] *New News, Future News*, Ofcom, June 2007 (Magentum analysis)

- A low cost minimal local news service would break even in areas with over 700k users – still a relatively limited number of larger urban areas.

In all three cases, the break even point depends on the service being available on all platforms, including DTT. The removal of DTT from the equation has a significant negative impact on the commercial profitability of the service. But no spectrum has yet been earmarked specifically for local TV post switchover (though Ofcom plans to auction blocks of interleaved spectrum suitable for, but not reserved to, Local TV). Given the marginal commercial prospects for local TV it may be unlikely that potential providers would be successful in acquiring the necessary spectrum in an auction, given its likely higher value to alternative users.

So, local broadcast TV in the UK seems an uncertain commercial prospect, with the possible exception of a small number of metropolitan based channels, which might – all else being equal - be able to construct a viable business model and raise the necessary finance to get started. The chances of this happening would be increased, as Ofcom's report suggests, if investors see local TV as part of a wider multi-media strategy, which incorporates broadband and possibly other media assets. GMG's interest in Channel M indicates the sort of model which might emerge.

<u>Summary</u>

We may see some limited and patchy development in local broadcast TV, which would include local news and other content, but most likely would be limited to the major metropolitan areas of the UK. The chances of this happening would be higher if DTT spectrum were to be earmarked for local TV, and/or if investment comes from media organisations, like the major newspaper groups, who would be able to benefit from economies of scale and scope in their provision of local services. The availability of public funding might also help support more activity, especially outside the main cities. Other possible developments include the long term decline of ITV's regional local PSB obligations.

Wider new media developments

<u>Current position</u>

The discussion above of current and future trends in local television, newspapers and radio underlines the fact that markets are changing and new media, by which we mean a mix of content provided over broadband distribution platforms, is forming an increasingly important part of the plans of established media players.

By the middle of 2007, 52 per cent of households in the UK had broadband[49], and the internet advertising market was estimated to be around £2.0bn[50], in 2006, accounting for 10 per cent of total advertising spend. Forecasts suggest that broadband could ultimately reach 70 per cent of households.

As broadband grows, so distribution costs fall, and market entry becomes easier. In addition to the developments already described, there is further evidence emerging of the provision of local news and other local content via broadband services. For example:

ITV Local

ITV Local offers streamed TV over broadband with news and local interest programming. The pilot broadband TV service was launched on 17th October 2005 in Brighton and Hastings. Between then and October 2007, the service was extended to all regions in England and Wales. The service provides local news, weather, local films, an entertainment guide, community video and links to classified advertising including directories. Viewers are encouraged to provide and upload their own 'Citizen's TV' reports and short films.

At the time of writing (March 2008), it appears that all of the video content (other than UGC) available on ITV Local is repurposed regional TV content. ITV has not taken a public position as to its plans to create bespoke content for the website. However, it is clear that with or without the BBC, local newspapers and other local news providers will be facing competition from a broadcaster's online video news offering.

ITV has said that it is seeking newspaper partners for ITV Local, to help it tap the classified ad market.

Internet-based players

There are also new propositions from existing internet-based players. New business and consumer online models are emerging all the time, sometimes blossoming extremely quickly (such as YouTube). It is possible that new local news and information models could emerge, for example in which people upload their own stories, picture and video to sites. Google Local and Yahoo! Local both currently provide a business listings service using content from Yell

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[49] Enders Analysis, *UK Residential Broadband Market*, October 2007

[50] *Advertising Statistics Yearbook 2007*

and The Phone Book respectively and combine it with their online mapping service. Yahoo! also allows users to provide recommendations for local services. Google is also moving into the aggregation of local news. Google News will allow a location-based search of all its sources, to deliver all the stories about York (say) regardless of where they ran.

<u>Other providers</u>

Another scenario would see local community-based content, including news, being made available on a not-for-profit basis by and for local communities on a smaller and lower cost scale to that envisaged for a broadcast-centric model. User generated content and community social networking could be important features of these new services. New entrants and not-for-profit community based groups see the internet as a low-cost route to establishing very localised sites, which encourage social networking and participation in content creation. Many observers think that this route is more likely to succeed than local broadcast TV in many parts of the UK, given its lower cost and potential for user involvement.

One company, GDB TV has launched an IPTV network which aims to deliver a “television station in a box” to provide communities with ultra-local TV stations across the UK. Their aim is to provide the technology to power 200 local or niche streamed channels across the UK that can be viewed through PCs or an IP compatible set-top box. They have already launched in Brighton, Chichester, Bracknell and Worthing (though none of these sites generate enough traffic to be tracked by Nielsen NetRatings). Other local stations which offer video on demand include LetsGoGlobal.co.uk which is based in Trafford and Felixstowe.tv.

<u>Possible future developments</u>

It is difficult to predict with any certainty how these developments will unfold, as the economics of such services are as yet unproven. An optimistic scenario would see the emergence of a range of local providers, both commercial and not-for-profit. Commercial providers are most likely to be those who can take advantage of economies of scope to deliver news across a range of media – for example, if local TV successfully emerges in some areas, it will almost certainly have a broadband presence as part of the proposition. Community television, delivered via broadband, could also offer the potential for new types of local service to develop, although its ability to invest in high quality and in depth journalism may be limited – here the emphasis is more likely to be on user-generated content.

More pessimistically, we may see the scope for only a few viable commercial local news broadband providers – possibly in the main metropolitan areas – with large parts of the UK left unserved: an uneven patchwork of local services.

Market differences by region type

The provision of local news varies significantly by region type – for instance, as discussed above, metropolitan areas may support multiple, competing local papers, whereas in rural areas local newspapers often have de-facto local monopolies.

In Wales there is no daily Welsh-language newspaper, although there are many Welsh language periodicals and weekly newspapers.

To investigate these differences we have categorised as follows the different regions covered by the BBC offerings based on DEFRA figures for the percentage of population living in urban areas

Urban population	Region type	Examples
>95%+	Metropolitan	Birmingham, Manchester
70%-95%	Urban	Glasgow and West, Cardiff
40%-70%	Mixed	Devon, Wear
<40%	Rural	Norfolk, Highlands & Islands

While there remains significant variation in market dynamics even within these categories, we believe some useful generalisations can be made (see overleaf).

Local Media characteristics by region type

	Metropolitan	**Urban**	**Mixed**	**Rural**	**Comments / The future**
Newspapers	Typically one or more daily papers, and papers with overlapping geographic coverage	May be daily papers, with some overlapping geography	Few if any daily papers, limited geographic overlap	Generally weekly papers with local monopolies and low circulations	Typical BBC Local region will be served by 20-30 papers, each generally targeted at a smaller area. Metropolitan and some urban areas will see free-increasingly displace paid-newspapers
Local TV	Highest chance of viability (Channel M is only current example)	Some potential for viability	Limited to towns, if present at all	Unlikely	Limited launches in major cities possible
Radio	4-15 targeted stations 61% of commercial radio profits come from stations with MCAs > 1m[51]	3-4 targeted stations	Several individual stations, plus some duplication in towns.		National stations and community radio will provide additional choice.
Regional TV	News agenda set at regional level, encompassing variety of areas (12 ITV regions vs 60 BBC Local areas). All things being equal, frequency of coverage may be higher in higher population areas				
Online (ITV Local)	As for regional TV, since online content is primarily clips from regional TV programming. However, ITV Local is developing rapidly – amount of bespoke content not clear, and may increase				
Online (newspaper sites)	London aside, larger papers have moderate video offerings	Larger papers have moderate video offerings	Even larger papers generally lack regular video	Even larger papers generally lack regular video	Appreciable variations by region

Note: Appreciable variations even within these area types – for instance, very limited online video available in London, but much more in Manchester due to Channel M

[51] Ofcom, *The Future of Radio Consultation*, April 2007

Summary: the counter-factual

At this point in time, it is impossible to be certain about the likely market provision of local video news, either broadcast or on broadband, in the absence of the BBC's proposals. The digital future poses substantial challenges for local TV, the regional and local press, and for commercial local radio. While incumbents are making efforts to embrace digital media models, the converged world introduces a very wide range of new competitors offering consumers abundant choice and advertisers new ways to present themselves to their targets.

There is an opportunity for "many flowers to bloom", with provision of local news as part of broader multi-media proposition, delivered by the large local newspaper groups, new commercial entrants, or not-for-profit entities. As plausible, however, is a scenario in which only patchy local TV news provision emerges on broadband, perhaps restricted to the main metropolitan areas, able to support a commercial operation, and where the same resources can be used cost-effectively across different media. Elsewhere, there may be scope for a wider range of not-for profit, community based services to emerge, but their content is likely to based on user-generated material and opinion, rather than high cost and in depth original journalism.

For local broadcast TV providers, the challenge is to find a viable business model. The likelihood is that only a few commercial providers will emerge, in the main metropolitan areas. And even this depends on digital terrestrial frequencies being affordable. For local newspaper groups, the strategic challenge is clear, but again the economics are uncertain. All the major local newspaper publishing groups are developing their strategies for broadband. They have little option, faced with declining circulation, and competition from new online competitors for some of their traditional classified business. If they are successful, we could see the emergence across the UK of well-financed local broadband sites, which – given the need to attract users to their content - are likely to invest increasingly in video as well as text based journalism. Their strategic gamble is that broadband users will continue to demand a bundle of news, information and advertising services, which will help counter the threat of more specialist online services for e.g. property, motors or recruitment.

However, the risk to newspaper publishers is that the demand for these traditional bundles of services does not translate well into the broadband environment. It is equally plausible that most demand for specialist advertising and transactional activity will move to specialist national and local services, leaving online versions of local newspapers with a less profitable residual service of local news and public notices. In this scenario, it may be doubtful that they could maintain a reasonable level of investment in content, leading to further decline.

A further factor in newspapers' ability to invest is the degree of local competition. In metropolitan and urban areas, there is more likelihood of overlapping papers (and competing papers, if ownership is distinct). Papers facing competition may well have lower margins and hence less ability to invest in new services.

For local radio stations, the challenges are of a different nature – facing up to competition from music download services and the additional choices provided by digital radio. It is much less clear that local news provision is a major part of their longer term online strategies.

Perhaps the one certainty is that success may depend increasingly on a cross media approach to news and content provision, rather than a single medium approach – instead of separate local TV, newspaper and radio providers, we may see the emergence of single local cross media brands, using online, broadcast and print to reach their customers, and to benefit from shared resources and cross-promotion.

The market impact of the BBC's proposed local TV offerings

- **The BBC's services will play a modest role in expanding the market for local news and for digital/broadband usage, and may contribute to media literacy, industry training, and competition (in markets where there would otherwise be only one or two commercial providers); the BBC's actions could provide a spur for the rest of the market to invest and innovate more quickly than might otherwise be the case**
- **They are likely to have only a marginal direct impact on the usage of local print newspapers and local radio – local radio and newspapers are used for many different types of content alongside that of local news, and they will remain important to users for those reasons**
- **Similarly, the BBC's impact on regional and local TV developments is likely to be marginal. As with radio and newspapers, the audience' mode of engagement with TV is distinct from online usage. In many parts of the UK, commercial local TV services are anyway unlikely to emerge. The BBC's services may have a very small negative impact on alternative providers of local broadcast TV news (if any) in main metropolitan markets, and could – at the margin – deter investment in local TV in medium-sized urban markets**
- **Consumer research suggests that the BBC's services might have slightly more direct impact on demand for other web-based local news services than local news delivered via traditional media**
- **There are not stark differences in impact by region type, though broadly the BBC's impact will be greater in mixed and rural areas, given smaller commercial budgets, but conversely in these areas the BBC's provision of skills development and cross-promotion may be more valuable**
- **Most importantly, there is a risk that, unless the BBC properly scales its proposals, and works in a collaborative way with other providers, its presence could act to dampen new investment in the provision of local broadband services from new commercial entrants and community groups. Particular concerns are likely to focus on the scope of the BBC's own local broadband proposition (built around the local news content) and on the extent to which the BBC might be able to establish an early lead in the market before others have had a chance to build their businesses.**

Overview

Against this background, we now set out our general assessment of the BBC's likely impact on market developments, and then examine each sub-sector (local newspapers and radio, local TV, and wider broadband developments) in more detail.

There may be a several positive outcomes associated with the BBC's proposals:

- First, the BBC has a role to play in encouraging all audience groups to access and value local news and related content. It can promote media literacy and an understanding of new media, it can help interest and support users in creating their own content, and it can use its promotional powers across media to increase awareness of local news services. The challenge for the BBC – see our final section – will be to ensure that these initiatives are used to help develop overall market growth, not just the use of its own offerings.
- Second, there is a risk, as described in the preceding section, that some areas of the country will be poorly served by local commercial video news providers, and others may only have a single provider, given the potentially challenging industry economics, and trends underway to secure further consolidation in the local radio and newspaper provision. Reference is made in various competition authority cases to increasing "clustering" of local newspaper ownership - meaning that titles in adjacent local areas are increasingly owned by the same publisher, perhaps indicating that the local newspaper publishers are adopting a "live and let live" approach to competition in each geographic market. In those areas, the BBC will help provide an important extra element of choice for consumers, plurality for citizens, and competition for other service providers and could more generally help establish higher quality standards than if news provision were to be left to commercial suppliers alone.
- Third, the BBC may help persuade some users to opt for broadband sooner than they would otherwise have done, although this impact, given the relatively modest scale of the initiative, is likely to be marginal.
- Fourth, the BBC can help address the industry-wide challenge of acquiring the right skills and resources for local TV news services, by training people in the necessary range of skills – for example, in video journalism – which can again be of wider industry benefit, and will help address concerns that the BBC's presence in this market might push up overall industry costs.

- Fifth, the BBC could help support small scale local production of local features, and help nurture emerging local production talent. The West Midlands pilot has shown how this might work with smaller independent local newspapers, and the BBC's involvement was broadly welcomed. A combination of BBC-funded and commercially funded production in each local community offers the prospect of more sustainable long term development than would the commercial sector on its own – as has been the case for local TV production more generally;
- Finally, the BBC, by its entry into the provision of new local video news offerings, with the use of broadband as well as broadcast platforms, could act as a spur to the rest of the market to innovate and invest perhaps more quickly than they might otherwise have been prepared to do. In effect, the BBC would be priming the market, and – having prepared the ground and demonstrated potential demand - encouraging others to enter.

BBC specific proposals for positive market impacts

In addition to these general positive impacts, the BBC has incorporated a number of elements into to its plans specifically to provide positive market impact. They include:

<u>Syndication</u>

The BBC will offer its Local Video content to other local news websites for free, with the BBC paying the costs of creating the video and of 'hosting' it on the web.

The BBC will ensure that all its Local Video content can be embedded (rights allowing[52]) into other websites, whether not-for-profit or commercial. Individuals or organisations (such as local newspapers) would be able to take their pick of the best of BBC Local Video to put on their own websites. There will be no limit on the number of clips taken. Such embedding will also be allowed on ad-supported sites, subject to the BBC's Editorial Guidelines. In order to protect the BBC's reputation, however, pre-screening or post-screening video ads. would not be allowed. As embedding technology enables the BBC to continue to 'host' the video even as it appears on other websites, the distribution costs of the streaming video – regardless of demand – would be met by the BBC itself.

[52] A small minority of content (eg. some sports' coverage) may be subject to rights' restrictions which prevent embedding.

Embedding will take place on fair, reasonable and non-discriminatory terms and be subject to the BBC's Syndication Policy and BBC terms & conditions. These would ensure BBC content does not appear in an inappropriate context, such as alongside adult material.

Purchasing local video news

The BBC would make available a fund (rising to £795,000 in 2012/13) with which to purchase local video news from other providers on a proper commercial basis. This foster pluralism in the supply of local video news and give the platform of the BBC's popular local websites to the best content produced in the wider market. The fund would comprise a nationwide tender for local video news and a sum for ad-hoc acquisitions at a local level.

Links to 3rd party local content

The BBC will link generously to other providers of local news, improving its existing links to local newspapers and introducing (for the first time) links to commercial local radio stations and other local news websites.

Existing links are already generating over one million click-throughs a month, equivalent to one click-through for every six unique users.[53] The BBC believes that in future this rate will increase as the range of links to other providers increases. Plans for deeper links - for instance, by linking to individual stories[54] (where editorially justified) – should also help drive traffic to other local news sites. In addition to direct click-throughs from bbc.co.uk, the very presence of such links will boost the search engine ranking of these other local news sites, thereby driving further traffic.

Training

The BBC will share its expertise and experience providing training and mentoring in shoot and edit skills with daily and weekly local newspapers who wish to take up the offer. As relationships develop, other opportunities will be created, such as work placements or formal courses.

Editorial

In a number of locations, the BBC has a good track-record of taking part in shared editorial initiatives, such as the shared photographic competition run with the Shropshire Star during the W. Midlands trial. In their summary news

[53] Sage/BBC figures (for Dec 2007).

[54] The BBC is exploring the possibility of hosting headlines from other local media providers on its story pages, which would enable users to click through to the story on another media providers' site.

bulletins, the BBC local teams will also consider including a *What the Papers Say*-style sequence, with proper credits and, where appropriate, illustrations of the relevant local newspapers. The BBC hopes to ensure useful relationships continue to develop on the ground.

Nevertheless, there may also be some negative effects on other existing or potential providers of local news and information, which we now address in more detail. As in previous analysis for the BBC, we distinguish between the direct impact of the BBC's proposed offerings on consumption and revenues of other providers, and the dynamic effect (over time) of the BBC's possible impact on investment and the competitive process.

The discussion in the following sections draws where possible on data from the BBC's Hull broadband trial, the West Midlands pilot for local news services and a new consumer survey carried out for this project. We have assessed the possible impact of the BBC's proposed offerings in the following (broadly defined) markets:

- Local newspapers;
- Local commercial radio;
- Regional television;
- Local television;
- Local online services provided by established newspaper and media groups;
- Other local broadband developments.

However, we note that the BBC's proposals do not directly replicate any of the existing or proposed services in those markets.

Scale of BBC intervention

Before looking at each market in more detail, it is useful to compare the scale of the BBC's proposed intervention with that of existing competing operators.

<u>Resources</u>

Although we have been unable to access data in sufficient depth to conduct a detailed comparison, our preliminary assessment suggests that the BBC's proposed investment is not significantly out of line with the amounts currently being spent on local services by other media.

The BBC's Local Video proposals involve total annual spend rising to around £23m in 2012/13. In addition, they will be able to call on some editorial support from the BBC's wider regional news operation, which has a budget of around £100m (for a total of £123m).

These figures are higher than ITV's budget – it spends £85m year on regional TV news programming, but significant reductions are expected[55]. In addition ITV spends an estimated £32m[56] on itv.com and itvlocal.com combined though this figure is inflated by the relaunch of itv.com and the full roll out of itvlocal.com nationally. Of course the amount spent on new local video (comparable to the £23m) is likely to be much smaller than £32m total ITV online budget.

The proposed BBC spend (regional news plus video news) is far below the total annual spend by local newspapers which have total costs of £2.6bn, and total editorial staff costs estimated at around £320m. As an example, Johnston Press had cost-of-sales of £312m (costs other than administration and distribution), and had 63 staff in its central digital team (supporting local digital efforts) and invested £9m in its digital operations.

Precise figures for radio are not available, but Ofcom has very roughly estimated the cost of local content on commercial radio at £290m per year[57]. At a micro level, the BBC's projected spend equates to £350,000 per offering per year [redacted]. The scale of existing local TV services varies, but Channel M spent £6.2m in the year ending 1 April 2007, of which staff costs accounted for about a third. Local newspapers vary significantly in size from place to place, and between daily and weekly papers, but data reported by the Newspaper Society suggests that the total staff costs are £1.15bn with a total number of 1303 titles. This seems to imply staff costs of around £880,000 per newspaper with an average of 33 full time equivalent staff (9 of which are editorial staff). As noted earlier, larger daily local newspapers will have significantly larger revenues and budgets. On average each BBC Local News offering will serve an area covered by 20 local newspapers[58].

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[55] NUJ estimate, reported in *The Guardian*, "ITV slashes regional news budget", 12/9/07

[56] Human Capital estimate, based on ITV plc 2007 results announcement and Friends Reunited 2006 margins. A split between itv.com and itvlocal.com is not available

[57] Ofcom, *The Future of Radio Discussion Document*, November 2006

[58] 1303 newspapers vs 65 Local News services

Projected reach

The BBC's offerings will build up over a period of four years, and will attain "steady state" in 2012/13, by when the projected weekly household reach is around 11 per cent.

This is a reasonably modest target, and compares with current weekly reach in relevant geographic areas of 49 per cent of individuals for local commercial radio[59] (BBC local radio at 20 per cent), 63% for BBC regional TV[60], around 11 per cent for local TV[61], and a wide range of local newspaper reach figures[62]:

Type	Title	Reach	Target population	%
Metropolitan	Manchester Evening News	1,008,000	3,896,917	26%
Urban	Liverpool Echo	533,000	1,165,308	46%
Mixed	Coventry Telegraph	226,000	704,921	32%
Rural	Gloucestershire Echo	106,000	436,256	24%

Print newspapers

The least significant effect of the BBC's proposals is likely to be their impact on demand for local print newspapers, for the reasons outlined in our earlier market definition discussion. For example, Roger Laughton, in his report for the BBC, found that, although 9 months is too short a period for firm habits to be identified and for longer term trends to form, it appears that:

"Based on the Newspaper Society's recently published circulation figures, the six pilot local TV services in the West Midlands had no statistically significant impact on local newspaper circulation figures in the region"

Of course, the proposed online-only offering would be an even lesser threat to newspapers that the trailed service, which included TV.

[59] RAJAR

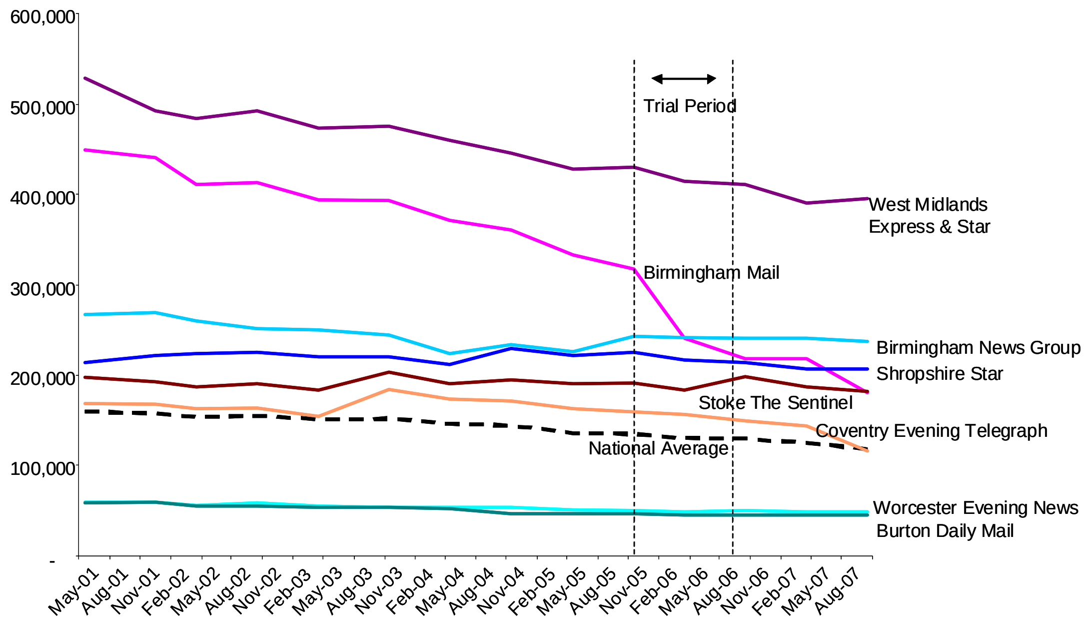
[60] 3 min consecutive BBC 1 regional news average weekly household reach, Q4 2007, from BARB

[61] Figure for Channel M quoted in *Manchester Evening News.* Note that North West Television Services (owners of RSL Channel 9) claims over 60% in *Response to 'Digital Dividend Review – A Consultation' Issued by Ofcom on 19 December 2006*

[62] JICREG

Further inspection of the available data shows that the only daily newspaper to have seen a decline in readership during the trial period that was greater than their previous trend was the Birmingham Mail. This can be attributed to a substantial re-launch in October 2005, which appears to have exacerbated their decline in readers.

Average Readership of Paid For Regional Daily Newspapers - West Midlands

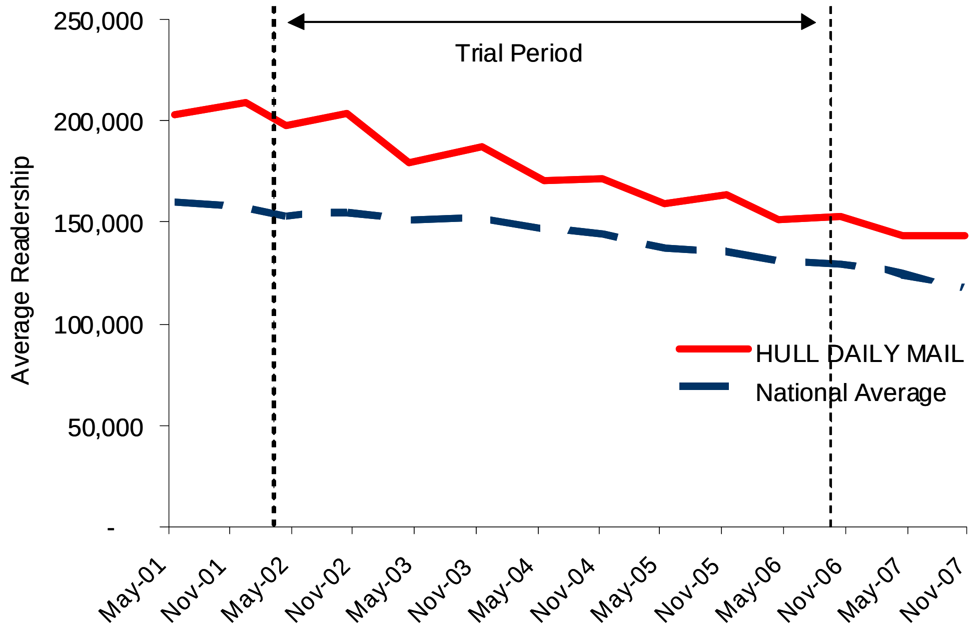


Source: JICREG

In fact, with the regional weekly paid newspapers, readership increased for some titles, in particular the Leamington Spa Courier Group. Only the Kidderminster Shuttle Series witnessed a decline in readership that was more prominent than the national average.

Laughton also refers to the Hull trial. This provides some interesting evidence, although it involved a much more ambitious service proposition than is currently planned, with sustained investment over a period of time by the BBC in local services, delivered via the Hull broadband network. Although there is some evidence that the Hull Daily Mail lost ground during the trial in terms of its reported “turn first to” scores for local news (with the BBC gaining ground), there is less conclusive evidence that this impacted on actual newspaper circulation figures. Circulation data for the Hull Daily Mail shows that it has been in decline for the last ten years at a relatively steady rate, but it is the case that during the period of the broadband trial, it did suffer a greater than national average decline in circulation.

Readership of Hull Daily Mail and National Average of Paid Daily Regional Newspapers



Source: JICREG

The 2008 consumer research confirms the above empirical data:

The audience does not feel that the new BBC offering will have much impact on their consumption[63]

Impact / Media	Much Less	Less	The Same	More	Much More	Don't Know
Free Local Newspapers	2.8%	2.1%	92.6%	1.1%	0.8%	0.6%
Paid for Local Newspapers	2.2%	2.4%	93.9%	0.8%	0.4%	0.2%
Local Radio	2.5%	0.6%	94.3%	1.3%	1.1%	0.2%
ITV Regional News	2.4%	3.2%	92.2%	0.9%	1.1%	0.3%
Local Websites	1.7%	4.3%	84.4%	4.0%	4.0%	1.7%
BBC Regional News*	0.6%	1.9%	93.3%	1.8%	1.8%	0.6%

Source: Human Capital / BMRB

More than 92 per cent of local newspaper readers would see no change in their consumption of local newspapers even if the BBC introduced a new local broadcast and online video news offerings. These overall findings should be no surprise. The product/service characteristics of the BBC's proposals are quite different from those of local newspapers (as explained above).

[63] Note earlier discussion of methodology for this analysis at footnote 17

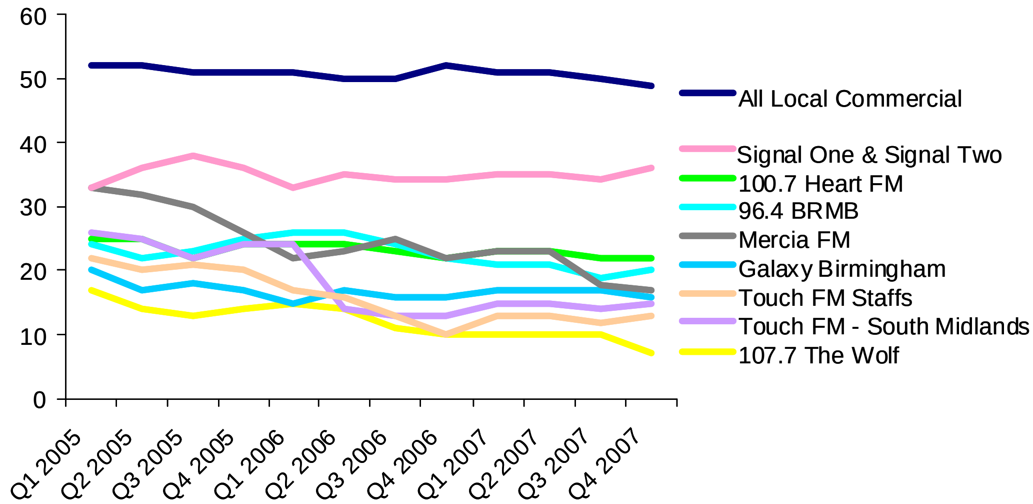
Local radio services

We would expect the impact of the BBC's proposals on local radio to be less significant than that described above for local TV and newspapers. A BBC video news offering is unlikely to affect listening to the largely music-based services offered by local radio. According to Ofcom research music and national/international news are the number one and two factors driving the decision to tune in to a radio station, with local news third[64]. Moreover the future development and success of local radio seems unlikely to depend so critically on the provision of local online news.

Laughton does not report the impact of the BBC's pilot offerings (broadcast and online) on local radio in the West Midlands. Expectations would be that the most visible impact on local radio operators would be an increase in their cost of providing local news services (due to increased competition for local journalists) rather than a reduction in their audience and revenue figures. Our analysis suggests that there does not appear to have been a significant effect on local radio in the West Midlands over the 9 month trial period. The graph below illustrates the reach of major stations from 2005 onwards. Only the Touch FM stations demonstrate a fall in reach significantly greater than the national average and that is most likely to be caused by their re-branding from Centre FM and 102 The Bear.

[64] Ofcom, *The Future of Radio Discussion Document*, November 2006

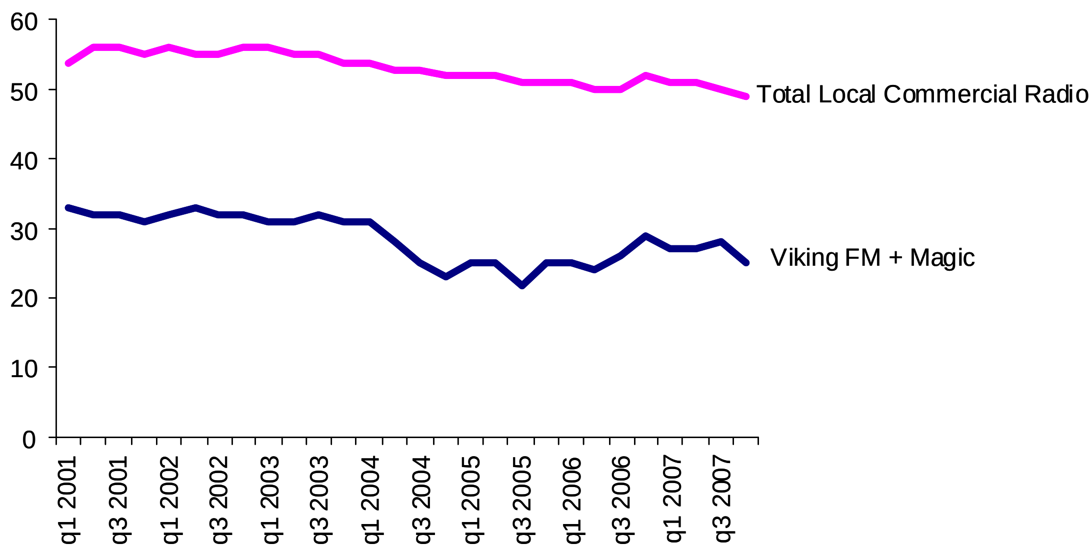
Average Weekly Reach (%) of Major Local Radio Stations in the W Midlands



Source: RAJAR

The effect of the BBC trial on local radio consumption in Hull is more difficult to interpret. In general, the decline in reach of Hull's local radio stations 96.9 Viking FM and Magic 1161 has mirrored the decline in reach of local commercial radio across the UK. However, there is a structural break in 2004. As the BBC trial had been taking place for over a year when reach began to fall more strongly, it is unlikely that it was responsible for this impact. We understand that the decline coincides with strategic changes at Viking, and the loss of established presenters.

Average Weekly Reach (%) of Commercial Radio Stations in Hull



Source: RAJAR

The consumer research carried out for this study suggests that 3.1 per cent of local radio listeners would reduce their usage, should the BBC launch a local video offering.

In the longer term, it seems unlikely that the BBC's proposals would have a significant impact on local radio audiences, or on their online plans. As noted earlier, local radio stations are not as well placed to offer comprehensive online news content as other local media, and in many instances are seeking to reduce rather than increase their exposure to the costs of local news coverage. Nevertheless, if radio is seen as one component of a cross media local service, which includes newspapers and online too, then the BBC's plans could have an influence on their businesses, albeit at the margin.

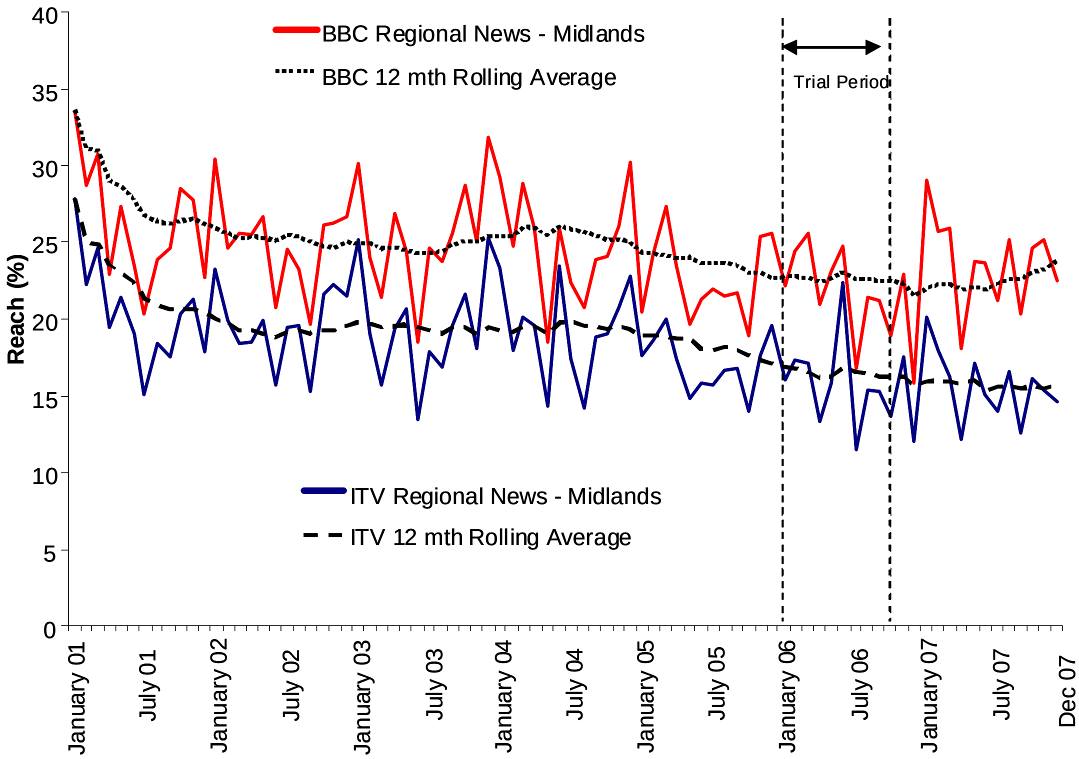
Regional TV

Our expectation is that the BBC's proposed offering would have very limited impact on the viewing to news output of regional TV services in similar geographic areas. The mode of engagement, the relatively small amount of time spent with online video content and the different audience demographics will all act to keep the impact low. This is supported by the results of the trials of a BBC local TV service in 2006 (a significantly greater threat than the currently proposed offering).

The 2008 BMRB research tells a similar story. Less than 6% of ITV regional news watchers were likely to see a reduction in their consumption as a result of the launch of a BBC online video news offering.

The Laughton report noted that the West Midlands pilot showed no evidence that audiences to existing regional television news services were cannibalised by the new local news offering:

Average Weekly Reach for Early Evening Regional News Bulletin, Midlands, 2001 - 2007

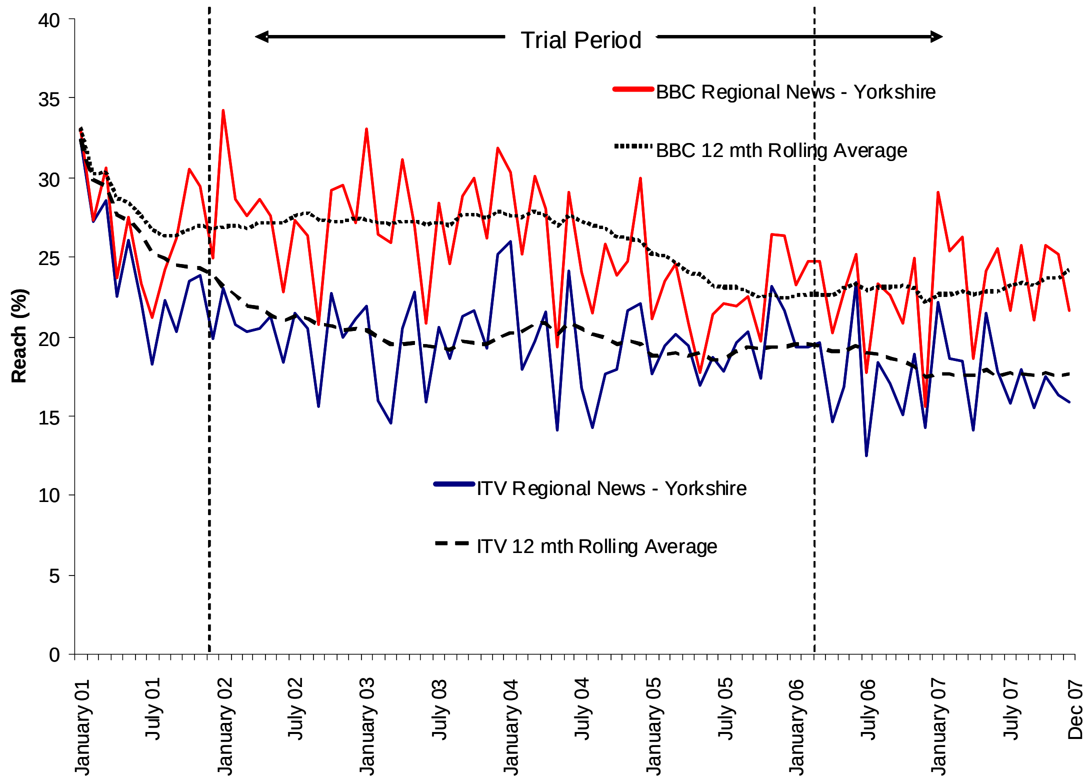


Source: BARB

In Hull, in contrast, the ITV early evening news magazine programme did lose audience share to the BBC's enhanced local news programme, although that can be attributed to the BBC's investment in a Hull-targeted local early evening news programme on BBC One – much more ambitious than the current online only proposals. The Hull trial started in 2002 and finished in March 2006. The Look North (E Yorks and Lincs) bulletin started in November 2002. The data seems to show that between 2002 and 2004, the BBC maintained its reach, whilst ITV lost reach, although, the gap has narrowed since July 2004. However, it appears that ITV actually started losing reach before the start of the trial towards the end of 2001. This is about the time (September 2001) that ITV's main presenter on Calendar (Christa Ackroyd) defected to Look North on the BBC.

Hull

Average Weekly Reach for Early Evening Regional News Bulletin, Yorkshire, 2001 - 2007



Source: BARB

Local TV

Similarly, our expectation is that the BBC's proposed offering would also have limited impact on competing Local TV services.

The 2008 consumer research discussed earlier confirms this view. As shown in the above table chart, 92.2 per cent of those asked said that they would not change their consumption of commercial local TV (note, this result should however be treated with some caution, given the relatively undeveloped nature of local TV news provision in the UK). 5.6 per cent said they would decrease their consumption slightly or by a lot. Given the absence of a TV offering in the new BBC offering, the impact can be expected to be even lower than this.

Similarly, for other local websites, only 6.0% of respondents expected any reduction in usage as a result of a BBC local offering

Local newspapers' broadband plans

Our expectation is that the BBC's proposals will have little significant impact on the profitability of local print newspapers, but that they could affect usage and hence revenues of newspapers' new online sites. (Online advertising currently represents 1.8% of local newspapers' revenues[65]). There are many other factors which will affect the success or failure of those ventures, however, and which will have much more influence over eventual outcomes than the BBC.

<u>Newspaper broadband services</u>

Probably a more important potential MIA concern arises in connection with newspapers' new broadband multi-media services. The emergence of innovative and sustainable services in this area, from a wide range of suppliers, will deliver significant consumer and citizen benefits. The costs arising, should there be a negative market impact caused by the BBC, could consequently also be high.

A particular concern of newspaper publishers is that the BBC local video proposals will form part of an extended local broadband offer, based around the BBC Local sites, which could compete head on with the mix of content provided by newspapers' own broadband services. That is, it is not primarily the BBC's video proposals which are seen as a threat by newspaper publishers, but the prospect of a multi-faceted BBC local online proposition, adding local news and news related video to the BBC Local content mix. (Of course, the BBC offer will not include classified advertising, which is an important driver of traffic to newspaper sites for job seekers, house hunters and so on).

How big an impact might the BBC's proposed local video news offering have on developments here?

<u>Dynamic effects</u>

First, it seems likely that, whatever the BBC does, there will be a significant amount of continuing competition and innovation in this market for some time to come. As the previous section noted:

- It is a strategic imperative for local newspaper publishers to invest in local multimedia propositions – their business model is being attacked by specialist publishers and online sites, and their traditional readers are drifting away. Thus, the main challenges faced by local newspapers

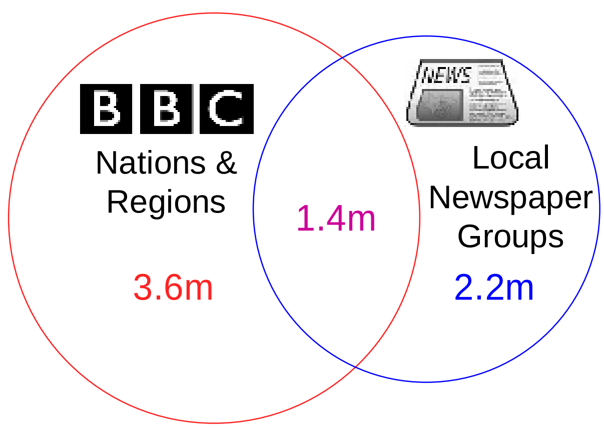
[65] The Newspaper Society, *Analysis of the Regional Press Survey Findings for 2006*

are those posed not by the BBC but by other industry developments which will occur whether or not the BBC launches its local news offerings. These are likely to have a much greater influence on investment decisions and the health of competition in the sector than the BBC's local TV news proposition. All of the major print publishers have advanced plans in online, and all will continue to pursue them, even if the BBC launches its local news offer;

- Likewise, there are other potential players in this market who are also keen to develop local services, as a means of tapping into potentially lucrative advertising incomes – these include specialist advertising firms, who are moving from print into online, other established media players, from broadcasting and the national press, and also the major global online players, such as Google;
- Finally, the scale of the BBC's investment is not excessive compared with the total market and the current spend on journalism by local newspapers, and the nature of some of the BBC's proposals – for example those for assisted production – is different from those likely to be developed by the rest of the market.

It is also the case that one extra user for the BBC offering does not mean one less for a local newspaper's site. Offline consumers may take one national and/or one local newspaper, but online they are more promiscuous. 39% of local newspapers' current online audience are already users of BBC Local and other BBC online local offerings.

Overlap of BBC Nations and Regions and Local Newspaper online audiences (unique users)



Note: BBC includes England, BBC Local, Scotland, NI, Wales
Newspapers are Newsquest, JP MEN, ic Network and This is …
Source: NNR, Human Capital analysis. Data for January 2008

The BBC's proposition, as currently specified, does not raise significant new entry barriers in this market. The BBC does not have a monopoly on local news resources – in fact many local newspaper groups have a more extensive journalism base in local communities than does the BBC. Likewise local newspapers have strong local brands and can cross-promote from their print newspaper products. Other players, like Google/YouTube, bring different skills and advantages to the market, including powerful brands, expertise in user generated content, knowledge of how to operate successful social networking sites, and a good understanding of online advertising – all of which are significant potential competitive advantages. More generally, online distribution, which lowers start-up and ongoing costs, could mean that the entire local publishing market becomes much more open and competitive than has been the case in the old print and broadcasting environment.

With this level of interest, the competitive process seems likely to be robust and sustainable. Although the potential size of the market is hard to predict, it might at least be as big as the current regional newspaper advertising market (around £2.8bn[66]), on the assumption that most of this business eventually transfers from the print medium to online. In fact it may be much bigger: Online may be more effective than conventional classified ads, so offering the potential of market growth as consumers get better value, and highly targeted click-through advertising could expand the market further.

It should also be noted that although local newspapers might experience a negative financial impact, advertisers are likely to switch some of their expenditure to other media, so the eventual impact on the wider economy will be smaller still – indeed, some alternative media will gain.

Direct impacts

However, the BBC's offerings could have a small direct adverse effect on the relative competitiveness of the mixed-content online services currently being developed by local newspapers. Those newspaper-based services may well need to use local news as a key USP in attracting users to their service when facing competition from other local information and advertising sites. To the extent that the BBC diverts users away from their commercial mixed content sites, their competitive position will be weakened.

The scale of this impact is very difficult to estimate. As we saw earlier, evidence so far suggests that print newspapers will be largely unaffected by the BBC. For their online offshoots, much will depend on the extent of overlap

[66] The Newspaper Society, *Analysis of the Regional Press Survey Findings for 2006*

between what the BBC does and what local newspaper broadband sites offer. If the BBC offers primarily news content, then the extent of overlap with the newspaper online proposition will be small. However, if the BBC (beyond its current plans) were to move into networking, local listings, guides and advice, then the impact would be greater.

The new consumer research gives some indication of the possible scale of this effect. As the chart on page 62 shows, 6.0% (1.7% + 4.3%) of third party local website users said that their consumption would be reduced if the BBC introduced an online local video offering. This is the highest aggregate "reduction" score, indicating that other web-based local news services are slightly more at risk from the BBC's proposition than are local newspapers, TV and radio. Note though that while 6.0% said they would reduce their usage, 8.0 per cent said they would increase their usage.

Wider broadband developments

Given the nascent market status of wider local broadband services, it is hard to quantify the possible effect of the BBC's proposals on their future development. Nevertheless, there is a risk that, because of the perceived size of the BBC's operations, and its potential for cross promotion, the BBC's presence in this market could have a dampening effect on investment. Two main observations can be made:

Direct effects

As noted above, our consumer research suggests that there could be some small adverse impact on usage of other web-based local news sites, should the BBC launch an online video news offering – 6.0 per cent of respondents said they might decrease usage of other local websites.

Impact on longer term prospects of competition

More importantly, the BBC's actions, if not carefully scaled, could have an adverse effect on the longer term prospects for competition emerging in this market. Embedding, the dampening effect of potentially large scale BBC investment, and timing are three key concerns.

Embedding

The BBC plans to embed local video stories within stories on the BBC Local sites. These sites already enjoy 2m weekly unique users[67], and so embedding will give the video content immediate, substantial exposure, building BBC

[67] BBC Server Logs, January 2008

awareness and habits of usage amongst an audience that are self-selected to be particularly interested in local news. This may make it harder for later entrants to establish a market position.

Deterring investment

Second, the threat of the BBC's involvement, if it is on a potentially large scale, could deter smaller providers from entering the broadband market. There may be many small new commercial and not-for profit providers who might be able to develop new approaches to serving consumer needs in this area. In some cases they might be closer to the local community and therefore better placed to serve it than the BBC. However, the presence of a well funded BBC proposition in the local news space could deter potential entrants, making it harder for them to raise initial finance, and more difficult to attract a sufficient number of users in the early days of their operation to sustain a viable operating model. Again, the precise impact of the BBC's proposals is very difficult to predict. A more collaborative approach with new entrants would help mitigate this effect.

It should not be forgotten, however, that in this wider broadband market, the BBC's influence on outcomes will be relatively small, especially compared with the competitive challenges posed by other new entrants, particularly those intent on encroaching on traditional local newspaper advertising territory. Moreover, the BBC will not be competing directly for revenues.

Timing

Finally, the timing of the roll-out of the BBC's proposals could be significant. There is a risk that the BBC, given its resources and cross promotional effectiveness, could establish a difficult to challenge lead in the provision of local video news (even without the further advantage of embedding). Partly for this reason, the BBC has been considering a phased roll-out, staring with a limited offering nationwide in Q1 2009/10, and ramping up to a full offering in 2012/13. (By 2009 it will be almost five years since the BBC first mooted plans to enter the local video market[68]). This may be sufficient to allow other local news providers to establish their own presence in local broadband, and to minimise the risk identified. Indeed, many have already done so. A number of newspapers have had video available for months or even years and will have a further window of opportunity in which they can continue to establish their new ventures.

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[68] See *Building Public Value*, June 2004

Geographic perspective

We have considered the impact by media, but an alternate perspective is by geography. We can consider the more significant market impacts (positive and negative) by area type:

Market Impact by region type

	Metro	Urban	Mixed	Rural	Comments
Stimulus to competition		ü	ü	ü ü	Limited competing newspapers in rural areas
Plurality benefit		ü	ü	ü ü	As above
Skills Development			ü	ü	Smaller papers likely to have lower training budget. Regional TV usually produced from cities
Loss of internet users	û	û	û	û	Smaller, weekly papers in rural areas least likely to have comparable offer, but these papers more geographically targeted, and local monopolies limit impact on adspend
Loss of viewers	û	û			Local TV may feel impact, where it exists
Deterrence to market entry			û	û	Already uncertain economics in mixed and rural areas increase the risk that the BBCs participation deters invesment

In metropolitan areas for example:

- The commercial market and competitive dynamics are likely to ensure entry and growth of existing and new commercial players, especially those able to operate across different media
- Many of the commercial players will have their own skills and resources and have less need for support from the BBC - promotional or otherwise
- The BBC's proposition may have a direct and adverse effect on consumption of these commercial services at the margin but they in turn, being better funded and with a diverse range of content, will be better able to prosper in the market.

In rural areas:

- The uncertain economics in these areas mean that there is a risk that the BBC's presence could deter entry or growth by commercial players offering local video content - although in some areas there is unlikely to be any commercial provision at all with or without the BBC, meaning users will depend on the BBC
- Smaller community based local services may feel outgunned by the BBC's better resourced proposition
- On the other hand, if the BBC can offer support to smaller local players and help promote their services, it could have an important positive effect on their longer term success.
- Moreover, in these areas both new and existing services will almost all be more local than the BBC' s offering, which will offset some of the BBC's advantages

In urban and mixed areas the impact is more balanced, lying between the two situations above.

The net effect of these different impacts is hard to predict with certainty. In larger markets, the BBC will operate alongside stronger commercial players who will be better placed to sustain any loss of consumption. And there are steps the BBC can take to offset some of the risks to smaller players in weaker mixed and rural markets.

Conclusions and Observations

In conclusion, the impact of the BBC's proposed local news offerings is difficult to predict with precision in such an uncertain marketplace.

On the plus side, the BBC's proposals might have a modest but useful positive impact on the overall demand for local news and related services, in terms of familiarising users with local video news content, and in lowering costs, to the extent that BBC training benefits the sector as whole. The BBC's proposition is in many ways complementary to the content and services likely to be offered in the commercial marketplace:

- It will in the main cover different geographic areas to those likely to be chosen by commercial and community based players;
- It will not compete for advertising or click-through revenues, and neither will it undermine direct payment for content - subscription models look unlikely to emerge in this market;
- In some cases, it will be filling gaps unlikely to be served by commercial providers – for example local broadcast TV news, especially outside of the main metropolitan areas – and providing much needed competition in otherwise highly concentrated markets.

Although there may be some direct impact on usage and revenues of competing local news providers, its scale is likely to be small. Our consumer research suggests that the majority of users will continue to use other local news providers, even if the BBC launches its offerings.

More widely, the BBC's proposition is unlikely to materially affect the overall competitive dynamic in the provision of local content and information services – there are likely to many competing organisations wishing to enter the market, entry barriers are lower than in traditional media, and the BBC is not in a position to foreclose the market through, for example, ownership of bottleneck facilities or assets.

However, this MIA has identified three main areas of concern:

- A possible mild dampening effect on the emergence of local broadcast TV in those towns and cities in which the business case for commercial local provision may be at best marginal. In those areas, the BBC's presence could make the difference between commercial viability or failure, and could certainly make it harder for new entrants to raise the necessary investment.;

- A possible small adverse effect on the competitive position of local news and content online sites established by local newspaper publishers – the BBC's broadband news provision could erode the newspaper publishers' potential USP – the delivery of local news in the broadband world. The scale of impact here will be greater, the closer the BBC's proposition is to that of the mixed content services which are being planned by newspaper publishers;
- A possible adverse effect on the process of innovation in broadband markets, which would result if the BBC's proposition were to deter investment by new community-based broadband services, many of which will face a tough challenge in raising finance and attracting users in the early years of their operation.

There are several ways in which the BBC can design its local news proposition and how it interfaces with other providers, to address these concerns.

First, the BBC can offer reassurance to others regarding the scale of investment planned now and into the future for its local online video news offerings. Competing providers need to understand how much the BBC will be spending, and to have a reasonable degree of certainty about the BBC's future planned developments. A detailed and transparent roll-out timetable would help. This would help commercial providers in the process of raising funding and assessing business viability. Further, the BBC could consider the timing and phasing of the introduction of the proposed new local news offerings. It should be noted that already the earliest that the BBC could launch is Q1 2009/10, and it is likely to take around three years to complete the planned ramp-up to a full offering. This, arguably, already gives the commercial sector a useful window in which to push ahead more quickly with its own investments. In many regions the BBC will not be first to market.

Second, the BBC could delay the launch of its offering, to allow the market to develop and commercial players to plan, in the context of certainty as to the nature and timing of the BBC's local video plans. While the be possibility of such an offering from the BBC has been in the public domain for some years, there has to date been substantial uncertainty about if, when and it what shape it would launch.

Third, the BBC can be very clear about the range of content and information that would be available via broadband alongside the local news offering. The BBC has already stated that it will not offer a cinema information and bookings service on its BBC Local sites, for example, but it might wish to go further and specify in detail what will be on the local offering, not just what will be omitted. The BBC could also set out the limits to its plans for local user generated content (other than assisted production). This will be a major concern of smaller community based sites, but also of rival commercial providers.

Third, the BBC can explore various forms of partnership – finding ways of working with, rather than in opposition to other local suppliers (subject to any competition concerns). For example, the BBC could offer to make available its own content to other operators. This would be especially welcome to smaller not-for-profit organisations, who are more likely to focus on user-generated local content than on in-depth journalism. But a wider process of syndication to commercial providers could also be considered. Note, however, that such syndication could help new entrants at the expense of incumbents who have already invested in local journalism, and would thus see their competitive advantage eroded. It might also impact on the commercial prospects for syndication of similar material by other providers.

Fourth, the BBC could publicise its willingness to link to third parties, and the qualification criteria to receive such links. The traffic such links could generate may be a meaningful benefit to other sites, particularly smaller ones, and to build sustainable businesses they will need to understand how to obtain and retain these links.

Fifth, the BBC could publicise its budget for third party content, and explain what content will be most attractive for it to buy, to allow other organisations to factor this into their business planning. This spend on third party content will have the greatest external benefit if the level and distribution of the budget is such that individual third parties can actually receive meaningful sums.

Appendix – News Areas

By Size

Region [Language]	Nation	Pop'n ('000)	% Urban	Region Type
London	England	7,459	100%	Metropolitan
Manchester	England	2,545	96%	Metropolitan
Glasgow and West	Scotland	2,209	81%	Urban
Hampshire	England	1,817	71%	Urban
Liverpool / Merseyside	England	1,670	90%	Urban
Essex	England	1,656	69%	Mixed
Herts + Beds	England	1,639	75%	Urban
Kent	England	1,626	67%	Mixed
Sussex	England	1,524	63%	Mixed
Lancashire	England	1,448	78%	Urban
Cardiff & SE [English]	Wales	1,295	n/a	Urban
South Yorkshire	England	1,283	90%	Urban
Birmingham	England	1,203	98%	Metropolitan
Edinburgh and East	Scotland	1,170	74%	Urban
Newcastle / Tyne	England	1,111	74%	Urban
Devon	England	1,110	50%	Mixed
Black Country	England	1,082	98%	Metropolitan
Bradford	England	1,079	84%	Urban
Surrey	England	1,075	76%	Urban
Staffordshire	England	1,059	71%	Urban
Leeds	England	1,055	82%	Urban
Nottinghamshire	England	1,048	77%	Urban
Derby	England	985	65%	Mixed
Leicestershire	England	949	71%	Urban
Humberside	England	902	63%	Mixed
Belfast and East	Northern Ireland	831	82%	Urban
Bristol	England	829	84%	Urban
Norfolk	England	827	38%	Rural
Warwickshire	England	823	72%	Urban
Berkshire	England	805	85%	Urban
North Yorkshire	England	778	40%	Rural
Tees	England	768	74%	Urban
Cambridgeshire	England	745	40%	Rural
Foyle and West	Northern Ireland	735	51%	Mixed
Hereford & Worcester	England	728	53%	Mixed
Somerset	England	715	32%	Rural
Buckinghamshire	England	705	63%	Mixed
Dorset	England	700	61%	Mixed
Suffolk	England	693	37%	Rural
Cheshire	England	685	54%	Mixed
Lincolnshire	England	684	28%	Rural
Tayside and Central	Scotland	682	67%	Mixed
Wear	England	664	58%	Mixed
Northampton	England	658	61%	Mixed
Wiltshire	England	633	47%	Mixed
Oxfordshire	England	629	44%	Mixed
NEt and Northern Isles	Scotland	576	45%	Mixed
Gloucestershire	England	575	55%	Mixed
Cornwall	England	523	8%	Rural
SW Wales [English]	Wales	507	n/a	Mixed
Cumbria	England	496	26%	Rural
Shropshire	England	451	46%	Mixed
NE Wales [English]	Wales	321	n/a	Rural
South of Scotland	Scotland	259	28%	Rural
Highlands and Islands	Scotland	243	19%	Rural
SW Wales [Welsh]	Wales	151	n/a	Mixed
NW Wales [Welsh]	Wales	151	n/a	Rural
Mid-Wales [English]	Wales	147	n/a	Rural
Cardiff & SE [Welsh]	Wales	128	n/a	Urban
NE Wales [Welsh]	Wales	113	n/a	Rural
NW Wales [English]	Wales	93	n/a	Rural
Jersey	England	88	n/a	Rural
Isle of Man	England	76	n/a	Rural
Mid-Wales [Welsh]	Wales	63	n/a	Rural
Guernsey	England	62	n/a	Rural

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