

Executive Summary

In January 2002 we, PricewaterhouseCoopers, were requested by the BBC to provide an independent, economics-based market assessment of the BBC's proposed Digital Curriculum service. It is intended that our assessment will be used as part of the BBC's request to the Secretary of State for Culture, Media and Sport for approval of its Digital Curriculum proposition.

The BBC's proposed Digital Curriculum service is an educational online resource that would be delivered as a cohesive set of services to schools, homes, libraries and other such institutions. It would be free at the point of use and would build on the BBC's existing expertise of providing television and radio programmes of an educational nature and publishing learning materials in various formats. The scale and ambition of the proposition is significant and is set against the background of a multi-billion pound government plan to establish modern information, communications and technology (ICT) infrastructure in Britain's schools.

The proposition has yet to be implemented. If approval were granted, a service would take at least nine months to launch and would be rolled out over a five year period. The Governors of the BBC are likely to be asked to approve the expenditure of £150 million from existing licence fee funds to finance the service (equivalent to £30 million per annum).

Relevant markets

We conclude that the relevant markets for the BBC's proposed Digital Curriculum service can be grouped at least as wide as the:

- Provision of educational software resources (comprising CD-ROMs, online sites and other PC-accessed materials) to formal learning environments (e.g. schools) in the UK.
- Provision of educational software resources to informal learning environments (e.g. homes, libraries) in the UK.
- Production of educational software content (and related services) in the UK.

We recognise that there is evidence to support the widening of the first two groups of relevant markets to include educational printed resources. We do not rule out that in the future, online provision may develop in form, acceptability and accessibility to become a stronger substitute for educational printed resources. Given the current evidence, however, we cannot support such a finding at this stage of market development.

Impact of the BBC's proposed Digital Curriculum service

We adopt a 'dynamic framework' to assess the impact of the BBC's proposed Digital Curriculum service which is consistent with the recent OFT/Cabinet Office guidelines on market impact assessments and the criteria applied by DCMS in its Public Service Approval Guidelines. We assess the distinctiveness of the BBC's proposed Digital Curriculum service, its impact on the relevant (and related) markets, and whether or not it would adversely impact competition.

We believe the proposition to be a significant, distinctive development in the market on the basis of:

- the breadth and depth of coverage of each curriculum;
- the universal access to the service and zero cost at the point of use; and
- the coherent development of the educational online resource sector.

These characteristics would mean that commercial provision of this full proposition is unlikely, even though aspects of the proposition are already available. We note that some individual aspects of the proposition would not, in our view, be 'innovative'.

If successful, the BBC's proposed Digital Curriculum service could lower barriers to market development and entry. More specifically, if successful it is likely to:

- reduce the barriers to development by increasing the acceptability and understanding of teachers of online provision, and educational software resources more generally, thus helping to replace the

vicious circle of low teacher acceptability, low demand, with a virtuous circle of increasing acceptability and increasing demand. In particular, this is because of the universal availability and breadth and depth of coverage of the BBC's service;

- contribute to an expansion in the size of the relevant and related markets, as a result of significant seed capital;
- lower the overall costs of commercial suppliers and help them develop comprehensive online offerings of their own, as a result of the licensing of the BBC's content;
- further develop the market for content production with benefits for both suppliers and other purchasers through the BBC's external commissioning of 50% of the budget for its proposition;
- reduce uncertainty and thus investment risk for commercial suppliers through the BBC's announcement to DfES and DCMS of its future plans;
- improve ICT skills, help to develop the next generation of knowledge workers and greatly improve PC literacy skills; and
- contribute to the increased uptake of new technologies, given that the BBC's proposed Digital Curriculum service could be accessible through devices such as interactive TV and mobile telephones in the future.

At present, the BBC has no market power in the relevant markets defined in Section VI. The BBC could gain a significant market position¹ over time given the strength of its brand and the free and universal availability of the proposed Digital Curriculum service. However, the success of the service is not guaranteed given factors outside of its control such as the dependency of the uptake of the service on the adequacy of ICT infrastructure in schools.

Whether any significant position developed by the BBC would confer market power is highly uncertain since the service would be introduced into a dynamic market and would not be fully rolled-out for at least five years. However, we believe there are factors that are likely to prevent the BBC developing market power and more importantly, prevent it eliminating competition through engaging in anti-competitive – particularly exclusionary – conduct. These factors include the extensive regulatory framework governing the BBC, the positive market impact described above as well as:

- **The limited scope of the service the BBC intends to include in its approval application.** The BBC's proposed Digital Curriculum service would take at least 9 months to launch and would be built up gradually over a five year period. The BBC would offer a service, which covers no more than 50% of the learning objects for any given course or Key Stage. In addition to the learning objects and whole courses that are not included within the Digital Curriculum service, there is the opportunity for commercial suppliers to provide alternative ways of meeting the learning objects covered by the BBC. Subject to certain terms and conditions², third parties could obtain up to 20% of their requirement for materials of a specific asset type from the BBC for use in their own products/services. Hence a potential new entrant could have access to some 'ready-made' content at the launch of the service;
- **Government funding stimuli.** The increased funding through the NGfL and the provision of eLCs should generate approximately £100 million per annum for schools to purchase educational software resources, thereby facilitating market entry and competition to the BBC; and
- **Absence of proprietary technology.** We understand that the BBC's proposed Digital Curriculum service would not require the installation of any proprietary technology or software in schools or homes that could act as a 'gateway' to the consumer.

Hence the principal advantage of the BBC's proposed Digital Curriculum service – free at the point of use – would, in part, be mitigated.

¹ The term 'significant market position' in this context refers to a high level of uptake and usage of the service in the relevant markets defined in Section VI (i.e. within schools and homes).

² For example, the BBC's material must be incorporated by commercial suppliers into alternative products for the Curriculum Online initiative.

I Our brief

- 1.1 The British Broadcasting Corporation (“BBC”) is required under the Royal Charter to seek approval from the Secretary of State for Culture, Media and Sport to develop and launch new public services. We understand that the BBC will make a written submission to the Secretary of State for Culture, Media and Sport seeking approval for the proposed “Digital Curriculum” service³. This will explain how the service will meet the BBC Board of Governors’ published criteria for new public services. The Secretary of State will consider whether to give approval to the service in line with her Department’s published Public Service Approval Guidelines.
- 1.2 In January 2002 we, PricewaterhouseCoopers, were requested by the BBC to provide an independent, economics-based market assessment of the BBC’s proposed Digital Curriculum service.
- 1.3 Our instructions were to express a view on⁴:
 - the definition of the relevant product and geographic market(s) for the BBC’s proposed Digital Curriculum service;
 - the current state of the relevant market(s); and
 - the probable (static and dynamic) impact of the BBC’s proposition on the relevant market(s), and any closely related markets.
- 1.4 Our assessment is based on the economic principles underpinning the analysis of markets for the purposes of competition law investigations, and for market impact assessments.
- 1.5 We were not requested to undertake a technical assessment of the BBC’s proposed Digital Curriculum service, in terms of any areas of potential infringement under Chapter I or Chapter II of the Competition Act 1998, the Fair Trading Act or European Union (EU) competition law. Nor have we provided a definition of the relevant market(s) in the same detail as we would for the purposes of a formal submission to a competition authority. We have also had no involvement in any part of the wider submission, which the BBC is preparing separately.
- 1.6 Given the commercial and political sensitivity surrounding the proposition, the BBC asked us not to seek information from commercial suppliers of educational products or services.
- 1.7 The method of investigation and evidence gathering in relation to this market assessment was of our own making. Neither the BBC nor any other party influenced us. Other than providing us with copies of background reports relating to the education industry and the BBC’s proposed Digital Curriculum service, the BBC’s involvement included:
 - assistance in organising an interview programme; and
 - budgetary approval for the scope of our work.
- 1.8 The work represented by this report was conducted by members of the PricewaterhouseCoopers Economics Advisory Services Europe team based in London, directed by Peter Bamford. Independent quality control, and partner responsibility, was assumed by Thomas Hoehn.
- 1.9 We began the assignment on 28 January 2002 and had seven weeks in total to complete a draft final report. The report was finalised following a period of review by the BBC. We are confident of our conclusions in this report based upon the scope of our remit and the timescales allowed, but, as always, additional time would be desirable to add to the weight of evidence which supports them. If the nature of the proposition and/or the markets were to differ significantly from current expectations then our views might change.
- 1.10 The remainder of this report is structured as follows:
 - in Section II, we outline the background to the development of the BBC’s proposed Digital

³ Given the ‘proposition status of the ‘service’ terms, ‘Digital Curriculum service’ and ‘Digital Curriculum proposition’ are used interchangeably.

⁴ For the avoidance of doubt, this report is not an ‘Expert Report’ according to the legal meaning of the term.

Curriculum service and place it in the wider context of government policy;

- in Section III, we provide an overview of our approach to market assessment;
- in Section IV, we describe the current state of the UK educational resource sectors and certain other related-markets;
- in Section V, we outline the BBC's proposed Digital Curriculum service;
- in Section VI, we state our view on the relevant market(s) in which the BBC's proposed Digital Curriculum service would operate;
- in Section VII, we discuss the barriers to entry in the relevant market(s); and
- in Section VIII, we consider the market impact of the BBC's proposed Digital Curriculum service.