VII Barriers to entry

Introduction

7.1 This section discusses the barriers to entering the relevant markets described in Section VI. Entry barriers for potential suppliers are important in the assessment of market power. The lower the entry barriers in a given market the lesser the scope for an incumbent firm with a high market share to act in an anti-competitive manner, for example by charging excessively high prices.

7.2 We focus on the downstream markets that are (at least as wide as) the provision of educational software resources to formal and informal learning environments in the UK. The barriers to entering the informal learning environments (e.g. homes) are in many respects very similar to those in the school environment. Given the nature of the BBC's proposed Digital Curriculum service we look most closely at the barriers to supplying educational online resources to schools. We also briefly discuss the barriers to entry within the market for the production of content (and related services).

7.3 A discussion of the barriers to development of the relevant markets is provided in Appendix 1. Barriers to development are factors that limit the commercial opportunities for both incumbents and potential suppliers. They are considered in the market impact assessment in Section VIII[82].

Summary conclusion

7.4 Existing barriers to entry are relatively low, and therefore potential competition is likely to constrain the development of significant market power by incumbent suppliers.

Barriers to entering the markets for educational software resources

7.5 The key factors at present that could potentially limit the scope for a new commercial supplier to enter the educational software resource markets include:

- **ICT funding limitations.** The budget for schools ICT software expenditure represents an absolute barrier to entering the educational software resources market. Central and local government funding for schools is fixed in advance of each school year. Unlike consumers in the home market, the scope for increasing expenditure on a particular product once the budgets are set is limited since it is difficult to substitute expenditure away from other areas and/or command an increase in the level of funding from government/LEAs. However, it is evident that targeted NGfL funding has reduced these absolute funding barriers and the introduction of eLCs is likely to have a further expansionary effect.

- **Regulation.** Potential new suppliers of educational resources will be obliged to meet industry technical standards. This could raise a barrier to entry if it is costly for the entrant to meet such standards. However, we understand that work is underway to facilitate low cost inter-operability between the products of different suppliers.

- **Brand and reputation.** As noted in Section IV, the educational software resource market is currently supplied by a number of commercial organisations that have interests in many other markets. Established suppliers such as Pearson, BBC, Granada and RM have been able to leverage high levels of brand and product recognition when entering this market as a result of their activities elsewhere. There are also many examples of 'smaller' participants recently entering either the online sector e.g. Schoolfriend.co.uk[83], Spark Island, or similar sectors e.g. Espresso Broadband. Furthermore whilst brand and product recognition is undoubtedly important in this market, so to is the perceived quality of the product. Parents, teachers and ICT co-ordinators are sophisticated buyers who place an onus on the quality of the educational resource. As noted in Section IV, it is evident that new suppliers such as Espresso Broadband, are developing a foothold in the (schools) market based on the introduction of high quality educational resources.

[82] We also discuss potential exclusionary behaviour in Section VIII.

[83] Schoolfriend.co.uk, an internet based learning system for 4-13 year olds, was established in approximately one year by a few individuals using just £2 million of private investment.

- **Exit barriers.** There could be limitations for the more established (offline) suppliers from exiting the market. These would probably relate more to potential detrimental effects on the reputation and brand of a supplier rather than any major (financial) decommissioning costs.

Barriers to entering the market for the production of educational software content (and related services) in the UK

7.6 As noted in Section IV, the market for the production of educational software content (and related services) in the UK is currently fairly limited for third party suppliers. The majority of the production is carried out in-house by the major suppliers of educational software resources. The need for considerable technical know-how and an established track record and standing within the industry are two of the principal barriers to entering the content production market.

Conclusions

7.7 We conclude that existing barriers to entry are relatively low, and therefore potential competition is likely to constrain the development of significant market power by incumbent suppliers. There is also past evidence of entry into the relevant markets by new suppliers.