



Media Ownership Consultation Response

25 January 2002

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1 Executive summary

- 1.1 The Department for Culture, Media and Sport (DCMS) and the Department for Trade and Industry (DTI) produced a good set of objectives in the Communications White Paper in December 2000. These have not been carried through to the current DCMS/DTI Consultation Paper on media ownership.
- 1.2 The set of objectives in the Communications White Paper, with a clearer distinction between diversity of content and plurality of viewpoints and the addition of national security, would have provided better guidance for reviewing media ownership regulation. That set of objectives would therefore be: ensuring national security; safeguarding the interests of citizens; protecting the interests of consumers; ensuring universal access; maintaining diversity of content; securing quality of content; maintaining diversity of viewpoint; and creating a dynamic market.
- 1.3 It is useful to identify separately the aims of best practice regulation. These include the desire to construct a robust and adaptable framework; to provide certainty and predictability as far as possible; to be reasonable and proportionate; and to be as deregulatory as possible.
- 1.4 A robust and enduring framework for media ownership regulation should address the possible and likely development of the industry. There are three principal trends which are shaping the future: digitisation, accessibility and personalisation.
- 1.5 These trends are already changing the media landscape. It is becoming more complex, less vertically integrated, more customer focused, personalised, and technologically converged.
- 1.6 It will be necessary for the regulation of media ownership to change sooner and more radically than the Government seems to intend, if it is not to hinder beneficial development of the industry. The proposals set out in the White Paper represent only corrections to the existing framework of regulation, but do not challenge the framework itself.
- 1.7 Broadly speaking, the direction of development should be deregulatory. Cross-media ownership rules should be abandoned altogether and ownership rules within media should be relaxed significantly and ultimately abandoned to allow companies to achieve benefits of scale. In our view, foreign ownership is an irrelevant anachronism.
- 1.8 The Government can focus on the BBC as its guaranteed delivery vehicle against certain of the objectives. Public service broadcasting requirements for commercial players should be considered carefully and should avoid becoming excessive and unnecessary intervention in the market.
- 1.9 New areas for regulation are already emerging in the industry and these should be the basis for a new framework. Two areas are key and are already the focus of much of the regulatory and competition debate in the media sector: competition within segments of the value chain, and fair trading and pricing between segments of the value chain.

2 Introduction

- 2.1 As part of a wider review of the regulation of the media and communications sectors, the UK Government is currently consulting in relation to the rules on media ownership. The DCMS and the DTI jointly published a paper on 26th November 2001 entitled “Consultation on Media Ownership” (the “Consultation Paper”). The Government invites comments on the Consultation Paper by 25th January 2002.
- 2.2 The Consultation Paper is wide-ranging and seeks comment on both the creation of an enduring framework of regulation, and amendments to specific parts of the current rules.
- 2.3 In this paper we provide comment on the creation of a lasting framework of legislation. The Consultation Paper contains limited reference to the possible future of the media sector and how it is likely to evolve. It is difficult, therefore, to review how any proposed framework for regulation stands up against future scenarios.
- 2.4 In this paper we provide our view of the main trends shaping the media sector in the UK over the next few years, and the possible characteristics of the landscape. Against this background, we provide our views on the future direction of regulation.
- 2.5 This paper is not intended to provide an all-encompassing, definitive view on the future for regulation in the media sector. Rather, it is intended to assist the Government in its review of the future framework for regulation, by providing our views of the future of the sector.
- 2.6 The sections in this paper are as follows:

Section 3 The objectives of the media ownership rules	Our review of the desired outcomes of the creation of a framework for regulation
Section 4 The principal trends	An overview of the three main trends in the media sector: digitisation, accessibility and personalisation
Section 5 The characteristics of the future	A picture of a possible future of the media sector, setting out its characteristics
Section 6 Recommendations for the direction of regulation	Our view on the implications of future media sector developments on the direction of regulation

Andersen

- 2.7 Our UK Technology, Media and Communications practice employs approximately 400 people, encompassing various functions of professional services. These functions work together to deliver market offerings and integrated solutions which are tailored to the needs of our technology, media and communications clients, and to current industry trends. We have in particular undertaken extensive work for the following clients in the UK:

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3 The objectives of the media ownership rules

Introduction

- 3.1 The Government Consultation Paper sets out a series of objectives for the new regulatory framework for media ownership. In this section we review the stated objectives and our understanding of them, and suggest some amendments and additions.

Overview of the stated objectives

- 3.2 A clear set of prioritised objectives is essential for decision-making about media ownership rules. The Consultation Paper sets out the Government's views on the objectives of media ownership regulation. However, we find the list of objectives incomplete, the definitions of the objectives unclear, and the objectives unprioritised.

- 3.3 The foreword to the Consultation Paper sets out an objective¹:

"...to create a framework for media ownership which protects... plurality of voices and encourages a diversity of content whilst, at the same time, promoting the most competitive market for media businesses and attracting new investment."

These concepts are discussed further in the first chapter of the Consultation Paper.

- 3.4 The Government also sets out the "key aims of media ownership rules" in the body of the paper²:

- *"To create the most competitive market possible whilst ensuring plurality of voice and diversity of content."*
- *"To construct a framework which is robust but adaptable to a rapidly changing technological and economic environment."*
- *"To provide as much certainty and predictability as possible."*
- *"To be reasonable and proportionate."*

- 3.5 The stated objectives have a number of shortcomings:

- the desired regulatory outcomes are combined with the best practice aims of regulation;
- the paper seems to hold out diversity of content and plurality of ownership as primary mutually exclusive objectives, but the definitions are not clear;
- further objectives are implicit in the paper;
- the list of objectives is a subset of a more comprehensive list in the DTI/DCMS Communications White Paper in 2000³; and
- the objective of "national security" is clearly more relevant to a post-September 11th world, but this is not reflected in the Consultation Paper.

¹ Consultation on Media Ownership Rules, November 2001, page 5, Foreword

² Consultation on Media Ownership Rules, November 2001, pages 14-15, The Key Aims of Media Ownership Rules

³ "A New Future for Communications", December 2000, Summary of Proposals 1.0

We discuss each of these points in turn below.

The desired outcome of the rules as distinct from best practice regulation

- 3.6 Throughout the paper, the Government combines the desired outcome of the media ownership rules with the aims of best practice regulation. For example, to ensure diversity of content is a desired outcome, whereas the provision of certainty is best practice for the framework of regulation.
- 3.7 When reviewing the media ownership rules, the primary focus of the Government should be on achieving the desired outcome. The decisions in relation to the best method of achieving those outcomes should be influenced by the best practice aims.

Diversity and plurality

- 3.8 Of particular importance to the creation of a framework of media ownership rules for the future is the definition of, and distinction between, the concepts of diversity of content and plurality of ownership.
- 3.9 Despite the attempt by the Consultation Paper at clarifying the distinct concepts of “diversity” and “plurality”, it does not achieve this.
- 3.10 “Diversity of content” concerns the meeting of a wide range of different needs. This is important from a policy perspective when it is uneconomic to meet some content needs. The aim of “diversity” is a commitment to minority interests, including regional programming.
- 3.11 In relation to “plurality”, the paper appears to have, as an ultimate objective, plurality of viewpoints. Plurality concerns diversity of opinion, the expression of different points of view and, in particular, of dissenting points of view. The aim of “plurality” is a commitment to plural, influential viewpoints. It is this that the media ownership rules should seek to create and/or maintain.
- 3.12 However, the paper conflates the voice behind content, the source of the content, and ownership, and assumes that plurality of viewpoints requires plurality of ownership. This is not necessarily the case. Owners have different levels of interest in their publications or programmes and this interest is mostly dominated by financial concerns.
- 3.13 The historic link between ownership and influence on content has not survived in a strong form. For example, Associated Newspapers Limited owns both the Evening Standard, which takes a pro-European line and the Daily Mail which takes an anti-European line.
- 3.14 Ownership can also be very complex, such that holding a financial interest in a company may not result in the level of influence nor the patrician overtones that “owning” suggests.
- 3.15 The relationship between ownership and the owner’s influence on the viewpoints espoused in the content, is unclear. To ensure plurality of ownership will not necessarily ensure plurality of viewpoints.

Desired outcomes implicit in the Consultation Paper

3.16 There are a number of desired outcomes in the Government's paper which should be drawn out and distinguished from the best practice aims of regulation.

3.17 The list of key objectives includes the achievement of a competitive market, an outcome which should be explicit⁴.

"A competitive market should also contribute to the health of the national economy."

3.18 Similarly, an additional outcome implicit in the text but not explicit in the list set out in the paper is consumer benefits⁵:

"...new, improved and cheaper products for the consumer."

3.19 The paper also identifies the desire to construct a robust and adaptable framework, to provide certainty and predictability as far as possible, and to be reasonable and proportionate. These are the best practice aims of regulation. The desire expressed very early in the paper to be as deregulatory as possible should also be added to the list of aims.

Objectives set out in the Communications White Paper

3.20 We suggest that, in order to construct a comprehensive set of objectives for the media ownership rules, the Government should refer again to the Communications White Paper. This paper was clear on the vision for communications regulation in the 21st century⁶:

- *"We will make the UK home to the most dynamic and competitive communications and media market in the world."*
- *"We will ensure universal access to a choice of diverse services of the highest quality."*
- *"We will ensure that citizens and consumers are safeguarded"*.

3.21 The summary sections that follow this introduction, which we take as a list of objectives, are:

- creating a dynamic market;
- ensuring universal access;
- maintaining diversity and plurality;
- securing quality;
- safeguarding the interests of citizens; and
- protecting the interests of consumers.

3.22 For clarity, we suggest that diversity of content should be separated from plurality of viewpoints.

⁴ Consultation on Media Ownership Rules, November 2001, page 7, paragraph 1.8

⁵ Consultation on Media Ownership Rules, November 2001, page 7, paragraph 1.8

⁶ "A New Future for Communications", December 2000, Summary of proposals 1.0

National security as an objective

- 3.23 In our view, an additional objective, national security, should be added to the list. The rationale for this is clear in the light of Al-Qaeda's diverse financial activities and its threat to freedom and to democracy. This addition might be achieved by broadening the definition of "safeguarding the interests of citizens" but the creation of broad and indistinct objectives is likely to be unhelpful in creating a framework for media ownership regulation.
- 3.24 The existence of this objective helps to justify the exclusion of ownership of UK media assets by political and banned organisations. It should not, however, be used to justify unnecessarily restrictive rules on foreign ownership.

Conclusion

- 3.25 Bringing all these together, we propose the following list of desired outcomes of media ownership regulation:
- ensuring national security;
 - safeguarding the interests of citizens;
 - protecting the interests of consumers;
 - ensuring universal access;
 - maintaining diversity of content;
 - securing quality of content;
 - maintaining plurality of viewpoint; and
 - creating a dynamic market.

4 The principal trends

Introduction

- 4.1 To create a framework for regulating media ownership over the next decade, it is necessary to understand the potential characteristics of the sector in the future. This will enable the rule-makers to devise a framework which achieves the desired outcomes of the ownership rules, whilst being sufficiently flexible to manage the impact of developments in technology, sector structures and the economics of the industry.
- 4.2 In this section we examine three trends which, in our view, will play the most important role in shaping the future of the media landscape. In the next section we provide our views as to the implications of these trends - the future characteristics of the media landscape.
- 4.3 The three trends which are examined below are digitisation, accessibility and personalisation. In relation to each trend, this section sets out the background, a description or definition of the trend, and the future developments of the media landscape likely to be associated with it.

Digitisation

Background

- 4.4 Historically, content and its delivery and storage have been physical and analogue in nature – for example, newspapers are printed on paper, music has been recorded onto reels of tape. This has meant that the storage of content, for example articles and tapes, has taken up large amounts of space and has been costly. Physical storage, transportation and use can hasten the deterioration that comes with age. The search for and retrieval of content is difficult. Analogue content is indexed as it is stored, searches for old content are carried out manually, and the alteration of content for re-use is labour-intensive.
- 4.5 Due to the analogue nature of the delivery medium, content has been created only for distribution and consumption via one medium. For example, an article is written for the newspaper and appears only in the newspaper.
- 4.6 In short, analogue content and its use has been inflexible.

Definition

- 4.7 Digitisation is the process of converting data into a digital signal which can be transmitted through communication networks. For example, the analogue version of a news clip would have been recorded onto a film, whereas now it is recorded digitally onto disk as a binary series. This uniformity is a key characteristic of digitisation.

Future Developments

- 4.8 There are two over-arching developments in relation to digitisation in the content world:
- digitisation of the content itself; and
 - development of digital delivery channels and media.

Digital content

- 4.9 All digitally captured data are easily manipulated, altered and stored, independent of channel of delivery. When digital content is stored, it is possible to tag it electronically, enabling simple, fast search and retrieval. It is also relatively easy to manipulate digital content into different forms for delivery over different media or to different audiences. There is no need for physical storage except in the form of disk or server space, and digitally captured content doesn't deteriorate over time or during transportation.

Digital delivery media

- 4.10 Digital delivery media includes devices such as mobile phones, PDAs, the Internet and digital television. Following on from the characteristics of digital content set out in paragraph 4.9 above, it is possible to deliver a single piece of digital content via multiple media with minimal rework, due to the fact that it is digitised.
- 4.11 The quality of delivery is also higher than for analogue content. For example, a digitally recorded and distributed television programme is of higher visual quality than an analogue version, and enables more detailed enhancement. In addition, digitisation will enable richer, more interactive content and services to be provided to the consumer. This is discussed further in paragraph 4.39 below.

Consequences of digitisation

- 4.12 Digitisation means that the characteristics and the economics of content-based businesses are changing. An individual piece of content, for example an article, which is captured and stored digitally, can be distributed via any digital delivery medium such as the internet, mobile phones or digital television, as well as by means of its usual physical delivery medium, say, a newspaper. This in turn means that there are many more opportunities to consume a single piece of content and, theoretically, more possibilities for revenue generation.
- 4.13 There are cost implications for content-based companies. The principal costs associated with digitisation relate to the high initial investment in technology for creating, managing and delivering digital content. However, the costs of storage of digital content relate only to the cost of the disk space. This is likely to become much lower than the equivalent physical storage space.

Impact on the future

- 4.14 Digitisation will have different effects on different parts of the media industry. To examine the impact of digitisation, it is helpful first to define the content value chain.
- 4.15 The content value chain has the following components:
- content generation, for example taking a photograph;
 - content packaging, for example bundling articles and photographs with other relevant editorial and advertising content to form a magazine;
 - production, for example printing a magazine; and
 - distribution, for example transporting a magazine to a retailer.
- 4.16 At present there is huge variety in the extent of vertical integration of companies in the media sector. The film industry is highly fragmented, while parts of the newspaper industry are fully integrated. Digitisation is likely further to fragment the value chain further so that companies will play in restricted pieces of the value chain.

4.17 The most likely breakpoints for fragmentation will be between content gatherers, programme makers, packagers and distributors.

4.18 There will continue to be barriers to fragmentation. These include:

- the ability of companies to manage partnerships and strategic alliances;
- the City's poor view of asset-based companies; and
- regulation itself.

Content generation and packaging

4.19 Digitisation means that content is no longer medium specific. Content is content regardless of why or how it was originally produced. As a result, content is becoming "atomised" i.e. each piece of content has value in isolation, can be consumed in isolation rather than as part of a package, and can be specifically searched for. The predominant effect of this is described under the final trend of personalisation below.

4.20 This means that it will become easier to produce content without the end delivery vehicle in mind. For example, a writer will no longer have to provide a magazine article on one topic, rather, he can write an article on that topic for several media.

4.21 Similarly, packagers of content will be able to deliver their products by means of a variety of different delivery mechanisms. They will no longer be dependent on a particular production and distribution network, provided the costs of re-purposing the content for different media are not prohibitive.

4.22 Digitisation will result in low transaction costs between the elements of the value chain. It will also lead to lower barriers to entry for businesses in content generation and packaging. These factors will enable the parts of the value chain to separate. For example, it will be possible for the packager to be separate from the producer. The value chain will fragment and there will be an increase in the number of entities operating in those parts of the value chain with low barriers to entry.

4.23 Entities may base their business models on one or two parts of the value chain. Partnerships and alliances are likely to emerge as entities seek to guarantee a route to market for their content.

4.24 The fragmentation of the market around content generation and packaging means that traditionally non-media companies can see the value of their media assets and can either enter various parts of the market on their own or with the aid of a partner.

Production and distribution

4.25 Digitisation of production and distribution requires high investment in technology and infrastructure. For example, distribution requires investment in the development of networks such as the 3G network. The digitisation of production may involve investment in content management IT systems.

4.26 The need for investment has two implications. It will be necessary to generate sufficient income to ensure a return on the investment, so production and distribution companies will look to generate scale. Furthermore, there will be significant barriers to entry in the production and distribution parts of the value chain.

4.27 These factors tend towards a consolidation of the market in terms of production and distribution.

Accessibility

Background

- 4.28 A key feature of traditional channels to market in the media sector is that access to content has been specific to the delivery medium. Channels to market were, to a certain extent, bounded geographically and in time. For example, the London based news of the day could only be accessed when the evening edition of the newspapers was available in London, or the local television or radio evening news was broadcast.
- 4.29 There have also been technological constraints on the amount of content available to the consumer. For example, the number of television channels was limited, as there were specific technological constraints such as bandwidth availability.

Definition

- 4.30 The digitisation of both content and delivery media means that content can now be accessed by the consumer, through many different media, real-time and in any location. For example, it is now possible to receive up-to-date news or weather for a specific location by means of a mobile phone. Content is therefore becoming much more accessible to the consumer.

Future Developments

- 4.31 The increased accessibility of content will result in two future developments – an increase in the supply of content and an increase in the demand for content.

Supply of content

- 4.32 Digitisation has led to a proliferation of multi-media delivery devices such as mobile phones, PDAs, eBooks, eNewspapers and the Internet. These exist alongside the traditional media of newspapers, books, magazines, radio and television, resulting in a dramatic increase in methods of delivering content to consumers. For instance, radio broadcasts can now be heard by means of the Internet.
- 4.33 In turn, this is generating a huge increase in the amount of content being offered to the public for consumption. For example, there has been a significant increase in the absolute amount of broadcast television offered over the last five years. The number of hours of television broadcast increased by over 180% during the period 1995 to 2000 (ITC Annual Report, 2000).
- 4.34 One of the major drivers of this trend is that, in relation to the distribution of content, digital signals take up less bandwidth than traditional analogue signals, so more channels can be compressed into the space where fewer analogue signals currently exist.
- 4.35 Technological developments will also result in an improvement in the quality and interactivity of content. For example, a key feature of the next generation of mobile phones (known as 3G) will be to make rich media such as video available for consumption on demand via a mobile phone within the next few years. Trials of this are already taking place in Japan and South Korea on DoCoMo's 3G i-mode network.
- 4.36 At present, increased supply of content is restricted by the availability of infrastructure. For example, broadband technology promises to deliver high-speed, rich interactive content and services to many types of device over multiple distribution channels. However the rollout of the broadband network in the UK has been slow. In June last year, in the UK there were 0.26 broadband connections per hundred people, below the EU's average of 0.82 (OECD, June 2001). The costs of infrastructure to provide broadband access may be prohibitive.

4.37 Bandwidth availability will improve over the next decade, resulting in huge potential for increasing the amount and quality of content supplied to the consumer.

Demand for content

4.38 The increase in supply of content is not sustainable in the long-term if there is not a corresponding increase in demand. The multi-media delivery device is increasingly portable – at present, it is in the form of the mobile phone and the PDA, and in the future in forms such as the eNewspaper and the eBook. This means that it is possible to consume time-critical content such as news and sport in real-time, making it more compelling and attractive to the consumer.

4.39 Access to new content is continuous rather than sporadic, meaning that there is more opportunity for the individual to consume. The attractiveness of the content to the consumer should also be increased with enhancements to the quality and interactivity of the offering.

4.40 There has been a significant increase in demand for certain devices such as mobile telephones. Without exception, mobile phones are now being used by over half of the population in every Western European country. In 2000, the UK had one of the highest levels of usage in Europe at 40 million users, an increase of over 65% on the previous year (The Yankee Group, 2001).

4.41 Arguably, mobile telephones are purchased for reasons other than consuming content. However, the boundaries between media and communications are blurring, as media consumption by means of communication devices becomes possible. In addition, research suggests that the potential for exploiting demand for content consumption via new media is increasing. For example, the value of the European online content market through PC and mobile-device Internet is predicted to rise to nearly £3 billion by 2006. This is an increase of 450% from 2001 spending levels (Jupiter, Dec 2001). Although this is merely a prediction, and could be overstated, the increase is still likely to be significant.

4.42 All these factors indicate that there is likely to be an increase in demand for content, and certainly in the ability to access content through multiple fixed and “mobile” devices.

Impact on the future

4.43 One characteristic of the increase in accessibility appears to be that content creators and packagers are able to generate increasing revenues from content across different platforms. For example, the ‘Teletubbies’ represents BBC Worldwide’s first fully co-ordinated development of a property across all media around the world. Programme distribution revenues account for just 11% of total revenues, whereas a few years ago, it would have represented nearly 100% of revenues (Andersen).

4.44 Similarly, if regulation permits, increased revenues could be generated from local content by its provision via different media such as local television, radio and newspapers.

4.45 A second characteristic is that ownership of the production and distribution networks is increasingly important. This has already happened with Microsoft Windows and Sky Digital set-top boxes. Sony has also embarked on this strategy with its memory stick. This is a portable tool which can store a vast range of digital content, for example music, videos, photos etc., which will be compatible only with Sony products such as PCs, MP3 players, mobile phones and any other personal hardware that Sony produces in the future.

Personalisation

Background

4.46 Media companies traditionally have determined how content is packaged and bundled, and made available to the consumer. For example, the publisher determines the articles and pictures packaged in a magazine, the broadcaster determines viewing schedules and the music producer determines the songs bundled in an album.

4.47 This has had implications for advertising, which has historically been on a mass scale, with little opportunity for targeting specific audiences. For example, the audience reached by means of an advertising campaign in a broadsheet can only be narrowed down further by its placement within the paper (eg sports-related ads in the sport section).

Definition

4.48 Personalisation is the ability of consumers to choose precisely the content they consume and the time at which they consume it. As such, an entity other than the content producer is selecting the content an individual consumes. This entity making the selections might be the consumer himself, or it might be a third party whom the consumer has chosen to make the selection for him.

Future developments

4.49 Digital technology, from this perspective, is enabling a fundamental shift in the balance of power from the content producers, to the consumer. This is partly due to the atomisation of content, discussed in paragraph 4.19, as content is becoming available in individual pieces. A current example is that it is now technologically possible, and practical, to read articles from several different newspapers via the Internet. In the pre-digital world this would only have been possible by purchasing a copy of each newspaper: costly and impractical.

4.50 Personalisation is also, and probably more significantly, due to the two-way communication and interactivity enabled by digitisation. Technological developments have resulted in a return path from consumer to provider so that the consumer can now express preferences and make choices between individual pieces of content which did not previously exist. The consumer is now able to package his own content – and consume content from as many different sources as desired.

4.51 A recent example of personalisation is the advent of the Personal Video Recorder (“PVR”) with products such as TiVo. This enables the consumer to indicate his preferences with regard to programming types and the PVR records a suitable schedule of television programmes for him – for consumption at his leisure. It may become possible in the future that the consumer can also choose to exclude advertising from his schedule completely.

Impact on the future

4.52 Personalisation is both an opportunity and a threat to content providers. It allows a much closer relationship between producer and consumer, as the producer has unparalleled information about the needs of the consumer. However, it results in a dramatically reduced packaging role for the producer, since the consumer effectively does his own packaging.

4.53 The prospects are similar for advertisers. Again, they have access, via the content providers, to a significant amount of personal information about the consumers of advertising and their consumption habits. From this, advertisers can infer specific information about consumer’s needs and preferences, and use this directly to target those very specific sectors. However, the consumer can choose not to consume any advertising at all.

- 4.54 The main implication of the personalisation trend is that “ownership” of the consumer is very important. A content provider who is able to retain the loyalty of its consumers will be able to attract advertisers and generate value from its content. However, from a regulatory perspective, it means that the intervention points in the industry are no longer likely to be clear.

Conclusion

- 4.55 Examining each major trend – digitisation, accessibility and personalisation - and its implications in turn, does not give a complete picture of the future. To bring this all together, set out below is an apparently simple case study from the not-too-distant future.
- 4.56 This case study illustrates the increasing complexity of the media landscape. The fact that this scenario is both imaginable and credible indicates that this degree of complexity is a feature of the immediate future, not a future world which the Government can ignore.

Case study

John’s phone beeps as eleven o’clock strikes. He takes it from his pocket and presses the receive button. He watches a video clip from a news conference in Russia held only half an hour ago – this is the lead international story. He then reads five further headlines: a mixture of motorsport, UK politics and science which are his personal areas of interest. The motorsport headline whets his appetite and he clicks on it to receive a full text report. Back to the headlines. The science story is interesting but indicates graphical content to which his phone screen won’t do justice. He switches to his PDA and reads the science story on that. At three minutes past eleven he returns to what he had been doing earlier.

What underlies this delivery of news?

- John has selected his areas of interest to filter the news that he receives.
- He has selected providers of news as follows. He trusts the BBC most for international news; Nature and New Scientist are his chosen sources for science content because they’re scientific but not over-complex for an enthusiastic amateur; he likes Simon Barnes’ written commentary on sport (Simon gained his reputation writing for The Times); and for UK politics he’s agnostic about the provider so he left the box unchecked – it could come from anywhere.
- The video clip was shot for a Russian company. They sold it with relevant rights to a content aggregator. The BBC bought the rights for use of this clip.
- John is billed for the time spent on downloading content and 70% of this revenue is passed back to the content providers on the basis of material provided. 30% is paid to his phone operator.
- His phone is an Ericsson though its manufacture was outsourced; his PDA is a Compaq iPAQ, which runs Microsoft’s Windows CE communicating via a Ubinetics GPRS wireless module.
- John’s contract is with Virgin, although Orange actually provides the network and billing services.

5 The characteristics of the future

Introduction

- 5.1 The three trends discussed in Section 4 above are the major driving forces shaping the future of the media. However, there are other forces at play including regulation itself. If, for example, the Government does not allow cross-media ownership then the natural outcome of digitisation – that content is, by and large, no longer medium dependent – may not reach its natural conclusion, economies of scale may not be achieved, and the UK media industry may be weakened.
- 5.2 In this section we examine the implications of the trends we have highlighted and paint a picture of the future characteristics of the media sector. This will, in the final section, enable us to draw our conclusions about the potential impact of media ownership regulation on the media landscape.

Overview

- 5.3 A number of characteristics of the future media landscape can be derived from our view of the major trends shaping that landscape. The landscape will be:

- complex;
- less vertically integrated;
- customer focused;
- personalised; and
- technologically converged.

Complex

- 5.4 The media landscape is becoming increasingly complex and it is becoming more difficult to define the boundaries of the sector. As can be seen from the case study, it might now include mobile telephone companies and technology companies. This will be challenging for regulators, particularly when defining markets from the perspective of ensuring competition.
- 5.5 Conversely, in relation to plurality of viewpoints and diversity of content, certain of the trends in and characteristics of the future media sector will help to deliver the desired outcomes. However without any regulation, the Government cannot guarantee or safeguard them.

Less vertically integrated

- 5.6 Over time, the media value chain will become more fragmented as companies focus on their particular areas of expertise. This will be characterised by an increasing number of partnerships and alliances as companies collaborate in getting content to the consumer.
- 5.7 There is likely to be consolidation within the content production and distribution parts of the value chain as a consequence of the need for scale.

- 5.8 Even where fragmentation does not happen, internal organisation structures are likely to be designed around new interfaces between steps in the value chain rather than around a medium. The BBC may have moved too early with its major internal reorganisation which has now been reversed - before the cross-media market was better established and training adequately supported the direction. Today, in spite of a return to organisational boundaries by medium, there is an increasing amount of sharing across media.
- 5.9 The impact of fragmentation and partnerships/alliances on regulation will be to make regulation considerably more difficult. Who can be said to own a newspaper if its journalists, content, masthead, production and distribution are all separately owned?
- 5.10 However, fragmentation will also make it easier to innovate. This path has already been trodden in radio, books and magazines, and can currently be seen in the television market. This will improve the likelihood of achieving the objective of diversity of content.

Technologically Customer focused

- 5.11 The media will become more customer focused and less product focused. Digitisation has allowed the atomisation of content whereby content has been reduced to a binary state. An individual piece of content – an article, a picture, a video clip – can be selected. The consumer therefore has considerable power and the provider is encouraged to focus more on the needs of the consumer.
- 5.12 There will also be a return path from the consumer to the packager via the distributor. This means that the packager and the advertisers will have improved information about the tastes and consumption patterns of individuals, enabling better customer focus.
- 5.13 Furthermore, this atomisation of content provides the data on which the producer can make better decisions. In the history of the media the content packagers have led the decision-making around what to produce and when. There has consequently been friction in the market – few titles/broadcasters to switch to if dissatisfied, broad packaged products carrying mass advertising and no data easily accessible to show satisfaction. More fluid markets like that for magazines have resulted in better targeting for consumers and for advertisers. Digitisation drives atomisation which in turn drives customer focus. This will reduce the need for interventions in relation to protecting the interests of consumers.

Personalised

- 5.14 Whilst personalisation is a trend, it is also a characteristic of the future of the media. People will in effect become their own editors and packagers. They will select the elements of their own package and consume very specific bundles of content.
- 5.15 However, this characteristic may develop at the price of diversity of viewpoints. Bundling, it is argued, can force some content on people. This is a questionable argument: are people really duped into watching 'Eastenders' then a science documentary all on BBC1 if they have no inclination to do so? More likely is that personalisation is neutral in terms of diversity, being the equivalent of buying half a dozen newspapers but reading the front page of the Times, the sport from the Telegraph and the business in the FT. In contrast, today most people buy a single national newspaper and read a fair share of all its content.

Technologically converged

- 5.16 Microsoft's 'Mira' is a wireless home computing and entertainment platform that delivers Internet content - such as Web browsing and e-mail, digital photos, and video and music files - and that can be used as a portable game player with Microsoft's Xbox. According to Microsoft⁷, using Mira, content can be delivered to any room in the home on a detachable, tablet-like PC monitor that is scheduled for commercial release in the second half of 2002. A flat-screen TV version is also expected.
- 5.17 This illustrates the characteristic of convergence. Whatever a consumer's preferred device, a single device will be able to provide access to a wider range of content, where each type of content was previously only capable of distribution by one medium.
- 5.18 This convergence increases the complexity of the market and makes regulation more difficult. The entity which controls the delivery medium (the device) can control the nature of the content accessible by means of the device. In an extreme case, regulation of content providers could guarantee diversity of content types and viewpoints, but the consumer's access to that diversity could be limited by the owners of the device.

Conclusion

- 5.19 Certain aspects of the future of the media industry look positive. Fragmentation, customer focus and personalisation may deliver diversity of content and plurality of viewpoints.
- 5.20 But there are potential dangers and these relate to the trend of consolidation in content production and distribution. A small number of entities may control the content delivery networks or devices by means of price or access. Despite the potential plurality of viewpoints and diversity of content, the consumers' access to that content may be restricted.

⁷ Wireless News, Jan 2002

6 Recommendations for the direction of regulation

Introduction

- 6.1 We have illustrated in the previous Section the difficulties faced by the Government in seeking to create a framework of regulation to meet its stated objectives. The future for the media sector is complex and difficult to predict. However, it appears that many of the potential characteristics of the landscape will support the Government's objectives, but there are no guarantees. The role of regulation is to provide those guarantees.
- 6.2 In this section we provide our recommendations for the future of regulation, with reference to media ownership. Whilst not definitive, these will assist the Government in creating a lasting framework for media ownership rules.

Overview

- 6.3 It will be necessary for the regulation of media ownership to change sooner and more radically than the Government seems to intend, if it is not to hinder beneficial development of the industry. The proposals set out in the White Paper represent only corrections to the existing framework of regulation, but do not challenge the framework itself.
- 6.4 Broadly speaking, the direction of development should be deregulatory. Cross-media ownership rules should be abandoned altogether and ownership rules within media should be relaxed significantly and ultimately abandoned to allow companies to achieve benefits of scale. In our view, foreign ownership is an irrelevant anachronism.
- 6.5 The Government can focus on the BBC as its guaranteed delivery vehicle against certain of the objectives. Public service broadcasting requirements for commercial players should be considered carefully and should avoid becoming excessive and unnecessary intervention in the market.
- 6.6 New areas for regulation are already emerging in the industry and these should be the basis for a new framework. Two areas are key and are already the focus of much of the regulatory and competition debate in the media sector: competition within segments of the value chain, and fair trading and pricing between segments of the value chain.

Ownership within media

- 6.7 Increasingly, successful media phenomena such as 'Big Brother' and 'Pop Idol' make use of different ways of accessing the consumer such as television, the Internet and mobile phones. Regulators and the Competition Commission should focus on competition within the value chain rather than between verticals. We are no longer dealing with a newspaper industry, a mobile telephony industry, a cable industry, etc., but a media or communications or content industry.
- 6.8 The media will blur, the complexity of the industry will increase, and regulation of a medium as a concept will ultimately be obviated.
- 6.9 The evidence of the magazine and book sectors demonstrates that single ownership of a stable of titles does not lead to homogeneity of voice, quite the contrary in fact.

Cross-media ownership

- 6.10 Cross-media ownership rules should be abandoned as long as the focus of regulation continues to shift in future as outlined above.
- 6.11 Scale is becoming increasingly important to media companies because of the digitisation of content. Scale is relevant within and, more importantly, across media. Over time, companies will focus on elements of the value chain rather than operating in the whole chain. They should be allowed to create sufficient scale to be efficient at these points in the value chain.
- 6.12 Regulation by medium, and therefore any concept of cross-media ownership, will be obviated by the increasing complexity of the industry and the consumer's indifference to the mechanism of delivery.

Foreign ownership

- 6.13 The prevention of foreign ownership is an irrelevant anachronism. The UK should take a lead in relation to foreign ownership and open up its markets. Waiting for others to do the same is locking everyone into a vicious circle that will never resolve the issue.
- 6.14 Regulation should prevent ownership by foreign political and banned organisations.
- 6.15 Foreign ownership is not something that we should fear. As we have already suggested, ownership is more a financial issue than an editorial issue.
- 6.16 Scale will likely be global in nature. Deregulated market players will have an advantage over closed market players.

The BBC

- 6.17 Excessive regulation suffocates a market. As we discussed in Section 3, it is important in relation to this industry to have some guarantees that the desired outcomes will be achieved. Those guarantees can be achieved by means of the BBC. It does not in itself guarantee that the objectives are met by all media players in the UK, but guarantees a minimum of standards and diversity.
- 6.18 In order to provide that guarantee, the BBC should complement and compete in certain areas. However, this does not mean that the BBC should compete extensively and on all fronts. The areas in which the BBC does compete should be the areas where the guarantee is most needed. In the same way, if stability cannot be achieved in a less regulated newspaper market then perhaps the objectives could be achieved by means of bringing a BBC newspaper into being! The definition of these areas should be included in the renewal of the BBC's charter in 2006, as uncertainty about the extent to which the BBC will compete can suppress investment levels and thereby hinder the commercial sector.
- 6.19 Further guarantees can be achieved by public service obligations on commercial broadcasters. However, it would be necessary for the Government to decide the extent of the guarantee it requires, and to draw a clear line in terms of its expectations.

Future regulation

- 6.20 The industry is developing rapidly. While this is the case it is important to balance regulation to maintain control over its current state without hindering future development. Where identifiable media continue to exist, it is acceptable to regulate them. However, current levels of regulation within media are too high, so it is sensible to relax rules over newspaper ownership, for example.
- 6.21 New areas of focus for regulation can already be determined and these should be considered now since they are key to the successful development of the industry. The two key areas are: competition within segments of the value chain, and fair trading and pricing between segments of the value chain.
- 6.22 Regulation can encourage competition within segments of the value chain. This happened in the television medium when quotas for independent production were stipulated.
- 6.23 In some instances, there will be a need to regulate between segments of the value chain, firstly to ensure access and secondly an appropriate balance of power, whether that is between national newspaper publishers and distributors, or content owners and distribution platforms.
- 6.24 Regulators will have to accept that natural monopolies can exist in the industry, for example, in relation to the infrastructure of delivery. This relates to physical and virtual delivery. Enforced competition is not the answer to these. Competition should be encouraged amongst content generators and amongst packagers, but for naturally monopolistic aspects, regulators should concentrate on price. Industry players welcome efficient providers of these elements because it encourages consistency and standards, which in turn lower the cost of production.