Final report for the Department for Culture, Media and Sport

Fostering creative ambition in the UK Digital Economy

Analysis and development of policy recommendations

26 May 2009

Ref: 14824-223

analysys mason

Contents

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1 Executive summary

This document is the Final Report of the project carried out by Analysys Mason Limited ('Analysys Mason') for the Department for Culture, Media and Sport ('DCMS') to support and improve its understanding of the online, New Media sector in the UK, focusing in particular on the drivers and barriers to creative ambition and innovation in high quality, professional UK New Media content.

1.1 Objectives and methodology

The objective of this report is to provide a clear evidence-based view on the drivers and barriers that currently exist in this emerging market, to help DCMS evaluate a range of potential policy options.

Prior to commencement of our work, it was suggested that UK online businesses struggle to achieve the necessary scale to compete effectively with similar companies internationally. It was also suggested that there may be a lack of understanding among traditional content providers of how the online environment works from a commercial perspective. In addition, concerns were raised regarding a possible lack of innovation funding for online content, thus preventing new creators from entering the market, as well as possible problems with the current rights agreements for online content creators.

The project was designed to investigate these potential issues, and others, through a combination of interviews with industry players and desk research. The project was conducted between 23 March 2009 and 17 April 2009.

Based on the outcome of these interviews, we have developed a number of recommendations for Government policy. The understanding of the value chain, and flows of funds within it, provides a quantitative backdrop to these recommendations.

1.2 The New Media creative industries in the UK

The UK creative content industry is large and well developed throughout the value chain. The Internet and changing consumer preferences are adding to the complexity of the flow of funds between the different players in the value chain, as shown in Figure 1.1. Consumer spending is the single most important source of funds (75% of net industry revenue). Within consumer spending, physical media still represent a substantial part of the market (GBP13.5 billion), but this is most exposed to online substitution. Advertising accounts for 21% of net industry revenues but is currently experiencing a major structural change, with advertising spend migrating from traditional to online media.

UK-originated television content has been very successful both domestically and internationally. At the heart of this success lies the industry's terms of trade, independent quotas and the BBC window of creative competition (WOCC), all of which have contributed to the development of a thriving, entrepreneurial and independent TV production sector. As consumer attention is increasingly diverted to the Internet, ensuring that this success can be replicated in the broader, more fragmented online world becomes an increasingly difficult challenge.

In the online environment, only a limited number of players are likely to develop the necessary scale to establish a strong position both within the UK and internationally. This is due to hard bargaining of rights holders, which leaves sub-scale online aggregators with only a small share of revenues. There is also a large imbalance in the distribution of advertising revenues for online content, with a very small number of search engines dominating the market.

Figure 1.1: Flows of funds in the UK content value chain [Sources: Analysys Mason, ZenithOptimedia, Pact, Ofcom, ScreenDigest, PwC, company reports; data calculations and interpretation are solely Analysys Mason's responsibility]

Notes

- Total net industry revenue is GBP55.6 billion (+1%)
- Figures for 2008 are in GBP unless otherwise stated
- Growth in brackets is relative to 2007

1 Total advertising market: 12.6bn
Online total: 2.9bn (+22%)
of which search: 1.7bn (+25%)
classified: 607m (+20%)
display: 570m (+13%)
inc. online TV 18m in 2007 (+110%)

2 CD/DVD: 3.5bn (-6%)
Newspapers: 3.1bn (0%)
Magazines and books: 4.5bn (0%)
Video games: 2.4bn (+17%)

3 Based on Google's and Yahoo's cost of traffic acquisition of 27% of revenues

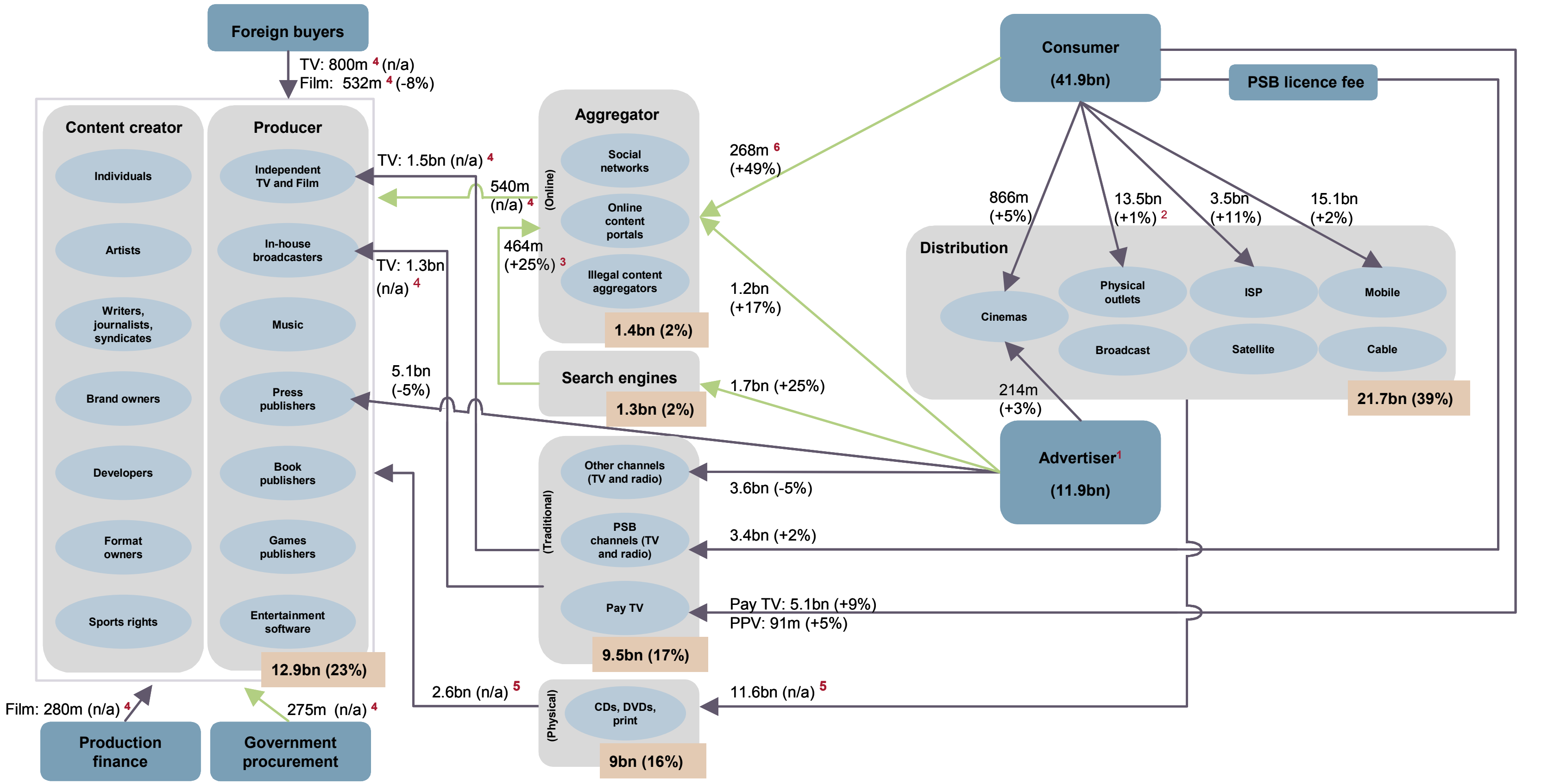
4 Figures for 2007

5 Analysys Mason estimates

6 Contains 2007 and 2008 figures

Key

Traditional flow of funds
New media flow of funds
Source of funds
Retained value: % of total industry revenue retained
(% of retained value may not add up to 100% due to rounding)



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1.3 Main findings and recommendations

Based on our interviews with industry players, and desk research, our main findings can be summarised as follows.

- Despite the current recession, innovation funding does not appear to be a structural issue, beyond areas of public-service provision already identified by Ofcom in the recent PSB review. This is based on the assumption that the current level of funding already provided through the PSBs, government procurement and the finance community will be sustained, and any significant contraction in these sources of funds may lead to a significantly different conclusion.
- While current revenues available online are limited, market players are continuing to pursue new monetisation options, and some interviewees believe there are good opportunities in this respect.
- There is potential for changes in the rights regime to enhance the exploitation of existing content in the online world.
- The development of common standards for delivery of online content has the potential to deliver significant benefits to content producers.
- There is scope for Public Sector organisations and the PSBs to make additional investments in online content. Given the current scale of the market for online professional creative content and the scope of public sector needs, such new investments in online content (including multimedia and interactive websites) may provide further stimulus to the market.
- The Government can act to lower regulatory barriers to a more dynamic online content sector, but intervention must be considered carefully to limit market distortions.

Respondents did not suggest funding was a major concern. Although it was recognised that there are difficulties linked to the cyclical downturn that the UK is experiencing, there was a general optimism regarding the availability of funding for new media, both from traditional media players as well as the financing community. However, it is important to underline that this is predicated on the assumption that the level of funding currently provided by the PSBs and other public sector entities would be sustained.

The remainder of this section provides a summary of the details into the barriers and drivers relative to each of the other five main findings, as well as our recommendations as to what actions the Government could take.

While current revenues available online are limited, market players are continuing to pursue new monetisation options

Most interviewees mentioned the current difficulty in generating revenues online as the main obstacle to traditional content producers investing significantly in online content production, aggregation and delivery. Advertising-funded models do not appear to be sustainable, and paid-for models still need to prove they can attract a critical mass of users despite the ubiquity of pirated content. Interviewees also stated that achieving scale is essential, but difficult in a market the size of the UK because of the fragmentation of online audiences.

The market is already innovating to provide solutions to these issues, through the development of new, high-value advertising models (e.g. behavioural and targeted advertising) and new economic models such as micropayments. Despite views from some interviewees that the BBC's iPlayer may be having a negative impact on the demand for paid-for content, others recognise that the BBC has provided an impetus to the online video industry in the UK by proving that there is tangible demand for professional online video content. Finally, we were told that UK firms should focus on extending their reach online through internationalisation or syndication of their content, in order to increase their scale.

We recommend that the Government should look to play a role in propagating best practice in terms of business models, as well as providing leadership in fostering an environment where various players in the value chain can work together on innovative consumer-focused online service propositions which can be deployed domestically and internationally. Regional Development Agencies and Universities might be best placed to disseminate best practice and host innovation hubs.

Potential exists for changes in the rights regime to enhance the exploitation of existing content in the online world

Content producers and broadcasters have diverging views on the value that can be extracted from exploiting TV programmes in an 'on-demand' format. This results in digital rights being held back by broadcasters, sometimes for long periods of time, and prevents new, innovative players from developing new propositions. Furthermore, online commissions from broadcasters appear to be subject to long exclusivity periods during which only the broadcasters can exploit the content. Generally, there appears to be an important barrier linked to the practical difficulties in experimenting with new business models online when intellectual property is involved.

Objective information on the benefits that could accrue to rights holders and broadcasters in adopting more flexible digital rights models would contribute to resolving these differences. Areas where next generation access is being trialled could provide useful 'test-beds' for experimentation in new business models by bringing together rights holders and technology providers in a controlled environment where outcomes could be measured.

We recommend that the Government contribute to providing evidence-based analysis to the industry to inform the negotiations on early release of online rights. Consideration should be given to the role Ofcom may play in performing this role.

The Government should also examine the terms under which the Government itself, and the PSBs, commission online content, particularly with regards to rights ownership and exclusivity periods. Finally, the Government should encourage experimentation by industry to explore novel ways to exploit intellectual property.

The development of common standards for delivery of online content has the potential to deliver significant benefits to content producers

There is currently no single standard for (mainly video) content formatting, aggregation and metadata provision, which creates significant porting costs for online aggregators. In the world of the Personal Computer, there is little any single organisation can do to mitigate this issue.

However, most interviewees recognise that the BBC's proposed Project Canvas has the potential to significantly reduce these barriers as far as delivery of online content to the television is concerned. Many interviewees mentioned that it should be designed to enable a wide variety of business model to develop. Delivering online content to the television has the potential to significantly increase the reach of online content and Project Canvas can create a new substantial and standards-based distribution channel for online content producers. Should Project Canvas be successful, it could in turn impact on the emergence of standards for video delivery on PC platforms. Interviewees have identified that key questions with regards to how the Project Canvas platform is established, licensed for use and governed remain unanswered. These answers will be critical in determining the shape, nature and impact of the platform

Finally, a standardised approach to rights clearance would also reduce administrative complexity and overheads.

We recommend that Government should encourage the BBC to consult widely and often with other industry participants as Project Canvas develops. Project Canvas should communicate to the content industry the potential commercial models that it will support, and possible structures through which the industry could engage with Project Canvas. It should also look to work with the industry to explore how new monetisation mechanisms may be set up within Canvas for the purposes of exploiting rights held by parties offering content through the platform.

The Government should also foster knowledge sharing to facilitate the emergence of common standards, which can reduce costs and facilitate interworking between platforms.

Given its scale in the current online market, public sector investment in online content may provide a significant stimulus to the market

The PSBs and Government (Central, Regional and Local) currently commission a large proportion of UK professional New Media content online. Interviewees highlighted that this investment should not stifle private-sector content provision. The market share of the BBC online was flagged as an issues for some respondents. Others highlighted the difficulty for Channel 4 to discharge its public service remit online in the current regulatory framework.

The scale of investment by the PSBs and Government have the potential to provide a significant stimulus to the UK New Media industry, provided the contractual terms enable content producers from making the most of their content, within the bounds of public interest. The remit of the PSBs is expected to become cross-platform by most interviewees, and the BBC could leverage the success of its online properties, nationally and internationally, to reference and cross-promote other UK-originated online content.

We recommend that the rights framework applied to Government commissioning of online services should be reviewed. The Government should explore with the BBC how other organisations could leverage the reach of bbc.co.uk (e.g. by increasing the amount of links to other sites) and to expand the window of creative competition (WOCC) to the online platform. Finally, Channel 4 should be given appropriate incentives to act as a cross-platform 'publisher-broadcaster' where this contributes to the goals set out in Ofcom's PSB review.

The Government can act to lower regulatory barriers to a more dynamic online content sector, but intervention must be considered carefully to limit market distortions

Specific legal and regulatory issues mentioned by interviewees touched upon the interpretation of libel and data protection laws, as well as the issue of rights clearance and the treatment of orphan rights (i.e. the rights to intellectual property protected by copyright in circumstances where the copyright holder cannot be traced)[1]. Analyses of the market impact of the BBC among interviewees were widely varied, but the general consensus appeared to be that that expansion of the BBC into new areas (e.g. through Project Canvas) should be carefully considered and monitored.

The Government could also lower barriers to innovation online by simplifying the framework through which public data, such as Ordnance Survey for instance, is made available. This could involve making Government data and content more freely available, or allowing providers of new content to retain some exploitation rights to the intellectual property generated through Government contracts.

[1] As defined by the IPO, http://www.ipo.gov.uk/pro-types/pro-copy/c-policy/c-policy-orphanworks.htm

We recommend that the Government should, on the whole, refrain from intervening in this still emerging market unless a serious, non-transitory market failure is identified. It should however provide the guidance requested on libel law, and monitor the impact of Project Canvas as it develops. At this stage, however, we believe that the current regulatory arrangements to control the impact of the BBC expanding in new areas (BBC Trust, Ofcom, Competition Commission) are sufficient.

Other general points mentioned by interviewees

Most respondents expressed strong views that the Government should not impose additional regulatory burden unless absolutely necessary, and should not in any case substitute itself to the market and “pick winners”.

The market for New Media in the UK is still in its infancy. As such, it is difficult to ensure that issues identified are truly non-transitory market failures. As the market matures, however, Government should remain vigilant to ensure the best possible outcome for the sector and the economy as a whole.

The Government does has a role to play, however, in ensuring that dialogue between different players in the value chain is well-informed and constructive, and that the environment in which UK companies evolve is as favourable to innovation as possible, particularly where such innovation can generate international revenues for UK firms.

Issues already under examination by Ofcom within its review of the pay-TV market have not been detailed here, although it is worth mentioning that several organisations who participated in the study have expressed strong views about such issues.

2 Introduction

Digital Britain is a joint initiative between the Department for Business, Enterprise and Regulatory Reform (BERR) and the Department for Culture, Media and Sport (DCMS), aiming at developing a comprehensive analysis of the digital economy and seeking to ensure the UK maintains its position as a world leader in the knowledge and learning economy.

In the last decade, the UK creative industries have enjoyed unparalleled success throughout the world. The independent TV production sector, supported by the terms of trade agreed in 2003, has grown at an average of 15.6% per annum between 2005 and 2007, reaching a total turnover of GBP2.14 billion in 2007, of which 20% is generated by international sales (predominantly to the United States). In the online world, UK websites attract significant domestic and international audiences:

- bbc.co.uk is one of the top 50 websites in the world in terms of unique visitors (UVs) and is the second most popular news website in the world, after Yahoo! News which is mostly an aggregator
- guardian.co.uk pioneered the advertising-funded model that most online newspapers are now embracing, and is second only to the New York Times in terms of UVs for newspaper websites.

As audiences' attention increasingly moves towards online content – by which we refer to content delivered to any device through a two-way communications network, principally the Internet – the traditional broadcasting model, funded by advertising, is under pressure. This is exacerbated by a cyclical downturn in advertising spend due to ongoing economic difficulties.

In this context, Action 10 of the Digital Britain Interim Report sets out a commitment to address the challenges for creative digital content production in the UK, examining measures to foster the UK's creative ambitions and identifying alternative funding mechanisms for advertising revenues.

The DCMS has commissioned Analysys Mason to develop a clear, evidence-based view on the drivers and barriers to creative ambition and innovation in high quality, professional UK New Media content, and to analyse and evaluate policy options to address the identified issues.

Throughout this document, and in accordance with the broader Digital Britain terminology, "New Media" is defined as high quality, professional UK-originated content that is made available online, irrespective of the device or platform used to access it (personal computer, mobile device or television). It specifically excludes online retail services (e.g. eBay, Amazon), pornographic content and gambling.

The remainder of this document is structured as follows:

- Section 3 recalls our terms of reference and details the methodology we have followed.
- Section 4 describes the market for creative content in the UK, and attempts to quantify the relative size of various parts of the value chain.
- Section 5 presents our main findings on the drivers and barriers to online creative ambitions in the UK. Additionally, it presents an overview of the solutions envisaged by stakeholders, which may or may not involve government intervention.

This report also includes three annexes containing supplementary material:

- Annex A provides a detailed view of the value chain and flow of funds models, which we developed to support our analysis.
- Annex B details the interview schedule that was followed in the first part of the project, as well as the sources of data we have used.

3 Terms of reference and methodology

3.1 Terms of reference

Our terms of reference state that "the aim of the project is to improve current understanding of the New Media sector of the UK digital economy and the market for UK content in this sector".

The two objectives proposed by DCMS were:

- **Objective 1**: To develop a clear evidence-based view on the drivers and barriers to creative ambition and innovation in high quality, professional UK New Media content.
- **Objective 2**: To analyse and evaluate policy options to address the issues identified under objective 1 (above) and support UK creative companies and entrepreneurs in New Media.

In advance of this study, DCMS had developed two main hypotheses on the drivers and barriers faced by market participants seeking to create, produce, aggregate or distribute online content:

- *Hypothesis 1: Many UK online businesses struggle to achieve the necessary critical mass and scale to compete effectively with similar companies internationally.*
- *Hypothesis 2: There is a lack of understanding with traditional content providers of how the online environment works from a commercial perspective, possibly due to a lack of guidance and expertise, which has fostered a perception that companies cannot make sufficient returns online.*

These hypotheses were complemented by two further areas of investigations:

- *Is there a lack of innovation funding for online content, which is preventing new creators from entering the market? Does this trend differ between different types of online content (e.g. public service content vs. commercial)?*
- *Is there a problem with the current rights agreements for online content creators? Does the current model benefit or hinder New Media content in the UK, and how does this impact on the ability of rights holders to monetise content online?*

In order to obtain as complete a view as possible on the drivers and barriers to creative ambition online, we did not limit discussions to these hypotheses in carrying out the research, described in Section 3.2 below. As a consequence of this broader approach, our main findings in Section 5 are structured differently from the initial hypotheses. Nevertheless, these hypotheses are clearly referenced in a number of the points we have addressed.

3.2 Our methodology

This project was conducted between 23 March 2009 and 17 April 2009, in two phases.

During the first phase, we conducted an extensive programme of industry interviews, in parallel with desk research, aiming at developing an understanding of the value chain and flow of funds in both the traditional and New Media content industries in the UK. Between 27 March and 9 April, we conducted 22 interviews, mostly held in person in Central London, with the remainder conducted by telephone. Interviewees were selected according to the objective of representing as broad a cross-section as possible of the UK New Media market.

The second phase focused on analysing the findings of the research phase, developing a number of policy options and assessing their potential impact on the flow of funds within the value chain. Policy options we considered arose from three main sources: preferences expressed by interviewees, our analysis of the issues highlighted during the interviews, and discussions with the DCMS. In order to assess the potential impact of policy decisions, we have used the flows of funds model, described in Section 4 and Annex A, to understand the relative magnitude of various interventions. This analysis remains necessarily high-level, and we have highlighted areas where more focused research and analysis could be conducted to provide more solid evidence for market participants and the Government.

Figure 3.1 provides an overview of the organisations we interviewed for this project. Additional details are provided in Annex B.

Organisations	
4ip	Graphite Films
All3Media	IP Vision Guardian News and Media
Amino	ITV
BBC	Mediaclarity
Blinkbox	Ofcom
BoxTV	Pact
BSkyB	Press Association
BT Vision	Talkback Thames
Channel 4	Virgin Media
Dreamworks SKG	Yahoo!
Fremantle Media	

Figure 3.1: Overview of interviewed organisations [Source: Analysys Mason]

Most interviewees requested that their comments remain unattributed for publication of this report. Specific attributions are made only for comments which have been made in public responses[2] to the Digital Britain Interim Report.

[2] These are available on http://www.culture.gov.uk/what_we_do/broadcasting/5952.aspx

4 The New Media creative industries in the UK

The UK is one of the most dynamic media, advertising and online markets in the world, fostered by a combination of cultural tradition, carefully regulated public intervention and a dynamic private sector supported by advertising and subscription revenues. In our research activity, three main themes became apparent.

- The creative content value chain is varied and getting more complex.
- Traditional UK-originated content is very successful both in the UK and internationally.
- The increasing diversion of consumer attention to the PC and associated content delivered over the Internet creates challenges for the sector.

This section provides the background to the research and analysis that we have carried out during this study.

4.1 The creative content value chain is varied and getting more complex

The UK professional creative content industry is large and well developed throughout the value chain. The industry is characterised by a strong independent TV and film production sector, large broadcasters with international reach, strong domestic demand for content and a well developed advertising industry. In the purely digital part of the value chain, the UK has a highly developed Internet access market, and was (although no longer is) an early leader in video games development.

Summary of the UK creative content value chain

The UK creative industry consists of content creators and producers, aggregators, distribution channels and consumers, along with a number of other players. Content creators and producers turn intellectual property into a product that can be aggregated and distributed. Aggregators (online, traditional, physical) package content and build channels or bundles. Physical and online distribution channels then deliver consumable products to the consumer. In addition, a number of other players provide funding for specific stages of the value chain.

Main flow of funds across the value chain

The economic relationships, and therefore the flows of funds, between the individual players of the value chain are complex, and ever more so with the advent of new technologies and roles.

Figure 4.1 below shows the main flows of funds across the simplified creative content value chain during 2008 and provides growth rates for individual flows (where available).

Figure 4.1: Flows of funds in the UK content value chain [Sources: Analysys Mason, ZenithOptimedia, Pact, Ofcom, ScreenDigest, PwC, company reports; data calculations and interpretation are solely Analysys Mason's responsibility]

Notes

- Total net industry revenue is GBP55.6 billion (+1%)
- Figures for 2008 are in GBP unless otherwise stated
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1 Total advertising market: 12.6bn
Online total: 2.9bn (+22%)
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3 Based on Google's and Yahoo's cost of traffic acquisition of 27% of revenues

4 Figures for 2007

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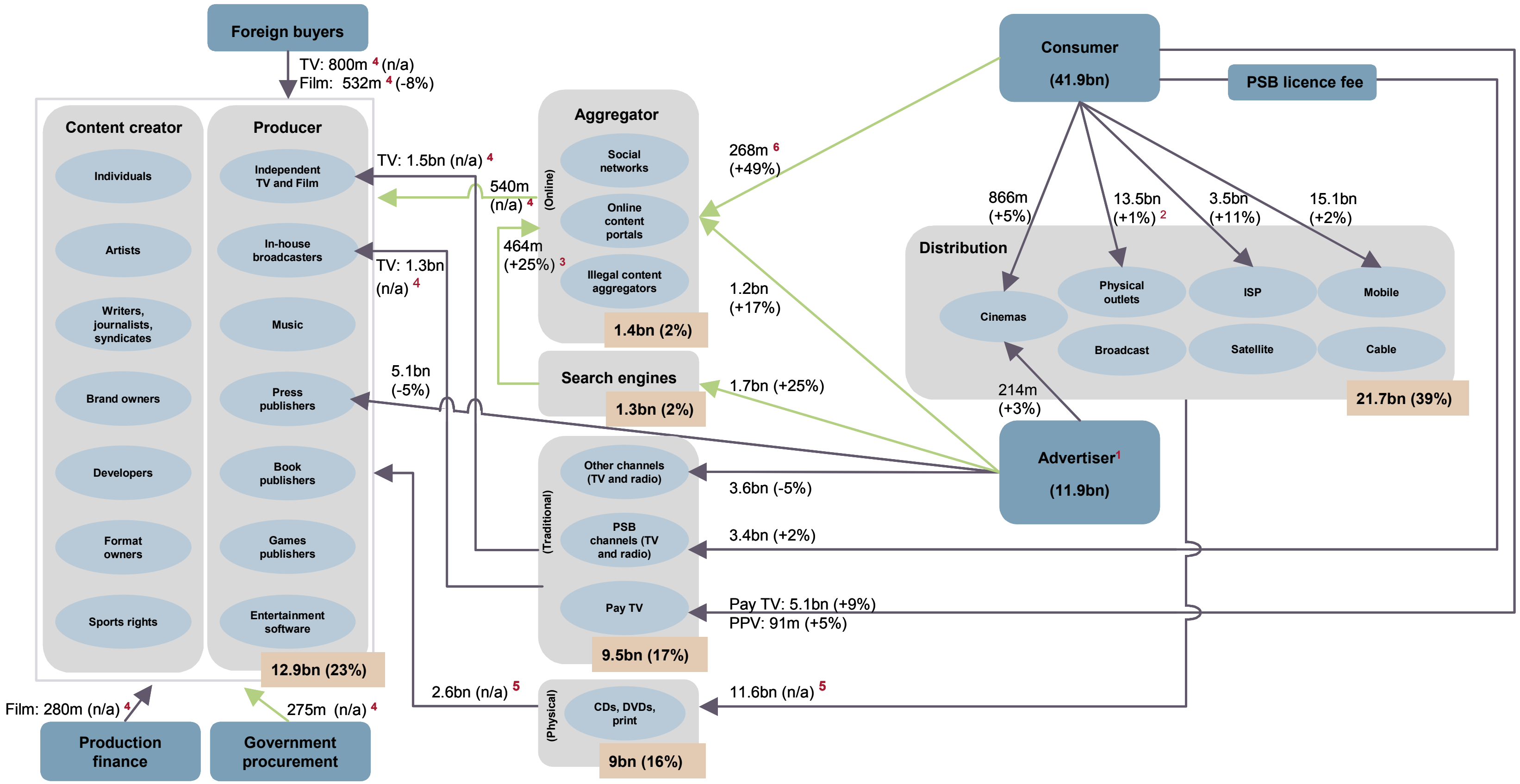

Consumer spending provides the single largest inflow of funds into the value chain, representing 75% of a total GBP55.6 billion of inflows, with spend growing by 2% during 2008. Advertising accounts for 21% of industry inflows (–0.4% during 2008), and other sources account for the remaining 4% (growth information not available).

When considering the flows throughout the overall content value chain, a number of key points arise.

To provide a full picture of the content ecosystem, we have included consumer spend on mobile communications and broadband services, as these constitute the main new forms of digital distribution of content and account for 45% of consumer spending. Mobile communications (voice and data) account for the lion's share of this spend on digital distribution (36% of total consumer spending, +2% in 2008), however mobile operators passed on only GBP390 million in mobile content revenues (3% of mobile revenues) to content producers. Nevertheless, this flow between operators and content producers is expected to grow strongly over the next 5 years (+28% per annum).[3]

Although broadband retail revenues amounted to GBP3.5 billion during 2008, content-related flows of funds from ISPs towards aggregators and producers were still miniscule and were not considered in this model of the content industry.

Equally important to consumer spend on digital distribution (i.e mobile and broadband) is the physical distribution of content. Revenues from physical media (CDs, DVDs, video games, press, books) amount to GBP13.5 billion or 32% of consumer spending (+1% during 2008) and still represent a substantial part of the market. Of this spend, GBP10.3 billion is being passed on to aggregators, but only GBP1.7 billion reach the content creators and producers. This high retained value by distributors and physical aggregators leaves this flow of funds most exposed to competition from online counterparts.

The creative content industry is currently undergoing a substantial shift in the growth of individual flows of funds. Online spend by consumers, search advertising, online display and classified advertising, and broadband retail revenues have all seen double-digit growth rates during 2008, and this trend is expected to continue. On the other hand, print advertising, in-house commissions, and TV and radio advertising have all shrunk significantly, by over 5% in 2008, due to a migration of funds towards Internet-based advertising (search, online display and classifieds).

4.2 Traditional UK-originated content is very successful both in the UK and internationally

In the television environment, public-service broadcasters (PSBs) are responsible for the vast majority of commissioning of independent programmes. According to Pact, the organisation which

[3] Source: Analysys Mason report for Ofcom on the Mobile Sector Assessment, available at http://www.ofcom.org.uk/consult/condocs/msa08/

represents independent producers, the PSBs spend 90% of the total independent commissioning budget in the UK, with other channels (including spin-offs of the PSBs) accounting for the remaining 10%. This is stimulated by a mixture of quotas and requirements for “creative competition” through the BBC’s ‘window of creative competition’ (WOCC), whereby independent producers can compete with in-house ones for specific commissions.

This investment is closely regulated, through a mixture of legislative and regulatory instruments. Since 2003, when a new Communication Act was enacted, independent producers retain the rights to their programmes, even though they are mostly financed by the broadcasters. In exchange, they must concede a licence for the so-called broadcast and ‘catch-up windows’, during which the broadcasters can exploit the rights. When the catch-up window ends, the producers are free to exploit the rights as they see fit, and the broadcasters get a share of any subsequently generated revenues (normally 15%).

This has proved a very productive arrangement, as broadcasters revenues from secondary rights exploitation have not decreased significantly since 2003, whereas revenues in the independent production sector have boomed. When assessed internationally, the UK content industry is particularly well established in the TV market. According to Pact, UK television exports accounted for around GBP800 million in 2007, whereas France only exported GBP81 million and Spain GBP24 million in the same period.

4.3 The increasing diversion of consumer attention to the PC and associated content delivered over the Internet creates challenges for the sector

The rise of the Internet has already considerably changed the face of the creative content industries. The aggregation stage is most affected by this development, with two new types of players (online aggregators and search engines) competing for a place in the value chain and consequently diverting funds away from traditional aggregators. Additionally, through the emergence of Web 2.0 applications and platforms (such as Facebook, YouTube and Flickr), individuals can become content creators themselves and ever more time is spent in front of a PC, although this does not seem to have impacted television viewing negatively.

Viewing habits are, however, likely to change fundamentally over the next few years. The Broadcasters’ Audience Research Board (BARB) recently published research into TV viewing habits and estimates that in 2008, live in-home viewing accounted for 85% of the total, with time-shift via TV and other forms of viewing (such as out-of-home viewing, guest viewing and other new forms) accounting for the remaining 15%. By 2018, BARB expects live in-home viewing to represent only 66% of the total, whereas time-shift will grow to 14%, new forms and out-of-home viewing will account for 15% and guest viewing is expected to remain stable at 5%.[4] This shift away from passive TV consumption in the living room coincides with a change in how consumers

[4] Source: BARB, ‘UK Television Outlook - A View Into The Future' Update 2009 p.3

spend their time using communications services. Research by Ofcom shows that between 2002 and 2007, time spent watching television slightly declined by 3% (to 218 minutes daily in 2007) and radio decreased by 5% (to 164 minutes daily in 2007), whereas time spent surfing the Internet rose by 295% (to 24 minutes daily in 2007; excluding online applications and data).

In this context, it is important to ensure that the success of the traditional content sector can be continued in the online world, in what will no doubt be a very different way.

Some UK companies have fared very well in specific content areas, most notably in online news. According to Comscore, the BBC dominates the domestic online news market, with 55% category reach (i.e. percentage share of total unique visitors in category) and 10.4 million unique visitors during February 2009. [5] However, bbc.co.uk is also a great success internationally. It is currently ranked 44th by global traffic (combination of visitors and page views). Although the 44th rank seems to be low at first look, this is a remarkable achievement as bbc.co.uk thereby is the number 2 news site on the Internet (followed by CNN.com, ranked 58th). Similarly, around 70% of unique visitors of guardian.co.uk come from outside of the UK, with a considerable readership amongst others in the USA, Australia, South Africa and Ireland.[6]

When looking at the online content value chain (putting aside physical distribution, and traditional and physical aggregation) and by correcting advertising figures to reflect revenues only relating to professional online content, further interesting details emerge.

- Search engines act as a first level of aggregation, in addition to the portals on which content is accessed by users. They perform the fundamental task of improving the discoverability of content, which is otherwise extremely fragmented. With a corrected value of GBP365 million, search engines are the biggest source of funds, but only pass on to online aggregators around GBP98 million (through traffic commissions). This represents a retained value[7] of 23% of the online content market.

- Online aggregators are estimated to retain only 2% of the online content industry's inflows, although they have exclusive contact with consumers and advertisers. True consumer spending on online content (estimated at GBP268 million, +49% in 2008) may be understated, but the short-term profitability of online aggregators remains questionable.

- Government procurement of online services, including for instance online portals such as NHS Choices or DirectGov, is estimated to have accounted for GBP275 million in 2007. As such, it is a substantial source of revenue for producers and content creators.

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[5] Source: ComScore data, February 2009

[6] Source: Alexa, 'Top Sites – Global' data, April 2009

[7] Defined as:the difference between inflows and outflows of funds of a given player as % of total industry inflows

- Finally, with a retained value of GBP815 million, equivalent to 70% of total online content-related inflows, content creators and producers (including broadcasters for the rights they exploit) are the main beneficiaries of the online content industry.

This last point is an important one, as it suggest that rights holders are driving a hard bargain with online aggregators, who do not appear to generate significant margins on the whole.

5 Main findings and policy recommendations

Based on our interviews with industry players, and desk research, our main findings can be summarised as follows.

- Despite the current recession, innovation funding does not appear to be a structural issue, beyond areas of public-service provision already identified by Ofcom in the recent PSB review. This is based on the assumption that the current level of funding already provided through the PSBs, government procurement and the finance community will be sustained.
- While current revenues available online are limited, market players are continuing to pursue new monetisation options, and some interviewees believe there are good opportunities in this respect.
- There is potential for changes in the rights regime to enhance the exploitation of existing content in the online world.
- The development of common standards for delivery of online content has the potential to deliver significant benefits to content producers.
- There is scope for Public Sector organisations and the PSBs to make additional investments in online content. Given the current scale of the market for online professional creative content and the scope of public sector needs, such new investments in online content (including multimedia and interactive websites) may provide a significant stimulus to the market.
- The Government can act to lower regulatory barriers to a more dynamic online content sector, but intervention must be considered carefully to limit market distortions.

Respondents did not suggest funding was a major concern. Although it was recognised that there are difficulties linked to the cyclical downturn that the UK is experiencing, there was a general optimism regarding the availability of funding for new media, both from traditional media players as well as the financing community. However, it is important to underline that this is predicated on the assumption that the level of funding currently provided by the PSBs and other public sector entities would be sustained.

Additional details into the barriers and drivers relative to each of the five other findings are provided in the remainder of this section, along with our recommendations as to what actions the Government could take.

Most respondents expressed strong views that the Government should not impose additional regulatory burden unless absolutely necessary, and should not in any case substitute itself to the market and "pick winners".

The market for New Media in the UK is still in its infancy. As such, it is difficult to ensure that issues identified are truly non-transitory market failures. As the market matures, however, Government should remain vigilant to ensure the best possible outcome for the sector and the economy as a whole.

The Government does has a role to play, however, in ensuring that dialogue between different players in the value chain is well-informed and constructive, and that the environment in which UK companies evolve is as favourable to innovation as possible, particularly where such innovation can generate international revenues for UK firms.

Issues already under examination by Ofcom within its review of the pay-TV market have not been detailed here, although it is worth mentioning that several organisations who participated in the study have expressed strong views about such issues.

5.1 While current revenues available online are limited, market players are continuing to pursue new monetisation options

As described in Section 4, the market for online professional New Media content in the UK is worth around GBP1.2 billion, about a tenth of the TV market. The size of the market, and the distribution of retained value within it, raised a number of issues for interviewees.

5.1.1 Barriers identified

For traditional private-sector content producers, be they broadcasters, music producers or independent film and television producers, the main barrier to a more significant expansion of investment and presence online is the difficulty to identify sufficient sources of revenue.

Broadly speaking, this revolves around two issues: advertising revenues are currently insufficient to recoup the costs of traditional content, and pay models attempted in the past have on the whole failed to attract sufficient demand to generate significant revenues.

Failure of online advertising models to generate significant revenues thus far

Online advertising inventories are vast and expanding, and the growth in social networks and user-generated content (UGC) has accelerated this trend. This has put significant pressure on prices for display advertising: CPM[8] is very low for banner ads, and CPX-based pricing, where a click rather than a view triggers payment, is becoming the norm. Moreover, this also means that the audience, and therefore the attention, of online users is much more fragmented than that of TV audiences. The most popular TV show in terms of audience, Coronation Street on ITV1, gathers daily

[8] Cost per thousand impact, which is the unit cost for television advertising

audiences of around 10 million viewers at any one time. This is equivalent to the total monthly number of unique UK visitors that the BBC News website gets, being the most popular news media website in the UK. Other news websites in the UK get a fraction of this audience, in aggregate over a month.[9]

There is evidence of the current lack of significant advertising revenue online. Data provided by ZenithOptimedia suggest that in 2008, total online advertising spend in the UK was GBP2.9 billion. Of this, about half was absorbed by search engines, leaving around GBP1.5 billion in total in revenue for the whole of the UK online world, of which only a fraction supports professional creative content. This represents a very low revenue opportunity, compare for instance with the total newspaper and TV advertising spend of about GBP8.5 billion. More starkly, Ofcom's research suggests that advertising in online video content (including non-professional content) was only GBP18 million in 2007, compared to TV advertising revenues of about GBP3.8 billion in that year (i.e. online advertising was only 0.5% of TV advertising). [10]

Absence of compelling paid-for revenue models

The second point of concern for content producers and rights holders is the difficulty faced by companies who attempt to monetise content by making users pay a subscription or a usage fee. Successful models are currently one of two kinds: proprietary online stores, such as the iTunes Store through which Apple has leveraged the success of the iPod and attracted a critical mass of users to a wide content selection; and online content delivered to a TV set (e.g. BT Vision on-demand or Virgin Media's FilmFlex).

Apple does not publish the detail of revenues generated by the iTunes store, but this could be on the order of GBP200 million, based on consumer spending on online music and video (estimated at GBP266 million in total in 2008).

Virgin Media and BT Vision, the two main players delivering video content to TV sets through an online medium,[11] have had mixed success, suggesting that there is at present limited demand for paid-for online content at the current price levels. BT reported 398 000 BT Vision subscribers as of December 2008, a growth of about 15% from September 2008. An unspecified proportion of these, however, do not pay for its video-on-demand subscription service. Assuming that 80% do, generating monthly revenues of about GBP6 each, the total yearly subscription income of BT Vision in the financial year to March 2009 could be GBP15–20 million. Virgin Media's video-on-demand service is very successful, but appears to be driven primarily by use of the iPlayer, and therefore do not generate significant incremental revenues (compared to subscriptions revenues).

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[9] Source: Comscore data, February 2009

[10] Source: Ofcom, Communications Market 2008

[11] Virgin Media's on-demand programmes are delivered through dedicated channels using DVB-C, rather than over IP

Indeed, some interviewees have mentioned that they felt the BBC iPlayer had anchored the expectation that TV content online should be free. Beyond this, given the wealth of content that the BBC owns, any extension in the availability of content on the iPlayer represents a threat to competing video-on-demand online platforms. This is by no means a consensus view, however, as several interviewees also stated that free BBC content could co-exist with paid-for commercial content.

Difficulty to achieve scale online by focusing solely on the UK market

Finally, several interviewees indicated that the UK online market may not be large enough to achieve critical scale for specific business models. Some companies, like Spotify, are using the UK as a test-case for their business models, but are actively engaged in acquisition of rights for other markets.

One interviewee, however, pointed to a need to support internationalisation of UK-based online services more actively. Pointing to the current dominance of the US in mass-market consumer services, this interviewee believes that the incubation and financing environment in the UK needs to become more sympathetic and more favourable to end-to-end mass-market propositions. Their analysis revolves around his perception of a cultural hierarchy which ensures that the focus of innovation, incubation and investment is on technological expertise but neglects design and marketing. In their view, this is one of the reasons why the UK has been overtaken by other countries such as Canada in the video games industry over the past few years, despite having been very successful over the last two decades: the focus on programming, which has commoditised rapidly, has not shifted to higher rungs of the value chain such as publishing, marketing and brand-building, which were traditionally seen as less valuable but now account for most of the value added in the video games sector.

5.1.2 Opportunities and potential solutions outlined by industry

There is a shared analysis throughout the sector that there are no ‘silver bullets’ which may easily and comprehensively solve the issue of revenue models in the online world. There is equally a recognition that the role of the Government should not be to substitute regulation to market mechanisms and “pick winners”, but rather to enable new business models in the market.

Generally speaking, funding for start-ups and public service content **is not** seen as an issue, beyond the aspects already highlighted in Ofcom’s second PSB review.[12] The current economic situation is undoubtedly affecting the willingness to invest in the short term, but most interviewees recognised this as a cyclical rather than structural barrier.

[12] See http://www.ofcom.org.uk/tv/psb_review/

Further established sources of finance, through other PSBs, government and Public Sector procurement, are important and this analysis is predicated on their being sustained. In this context, the BBC's stability of funding can act as a counter-cyclical stimulus to support innovation, training and content creation in the short term.

Potential for increased online content revenues

Despite very significant price pressures on display advertising online, other areas appear to be very valuable to advertisers. CPM for advertising in on-demand video programmes remains 25% to 50% higher than on TV, according to Fremantle Media.[13] The consensus appears to be that there is significant scope for increase in advertising revenue online through better targeting of adverts, which will increase impact and reduce the waste of inventories.

Other advertising models which can be explored online are those linked to product placement. This is currently disallowed by the Broadcasting Code 2008 on television, but is difficult to enforce in a multi-channel environment[14] and does not apply online. Several interviewees believe that, as online consumption develops, the rules surrounding product placement on television are becoming increasingly counter-productive: the current situation is likely to result in "channel conflicts" between the broadcasting and online platforms, in the words of one interviewee.

As a complement to adverting revenues, the idea of distributed micropayments, the billing and collection of which could be centralised through a single Billing Agency, appears to be gaining support. This idea, described in the submission made by Fremantle Media to the Digital Britain Interim Report, consists of setting up a process to enable content aggregators (these could be right holders themselves or third parties) to sell content on a pay-per-view basis for very small amounts, for example between 5 and 20 pence. The willingness of audiences to pay for content at this price is supported by Fremantle's research, and could potentially yield revenues per viewer similar to successful linear television programmes. This does not, however, solve the issue of scale.

In order to make the economics of such a model work in practice, billing and collection must be handled at a high-volume and with low cost, which could be achieved through cooperation and mutualisation, for instance through a Billing Agency. This could then be combined with a standardised platform such as the one envisaged for Project Canvas (see Section 5.3 for further discussion on this topic) to reach sufficient scale to yield significant revenues.

[13] Fremantle Media, Digital Britain – Response to interim report, p4

[14] One example is the co-existence of US-made music videos containing product placement (such as Britney Spear's Womanizer in which Nokia placed one of its mobile phones) with UK-made ones in which product placement is absent

Positive views of the BBC's role in "making the market" for online video

In contrast with the view that the BBC iPlayer may be anchoring the expectation that online content should be free, several interviewees pointed out that, in all likelihood, audiences always expected online TV content to be free, and that before the iPlayer there was simply no market. This appears to be supported by anecdotal evidence regarding 4oD, which averaged only 800 download per day when it required users to pay per view, and went up to over 250 000 per day from the moment content became available for free. In addition, one interviewee pointed out that the BBC iPlayer proved to the financing community that there was significant demand for online video services, which is helping entrepreneurs make their case for venture-capital funding.

It is worth noting that these views were expressed by interviewees from the commercial sector with no particular links to the BBC.

Building scale through syndication and internationalisation

Some interesting models are emerging aimed at expanding the reach of content providers beyond their initial portals. The Guardian's recently-announced Open Platform will enable its content to be made available to any third-party website, subject to a set of terms and conditions through which the Guardian retains a measure of control on where the content is syndicated. The Open API which underpins the platform also provides a space for innovative applications to emerge, built around the Guardian's assets. Although this is currently being executed in the spirit of extending the reach of the Guardian's editorial content, it could form a template for future revenue streams by creating a large number of routes leading the Guardian's website.

With regards to the last issue highlighted in Section 5.1.1 above, the same interviewee suggested that the Government can act as a leader in fostering an entrepreneurial culture which is more consumer-focused and puts internationalisation at its core. Several interviewees see internationalisation as a necessity and are already building their business models around this concept. This could be accelerated through forums where various players in different parts of the value chain can come together to develop and trial end-to-end consumer propositions online aimed at both UK and international audiences. These forums could be hosted in existing incubators where facilities exist, or in new test-bed areas (this idea is explored further in Section 5.2 below).

5.1.3 Conclusions and recommendations

Despite the currently observed cyclical downturn, innovation funding does not appear to be a structural issue, beyond areas of public-service provision already identified by Ofcom in the recent PSB review. This is based on the assumption that the current level of funding already provided through the PSBs, government procurement and the finance community will be sustained, and any significant contraction in these sources of funds may lead to a significantly different conclusion.

Some respondent suggested that the Government should reconsider the regulation of product placement to ensure it is consistent across platforms and does not unnecessarily deprive the industry of a source of advertising revenues. The Government should also have a role in propagating best practice in terms of business models.

The Government can provide leadership in fostering an environment where technical innovation goes hand-in-hand with a consumer-focused, international outlook, building upon the UK's traditional strength in both areas. This could be done in incubation environment where Government has some stake, for instance those linked to regional development agencies (RDAs) or Universities.

5.2 There is potential for changes in the rights regime to enhance the exploitation of existing content in the online world

The success of the UK independent film and television production sector, described in detail in Section 4.2, has been attributed to the regulated quotas and terms of trade which frame public-service broadcasters' commissioning of independently-produced programmes. The online environment has a different set of rules, which have been raised as an important structural factor in the UK New Media industry by most interviewees.

5.2.1 Barriers identified

The second large barrier to further development, investment and expansion online for content creators, producers and aggregators is the rights regime under which content can be exploited online. This covers three broadly different issues: the terms under which rights to television content can be exploited online, contractual terms for content commissioned specifically for online exploitation, and a broader issue regarding how best to mitigate piracy through changes in rights regimes.

Terms of trade for online exploitation of television programmes

Terms of trade in the commissioning of television programmes for the PSBs provide that the broadcasters exploit the so-called primary bundle (broadcast and 'catch-up') on an exclusive basis, before returning the rights to the producer for secondary exploitation domestically and internationally, for which they get a share of revenue (typically 15%).

'Catch-up' rights are therefore the prerogative of the commissioning broadcaster, and last either 7 days (for the BBC) or 30 days (for Channel 4). After this period, broadcaster and producer are expected to open negotiations to agree on specific terms for returning the other online rights, download-to-own and video-on-demand, to the producer. If an agreement is not reached, the rights can be held back by the broadcaster (in a so-called "black out") for a period of up to five months (for unique programmes) and two years (for returning series).

This situation is creating a number of short-term issues given the pace at which online video aggregation and delivery is evolving. Broadcasters are worried that, if a programme or a series becomes available online too soon after being broadcast, audiences (and therefore advertising revenue) could be undermined. On the other side of the argument, independent producers are keen to be in a position to exploit these rights themselves, although they do recognise the need to protect the value of the broadcast window, as it provides them with an unparalleled marketing platform to support the exploitation of rights when they come back to them.

Independent producers argue that there are parallels between the current stand-off and the situation that existed prior to 2003 for TV rights. Interviewees in the independent production sector have unanimously told us that they have the right incentives to market, distribute and monetise their content in the online world. One interviewee also mentioned the necessarily more fragmented nature of content deals online, which a large broadcaster might find unappealing to pursue but makes sense to independent producers.

Small scale experiments have been trialled, apparently successfully, with regards to download-to-own (DTO) rights, where producer and broadcaster have reached an agreement on the early release of returning series rights to be exploited by the producer on the iTunes Store. Larger-scale deals, however, are widely seen as unattainable at this point in time, as broadcasters remain focused on avoiding any potential competition and cannibalisation of the broadcast window by online video delivery.

Online content aggregators, particularly start-ups, have also expressed strong views that innovation in this space is predicated on the availability of compelling content, particularly returning series. In the absence of the ability to exploit these rights, online aggregation platforms are limited to providing older UK content or foreign content for which UK rights are not held exclusively. This is particularly problematic because the value of most content declines rapidly over time.

Exclusivity periods for commissioned online content

Broadcasters are currently the largest commissioners of online content, on a par with Government, spending in the region of GBP300 million online, of which about GBP200 million is for content.[15] This content, however, is not subject to the terms of trade that exist for television commissioning, and therefore the bargaining power of the larger broadcasters, particularly the BBC and Channel 4, is felt more acutely. This results in situations where the commissioner sometimes retains all rights to the content, or enjoys long exclusivity periods. Online creative content (not technology) commissioned by the BBC either becomes the property of the BBC, or the BBC gains an exclusive

[15] Source: Human Capital study for DCMS, Digital Content in the UK – Sample case studies

licence to exploit it for five years. Some of Channel 4's commissions have a seven-year exclusivity period, according to Pact.[16]

Independent online content producers have expressed some frustration when faced with this situation. Commissions by online portals, such as Bebo, appear to have much more limited exclusivity periods, sometimes as short as 24 hours. Given the weight of the PSBs in commissioning online content, however, there have been calls to ensure that the terms imposed for their online commissions are as fair as those imposed on their TV commissions.

The difficulty to trial new business models involving intellectual property

Interviewees also raised two additional points regarding exploitation of rights in an online environment: the issues surrounding the emergence of new online business models when intellectual property is part of the equation, and the difficulty in practically obtaining clearance to use a large amount of rights.

The first point is directly related to Action 10 of Digital Britain. One interviewee suggested that the issues faced by online content aggregators of all kinds in obtaining the right to use intellectual property online was due to a combination of two issues: rights holders find it hard to understand what business models will enable them to protect and monetise their rights online, and they are concerned that making their rights available for use in unproven models may lead to piracy and generally a loss in the value of their rights. Another interviewee suggested that it was, in practice, much more difficult to build a business model based on the lawful exploitation of rights, rather than on a platform open to copyright infringement.

The second issue relates to the need to have processes in place to clear the use of rights, and pay for these licences. One interviewee explained that, where music rights are concerned, working with the collecting societies was an effort-intensive process, which involved multiple and antiquated reporting and settlement procedures. This issue is included here mostly for completeness, as the general issue of rights clearance is already one of the focuses of the consultation on a proposed Digital Rights Agency.

One extreme example of such difficulties can be found in the music industry. Sales in recorded music have fallen considerably over the past ten years. Although there remains disagreements in academia as to whether the fall in sales is directly related to piracy,[17] the major record production companies have squarely blamed the Internet and file-sharing networks for their plight. Despite this situation, several interviewees have highlighted the fact that music rights holders were on the whole very difficult to convince of the need to exploit their rights online in novel ways. Anecdotal evidence suggest that the upfront costs involved in accessing music rights are significant

[16] PACT submission to the Digital Britain Interim Report, p26

[17] See for instance Oberholzer-Gee and Strumpf, *The Effect of File Sharing on Record Sales*, 2007 and Liebowitz, *How Reliable is the Oberholzer-Gee and Strumpf paper on File-Sharing?*, 2007

(Spotify.com is understood to have spent GBP7 million on securing rights) and the royalty regimes do not enable scale building, as variable costs are generally linked to how many times a given track is played. New business models are emerging, driven principally by very large companies such as Nokia's "Comes with Music" service. All these models, however, retain a strong element of variable cost.

Interviewees have suggested measures which could contribute to building a more positive dynamic around the use of intellectual property online, discussed in Section 5.2.2 below.

5.2.2 Opportunities and potential solutions outlined by industry

Several interviewees have mentioned to us that there needs to be some degree of intervention to resolve the current stand-off between producers and broadcasters in a comprehensive fashion. There is a recognition, however, that the market is progressively creating solutions, through small-scale bilateral deals that can be broadened progressively.

One interviewee mentioned that making rights more widely available would benefit the whole sector in the long run, not least by enabling new players to enter the value chain. These new entrants are the ones with the highest incentives to innovate, and innovation is needed to solve some of the issues about revenue models highlighted in particular in Section 5.1.1 above.

Consequently, appropriate intervention could be limited in the first instance to analysing and raising awareness of the benefits created by a more flexible approach to online on-demand rights. Ofcom has the analytical resources to contribute actively to this process. In addition, Sections 198, 203 and 285 of the Communication Act 2008 provide that Ofcom has a role to play in setting guidelines which set out the framework in which public service broadcasters, including the BBC and S4C, commission programmes from independent producers. Although this does not currently extend to the online world, it does give Ofcom a stake in contributing to the debate on online rights between broadcasters and independent producers.

Similarly, Ofcom could examine the terms under which public service online content is commissioned by the BBC and Channel 4, [18] to ensure that the principles currently applied to television are transposed appropriately in the online world, although this does not necessarily entail additional regulation.

With regards to the practical difficulties in experimenting with intellectual property, one interviewee has suggested that test-beds should emerge to enable technology and content providers to work together to trial new models for rights exploitation online. Areas where next-generation access technologies are being trialled or deployed (e.g. by BT and Virgin Media) for instance, could provide an ideal environment, as they are relatively contained and already set up with

[18] This is closely linked to the extent to which online commissions by Channel 4 can and will considered as part of Channel 4's public service output.

monitoring mechanisms that could be extended to content trials. This idea was cautiously welcomed in our interviews, in view of the need to preserve commercial incentives which was mentioned by one interviewee.

5.2.3 Conclusions and recommendations

We believe that there is a need for Government to carry out some dispassionate analysis on the potential risks and benefits of a different approach to online rights. This could help bridge the gap between the independent production sector and the broadcasters, without intervening in a heavy-handed way into what is still an immature market.

Similarly, the Government should investigate whether the terms which apply to online commissions for the PSBs and for its own procurement of online services should be relaxed in favour of content producers. The approach taken by the BBC after negotiations with Pact point the way to a possible "digital rights framework".[19]

We believe that Ofcom has the analytical resources, evidence-based culture and appropriate stake required to perform these reviews. In addition, in April and May 2009, DCMS has conducted a number of round-tables and workshops bringing together different stakeholders in an attempt to initiate discussions on these issues.

According to our research into the online content value chain, a 10% increase in revenues for content producers could result in a creation of value of about GBP80 million per annum. Additionally, the fact that the retained value in online aggregation is currently very low (see Figure 4.1) suggests that measures which enable innovation at this level of the value chain are likely to have a large impact on the overall market.

Finally, the Government should actively seek to engage rights holders and ISPs in the experimentation of new, innovative business models involving the exploitation of intellectual property online. Controlled experimentation environments which already exist or are being developed within ISP's networks have the potential to become test-beds for such innovation.

5.3 The development of common standards for delivery of online content has the potential to deliver significant benefits to content producers

Online content creation, aggregation and distribution remains a fairly new market, one that is maturing progressively and cannot be expected to exhibit the same stability and efficiency as its more mature counterparts, such as broadcasting. However, a few challenges and opportunities have been highlighted by a number of interviewees with regards to standardisation, which could potentially be addressed to the benefit of all market participants.

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[19] See at http://www.pact.co.uk/detail.asp?id=6298

5.3.1 Barriers identified

A number of interviewees mentioned that the variety of formats and rules used for the preparation, storage and delivery of content online created some barriers to innovation and a seamless inter-working between content producers and the platforms that showcase their output. Specific issues which have been highlighted relate to video content, and to the provision of metadata, including the tagging of multimedia content. These relate specifically to content produced for consumption 'offline' (e.g. broadcasting, press), then made available online.

Online video aggregators, such as Blinkbox and FetchTV (from IPVision) are able to use pre-formatted content, but currently have to prepare most of the content they aggregate themselves. They expend significant effort and investment in making all content delivered through their platform consistent in quality and experience, as well as searchable and discoverable. Metadata tagging is already widely used throughout the industry to ease this process, but aggregators find that the formats in which this metadata is provided are divergent, and require harmonisation at the aggregation level. The variety of formats poses barriers to further interworking throughout the industry, for instance with regard to the certification of content for various audiences.

Issues linked to the discoverability of content have also been highlighted by Ofcom in its PSB review. According to Ofcom, one area of concern in the provision of public service content online is the "awareness of content and the lack of serendipity in finding unexpected things they valued which is a benefit they enjoy viewing public service channels".

Project Canvas, the BBC's proposed "standards-based open environment for Internet-connected television devices", is seen as having tremendous potential in helping common standards emerge, for video as well as for other online content (e.g. online government services like DVLA for instance). The potential benefits are described in more detail in Section 5.3.2 below, but several interviewees also pointed out significant pitfalls in the implementation of these proposals. The aim of this document is not to provide an answer to the BBC Trust's ongoing consultation, but it appears appropriate to relay the comments we received during our interview programme in so far as they relate to emerging online business models and the creative industries.

The two main areas of concern are the need for Project Canvas not to foreclose existing or emerging business models, and the need to ensure that Project Canvas is a platform which can be used by a wide variety of participants in the market to support further innovation and value creation. One interviewee highlighted the fact that Project Canvas should seek to engage with technology providers within the UK whenever possible.

In addition, interviewees mentioned the need for a more harmonised approach to rights clearance in the digital world. As mentioned in Section 5.2 above, this is an issue at the core of the current consultation on a Digital Rights Agency and is therefore only mentioned here for completeness.

5.3.2 Opportunities and potential solutions outlined by industry

Several organisations with large catalogues of multimedia content in the UK, such as the BBC and the Press Association, are currently expending significant efforts in developing the most appropriate metadata tagging systems possible. As the online market matures, these systems may converge naturally towards a common one. The main requirement to facilitate this is to ensure that best practices are shared as widely as possible.

With regards to emerging common standards, the recent Project Canvas proposal from the BBC is widely seen as having tremendous potential. Television viewing in the UK has remained relatively stable,[20] despite increasing use of other devices such as personal computers and mobile phones. Despite accelerating convergence between content, networks and devices, the television retains a place of choice in most households, as the focal point of consumption of professional video content by the whole family. Delivering online content to televisions therefore has the potential to unlock significant demand.

By positioning itself as an open, mass-market proposition, Project Canvas is also seen as a valuable channel to market by rights holders and aggregators. As long as the platform affords flexibility as to how various business and revenue models can be implemented (e.g. by enabling micropayments, subscriptions or advertising), it could mitigate the fragmentation of audiences online by creating a large-scale platform.

Developing common, open standards for such an endeavour provides an opportunity to address the issues of formats already mentioned in this section. One interviewee active in the online aggregation space stated that a platform like Project Canvas has the potential to reduce reformatting and porting costs dramatically, by setting a benchmark and generating the critical mass required for standards to be widely adopted.

On the issue of rights clearance, interviewees highlighted that more centralised rights clearance processes, with common online interfaces, could mitigate the issues they face in interacting with collecting societies and rights holders.

5.3.3 Conclusions and recommendations

Market mechanisms appear sufficient to ensure that common standards emerge where they are required. The Competition Commission’s reaction to the now-withdrawn Kangaroo proposals show that there are checks and balances in place to prevent the BBC’s leadership in this area from foreclosing the market.

This being said, we believe that Project Canvas should look to spell out to the content industry the potential commercial models that the standard will support, as well as possible structures through

[20] It has increased slightly for some age groups and decreased for others; see Ofcom Communications Market Report 2008 and Fremantle Media, Digital Britain – Response to interim report, p.3; data supplied by BARB/TNS

which the industry would engage with Project Canvas. It should also look to work with the industry to explore how new monetisation mechanisms may be set up within Canvas for the purposes of exploiting rights held by parties offering content through the platform.

The Government should encourage the sharing of best practices, particularly as reducing porting costs and facilitating interworking between platforms is likely to benefit directly online content aggregators, whose share of retained value in the online value chain is currently very low (ca. 7% according to our research).

5.4 Given its scale in the current online market, public sector investment in online content may provide a significant stimulus to the market

Public-sector organisations, in the form of Central, Regional and Local Government, as well as the PSBs, already invest significant sums in the development of online content in the UK. This content can be traditional multimedia content, as well as pure online content such as interactive services and forums. For some interviewees, this was seen as creating specific issues, whilst for others it is an opportunity to foster the development of a thriving New Media sector in the UK.

5.4.1 Barriers identified

Several interviewees highlighted the fact that the public sector has a role to play in stimulating the production of high-quality online content, in the same way as it has done in television. They are concerned by the fact that online access providers (i.e. the ISPs) do not have any incentive or requirement to invest in UK content, and therefore see the PSB's role as extending naturally to the online world.

There is a general preoccupation, however, that the Government and the PSBs should not stifle private sector provision of content, which is well documented in the submission made by Guardian Media Group to the Interim Report of Digital Britain. Moreover, some interviewees highlighted the market share of the BBC in some segment of online content such as news and sports as a barrier to private sector investment (according to Comscore, BBC News had 55.5% of "reach" in the news segment, and BBC Sports 38.6% in the sports segment, in February 2009).

Between them, Government and PSB online content commissions represent a significant proportion of online content commissioning in the UK. They each contributed about GBP200 million towards content production, representing in aggregate about 40% of the investment in UK online content.[21] Pact has highlighted the fact that the terms under which these commissions are made often restrict the ability of the producers of content to market it independently from the commissioner.

[21] Source: Digital Content in the UK, report by Human Capital for DCMS; this excludes the long tail of small-scale providers, and figures exclude investment in technology and services

Finally, there appears to be an issue as to how public service content commissioned online is measured. Under the current regime, Channel 4's public service output is essentially measured in the TV space rather than across platforms. Increasingly however, it is providing what it considers to be public services online. Through 4ip, it is working with the market to develop sustainable models to deliver public services online. Channel 4 Education's output is now entirely online, and they are shifting their measure of success from 'audience' to 'outcome', particularly in terms of the attention their services manage to gain and retain and the engagement of their users. From the perspective of some of interviewees, therefore, the PSB framework in which Channel 4 operated might be a barrier to its investment in online content. We outline some potential solutions that have been mentioned by interviewees in Section 5.4.2 below.

5.4.2 Opportunities and potential solutions outlined by industry

Interviewees highlighted ideas as to how public-sector investment in online content could be channelled in the most productive way, so as to stimulate the emergence of a thriving online content sector in the UK.

Currently, commissioning is made rather independently by different parts of Government according to their own needs and there is scope to channel this spend in a way which supports innovation. The Power of Information Taskforce Report, published in February 2009, contains a number of recommendations on this topic.

In addition, Government-commissioned online content appears to be subject to terms which severely restricts the exploitation by the content producers of the intellectual property rights generated through the commission. Whereas this may be entirely appropriate for certain types of content, for instance where national security or confidentiality issues are concerned, there is support within the interviewees for a more granular approach to rights, which could follow similar principles as those outlined in the BBC's Guidelines for New Media Commissioning.[22]

There appeared to be wide acceptance throughout our interviews of the fact that the remit of the public-service broadcasters is bound to become cross-platform, encompassing the online and New Media provision of public-service content, as well as traditional televised content. There remains a broad range of views as to what structure and remit a possible 'PSB2' should have. However, several interviewees highlighted the fact that Channel 4 or its successor could stimulate online content production by extending its "publisher-broadcaster" remit to the online world. Channel 4 is working on novel ways to measure the reach and outcomes of public service content provided online, which must be central to ensuring public service provision is appropriate across a mixture of platforms (and in particular that online public service provision does not become a low cost, low public value substitute to public service TV programming).

[22] Available at http://www.pact.co.uk/detail.asp?id=6298

The Independent Review of BBC Online,[23] conducted in 2004 by Philip Graf for the DCMS, detailed a number of recommendations as to how the BBC should operate in the online world. Two of these recommendations are worth mentioning here as they have been mentioned a number of times by various interviewees.

One is the requirement for the BBC to commission at least 25% of online content (excluding news) from external or independent suppliers. According the BBC, this proportion is now 31%,[24] although this includes some elements of technology and services as well as content per se. In addition to this commitment, the BBC could extend the principles behind the window of creative competition (WOCC) currently in place for television commissioning to online content. There are difficulties in measuring online spend accurately, however, due to the need to reallocate costs between different part of the organisation for shared content.

The other recommendation is that the BBC "must develop a more consistent and transparent approach to linking to all relevant sources (commercial and public) and ensure that its search tool prioritises user experience over BBC content". This appears to remain a concern, although the BBC has tools in place to measure and ultimately drive the use of links to outside content providers. Fundamentally, the BBC can act as a portal to high quality UK online content, leveraging its scale online to benefit other commercial and public-service online content providers.

5.4.3 Conclusions and recommendations

The rights framework applied to Government commissioning of online services should be reviewed to ensure that it strikes an appropriate balance between the public interest and the positive impact it can have on the online content production sector. Given that it may represent as much as 30% of the flow of funds to professional online content producers (estimated at GBP275 million in 2007), a small increase in the benefit accrued to those will have a large impact on the sector as a whole.

There remains a need for the BBC to use its tremendously popular online presence to the benefit of a larger section of the UK content industry, by linking out to independent content providers where possible and appropriate. In addition, expending the principles of the BBC's WOCC to online commissioning has the potential to inject a further GBP20–30 million per annum in the independent content production sector based on the BBC's current online spending. As the BBC invests more online, this figure will also grow, ensuring plurality of supply throughout the development of the sector.

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[23] Report of the Independent Review of BBC Online, available at http://www.culture.gov.uk/reference_library/publications/4591.aspx/

[24] *Digital Britain: the BBC's role*, submission by the BBC's executive to the Digital Britain Interim Report

Channel 4, or its successor, has a role to play in commissioning and promoting public service online content. This should be measured appropriately to provide Channel 4 with incentives to invest in online content where this is more effective than investing in television content.

We note that DCMS has initiated discussions across the industry on some of these issues, bringing together stakeholders in April and May 2009 through a series of workshops, as mentioned in Section 5.2.3 above.

5.5 The Government can act to lower regulatory barriers to a more dynamic online content sector, but intervention must be considered carefully to limit market distortions

The Government has direct control in three particular areas where it can act to lower barriers to UK online creative ambition: the content and data it owns and commissions, the legislative and regulatory framework, and indirect intervention, for instance through the BBC. Any such intervention, however, must be carefully weighed against the potential market distortion it may entail.

5.5.1 Barriers identified

Perhaps unsurprisingly, the role of the BBC in the online content production and aggregation market, as well as the impact it has on commercial enterprise in the UK, were a recurring point of discussion throughout our interviews. One respondent called for the BBC's online content to be available for third party aggregators more freely; others feared that this could cannibalise their own business. Several interviewees felt that the BBC was imposing unduly harsh controls on aggregators wanting to distribute iPlayer content, but others believe it is entirely appropriate for the BBC to demand that the context in which its content is made available is appropriate and does not undermine the principles of 'attribution' and 'distinctiveness' that are important to the BBC. Finally, although most interviewees welcomed the BBC's leadership with regards to Project Canvas, some were worried that it may create an unnecessarily restrictive environment which would negatively impact on their business models.

Throughout our interviews, the general feeling towards Government intervention appeared to be that it should be limited to addressing proven market failures, which may involve the sort of sector-wide stimulation mentioned in the previous section, as well as direct action to remove legislative or regulatory barriers where they result from principles or legislation which have been established prior to the advent of digital and online platforms.

The online licensing and use of Government data currently administered in trading funds, and in particular Ordnance Survey (OS) data, has been the subject of significant discussions, most recently in the Power of Information Taskforce report in February 2009. One of our interviewees mentioned specifically that the licensing procedures required to be in a position to use this data online were excessively complex and that simplifying them would yield significant benefits by enabling innovative services to develop using this data as an input. In the current situation, new innovative location-based services often use resources such as Google Maps instead and the data publicly available through OS.

In addition, several interviewees called on the Government to provide clear guidance as to how two particular aspects of the legislative framework should be interpreted.

The first one related to libel law for content generated by a third-party user and published on a public website, as there appears to be no precedent for assessing in which case the website owner would be considered to be the publisher of the content. The BBC and others currently use various moderation techniques, either moderating user-generated content before it is published (for most sensitive areas such as children's pages) or removing content post-publication upon receiving a complaint.

The second aspect relates to the extent to which ISPs can, and should, make use of their subscribers' personal data if they are to contribute more actively to curbing online rights infringements. There is currently a perception that any attempt by an individual ISP to control piracy on its network will immediately be construed as an infringement of privacy by the community of online users, and will become a competitive disadvantage in a market characterised by a high level of competition.

Finally, some interviewees mentioned that they would welcome a clear framework in which rights can be cleared for online use (as described in Section 5.2), with a particular focus on online rights.

5.5.2 Opportunities and potential solutions outlined by industry

We note that orphan rights (i.e. the rights to intellectual property protected by copyright in circumstances where the copyright holder cannot be traced)[25] as well as how best to involve ISPs in managing copyrights infringement, are two areas in which BERR and the IPO have carried out significant investigation; we mention them here primarily for completeness. Similarly, the Power of Information Taskforce report contains a number of recommendations as to the best use of the Government Trading Funds might be.

With regards to the role and impact of the BBC, interviewees expressed a wide variety of views. There is broad consensus however on the need for continued close examination of further extension of the BBC's online services to prevent foreclosure of parts of the market to competition. The BBC is acutely aware of this, as it is a recurring theme, which was prominent in Graf review for instance.[26] From its current strong online presence, the BBC can however act as a

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[25] As defined by the IPO, http://www.ipo.gov.uk/pro-types/pro-copy/c-policy/c-policy-orphanworks.htm

[26] Report of the Independent Review of BBC Online, *op.cit.*

portal on high-quality UK content, through referencing and cross-promotions compatible with its Charter and its mission.

Beyond providing guidance with regards to the law where required, the Government can also review the terms through which it procures online content in the view of lowering the barriers to innovation and investment in content. Within the more granular approach to rights outlined in Section 5.4.2 above, there is scope to assess whether some of the content and technology generated through government procurement could be made available to third parties. This has great potential in ensuring that Government investment can be useful beyond its immediate purpose, although there is a clear need to ensure this is not creating market distortions by, for instance, cannibalising the demand for commercial services supplied by the market.

5.5.3 Conclusions and recommendations

The Government should provide guidance to stakeholders on how to libel law applies online. Guidance on how ISPs may or should use their subscribers' data falls should be addressed within the framework of the proposed Digital Rights Agency.

We understand that other streams of work are currently ongoing which will consider the appropriate framework to manage orphan rights.

The Government should monitor the impact of Project Canvas as it develops to ensure that it does not result in large negative externalities. At this stage however, there is no substantiated issue to report.

Finally, the Government should refrain from intervening in this still maturing market unless a serious, non-transitory market failure is identified.

Annex A: Detailed value chain and flow of funds model

A.1 Introduction and approach

In order to illustrate the size of the UK New Media industry within the overall content industry and to build a reference point against which specific interventions could be tested, Analysys Mason has developed a flow of funds model.

To build this model, we used leading third-party sources (see Annex B.2 for details), and for some areas relied on evidence we gathered through interviews. The main challenge was to balance the strengths and weaknesses of individual data sources, in order to create a fair representation of high-level flows of funds within this industry.

In our model, the total market size is defined by the sum of all inflows (i.e. consumer spending, advertising spending and other sources of funds). We determined the flows of funds throughout the value chain and calculated the retained value by each stage of the value chain using the difference between incoming and outgoing revenues.

A.2 Simplified content value chain

In this section, we describe the high-level types of players that were taken into account in our analysis of the UK content industry.

- **Content creators** are the origins of creative activity, such as musicians, writers and journalists. Additionally, this includes other rights holders such as football associations and other corporate bodies that own or develop intellectual property. Their output is intellectual property, which is usually sold to producers.
- **Producers** turn intellectual property into a product, such as a master-copy of a movie, CD or DVD. This category includes independent film and TV producers, in-house producers of broadcasters (public-service and commercial), music producers and all sorts of publishers (press, books, games).
- **Aggregators** package different master products and build channels or bundles. We have further categorised this stage into three groups: online aggregators, traditional aggregators and physical aggregators.
  - *Online aggregators* comprise any Internet-delivered content portals (e.g. iTunes store, online video portals, music streaming services) as well as social networking sites (e.g. Facebook, Bebo, MySpace) and illegal content aggregators (e.g. Rapidshare, P2P

platforms). This group also contains online activities of traditional broadcasters (i.e. BBC iPlayer, ITV.com, BBC.co.uk, etc.)

– *Traditional aggregators* contain public-service TV and radio channels, their commercial counterparts and pay TV operators
– *Physical aggregators* produce film prints, retail CDs and DVDs, and print newspapers, magazines and books.

- **Distribution** delivers consumable products of aggregators to the consumer. This includes cinemas, retailers and a variety of transmission networks (analogue and digital broadcast, satellite, mobile, broadband).

The remaining players are consumers of content, or provide funding for specific stages of the value chain (e.g. foreign buyers, advertisers, PSB licence fee). We have not included HM Revenue and Customs, although of course the creative industries contribute significant amounts to the Exchequer through income, corporation and value-added taxes.

Figure A.1 gives a graphic representation of the content value chain, as described above.

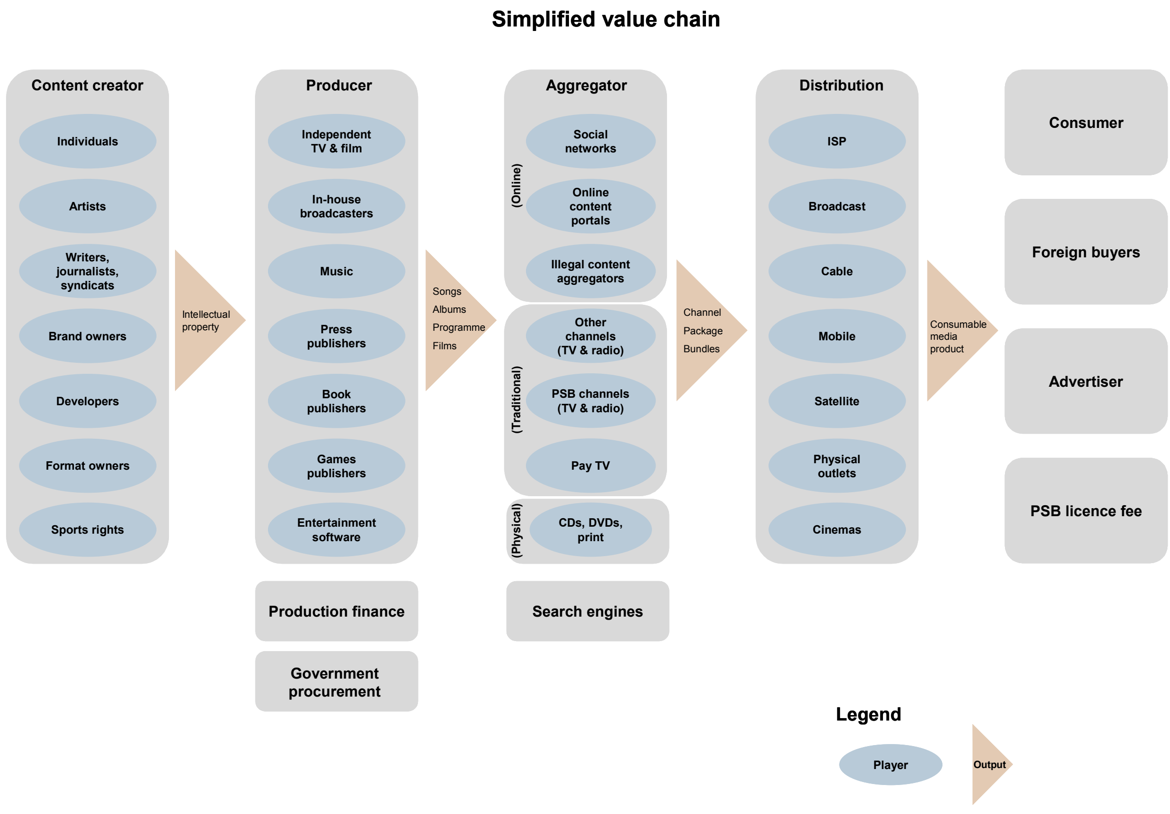


Figure A.1: Simplified content value chain [Source: Analysys Mason, 2009]

In order to preserve readability when adding quantitative and directional information on individual flows of funds, it was necessary to re-arrange the representational layout of the content value chain. Figure A.2 below presents the adapted version of the value chain and the positional changes that were made. As shown in the figure, the distribution stage has been arranged horizontally, and dark-blue shading has been used to indicate players that produce inflows of funds – the sum of these inflows represents the total market size. The other players are recipients and/or distributors of funds. In many instances, producers are also rights owners of content; where this is not the case, a consistent set of quantitative information on flows was difficult to attain. We have therefore decided to combine rights holders and producers in our flow of funds analysis.

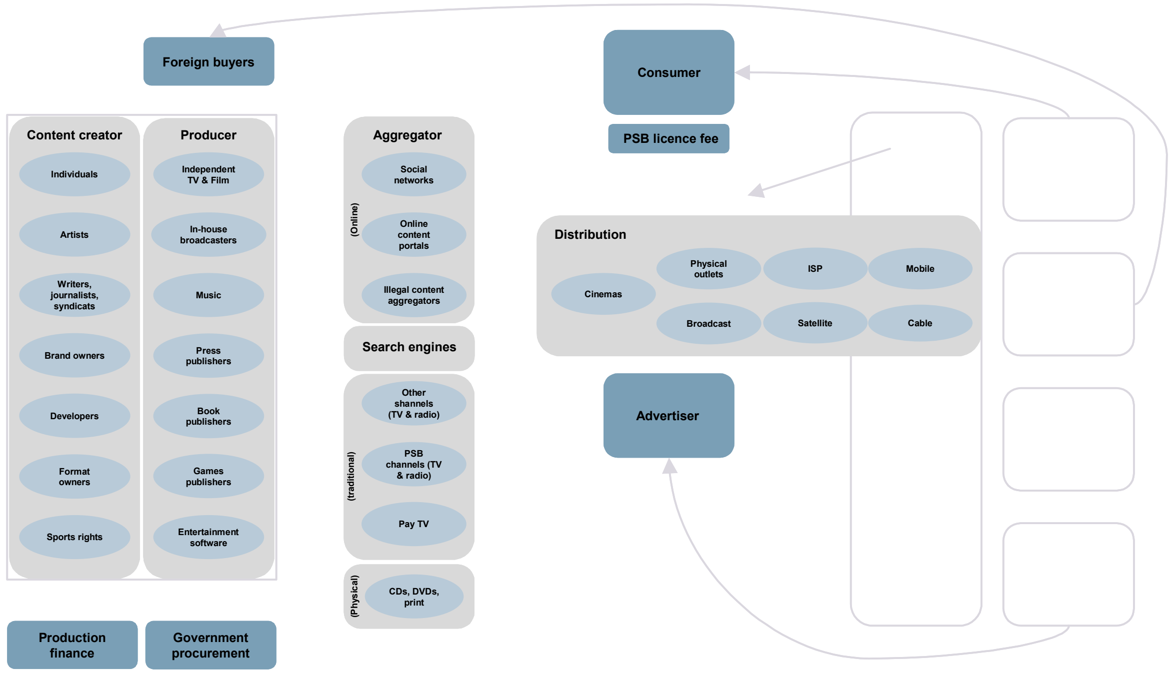


Figure A.2: Re-arranged value chain [Source: Analysys Mason, 2009]

A.3 Estimated flows of funds in the value chain

A.3.1 Summary of retained value

Figure A.3 provides an overall view of the UK content industry flow of funds.

Figure A.4 provides an online-only view of the UK content industry flow of funds.

Figure A.3: Flows of funds in the UK content value chain [Sources: Analysys Mason, ZenithOptimedia, Pact, Ofcom, ScreenDigest, PwC, company reports; data calculations and interpretation are solely Analysys Mason's responsibility]

Notes

- Total net industry revenue is GBP55.6 billion (+1%)
- Figures for 2008 are in GBP unless otherwise stated
- Growth in brackets is relative to 2007

1 Total advertising market: 12.6bn
Online total: 2.9bn (+22%)
of which search: 1.7bn (+25%)
classified: 607m (+20%)
display: 570m (+13%)
inc. online TV 18m in 2007 (+110%)

2 CD/DVD: 3.5bn (-6%)
Newspapers: 3.1bn (0%)
Magazines and books: 4.5bn (0%)
Video games: 2.4bn (+17%)

3 Based on Google's and Yahoo's cost of traffic acquisition of 27% of revenues

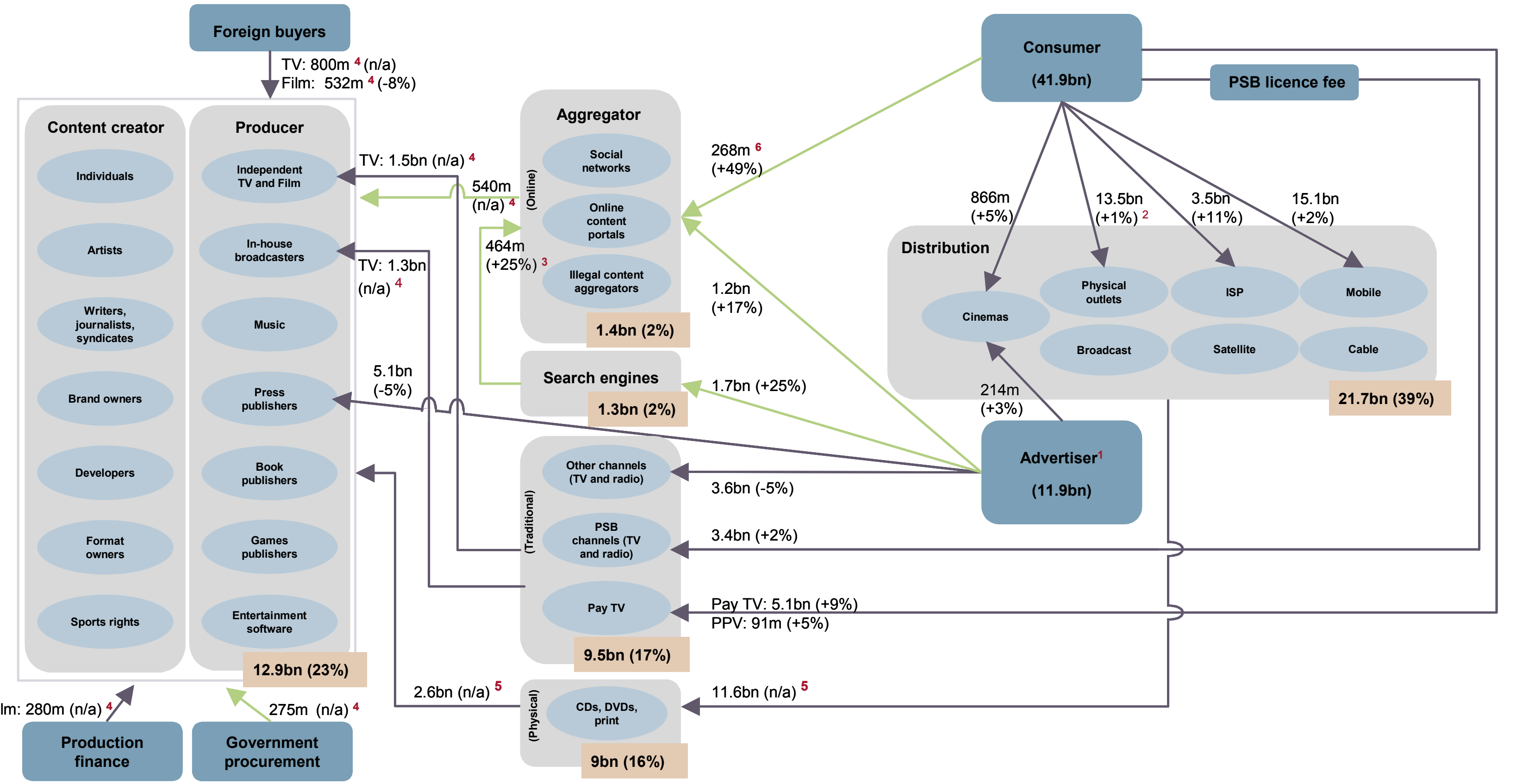
4 Figures for 2007

5 Analysys Mason estimates

6 Contains 2007 and 2008 figures

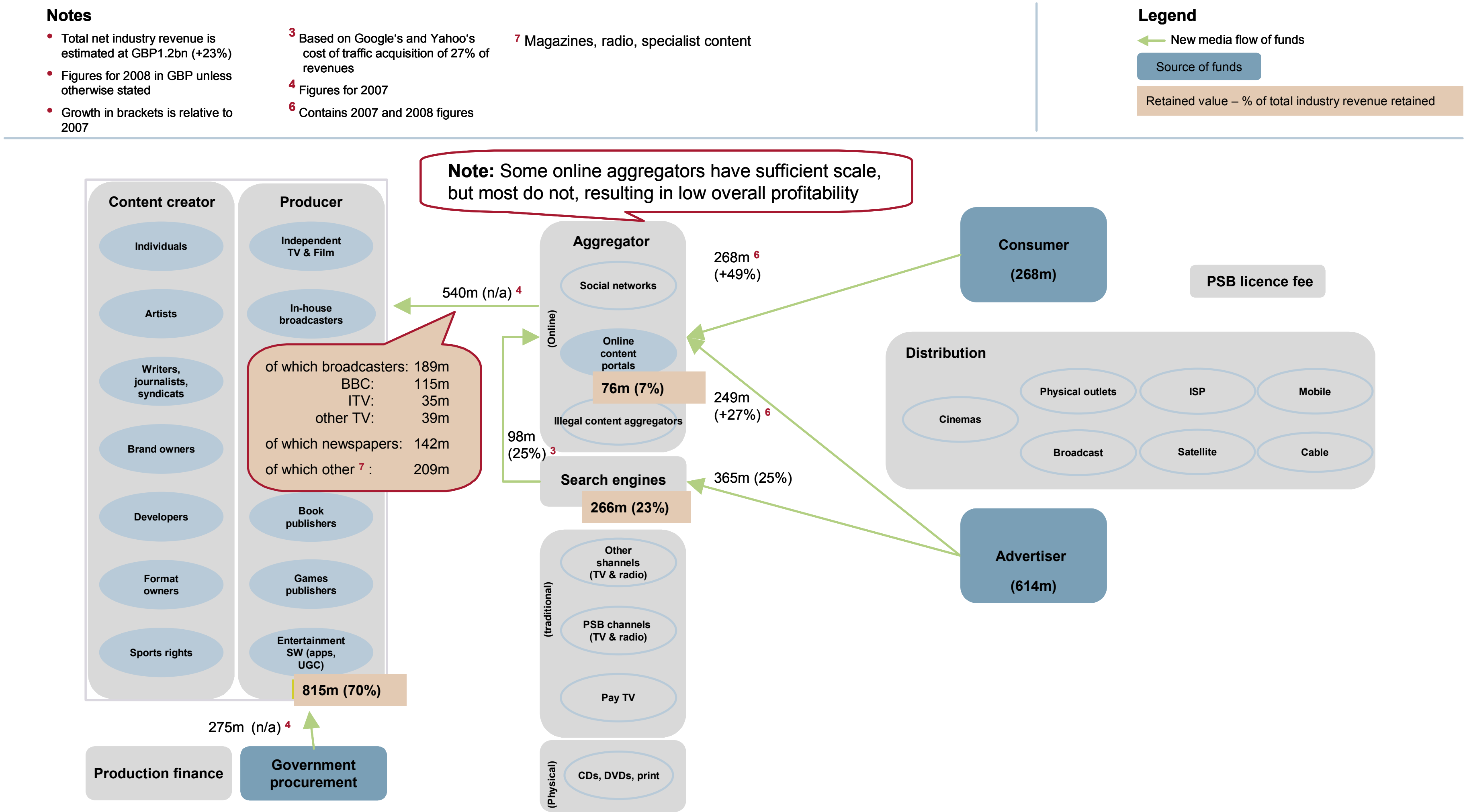
Key

Traditional flow of funds
New media flow of funds
Source of funds
Retained value: % of total industry revenue retained
(% of retained value may not add up to 100% due to rounding)



Ref: 14824-223

Figure A.4: Flow of Funds – online-only view [Source: Pact, Screen Digest, Ofcom, Analysys Mason; data calculations and interpretation are solely Analysys Mason's responsibility]



A.3.2 Inflows from consumers, advertisers and other sources

This section describes the sources of funds that we have taken into account for the content industry. Due to the fragmentation and limited documentation of parts of the value chain, we could not retrieve a complete set of figures for the calendar year 2008. Therefore, data for 2007 (assuming 0% growth as a consequence) has been used in a limited number of cases, which are clearly indicated.

The total inflows account for GBP55.7 billion, with the largest proportion of this coming from consumers (75%), followed by advertisers (21%), and the remaining 4% coming from other sources.

Consumer spending

The following categories of consumer spending have been included in the flow of funds model:

- **Pay TV** spend, which includes all subscription spending by consumers for satellite, cable and IPTV-based pay TV services (analogue and digital)
- **Pay-per-View (PPV)** spend, comprising transactional consumer spending on video-on-demand services by pay TV operators
- **Public Service Broadcasting (PSB) licence fee**, which includes public radio and TV licence fee payments
- **Online content** spend, constituting pay-per-download and subscriptions for online music and online video portals, as well as ebook sales. Consumer spend on digital content may not be exhaustive, as figures for other subscriptions services (e.g. online newspapers) and spending on illegal content aggregators were not available. Only figures for 2007 were available in this category
- **Cinema**, representing box office revenues.
- **Physical outlets**, including retail sales of physical, recorded music, retail and rental sales of physical home video, magazine and newspaper circulation revenues, as well as video game revenues.

We believe that consumer spending on content is inextricably connected to spending on two further means of distribution, which we therefore have also included as part of the inflows:

- **ISP**, representing retail revenues on broadband
- **Mobile**, comprising retail revenues on mobile communication services (voice and data).

Advertiser flows

As the provider of 21% of total inflows, advertisers are a major contributor to the UK content industry, in particular to traditional aggregators and print publishers. Within total advertising spending, print advertising accounts for 40%, followed by broadcasting (29%), Internet (23%), outdoor (6%) and cinema (2%). For the flow of funds model, we have not taken into account outdoor advertising and email advertising.

- **Cinema advertising** includes pre-film advertising spend (product placement revenues not included)
- **Online aggregator advertising** comprises the total direct advertising spend on online media (display and classified advertising). In Figure A.3 below, this also includes display and classified spend on Internet sites that are not offering professional online content. The inflow in Figure A.4 includes display and classified spending that can be directly attributed to online content sites (i.e. digital magazine and newspaper advertisements, online TV supported by advertising)
- **Search engine advertising** represents spending by advertisers on online advertisements on Web pages that show results from search engine queries. In the overall view of the content industry (see Figure A.3), this represents spending on all search queries. The respective search advertising inflow in Figure A.4 represents spending that can be attributed to online content search queries. To determine the latter inflow, we have applied the same ratio of 'online-content-specific' to 'overall' that emerged in display and classified advertising
- **Press advertising** includes spend on newspapers and magazines
- **Traditional aggregator advertising** includes ad spending on TV (multi-channel and terrestrial) and radio channels.

Other revenue sources

- **Government procurement** represents spending by UK government bodies on online services and platforms. Only figures for 2007 were available in this category.
- **Production finance** constitutes net government agency spend on grants to the UK film industry and gap finance by independent TV and film producers (i.e. difference between production costs and first-run commissioning revenue). Foreign financing is not included in this category (see 'foreign buyers' below). Only figures for 2007 were available in this category.
- **Foreign buyers** represents the acquisition of primary and secondary content rights from independent and in-house TV producers by players outside the UK. This category also includes 'inward feature investment', defined by the UK Film Council as "a feature film which

is substantially financed and controlled from outside the UK and where the production is attracted to the UK because of script requirements, the UK's infrastructure or UK tax incentives."[27] Foreign financing is therefore included in this category. Only figures for 2007 were available in this category.

A.3.3 Flows throughout the value chain

Distribution

Outflows of cinema (for box office revenue) and physical distribution retail revenues (for DVD rental and retail revenues) are based on average distribution margins, as detailed in a report by Screen Digest for Ofcom (Annex 11 to First pay TV review). For music and print media, outflows draw on assumptions by Analysys Mason.

We have also taken into account mobile content outflows to aggregators and producers.

Online aggregators

Outflows of funds of online aggregators represent new media spend by TV broadcasters, specialist content providers, national newspapers, magazine publishers, regional newspaper groups and radio groups. Only figures for 2007 were available in this category.

Search engines

Search engines pay commissions to websites that host search-related advertisements. This payment is called 'traffic acquisition cost' (TAC). To determine the size of funds that flow back to online aggregators from search engine advertising spend, we applied a margin based on Google's and Yahoo's TAC, equal to 27% of their respective revenues. In the overall view of the content industry (see Figure A.3), this flow includes payments to any type of website. In the online-only view (see Figure A.4), this flow includes only payments to online content sites. To determine the latter flow, we applied the same TAC margin of 27%, but only to the search engine advertising revenues specific to online content (as explained in the 'Search engine advertising' item in the 'Advertiser flows' section above).

[27] Source: UK Film Council, 'Statistical Yearbook 2008'

Traditional aggregators

Outflows of traditional aggregators comprise first-run commissions for independent and in-house producers as well as secondary rights payments to independent producers. Pre-production and other TV revenues of independent producers, as well as secondary rights payments for foreign programmes were not taken into account. Distribution spend (e.g. carriage fee for satellites, distribution spend for analogue and digital broadcast) is not included. Only figures for 2007 were available in this category.

Annex B: Interview schedule and sources of data

B.1 Detailed interview schedule

Analysys Mason would like to thank the senior executives who took the time to meet or speak with us in the context of this study. In alphabetical order, these are:

- John Angeli, Director of Content, Press Association
- Mike Bracken, Technology Director for Development, Guardian News and Media
- Andrew Burke, Managing Director, Amino
- Tony Cohen, CEO, Fremantle Media
- Michael Comish, CEO, Blinkbox
- Peter Cox, Marketing Director, IP Vision
- Mark Drasutis, Senior Director, Media Products, Yahoo!
- Simon Fell, Director of Future Technologies, ITV
- Sara Geater, COO, Talkback Thames
- William Greswell, Head of Strategy, BBC Vision
- Gidon Katz, Managing Director, BoxTV
- Matt Locke, Commissioning Editor, Channel 4
- Tom Loosemore, Head of 4ip, 4ip / Channel 4
- James Micklethwait, Head of Strategy, BBC Future Media
- Adam Minns, Director of Policy, Pact
- Paul Richmond, Director of Corporate Affairs, Virgin Media
- Dougal Scott, Head of Strategy, BSkyB
- Jeremy Silver, Mediaclarity Digital Strategies, adviser to the Technology Strategy Board
- Andy Taylor, Digital Media Director, All3Media
- Stephen Taylor, Graphite Films
- Jonathan Thompson, Director of Strategy, Ofcom
- Sarah Tingay, Director of Legal and Business Affairs, Fremantle Media
- Phil Walder, COO, IP Vision
- Lincoln Wallen, Head of R&D, Dreamworks SKG (formerly CTO, online and mobile, Electronic Arts)
- Marc Watson, Commercial Director, BT Vision

B.2 Sources of data used in the preparation of this report

Analysys Mason – Research division

Telecom Market Matrix Q4 2008

- Broadband retail revenues
- Mobile communication retail revenues

Annual reports and other investor relations documents

For external commissions of programmes, content sales, distribution cost/revenues:

Annual report of ITV 2008

Annual report of BBC Executive committee 2007 and 2008

Annual report of BBC Worldwide 2008

Annual report of Sky 2008

Investor presentation of Virgin Media 2008

Annual report of Bertelsmann 2008 (FIVE)

Human Capital

Digital Content in the UK – Sample Case Studies (provided by DCMS)

- Estimated annual spend on new media (demand-side: content publishers, radio and TV broadcasters, press publishers)

Ofcom

Communication Market Report 2008 (Aug 2008)

- Consumer attitudes survey
- UK online TV revenue
- UK online music revenue
- UK in-house production spend (first-run TV content)

Pact

Independent Production Census 2007/2008 (April 2008)

- Commissions from UK broadcasters
- Secondary rights
- New media revenues
- International sales

PriceWaterhouseCoopers (PwC)

Global entertainment & media outlook (GEM), 2008-2012

The following data series were used for UK revenues in 2008:

- TV subscription, Pay-per-view and Public TV licence fee revenues
- Physical record music revenue
- Box office revenue
- DVD rental and retail revenues
- Newspaper circulation
- Public radio licence revenues
- Magazine circulation revenue
- Print and audio consumer book revenues
- Video game consumer revenue

Screen Digest

Movie markets in the UK – Annex 11 to pay TV market investigation consultation (for Ofcom)

- Margins and costs by window (retained value by player of the value chain)

ZenithOptimedia
UK advertising expenditure by medium (updated December 2008):

- Newspapers
- Magazines
- TV
- Radio
- Cinema
- Outdoor
- Internet
  - Display
  - Classified
  - Search