BBC Scotland Competition Assessment

Final Determination Annex 3: Assessment of Market Impacts

STATEMENT ANNEX

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A3. Assessment of Market Impacts

Introduction

A3.1 In this Annex, we have assessed the key market impacts of the BBC Scotland proposal, including positive impacts on competition, that may benefit audiences and/or firms, as well as adverse impacts on fair and effective competition. We have considered potential horizontal and vertical ("supply-chain") impacts. Table A3 1 below summarises the relevant potential impacts we have identified.

Table A3 1: Summary of main horizontal and vertical impacts

Sectors	Horizontal impacts	Vertical ("supply-chain") impacts
Television channels and services	***Impact of the BBC Scotland channel on commercial TV channels:*** Viewing for the new channel is likely to be at the expense of existing TV channels (both FTA and pay TV) and SVoD services. A change in viewing may have financial implications for those services due to a loss of advertising revenues of commercial TV channels.	***Impact of the BBC's proposal on competition:*** *(a) to commission original Scottish programming:* the BBC's investment may increase the demand for original Scottish commissions and potentially raise rival commercial broadcasters' costs if supply of production capacity is constrained. *(b) to acquire rights to Scottish content (e.g. Scottish sports rights and events):* the BBC's investment may increase demand for rights to Scottish content and potentially raise rival commercial broadcasters' costs or restrict their access to these rights.
Radio, print, and online media	***Impact of the BBC's proposal on commercial media services*** *(a) Impact of the BBC Scotland channel:* viewing for the new channel may mean Scottish people consume less of non-TV media services. A change in consumption could impact those services financially due to lower advertising revenues. *(b) Impact of additional online and radio news:* the BBC's proposal could increase news provision on BBC Online and BBC Scotland Radio, either through production of further news output or re-versioning of TV content for radio or use online. As a result, other non-TV media services may lose readers/traffic or listeners and, therefore, advertising revenues.	***Impact of the BBC's proposal on competition to attract/retain journalists:*** The BBC's proposal to create 80 new journalist posts (of which only half are focused on news-gathering with the other half being production roles) may result in additional recruitment/ retention costs for rival commercial news organisations or restrict their access to journalists.
TV production sector		***Impact of the BBC's proposal on the Scottish production sector*** Producers will benefit from supplying content for the new channel. There may also be efficiency gains if it results in the creation of a permanent production hub in Scotland.

A3.2 For the horizontal market impacts, we have considered both the static impact on viewing and advertising revenues and the dynamic impact on incentives to invest and innovate:

- **Static impacts** – i.e. the audience and revenue effects of the new BBC Scotland channel on commercial TV channels and non-TV news services at a given point in time, without taking into account how rival service providers may respond to BBC Scotland's launch.
- **Dynamic impacts** – i.e. the effects of the new BBC Scotland channel on the incentives of commercial TV channels and non-TV media services to invest and innovate, taking into account how rival service providers may choose to competitively respond to BBC Scotland's launch. This will depend on both the ability and incentives of providers to respond competitively to BBC Scotland, which we have considered further below. We have not sought to quantify these potential dynamic impacts as there is a greater degree of uncertainty involved.

A3.3 As part of its PIT, the BBC commissioned Frontier Economics and Communications Chambers ("Frontier CC") to assess the impact of the proposed new BBC Scotland channel.[1] The potential horizontal and vertical impacts we have identified and considered are consistent with those assessed in Frontier CC's report. We have not assessed any further Frontier CC's theoretical (vertical) concerns about the potential impact if the BBC restricted upstream rivals' access to BBC co-owned platforms (customer foreclosure) or downstream rivals' access to BBC content (input foreclosure).[2] In the context of the launch of BBC Scotland, we broadly agree with Frontier CC's conclusions on this point.

A3.4 This Annex broadly reflects the assessment of market impacts set out in our Consultation. Where relevant, we have set out the stakeholder views we received in response to our Consultation and how these, along with any further analysis, have influenced our assessment of market impacts. In particular, we set out and respond to stakeholders' views on the impact of the BBC Scotland proposal, in particular: dynamic impacts of the new channel on commercial TV channels (paragraphs A3.53 to A3.72); impact of changes to the BBC's online news offering on commercial news providers (paragraphs A3.158 to A3.167); supply-chain impacts from additional demand for news journalists (paragraphs A3.179 to A3.181); and impacts on competition in the Scottish production sector (paragraphs A3.206 to A3.208).

[1] Frontier Economics, The Impact of the Proposed BBC Scotland Channel, An assessment of the impact on fair and effective competition, 23 November 2017 ("Frontier CC report"). This report was submitted to Ofcom on a confidential and not for publication basis. Some references to information in this report have been redacted.

[2] Frontier CC assessed the potential for the BBC to engage in customer foreclosure (by restricting supply of access to BBC controlled platforms) and input foreclosure (by restricting supply of BBC channels to rival distribution platforms). Frontier CC concluded that the launch of BBC Scotland does not affect the ability or the incentive of the BBC to engage in either form of conduct. See Frontier CC report, sections 9.3 and 9.4.

A3.5 In response to our Consultation, stakeholders also raised the following additional concerns about the potential impact of the proposal on fair and effective competition. We do not consider these in detail for the reasons set out below.

A3.6 PACT reiterated its concern that the budget for the BBC Scotland channel and number of hours it will broadcast implies a relatively low cost per hour of original programming.[3] It considered the relatively low implied cost per hour could impact on diversity of supply (i.e. the lower cost per hour could mean that larger scale producers would be more likely to win commissions from BBC Scotland).[4] In light of this concern, PACT also called on Ofcom to monitor the impact of the BBC Scotland channel on competition in the Scottish production sector going forward.[5]

A3.7 We consider that PACT's concern stems from the competitive advantage that some producers may enjoy as a result of their economies of scale. We do not consider that this concern flows from the BBC's proposal. As a result, we do not consider in this document the concern raised by PACT or the monitoring of competition associated with the BBC's commissioning of content for the new channel.[6]

A3.8 We accept that the budget may affect the quality of the BBC Scotland channel and have noted this in our review of public value in Annex 1.[7]

Impact of the BBC Scotland channel on commercial TV channels

A3.9 We start by examining the potential impact of the BBC Scotland channel on commercial TV channels, with a particular focus on channels aimed at Scottish viewers. These services are likely to be BBC Scotland's closest substitutes and hence, most likely to be impacted.

A3.10 As noted in paragraph A3.2, our assessment of the horizontal impacts of the BBC Scotland channel on commercial TV channels first considers static effects on commercial TV channels' advertising revenues. We then discuss dynamic effects on commercial TV channels' incentives to invest and innovate

[3] PACT response to Ofcom's "Consultation", pages 2-3; which reiterated points PACT made in its response to Ofcom's "Invitation to Comment": PACT response to Ofcom's "Invitation to Comment", pages 3-4.

[4] PACT considered there is a risk that smaller producers in particular would end up having to deficit finance content for BBC Scotland in order to achieve appropriate levels of content quality. By contrast, PACT argued that producers of scale, including BBC Studios, would be in a better position to deficit finance content for BBC Scotland to maintain high levels of quality and thereby capture a greater share of the new Scottish production market. See PACT response to Ofcom's "Consultation", pages 2-3; and PACT response to Ofcom's "Invitation to Comment", pages 3-4.

[5] In particular, PACT called for Ofcom to provide further comment and analysis if it is clear that suppliers to the new channel are dominated by a small number of large companies. See PACT response to Ofcom's "Consultation", pages 2-3.

[6] Other parts of the BBC regulatory framework relate to competition in commissioning for the BBC Public Service and the impact on competition of the relationship between the BBC Public Service and the BBC's commercial activities. Schedule 3(7) of the Agreement requires the BBC to secure competition between BBC producers (whether in-house or BBC Studios) and external producers (whether independent producers or not) on a fair, reasonable, non-discriminatory and transparent basis.

[7] Ofcom, BBC Scotland Competition Assessment, Final Determination Annex 1, paragraphs A1.45 to A1.46.

Static effects of the BBC Scotland channel on commercial TV channels

A3.11 Our assessment of static effects considers the audience and revenue effects of the new BBC Scotland channel on commercial TV channels (and absent any response by rival service providers to BBC Scotland's launch). We used the same methodology as Frontier CC to translate changes in viewing to advertising revenue impacts[8] (which, in turn, relies on the approach used by Ofcom in the context of the BBC Three Market Impact Assessment ("BBC Three MIA")).[9]

Consultation estimates of audience impacts – changes in commercial rivals' audiences

A3.12 In Annex 2 of our Consultation, we estimated that BBC Scotland would capture a viewing share of 2.14% in our base case and that this would translate into a loss in viewing shares for STV/ITV Border (Scotland) and STV2 of 0.28pp and 0.008pp, respectively.[10] By comparison, Frontier CC estimated that (under the BBC's final proposal) the new BBC Scotland channel (excluding the BBC Two simulcast) would achieve a share of 0.95% of all viewing hours in 2019 (or 2.04% during its core hours, 7pm-midnight),[11] while all commercial channels combined would lose 0.55pp of viewing share (of which STV would lose [✂] and STV2 would lose a nominal amount).[12]

A3.13 We assumed that there was not a revenue impact on BBC Alba. We recognised in Annex 2 of our Consultation that BBC Scotland could attract viewers from BBC Alba.[13] However, we explained that BBC Alba is funded primarily by the Scottish Government (through a grant-in-aid) rather than by advertising revenues. Hence any loss of viewers is unlikely to impact BBC Alba's revenues.

Consultation estimates of revenue impacts – assessing the effect on commercial rivals' revenues

A3.14 In this section, we assessed the main revenue impact on commercial rivals due to a loss of advertising revenues resulting from a loss in viewing. In 2016, UK-wide advertising revenues for commercial channels was valued at £4.1 billion, with commercial PSB channels accounting for just over half of total commercial advertising revenues.[14]

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[8] Frontier CC report, section 6.3.1.

[9] Ofcom, Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC, Market Impact Assessment, 30 June 2015, https://www.ofcom.org.uk/__data/assets/pdf_file/0016/68110/market_impact_assessment_report.pdf

[10] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, Table A2 12.

[11] Frontier CC assumed that the new channel launches in October 2018 and immediately reaches a stable share of viewing by 2019 (i.e. within a matter of months from launch). It noted this is a conservative assumption since the new channel reaches its steady state share of viewing more quickly than if the channel takes a year or two to grow its viewing share. Therefore, BBC Scotland is projected to capture a higher share of viewing from commercial channels over the 5-year forecast period. See Frontier CC report, pages 48 and 55.

[12] BBC PIT, paragraph 355 and Annex 3, Table A3.7; and Frontier CC report, page 55.

[13] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, paragraphs A2.127 to A2.129; and Final Determination Annex 2, paragraphs A2.159 to A2.161.

[14] Source: Ofcom/broadcasters. See Ofcom, Communications Market Report 2017, Figure 2.14, https://www.ofcom.org.uk/__data/assets/pdf_file/0017/105074/cmr-2017-uk.pdf

Commercial channels also derive revenue from other sources, such as sales of the rights to programmes they make, sponsorship and online advertising. However, TV remains the preferred medium for mass marketing because of its large audience reach and advertising remains the main source of revenue for commercial channels.

A3.15 Audience changes and hence the amount of viewing of advertising on commercial channels – measured by 'commercial impacts'[15] – may affect commercial channels' revenues. However, a reduction in the supply of commercial impacts does not necessarily result in a similar reduction in advertising revenues. In particular, a change in the quantity of advertising supplied may affect the price of TV advertising and, hence, the advertising revenues of commercial channels.

A3.16 In Ofcom's BBC Three MIA, we discussed that, in the long-term, the interaction between changes in the volume of commercial impacts and changes in prices of commercial impacts at both the firm level and the market level is likely to be complex and involve a number of different factors. If a channel decreases its audience relative to other channels it could become less attractive to advertisers. However, if a reduction in overall audiences reduced the overall supply of commercial impacts, then the "scarcity" value of TV advertising might increase. However, if audiences for commercial TV channels fall overall then the effectiveness of TV advertising may be perceived to lessen. This could in turn reduce the overall amount advertisers are prepared to pay for commercial impacts.

A3.17 In the BBC Three MIA, we noted that a range of studies have attempted to estimate the long-term relationship between changes in TV audiences (both overall for commercial channels and for particular groups of channels) and changes in advertising revenues. However, these studies generate quite a wide range of estimates.

A3.18 Given the above complexities and difficulties, in our Consultation we adopted the following approach, which is consistent with the approach Frontier CC used.[16]

- For UK-wide national advertising, we assumed that for each 1% fall in a channel's audience, its national advertising revenues also fall by 1%. This implicitly assumed that there is no change in the price of this advertising. This is reasonable since the BBC Scotland channel is unlikely to materially increase the scarcity of commercial impacts at a UK-wide level.
- For Scotland-focused 'regional' advertising, we assumed that the fall in commercial impacts is partially offset by an increase in the price. Recognising the uncertainty involved, we adopted the same approach as the BBC Three MIA and Frontier CC. We considered three scenarios:

[15] The quantity of TV advertising sold is expressed in terms of "commercial impacts", where one commercial impact is one member of the target audience viewing one commercial. Therefore, the supply of total commercial impacts can be affected by either a change in total advertising minutes or a change in the audience level.
[16] Frontier CC report, page 62.

- Low offset scenario: each 1% fall in a channel's audience decreases its regional advertising revenues by 0.67%;
- Medium offset scenario: each 1% fall in a channel's audience decreases its regional advertising revenues by 0.5%; and
- High offset scenario: each 1% fall in a channel's audience decreases its regional advertising revenues by 0.33%.

A3.19 We presented the results of our analysis of TV advertising revenue effects, based on our BBC Scotland take-up viewing estimate of 2.14% (base case scenario). We have presented these Consultation estimates in Table A3 2 below. Reflecting the relatively small volume of regional advertising, these changes were found to be mainly driven by the effect on national advertising revenue. Our analysis suggested fairly limited revenue falls overall and for particular channels, in the context of their existing net advertising revenues ("NAR") in 2016.

Table A3 2: Ofcom's Consultation estimates of advertising revenue effects based on changes in viewing in 2019 under our base case take-up scenario[17]

	Change in viewing (%)	2016 net advertising revenues (£m)	Proportion of regional commercial impacts (%)	Change in regional advertising revenue (£m)			Change in national advertising revenue (£m)
				High offset	Med offset	Low offset	
ITV Border (Scotland)	-1.86%	12.16[18]	14.67%	-0.01	-0.02	-0.02	-0.19
STV	-1.86%	100.43[19]	16.36%	-0.10	-0.15	-0.20	-1.56
City TV / STV2	-3.70%	1.25[20]	100.00%	-0.02	-0.02	-0.03	0.00
Other channels	-1.51%	130.07[21]	10.00%	-0.06	-0.10	-0.13	-1.77
Total	-1.60%	243.91	-	-0.19	-0.29	-0.39	-3.53

Source: Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, Table A3 2

A3.20 Based on our analysis above, we presented a possible range for the total fall in TV advertising revenues of £3.7 to £3.9 million (under our base case), which combined the regional and national advertising revenue effects (see Table A3 3 below). Frontier CC estimated that the new BBC Scotland channel will reduce overall commercial advertising revenues by under £2m per year.[22] Frontier CC's modelling suggested a slightly higher proportion of viewers of BBC Scotland would come from commercial channels. However, we still estimated a larger revenue impact on commercial channels than Frontier CC's modelling suggested based on our higher take-up estimates for the new channel.

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[17] Column totals in Table A3 2 may not add up exactly due to rounding.

[18] The estimate of NAR is based on ITV net advertising revenues of £1,784m multiplied by an estimate of ITV Border's share of total ITV viewing excluding STV (0.7%).

[19] This estimate of STV's 2016 advertising revenues is from Figure 37 of the Frontier CC report and the Frontier CC model (based on figures from STV Group plc's 2016 Annual Report and Accounts). Frontier CC defined advertising-generated revenues for STV Group as the sum of revenues from national airtime, regional airtime, sponsorship and half the revenues from digital. It then applied a 4% uplift for online revenues. See STV Group plc, Full year results presentation for year ended 31 December 2016, page 5, http://www.stvplc.tv/investors/reports-and-results.

[20] This estimate of City TV's 2016 advertising revenues is from the Frontier CC model (based on figures from STV Group plc's 2016 Annual Report and Accounts). Frontier CC took City TV's reported revenue (£1.2m) and applied a 4% uplift for online revenues. See STV Group plc, Full year results presentation for year ended 31 December 2016, page 5.

[21] This estimate is based on the UK-wide total revenue for all other channels in 2016 (£2,310m), adjusted for STV Group revenues as a proportion of ITV plc (6%).

[22] BBC PIT, paragraph 355; and Frontier CC report, page 63.

Table A3 3: Ofcom's Consultation ranges for combined revenue effects in 2019 based on price offset scenarios under Ofcom's low, base and high take-up scenario

	Overall change in TV advertising revenue (£m)			% change in 2016 net advertising revenues (NAR)
	Low case take-up	Base case take-up	High case take-up	
ITV Border (Scotland)	-0.15 to -0.16	-0.20 to -0.22	-0.37 to -0.39	-1.26% to -3.17%
STV	-1.25 to -1.32	-1.67 to -1.77	-2.98 to -3.17	-1.24% to -3.15%
City TV / STV2	-0.01 to -0.02	-0.02 to -0.03	-0.03 to -0.05	-0.93% to -4.34%
Other channels	-1.36 to -1.41	-1.84 to -1.90	-3.32 to -3.44	-1.05% to -2.65%
Total	-2.77 to -2.92	-3.72 to -3.92	-6.70 to -7.05	-1.14% to -2.89%

Source: Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, Table A3 3

A3.21 Based on Table A3 3 above, we estimated that the largest absolute revenue impact would be on STV, which incurs a loss in advertising revenues of between £1.25m to £3.17m, which is equivalent to a loss of up to 3.2% of its 2016 advertising revenues of £98.5 million (or up to 3.4% of its 2017 advertising revenues of £93.7 million).[23] STV2 was predicted to lose up to £54,000, which is equivalent to a loss of up to 4.5% of City TV's 2016 revenues of £1.2 million (or up to 3.2% of its 2017 revenues of £1.7 million).[24] There would be an insignificant impact on ITV Border (Scotland) and the remaining 'Other' commercial channels together who could see a predicted loss of at most £3.4 million or 2.7% of their NAR in 2016.

A3.22 In the 'Other' category, we estimated that the largest affected channels would be Channel 4 and Channel 5 (including +1 variants), which accounted respectively for 12% and 9% of the viewing of 'other' channels among heavy-opts viewers in 2017. The impact on Channel 4 could be higher, however, taking into account its portfolio channels (E4, Film4, etc) which

[23] The STV advertising revenues we refer to here include "national airtime", "regional airtime" and "digital" revenues, as set out in STV Group plc's full year results. See: STV Group plc, Full year results presentation for year ended 31 December 2017, page 5, http://www.stvplc.tv/investors/reports-and-results; and STV Group plc, Full year results presentation for year ended 31 December 2017, page 2, http://www.stvplc.tv/investors/reports-and-results.

[24] STV Group plc, Full year results presentation for year ended 31 December 2017, page 2, http://www.stvplc.tv/investors/reports-and-results.

together accounted for around 20% of viewing of 'other' channels among heavy-opts viewers. Based on the revenue effects in Table A3 3 above, we estimated this could result in a loss of £0.3m to £0.7m in advertising revenues for the Channel 4 portfolio of channels (which would be small in the context of Channel Four Television Corporation's reported advertising and sponsorship revenues of £938m in 2016).[25]

Stakeholder responses to our Consultation

A3.23 [✂[26] [27]]

Our final views

A3.24 We consider that our approach to estimating revenue impacts is reasonable in light of our revised take-up estimates for the BBC Scotland channel set out in Annex 2.[28] As a result of our higher take-up estimates for BBC Scotland compared to those in our Consultation, we present in Table A3 3 below our revised estimates of the static revenue impacts on particular channels and overall across all commercial channels.

Table A3 4: Ofcom's revised ranges for combined revenue effects in 2019 based on price offset scenarios under Ofcom's low, base and high take-up scenario

	Overall change in TV advertising revenue (£m)			% change in 2016 net advertising revenues (NAR)
	Low case take-up	Base case take-up	High case take-up	
ITV Border (Scotland)	-0.18 to -0.18	-0.23 to -0.25	-0.42 to -0.44	-1.44% to -3.61%
STV	-1.43 to -1.52	-1.90 to -2.02	-3.39 to -3.60	-1.42% to -3.59%
City TV / STV2	-0.01 to -0.03	-0.02 to -0.04	-0.03 to -0.06	-1.06% to -4.92%
Other channels	-1.57 to -1.63	-2.10 to -2.18	-3.78 to -3.92	-1.21% to -3.01%
Total	-3.19 to -3.36	-4.26 to -4.48	-7.62 to -8.02	-1.31% to -3.29%

[25] Channel Four Television Corporation Annual Report, 2016, http://annualreport.channel4.com/downloads/FULL%20AR%202016.pdf
[26] [✂]
[27] [✂]
[28] Ofcom, BBC Scotland Competition Assessment, Final Determination Annex 2, Table A2 8.

A3.25 In our revised base case, we forecast a range for the total fall in TV advertising revenues of £4.3 to £4.5 million, which combines the regional and national advertising revenue effects. We still predict the largest absolute revenue impact would be on STV, which incurs a loss in advertising revenues of between £1.43m to £3.60m, which is equivalent to a loss of up to 3.7% of its 2016 advertising revenues of £98.5 million (or up to 3.8% of its 2017 advertising revenues of £93.7 million).[29] However this upper limit arises in our high take-up scenario which, as explained in Annex 2, we consider to be very unlikely.[30] There would be an insignificant impact on ITV Border (Scotland). The remaining 'Other' commercial channels together could see a predicted loss of at most £3.9 million or 3.01% of their NAR in 2016. As set out in paragraph A3.22 above, no single channel in the 'Other' commercial channel category would see a significant impact.

A3.26 One development since the publication of our Consultation is the announcement by STV of the closure of STV2.[31] As noted in Annex 2, we recognise that, in principle, this could mean that other channels could have slightly higher audiences than our modelling suggests.[32] This could also have implications for our estimates of revenue impacts, as the remaining commercial channels (with slightly higher audiences) would potentially experience a slightly higher loss of revenues relative to a counterfactual where BBC Scotland is not launched. However, the revenue impact we modelled for STV2 in our Consultation was very small (£0.01-0.05m loss per annum), which would be even smaller when distributed across other channels.

A3.27 Moreover, we understand That's Media has agreed commercial terms with STV Group to acquire STV's local TV assets (including the STV2 local TV licences).[33] However, there is some uncertainty about the precise nature and timing of the launch of any new local TV services in Scotland. It is possible that any new local TV services that might launch in Scotland could replace STV2 in our estimates of revenue impacts, although as noted in Annex 2, based on the viewing share performance of other local TV services across the UK, it is unlikely that these would perform as well as STV2. Moreover, given that we estimated BBC Scotland would only have reduced STV2's revenues by between 0.93% and 4.34% in our Consultation, this suggests the loss of revenues by any new local TV services caused by BBC Scotland is unlikely to be very significant.

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[29] The STV advertising revenues we refer to here include "national airtime", "regional airtime" and "digital" revenues, as set out in STV Group plc's full year results. See STV Group plc, Full year results presentation for year ended 31 December 2017, page 5, http://www.stvplc.tv/investors/reports-and-results; and
STV Group plc, Full year results presentation for year ended 31 December 2017, page 2, http://www.stvplc.tv/investors/reports-and-results.

[30] Ofcom, BBC Scotland Competition Assessment, Final Determination Annex 2, paragraphs A2.114-A2.115.

[31] STV Group plc, STV sets out strategy for creative and digital growth, 16 May 2018.

[32] Ofcom, BBC Scotland Competition Assessment, Final Determination Annex 2, paragraphs A2.17-A2.20.

[33] STV Group plc, STV sets out strategy for creative and digital growth, 16 May 2018.

A3.28 [✂[34]] As noted in paragraphs A3.11 and A3.15-A3.18 above, this follows the approach Ofcom adopted in the BBC Three MIA. We consider the use of 'price-offset' scenarios is appropriate given that the available studies generate quite a wide range of estimates of the long-term relationship between changes in TV audiences and channels' viewing shares and advertising revenues.[35]

A3.29 TV remains an important advertising medium, hence small changes in audiences (at least of the scale associated with BBC Scotland) may mean that advertising revenues are not likely to fall by a similar proportion. TV as a whole, and the large channels with a high share of TV viewers, will remain an important way for advertisers to reach a large number of viewers. In Table A3 3 above, we presented a range of 'price-offset' scenarios to capture the uncertainty about how sensitive revenues are to changes in TV audiences. However, all of the 'price-offset' scenarios suggest that advertising revenues are likely to decline in the long-run if audiences are lower.

Dynamic impacts

A3.30 The static effects we have modelled for the new BBC Scotland channel can create dynamic impacts that alter the incentives of commercial TV channels to invest and innovate. This depends on how rival service providers may choose to competitively respond to BBC Scotland's launch, which we have considered further below.

Summary of the approach in the BBC's PIT

A3.31 The BBC referred to the Frontier CC analysis, which concluded that STV and STV2 would be unlikely to face lower incentives to invest in programming, as the forecast reduction in STV Group revenues was so small.[36]

A3.32 Frontier CC also assessed whether BBC Scotland is likely to crowd out the commercial activity of STV Group by:[37]

- assessing the services provided by STV Group and the closeness of competition between BBC Scotland and STV/STV2;
- considering the relationship between STV Group's TV revenues and its TV investments; and
- projecting the likely impact of BBC Scotland on profit margins of STV and STV2.

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[34] [✂]
[35] In Ofcom's BBC Three MIA, for instance, we explained that: *"The number of econometric studies of the price elasticity of demand ("PED") for TV advertising in the UK is limited e.g. Hendry (1992), PwC (2004) and Analysys Mason, Brandscience and Crawford (2010) - the latter two both for Ofcom. Furthermore, the results of these studies are not entirely consistent. As a result, we have used them to inform our thinking in this area rather than relying on them."* See Ofcom, Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC, Market Impact Assessment, 30 June 2015, paragraphs 3.21 to 3.33.
[36] BBC PIT, paragraph 277; and Frontier CC report, section 6.4.5.
[37] Frontier CC report, section 6.4.

A3.33 Frontier CC concluded there is not strong evidence that a marginal reduction in revenues and margin would lead to an impact on investment or innovation by STV Group for the following reasons:[38]

- there is no clear relationship between STV Group's revenues and its programming investments (so it is difficult to make a clear inference of the impact of the reduction in STV Group's margin on its incentives to invest). Frontier CC calculated that the projected decline in STV Group's revenues ([✂]) could reduce projected annual margins to [✂] in the counterfactual (2017-2023) as a result of BBC Scotland.[39] It considered this projected margin was within the range for STV Group's operating margins over the previous seven years when programme investment has been broadly stable;
- Frontier CC considered it difficult to forecast the impact on STV2 given its recent re-launch and forecast increase in revenues and profits. It considered that the percentage impact on STV2's revenues is small, suggesting that it should not change STV Group's incentives to invest in STV2 (though, Frontier CC also recognised that if STV2 were to continue making losses, even a small loss of revenue could have an impact on STV Group's incentives to invest in STV2). However, overall, it considered that the impact on STV Group's margins would be limited and it would still have the ability to invest in STV2;
- a number of factors are still likely to mitigate the impact on STV Group should it choose to competitively respond directly to BBC Scotland (including the higher EPG position of STV and STV2, STV's strong association with Scotland and STV's wider reach when compared with BBC Scotland);
- there were content differences between STV, STV2 and the planned BBC Scotland channel. Frontier CC concluded the evidence suggests there is limited closeness of competition between BBC Scotland and STV Group's services. It noted that while both have a strong "Scottish" brand, there are important differentiations between the two broadcasters' channels: BBC Scotland and STV/STV2 have very different programming strategies during the post 7pm period;[40] and while both STV/STV2 and BBC Scotland offer Scottish news, there is no direct overlap in the scheduling of news; and

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[38] Frontier CC report, page 74.
[39] Frontier CC report, pages 71-72.
[40] While BBC Scotland focuses on first-run content in a mix of genres with repeats after 10:30pm, STV focuses on UK network content and STV2 focuses on news, repeats and sports-based discussion. The BBC did seem to accept there was some scope for overlap, particularly with respect to sports rights, as STV2 continues to explore opportunities to acquire coverage of sports such as swimming and horse-racing. The BBC noted that it had not allocated specific funds to sport for the new channel, but it may spend some of its budget on additional sport coverage. See BBC PIT, paragraph 279; and Frontier CC report, page 68.

- given that STV's news and self-produced programming aimed at Scottish audiences is produced partly in order to meet its licence and PSB-related obligations, then a marginal reduction in revenues is unlikely to affect its incentives to invest in such programming.

A3.34 The BBC noted that there was scope for STV Group to commission new Scottish content for STV and STV2.[41] The BBC added that STV Group could also gain increased commission revenue through its own production arm (STV Productions). Given it found the impact on STV Group's channels was small and, overall, the net impact on STV Group revenues could be positive, the BBC concluded that the proposal was unlikely to negatively affect STV Group's incentives to invest and innovate.[42] The BBC was not aware of any new potential entrants into FTA broadcasting who would be deterred from investing in the sector as a result of the BBC Scotland proposal.[43]

Summary of our approach in our Consultation

A3.35 We explained that the assessment of dynamic impacts builds on the analysis of static impacts but also requires a view of the longer-term development of the sector and the potential for providers to respond to the BBC's proposal. For example, a change that leads to viewing shifting from commercial services to the BBC may lead to higher, lower or simply different investment by commercial providers.

A3.36 Rivals affected by the launch of BBC Scotland, such as STV, may raise investment to win back or reduce any viewing shift to the BBC (e.g. by raising their programming budgets to increase the attractiveness of their channels). If by increasing their programming budgets rivals reduce the viewing shift to the BBC, this would mitigate their lost advertising revenues, but their profits may still fall due to the increased programming costs. Increased investment would tend to benefit consumers, assuming the increased programme costs improved the quality of programming.

A3.37 Alternatively, commercial broadcasters may respond to lower audiences by producing fewer programmes in genres which are expensive to produce (such as drama) in order to reduce their costs and maintain their profitability. This could have a negative impact on consumers if it reduces overall choice. Another possibility is that commercial rivals reposition themselves to be less similar to the BBC Scotland channel. This could affect consumers differently, with some having more programmes that suit their tastes and some having fewer programmes.

A3.38 We did not try to quantify the dynamic impacts resulting from changes in the behaviour of commercial channels, as we considered there is too much uncertainty to have sufficient

[41] BBC PIT, paragraph 278.
[42] BBC PIT, paragraph 333 and Annex 2, paragraphs 54-56; and Frontier CC report, page 70.
[43] BBC PIT, paragraph 280.

confidence in any quantitative estimates. However, we identified the potential dynamic effects, and where possible gave our view on their likelihood and scale.

A3.39 We considered the commercial FTA channels with a Scottish focus, namely STV and STV2. In the case of STV, this is the commercial channel predicted to see the largest static impact. For STV2, the predicted static impact was quite small; however, as it is yet to make a profit for STV Group, we also considered the dynamic impacts on this channel.

A3.40 For ITV Border (Scotland), the static impact was insignificant, so we did not assess the dynamic impacts on this channel further. Similarly, we found that the static impact on other channels was much smaller and, in any case, we considered that a small decline in their audience in Scotland was not likely to affect their incentives to invest in content for the whole of the UK.

Consultation assessment of the dynamic impact on STV

A3.41 As set out above, our modelling predicted that, in absolute terms, STV was likely to be the channel most affected by the BBC's proposal in terms of viewing impact (0.28 percentage point decline in STV's viewing share under our base case) and revenue impact (£1.7 million decline in STV's advertising revenues under our base case). The change in revenues represented a 2% decline relative to STV's 2016 advertising revenues (£98.5 million)[44] and a 2% decline relative to STV's advertising revenues in 2017 (£93.7 million)[45]. The loss in revenue to STV of £1.7 million would be around 8% of STV Group plc's EBITDA of £22.4 million and 9% of its operating profit of £19.7 million in 2016 (or 8% of STV Group plc's EBITDA of £21.5 million and 9% of its operating profit of £19.0 million in 2017).[46]

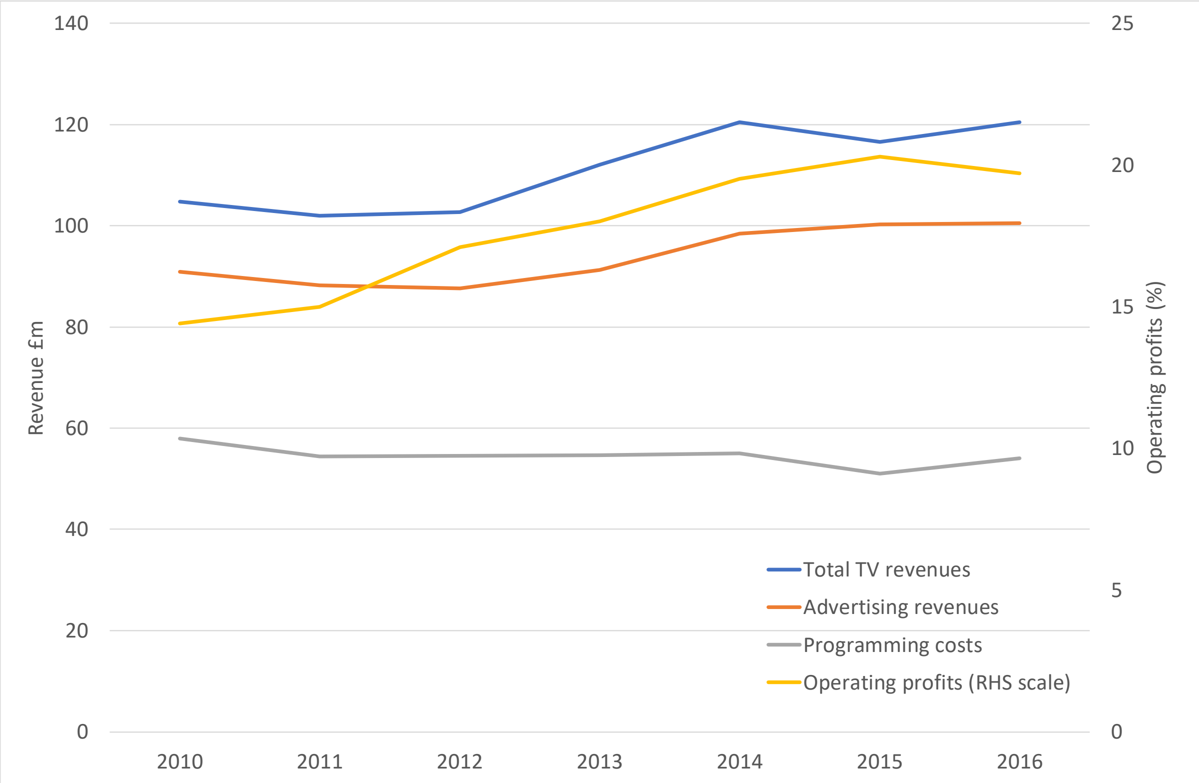
A3.42 Our view was that, while the likely impact on STV's revenues is not immaterial in absolute terms, it is relatively small as a percentage of STV's total advertising revenues. Similarly, the impact on STV's audience share was modest and would not affect its position as the leading commercial channel in Scotland with the highest viewing share and weekly reach. We thus did not consider that the BBC's proposal is likely to put STV's viability at risk or affect STV's incentives to invest and innovate. However, we recognised that if the new BBC Scotland channel were to perform better than forecast, this would be likely to have a greater impact on STV's advertising revenues and on its investment incentives.

A3.43 We referred to Frontier CC's projected a decline in STV Group's margins of [✂] percentage points as a result of BBC Scotland and its observation that STV Group's forecast margin is within the range of variation seen over the period for STV Group's operating margins when programme investment has been broadly stable.[47] We presented the data Frontier CC

[44] STV Group plc, Full year results presentation for year ended 31 December 2017, page 2.
[45] STV Group plc, Full year results presentation for year ended 31 December 2017, page 2.
[46] STV Group plc, Full year results presentation for year ended 31 December 2017, page 4.
[47] Frontier CC report, pages 71-74.

referred to in support of its argument that there is not a strong correlation between programme investment and STV's revenues and profits in Figure A3 1 below.[48]

Figure A3 1: Comparison of STV Group revenues, programme costs and operating profits



Source: Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, Figure A3 1

Note: Based on Frontier CC report (Figure 37) and STV Group Annual Reports (2011 to 2016). Frontier CC defined advertising-generated revenues as the sum of revenues from national airtime, regional airtime, sponsorship and half of the revenues from digital. Prior to 2010, STV Group's accounts do not provide information on programming costs. Figures are nominal.

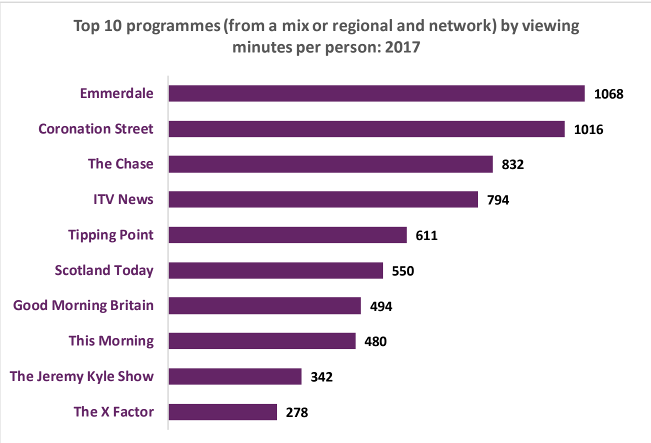
A3.44 We submitted that past programme investment has not necessarily moved in line with revenues or operating profits. If anything, there has been a slight trend decline in programme investment, whereas over the period revenues and profits for STV Group increased. However, we did not think it would be appropriate to rely on high-level comparisons to conclude that a loss of revenues will have no impact on STV Group's incentives to invest. There is potentially a range of other factors, such as STV Group past strategy, the level of investment of rivals in production and other industry trends, that may have had a larger impact over the period and that may make any relationship between investment, revenues and profits harder to detect.

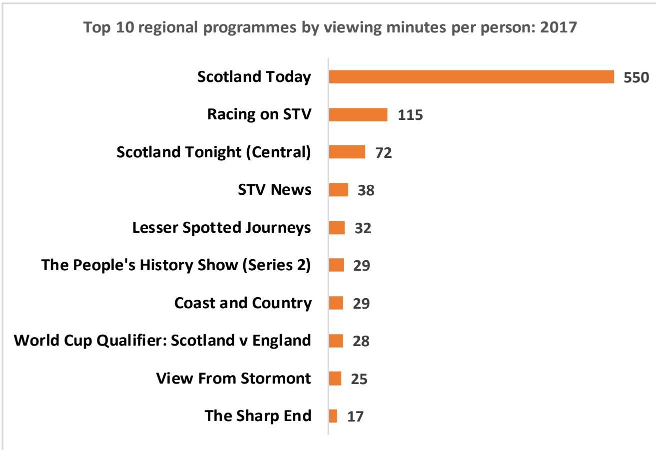
[48] We have presented the data from 2010 as, prior to this date, STV Group did not report its programme costs.

A3.45 We were more persuaded, however, that the percentage impact on STV revenues was small, suggesting that the impact on STV Group's incentives to invest in STV is likely to be quite small.

A3.46 We were also persuaded by Frontier CC's arguments that, at least for STV, a large proportion of its programming relies on network content shared with ITV.[49] For example, as set out in Figure A3 2 below, *Scotland Today* (STV's news programme covering Central Scotland) is the only regional programme to feature in the top 10 (ranked by viewing minutes per person) based on BARB viewing data of all programmes broadcast on STV in 2017 (both regional and network programmes). This suggested that STV is more popular and watched by Scottish viewers mainly for its network programming, rather than its Scottish focussed content which mainly consists of news, entertainment and current affairs. The top regional programmes watched by Scottish viewers in 2017 included current affairs (*Scotland Today*), sports (*Racing on STV*) and regional and network news (STV/ITV).

Figure A3 2: Top network and regional programmes on STV/ITV Border (Scotland) in 2017[50]





Source: BARB. Individuals 4+, BBC Scotland region. Data is based on programme series.

A3.47 While STV has regional programming that could be affected by the launch of the new channel, on balance, we considered that the introduction of BBC Scotland is unlikely to pose a significant threat to STV's non-news content. This is because network programming accounts for a large proportion of STV's top programming. This content is produced across ITV and investment in this programming would not be put at risk in the context of the modest impact of BBC Scotland on STV viewing (which in a UK-wide context is smaller still).

A3.48 Frontier CC argued that, because STV (and ITV Border (Scotland)) have licence and PSB-related obligations to produce local/regional programming, a marginal reduction in the revenues of STV (and ITV Border (Scotland)) would be unlikely to affect their incentives to

[49] Frontier CC report, pages 64-65.
[50] ITV Border (Scotland) broadcasts to viewers in Dumfries and Galloway and the Scottish Borders a mixture of network content from ITV and also regional programming from STV.

invest in programming aimed at Scottish audiences. However, we considered that, even if STV and ITV Border (Scotland) meet their regional programming quotas, there is a risk that a reduction in their revenues may lead to a reduction in the quality of their local/regional programming.

A3.49 Finally, while we recognised the potential for STV Group to gain increased commissioning revenue through STV Productions as a result of the BBC Scotland proposal, we also acknowledged that any potential revenue gain for STV Group is uncertain. Given the uncertainty involved, we did not seek to predict what the likely net effect on STV Group might be, but instead focussed on the likely advertising revenue impact, recognising that this loss may be offset in part by potential revenue gains for STV Productions.

A3.50 Our view was that, while the likely impact on STV's revenues was not immaterial in absolute terms, it was relatively small as a percentage of STV's total advertising revenues, and so we did not consider it is likely to put STV's viability at risk or affect STV's incentives to invest and innovate. However, we recognised that if the new BBC Scotland channel were to perform better than forecast, this would be likely to have a greater impact on STV's advertising revenues and on its investment incentives.

Dynamic impact on STV2

A3.51 In Annex 3 to our Consultation, we also discussed the potential dynamic impacts on STV2.[51] STV's response to our Consultation did not comment on our analysis of impacts on STV2. In light of this and STV's decision to close the channel, we have therefore not repeated this analysis in our Final Determination.

A3.52 As noted in paragraph A3.27 above, we understand That's Media has agreed commercial terms with STV to acquire STV's local TV assets (including the STV2 local TV licences).[52] As discussed above, based on our modelling of the viewing impacts on STV2 and the likely performance of any new local TV services, we would not expect the potential static revenue impact of BBC Scotland on any new local TV services to be very significant. Therefore, based on our analysis of the impact BBC Scotland would have had on STV2, we consider that the scale of any dynamic impact on any new local TV services in Scotland is unlikely to be very significant.

Stakeholder responses to our Consultation

A3.53 STV Group disagreed with our provisional view that the overall impact on its revenues would be likely to be relatively small and unlikely to substantially affect its incentives to invest.[53] STV Group argued instead that this revenue impact would put at risk existing and

[51] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraphs A3.44-A3.49.
[52] STV Group plc, STV sets out strategy for creative and digital growth, 16 May 2018.
[53] STV Group plc's confidential response to Ofcom's "Consultation", pages 4-5 and 7.

future investment in content and services for Scottish viewers.[54] STV Group submitted that [✂[55] [56]]

A3.54 STV Group considered [✂[57] [58]]

A3.55 STV Group also argued that [✂[59] [60]]

A3.56 STV Group argued that [✂[61]]

A3.57 STV Group was also concerned that we placed reduced weight on the impact that STV Group would suffer as a result of the BBC's proposal because the revenue impact seems small in absolute terms.[62] STV argued that, if the same relative impact on NAR were felt by ITV, the maximum revenue loss would be £51.7m, while 14% (the impact on STV Group of Ofcom's maximal case) of ITV's Broadcast and Online EBITDA equates to £83.9m. It added that such an impact on ITV would be larger than the impact of various BBC proposals in 2015, including for a BBC One+1 channel which the BBC Trust deemed would have *"an adverse market impact on commercial channels"* and which was not approved.[63]

A3.58 [✂[64]]

A3.59 MG ALBA was concerned that *"Ofcom appears to disassociate the public funding of BBC ALBA (through MG ALBA) from the viewership outcomes created by that funding"*.[65] It suggested that whilst the grant-in-aid from the Scottish government does not include a formal viewership condition, *"substitution of viewership from BBC ALBA to the new BBC Scotland channel will reduce the "return" on that investment and risk making BBC ALBA less "investable" to the public purse"*.[66]

Our final views

A3.60 We have forecast a revised range of estimates for take-up of the new BBC Scotland channel (i.e. an estimated share of between 1.87% and 4.13% of Scottish viewing, with a base case of 2.42%). Our modelling suggests that a large proportion of this viewing is likely to come from existing BBC channels, but the net impact on viewing of commercial channels is likely to be a loss in viewing share of between 0.94 and 2.26 percentage points. Overall, the

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[54] STV Group plc's confidential response to Ofcom's "Consultation", pages 5 and 7.
[55] STV Group plc's confidential response to Ofcom's "Consultation", page 4.
[56] STV Group plc's confidential response to Ofcom's "Consultation", page 4.
[57] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[58] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[59] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[60] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[61] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[62] STV Group plc's confidential response to Ofcom's "Consultation", page 5.
[63] STV Group plc's confidential response to Ofcom's "Consultation", page 5; and Ofcom, Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC, Market Impact Assessment, 30 June 2015.
[64] [✂]
[65] MG ALBA response to Ofcom's "Consultation", page 3.
[66] MG ALBA response to Ofcom's "Consultation", page 3.

introduction of the new channel could result in a static loss in advertising revenues of between £3.2m and £8.0m (our base case is £4.3m to £4.5m) for commercial channels.

A3.61 We have also considered the impact on particular channels. Most commercial channels, such as Channel 4, would not be significantly impacted. Nevertheless, STV, as the largest commercial channel in Scotland, could see its advertising revenues decline by between 1.4% and 3.6% (our base case is 1.9% to 2.0%).

A3.62 We recognise that the launch of the new channel will have an impact on STV's broadcast business, with our base case predicting a loss of between £1.9m-£2.0m per annum (depending on the particular 'price-offset' scenario used) and our low and high cases forecasting a range of £1.4m to £3.6m per annum. These revenue losses are still relatively small in the context of STV's revenues, but would represent about 7% to 17% of STV Group's 2017 EBITDA (9% under our base case) and 8% to 19% of STV Group's 2017 operating profits (10% under our base case).

A3.63 However, STV Group will remain profitable (as it had operating profits of £19.0m in 2017)[67] and STV will continue to be the largest commercial channel in Scotland – and second only to BBC One overall - with the highest viewing share and weekly reach.

A3.64 In assessing the likely impact on competition, we do not agree with STV Group's focus on the upper limit of the impacts. We consider that other points in our estimated range for take-up and the change in advertising revenue are also relevant, including those where STV experiences a smaller fall. As explained in Annex 2, we attach less weight to our high case as it combines a number of possible but low probability assumptions, which we consider make it very unlikely.[68]

A3.65 STV Group argued that the loss of profits could put at risk investment in content and services for Scottish viewers. Our view is that the dynamic impact on STV Group's investment is unclear but is unlikely to be large, as:

- a large proportion of the content shown on STV is network content shared with ITV – [✂], investment in this network content is unlikely to be significantly affected;
- we recognise there may be an impact on investment in non-network content, but the nature of any impact is unclear; and
- STV Group's recent strategy review (published after our Consultation) suggests that it will continue to invest in original Scottish content, even in light of our provisional determination to allow the launch of BBC Scotland.

A3.66 STV shows a large proportion of network content (produced and acquired by ITV) and, under STV's Network Affiliate Agreement, it pays circa c.£40m per annum for around £750m of scheduled content from the main ITV channel.[69] As ITV's investment in network

[67] http://www.stvplc.tv/files/download/d8e337836f012fa
[68] Ofcom, BBC Scotland Competition Assessment, Final Determination Annex 2, paragraphs A2.114 to A2.115.
[69] http://www.itvplc.com/~/media/Files/I/ITV-PLC/documents/reports-and-results/Copy%20of%20ITV%202017%20Full%20Year%20Results%20Presentation.pdf – slide 27.

content is made for UK audiences, this investment is unlikely to be significantly affected by a small change in STV's audience in Scotland, particularly in a UK-wide context.

A3.67 STV's spend on network content is also somewhat insulated from changes in its audiences (although there is some variation around this, for example, depending on STV's Net Advertising Revenues).[70] [✂[71]]

A3.68 We recognise there may be an impact on STV's investment in non-network content, but it is unclear how BBC Scotland would affect STV's incentives to invest. For example, STV may spend more on and improve original Scottish content, since the presence of BBC Scotland could mean that STV has to enhance this content to attract/retain viewers, in particular those interested in content aimed at Scottish viewers. Alternatively, STV may decide to reposition its non-network content and alter the mix of programming it offers, for example by changing the hours or spend on certain types of programmes (such as news or other genres) to differentiate itself from BBC Scotland. Alternatively, STV may reduce the amount it spends on original Scottish content (since investment would potentially attract a smaller 'return on investment' in terms of the additional audience it could attract in the presence of BBC Scotland).

A3.69 STV Group did not provide specific evidence on how BBC Scotland may affect its investment plans. However, we see no evidence of a significant harmful effect on STV investment. Indeed, since the announcement of the BBC's proposal, STV Group has announced a £15m investment over 3 years in new original content and digital services, although STV intends to make cost savings in relation to news and the closure of STV2.[72]

A3.70 STV Group referred to Ofcom's MIA for a package of new services including a BBC One+1 channel. We do not consider that the overall effects of the BBC One+1 proposal are comparable to those of the BBC Scotland proposal. The BBC Trust assessed whether any adverse impact likely to be generated by the proposal to launch a BBC One +1 channel was justified by the public value.[73] Ofcom's MIA found that the BBC's service proposals, notably BBC One+1, would result in a net negative impact on commercial broadcasters, particularly commercial PSBs, which may have implications for investment in content.[74] The BBC Trust found that while there were small public value gains from the BBC's proposal to launch a BBC One+1 channel, these were outweighed by the market impact and for that reason did not allow the proposal to go ahead. In contrast, in the case of the BBC Scotland proposal,

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[70] See http://www.stvplc.tv/files/download/54028a510f4e240 - slide 8. See also, for example, www.stvplc.tv/files/download/a39664a535f90cd - page 16 and http://www.edisoninvestmentresearch.com/?ACT=18&ID=15582&LANG=.
[71] ITV plc confidential response to Ofcom's "Invitation to Comment", page 2.
[72] See STV Group plc, STV sets out strategy for creative and digital growth, 16 May 2018 and http://www.stvplc.tv/files/download/54028a510f4e240.
[73] For the purpose of this assessment, Ofcom undertook a market impact assessment, while the public value assessment, as well as the final decision, were undertaken by the BBC Trust.
[74] Ofcom, Proposed changes to BBC Three, BBC iPlayer, BBC One and CBBC, Market Impact Assessment, 30 June 2015.

as set out in our Final Determination,[75] we recognise there may be an impact on STV, but we consider that the public value associated with the proposal justifies its competition impacts.[76]

A3.71 The presence of BBC Scotland will inevitably alter the competitive landscape in Scotland and reduce audiences and advertising revenues for commercial channels. As set out above, we do not consider, however, that the new BBC Scotland channel is likely to put STV's viability at risk and the evidence we have seen on STV's plans suggests that a large harmful effect on STV's incentives to invest and innovate in original content for Scottish audiences is unlikely.

A3.72 In relation to BBC Alba, we continue to consider that the audience impacts are unlikely to affect the channel's revenue, particularly given the relatively modest predicted take-up of the new BBC Scotland channel and the scale of the audience loss we estimate for BBC Alba (1.8% to 3.9% of its viewing). Given that MG ALBA's revenues are not directly reliant on commercial revenues, we consider there is no direct impact on MG ALBA's revenues and investment from a loss of audiences. While there is also no indication that the Scottish Government's commitment to funding is likely to decrease, we recognise that the impact of the BBC Scotland channel could be felt in other ways.

Impact of the BBC's proposal on other commercial media services

A3.73 In addition to the potential market impacts on commercial TV channels and services, we have considered whether other media sectors, in particular print newspapers (and their digital editions), online websites and radio could be affected by the BBC's proposal.[77]

A3.74 **Impact of the BBC Scotland channel –** The introduction of the new channel could mean that viewers in Scotland watch more TV overall, which means they have less time to do other non-TV media activities (i.e. listening to the radio, reading newspapers or browsing online). In particular, the BBC's proposal for the new channel includes an hour-long 9pm weekday news programme as well as 15-minute weekend bulletins. It is possible that Scottish users could give up or reduce their consumption of other news sources in response to the news programmes on BBC Scotland. This has the potential to impact on other commercial news providers' revenues in TV and in other non-TV media sectors.

A3.75 **Impact of additional online and radio news –** The BBC has a multi-platform strategy, whereby news gathered for its TV broadcasts is re-purposed for online and radio content. Furthermore, some stakeholders have noted that the 80 additional journalists employed

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[75] Ofcom, BBC Scotland Competition Assessment, Final Determination, paragraphs 4.26-4.35.

[76] BBC Trust, BBC Trust publishes final decision on proposals for BBC Three, CBBC, iPlayer, BBC One+1, 26 November 2015.

[77] Our modelling of the potential market impacts of the new BBC Scotland channel on commercial TV providers assumed that the increased viewing of BBC Scotland is entirely at the expense of other TV channels and services (including pay TV and SVoD services). However, as discussed in Annex 2, some consumer survey respondents indicated that they might watch the new BBC Scotland channel in addition to their existing TV viewing. Any such increase in overall TV viewing may be at the expense of time spent on other activities (including usage of other media services). See Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, paragraph A2.125.

for the news programmes on the new channel could potentially also be used to create specific additional content for the BBC's news website. It is possible that the incremental improvements to the BBC's online and radio news provision could impact on commercial websites and print media (which could lose traffic and/or readers) and on radio stations (which could lose listeners), which in turn could then impact on those providers' advertising and other revenues.

Impact of the BBC Scotland channel on other commercial media providers

Summary of the approach in the BBC's PIT

A3.76 In its PIT, the BBC did not consider that other media would be significantly affected by the introduction of the new channel and therefore concluded that the BBC proposal would be unlikely to create adverse impacts on fair and effective competition in other media sectors.[78]

A3.77 The BBC noted that UK competition authorities have found that radio and printed news media are both separate product markets from other media markets such as TV, suggesting the launch of the BBC Scotland TV channel would have a minimal impact on other media sectors.[79] More generally, it also referred to its findings that there were no significant market impacts with respect to the main affected sectors (i.e. FTA, pay TV and SVoD). It therefore considered that the impact on other sectors beyond those identified would be marginal. The BBC also referred to research carried out by a respondent to the BBC's PIT consultation, which the BBC considered was suggestive of the proposal having a limited impact on news provision.[80]

Summary of our approach in our Consultation

A3.78 Our provisional view in our Consultation was that while people in Scotland make use of other media to access content for and about Scotland (including the news), the introduction of the BBC Scotland channel is unlikely to have a significant impact on other forms of media.[81]

A3.79 In support of this provisional view, we considered:

- the general characteristics of different media, which suggested limited substitution from other media in response to the introduction of the new TV channel, particularly given the consumption behaviour of Scottish consumers with respect to different media;

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[78] BBC PIT, paragraphs 329-330, 336-337, 357-358 and 366.
[79] BBC PIT, Annex 2, paragraph 43, 47 and 52.
[80] "[the research] *asked those surveyed whether watching BBC Scotland would affect their use of other media. A small number reported they would consume more media and an equally small number that they would consume less media. While we recognise that it did not ask specifically about the impact of an improved BBC news service, the research is suggestive of the proposals having a limited impact on news provision."* (BBC PIT, Annex 2, paragraph 46).
[81] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraph A3.59.

- the findings of the consumer survey we commissioned that asked respondents to estimate the extent to which they might reduce their existing consumption of TV and other media services if BBC Scotland launched; and
- illustrative modelling of the potential impacts based on the results of our consumer survey.

A3.80 We considered a range of evidence, including specific consumer survey questions on this topic. We were not persuaded, however, by the BBC's arguments that previous competition authorities (in other contexts) have found that radio and written news provision are both in separate markets from other media such as TV. We explained that there can be substitution between different media even when they lie in separate markets.[82] In this respect, the BBC provided limited further evidence on Scottish consumers' possible reaction to the new channel in relation to their consumption of other media.

Likely substitution and Scottish users' consumption of different media

A3.81 Overall, our consumer survey suggested that a very high proportion of adults in Scotland (90%) use media sources other than TV (e.g. radio, newspapers both printed and online, YouTube, social media, other websites or apps) to consume content for and about Scotland (this could be news and non-news).[83] In addition, while TV tends to be the most popular source of news, Scottish consumers use a range of media to access the news, including the internet, print, and radio. For example, eight in ten (80%) adults[84] in Scotland consume news through TV (rising to 91% among those who consume news), followed by just over half who consume news through radio (55%, rising to 63% among those who consume news), printed newspapers (55%, rising to 63%) and websites or apps (55%, rising to 62%). While, eight in ten (81%) consume news through any BBC source (including TV, radio or online) (rising to 91% among those who consume news).[85] Therefore, as Scottish content, and in particular news, is consumed across a range of media services, then at least, in

[82] Market definition exercises generally consider whether a hypothetical monopolist of a particular service could profitably sustain a small price increase above the competitive level. However, BBC competition assessments typically consider the impact of a new free service. Further, it is possible to find separate markets for different services, even if a material percentage of consumers of a service might switch away to another service in response to a price increase. Hence, even for media services defined as 'separate markets', a proportion of consumers may well substitute between those different services, which is relevant to consider in a BBC competition assessment.
[83] BBC Competition Assessment: Scotland research – Chart pack, slide 45, Question E1/E2: Thinking about all of these kinds of programmes, how often do you currently use any of the following sources, other than television, for any of these types of content for and about Scotland? Base: All adults aged 16+ (n=1,111).
[84] When referencing our consumer research, 'adults' in Scotland refers to those aged 16+.
[85] BBC Competition Assessment: Scotland research – Chart pack, slides 29-30, Question D2: How often, if ever, do you use any of the following for news? Base: All adults aged 16+ who follow the news at D1 (n=982); and BBC Competition Assessment: Scotland research – Data tables.

principle, the introduction of a new TV channel for and about Scotland could drive substitution from other media to the new channel.[86]

A3.82 However, we considered that there are differences in the characteristics, uses and times when consumers access different media, such that the introduction of BBC Scotland is unlikely to generate significant substitution from other media services.

A3.83 We considered that this is most obvious in the case of radio, which is viewed as a companionship activity, accompanying the user during travel time or in the background during other activities. In addition, radio listening is strongly associated with music, particularly on commercial stations (although commercial radio listeners also place some value local and national news).[87]

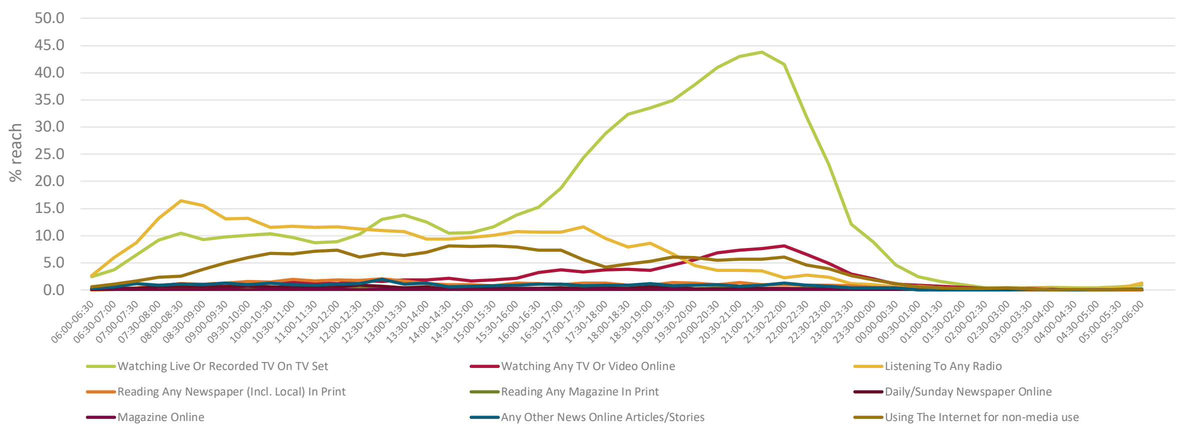
A3.84 We referred to TouchPoints survey evidence on the consumption patterns of Scottish consumers, which suggested that they use certain media more intensively at different times of the day. We considered that this is important when assessing the impact of BBC Scotland, as its 'core' broadcast hours will be between 7pm-midnight.[88] Therefore, if other media consumption is more spread out, or as is the case with radio, largely during the daytime, then this provides some evidence that the introduction of the new channel may have a small impact on consumption of other media. Indeed, the survey suggested that during the evening (in particular) TV consumption dominates, as shown in Figure A3 3 below for weekdays.

[86] The use of other media (radio, printed newspapers and websites or apps) for news by Scottish consumers in our consumer survey commissioned for this BCA is somewhat higher than in our news consumption survey completed in 2016 (though that survey asked slightly different questions). In that survey, respondents in Scotland were asked about their sources of news nowadays; 65% said that they used TV, 22% - radio, 38% - internet via any device, and 26% - printed newspapers, Base: All adults. Nevertheless, although the results are not directly comparable, the news consumption survey suggests that media other than TV are used to access the news about Scotland. See Ofcom, News consumption in the UK: 2016, 29 June 2017, slide 85, https://www.ofcom.org.uk/__data/assets/pdf_file/0016/103570/news-consumption-uk-2016.pdf.

[87] Based on TouchPoints 2017 survey. This asked weekly radio listeners in Scotland to rate types of radio output / content that they particularly valued. Weekly listeners to commercial radio stations are much more likely to say they value music, whereas listeners to BBC local/national radio are more likely to say they value news content on the radio compared (although commercial listeners were also likely to rate local and national news although to a lesser extent than music). Base: All adults 15+ GOR – Scotland; weekly listeners to each type of radio station.

[88] BBC Scotland will broadcast some content aimed at Scottish viewers currently shown in daytime opts slots on BBC Two in Scotland. In total, the BBC has indicated that this content will represent 5% of daytime hours (noon-7pm) per annum for the new channel (c.150 hours). BBC Scotland will broadcast a BBC Two simulcast from noon to 7pm to fill the daytime schedule when this opt-like content is not shown. However, given the proportion of unique content shown in these daytime hours is likely to be very small, we focus on consumption patterns of different media in the evening time slots.

Figure A3 3: Participation in media activities across the week in Scotland (Mon-Fri)[89]



Source: TouchPoints 2017, Base: Government Office Region, Scotland

A3.85 The TouchPoints 2017 survey suggested that Scottish people mostly focused on the consumption of one type of media at once (e.g. solely watching TV). However, nearly three quarters of respondents have used another device (mobile, tablet or laptop) at the same time as watching TV, with the consumption of other media among the most common reasons given (sometimes referred to as media multi-tasking or multi-screening).[90] Hence, even if viewers in Scotland watch more TV, it may not entail a loss of consumption of other forms of media as, in some cases, they will continue to do those activities at the same time. However, we considered that we should not overstate this result as it may not be true of all media. For example, radio and TV typically cannot be consumed at the same time and the launch of the BBC Scotland channel may in any case alter media usage.[91]

Evidence from our consumer survey

A3.86 In addition to the evidence above, in our consumer survey we asked Scottish consumers some more direct questions about their likely take-up of the new channel and how that might impact on their use of TV and other media services.[92]

A3.87 We asked respondents whether they would be likely to watch the new channel and to consider whether they would consume TV channels or other TV services (e.g. BBC iPlayer, Netflix) less. Of those respondents that thought they would potentially watch the new channel, 24% said that they would watch the new channel instead of their existing TV

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[89] The pattern is broadly similar for weekends, so we did not show these results. TV achieves a similar peak reach in the evenings, but also has slightly higher reach during the day.
[90] Respondents to the TouchPoints 2017 survey were asked whether they ever used another screen at the same time as watching TV. They were then asked what were their main reasons for doing so. The top-three activities were general Internet browsing, sending personal emails and texts and use of social media.
[91] For example, programmes shown on the new channel might induce Scottish consumers to watch TV more intensively (i.e. solely watching TV) and not spend time doing other activities at the same time.
[92] See BBC Competition Assessment: Scotland research – Chart pack and BBC Competition Assessment: Scotland research – Data tables.

viewing.[93] However, of those who thought they would watch the new channel, over six in ten (62%) said they would do so in addition to their existing TV viewing.[94,95] In line with this, around three out of four (73%) of potential BBC Scotland viewers said that they would not watch any less of any of the existing TV channels or services asked about as a result of the new channel.[96]

A3.88 On their face, these responses might suggest that some consumers will increase their overall TV viewing (as a result of BBC Scotland) which might lead to a reduction in their consumption of other media, as people do not have unlimited leisure time each day. However, as explained in Annex 2, we did not place significant weight on this aspect of our survey results, given the hypothetical nature of this survey question.[97]

A3.89 We also considered our consumer survey evidence in relation to news consumption.[98] Insofar as it occurs, substitution from other media to the new channel is likely to be most noticeable in the case of news, since news is consumed across a range of media services (see paragraph A3.81 above).

A3.90 We asked respondents whether the introduction of the 9pm weekday news programme on BBC Scotland would affect their consumption of other media. The results of the consumer survey suggested, however, that very few respondents would give up their consumption of other non-TV media news services:

- Around a third (32%) of all adults in Scotland said they would be very likely to watch the 9pm news programme on the new channel, while the same proportion, of a third (33%), said they definitely would not. The proportion who would be very likely to watch the 9pm news programme is higher among those that consume news at least daily (39%);[99]

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[93] BBC Competition Assessment: Scotland research – Chart pack, slides 24-25, Question C2: Do you think you would you watch BBC Scotland in addition to or instead of your existing television viewing? Base: All adults aged 16+ who would potentially watch the BBC Scotland channel (coded 2-5 at B1) (n=878).
[94] BBC Competition Assessment: Scotland research – Chart pack, slides 24-25, Question C2: Do you think you would you watch BBC Scotland in addition to or instead of your existing television viewing? Base: All adults aged 16+ who would potentially watch the BBC Scotland channel (coded 2-5 at B1) (n=878).
[95] STV Group submitted consumer survey evidence, [✂].
[96] BBC Competition Assessment: Scotland research – Chart pack, slides 19-23, Question C1: Do you think you would watch any of these channels or services less if the new BBC channel launched? Base: All adults aged 16+ (n=1,111), All adults aged 16+ who would potentially watch the BBC Scotland channel (coded 2-5 at B1) (n=878).
[97] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, paragraph A2.126.
[98] As explained in Annex 2, caution needs to be exercised when interpreting the results of hypothetical questions about what services respondents would substitute away from. In the case of TV channels, we primarily relied on BARB evidence on actual viewing patterns. Comparable evidence is not available for non-TV content and thus survey responses represent the best data available to us. See Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, paragraph A2.118; and Final Determination Annex 2, paragraph A2.150.
[99] BBC Competition Assessment: Scotland research – Chart pack, slides 32-33, Question D4: On a scale of one to five how likely do you think you would be to watch the 9pm news programme on the new BBC Scotland channel? Base: All adults aged 16+ (n=1,111). % very likely based on those that scored their likelihood of watching 4 or 5.

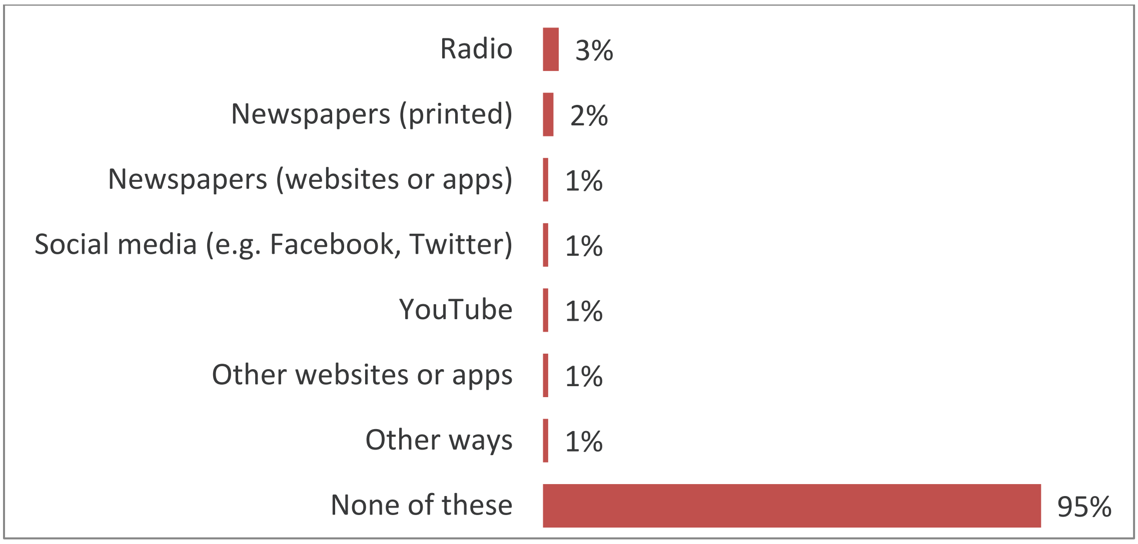
- Over half (56%) of all adults in Scotland said they would watch the 9pm news programme on the new channel at least once a week (rising to 84% of those that would potentially watch the 9pm news programme);[100]
- Less than one in five (17%) of all adults in Scotland would consume less news from other TV channels or services as a result of the 9pm news programme (rising to 25% of potential viewers of the 9pm news programme), 15% would consume any BBC news source less (rising to 22%) and a very small proportion would consume less news from any radio (3%), any printed newspapers (2%) and any websites/apps (2%);[101]
- Around eight in ten (81%) respondents that consume news at least daily said they would not consume any news source less as a result of the 9pm news programme on the new channel;[102] and
- Among those who think they would watch the 9pm news programme, over seven in ten (71%) would do so in addition to their existing news consumption and under one in five (18%) would do so instead of their existing news consumption.[103]

A3.91 At least for news consumption, the results of our consumer survey suggested that the impact of BBC Scotland on other media is likely to be limited.

A3.92 Our consumer survey also asked those who consume content for and about Scotland (either news or non-news) from non-TV media sources[104] whether they would substitute away from their existing sources as a result of the new BBC Scotland channel. Among potential viewers of the new channel who use non-TV media sources for content for and about Scotland, a small minority (5%) thought that the new channel would be a substitute for these.[105] We presented a summary of these results (see Figure A3 4 below). These results suggested to us that few adults in Scotland think they would use the new BBC Scotland channel instead of non-TV sources of content for and about Scotland.

[100] BBC Competition Assessment: Scotland research – Chart pack, slide 34, Question D5: How often do you think you would watch the 9pm weekday news on the new BBC Scotland channel? Base: All adults aged 16+ (n=1,111), All adults aged 16+ who would potentially watch the 9pm news programme on the BBC Scotland channel (coded 2-5 at D4) (n=748).
[101] BBC Competition Assessment: Scotland research – Chart pack, slides 35-37, Question D6: Do you think you would consume less news as a result on any of the following? Base: All adults aged 16+ (n=1,111), All adults aged 16+ who would potentially watch the 9pm news programme on the BBC Scotland channel (coded 2-5 at Question D4) (n=748).
[102] BBC Competition Assessment: Scotland research – Chart pack, slide 37, Question D6: Do you think you would consume less news as a result on any of the following? Base: All adults aged 16+ (n=1,111), All adults aged 16+ who would potentially watch the 9pm news programme on the BBC Scotland channel (coded 2-5 at D4) (n=748)
[103] BBC Competition Assessment: Scotland research – Chart pack, slides 40-41, Question D8: Do you think you would you watch it in addition to or instead of your existing news consumption from other sources? Base: All adults aged 16+ who would potentially watch the 9pm news programme on the BBC Scotland channel (coded 2-5 at Question D4) (n=748).
[104] This includes radio, newspapers (both printed and online), YouTube, social media, other websites or apps.
[105] BBC Competition Assessment: Scotland research – Chart pack, slide 46, Question E2: Do you think you would consume content for and about Scotland via the new BBC Scottish channel in addition to or instead of your existing consumption from these other sources? Base: All adults aged 16+ who use any non-TV sources for types of content for and about Scotland who tare potential viewers of the new BBC Scotland channel (n=998).

Figure A3 4: Incidence of using non-TV sources less for content for and about Scotland if BBC Scotland launched



Source: BBC Competition Assessment: Scotland research – Chart pack[106]

A3.93 STV Group submitted consumer survey evidence with similar results [✂[107]].

Modelling of impacts

A3.94 The consumer survey results above suggested that the majority of respondents did not expect their viewing of the new channel would be at the expense of hours devoted to other media consumption. However, as discussed in Annex 2, we stated that a degree of caution was needed in interpreting consumer survey responses to hypothetical questions about a TV channel which does not currently exist.[108] In addition, there was uncertainty about the exact nature of the content on the new channel. Nevertheless, given our predictions of the likely take-up of the new channel are modest, we still considered the impacts on non-TV media services are unlikely to be significant.

A3.95 Even if we were to assume that most of the TV viewing for BBC Scotland would be at the expense of non-TV media consumption, this would not generate large impacts overall in terms of reduction in consumption of other media. To illustrate this, we took the total viewing hours for BBC Scotland predicted by our modelling (c.141 million hours per annum in 2019). Based on BARB data on the universe of Scottish viewers in 2017 (4.9m - individuals 4+ and adults 16+), we calculated that this was equivalent to less than 30 hours

[106] BBC Competition Assessment: Scotland research – Chart pack, slide 46, Question E2: Do you think you would consume content for and about Scotland via the new BBC Scottish channel in addition to or instead of your existing consumption from these other sources? Base: All adults aged 16+ who use any non-TV sources for types of content for and about Scotland who think they would watch the new BBC Scotland channel (n=998).
[107] [✂]
[108] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 2, paragraph A2.118; and Final Determination Annex 2, paragraph A2.150.

of viewing per adult per annum and less than 5 minutes per day.[109] To put this into context, Scottish consumers estimate that on weekdays[110] they spend on average just over 2 hours per day listening to the radio, 39 minutes reading a newspaper, and 1 hour 31 minutes using the Internet for media (this figure excludes use of the Internet for work, information, shopping, general browsing or banking/services).[111]

A3.96 Therefore, even if we were to assume that most of the increase in viewing hours for BBC Scotland occurs at the expense of time spent consuming other media, we considered that the impact would be very small in percentage terms. In addition, insofar as the impact is spread across many other media providers, any loss of consumption and revenue for a particular publisher, radio station or website may be small.

Stakeholder views in response to our Consultation

A3.97 We received no specific stakeholder comments expressing concerns about users reducing their consumption of other media due to additional viewing of the new BBC Scotland television channel.

Our final views on substitution between other media and BBC Scotland

A3.98 In light of the above evidence and the lack of stakeholder evidence to the contrary, we conclude that introduction of BBC Scotland is unlikely to generate significant impacts on other forms of media.

Impact of incremental BBC radio and online news content on commercial news providers

A3.99 The discussion above considered whether the introduction of the BBC Scotland TV channel might result in consumers switching or giving up use of other media. An additional impact that could arise from the BBC's investment in BBC Scotland is an increase in the amount of news content about Scotland available for the BBC's radio and online services aimed at Scottish audiences.

Radio news: Summary of the approach in the BBC's PIT

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[109] We have 'sense-checked' this calculation by looking at our model's forecast in 2019 for BBC One viewing of c.1,507 million hours per annum in our counterfactual. This would equate to under one hour of viewing of BBC One per Scottish adult per day. This appears broadly correct given that, according to BARB data, Scottish adults watch an average of c.4 hours of TV per day and BBC One's share of total adult viewing in Scotland is 23%.

[110] These figures are for weekdays, at the weekend TV consumption increases to 4 hours 48 minutes, radio listening remains about the same, reading a newspaper increases to 54 minutes and using the Internet for media increases to 2 hours.

[111] Source: TouchPoints 2017, Base: All adults 15+; in Scotland, mean hours. Figures do not reflect time spent solely doing each activity, and respondent's estimates may reflect consumption of more than one media activity at a time.

A3.100 The BBC PIT argued that additional news content for BBC Scotland that was re-versioned for BBC Radio Scotland or BBC Online News Scotland would be unlikely to have significant market impacts or any adverse impact on fair and effective competition.[112] The BBC submitted that only part of BBC Radio Scotland's schedule is devoted to news and, therefore, any uplift in its performance resulting from improved news output is likely to be minor.[113]

A3.101 In Annex 2 to its PIT, the BBC's arguments focused, however, on slightly different points.[114] It noted that other commercial radio stations "do not offer the extensive news coverage offered by Radio Scotland", there is no talk radio station focussed on Scottish listeners and the larger commercial stations focus on music with limited news bulletins. It referred to some specific shows with news content on BBC Radio Scotland which did well in terms of reach[115] relative to other BBC Radio Scotland radio shows in the weekday. The BBC noted that BBC Radio Scotland's share of listeners is relatively small. It also argued that substitution was likely to be limited as BBC Radio Scotland catered to different audiences than commercial radio providers.[116]

A3.102 Frontier CC's analysis for the BBC argued that the BBC Scotland proposal would not significantly change the amount of news on radio.[117] It also noted that substitution would only occur if the change in the quality of news on BBC Radio Scotland were discernible by listeners. It noted that relatively few of the Scottish population used radio as a source of 'local' news. Finally, it noted that commercial stations were not close substitutes. Hence, it concluded that the impact on commercial stations would be insignificant.

Radio news: Our views in our Consultation

A3.103 In our Consultation, we broadly agreed with the BBC's conclusion relating to the impact on commercial radio due to the improvements in BBC Radio Scotland's news output resulting from the BBC's proposal.[118]

A3.104 In Scotland, there are two Scotland-focused BBC radio stations (BBC Radio Scotland and BBC Radio Nan Gàidheal), a number of BBC network radio stations, and a significant number of commercial radio stations available on digital or analogue – although coverage may vary (see Figure A3 5 below).

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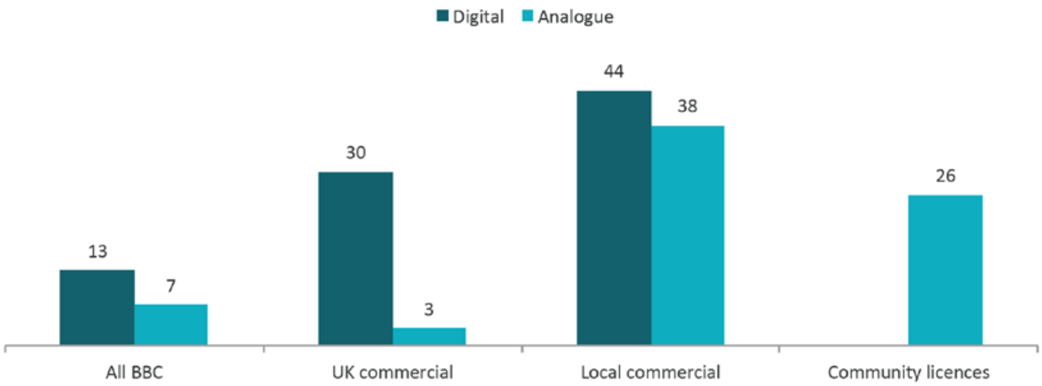
[112] BBC PIT, Annex 2, paragraphs 11 and 32.
[113] BBC PIT, paragraph 321.
[114] BBC PIT, Annex 2, paragraphs 7-11.
[115] *Good Morning Show* and *Newsdrive* (BBC PIT, Annex 2, paragraph 7).
[116] The BBC noted the relatively low share of BBC Radio Scotland (c.10% of audiences) in Q2 2017 based on RAJAR data. There were no other talk radio stations focused on Scottish listeners. The larger commercial operators tend to focus on music with very short news bulletins, which the BBC suggested was reflected in the different demographic profile of listeners for BBC Radio Scotland relative to commercial radio stations (BBC PIT, Annex 2, paragraphs 8-11).
[117] Frontier CC report, section 8.4.
[118] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraph A3.84.

Figure A3 5: Radio station availability in Scotland[119]



Source: Ofcom, May 2017
Note: This chart shows the maximum number of stations available; local variations and reception issues mean that listeners may not be able to access all of them.

A3.105 RAJAR data (Q4 2017) suggests that BBC Radio Scotland reaches[120] about 20% of listeners in its broadcast area, compared to average weekly reach of any commercial radio of 66%[121] and 50% for local commercial radio in Scotland. Commercial stations accounted for 52% of listening hours in Scotland in the 12 months to Q1 2017, with local commercial stations accounting for 36% of listening hours. The BBC's network stations accounted for 39% of listening hours, while BBC local/nations stations accounted for 6.6%.[122] According to the latest RAJAR data, BBC Radio Scotland accounted for 6.5% of listening in Q4 2017.[123]

A3.106 To better understand the BBC's radio output in Scotland, we examined the schedule of BBC Radio Scotland. We presented a sample schedule for an actual broadcast day on BBC Radio Scotland (see Figure A3 6 below). This showed a focus on both news and discussion of current affairs and general interest topics during the day.

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[119] Source: Ofcom, May 2017. See Ofcom, Communications Market Report 2017: Scotland, Figure 3.1, https://www.ofcom.org.uk/__data/assets/pdf_file/0020/104933/cmr-2017-scotland.pdf
[120] Reach is defined here as the number of people aged 15+ who tune in to a radio station within at least 1 quarter-hour period over the course of a week.
[121] This includes national radio stations broadcast across the UK such as KissFM.
[122] Source: RAJAR, All adults (15+), 6 months ended Q4 2017; within BBC Radio Scotland TSA.
[123] http://www.rajar.co.uk/docs/2017_12/Scottish%20Stations%20-%20Q4%2017%20clean.pdf

Figure A3 6: Sample of BBC Radio Scotland schedule

Programme time	Programme	Description
Morning		
6.00	Good Morning Scotland	The nation's morning news programme, presented by Gary Robertson and Hayley Millar with travel every 15 minutes, weather every half hour, business updates and sports reports
9.00	The Kaye Adams Programme	Kaye Adams gets to the heart of the news and offers the listeners the opportunity to have their say
Afternoon		
Noon	John Beattie	News, comment and discussion on the top stories of the day with John Beattie, who is joined by the news, sports, travel and weather teams
13.30	Personal Best	Gillian Russell introduces a mix of personal stories, kit and app reviews, expert advice and the latest fitness news to help listeners get the best out of their mind and body
14.00	The Janice Forsyth Show	Janice Forsyth tunes into what is happening and what is buzzing in the arts world
16.00	Newsdrive	The latest news from home and abroad, along with regular sport, travel and weather updates.
Evening		
18.30	Get it on...with Bryan Burnett	Bryan Burnett with essential music chosen by listeners
21.00	Vic Galloway	Join Vic Galloway for the best in new music, classic tracks, gig reviews, votes, vinyl, MP3s and just about everything else
23.00	Iain Anderson	End the day in the company of the song writing masters of country, folk, blues, soul and rock'n'roll
Late		
1.00	BBC Radio 5 Live	BBC Radio Scotland joins BBC Radio 5 Live

Source: https://www.bbc.co.uk/schedules/p00fzl8d/2018/02/12 (as at 12 February 2018)

A3.107 At least in principle, we considered that some of these programmes could benefit from news produced for BBC Scotland. For example, there are a number of discussion programmes that focus on the news of the day, which could rely on news content re-purposed from the new TV channel. However, we noted that some programmes focus on less topical news (i.e. the magazine format 'Personal Best') and the evening slot is devoted to music. Therefore, not all of the BBC Radio Scotland's schedule would benefit.

A3.108 To better understand the BBC's plans for radio, we asked the BBC for further information as part of our request for information. The BBC stated that for BBC Radio Scotland, *"it is unlikely that the additional investment will result in a substantial increase in the volume of news stories re-versioned for radio. There are no immediate plans to change the schedule to accommodate more or longer news bulletins throughout the day. Similarly, there are no plans to change the editorial focus of the breakfast and drive time shows. However, our ambition is that the investment in news on the new TV channel will result in improvements in the quality, range and depth of BBC Scotland's radio news coverage. For example, audio* *of interviews conducted for inclusion in the TV news programmes may feature on BBC Radio Scotland."*

A3.109 Based on the evidence above, we accepted the BBC's argument that not all of its radio output is devoted to news. Hence, any change in content arising from the BBC Scotland TV channel that can be re-purposed for radio will not apply to all of the programmes on BBC Radio Scotland. Nevertheless, at the margin we considered that there could be some changes to programmes that include news on BBC Radio Scotland.

A3.110 Frontier CC argued, however, that local news is an important feature for a minority of listeners to commercial local radio[124] and most commercial stations are in any case music-based (though they offer news bulletins).[125] It submitted that there were clear differences in characteristics and the profile of listeners of commercial stations, which suggests that there may be a limited degree of substitution to BBC Radio Scotland.[126]

A3.111 To investigate this further, we considered a recent TouchPoints 2017 survey of different media consumption habits for Scottish people that found only 11% of respondents said they consume most or all of their news via commercial (non-BBC) radio services (and 41% said they consume some of their news via commercial radio services).[127,128] As Frontier CC suggested, given that a small proportion of the population consider radio is an important source of local news and local commercial stations reach almost half the population in Scotland (as indicated by our CMR 2017[129]), this implies that only about one fifth of listeners to local radio stations consider radio as an important source of news.[130] Indeed, in

[124] Frontier CC suggested that a fifth of the listeners to local radio stations consider that the radio is an important source of news (it estimated this based on audience weekly reach of 52.4% for all local commercial stations and Ofcom consumer survey evidence which suggested 10% of UK adults use local commercial radio to access local news). See Frontier CC report, page 91; and Ofcom, News consumption in the UK: 2016, 29 June 2017, page 82, https://www.ofcom.org.uk/__data/assets/pdf_file/0017/103625/news-consumption-uk-2016.pdf
[125] Frontier CC report, page 91.
[126] Frontier CC referred to evidence on the audience profile of BBC Radio Scotland relative to other commercial radio stations in Scotland. It noted that BBC Radio Scotland tends to over-index on ABs compared to local commercial audiences and under-index on DEs and C2s. Therefore, though not determinative, this suggests that the degree to which BBC Radio Scotland would substitute for commercial radio stations is limited (compared with the substitutability between different commercial local radio stations). See Frontier CC report, pages 91-92.
[127] Source: TouchPoints 2017, Base: All GB adults 15+; Government Office Region – Scotland. Question: NO4 – Thinking now about all the news you hear, read or watch in a typical week across TV, radio, print and online, please indicate how you tend to consume it.
[128] Our consumer survey conducted for this BCA found that around three in ten adults in Scotland use local (30%) or National (27%) commercial radio stations as a way of following the news and around a quarter (21%) use BBC Radio Scotland or BBC Radio Gàidheal (figures among news consumers are in line with this at 34%, 30% and 23% respectively). However, this evidence did not provide a ranking of the importance of radio relative to other news sources. See BBC Competition Assessment: Scotland research – Chart pack, slides 29-30, Question D2: How often, if ever, do you use any of the following for news? Base: All adults aged 16+ (n=1,111), Those that ever read, watch, listen to or follow the news (n=982); and BBC Competition Assessment: Scotland research – Data tables.
[129] Source: RAJAR, All adults (15+), 12 months to Q1 2017. See Ofcom, Communications Market Report 2017: Scotland, Figure 3.6, https://www.ofcom.org.uk/__data/assets/pdf_file/0020/104933/cmr-2017-scotland.pdf
[130] Frontier CC report, page 91.

our news consumption survey, around one fifth (22%) of respondents in Scotland said they used radio for news consumption nowadays (compared to 33% across the UK).[131]

A3.112 We therefore agreed with Frontier CC's assessment of the likely degree of substitution between BBC Radio Scotland and commercial stations. While BBC Radio Scotland covers music during the evenings, during the daytime schedule – when most radio listening occurs – the station is mainly talk-based. Frontier CC provided a comparison with the main commercial stations' output and news (see Figure A3 7 below), which we considered is a fair reflection based on our own desk-research.[132]

Figure A3 7: Frontier CC description of the main radio stations in Scotland

Radio station	Description	News content
BBC Radio Scotland	BBC Scotland's national *speech-based* (English language) radio network	News and current affairs are a key focus of this radio station; examples of programmes are *Good Morning Scotland* and *Newsdrive* . The station also features sport, arts and culture
Capital Scotland	Music-based commercial station, broadcasting to Scotland's Central Belt	Broadcasts news bulletins hourly
Clyde 1 and Clyde 2	Music-based, commercial local radio stations serving Glasgow and West Central Scotland	Both stations broadcast news bulletins hourly
Forth 2 and Forth 2	Music-based, commercial radio stations, based in Edinburgh	Both stations broadcast news bulletins hourly
Heart Scotland	Music-based, commercial regional radio station serving Central and Southern Scotland	Broadcasts news bulletins hourly and two ten-minutes news programmes, *Heart Morning News* at 6am and *Heart Nightly News* at 6:45pm
Smooth Glasgow	A music-based, Scottish commercial local radio station broadcasting to Glasgow and the surrounding area	Broadcasts hourly regional news bulletins

Source: Frontier Economics.

A3.113 Given the qualitative differences between BBC Radio Scotland and commercial stations, even if the BBC did enhance its news output on the radio, users whose primary interest is to listen to music are unlikely to substitute to BBC Radio Scotland in response to better news coverage.

A3.114 Indeed, we looked at RAJAR data on the listening habits of those that listen to commercial stations. Only 16.2% of local commercial radio listeners in Scotland also listen to BBC Radio

[131] Ofcom News Consumption Survey 2016, Q3a) Which of the following do you use for news nowadays? Base 2016: All adults 16+ (2894), England (1768), Scotland (362), Wales (413), Northern Ireland (351) https://www.ofcom.org.uk/__data/assets/pdf_file/0016/103570/news-consumption-uk-2016.pdf (slide 85).
[132] Frontier CC report, Figure 18.

Scotland (83.8% do not listen); and only 23.3% of UK-wide commercial radio listeners also listen to BBC Radio Scotland (76.7% do not listen).[133]

A3.115 We considered that any impact that could arise, at the margin, from the improvement to news on BBC Radio Scotland would tend to be due to existing BBC Radio Scotland listeners spending longer listening to the station. However, we considered that the impact of this is unlikely to be very significant across the market, as BBC Radio Scotland accounts for around 6.5% of listening hours. Furthermore, according to RAJAR data, less than half of BBC Radio Scotland listeners also listen to a commercial radio station but more than three quarters listen to other BBC Radio stations.[134] Hence, this suggested to us that any increase in listening of BBC Radio Scotland is more likely to come from other BBC stations.

Radio news: Stakeholders' views

A3.116 There were no specific stakeholder comments expressing concerns about an increase in the quality or quantity of news on the BBC's radio stations used by Scottish listeners.

Radio news: our final views

A3.117 In light of the above evidence and the lack of stakeholder evidence to the contrary, we conclude that it is unlikely that the changes to the news arising from BBC Scotland would significantly change the output on BBC Radio Scotland. Furthermore, substitution – particularly from commercial radio stations – is likely to be quite limited. Accordingly, we consider that any extra news provision as a result of the BBC's proposal would not be likely to have a significant adverse impact on commercial radio stations.

Print and online news: Summary of the approach in the BBC's PIT

A3.118 The BBC identified that commercial print and online news providers could, in principle, also be impacted by the additional investment in news on BBC Scotland enhancing the BBC Scotland Online News website. However, it concluded that the proposed changes were unlikely to have an adverse impact on fair and effective competition, as BBC Online's news offer for people in Scotland will provide content which is differentiated from and distinctive to that of other commercial providers.[135]

A3.119 The BBC's PIT compared the BBC's current online news provision with that of the commercial sector.[136] It noted that the BBC Scotland Online News website appeared as a

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[133] We calculated these figures using cross-over between the listening of commercial channels and those consumers that also listened to BBC Radio Scotland (and vice versa). Source: RAJAR, All adults (15+), 6 months ended Q4 2017; BBC Radio Scotland TSA.

[134] While on average, BBC Radio Scotland listeners listen to an average of 3.9 different stations each week, only 44.1% of BBC Radio Scotland listeners also listen to a local commercial radio station; 44.6% of BBC Radio Scotland listeners also listen to a UK-wide commercial radio station. 75.5% of BBC Radio Scotland listeners also listen to a BBC network radio station.

[135] BBC PIT, Annex 2, paragraph 32.

[136] BBC PIT, Annex 2, paragraphs 17-32.

sub-section of the main BBC news website. Its main focus was on national Scottish stories, with six regional journalists also reporting on the six main regions in Scotland.[137] By contrast, it noted that commercial sites tended to have a local or regional focus;[138] or titles with a much wider remit covering local, regional, Scottish, UK and world news.[139] Generally, aside from STV News, there was little or no self-generated video content associated with these sites. However, most of these titles had a social media presence mainly via a Facebook page.

A3.120 The BBC argued that the business model of commercial online newspapers focused on a high volume of popular stories, primarily text-based and short with minimal video content, to help drive traffic to their websites, resulting in higher advertising revenues.[140] Few Scottish newspapers relied on subscription services. The BBC noted that it had more prominent use of video-based stories and live coverage of the Scottish Parliament.[141] The BBC noted that there was extensive overlap between the BBC website and other Scottish news websites in the coverage of national Scottish sports, but less so for local/regional sports.[142]

A3.121 Overall, the BBC considered that the proposed change to the BBC Online's news offer would be unlikely to have an adverse impact on fair and effective competition because:[143]

- There were currently differences between the focus of the BBC's online news provision and that of the commercial sector (as described above).
- The BBC recognised in its PIT that some concerns had been raised about increased local content being made available across different BBC services, but claimed that the aim of the BBC Scotland proposal was not to expand coverage of regional news and compete more closely with local press in Scotland.[144]
- Any additional content available online on the BBC News website is likely to be more focussed on longer investigative pieces. This should lead to further differentiation between the content available on the BBC's news site and other

[137] Edinburgh, Fife and East; Glasgow and West; Highlands and Islands; North East, Orkney and Shetland; South; and Tayside and Central. The BBC Online News Scotland website also offers a link to the BBC Alba Gaelic news page. Although there are some links to Scottish sports stories, this sports news sits within the BBC Sport section at http://www.bbc.co.uk/sport/scotland. See BBC PIT, Annex 2, paragraph 18.
[138] Titles referenced included: Ardrossan and Saltcoats Herald, Buchan Observer, The Courier, John O'Groats Journal, Moffat News, Perthshire Advertiser and Press and Journal. See BBC PIT, Annex 2, paragraph 22.
[139] Titles referenced included: Daily Record, Herald Scotland, Scotsman, and STV online. The BBC also noted some newer online publications such as Bella Caledonia and CommonSpace that feature opinion and commentary as an alternative to mainstream titles. See BBC PIT, Annex 2, paragraph 22.
[140] BBC PIT, Annex 2, paragraph 24.
[141] BBC PIT, Annex 2, paragraph 25.
[142] BBC PIT, Annex 2, paragraph 26.
[143] BBC PIT, Annex 2, paragraph 32.
[144] The BBC noted in its PIT that: *"The BBC Scotland investment will not lead to a change in the current regional news model. In line with this, while overall staffing levels are expected to rise from 28 to 35, there will not be an increase in the number of the current six regional journalists. The news programme is also likely to include a daily sport news update."* (BBC PIT, Annex 2, paragraph 30).

Scottish news sites. The BBC noted that it has worked with journalists from other newspapers in the past (e.g. the Daily Record and Sunday Post) on these types of investigations and would aim to continue this kind of work. This should help to minimise the impact on other providers.[145]

A3.122 In addition to the above points in the BBC's PIT, Frontier CC's report[146] also argued that adverse impacts were unlikely as the change to the BBC Online News Scotland website would not be significant or discernible from the perspective of end users. Frontier CC suggested that there might be a relatively limited impact on content on BBC Online News Scotland, because:

- the BBC Scotland news programme at 9pm would cover a mix regional, national, UK and international news, not all of which would be suitable for the BBC Online News Scotland pages focused on Scottish stories; and
- the existing staff working on the BBC Online News Scotland website already generate around 35 stories per day, and it is unclear how many more stories the BBC Scotland TV channel will create, as existing BBC news tends to focus on a smaller number of stories.

A3.123 Frontier CC also argued that consumers tend not to choose only one online news source, instead they tend to "multi-home" (i.e. take news services from multiple sources).[147] Hence, an increase in viewing of BBC Online News Scotland would not lead to a direct reduction in viewing of other news sources.

Print and online news: Our views in our Consultation

A3.124 Prior to our assessment of the potential impact on commercial news providers of additional BBC online news content resulting from the BBC's proposal, in our Consultation we set out some background on the Scottish print and online news sector.[148]

Background on the Scottish print and online news sector

A3.125 We explained that one of the key trends has been the decline in print readership – according to an NRS survey, estimated 7-day average issue readership fell from 2.6 million to 1.8 million between 2012 to 2016.[149] The trends among the highest-ranked print

[145] BBC PIT, Annex 2, paragraphs 28-29. The BBC also noted that enhanced online content is unlikely to impact radio listening. It cited RAJAR research which suggested that individuals listening to the radio tend to be performing other actions, like driving or doing household chores, so reading internet news would not be a good substitute in these circumstances. See BBC PIT, Annex 2, paragraph 52.

[146] Frontier CC report, section 8.3.

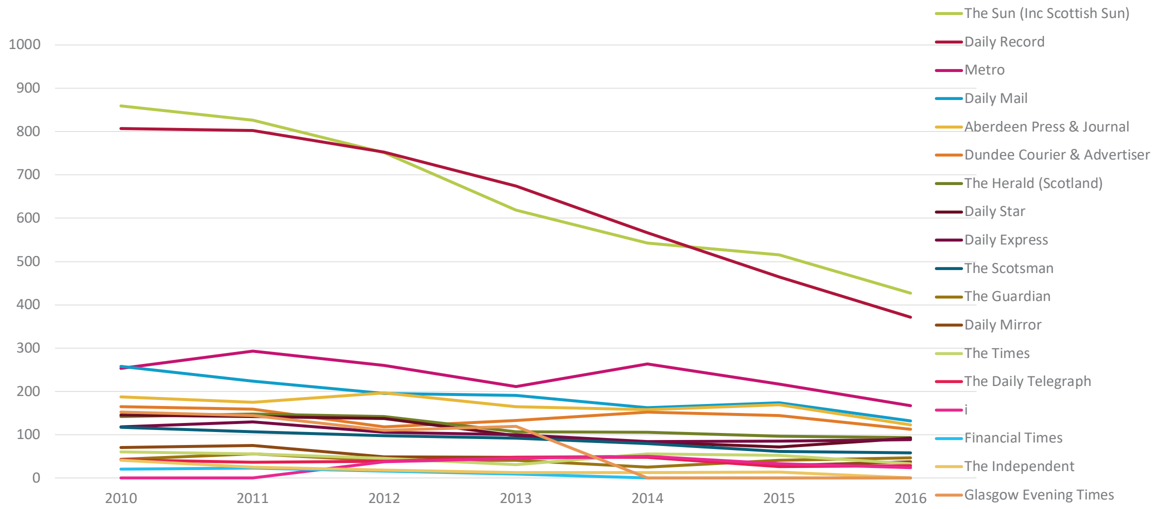
[147] At page 90 of its report, Frontier CC referred to 'Ofcom (2017) News consumption in the UK: 2016' (see https://www.ofcom.org.uk/__data/assets/pdf_file/0017/103625/news-consumption-uk-2016.pdf). It noted, for example, that on average, individuals use 3.8 sources for news (including 42% of users that use more than four sources of news). Those who use the Internet, on average, use 2.3 different Internet sources for their news.

[148] Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraphs A3.107-A3.113.

[149] Source: NRS for newspaper print readership based on average issue newspaper readership in print format within Scotland. As the methodology for collecting NRS data changed substantially in 2017, we have only reported 2012-2016 data.

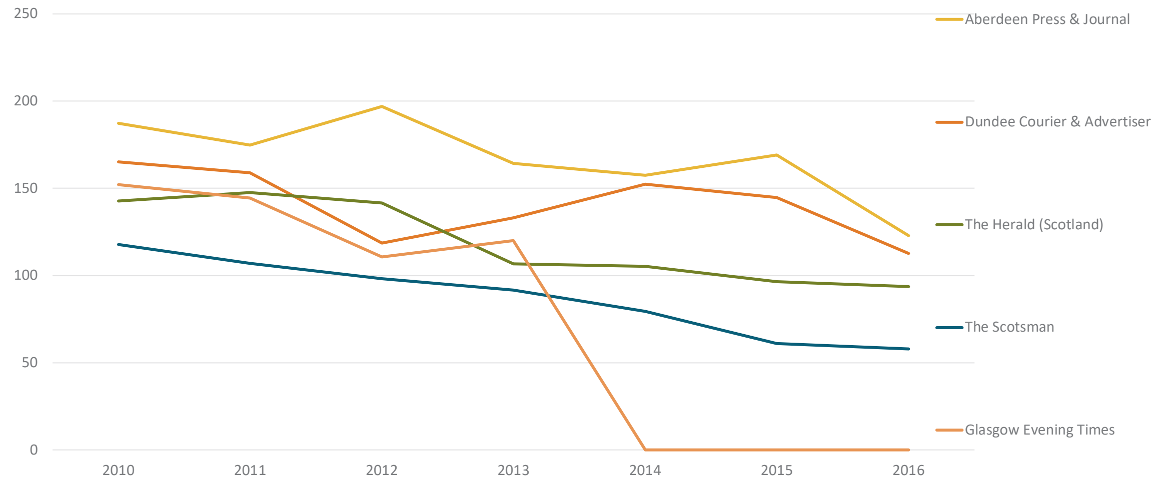
newspaper readerships in Scotland are shown in Figure A3 8 below. We also show the trends among some of the larger Scottish-only titles in Figure A3 9 below.

Figure A3 8: 5-day Average Issue Readership of NRS surveyed newspapers in Scotland (000s)



Source: NRS

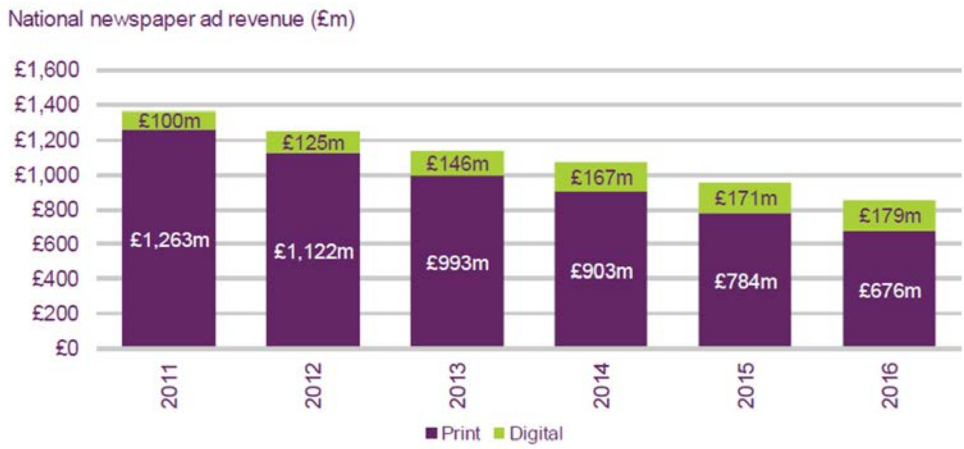
Figure A3 9: 5-day Average Issue Readership of NRS surveyed newspapers in Scotland (000s)



Source: NRS

A3.126 We did not have revenue data for print and digital editions of Scottish newspapers, but we expected that the above changes in readership in Scotland would have contributed to the overall declines in national newspaper advertising revenues that have been seen UK-wide (see Figure A3 10 below).

Figure A3 10: National newspaper print revenue and digital advertising revenue (constant prices)



Source: AA/WARC Expenditure report

A3.127 Although national newspapers have seen growth in their digital advertising revenues, this has not been sufficient to offset the declines in revenue from print newspapers. The reason for this is two-fold. First, advertising in the online space is more competitive, and as the SNS noted in its response to our Invitation to Comment, there has been a significant decline of classified advertising revenues and a migration of display advertising to digital platforms such as Google and Facebook. Second, consumers have reduced their readership of print newspapers and not necessarily switched to the digital versions of that news provider.

A3.128 Desktop only data shows that both in terms of unique visitors and reach, the BBC's sites have remained significantly higher than other sites in Scotland. This is highly likely to also be the case for desktop and mobile usage combined (see Figure A3 11 below). We highlighted in green individual websites of Scottish newspaper publications or news providers, while publishers of notable Scottish newspapers (i.e. newspaper groups) are highlighted in pink. This includes the 'USA TODAY Network' (the brand under which all Gannett-owned Newsquest publications such as Herald Scotland and The National are grouped) and 'Johnson Press' which includes The Scotsman among its publications.

Figure A3 11: Top News / Information websites by unique visitors and reach in Scotland in September 2017

Media	Total Unique Visitors (000)	% Reach	Media	Total Unique Visitors (000)	% Reach
Total Internet : Custom Target	2,718	100			
News/Information	2,086	76.8			
1 BBC Sites	1,313	48.3	11 EXPRESS.CO.UK	283	10.4
2 USA TODAY Network	531	19.5	12 Mirror Online	279	10.3
Newsquest Media Group	474	17.5	13 DAILYRECORD.CO.UK	262	9.7
S1 Sites	209	7.7	14 Yahoo-ABC News Network	217	8
S1JOBS.COM	134	4.9	15 HPMG News	177	6.5
S1HOMES.COM	67	2.5	16 BUZZFEED.COM	125	4.6
S1RENTAL.COM	29	1.1	17 CNN Network	108	4
S1CARS.COM	1	0	18 New York Times Digital	108	4
HERALDSCOTLAND.COM	150	5.5	19 Hearst Newspapers	107	3.9
EVENINGTIMES.CO.UK	72	2.6	20 Times Online	106	3.9
THENATIONAL.SCOT	24	0.9	21 THECOURIER.CO.UK	81	3
GREENOCKTELEGRAPH.CO.UK	16	0.6	22 DAILYSTAR.CO.UK	76	2.8
DAILYECHO.CO.UK	16	0.6	23 NewsNow Publishing	70	2.6
NEWSQUEST.CO.UK	9	0.3	24 WHICH Sites	69	2.5
EASTLOTHIANCOURIER.COM	8	0.3	25 CBS News	66	2.4
THEBOLTONNEWS.CO.UK	8	0.3	26 NBC News Digital	63	2.3
THETELEGRAPHANDARGUS.CO.UK	7	0.2	27 GLASGOWLIVE.CO.UK	62	2.3
THE-GAZETTE.CO.UK	5	0.2	28 METOFFICE.GOV.UK	62	2.3
CLYDEBANKPOST.CO.UK	5	0.2	29 Weather Company, The	61	2.3
NEWSSHOPPER.CO.UK	5	0.2	30 PRESSANDJOURNAL.CO.UK	61	2.2
THEWESTMORLANDGAZETTE.CO.UK	5	0.2	31 Sky News	60	2.2
BOREHAMWOODTIMES.CO.UK	4	0.2	32 AccuWeather Sites	56	2.1
BORDERTELEGRAPH.COM	4	0.2	33 EVENINGEXPRESS.CO.UK	55	2
USA TODAY Sites	60	2.2	34 WASHINGTONPOST.COM	55	2
3 The Guardian	500	18.4	35 Fox News Digital Network	53	1.9
4 Mail Online / Daily Mail	476	17.5	36 BBCI.CO.UK	52	1.9
5 Independent & Evening Standard (ESi Media)	405	14.9	37 tronc	52	1.9
6 Telegraph Media Group	387	14.3	38 Independent News & Media	51	1.9
7 Dotdash	345	12.7	39 ENTERTAINMENTDAILY.CO.UK	48	1.8
8 MSN News	321	11.8	40 HOLIDAY-WEATHER.COM	47	1.7
9 The Sun Online	302	11.1	41 National Geographic Sites	46	1.7
10 Johnston Press Plc	288	10.6	42 Time	45	1.7
Scotsman.com Network	244	9	43 Atlantic Media	38	1.4
SCOTSMAN.COM	244	9	44 La Vanguardia	38	1.4
INEWS.CO.UK	38	1.4	45 NYPost Network	37	1.4
JOHNSTONPRESS.CO.UK	25	0.9	46 NYDAILYNEWS.COM	37	1.3
FALKIRKHERALD.CO.UK	13	0.5	47 The Economist Group	36	1.3
FIFETODAY.CO.UK	13	0.5	48 ITV News	36	1.3
YORKSHIREPOST.CO.UK*	7	0.2	49 JOURNALISTATE.COM	36	1.3
THESOUTHERNREPORTER.CO.UK	5	0.2	50 EVENINGTELEGRAPH.CO.UK	35	1.3

Source: comScore MMX. September 2017, persons 6+, Regions: Central Scotland, North Scotland, Border. Note: Includes desktop only, ranked by September 2017

A3.129 Both in terms of unique visitors and reach, the above desktop-only data show that both in terms of unique visitors and reach, the BBC's sites have remained significantly higher than other sites in Scotland. This is highly likely to also be the case for desktop and mobile usage combined. The second ranked news source – the 'USA TODAY Network' – is the brand under which all Gannett-owned Newsquest publications are grouped. Within this group, the largest (by unique visitors) are the Herald Scotland (150k), the Evening Times (72k), the National (24k), the Greenock Telegraph (16k) and the Daily Echo (16k). For Johnson Press, the Scotsman (244k), the Falkirk Harland (13k) and the Fife Today are the most notable.

A3.130 We explained that the discussion above provided important context, as the Scottish press are facing financial pressures with the decline in print readership, which has not been offset by the growth in their online revenues. The BBC remains among the largest online news providers.

A3.131 In order to assess the impact of the BBC Scotland proposal on the BBC's online news provision and on commercial news providers, we considered:

- further information from the BBC on what changes in the content on BBC Online News Scotland are likely (as a result of BBC Scotland) and whether these changes are significant (i.e. discernible from the perspective of end users);
- how BBC Online News Scotland compares to other local Scottish news providers (i.e. does it replicate what is offered by commercial rivals); and
- how consumers of other publications could react to such changes given their current consumption of news.

BBC's further description of likely changes to its online news provision

A3.132 To understand the scale of potential changes to the BBC's online news provision, we asked the BBC for further information to enable us to assess whether:

- the new content created for the BBC Scotland news programmes can be re-purposed for use on the BBC's news website; and
- the number of additional journalist roles that the BBC has created for the new channel could give it scope to create a significant amount of new material for its news website (as the SNS submitted).

A3.133 The BBC confirmed that as BBC Scotland News is a multiplatform production operation, it is expected that content produced for the 9pm news programme will be used, as and where appropriate, on other platforms such as radio, online and social media. However, the BBC explained that it expected the scope and format of additional news content on BBC Online News Scotland/BBC News app and BBC Radio Scotland will largely remain the same.

A3.134 The BBC emphasised that most online news material is already created by a dedicated team of online journalists,[150] and the BBC did not envisage an increase in terms of the number of staff as a result of BBC Scotland.[151] Therefore, the impact would be on the TV channel providing more source content for the existing team to draw upon.

A3.135 The BBC considered it was difficult to estimate the potential increase in the volume and frequency of news content made for the news TV channel which is re-versioned online. The BBC used a sample period of between Monday 15 January 2018 and Friday 19 January 2018, comparing content from BBC One's *Reporting Scotland* with the content on BBC Online News Scotland:

[150] The BBC noted that the stories on the BBC news website are mainly written by specialist online journalists (from News or Sport) who draw on a variety of sources such as BBC radio interviews, reporter updates from the field, correspondent analysis, as well as providing exclusive and original content tailored for an online audience. See BBC response of 26 January 2018 to Ofcom request for information, page 4.

[151] Although as discussed in paragraph A3.137 below, the BBC was planning to recruit [✂] new staff with a focus on social media platforms.

- *Reporting Scotland* covered over 50 stories; over the same period around 190 stories appeared on BBC Online News Scotland.
- Only one TV package was directly reproduced online, although in other cases material gathered was used for video produced by the online team.

A3.136 The BBC argued that it would be difficult to extrapolate these results to estimate the amount of content that could be re-versioned from the 9pm news programme. Nevertheless, it thought that the analysis suggested that additional investment in the news programme will be unlikely to drive an increase in the number of stories covered on BBC Online News Scotland. It submitted that TV news coverage will always tend to cover a subset of stories published online. The BBC argued, if anything, the new content from BBC Scotland will provide *"an enriched and more distinctive online offer, focusing in particular on more investigative pieces which are currently not provided commercially."*

A3.137 We also asked the BBC for more information about the number and nature of new journalism roles. In its response, the BBC explained that the focus of the new 80 roles is on the production of the new Nine O'Clock News programme and the weekend TV news bulletins and only [✂] of the roles will be partly dedicated to making content for use on social media. We were provided with a detailed breakdown of all of the roles, and we understand from the BBC response that, broadly speaking, of the 80 posts, roughly half are production roles (e.g. editors, directors, producers) and half are more focussed on news-gathering (e.g. Senior Journalists (Reporters), Correspondents, Journalists and some Senior Journalists (Producers)).

A3.138 The BBC noted that separate from its investment in the BBC Scotland channel, it has committed under its Charter Agreement to the training and developing of journalists in Scotland under the BBC Journalism Trainee Scheme in Scotland in the coming year. [✂] This is in addition to the various training and apprenticeship schemes that BBC Scotland already provides and is in addition to the 80 new roles.

A3.139 The BBC also commented on the scope and scale of the additional news content to be produced for social media platforms. It noted that social media was an important platform for BBC Scotland News as it allows it to reach and serve a broad (including younger) audience. As with TV, radio and online, we would expect appropriate content which is generated by journalists to be made available via social media platforms. The BBC noted that it would create [✂] new roles for BBC Scotland in part dedicated to social media ([✂]). This is in addition to the current team of 28 dedicated full-time staff producing content for the site and associated social media accounts.

Our views on likely changes to the BBC's online provision as a result of BBC Scotland

A3.140 We considered that it was difficult to reach a judgment on whether the BBC's proposal will necessarily lead to a substantial shift in the BBC's online news offering. However, based on the material submitted to us by the BBC, we observe that:

- the BBC's proposal does not envisage a radical change to the format or scope of its online news website; and
- the 80 staff the BBC proposes as part of the investment in news output for BBC Scotland are not all 'front-line' journalists.

A3.141 In relation to the first of these points, the BBC told us the proposal would not see a significant expansion in the scope of its online offer for the Scottish part of its website:

- currently the BBC Online News Scotland website focuses on Scottish news and contains subsections covering Scottish politics, Scotland business and six regional subsections.[152] It stated that there were no plans to change this following the launch of the new channel.[153]
- BBC Online News for Scotland already has a number of journalists (28) working on news stories, creating up to 250 new text stories each week and some short form videos each week. These journalists already have access to the BBC's existing news gathering capability and to material re-versioned from content created for TV and/or radio.[154] The BBC provided indicative analysis suggesting that the amount of material repurposed from its *Reporting Scotland* programme to its website was relatively modest.
- BBC Online News is a continuous news operation. Thus, most stories are already likely to have some form of coverage on BBC Online News Scotland as the stories break and before they appear in a TV news bulletin.

A3.142 In terms of the number of journalists, the SNS considered that the addition of 80 journalists in addition to the BBC existing base would give its journalists scope to create a significant amount of online material (beyond that created for its TV news programmes).

A3.143 As explained in paragraph A3.137 above, of the 80 posts roughly half are production roles and half are more focussed on news-gathering. Given the scale of the news output envisaged for the new TV channel, including a daily one-hour programme and weekend bulletins, it is possible that these posts may well be occupied predominantly with news gathering, reporting and production of news content for the BBC Scotland channel's TV output. However, we recognised that this is an area of uncertainty and one where we have

[152] Edinburgh, East & Fife; Glasgow & West; Highlands & Islands; South; North East, Orkney and Shetland; Tayside & Central.

[153] The BBC noted that: *"There may be some changes that occur due to wider Business as Usual BBC plans to introduce greater personalisation combined with mandatory sign-in."* See BBC response of 26 January 2018 to Ofcom request for information, footnote 3.

[154] The BBC noted that it is relatively rare for a video package made for TV to be included in exactly the same form on BBC Online. See BBC response of 26 January 2018 to Ofcom request for information, page 4.

had to exercise a degree of judgement when assessing the scope for a significant increase in the amount of online material on the BBC's news website.[155]

A3.144 Overall, we considered the main area where there is scope for an increase in its online output is the re-purposing of content produced (or news gathered) for its TV programme, rather than from the new journalists specifically generating content for the website. Indeed, the BBC accepted that additional investment in BBC Scotland will allow for more frequent reporting at the weekends, as currently most text stories tend to be created during weekdays, as well as an increase in the number of investigative pieces.

A3.145 While we accepted the BBC's evidence and arguments that suggest the amount of new content may not necessarily result in a significant change to the amount of new content on BBC Online News Scotland, we have nevertheless considered the BBC's other arguments why possible market impacts on rival news providers might be more limited.

Comparison between content on the BBC's news website and rival news providers' content

A3.146 We referred to the BBC's argument that its BBC Scotland news website differs from rival news providers' content in terms of the type of content and coverage of local, nations, UK and international news.

A3.147 While we recognised that the largest overlap of BBC Online News Scotland is coverage of Scotland-wide issues, we considered further the potential geographic overlaps in coverage, i.e. at a local, regional, and UK and global level:

- *Local coverage:* the BBC news website has a local sub-section on the BBC Online News Scotland site.[156] However, we accepted the BBC's view that its local coverage tends to focus on stories with an interest at a regional or Scottish level: *"The BBC is unlikely to cover the staples of local press journalism: such as, for example, planning disputes, road closures, pot holes and unclean streets unless they are symptomatic of a national issue."*[157] Therefore, in terms of very local news 'staples', we considered it unlikely that the additional investment in BBC Scotland news will change this. Nevertheless, we noted that if the BBC were able to cover 'big' local news stories in more depth, this could have some impacts on local papers which would also cover them.

- *Regional coverage:* the BBC submitted that the scale of its online regional coverage, while similar to some online titles, is less than other regional print titles.

[155] For example, one difficulty is that there is no obvious benchmark. We considered whether we could benchmark against the BBC's existing output on *Reporting Scotland.* However, we considered that we would need to adjust for differences as *Reporting Scotland* is a half-hour evening news programme on BBC One, whereas the BBC Scotland news would be an hour-long programme with a very different format and content. Similar considerations applied to benchmarking against other news programmes. Another uncertainty is the extent to which the BBC Scotland news programme can use existing BBC resources, for example in its Pacific Quay base.
[156] We noted that on this part of the BBC's site, users can input a specified town or postcode, and the site then aggregates stories in terms of proximity and relevance to that locality.
[157] BBC PIT, footnote 100.

We explained however that the BBC's news website is currently organised around the main Scotland page and six-regional sub-sections to its Scotland site, and Scotland politics and Scotland business sites. Furthermore, the BBC noted in response to our request for information, *"The additional investment in newsgathering will increase the BBC's ability to cover a greater number of Scottish regional news stories, though as stated above the existing reporting structure based around six regions will continue."*[158] The BBC also noted that the [✂] reporter roles for the news programme *"will be based at the BBC Scotland headquarters in Glasgow and at its regional centres across the country."*[159] We therefore considered that the evidence on the BBC's website and its plans for the news programme on BBC Scotland showed that it intends to deepen its regional coverage, which could potentially affect newspapers covering Scotland and/or specific regions.

- *UK and global coverage:* the BBC argued that BBC Online News Scotland does not cover World and UK news, unlike some of the larger Scottish online sites like the Daily Record and Scotsman, but it did recognise more widely: *"that the BBC online site does cover world news."* However, we explained that BBC Online News Scotland has in the past covered the reaction of the Scottish Government to global events, e.g. the Catalonian referendum.[160] Indeed, the BBC's PIT explained that the BBC Scotland channel will include an integrated hour-long news programme, *"featuring international, UK and national stories, told from a Scottish perspective. Harnessing the BBC's global newsgathering resources, the news hour will offer insight and analysis to place Scotland in a global context."*[161] We considered that there is scope therefore for journalists working on the news programme to unearth and tell stories on UK and global events from a Scottish perspective, which could be increasingly reflected on the BBC's news website.

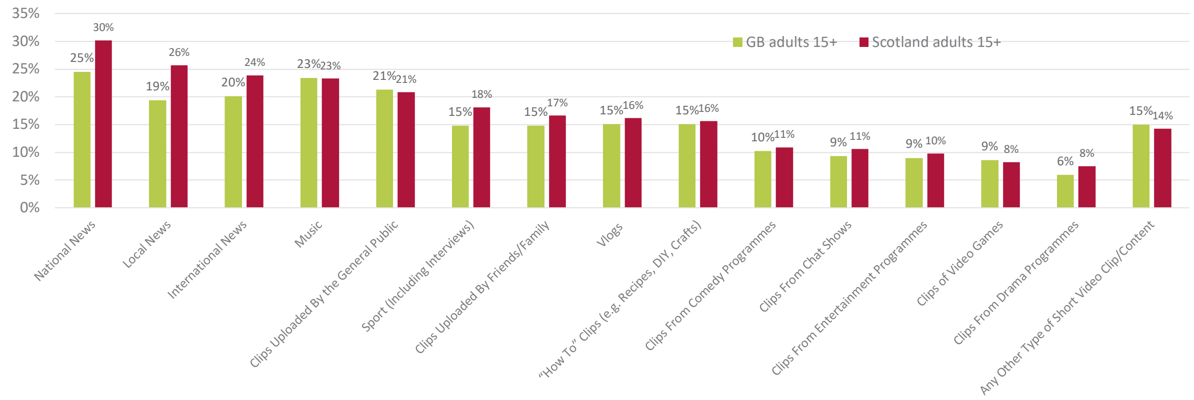
A3.148 Overall, we considered that any expansion in BBC Online News Scotland as a result of the proposal has the potential to overlap with commercial print and online news services. We thought that the largest impact will clearly be on the coverage of Scotland-wide issues, but it has the potential to deepen its coverage in other areas.

A3.149 We accepted that content from the BBC Scotland news programme is most likely to generate stories for the BBC Online News Scotland site that currently tends to focus on general news, politics, business and sport. However, we considered the scope remained for the BBC to increase its output across other genres (e.g. by adding wider entertainment and arts material to the BBC News website).

[158] BBC response of 26 January 2018 to Ofcom request for information, page 3.
[159] BBC response of 26 January 2018 to Ofcom request for information, page 9.
[160] http://www.bbc.co.uk/news/uk-scotland-scotland-politics-41294280
[161] BBC PIT, page 2.

A3.150 We did not agree with the BBC that, if it invests in more video content or in-depth investigative pieces that then feature on its website, it would have only limited market impacts. We referred to the TouchPoints 2017 survey, which asked adults about their main uses of online weekly activities – with 49% mentioning viewing online clips. For clips they viewed, online news stories were among the most important for respondents in Scotland (see Figure A3 12 below).

Figure A3 12: Types of online clips viewed weekly



Source: Source: TouchPoints 2017, Base: All adults: GB, Government Office Region – Scotland. Question: TV11 – How often do you watch these different types of short video / online content / clips (on any device)?, Ranked by adults in Scotland

A3.151 According to this survey, the most popular type of online clip viewed each week in Scotland are clips showing national news content. In Scotland, local news is the second most popular type of online clip viewed on a weekly basis. We considered that if the BBC is able invest in content that drives traffic to the BBC's website, this could generate a loss of traffic to news providers. Indeed, the SNS considered that *"It is not true to claim that in-depth analysis and long-form journalism is not in competition with existing providers"* and that *"it is already hard for news publishers to compete with video, yet the BBC appears to argue that publishing even more quality video on its digital services will have no effect on our members and fails to acknowledge the impact on audiences of drawing away more Scottish news traffic".*[162]

Likely responses of consumers

A3.152 We considered the extent to which consumers are likely to diminish their consumption of print media or other online news providers in response to more material being available on the BBC Online News Scotland website.[163] We referred to Frontier CC's argument that as

[162] SNS response to Ofcom's "Invitation to comment", page 2.
[163] In our consumer survey, we did not ask respondents how they would react to new online content on the BBC website and what other services they would give up. The primary reason was that there was limited detail on the nature and scale of this content on BBC Online News Scotland making it difficult to ask consumers about this.

users take their news services from multiple sources there would be a small impact from an expansion of BBC Online News Scotland.[164] Whereas if consumers tend to choose only one online news source, an increase in viewing of BBC Online News Scotland could lead to a direct reduction in viewing of other news sources.

A3.153 Our view was that if consumers access the news across multiple sources, it is likely that for a number of consumers they are using BBC services across those different media.[165] In turn, as there will be a new BBC Scotland TV news programme and complementary stories on the BBC's website, the BBC can cross-promote its online platform on TV. This may therefore drive consumers even more towards the BBC across different types of media (online). Hence, Frontier CC's observation that users rely on multiple news sources may not dampen the impact of substitution due to an increase in the BBC's online news. In fact, we argued that it may work the other way as users of BBC services (i.e. BBC Scotland) may be better placed to notice changes to the BBC Online News Scotland content, and may reduce their reliance on other online news services.

A3.154 However, we accepted that users of multiple news sources might not necessarily stop visiting other news websites. For example, Frontier CC cited evidence that consumers used more than one online source of news.[166] Nevertheless, we also observed that if the BBC were to significantly enhance its online news, consumers might visit websites of rival online news providers less often.

A3.155 We did not consider that Frontier CC's arguments about users consuming news across multiple media services could be used to rule out a possible substitution and a reduction in the traffic of other news providers. Rather, our view was that where the BBC provides additional online material then audiences for this are likely to be drawn, at least partially, from commercial rivals.

A3.156 We suggested that predicting the likely responses of consumers would also need to consider a range of other factors. For example, the proportion of users that intentionally visit the BBC's and rivals' news websites versus users who are referred to specific news articles via intermediary platforms (e.g. social media or search engines).[167] This distinction

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[164] Frontier CC report, page 90.

[165] In this respect, there is evidence that the BBC has the largest share of news consumed across different media. The evidence from Ofcom's research on news consumption in the UK suggested that the BBC was significantly ahead of other news providers in terms of its "share of reference". This share of reference metric is calculated by asking people which news sources they use nowadays and the frequency with which they use them. Each reference is then factored, according to frequency of consumption, and summed to create a total number of news references. The share (%) of each source or provider can then be calculated based on this total number. See slide 61 et seq: https://www.ofcom.org.uk/__data/assets/pdf_file/0016/103570/news-consumption-uk-2016.pdf

[166] Those who use the Internet, on average, use 2.3 different Internet sources for their news. See Frontier CC Report, page 90; based on Ofcom, News consumption in the UK: 2016, 29 June 2017, https://www.ofcom.org.uk/__data/assets/pdf_file/0017/103625/news-consumption-uk-2016.pdf

[167] See Oliver & Ohlbaum Associates Ltd and Oxera Consulting LLP, BBC television, radio and online services: An assessment of market impact and distinctiveness, February 2016, section 6, https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504012/FINAL_-_BBC_market_impact_assessment.pdf

may be important as, for example, consumers that tend to go directly to particular news providers' websites may be more loyal to that news provider. They may be less likely to switch in response to small changes in content. Consumers more interested in particular news stories may be willing to switch between different news providers based more around stories that are popular on social media or feature prominently in a search engine.

A3.157 However, in light of our understanding of the amount of incremental online news content from the BBC's proposal, we did not consider the likely consumer responses in further detail.

Stakeholder responses to our Consultation

A3.158 The BBC referred to the discussion in our Consultation of whether the strengthened news-gathering team could produce further material for use, in particular, on BBC Online News Scotland. The BBC referred to our analysis of a detailed breakdown of the 80 roles provided by the BBC following our further information request. The BBC noted this showed that roughly half of the 80 roles are production roles (e.g. Editors, Directors, Producers) and half are more focussed on newsgathering (e.g. Senior Journalists and Correspondents).[168]

A3.159 The SNS, NMA and Newsquest argued that the proposed expansion of BBC Scotland's news operation is disproportionate to the needs of a quality hour of news coverage, given the resources already available to it.[169] These same stakeholders (and the Scottish Daily Mail) also raised concerns about the BBC expanding its online written content (with the particular focus on longer investigative pieces and content of a bespoke nature) in direct competition with established commercial news providers, and at a time when *"commercial news providers are less well-equipped to compete against an expansive and expanding publicly-funded operation"*.[170]

A3.160 The NMA and NewsQuest were also concerned about the effect the proposal will have on news services which lie behind paywalls. Both stakeholders noted that online subscribers would have no reason to stay with such services if BBC Scotland poaches the journalists they currently employ and puts equivalent content online for free.[171]

Our final views

A3.161 Based on the material submitted to us by the BBC, we consider that the BBC's proposal, in its current form, would not be likely to have a significant adverse impact on print and

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168 BBC response to Ofcom's "Consultation", page 2.
169 SNS response to Ofcom's "Consultation", page 1; NMA response to Ofcom's "Consultation", page 2; and Newsquest response to Ofcom's "Consultation", page 1.
170 SNS response to Ofcom's "Consultation", page 1; NMA response to Ofcom's "Consultation", page 2; Newsquest response to Ofcom's "Consultation", pages 1-2; and Scottish Daily Mail response to Ofcom's "Consultation", pages 1-2.
171 NMA response to Ofcom's "Consultation", page 1; and Newsquest response to Ofcom's "Consultation", page 1.

online news provision (although we recognise that some of the news content produced for the new BBC Scotland channel is likely to be repurposed for the BBC website).

A3.162 The BBC's PIT noted the potential for its strengthened news-gathering team to produce further material for use online (with particular focus on longer, more investigative pieces), allowing a richer range and depth of journalism and this will enable an enhanced online offer through more bespoke online content for its website.

A3.163 We requested the BBC provide us with further information about its recruitment and online plans in order to establish what, if any role the additional 80 journalist would play in contributing to its online news output. In its response to our Consultation, the BBC confirmed that only half of the 80 new journalism roles are focused on newsgathering (e.g. Senior Journalists and Correspondents) with the other half being production roles (e.g. Editors, Directors, Producers).[172]

A3.164 Based on the information we received from the BBC about its recruitment and online plans, along with the additional information provided in the BBC's response to our Consultation, we are satisfied that the additional staff will be focussed on the new broadcast channel (and the delivery of an hour-long weekday programme, bulletins and weekend coverage), and not on the growth of its online news offering. Therefore, we consider that the impact of the BBC's investment in BBC Scotland on its online output will be relatively limited. Accordingly, we consider that, in its current form, the BBC's proposal would be unlikely to have a significant adverse impact on print and online news provision.

A3.165 However, we consider that the BBC's PIT overstates the differences in the BBC's online news offer compared to commercial news providers. In our view, to the extent that the BBC sought to expand the scope of its online news material, this could well attract readers or traffic from commercial providers. Hence, if there were a significant increase in the scale and scope of online news material, we consider there is a risk it would draw audiences from other Scottish print and online news providers.

A3.166 Should the BBC significantly increase the depth of its coverage or significantly enhance its online content (e.g. by expanding the amount of video content) in a way not set out in its proposal, then this risks adding to the pressure felt by the newspaper sector. This sector already faces a number of challenges given the longer-term trend of declining readership.

A3.167 We recognise that the BBC does have some wider initiatives that help support the local press. For example: (i) the BBC has launched the local democracy reporters scheme, funding reporters working in local newspapers to cover the business of local councils across the UK (the BBC has allocated 21.5 reporters to news organisations in Scotland);[173] and (ii) the BBC is working with the News Media Association to create a news hub that will

[172] BBC response to Ofcom's "Consultation", page 2.
[173] http://www.bbc.co.uk/mediacentre/latestnews/2017/local-democracy-reporters and http://downloads.bbc.co.uk/mediacentre/local_democracy_reporter_allocation.pdf

give external online media organisations access to BBC video and audio material shortly after transmission. The NewsBank will enhance other news organisations' online offering as well as making BBC News output more accessible to audiences online.[174] While these initiatives are not directly linked to the BBC Scotland proposal, they could allow news providers access to content that could enhance their own offerings. It remains to be seen however how these initiatives will play out.

Supply-chain impacts

A3.168 As noted above, the BBC's proposal could have wider supply-chain impacts. This could occur if the BBC's increased demand for inputs needed to provide the new channel crowds out rival broadcasters or news providers who rely on similar inputs to provide their services. If supply of these inputs is constrained and cannot respond sufficiently quickly to additional demand, then this could impact on other media providers' ability to access these inputs and the price that they pay for them. We have identified in particular the following possible supply-chain impacts:

- Impact on competition to attract/retain journalists;
- Impact on competition in the Scottish production sector (including competition to commission original Scottish content); and
- Impact on competition to acquire rights to Scottish content (e.g. Scottish sports rights).

A3.169 We discuss each of three potential supply-chain impacts in turn below.

Impact on competition to attract/retain journalists

A3.170 The BBC's proposal includes the creation of 80 new journalist posts with a focus on its 9pm hour-long weekday news programme and 15-minute weekend news bulletins. Stakeholders have raised concerns that this number of new journalists is potentially significant in the context of the Scottish news sector. If the supply of journalists is limited, then there is a concern that commercial news providers would lose key staff to the BBC or otherwise have to significantly increase journalists' salaries to match the BBC and to retain staff to ensure their services can be produced. We have therefore considered the potential for this additional demand to drive up rival news providers' costs of employing journalists and/or restrict rivals' access to journalists (whether in TV, print or online).

[174] http://www.bbc.co.uk/mediacentre/latestnews/2017/bbc-news-media-association-partnership

Summary of approach in BBC's PIT

A3.171 The BBC did not consider that the creation of 80 additional journalist posts would have an adverse impact on the supply of journalists.[175] It referred to Frontier CC's analysis showing that structural changes in the newspaper industry have led to some Scottish newspapers reducing the number of journalists employed.[176] The BBC also noted that it has committed to launch a journalism trainee scheme to try to ensure that the recruitment of additional journalists by the BBC does not bid up the wages of journalists.[177] The BBC submitted that, while difficult to predict, recruitment by the BBC could encourage more dynamic impacts such as other journalists entering the sector.[178]

Our views in our Consultation

A3.172 In our Consultation, we referred to stakeholder submissions in response to our Invitation to Comment, in particular from the SNS, which raised concerns about the impact of the creation of 80 additional journalism roles alongside other BBC initiatives.[179] The SNS argued it was certain a number of senior recruits will need to come from Scottish news organisations given the need for specialist knowledge of Scottish affairs.[180] The National Union of Journalist (NUJ) welcomed the creation of new jobs for journalists at the BBC, particularly when set against the reduced investment and subsequent loss of jobs in local newspapers.[181] However, the SNS did not consider that recent staff reductions at news publishers would offset the impact of the increase in roles at the BBC. It noted that the

[175] BBC PIT, paragraph 317.
[176] The Frontier CC report referred to a number of examples of job cuts in the Scottish newspaper industry: (i) Glasgow: loss of up to 25 editorial jobs in 2016 from the Newsquest-owned Herald and Times group; (ii) Edinburgh: Johnston Press revealed plans to cut editorial posts in early 2016, leading to 32 jobs being at risk in Scotland; (iii) Trinity (Daily Record and Sunday Mail): expect to reduce editorial staff by at least 15; (iv) Johnston Press: currently making a number of journalists redundant across Scotland including senior experienced staff; (v) Scottish Provincial Press (Highland News Group): around eight journalists made redundant, including editors; and (vi) The Daily Express: loss of 15 editorial jobs in the previous two years. See Frontier CC report, page 96.
[177] BBC PIT, paragraph 362.
[178] BBC PIT, paragraph 316.
[179] The SNS noted that the 80 new staff were in addition to the recent BBC recruitment of 20 licence-fee funded "local democracy" reporters. This would mean there will be 100 new journalists available to provide BBC Scotland with news content. This alone would make it one of the largest news organisations in the country and is comparable to the total number of journalists working in multi-title news publishing operations. We noted that the creation of the 20 local journalist posts was not directly related to the BBC Scotland proposal. Nevertheless, it was relevant context, as it is another source of demand for journalists at a time of declines in the number of posts in the sector. See SNS response to Ofcom's "Invitation to Comment", page 2; and Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraph A3.151 and footnote 147.
[180] The SNS noted that daily newspapers, in particular, would be affected and they have seen journalists leave to join the BBC in the past. It considered that major recruitment programmes in the past have proved to be destabilising for existing publishers (e.g. The Sunday Herald in 1999 and Business AM in 2000). See SNS response to Ofcom's "Invitation to Comment", pages 2-3; and Ofcom, BBC Scotland Competition Assessment, Consultation Annex 3, paragraph A3.153.
[181] NUJ response to Ofcom's "Invitation to Comment", page 2.

reductions were mainly in production areas, and Scottish news publishers had continued to recruit in key areas and wanted to retain senior reporting staff.[182]

A3.173 In light of concerns regarding the impact of the additional 80 journalism posts, we asked the BBC to provide a more detailed breakdown of the number and nature of these posts.

A3.174 In the light of the BBC's response, as noted in paragraph A3.137 above, we considered that the initial estimate of 80 journalism roles significantly overstates the number of more 'front-line' journalism roles that would need to be sourced from other commercial news organisations.

A3.175 In addition, we considered that a number of the estimated 40 journalism roles could be filled without necessarily affecting the newspaper or other external sectors[183] materially, as:

- some roles may be filled by internal BBC applicants, potentially, on promotion or currently working in other parts of the UK. This would reduce the number of posts that would need to be sourced from commercial news providers in Scotland.
- in addition to its existing journalism trainee schemes,[184] the BBC noted in response to our information request that its Journalism Trainee Scheme in Scotland [✂] for some employees from this scheme to take up permanent roles at the BBC or to seek opportunities in the wider news sector in Scotland.

A3.176 Furthermore, the BBC could recruit not only from newspapers but also in the broadcasting sector more generally. In this respect, having reviewed the BBC's descriptions of some of its journalist roles, it suggested that some TV experience will be required. Therefore, not all of the journalist roles the BBC recruits will necessarily be sourced from the newspaper sector.

A3.177 Therefore, we considered that the BBC may be able to recruit some roles internally, via training schemes for more junior staff and from a relatively wide pool of journalists not only in the newspaper industry but also in the broadcasting sector. Nevertheless, as the SNS suggests, the BBC will be likely to recruit some roles from the newspaper sector, perhaps for more senior roles. A report commissioned by the SNS on the newspaper industry in Scotland estimated the equivalent of 2,800 FTEs working in Scotland in newspapers.[185] The report estimated that around half of these were journalists.

A3.178 As highlighted by Frontier CC, job cuts have occurred across Scottish newspapers, in some cases with closures and consolidation of Scottish newspapers. This suggested to us that there could be capacity in the journalism sector to absorb the additional demand,

[182] SNS response to Ofcom's "Invitation to Comment", page 3.
[183] We have focused on the newspaper sector as it potentially faces a more challenging environment in terms of the overall declines in readership in the sector. Nevertheless, we recognise that market impacts are not necessarily only confined to newspapers.
[184] http://www.bbc.co.uk/careers/trainee-schemes-and-apprenticeships
[185] Optimal Economics, Economic Impact Assessment, May 2016, http://www.scotns.org.uk/wp-content/uploads/2016/05/Economic-Impact-2016-Final-Report-1.pdf.

depending on whether those cuts at Scottish newspapers were to journalism posts rather than production posts. That said, we accepted that some senior staff may ultimately have to be sourced from external news providers if the BBC is to deliver a quality Scottish news programme. However, the discussion above highlighted that the scale of demand for journalists is lower than the headline figure of 80 staff. There are a number of factors that also reduce the potential impact on the wider sector.

Stakeholder responses to our Consultation

A3.179 The SNS and Newsquest commented on the staffing problems for newspapers that the BBC's proposal would create. The SNS stated that the new channel is likely to cause staff recruitment and retention challenges, with one publisher already reporting *"a job offer being rejected on the basis of a better offer coming in from the BBC to join the new channel's news team"*.[186] Newsquest urged *"consideration be made to ensure there is not a distorted market rate being offered to lure specialist and highly skilled journalists whose very expertise is the lifeblood of our national titles"*.[187]

Our final views

A3.180 We do not consider the BBC's proposal will disproportionately impact existing print news providers in Scotland. As noted above, in its response to our Consultation, the BBC confirmed that only half of the 80 new journalism roles are focussed on news-gathering with the other half being production roles.[188]

A3.181 We recognise that some journalists that the BBC recruits for the new channel may well come from the Scottish newspaper sector (and the SNS provided one example of this happening). However, given the level of news-gathering recruitment proposed and the fact that the BBC may recruit many of the roles from a range of sources, including in-house from the BBC itself as well as from the wider broadcasting sector, we remain of the view that the BBC's proposal does not pose a significant threat to the ability of Scottish newspapers to attract or retain journalists.

Impact on competition in the Scottish production sector

A3.182 The BBC Scotland proposal entails an increase in spend on original commissions for programmes aimed at Scottish viewers. This increase in the demand for original programming could have both negative and positive consequences for the production sector.

- **Crowding-out effects:** if there is a limited supply of production capacity and suitable facilities to make Scottish programming then higher demand could 'crowd-

[186] SNS response to Ofcom's "Consultation", page 2.
[187] Newsquest response to Ofcom's "Consultation", page 2.
[188] BBC response to Ofcom's "Consultation", page 2.

out' rival channels (such as STV, STV2 and BBC Alba) that commission original Scottish programming by raising the costs of Scottish production.

- **Direct benefits to the production sector:** producers, including those currently based in Scotland, will be able to compete to provide content for the new BBC Scotland channel.
- **Potential efficiency benefits:** BBC Scotland's investment in Scottish programme-making may have positive impacts, as production companies may be more willing to locate in Scotland. This may generate agglomeration efficiency gains and potentially reduce all channels' costs of production for original Scottish programming.

A3.183 An increase in production costs could be significant to a channel such as STV2 whose available programme budgets are already quite limited given the likely size of the potential audiences for local TV.

Summary of approach in BBC's PIT

A3.184 In its PIT, the BBC concluded that the proposed BBC Scotland channel would be likely to have a positive impact on the Scottish content sector.[189] It noted that the incremental non-news investment of £11.2m would represent a 6% increase in the value of the Scottish original production sector which was worth £190m in 2014.[190] Frontier CC noted that the sector had grown at a rate of 9% per annum since 2009, suggesting that the sector is not significantly capacity constrained and could organically grow to accommodate a degree of increased demand for Scottish content.[191]

A3.185 Frontier CC submitted that one potential barrier that PACT had identified related to difficulties in attracting talent, executives and resources to Scotland, when London can be viewed as more attractive given the much larger base of producers and programme commissions.[192] However, Frontier CC noted that the investment could help create a permanent media hub in Scotland.[193] This could also bring 'agglomeration' benefits, where firms derive efficiency benefits from locating close to each other, due to sharing resources, knowledge etc. Therefore, BBC Scotland could result in a more efficient Scottish production sector which would in turn benefit other Scottish broadcasters.

A3.186 Overall, the BBC concluded that the launch of BBC Scotland would expand the demand for Scottish content and have a positive impact on the Scottish production sector, which should lead to increased investment in the sector.[194]

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[189] BBC PIT, paragraph 312.
[190] BBC PIT, paragraph 305; and Frontier CC report, pages 105-106.
[191] Frontier CC report, pages 94-95.
[192] Frontier CC report, page 95.
[193] Frontier CC report, section 10.
[194] BBC PIT, paragraph 311.

Our views in our Consultation

A3.187 We broadly agreed with the conclusions of the BBC's analysis.

A3.188 In order to assess the potential for crowding-out, we considered both the demand- and supply-side. On the demand-side, we considered that the greater the scale of the demand for new originations for the new channel, the greater the potential for there to be 'crowding-out' effects.

A3.189 Crowding-out is more likely if supply is constrained and not able to respond quickly. If there is limited capacity and constraints in the number of producers able to respond to this additional demand, this could potentially raise the costs of Scottish productions. We therefore also considered the current Scottish production capacity and whether there are barriers to new entry and expansion.

Demand for new Scottish originations

A3.190 BBC Scotland will result in c.£20m additional spend on Scottish content per annum[195], which is not insignificant in the context of current investment in programmes aimed at Scottish viewers. According to Ofcom's CMR 2017, including acquisitions and repeats, the BBC, STV and ITV Border (Scotland) spent £58.1m on English-language programming for viewers in Scotland in 2016.[196] BBC Alba spent a further £16.4m on Gaelic-language programming, taking spend on content aimed at Scottish viewers to £74.5m. The incremental budget available from BBC Scotland of £20m would represent a 27% increase on this figure.

A3.191 Nevertheless, we explained that the BBC Scotland budget used for original commissions from external producers is likely to be lower than £20m:

- The BBC has budgeted around £6.8m for news-related content, which would be provided by BBC Scotland's in-house production (this represents 16% of the total channel budget of £32.4m) and the BBC has indicated to us that it would continue to produce some previously commissioned content in-house until 2018 at which point these programmes will be reviewed.[197] In addition, the BBC's targets for commissioning original content would also potentially allow it to continue to reserve some programmes for in-house production.[198]

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[195] Frontier CC estimated an additional £11.2m of budget for non-news content, which appears to be based on the BBC's initial budget plans for BBC Scotland shown 7pm-midnight (based on the additional spend of £18m and the news budget for the new channel). See Frontier CC report, pages 94-95 and 106.

[196] Source: Broadcasters. See Ofcom, Communications Market Report 2017 data, Figure 2.14, https://www.ofcom.org.uk/__data/assets/file/0017/105191/cmr-2017-scotland-data.csv

[197] For example, the BBC will continue to produce some programmes currently shown in opts slots on BBC Two (such as *River City* and *Landward*) until December 2018. See BBC response of 26 January 2018 to Ofcom request for information, page 6.

[198] The BBC has an obligation under the new Charter and Agreement to open all relevant TV programmes to competition by 2027. In addition, it has intermediate targets to offer a proportion of Studios genres to competition by 2018 and all PSB genres by 2019. This is in addition to existing quotas to ensure 25% of relevant programmes commissioned were from

- Repeats would be around 50% of the hours in the schedule. We explained that the cost to the BBC of repeats will be lower as any initial fee for an original commission includes rights to a certain number of repeats and fees thereafter are typically very low (i.e. 2% of the initial fee).[199]
- BBC Scotland may also acquire content such as a high-quality international or foreign-language drama, which it considers has particular appeal to Scottish audiences, but is made by producers outside of Scotland. Therefore, not all of the budget for BBC Scotland will necessarily be spent on Scottish originations.

A3.192 In addition, we explained that producers in Scotland do not rely only on revenue from programmes aimed at Scottish viewers, but may also produce UK network or international programmes. Therefore, we considered the additional budget for BBC Scotland in the context of this wider spend on the Scottish production sector. For example, according to PACT, the original production sector in Scotland was worth £190m in total in 2014.[200]

A3.193 Taking the above factors in the round, we estimated additional demand from BBC Scotland would represent up to (but potentially less than) 18% of total spend on programmes currently aimed at Scottish viewers and 7% of all original production in Scotland. This latter figure was broadly consistent with Frontier CC's estimates.

Supply-side: production in Scotland

A3.194 Our view was that there appears to be capacity in the UK and Scottish production sector to respond to increased demand for programmes for Scottish viewers.

A3.195 In terms of the numbers of production companies based in Scotland, PACT currently lists 43 members. This broadly aligns with Frontier CC's analysis of the size of Scottish production based on PACT's 2015 review.[201] However, we considered that the number of producers currently operating in the sector would not tell us about the capacity of the sector to respond to additional demand. But, as the Scottish production sector had grown at an average of 9% per annum in recent years, this suggested that production supply is

independent producers and an additional 25% was opened to competition. These quotas are specified across the BBC network and there are no competition quotas for the Nations.

[199] Under the BBC's terms of trade agreement with producers (clause 15.1), any initial fee includes rights to a certain number of repeats. Furthermore, additional repeats outside of the initial package of rights would typically only attract 2% of the initial fee. In addition, the BBC may have older archive material for which it would not incur any fees to show. See http://downloads.bbc.co.uk/commissioning/site/bbc_general_terms_march_2015.pdf

[200] PACT, A new model: building a sustainable independent production sector in Scotland, November 2015, http://www.prosperostrategy.com/9161472956/wp-content/uploads/2016/02/Prospero-Scottish-Production-Report-for-PACT.pdf; and Frontier CC report, pages 44 and 105.

[201] Frontier CC identified roughly ten large independents (mainly subsidiaries of larger players, such as 12 Yard, Lion, Shed, Mentorn and IWC) with annual revenues of £7.5m and above. Some have well-established connections with Scotland, while others only settle temporarily when producing a Scottish series or programme. Fewer than ten medium sized independents (annual revenues between £1m and £7.5m) are mainly head-quartered in Scotland. It also identified a long tail of 50 or so smaller producers, which rely highly on commissions from BBC Scotland and MG ALBA. See Frontier CC report, pages 94-95.

relatively flexible. We therefore considered that there is scope for the production sector to respond to additional demand from BBC Scotland.

A3.196 We had no evidence of there being barriers to entry, at least across the UK as a whole. For example, in our review of the TV production sector in late 2015, although the number of UK producers had reduced due to industry consolidation, levels of new entry remained high: an average of 31% of all producers were new to the market in each year since 2009.[202]

A3.197 We also observed that Scottish producers' revenues are not only derived from programmes aimed at Scottish audiences. Current spend on Scottish production is £190m which is much higher than the £74.5m spent on programmes for Scottish viewers. So, we considered that there is scope for Scottish producers to switch some of their capacity to programmes aimed at Scottish audiences from programmes made for a broader audience.

A3.198 In addition, we observed that the wider production sector in the UK is not prevented from taking up some of the slack, e.g. through co-productions with Scottish-based producers.[203]

A3.199 Finally, we considered whether studio capacity in Scotland could be affected, due to productions for the new BBC Scotland channel tying up the capacity of the BBC's production facilities, especially as the largest-scale studio facility in Scotland is in the BBC's Pacific Quay site. Our understanding was that a number of external production companies use this facility to film and post-produce their programmes.[204] However, we explained that alternative production facilities are available in Scotland, both from the BBC[205] and commercial providers[206] and the Scottish government has approved a large-scale film and TV studio near Edinburgh.[207]

A3.200 Therefore, we did not identify any material barriers to entry or expansion in the Scottish production sector.

Supply-side: efficiency benefits

A3.201 Frontier CC noted that incremental investment by the BBC in Scotland has the potential to lead to agglomeration efficiency gains[208], such as:

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[202] Ofcom, Review of the operation of the television production sector, 23 December 2015, paragraph 1.10, https://www.ofcom.org.uk/__data/assets/pdf_file/0028/82684/tv_production_sector_review.pdf.

[203] For example, *Outlander* was commissioned by a US network and shown on Amazon in the UK. This was filmed in Scotland and co-produced by Sony Pictures Television and Left Bank Pictures.

[204] http://www.bbcstreet.co.uk/studios.html

[205] BBC Scotland's headquarters are currently located at BBC Pacific Quay in Glasgow. The studio contains three TV studios and five radio studios as well as the first HD newsroom used by the BBC. It also has a studio in Edinburgh which contains TV and radio studios in addition to a newsroom. It also has smaller offices and studios across Scotland - Aberdeen, Dundee, Portree, Stornoway, Inverness, Selkirk, Dumfries, Kirkwall and Lerwick.

[206] https://www.filmbang.com/facilities

[207] http://www.bbc.co.uk/news/uk-scotland-edinburgh-east-fife-42444298

[208] Frontier CC noted that, in the counterfactual, this incremental investment might have otherwise been invested in BBC productions in the rest of the UK, particularly in London. However, the incremental investment in Scotland would have a small impact on current spend in London, which already has a significant production hub, and which is unlikely to be affected by the BBC spending more in Scotland. See Frontier CC report, page 9 and section 10.

- Realisation of possible economies of scale and scope;
- Stimulation of knowledge sharing; and
- Fostering specialisation.

A3.202 We considered it difficult to predict whether the changes arising from incremental investment in BBC Scotland would create a 'tipping-point' that would allow these agglomeration benefits to emerge.

A3.203 We thought that the additional BBC investment is not immaterial in the context of production spend on original productions in Scotland. In addition, the Scottish government has announced funding towards the film and TV school establishing a hub, for example, in the BBC's Pacific Quay studios.[209] These wider changes are not directly related to the BBC Scotland proposal, but the incremental investment in BBC Scotland could act to reinforce the wider developments.

A3.204 However, as noted by Frontier CC, we considered that benefits would be more likely where the investments were targeted in specific genres that could attract further investments and commissions from other parts of the UK.[210] Even with the additional investment in BBC Scotland, the size of the Scottish production sector is still comparatively small. With a number of existing production hubs in England and Wales, and originations still concentrated in London, individual producers would need to believe that a decision to locate in Scotland (potentially close to other production companies) provides a better or additional opportunity relative to these other UK locations.

A3.205 We did not rule out that these positive efficiency benefits might emerge from the BBC's investment, but we did not place significant weight on possible agglomeration benefits given, as Frontier CC accepted, incremental investment is not a sufficient condition to generate agglomeration efficiencies.[211] Nevertheless, we recognised that there could be direct benefits to producers already located in Scotland from the incremental investment.

Stakeholder responses to our Consultation

A3.206 STV Group noted that [✂[212]]

Our final views

A3.207 We consider that the BBC's additional investment in original Scottish content for BBC Scotland is unlikely to limit the ability of rival channels (such as STV and BBC Alba) to obtain access to the production capacity and facilities they need for their own original Scottish programming. We do not consider there are any significant barriers that would prevent

[209] http://www.bbc.co.uk/mediacentre/latestnews/2017/scotland-film-tv-school
[210] Frontier CC report, page 108.
[211] Frontier CC report, page 108.
[212] STV Group plc's confidential response to Ofcom's "Consultation", pages 5-6. STV Group's confidential response [✂]

producers from expanding capacity in response to the increase in demand by the BBC for original Scottish programming.

A3.208 While we recognise that the BBC's investment could create efficiency benefits for the Scottish production sector, we consider it is uncertain at this time whether such benefits would arise and how large they might be. As a result, a range of producers, including STV Productions, may benefit directly from the BBC's additional investment. But, as noted by STV Group, there are no guarantees that particular producers would secure commissions.

Impact on competition to acquire rights to Scottish content

A3.209 In addition to new programmes made by the BBC and programmes commissioned from external producers, the BBC Scotland channel will also include programmes acquired for audiences in Scotland. According to the BBC's PIT, during the hours of 7pm until midnight, 50% of hours on BBC Scotland will be originations and acquisitions, while 50% of hours will be repeats.[213] The increase in the BBC's demand for acquired content aimed at audiences in Scotland could potentially have an impact on the ability of rival Scottish broadcasters to access this type of content, particularly if its supply is constrained. We therefore considered the potential impact of the BBC's proposal on competition to acquire rights to Scottish content.

Summary of the approach in the BBC's PIT

A3.210 In its PIT, the BBC focused on the impact on sports rights, noting that STV2 continues to explore opportunities to acquire coverage of sport such as swimming and horse-racing. It noted that although it had not allocated specific funds yet, BBC Scotland may spend some of its £18 million budget on additional sport coverage.[214]

A3.211 The Frontier CC report noted that the supply of sports rights is relatively fixed in the short-run and different sports are generally imperfect substitutes.[215] This can result in scarcity in sports rights. If the BBC were to increase its investment in sports rights such that the costs of acquiring such rights increased significantly, rivals may have less incentive to invest or innovate.

A3.212 Frontier CC noted that currently a number of broadcasters show Scottish sports and the strong competition (and large budgets) for major sports rights from specialist sports channels.[216] For example, it estimated that jointly BT and Sky spent over £19 million per year on Scottish football rights. Frontier CC therefore concluded it is unlikely that a marginal increase in sports rights investment by BBC Scotland could significantly raise

[213] BBC PIT, paragraphs 60 and 96 (Box 4).
[214] BBC PIT, paragraph 279.
[215] Frontier CC report, page 97.
[216] Frontier CC report, page 97.

rivals' costs or prevent broadcasters such as STV investing in sports rights.[217] It noted that this conclusion is to a degree dependent on the BBC's plans for any further investment in sport.

A3.213 The BBC noted that if BBC Scotland decided to invest in additional sports rights, this would reduce the budget for other types of content.[218] Therefore, the BBC concluded that any purchase of sports rights by the BBC would be unlikely to have an adverse impact on fair and effective competition.

Our views in our Consultation

A3.214 We considered possible crowding-out impacts in terms of:

- increased cost of acquired original content that may appeal to Scottish audiences,[219] e.g. existing 'Scottish' movies or high-quality dramas;[220] and
- increased cost of rights to Scottish sports or other Scottish events (e.g. the Edinburgh Festival).

A3.215 In terms of increased cost of acquiring original general content, the impact is likely to be minimal, as the BBC Scotland channel is small in the context of overall demand and supply. Further, the focus of BBC Scotland is on news, with the schedule split 50:50 between (i) originations and acquisitions and (ii) repeats. As a result, the additional demand from BBC Scotland for acquired original content is unlikely to be material, particularly in the context of the increasingly global market for film rights and high-quality dramas.

A3.216 In terms of increased cost of rights to content with strong Scottish characteristics (e.g. Scottish sports and events), BBC Scotland may give the BBC more scope (i.e. airtime or budget) to show this type of material. This may push up the price to commercial broadcasters to secure these rights, either because of greater competition for those rights or because the event provider may perceive a benefit from larger exposure on the BBC (so may charge a premium to other channels with smaller audiences). We agree, however, with Frontier CC's analysis that BBC Scotland is unlikely to compete for live Scottish Premier League football rights given the budget for the channel and the amounts Sky and BT have paid to acquire these live rights (reportedly £18.75m per year).[221]

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[217] Frontier CC report, page 98.
[218] BBC PIT, paragraph 312.
[219] The BBC also has access to an archive of BBC shows, which may include programmes with particular appeal to Scottish audiences. We considered whether, if the BBC began to show repeats of BBC shows on the new channel, it might then limit access to commercial broadcasters (e.g. Netflix UK) currently showing the same material. However, it is not clear that the BBC would necessarily deny commercial broadcasters access to the BBC archive to show repeats, as this is a source of additional commercial revenue for the BBC to re-invest in public services.
[220] An example of acquired content shown to Scottish audiences includes *Black Widows*, a Finnish drama shown on STV2.
[221] Frontier CC report, pages 97-98. The channel might include football discussion programmes that include some highlights or clips. The BBC's December 2017 Multiplatform Commissioning brief invited producers to pitch "Sports Discussion" programme ideas: *"…are looking for a fresh, informed approach to discussion around Sport – particularly football - which harnesses expertise and knowledge to some of the spirit of the fanzines and the many Scottish sport*

A3.217 We noted that STV Group had raised concerns about competition for minority sports rights.[222] We referred to the fact that the BBC currently shows some sports such as shinty and bowls in opt-out slots on BBC Two Scotland. The BBC has not provided any plans for further investment in minority sports.

A3.218 We noted that the main sports output on STV and STV2, excluding international sports shown across the ITV network, includes horse racing and a football commentary show, which were both shown on STV2.[223] However, sports content did not appear to be core to the STV2 proposition. Based on BARB viewing data, sports accounted for only 3% of total viewing on STV2 in 2017.

A3.219 Even if the BBC did expand the range of sports it covered on the new BBC Scotland channel, it was not clear that BBC Scotland would seek to compete to broadcast the same sports as STV2 (i.e. horse racing). Moreover, even if STV2 were to have found it harder or costlier to acquire this content, the contribution of sports to STV2's audiences suggested that this would not have had a material impact on its viewing. Indeed, we considered that STV2 may have been able to attract comparable audiences by showing other, possibly non-sporting, content.

A3.220 We explained that BBC Alba also shows some sports, such as football, rugby, curling and shinty.[224] Similarly, it was not clear that BBC Scotland would seek to compete directly for the rights currently held by BBC Alba. We considered that any impact on the costs to BBC Alba of acquiring sports rights may affect the amount of funding it requires from the Scottish Government.

Stakeholder responses to our Consultation

A3.221 There were no specific stakeholder comments regarding the potential impact of the BBC's proposal on competition to acquire rights to Scottish content.

Our final views

A3.222 We consider that an increase in the BBC's demand for acquired content aimed at Scottish audiences (e.g. rights to sports and other Scottish events) is unlikely to significantly harm rival Scottish broadcasters' ability to acquire rights to this type of content.

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podcasts." However, our understanding is that the rights to short clips are not exclusive to a single channel and would not prevent other channels from showing similar content. See http://downloads.bbc.co.uk/scotland/aboutus/commissioning/bbc_scotland_multiplatform_commissioning_brief_dec_2017.pdf

[222] STV Group noted [✄]. See STV Group plc's confidential response to Ofcom's "Invitation to Comment", page 2.

[223] https://player.stv.tv/categories/sport/

[224] MG ALBA, Annual Report and Statement of Accounts 2016-17, pages 43-44, http://www.mgalba.com/downloads/reports/annual-report-16-17.pdf.

Our conclusions on supply-chain impacts

A3.223 We have considered above the potential supply-chain impacts that the BBC Scotland proposal could have. Overall, we conclude that the BBC Scotland proposal is unlikely to result in any adverse effects on fair and effective competition in the wider supply-chain.

- We consider that the BBC's proposal does not pose a significant threat to the ability of Scottish newspapers to attract or retain journalists.
- We consider that the increase in the BBC's demand for original Scottish programming is unlikely to limit the ability of rival channels (such as STV and BBC Alba) to obtain access to the production capacity and facilities they need for their own original Scottish content. The BBC's investment also has the potential to create efficiency benefits for the Scottish production sector. However, we consider that it is uncertain whether these efficiency benefits will actually arise and how large they might be.
- We consider that the increase in the BBC's demand for acquired content aimed at Scottish audiences is unlikely to significantly harm rival Scottish broadcasters' ability to acquire rights to this type of content.