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1 Appendix 11.3 is available on the DCMS website only (www.culture.gov.uk). Appedices 11.4, 11.5 and 11.6 are available on the DCMS website or by request on CD.

1 Foreword

1.1 Terms of reference, summary of the process and timing of the review

The Secretary of State for Culture, Media and Sport is responsible under the BBC's Charter and Agreement for approving new service proposals made by the Corporation. In February 2000, the then Secretary of State announced that where such approvals were given, the operation of the services would in due course be subject to independent review.

The independent review of BBC Online is the second of such reviews[2] and its broad terms of reference, set out by the Secretary of State in April 2003, required an independent reviewer to:

- Consider whether, in providing its online service known as BBC Online, the BBC is acting in accordance with the facts and assurances on the basis of which approval to proceed with the service was given;
- Produce an assessment of the market impact of BBC Online;
- Consider, in the context of the approaching review of the BBC's Charter, what the role of BBC Online should be within the BBC's overall service
- Have regard, in reaching conclusions, to:
  - the BBC's own report on the performance of BBC Online and to any subsequent evidence provided by the Corporation;
  - views submitted by other organisations and individuals in response to the BBC's report or in response to the invitation to comment issued by the reviewer; and
  - any additional evidence which the reviewer considers it appropriate to commission;
- Submit a report to the Secretary of State, in publishable form, by Spring 2004, setting out the conclusions of the review and, if appropriate, making any recommendations that the reviewer considers necessary to ensure that BBC Online is operated in accordance with the terms of the original approval

In August 2003[3] the Secretary of State appointed me as the independent reviewer of the BBC's online services. In October of the same year, I appointed a team of advisers to support me with media, technical and economics expertise. Europe Economics were appointed as economic advisers to the review, to analyse evidence submitted by the BBC and others on issues of market impact. Spectrum Strategy Consultants were selected to provide advice on the BBC's use of new technologies within BBC Online, the likely development of the online market in the UK and performance measures for the service[4].

2 The first of such reviews was Richard Lambert's Review of BBC's New 24, which reported in December 2002.
3 Philip Graf's appointment was announced by the Secretary of State, Tessa Jowell, at the Guardian Edinburgh Television Festival, 23 August 2003
4 Appointments were made after a competitive tendering process compliant with DCMS procurement guidelines

The BBC's own review of its online services was published on 23 August, together with a market impact assessment, commissioned by the BBC and carried out by KPMG. On that date, I invited the public to send me their views on BBC Online. By the time the consultation closed at the end of October 2003, we had received over 1400 responses from the general public, in addition to nearly twenty submissions from commercial and public sector stakeholders. I have published the public responses as an annex to this review[5] except where I have been asked not to by the respondent. I also commissioned audience research to explore, in more detail, the public's expectations of and views on BBC Online.

Between November 2003 and March 2004 I held a series of meetings with the BBC and other key stakeholders. These meetings included informal discussions with web producers working on BBC's local 'Where I Live' sites, an interview with the BBC's then Director General, discussions with representatives of public service stakeholders, such as NHS Direct and commercial players such as the British Internet Publishers Alliance[6]. The meetings provided further evidence on BBC Online's priorities, performance and plans for the future, and explored emerging themes and concerns.

I have based my conclusions and recommendations firmly on the evidence gathered during the review. Although I have been supported throughout the process by the review team, those conclusions and recommendations are mine alone.

1.2 Overview of structure of report

The report is structured as follows:

SECTION I: RECOMMENDATIONS

Chapter 2: Recommendations

In this chapter I state my conclusions and key findings from the review.

SECTION II: PAST PERFORMANCE OF BBC ONLINE

Chapter 3: Assessment against approvals

We assess BBC Online's performance against the conditions of Approval as agreed in 1998. The analysis is based primarily on evidence from the BBC and members of the public.

Chapter 4: BBC Online's Past Performance in a wider context

We explore wider issues – i.e. those that could not effectively be captured within a strict assessment of the service against the original approvals – which surround the service's performance to date. We draw here on evidence from commercial and public sector stakeholders, as well as views from members of the public.

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5 Available on the DCMS website (www.culture.gsi.gov.uk)

6 The British Internet Publishers' Alliance (BIPA) was formed in December 1998. BIPA represents the interests of a wide range of internet publishers. Current members: Associated New Media, Commercial Radio Companies Association, EMAP, Guardian Unlimited, Independent Digital, News International Plc, Sky Interactive and the Telegraph Group Ltd

Chapter 5: Market Impact of BBC Online

We consider a key aspect of BBC Online's past performance over the last five years, namely its economic impact on wider UK markets. We discuss definitions of market impact and assess BBC Online's past market impact based on evidence provided by KPMG and other stakeholders.

SECTION III: FUTURE OF BBC ONLINE

Chapter 6: Future environment and new technologies

We identify future trends in technology supply and demand, and their likely implications for BBC online services.

Chapter 7: Future Market Impact

We discuss possible methods by which BBC Online's market impact may be assessed in the future.

Chapters 8 to 10: Future Frameworks for BBC Online

We suggest a framework and structure within which BBC Executive, Governors and Parliament might consider the service's rationale, strategic priorities and systems of governance going into the next Charter period.

1.3 **Notes on the review**

A review of an online service, in isolation from its cross media 'parent' is intrinsically a difficult task, as barriers between media have become increasingly indistinct. For the purposes of this review, it is considered that all services funded by the licence fee, delivered via the Internet, by the BBC's public service site, www.bbc.co.uk, and accessed by any device (PC, PDA or mobile) are relevant to the review's findings.

Any BBC content or services offered by any commercial arm of the BBC, for example www.bbcshop.com or www.bbc.net, which are run as separate and commercial operations by BBC Worldwide Ltd, are therefore beyond the scope of the review, as are the BBC World Service's international sites funded by Grant-in-Aid. Even the public service 'interactive' brand, 'BBCi', includes some services, such as interactive television and digital text, which are excluded from the review, as they are accounted for under different consents and are not 'online' services. All these other services are only to be considered insofar as their interaction with bbc.co.uk is relevant, or that they impact on the performance or governance of the licence fee-funded site. In order to be absolutely clear as to which services this report refers, the services under review will be referred to as BBC Online.

This report's terms of reference require the reviewer to assume that there is due justification for a public intervention in the UK internet market, and that the correct delivery vehicle for this intervention is the BBC. However, any decision on the future of the BBC Online service must be set in the wider context, of which key aspects are currently under consideration by both Ofcom's Review of Public Service Television Broadcasting and the DCMS' BBC Charter review. Whilst this review cannot attempt to second-guess the outcomes of those other reviews, we have kept up-to-date with developments to ensure that our findings will provide constructive input to their wider, more long-term deliberations.

The subject of online proved a complex, complicated, and demanding one. Online markets and technology are changing almost daily, and consumption will undergo further dramatic change with the increasing take up of broadband. These rapid changes are symptomatic of an online world that has yet to mature and so we have, at times, been hampered by a lack of consistent and robust data.

Given the time constraints and the sheer scale of BBC Online, this has not been a site-by-site review. Instead I have focused on those areas of greatest public interest and concern.

There is clearly great public affection and appreciation of BBC Online, but the commercial competitors felt that many of BBC Online's activities were operating in an unfair manner. This is an area, however, which is rich in assertion though poor in reliable and convincing data.

My principal aim was to give both sides of the debate the chance to put their case, and I have attempted to provide a practical and constructive set of recommendations. Ultimately, if BBC Online is to continue to operate in content areas that go beyond traditional programme support, the Board of Governors or whoever regulates this service will have to exercise some fine judgements. They must do so, and be seen to do so in a rigorous, open and fair minded way.

This is the second review of a BBC Service after the Lambert Review of BBC News 24. BBC Online is a much more wide-ranging and complex operation than BBC News 24. Thus the nature and number of questions asked of the BBC were different from anything that had gone before, and on occasion, it took time for the BBC to collate and provide the requested information and data. I have some sympathy for the challenge this represented for the BBC, particularly given the number of reviews to which the Corporation is currently subject.

The process of independent review is not, in my opinion, a very efficient one. By the nature of the process – it only happens at a single point in time – there is a steep learning curve for the reviewer and considerable one-off disruption to the BBC. The Charter review should seek to find a better regime for regulating services such as BBC Online.

Finally, it is impossible for me to assess whether the amount currently spent on BBC Online represents a good use of the licence payers money compared to spending the money on other BBC services. The comparative value of all BBC services is clearly a wider question, and one for consideration as part of Charter Review.

However, Ofcom commissioned a large-scale piece of survey research from Ipsos –RSL recently as part of Phase I of its review of Public Service Broadcasting[7]. When asked how much they individually valued the BBC internet site, 18% of the sample said "very much" or "quite a lot". This grew to 36% of 16-34 year old internet users.

Also, when respondents in our audience research were made aware of the amount of their licence fee invested in Online (approximately 3%), most respondents, including light and non-

7 See *http://www.ofcom.org.uk/codes_guidelines/broadcasting/tv/psb_review/*

users of BBC Online, felt that this sum was fairly insignificant. They considered that the opportunity presented by BBC Online, to access BBC resources in more depth and at their convenience, represented value for money. This was a similar finding to public responses at a Board of Governors Seminar in early 2003.

1.4 **Acknowledgements**

I owe a great debt of gratitude to my review team.

Kate Biggs, who was seconded to the team from the DCMS, was invaluable. She worked tirelessly and with great good humour. She was meeting organiser, note taker, drafter and generally ensured that what needed to get done got done.

Jeremy Mayhew and Luke Bradley-Jones of Spectrum, as well as providing extensive material for the chapters on technology and the future market and technology trends, helped greatly in the process of developing conclusions and recommendations. The team at Europe Economics, Franck Latrémolière and Nicholas Francis, undertook the very difficult task of providing the material on market impact with great insight and rigour.

Many people at the BBC deserve thanks for the time they gave to talk to me, especially Ashley Highfield and his team. Special thanks must go to Jonathan Kingsbury who acted as guide, information gatherer and minder with great diplomacy and good humour.

Finally, my thanks to those members of the public and organisations who submitted evidence to the review and those organisations who met with the team to discuss their evidence.

SECTION I: RECOMMENDATIONS

2 Recommendations

Due to the rapid changes in technology and internet consumption, my conclusions are necessarily focused on the short to mid-term. My recommendations cover areas, which are the responsibility of the Secretary of State, the Board of Governors and BBC management. Many will have to be considered within the wider context of Charter Review. I hope, however, that those within the immediate responsibility of the BBC will be acted upon without waiting for the new Charter.

This review assumes that public intervention in the online world should largely be effected by the BBC. The questions raised by Ofcom in the broadcasting area about public intervention should, however, also be raised in the online world. BBC Online now competes directly with many organisations that provide, and have the potential to provide, public service type content. Charter Review should consider whether there are alternative ways of delivering the public service remit, currently being delivered by BBC Online.

The review also assumes that the BBC's Board of Governors remains in its present form, as the service's principal form of governance and regulatory control, although section 2.4 below sets out some wider questions about whether and how the current governance arrangements could be strengthened.

I have arranged my conclusions and recommendations under the following headings:

- Remit and Strategic Objectives
- Operational Performance and Delivery
- Market Impact
- Governance and Accountability

2.1 Remit and strategic objectives

The remit and the strategic objectives, which guide BBC Online, should be more clearly defined around public purposes and/or programme-related content and should be clearly communicated to the public and the online marketplace. I recommend that:

- **The BBC considers aligning online services to the framework for online public purposes and strategic priorities, as outlined in chapters 8 and 9**
- **BBC Online must actively seek to engage and communicate its purposes and strategic objectives to its audiences and the wider market**
- **BBC Online continues to act as a home and guide to the internet for those who require it; it must however develop a more consistent and transparent approach to linking to all relevant sources (commercial and public) and ensure that its search tool prioritises user experience over BBC content**
- **The remit and strategic objectives should be directly underpinned by a financial and performance measurement system, which clearly links the BBC's remit and strategic objectives, through BBC-wide new media objectives down to divisional priorities. This improved clarity should work to encourage focus and further efficiencies**

Remit

The original remit was widely drawn, and widely interpreted, but in the terms in which it was stated, it has largely been fulfilled. The present BBC Online site is impressive in terms of its breadth, depth, and technical capabilities. I found clear evidence of innovation and creativity, and this must not be lost.

The licence fee settlement in 2000, and the extra funding granted to the BBC at that point, led BBC management to give great legitimacy to reach as a key service goal. This followed from their belief that BBC Online had a role to play in helping to drive digital take-up and in countering the digital divide. This role is largely self-appointed and has yet to be sufficiently tested for delivery or appropriateness as a legitimate role for a single public service broadcaster.

Currently, a fundamental lack of trust in the BBC Online regime exists amongst external stakeholders. Various factors have contributed to this situation: the wide interpretation of the remit and the early expansion, followed by changing priorities; poor communication; a links policy, which seems unfair and discriminatory; a mobile strategy that has been poorly communicated; and, finally, opaque financial information.

To safeguard against unnecessary market uncertainty, the purposes and remit of BBC Online should be consistent with the BBC's wider purposes and should be clearly and explicitly communicated to the market. Specifically, BBC Online's remit should reflect a clearly defined set of public purposes in the online world, which may include the social, new media, economic and sector-wide purposes and priorities, as described, in detail, in chapters 8 and 9.

Furthermore, the BBC must remain mindful of its obligation to provide public service content, free at the point of delivery. In this context, new platforms, such as mobiles and PDAs, must be given particularly careful consideration.

Strategic objectives

For a number of years, there appears to have been inadequate linkages between the BBC's remit, the Governors' objectives, and divisional objectives. Over the last 18 months, however, there have been significant improvements - with the production of better investment guidelines, the introduction of improved editorial policy guidelines, and better performance reporting.

BBC Online should be clearly distinctive from commercial offerings. The quality of a particular service, however high, does not constitute distinctiveness per se. At times, it seems that BBC-wide Online goals are not effectively transmitted to actual delivery— for example, goals of distinctiveness can lose out to the day-to-day realities of competitiveness and, in some cases, there seems little real difference between BBC Online and its commercial rivals, apart from advertising content.

BBC Online content must be distinctive in its provision of a public service, not just simply in its differentiation from market alternatives. Some sites seem hard to justify in terms of the BBC's remit or wider public purposes. Sites - such as fantasy football, certain games sites, and the 'What's On' listings sites - do not seem to me, to be sufficiently distinctive from commercial alternatives or adequately associated with public service purposes, to be justified by the remit.

BBC Online should ensure that its homepage reflects the purpose of the service, and provides an effective gateway to the sites available. The links policy must also meet the needs of users for a rich and varied experience, which may not be confined to BBC sites. The BBC must have, and be seen to have, a consistent and effective approach to linking. In some areas of the service, such as Lifestyle/Holiday, a single commercial provider link is supplied in a prominent position on the relevant lead page and alternative supplier links are deeply embedded within different sections of the site. In others, the only other links are to other BBC content or to relevant public organisations. Whilst this may be justified in some cases, by user preferences and editorial judgement, the policy, in its implementation, should be transparent both for users and for competitors; there should be a consistent, centrally-driven links policy to ensure that this happens.

Respondents, in our audience research, could not clearly identify the value of the BBC search engine. Many were content with commercial tools, such as Google. On balance, however, I feel the BBC should retain its search engine. Given that search is becoming such a fundamental part of how the internet is used, it is worth keeping a publicly funded, UK competitor in the market place. The size of the BBC site means that it needs an internal search engine in any event; a condition of also providing a worldwide web search facility should, however, be that it is reorganised to provide a truly independent capability, i.e. not one that favours BBC sites. The BBC should keep its search engine under regular review, in the light of changes in the market and user behaviour.

In future, therefore:

- BBC Online should prioritise news, current affairs, information of value to the citizen, and education. Within these areas, it should prioritise innovative, rich, interactive content
- I believe that it is legitimate for BBC Online to provide online Sport content. As a public service provider the BBC should, however, prioritise sports news, programme support, the major listed events, and the provision of material on minority sports, with an emphasis on encouraging participation. It should not be competing for other online rights, unless linked to broadcast ones
- The BBC has a role as a home on the internet for those who wish to have a safe guide and introduction to the web. To fulfil this role properly, however, the BBC needs to rethink a number of areas within BBC Online, including the purpose and layout of its home page, its site navigation, its links policy, and its search engine

BBC Online has a role to play in supporting the Government's objectives to promote broadband take-up. It has the brand, the potential to produce innovative and interesting content, and the means of promotion in order to play such a role. It should do so in conjunction with key stakeholders, which include the Broadband Stakeholders' Group. This role does not, however, provide a justification for the BBC to produce content that extends beyond its public purposes.

Financial management

BBC Online is very generously funded by comparison with its commercial competitors. Despite recent budget cuts and efficiency programmes, the numbers employed - for example, in delivering news, sport and regional material - are considerably higher than any other UK operations of which I am aware.

BBC Online expenditure should, therefore, be managed tightly. To support this, the BBC should ensure that:

- New Media budget and strategic objectives should be linked clearly to the Statements of Programme Policy and the BBC's overall objectives
- The BBC New Media operation should continue to pursue cost savings - for example, in the areas of its own central costs, technology purchasing, and content production
- The BBC New Media budget should be published at divisional level (e.g. News, Sport etc) and it should be easy to reconcile this total to the financial data contained in the Annual Report and to the actual expenditure by division. The annual cost of providing the content for the World Service should also be clearly identified

2.2 Operational performance and delivery

The BBC delivers high quality material in an effective and user-friendly manner. There are, however, a number of changes, which could improve the experience for users, deliver efficiency, and ensure that the site effectively reflects BBC Online's priorities. I, therefore, recommend that:

- **The BBC sets a target of, at least, 25% for online content (excluding news) supplied by external and/or independent suppliers by the end of the current charter**
- **The BBC actively works with partners to ensure that it draws on existing expertise and delivers content, such as education and local information, as effectively and efficiently as possible**
- **BBC Online must continue its commitment to shaping its service in response to users' preferences and behaviour, for example, through a high specification technical infrastructure and detailed user testing**

The user experience

Respondents to the review's audience research described BBC Online as "high quality", "well communicated", "engaging", "professional" and "balanced". The public's admiration and support for the service is widely felt. However, the BBC must ensure that sufficient steps are taken to ensure that high standards of delivery are maintained and that licence fee payers' money is used as effectively and efficiently as possible. The review's audience research highlighted some potential areas for improvement:

- Respondents felt the BBC Online homepage (www.bbc.co.uk) was too cluttered, with unhelpful or unfamiliar terms and links. It failed to give users an idea of the service's purpose and relevance to them
- Respondents felt that current promotion, whilst encouraging some to go online, had failed to make them aware of the service's purpose and the breadth of available content. They argued that more relevant marketing, i.e. not just programme-related, would encourage users to access more content of value and, therefore, give them better value for money for their licence fee

The technical delivery of BBC Online is of a high standard. For example, BBC Radio Player, which enables users to access their favourite radio programmes or missed interviews within a two-week window has boosted radio listener numbers, and it has been met with broad consumer approval. If additional costs can be managed, the BBC might encourage more users to access rich, audio/visual content by the use of alternative streaming products, such as Windows Player and associated codec, or an open source alternative[8].

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8 Windows Media player is pre-installed on any computer with a Windows operating system - i.e. the vast majority. Also, users may have an alternative preferred player (e.g. Winamp, Sonique, Quicktime, Windows Media player) and may, therefore, choose not to use RealPlayer

BBC Online provides an important additional feedback mechanism for licence fee payers, as well as an opportunity for users to post their own content on the site in an organised and easy-to-use way. This functionality could be further exploited through continued improvements in navigation and promotion. Our research indicates that many users still do not regard BBC Online as a credible mechanism for feedback.

The BBC should continue to develop a 'new relationship' with users through more extensive engagement in community/user-generated content, which would further deploy the capacity of the medium to provide opportunities for interaction between users and producers. There has already been much good work in the development of interactive and user generated content: Hull Interactive, digital story telling in Wales, education centres and buses in several areas are good examples of using the BBC brand to educate the less computer-literate about the potential of the net.

The BBC could enable less confident users to use more sophisticated applications by building on interactive Factual & Learning's 'learning journey' tools[9], to encourage users to progress, for example, from simpler interactions (e.g. casting a vote) to more advanced services (e.g. contributing to a discussion forum). The BBC's 'help' texts could be available in a 'jargon-free' version, supported by tips or testimonies from other new or inexperienced internet users, in order to make the content more personal and engaging.

Much more content production should be outsourced: this should not only help develop more innovative content, and the development of the independent sector, it may also, if the contracts are of sufficient magnitude and the terms co-operatively drawn, help reduce overall service costs. BBC Online should aim to outsource, at least, 25% of its non-news output. The BBC should work with the independent sector to produce an agreement similar in concept to that for independent TV production. I found no reason why this target should not be met by the 2006-07 financial year.

In addition to the BBC's contractual relationships with external suppliers, the BBC has also talked a great deal about its desire for more partnerships. Greater commitment to partnerships, at a corporate rather than individual producer level, could enrich BBC Online and extend the reach and impact of sites, such as WebWise, which depend on the effective engagement of local partners.

The present management structure of the BBC, however, can make it difficult for an outsider to engage constructively with the organisation. Its operational structure reflects the relationship of New Media to the BBC's Television and Radio divisions, as well as to its central policy and strategy units. BBC Online's resulting matrix management structure has encouraged '360°' commissioning, and more coherent internal budget and strategy setting processes. It can, however, also create a culture and organisation that, at best is confusing and, at worst, is a recipe for dodged responsibility when dealing with third parties.

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9 BBC Interactive Factual and Learning already operates technology that plots the path of users through the site, as they are taking an online course, enabling them to return to the course where they left off.

The central New Media team also has a key role in championing new applications and means of delivery, sharing knowledge about consumer preferences and usages across the BBC. They must ensure that its own team's functions, whether in technical development or audience research, are not unnecessarily duplicated elsewhere in the BBC.

Performance measurement

The BBC has defined and developed a series of operational structures over the years, such as the Quarterly Performance Review process, by which BBC Online can be held accountable for the delivery of its objectives. As these have been developed over time, it is often difficult to establish robust trends and patterns. It is, nonetheless, important that BBC Online's objectives are measurable and consistently defined.

Currently, BBC Online's measures include reach (the number of users), cost per user per site, time spent on sites, and internal linking. More sophisticated measures are being developed, for example, to show 'click-throughs' to external sites from BBC Online and more accurate data on BBC Online's use amongst young people; these should be incorporated into the performance measurement system as soon as practicable.

2.3 Market impact

In the case of many individual sites, it will not be practical or desirable to undertake a detailed analysis of market impact to a standard that could convince an independent observer or regulator. For these reasons, greater weight must be placed on a higher-level means of addressing the risk of adverse effects on competition, specifically:

- **A deliberate "precautionary approach" to BBC Online investment (see detailed definition in chapter 7)**
- **A governance structure that ensures that market impact is fully taken into account at all levels of BBC Online's management**

In practical terms, a precautionary approach means that, if there is a "close call" between the public service benefits of a proposed BBC Online service and the costs of that service, the proposal should not be taken forward.

If the governors take this approach, they will be wary of any proposals for new online services that are not accompanied by a reasoned judgement on market impact.

Given the nature and complexity of BBC Online's services, and the evidence available to the review, the analysis of the market impact of BBC Online does not "prove" or "disprove" the hypothesis that BBC Online has had adverse market impact.

There are indications, however, that BBC Online may have an adverse impact on competition. In particular, BBC Online might lessen competition, by deterring investment by commercial operators that could have led to new forms of competition.

At the same time, it seems unlikely that BBC Online has eliminated effective competition across any large areas of online content. Although some content markets may be very narrow, and the data does not exist for a complete analysis of market shares, effective competition occurs in many of the content markets supplied by BBC Online; relevant evidence includes the obvious choice available to users in many areas, the ability for competition to be sustained on account of consumers' varied preferences for online content, and the scope for competitive entry. Even so, a risk remains that BBC Online might eliminate effective competition in certain markets.

With respect to any positive market impact of BBC Online, although it is clear that BBC Online will have stimulated some internet take-up, the evidence that this has been (or will be) a significant impact is weak.

2.4 Governance and accountability

There is real need to provide a credible and rigorous regulatory regime for BBC Online. The present system needs to be reinforced and I would recommend that the following changes are given due consideration:

- **A governor with specific new media experience should be appointed**
- **A governor with specific competition law expertise should be appointed**
- **The governors should have access to independent analytical advice on specifically new media matters in order, for example, to evaluate strategy for investment in new services and to understand market impact. Any advice should be published**
- **The Governors should ensure that there are transparent processes for the validation and communication of BBC Online's strategy and for the assessment of performance against this strategy**

The governance and regulation of BBC Online is not an easy task. The service's delivery, performance metrics, usage and potential are not as established as other broadcast platforms. BBC Online also represents a fraction of the BBC's total expenditure on public service content. The Governors have been involved at critical stages in the service's development, such as in discussions regarding the boundaries of public service provision, the development of the search engine, and the tightening of editorial guidelines. They have also conducted seminars with a selected group of users and representatives from the Broadcasting Councils.

From the papers supplied to me, however, I find it hard to see how the Governors have been able to ensure that BBC Online's strategy and services have, at all times, focused sufficiently on the service's stated core purposes. The time, knowledge, and independent advice - available to the Board of Governors - have not, in my opinion, been enough to ensure the proper oversight of the service.

A strong and credible regulatory regime is vital, if public intervention in this area is to be delivered effectively and efficiently. There are wider issues about the role of the Board and whether there should be an alternative form of regulation, on which I have no formal view. During the course of my review, however, the following questions became apparent and should, if the current regime is to be retained, be considered as part of Charter Review:

- Should the Board of Governors become more independent of the executive and, if so, how?
- What nature of independent support should the Board of Governors have in order to be able to carry out its duties effectively?
- How should the Board of Governors build up the relevant mix of expertise and experience in a rapidly changing world?

SECTION II: PAST PERFORMANCE OF BBC ONLINE

3 Performance Against Terms of 1998 Approval

In this chapter the review team assesses what services the BBC has provided to fulfil its obligations under the original terms of the approval for BBC Online. The purpose of BBC Online was established and defined by the original approval, given by the then Secretary of State in 1998[10]. As the BBC's 'third arm' of public service broadcasting, BBC Online shares BBC television and radio's wider public purpose which is, broadly, to "enrich people's lives with great programmes and services that inform, educate and entertain" and to play a role in the Corporation's vision "to be the most creative, trusted organisation in the world".

In addition to these strategic, high-level purposes, BBC Online is subject to a three-part approval, established in the BBC's letter, requesting approval for the service on a permanent footing in 1998. The three part approval required BBC Online to:

I. Act as an essential resource offering wide ranging, unique content

II. Use the internet to forge a new relationship with licence fee payers and strengthen accountability

III. Provide a home for licence fee payers on the internet and act as a trusted guide to the new media environment

These objectives were relatively broad, but were established in 1998, a time when the internet was a nascent media, its potential and impact far from fully understood or realised. However, since the service's inception in the mid-1990s, as primarily a news and programme support service, BBC Online has developed into a service with over 2 million pages of content, in 34 categories which, in turn, offer nearly 500 sub-categories. BBC Online now offers services that range from simple text content, through games and chat facilities, to streamed and downloadable audio/visual content. But have these services been developed in the best interests of the licence fee payer and how effectively have the services been delivered?

The review team's assessment of BBC Online's performance against the original approval is primarily based on evidence provided by the BBC and the review's audience research. We consider key trends on the service's 'output' (e.g. number of sites and investment levels), 'impact' (e.g. various indicators including consumption metrics such as page impressions and user demographics), and any relevant measures of the service's 'efficiency' (e.g. cost per user reached, audience appreciation ratings and industry awards).

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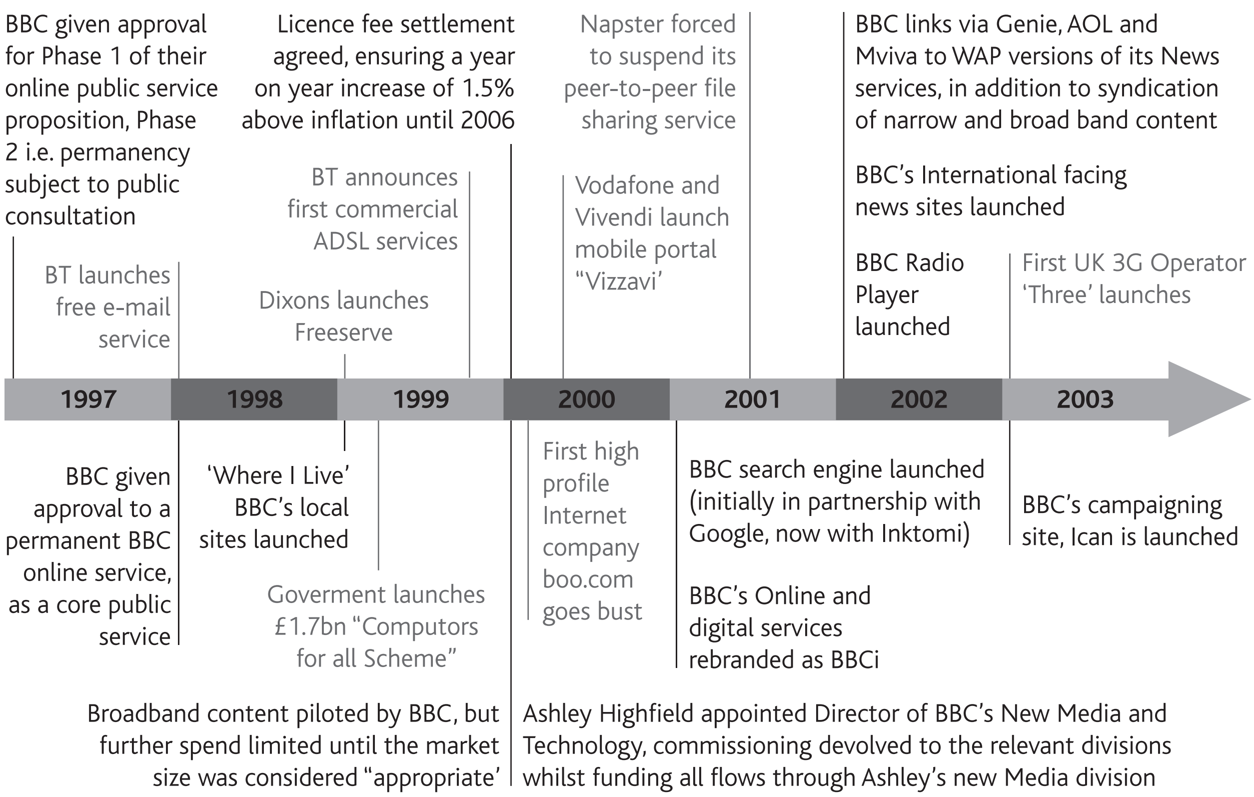
10 See Annex 11.1 for the letter of consent, and the BBC's letter on which the consent was granted

3.1 Brief history of BBC Online

In the mid-1990s, the then BBC Director General, John Birt, had great ambitions for an online public service, that the service would become the third arm of broadcasting for the BBC. This vision recognised the possibility of the Internet to open up new channels of communication with audiences and, indeed, a necessary development if the BBC was to remain relevant in a fast evolving new media environment. Following a one-year pilot and a public consultation, the Secretary of State approved a permanent online service in 1998.

Exhibit 1 illustrates some of the key milestones in the development of BBC Online and the wider market. The appointment of a Director for New Media and Technology in October 2000 was an important milestone in the consolidation of the online service's operation and corporate strategy. Following his appointment, commissioning was devolved to the relevant content divisions or, as the BBC refers to them, ' petals' (such as News or Children's), and all funding for online activity flowed through the central New Media and Technology division[11]. This structure of 'matrix' management is intended to enable divisions to exploit their genre expertise, and operate economies of scale at the point of commissioning[12]. New Media and Technology division are also responsible for ensuring consistent standards across the whole site[13], a coherent overarching strategy and delivery of some pan-BBC services such as the search tool.

Exhibit 1: Milestones in BBC Online, 1997-2003



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11 Previously the Director of BBC Broadcast oversaw editorial and strategic compliance.
12 Otherwise referred to by the BBC as 360° commissioning
13 The Director of New Media's editorial role is defined in BBC guidelines as: "It is the responsibility of the relevant Director of each Division offering Internet pages to ensure that the Division has complied with these guidelines and the Producers' Guidelines" and "Director, New Media, has overall responsibility for the BBC's public service online sites"

The Director of New Media chairs a New Media Board, which consists of representatives from each content division involved in online/interactive TV activity[14], New Media's Finance, Strategy, Human Resources and Marketing Heads, and is chaired by the Director of New Media. This board supports the Director to develop the service's strategic objectives and budget every autumn. Local budgets and targets, are, then set on a one-to-one basis between the relevant interactive Head and the Director of New Media, which are then reviewed on a quarterly basis, through a process called the Quarterly Performance Review (QPR). Documents from the QPR process have informed the analysis of this chapter.

3.2 Performance against approvals: Part 1,"To act as an essential resource offering wide ranging, unique content"

This broad ranging objective was tempered by a series of more focused objectives, each of which will be assessed in turn.

Part I, Objective 1: "Providing useful, stimulating and up-to-date content"

The BBC committed to delivering this in four ways:

- **"Delivery of up-to-the-minute news and information, in-depth comment and analysis both, nationally and regionally"**

Expenditure on the BBC News website has more than doubled during the period under review from £7.6m in 1998 to £15.5m in 2004, but this considerable investment cannot simply be mapped onto the service's growth in output. There is no easy equivalent of television and radio's hours of broadcasting material, and so a single metric cannot, by itself, fully describe the breadth and depth of an online service. We considered, however, that in the absence of data on the number of pages produced or accurate staffing numbers, that the number of categories or sub-directories within the BBC News website does give some indication of how the investment has been translated into output; it has grown from just 8 categories in 1998 to 61 in 2003.

Page impressions are an industry standard (in the commercial sector), which describe, or at least give some indication of the pattern in consumer demand. The BBC News website's page impressions have grown from 21.6 million page impressions per month in December 1998 to 187.6 million in December 2002. However, any assessment of the impact of BBC Online's news and information services presents challenges, in so much as which metrics are capable of giving a fair and meaningful description. Whilst the only consistent year on year metrics for BBC Online are page impressions, they only provide a description of how many pages have been delivered to users rather than how many individual users (or 'unique users') the site has, or any sense of the 'stickiness' of the site in terms of time spent.

The BBC does collate a number of more sophisticated 'user' metrics, which increasingly feature in internal performance documents. These metrics include the service's reach amongst the UK

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14 The interactive sections of other divisions represented on New Media Board are as follows: Interactive Factual and Learning, News Interactive, Sport Interactive, Interactive Radio and Music, Nations and Regions, Interactive Drama and Entertainment, Interactive CBBC (Kids), BBC World Service, and BBC Worldwide. The Director of New Media retains editorial purview of the BBC's commercial Internet services and therefore BBC Worldwide is represented for editorial compliance reasons.

Internet universe, the number of 'unique' users and user demographics. In March 2003, News Online recorded reach amongst 26% of the UK Internet universe, which represents 11% of the UK adult population and an increase of 100% since the same period in 2001[15]. According to the BBC's own user research, the user demographics of the BBC News website, compared to the rest of site and the wider UK internet population, are dominated by users who are male, aged between 25-34 years old and experienced internet users.

Measures of the service's effectiveness include the value users and/or licence fee payers place on the service. The BBC News website did not participate in the last internal survey that collates BBC users views, and appreciation ratings on the service. Members of the public questioned in the review's audience research, however, widely praised the depth and breath of the news service.

The efficiency with which the service is delivered, can be measured through a number of key indicators that include cost per user or page impression data and technical solutions. The BBC's principal measure of Online's efficiency is the cost per user reached or cost per page impression. In March 2003 the BBC News website's cost per user reached was 27.2 pence - compared to BBC Online average of 72.7 pence, although the demand for the service was unusually high that month due to news coverage of the war in Iraq.

Another indicator of the service's efficiency could be staffing levels over the period under review, however the BBC do not account for staff who work for online only, as many work across medias, for example, online journalists who also provide copy for Ceefax, and interactive TV.

The BBC has also employed a number of technical solutions to enable them to deliver news and information content quickly and effectively, over a number of platforms. The development of the News and Sport Content Production System (CPS) represents a significant investment in such technical solutions, with total costs amounting to £3.8m in 2003[16].

- **"Rich and interactive educational content"**

The BBC budgeted £2.4m on schools, £1.7m Lifeskills, and £2.6m on Specialist Factual (e.g. Science, History and Religion) content in 2003/04. This represents 61% of the Factual & Learning division's expenditure and approximately 11% of BBC Online's total spend on content. The remainder of the division's spend is on Lifestyle content such as Antiques, Holidays and Food[17].

The BBC aspires to ensure that all its content, to varying extents, "informs, educates and entertains", however it is clear that some content such as schools and Lifeskills (including WebWise), which provide more traditional or 'formal' education areas, were imperative in the BBC's achievement of this objective. These content areas have also worked towards more clearly focused educational goals, rather than broader reach or interaction-based targets.

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15 Source: The BBC News website, internal Quarterly Performance Review (QPR), May 2003
16 The maintenance of the core News Online CPS in 2003/04 was £1.3m, the development of the CPS functionality cost £1.4m. Additional costs include software and server licences, operational support and CPS live site and production servers. Source: BBC New Media and Technology data submissions, December 2003
17 The BMRB Youth Access survey establishes the service's reach. Source: BBC New Media data, autumn 2003

BBC Online's Schools content is reported to have reached 80% of schools in 2002/03, but more detailed year on year figures are unavailable due to the infrequency of the BMRB Youth Access survey[18] and the problems with measuring unique user numbers on shared computers in Schools.

Children and young people, who took part in the review's audience research, highly valued resources such as GCSE Bitesize. Young people in Northern Ireland, Scotland and Wales, in particular, praised BBC Online for the provision of relevant, targeted content.

"I use it all the time for Welsh… there isn't anywhere else for us anyway" (Male, Year 11, Cardiff)[19]

Users are also increasingly 'interacting' with the service in a variety of ways including through message boards, and SMS/text messages. During the exam period in May 2003, there were over 30,000 posts on the schools site and 7,167 subscriptions to GCSE "Txtbites". SMS/Text message services are beyond the scope of this review as they are not strictly 'online' services, however the BBC groups emerging platforms to include 'online' services such as PDA or WAP services with SMS/text services so impact and investment figures cannot always be accurately disaggregated.

The BBC has also employed technological solutions which best engage their core schools audience, for example the launch of the first BBC java mobile game which offers Maths, English and Science quizzes for GCSE students. Following its launch, the game generated 5,538 downloads over a 6-week period.

BBC Schools Online has also extended its reach through free, non-exclusive content partnerships with commercial and government partners. These 'syndication' deals enable non-BBC Online users to access the BBC's educational resources through a number of alternative websites, for example, teachers can access the GCSE Bitesize material through www.teachernet.gov.uk.

The efficiency of the BBC's schools and educational content cannot be analysed consistently during the period under review due to the problems in collating unique user data. Average cost per unique user (CPUU) for Schools across the first quarter of 2003 (March-June 2003) was 10.7 pence[20], however this fluctuates dramatically according to the school holidays and exam periods.

- **"Access to a wide-ranging database of information and features on subjects such as weather, sports, travel, local information"**

This objective covers a large number of genre areas, which is focused but not limited to, weather, sports, travel and local information.

Spend on 'database' and 'features' sites alone is, therefore, nearly impossible to attribute accurately. As an indication total content expenditure in 2003/04 on sport was £6.77m and on

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18 BBC has only participated in this survey since March 2003
19 Source: Public Attitudes Towards BBCi, Counterpoint, April 2004
20 Source: BBC iF&L data, 2003

weather £0.88m. BBC Online also provides databases on topics as wide ranging as antiques, medical conditions and films.

BBC Sport online has, as an example of the impact of these types of services, reported an increase in page impressions from 33.2m to 92.8m between December 2000 and December 2002, and it now reaches 17% of the UK internet universe. Factual evidence alone, however, cannot accurately illustrate this objective's impact on audiences. The review's audience research revealed users and non-users alike were surprised at the extent of information and features on topics that did not necessary align with BBC broadcast programming.

Due to the variety of genres that meet this objective, and their related audiences, it is not possible to use a single benchmark to assess the services relative efficiency. The costs per user reached figures vary widely between genres, for example from weather at 1.8 pence to Nations and Regions content (exc. Northern Ireland) at 20.5 pence.

The BBC has also employed applications such as a postcode finder, to help users to reach relevant local information quickly. However, members of the public questioned as part of the review's audience research did not easily identify these features on the home page, nor was their function easily understood.

- **"Regional national homepages and new sites, based on in-depth interests and passions, offering audio visual footage, programme brands, personalities and links to relevant third party sites"**

In addition to traditional programme support, this objective captures a wide range of content including 'lifestyle' content, such as gardening and holidays, and richer content such as broadband services. It also makes explicit the BBC's role in providing relevant links to third party content. The BBC currently claims that BBC Online contains over 200,000 links to external links.

The BBC measures the impact of its links to external sites in a number of ways. Hitwise (independent external research) measures the upstream and downstream traffic to and from a number of sections of BBC Online, although this includes internal BBC traffic (a user leaving one section of www.bbc.co.uk to another). The BBC is currently developing the technology to track traffic exclusively to external sites. This will give us a better understanding of when linking is effective. There is a links policy in the BBC's online guidelines, however links from sites or pages are not obligatory, or systematically used or measured across the site. An increasing number of sites on BBC Online have, however, begun to incorporate a space for relevant links into the template design.

The local or 'Where I Live' sites have relatively low reach (11%) amongst the UK internet universe, but have demonstrated a steady increase in page impressions (0.6 to 46.1 million) since their launch. The sites also attract lower than average appreciation ratings compared to other BBC content but this may reflect wider opinion on the value of regional public service programming as reflected in Ofcom's Stage I findings[21].

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21 See http://www.ofcom.org.uk/codes_guidelines/broadcasting/tv/psb_review/

During the review's audience research, members of the public widely expected the service to reflect or support BBC television and radio programming alone, so were surprised and impressed with the breadth of services based on 'interests and passions'. These topics range from science and health, through to soap (including non-BBC shows) and teen chat. Whilst the more experienced users could clearly identify alternative sources for content on their own interests and passions (e.g. football club site or fanzines), the breadth of topics on one single site was still considered impressive.

The BBC has also used a number of technological solutions to enable users to access programming relevant to their interests at any time, from across the networks. For example, the BBC's Radio Player, which streams live and archived radio programming, has been a significant step in the BBC opening up its audio archives (now available within a seven day window). It should be noted that the provision of streaming services, such as the BBC Radio Player which provides live and archived material, is a relatively complex technical process and, as a consumer proposition, constitutes a new and innovative technology-based service. However, the BBC Radio Player primarily relies on users using a single streaming application, provided by Real. Such downloads can deter new or inexperienced internet users and, on the BBC site, users cannot in most instances choose to use an alternative steaming application such as Windows Media player, which is pre-installed on any computer with a Windows operating system.

Due to the range of services, which seek to appeal to users passions and interests, or even programme brands there is no single efficiency benchmark; cost per user data and appreciation ratings vary widely according to their specific audiences. Another instrument to ensure efficiency is the procurement of content and/or technical services through competitive tendering. The BBC produces the majority of BBC Online sites, which reflect audiences' 'interests and passions' in-house. Whilst BBC Online has commissioned a number of discrete projects from independent and commercial suppliers, there is currently no quota for independent production in online.

Part I, Objective 2: "Access to and guidance around a range of interesting and relevant web content, including acting as an independent guide to other sites such as government, NGOs and existing regional sites"

In addition to producing a range of interesting and relevant web content, the BBC was obliged to help the user make the most of what the wider internet has to offer, by acting as an 'independent guide'. To this end, the BBC has invested in a worldwide search engine, and placed approximately 200,000 web links across its site. The total costs of the launch of the search engine (worldwide and BBC site) were £414,268, and the current running costs of the BBC Online search tool are £476,000[22]. Links are integrated into BBC Online at zero cost, and whilst they must comply with BBC editorial guidelines, their relevance and number largely depend on the individual web producer.

The BBC Online search engine currently reaches 5% of the UK internet universe, and is

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22 Direct costs are £215,000 and staff costs are£261,000 Source: BBC New Media, 2003

provided by a third party supplier following a competitive tendering process. Google and search engines available on ISP or portals, such as Yahoo and AOL remain by far the preferred choice for search in the UK. In addition to the capability to run 'UK' or 'family friendly'[23] searches, BBC search also provides links to sites that are recommended by BBC Online staff.

There are currently no targets or measures for successful web links, or 'click-throughs' to external sites but MORI's survey for the BBC[24] found that nearly two thirds of users claimed to have 'clicked through' to other sites from BBC Online. Respondents to the review's audience research felt that links to external sites were helpful if focused on a relevant area of interest, but representing different aspects of the subject, for example, links from the BBC Football website to the official team site, fanzine sites or other local (professional and amateur) clubs.

Respondents to our research, however, also expressed reservations about the role for the BBC as a guide or some form of internet 'nanny'. The internet was viewed as a media which required individual responsibility, and indeed, its great benefit was the freedom of information available. The key tool to facilitate their use and discovery of the internet, was a search engine, but respondents to our research did not readily identify the BBC search engine to be anything more than an internal, BBC search engine.

Part I, Objective 3: "User focused navigation and overall site design, which minimises download times and maximises ease and speed of use, adopting new approaches as they are proven to have value"

BBC Online's central New Media division is responsible for the technical infrastructure of the site, which includes overall site design and navigation, ensuring adequate download times and agreeing the SLA with BBC Technology Ltd, who are responsible for the distribution of the site. The central New Media division also commission and develop some specific applications in-house (e.g. message boards) and externally (e.g. Documentum and parts of the worldwide search facility).

BBC Online underwent a major site re-design in 2001, which established a common tool bar that incorporated a search tool across all areas of the site. The new design was a result of user testing to ensure improved functionality across the site as well as to better establish a more common 'look', or BBC Online brand.

The impact of BBC Online's investment in technical infrastructure is reported as part of New Media's contract with BBC Technology Ltd. In September 2003, BBC Online reported download performance, which was consistently above the UK average (see exhibit 2).

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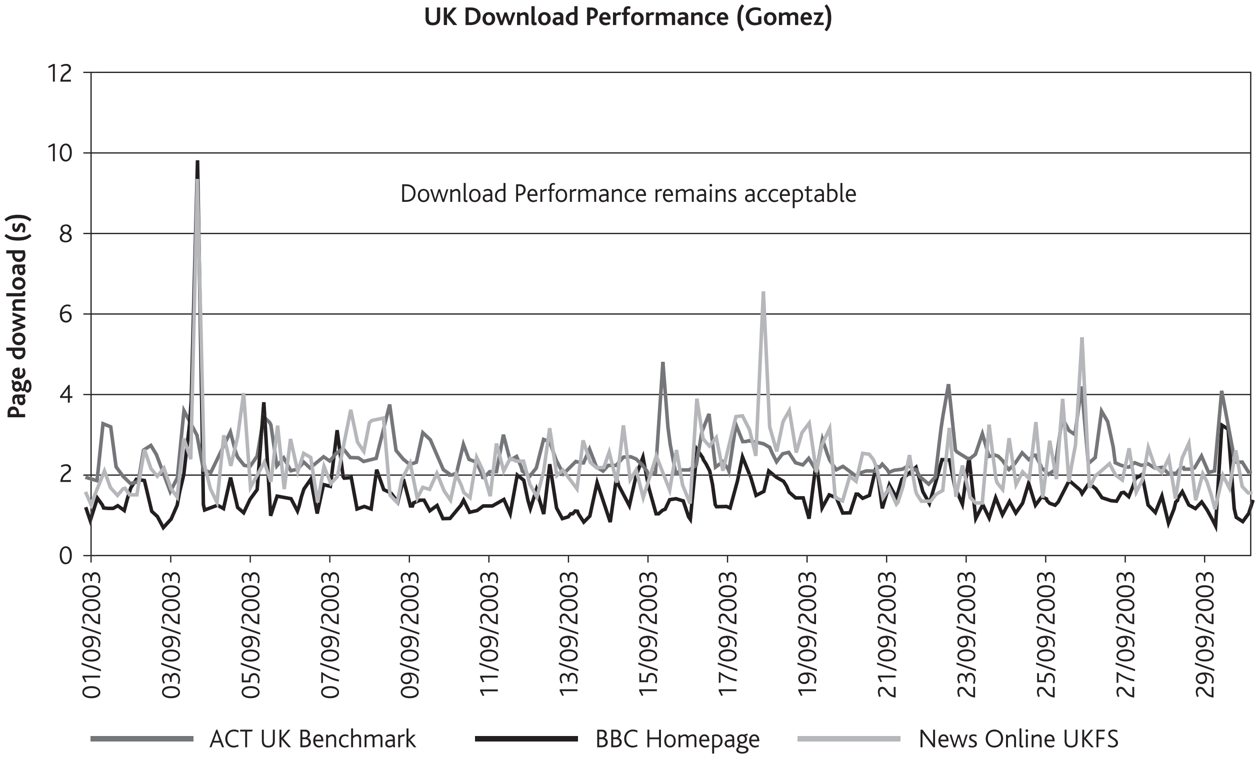
23 BBC Online's search engine uses a combination of technology and human checks to detect and block offensive websites. Their aim is to be the safest search engine in the UK.
24 Source: BBC's report, Review against the terms of the 1997 and 1998 approvals for the BBC's online service, August 2003

Exhibit 2: Download performance of BBC Online, September 2003



Source: BBC New Media 2003

Several design features, including established peering arrangements with ISPs have significantly helped to minimise page load times and enhance the user's experience. A number of features are also in place to help users with visual or certain physical impairments to navigate the site easily. Every page has a text only link, which uses a BBC developed application called BETSIE that also enables users to control the colour and size of text, as well as removing embedded items such as games and applets.

The review's audience research presented some reservations about the design and ease of navigation from the BBC Online home page. Users, other than the very inexperienced, tend to be goal orientated, seeking to find a specific service or information as quickly as possible, but members of the public found the BBC Online homepage too cluttered and that it did not adequately serve as a guide to the rest of BBC Online. They did however find that the navigation within specific genres such as News and Radio was generally effective, particularly when indexes were kept concise and sites used minimal graphics, which they felt could unnecessarily slow download times.

3.3 **Performance against approvals: Part II, "To use the internet to forge a new relationship with licence fee payers and strengthen accountability"**

- **"Provide opportunities for licence fee payers to feedback their views to the BBC on current and future programmes and services and to contribute content"**

Some form of viewer/listener feedback has been available from the outset of BBC Online. Programme-related services were, collectively, one of the core tenets of BBC Online's original service proposal in 1998, and basic email services have since been complemented by a number of other electronic feedback mechanisms. These include:

- programme-related message boards
- programme-related chatrooms
- site-specific web logs (known as 'blogs')

For each of these interactive services, users can post their own comments or simply read comments from others. Together, they provide valuable and extensive feedback channels to the BBC for all of its services. There has been a significant increase in the volume of feedback to the service over the period under review and BBC Online now receives over one million emails and messageboard posts a month[25].

Applications developed by the BBC, such as DNA[26] have also enabled user-generated content to be more stimulating for the user and more efficiently managed. The current growth in web log usage also allows users to contribute richer content (e.g. to news stories) in the form of text, pictures, and audio and video clips[27].

A Governors' seminar in March 2003, and a meeting of the National Broadcasting Councils in April of the same year did however raise some concerns as to how prominent the accountability sections were, and how well expectations on feedback were managed on the site. Indeed, if a user wishes to make a comment on a programme, the path to find the most effective means to contact the BBC and what response should be expected can be long and involved.

Members of the public who participated in the review's audience research did not have a sense that BBC Online encouraged them to participate in decision-making, and only a small minority recognised it as a channel by which they could comment or complain about programming. Some more experienced users did, however, feel that the nature of the relationship with BBC was different through BBC Online, as it enabled users to have more control over their entertainment and information consumption, and therefore gain more value from the BBC.

- **"Enable communication, exchange of ideas and experience within communities and between those with shared passions and interests (with particular reference to regional and local communities)"**

BBC Online has more than 75 message boards covering a wide range of communities of interests, including geographical regions or shared interests such as football or soaps. The site redesign in 2001 incorporated a 'Communicate' tab, available across the site, which groups all community services in one area.

To ensure that the BBC's editorial standards are upheld on user generated content areas, the BBC has also had to invest in a variety of moderation types. In addition to the presence of

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25 Review against the terms of the 1997 and 1998 approvals for the BBC's online service, P86
26 DNA: an application server that was externally procured in 2000 providing a community message system where user generated content is categorised, reviewed and commented upon by other users e.g. H2G2 site. DNA is currently being rolled out across the site to replace its predecessor Howerd2: a message board application developed for BBC Online by BBC Technology that is the engine behind the site's forums
27 E.g. see 'http://news.bbc.co.uk/1/hi/talking_point/2780295.stm' for an example of how The BBC News website is able to incorporate relevant user-generated content into reports or stories

the "acceptable use" and moderation policy on every page, the BBC has spent £0.6 million on moderation, which is supplied through a third-party company called Chatmoderators Ltd or the BBC's Information and Archives Department (an internal SLA). A member of BBC Online staff hosts all forums and message boards although to control costs BBC Online is moving towards user-triggered moderation for "low-sensitivity" sites. Sites such as Children's, however, are and will continue to be pre-moderated i.e. posts are checked before they are made visible on the site to ensure the areas' safety.

User contributions have continued to show steady growth in recent years (from an average of 112,310 registered users of in November 2002 to 244,963 in November 2003; message boards attracted over 7 million page impressions a week in November 2003). Interactive elements such as message boards are, however, notoriously difficult to manage in terms of maintaining their relevance to as wide an audience as possible, and minimising duplication; the BBC is not exempt from these problems. Each content division is responsible for ensuring the relevance of its community sections within the wider BBC Online offering, which in turn relies on effective communication between content divisions and adequate oversight from central New Media division.

A key indicator of these services' impact would be the number of active users on any given area. BBC Online had planned to be able to record the number of active users on specific services during 2003/04, however the technology for reporting this was delayed because of the complexity of registering certain demographic groups (e.g. children) but they intend to measure and target number of active users in the performance process from 2004/05.

Members of the public, questioned as part of the review's audience research, did not identify BBC Online's 'Communicate' tab without assistance (see Exhibit 3)[28], and felt that it's purpose was not intuitive or attractive as a central navigation feature[29].

Exhibit 3: BBCi universal navigation tool bar

3.4 **Performance against approvals: Part III, "To provide a home for licence fee payers on the internet and act as a trusted guide to the new media environment"**

The final part of the Approval, to some extent, reiterates Part I's objective to act as 'an independent guide'. Its re-statement perhaps demonstrates the BBC's potential, and indeed suggests the priority with which the BBC was intended to act as an essential resource for UK Internet users by exploiting its independence and impartiality, as well as its educational expertise.

The BBC proposed it would meet this part of the approval under three key objectives.

- **"Inform users about the implications of new media capabilities for them and arm users**

28 The Communicate tab has since been changed to 'Talk', but remains within the design template.
29 Responses to the site navigation and homepage refer to BBC Online as of April 2004

with the tools which will enable them to make the most of them

- **Act as an "independent and trusted guide to the web through the launch of WebWise"**
- **"Enable users to develop the skills, confidence and understanding they need"**

The first and third of these objectives are considered together, as they overlap in their broadly 'educational' remit.

"Inform users about the implications of new media capabilities for them and arm users with the tools which will enable them to make the most of them"; and "Enable users to develop the skills, confidence and understanding they need"

The diversity and range of different technologies deployed within the BBC Online service provide a very good introduction to the interactive capabilities of the Internet. On a steady, yet nonetheless broadly impressive basis the BBC has invested over the past five years in interactive technologies, such as the Radio Player, and interactive gaming applications such as 'Fightbox'.

MORI research, conducted for the BBC, found that 7% of UK users were encouraged to go online specifically by the BBC[30]. However, more detailed research would need to be undertaken to establish whether the BBC had played a key role in developing skills or building confidence.

Users, as represented in the review's audience research, were not acutely conscious of the tools and/or advice available on BBC Online to enrich and improve their experience on the internet. However, nearly all of BBC Online's services are accompanied by clear user guides and user tested, intuitively designed user interface.

- **Act as an "independent and trusted guide to the web through the launch of WebWise"**

WebWise, the BBC's beginner's guide to the internet, was launched in May 1999. During this period it has developed from essentially a small campaign site to a richer information site that includes an accredited online course in addition to a wide range of internet related reference information. The two 'products' that are available under the 'WebWise' brand are, the 'Becoming WebWise' course and the WebWise reference site, which provides pop ups across the BBC Online site with basic information about plug-ins, or downloads. To facilitate this growth in content, investment has risen from £130,000 in 1999 to £230,000 in 2003.

Since the site's launch, monthly page impressions for WebWise has grown from 3.6m to 24 million, and in 2003/04, 34,000 people took the ICT (Information, Communications Technology) Level 1 accredited course in Internet literacy and over 20,000 received NVQ accreditation.

Users of the 'Becoming WebWise' course tend to represent a very different demographic from the majority of other sites on BBC Online. Users are inevitably internet novices, are more likely to be women, from outside the South East and from lower socio-economic groups than the BBC Online 'average'. Whilst users of the WebWise reference site (which users can access in numerous places across the site) are more likely to be representative of the wider BBC Online

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30 SOURCE: Review Against the Terms of the 1997 and 1998 Approvals for the BBC Online Service

demographic, users of 'Becoming WebWise' often come to the site through a mediated learning process, such as their local further education college. The reach of WebWise is, therefore, reliant on the BBC's close working relationship with tutors and trainers in FE colleges, UK Online centres and Learn Direct centres and the reference pages are dependent on its effective integration in BBC Online.

Cost per user reached costs have steadily been reduced over the years, although the site's re-design and technical problems drove the cost per user reached up during 2003. Cross-promotional activity from BBC's other media has also made a positive impact on user demand for the services.

4 Performance within the wider Internet market context

In this chapter, the review team highlights and comments upon issues that were raised in the course of the review's consultation with the BBC and other key stakeholders, but which did not fit within a strict review of the service's performance against the service's terms of the approval.

These issues have been categorised under the following headings:

- **Purposes and remit:** What is the underlying rationale for BBC Online and what are its core purposes? What has been the focus and scope of its remit to date?
- **Corporate strategy:** What services has the BBC developed since 1998, how consistent are these with the spirit of the original approval? How has BBC Online's corporate strategy been communicated to the wider market?
- **Operational Delivery:** How has the service delivered against its own objectives, including the level of investment and the commissioning of innovative technology? To what extent has BBC Online used external providers for its content and/or support requirements?
- **Performance assessment:** What has been the process for assessing BBC Online's performance and what were the criteria used in this process? The economic market impact of BBC Online, positive or negative, over the last five years will be discussed in detail in Chapter 5.
- **Governance and regulation:** How transparent and effective have the systems of governance and regulation been in overseeing the performance and compliance of BBC Online?

4.1 Purposes and remit

What is the underlying rationale for BBC Online

What are its core purposes?

The original remit and purposes were widely drawn and so were, inevitably perhaps, tied to few measurable goals (such as quotas or specific obligations for the service). There are, therefore, few elements of the original remit against which BBC Online could retrospectively, and objectively, be assessed. Any assessment of BBC Online's performance must therefore make a judgement on what the spirit underlying the original approval was, and take account of the wider climate in which the service developed.

The letter on which approval was based (see annex 1) and the Licence Fee Settlement in 2000 gave prominence to specific genres; news (national and local), education (schools, adult and web 'literacy'), programme related material, and the medium's capacity to build communities and to improve access to the BBC. Objectives set by the Board of Governors in the 2003/04 Statements of Programme Policy also reflect the breadth of the remit, by promising 'to supply websites that complement the full range of the BBC's Broadcast programmes and services' and also to provide 'distinctive, original and high quality content in areas from news through GCSE revision to Teletubbies'[31]. Nevertheless, news, education, provision for minority communities, and developing users' confidence and skills base in new technologies reveal themselves to be the service's key priorities.

Whilst the balance of genres is indicated in these public documents, the degree to which BBC Online services are intended to directly support and complement broadcast services or to significantly supplement, particularly in areas such as light entertainment or games is not made clear. An assessment of the expressions of the service's remit during the five years under review, shows that whilst there is apparent consistency in the desirable outcome for the service, namely broad and deep content, highly functional interactive features, and to attract new and non-internet users in significant numbers, there is little clarity on priorities, or specific targets that directly relate to its public service purpose.

The review team's discussions inside the BBC suggested that the BBC's Licence Fee Settlement in 2000 was a key event in the development, and interpretation of BBC Online's role. The Corporation successfully gained an additional, above inflation investment, which at least in part, came in recognition of the BBC's potential to drive take up of digital services in the UK, and to become a quality benchmark for the industry. This settlement was interpreted by BBC management as giving greater legitimacy to BBC Online's goal to drive up the reach[32] of its own services, as a means to counter the emerging 'Digital Divide' in the UK and to develop innovative services which would have the capacity to lead the market, for example, high quality broadband content.

Many submissions to the review argued that the BBC's adoption of a key role in driving 'digital' take-up, coupled with a wide interpretation of the remit has ultimately failed the consumer and caused unnecessary adverse impact on the market. Many commercial stakeholders argued that as the number of markets in which the BBC may attempt to intervene increases, so does the level of uncertainty in the market. Market uncertainty can then lead to other market players exiting, or significantly reducing their investment in the market that over time can reduce choice for the consumer and a lessening of innovation in the sector. Chapter 5 gives detailed consideration to BBC Online's impact on other online markets.

There would seem to be, at best, a lack of understanding of BBC Online's core purposes by the wider market, and at worst, an unnecessary adverse impact on their investment priorities due to other providers loss of trust in BBC management's intentions. Such lack of understanding and trust would not be surprising given that there is some evidence to suggest that even within the BBC, the online service's limitations are not consistently well understood. Whilst pseudo mini 'E-bay' sites for the sale of junior football kit or downloadable mobile phone 'Ring tones' may be quickly withdrawn by central editorial policy, their very emergence would suggest that Online's remit is so broad that it risks being at times mistaken for universal.

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31 Source: BBC Statements of Programme Policy 2003/04

32 Defined as the percentage of users of bbc.co.uk as a percentage of all users of the Internet in the UK (figure usually calculated from BMRB survey data). User numbers are either calculated through survey evidence, e.g. proportion of UK residents who claim to use the service, or through a specific site's server logs, however this data is not absolutely accurate as it relies on 'cookie' data, which does not account for multiple users on a single PC, and 'cookies' are often periodically wiped from PC's so a 'user' will be double, or triple counted.

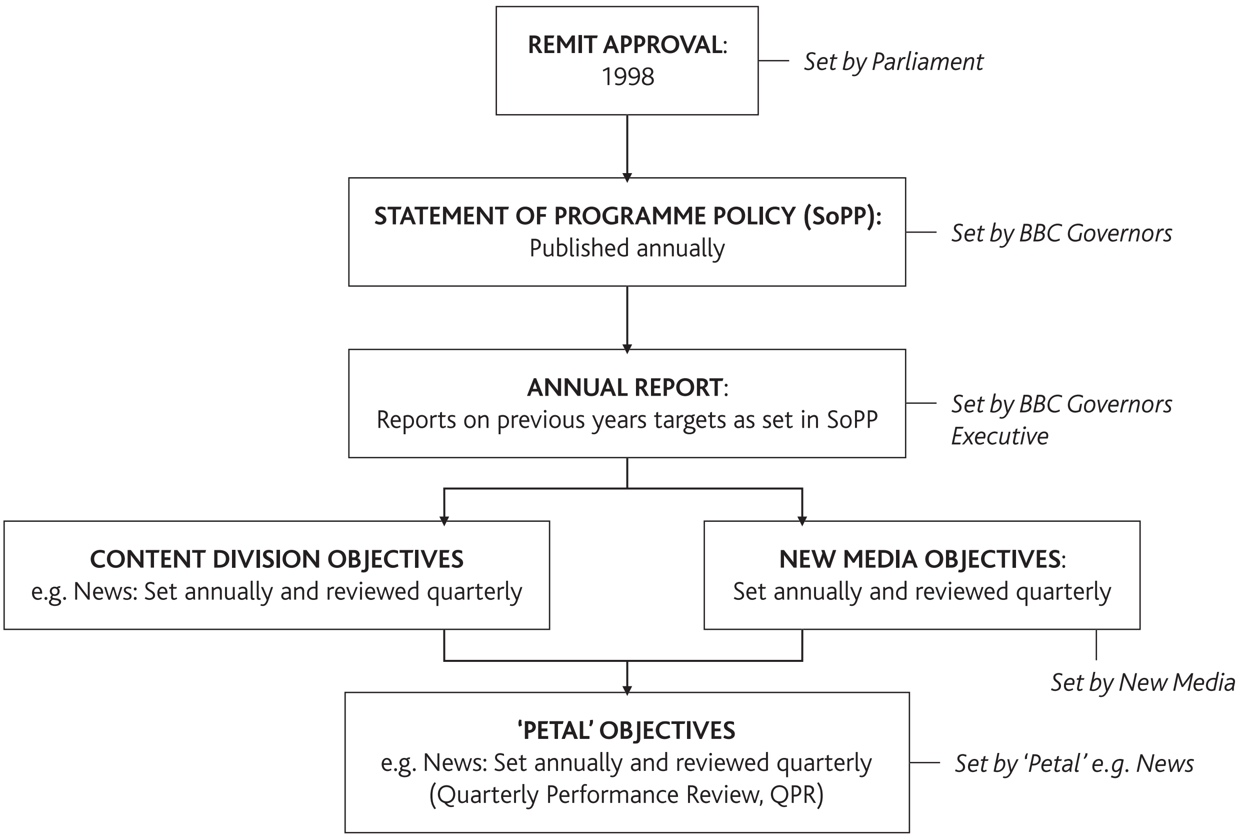
4.2 Corporate strategy

What services has the BBC developed since 1998, how consistent are these with the spirit of the original approval?

How has BBC Online's corporate strategy been communicated to the wider market?

The BBC Governors determine the strategy for all BBC services, including online, on an annual basis, based on proposals from the Executive team. Since 2002, the overarching Corporate Strategy for BBC Online has been publicly expressed in the Statement of Programme Policy (SoPP), which is then reported on in the following year's Annual Report. The SoPP is based on annual budget and strategy papers from management, in addition to any ad hoc strategy papers from members of the Executive and public consultations. The Governors are yet to have called upon substantial external expertise in their consideration of BBC Online's direction.

Exhibit 4: Summary of BBC Online strategy setting process



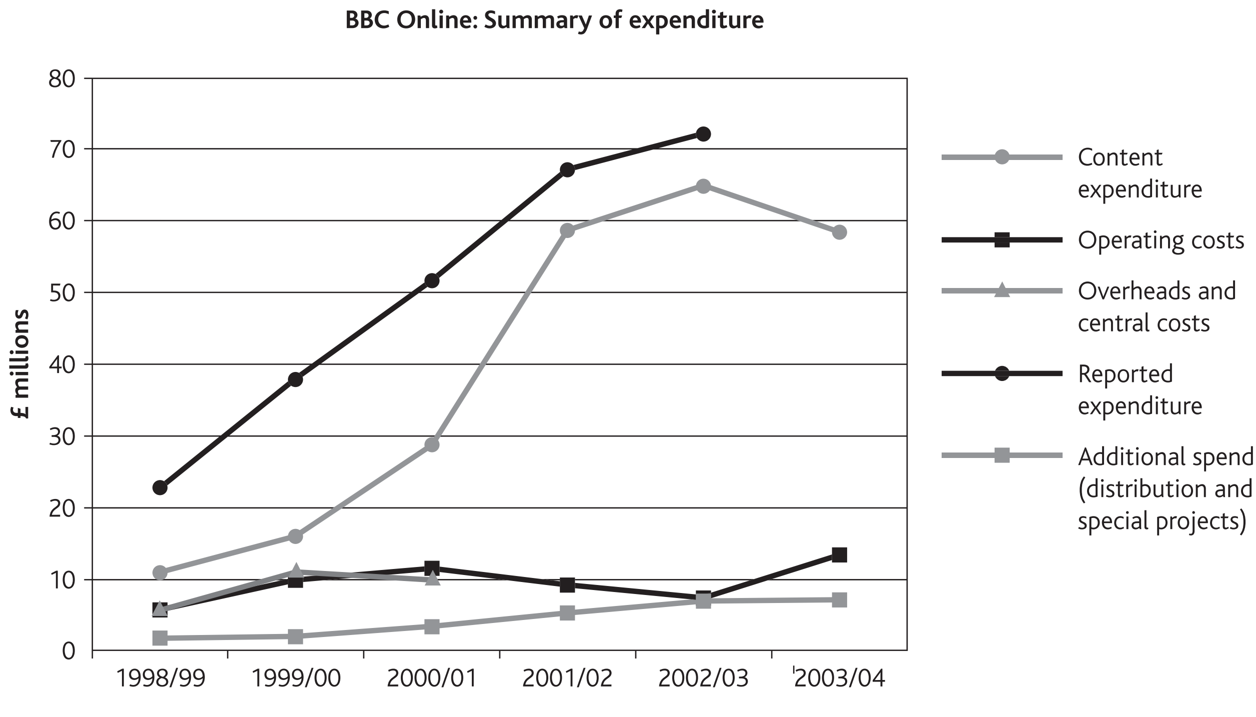
BBC Online's objectives in the Statements of Programme Policy or indeed the internal Annual Performance Reviews do not make explicit reference to how the services strategic direction is mapped back to the original remit and purpose. Trends in BBC Online behaviour and investment do, however, support the service's over-riding strategic ambition for reach in the UK Internet market. This may be a valid target, given that the service is funded by all licence payers but, nevertheless, it is a target that easily lends itself to supporting a competitive approach that risks pushing producers to strive towards being 'better', rather than necessarily or meaningfully being 'different'.

BBC Online's ambition to syndicate online content to other providers (for example, free and non-exclusive arrangements for commercial websites such as www.streetmap.co.uk to carry BBC news headlines), and to other devices (for example, free and non-exclusive arrangements with mobile providers to ensure position of BBC Online on WAP versions), is again, a means to drive towards 100% reach. Reach is a key means to ensure that increasing numbers of licence fee payers can derive some value from the BBC's online services. This strategic goal does, however, risk the BBC being perceived by commercial operators as an aggressive, and unfairly advantaged competitive force. Submitters to the review also argued that the BBC's current inconsistent approach to linking, the prominence of BBC Online results in its search engine, and the low level of joint venture or externally commissioned projects have compounded this impression.

Many commercial stakeholders recognised the BBC's achievements in key content genres that were explicitly identified in the approval, for example, news, education, local services and means to interact with audiences. They did, however also highlight the BBC's not insignificant investment in 'light' entertainment online content such as games.

BBC Online has developed a strategy across the 'waterfront' of the online content sector, expanding from a directory of 205 sites to 525. BBC Online's reported expenditure has increased from £23m in 1998 to £72.3m in 2003 (see Exhibit 5), which may seem, at least in part, to be an inevitable consequence of a strategy that has taken a broad interpretation of the terms of the original approval, coupled with the themes of digital progress in the licence fee settlement in 2000. Last spring's Governors seminar and the National Broadcasting Council meeting, however, clearly voiced concerns that the service should be mindful of its obligation as a BBC service to provide high quality, public service material.

Exhibit 5: Summary of expenditure on BBC Online[33]



33 Source: Data submitted to the review by the BBC, 2004.

In the BBC's submission to the licence fee review panel in March 1999, the BBC stated that its services have an obligation, as a public service broadcaster, 'to bring the nation together' and serve 'diverse audiences'; so there is clearly a delicate balance to be struck between a valid drive for services paid by the licence fee to be universally accessible, for licence fee payers to reap sufficient value for money and for more minority, or challenging content to continue to be produced in sufficient quantity and quality.

The review's discussions with BBC staff made clear that, at a senior level, content divisions have an acute sense of their responsibility to make a 'good' judgement as to an appropriate balance between popular services and those that more obviously provide public service value. For example, whilst Sports feel they have a responsibility to provide up-to-date, impartial sports news, they also have an obligation to provide some entertainment and encourage participation in sports (for example, through Sports Academy). This strategy of case-by-case judgement has not, however, been actively articulated or discussed with the wider market, and the Board of Governors seek the public's views on a particular service's success in this regard on only an ad hoc basis.

The apparent lack of clarity on the BBC's future strategy in building new audiences, adopting new technologies or expanding into new content areas, exemplified by the BBC's current approach to syndication and developing its services on other devices such as mobiles and PDAs, have given rise to potentially unnecessary market anxiety.

4.3 Operational delivery

How has the service delivered against its own objectives, including the level of investment and the commissioning of innovative technology?

To what extent has BBC Online used external providers for its content and/or support requirements?

BBC Online's total operating costs are not clear from reported figures, which only provide data at an aggregate level. The last report for 2002/03 reported Online spend of £72.3m, but in evidence submitted to the review by the BBC it became clear that this figure did not include all operational costs such as distribution (which includes spend on BBC Technology Ltd), R&D projects (which benefit the BBC as a whole) or the contribution from World Service for the running of the International edition of BBC Online[34]. Exhibit 6 summarises BBC Online's expenditure during the period under review.

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34 In 2003/04 BBC News Interactive received £2.6m from World Service, which constituted approximately 22% of BBC News Online's total budget. The figure is accounted for in the Annual Report in the total expenditure on the web by the World Service, rather than as New Media income.

Exhibit 6: Summary of BBC Online Expenditure[35]

	1998/99 £m	1999/00 £m	2000/01 £m	2001/02 £m	2002/03 £m	2003/04 £m
Drama and Entertainment				2.6	3.9	4.4
Factual and Learning				15.9	14.3	10.1
Education	3.6	5.9	6.5	4.9	3.5	3
Kids					1.5	1.6
Nations and Regions		1.2	2.2	7.1	11.5	11.6
Radio and Music			6	5.1	6.1	5.8
News	7.6	8.9	8	16.7	16.3	15.5
Sport			6.6	5.4	6.8	5.9
Weather					0.9	0.7
Total Content Allocation	11.2	16	29.3	57.7	64.7	58.6
Total Allocation (inc. adjustments, central playout functions e.g. search engine)	17.1	26.5	41.3	66.6	72.3	72.2
Number reported in Annual Report (including overheads and centrally apportioned costs)	23	38.1	51.9	66.56	72.25	n/a
Total Spend including any additional costs (e.g. distribution, special projects)	24.4	39.4	54.9	75.06	89.65	n/a

The reported expenditure figure does, however, constitute a nearly 90% spend on content. The majority of content spend is concentrated in News (£16.3m), Factual & Learning (£14.3m), which encompasses educational and 'lifestyle' content (such as gardening and DIY) and Nations & Regions (£11.5m). Evidence submitted to the review would suggest that this level of investment is significantly higher than any of the BBC's nearest competitors.

E-mail has been a key driver of Internet take-up[36] and is, in most cases, free to use but BBC Online has yet to offer a service as part of the public service site. There are numerous market alternatives, and an e-mail function has not been considered an appropriate or priority

35 Source: BBC New Media. To note: central costs were no longer apportioned to divisions after 2000/01, distribution costs were also included in the total allocation/reported figure in up to 2000/01

36 68% of UK Internet users used e-mail. Source: Forrester data, November 2002 service for licence fee funding. However, other key drivers such as Internet ‘surfing’[37], news consumption (27% reach), and online consumption of radio services (21% reach) are services in which BBC Online has a significant market presence. Usage of such content services is also growing faster than for other services (e.g. usage of radio services has grown by over 100% since 2000 and of newspaper / magazine sites by nearly 100%, whilst usage of email has risen by less than 5% over the same period, and actually declined between 2001 and 2002).

BBC Online’s investment in News, rich audio/visual players and content, and search would, therefore, suggest that the site’s operational delivery has been astutely aligned to wider market trends. Whilst the output may be aligned to the wider market and consumer demands, the BBC has an obligation to deliver these services as efficiently as possible. The majority of BBC Online’s content and technical solutions have been developed in-house. Of its external suppliers, BBC Technology Ltd has been by far the largest supplier of technical solutions and service provision to BBC Online since the service’s inception, providing BBC Online with all of its hardware storage, peering locations, network distribution and bandwidth provision, audio and video encoding, hosting and streaming capabilities, and all necessary technical support.

The scale of the provider relationship with BBC Technology Ltd is, in part, a function of BBC Technology Ltd’s own recent history. BBC Technology Ltd was still part of the public service BBC when it began supplying BBC New Media; it has since been hived off as a commercial operation under BBC Ventures (it was announced in late November 2003 that the BBC is looking to sell BBC Technology Ltd). The actual terms of the relationship between BBC Online (as part of the New Media division) and BBC Technology Ltd remain somewhat unclear[38]. The relationship between the two parties is certainly strong, based on informal interviews with BBC and BBC Technology Ltd employees, but the cost structure of the contract between BBC and BBC Technology Ltd is not transparent and, possibly, at odds with margins achieved in the wider technology supplier market[39].

The value of content outsourced to third parties is unknown, with the exception for a few specific projects. New Media has, however, during the last financial year worked towards an informal target of 15% of expenditure on external suppliers, to ensure value for money as well as diversity of production sources, however other stakeholders have approximated that at least in terms of content spend, no more than 3% of expenditure is going to external parties.

Due to BBC Online’s somewhat ad hoc evolution, the prevailing attitude towards external suppliers would seem to have been that BBC staff were the best placed to work with, maintain and develop online services. BBC Online’s recent attention to its external spend ratio and the success of some higher profile, if relatively small-scale outsourced projects should build scope for further investment and co-operation with non-BBC suppliers. Although, if the BBC is to be more mindful of its role in the wider market or aim to more explicitly assist the development of the competitive sector, it must take a more open and radical approach policy to

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37 60% in the same year

38 The review team were not granted access to the SLA between BBC TECHNOLOGY LTD and New Media, however an analysis of BBC’s technical infrastructure can be found in Spectrum’s report at annex 11.4

39 BIPA submission to Graf review of BBC Online, 24 November 2003, p19-20. Claims that BBC TECHNOLOGY LTD operates on a 3% margin which, they claim, is exceedingly low compared to independent companies rights ownerships issues and the impact of its level of investment to ensure that BBC Online behaviour maximises its positive impact in the wider market.

BBC Online's survey of users in early 2003 revealed that approximately 22% of users were from outside the UK[40]. The BBC has developed geo-locators that can, with reasonable success (particularly for broadband content), re-direct overseas traffic to the BBC's internationally facing site, which is funded by the World Service (and subsequently Grant-in-Aid rather than the licence fee). However, until such tools can guarantee 100% accuracy, and there is no risk of licence fee payers being blocked from reaching BBC content, more stringent measures have been deemed unworkable.

Members of the public who took part in the review's research were also not unduly concerned that non-licence fee payers were able to access the content and indeed, many felt proud that the UK had such a good advocate of the British nations on the internet. Some users were also appreciative of being able to access BBC content when abroad themselves, on holiday or on business.

4.4 Performance assessment

What has been the process for assessing BBC Online's performance and what were the criteria used in this process?

During the period under review, there have not always been clear, consistent and strict criteria in place for performance assessment across BBC Online's different content divisions. There have, however, been marked improvements in the last 18 months to 24 months as the service and indeed the industry has matured.

The Quarterly Performance Review (QPR) process, by which the central New Media division monitors and agrees each content division's targets and expenditure, has developed since 2001 so that it increasingly provides a more detailed, and three dimensional set of metrics to describe each of the content divisions performance.

As part of the QPR, central New Media defines and manages standards in a range of areas which include:

- Adherence to common guidelines for navigation and design
- Technical standards such as page weight/download time, or AV quality
- Accessibility standards, such as usability for visually impaired audiences

There are also a number of consumption, efficiency and qualitative targets, which have been formalised as part of the QPR process and, in the autumn, as part of the annual budget and strategy setting process. These targets relate to the following criteria:

- Audience reach and consumption
- Achievement of public purpose objectives

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40 Source: BBC Insite online survey, 2003

- Investment and value for money
- Where possible, audience perceptions of quality, trustworthiness etc
- Comparisons with competitor content provision and performance

Targets relating to 'reach' and consumption appear as priority targets throughout the period under review. The apparent prioritisation of reach as a target for BBC Online, particularly during the services rapid build has been interpreted by many competitors as evidence of the BBC's fiercely competitive drive to gain audiences to the disadvantage of other commercial content providers. The BBC has argued that a reach target is essential to ensure public value is maximised. The BBC's current reach target is based on users reached amongst the UK internet universe, rather than as a percentage of licence fee payers.

Achievement of public service objectives, such as social cohesion or media literacy, is more difficult to ascertain by hard metrics. The BBC has made some steps to measure its successes under wider public purpose objectives, particularly for certain educational sites such as WebWise, Lifeskills and GCSE Bitesize. BBC Online's wider public purposes were not, however, consistently stated alongside performance metrics in the documents submitted to the review.

Audience appreciation ratings have also not been consistently collated, across all content divisions, during the period under review. The ratings are based on a BBC Online survey of users, called Insite, which is now to be conducted every six months across the whole of the site. This service is a self-selecting sample from BBC Online users, and so does not necessarily capture an accurate cross sample of BBC Online users or licence fee payers.

All targets, whether on reach or audience appreciation, must be negotiated to support both content division and central New Media priorities. For example, Nations & Regions traditionally attract an older audience to its television and radio services and so may wish to prioritise reaching younger audiences for their online content, however central New Media is responsible for reaching as wider demographic as possible so may feel nations & regions content is a key means by which to reach an older demographic. The efficacy of the Director of New Media's intervention in any conflict of interest in terms of targets or investment priorities is dependent on effective negotiation with often well established, and powerful executives in BBC's other major divisions.

Comparisons with the content provision and performance of BBC Online's competitors are not currently conducted each quarter. It is the responsibility of the content division wishing to build or develop any given content, rather than New Media central or a more independent resource, to conduct any market comparison. Comparisons do not currently include a strict market impact assessment, which would make an assessment of the service's likely impact on competition, but instead consider the service's distinctiveness from market alternatives, which is inevitably a somewhat limited, subjective judgement. In chapter 5 we consider in more detail the BBC's current approach to market impact assessment, and their likely impact on competition to date.

4.5 Governance and accountability

How transparent and effective have the systems of governance and regulation been in overseeing the performance and compliance of BBC Online?

Unlike other public service broadcasters it is the BBC's Board of Governors, rather than Ofcom, who are responsible for the delivery of the BBC public service remit on BBC Online[41]. The Governors have governance and regulation responsibilities, with the authority to set strategy, hire (and fire) senior staff, in addition to ensuring the corporation's compliance with regulations and guidelines.

The Board of Governors currently assess the performance of Online services and agree its high level priorities through a combination of discussions at Joint Board meetings with the BBC Executive, with the National Broadcasting Councils, the English National Forum and ad hoc public consultations. The Board of Governors do not currently formally seek external or independent commercial or market specialist views on the service. A small, central 'Governance and Accountability' department who are based within the BBC also supports the twelve governors. However, given the size of this department and the number and breadth of BBC Services, both public and commercial for which it must provide 'independent' oversight, it is apparent that the Governors' principal resource is BBC management.

BBC Management is often best placed to provide the BBC Governors or their supporting Department with detailed information on the services. However, given the complexity and scale of the business in terms of its scope, technical infrastructure and impact on the wider market, it is clearly important that systems of governance have sufficient access to independent resource to test, and be seen to test the service's strategic direction in light of its wider purposes.

Submissions to the review made clear a sense of cynicism towards the Governors capacity to sufficiently challenge BBC management's advice and strategic priorities for BBC Online. The dramatic growth in BBC Online's budget, content genres and capabilities were cited as evidence of a service that been allowed to develop under a culture of 'imperialism', unfettered by careful consideration of the public value or market impact.

The Governors strategic objectives for the service, as stated in the Statements of Programme Policy (SOPP), have to date been consistent with New Media's internal broad objectives to build wide-ranging user friendly sites, and maximise the service's reach in the UK internet universe. SoPPs also demonstrate a marked improvement in the visibility of the Governors' oversight of the online service, however goals and objectives to date have tended towards broad statements rather than clear, measurable goals by which the service can be clearly be held to account.

The Board of Governors has taken particular interest in BBC Online on specific topics. From the papers supplied to the review it took a particular interest in the boundaries of the public service remit, the introduction of a search engine and the formalisation of online editorial guidelines for the service. They also conducted their own wider seminar on BBC Online just

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41 BBC is, however, subject to tier 1 and 2 of Ofcom's regulatory powers, which includes oversight of matters of privacy and, taste and decency.

prior to this review.

The Governors receive detailed budget and strategy papers during the Joint Boards meeting each autumn. They also have the authority to request further information on an ad hoc basis. However, the BBC's expenditure on BBC Online is currently only publicly reported at an aggregate level in the BBC's Annual Report. The stated figures attempt to separate 'transmission' costs which, whilst consistent with other BBC broadcast services, have lead to some confusion for external observers when trying to reconcile online costs with the reported figures. The public cannot therefore compare a particular site, or even division's performance in any given year against the relevant expenditure.

5 BBC Online's economic market impact

This section addresses the requirement in the terms of reference for the review to "produce an assessment of the market impact of BBC Online". It has been prepared by the economics consultancy Europe Economics, which was commissioned to provide advice on market impact to the review.

This report takes account of the report commissioned by the BBC from KPMG LLP, on subsequent evidence provided by the Corporation, and on views and evidence submitted by other organisations and individuals.

This section begins by considering the appropriate concept of market impact for the review. It then outlines the markets affected by BBC Online. We then discuss "mechanisms" (in the sense of chains of causation) through which different forms of market impact may occur. This is followed by a review of the markets in which relevant market impacts are most likely, and analysis of evidence that they have or have not occurred in the past, and the likelihood that they might occur in the future. The section concludes by highlighting ways in which any potential market impact issues may be addressed in the future.

5.1 Defining a market impact assessment

BBC Online should be expected to affect online markets

Public funding, which is inherent to BBC Online, can have a wide range of effects on markets and competition. Using the terminology of the case law of the European Court of Justice in relation to state aid, such funding "distorts or threatens to distort competition"[42], simply on account of the competitive advantage that it gives to the publicly funded supplier in the markets in which it operates.

It is the nature and purpose of the BBC as a public-sector body (funded by the licence fee) to affect the mix of services consumed, and nature and conduct of other suppliers involved in the markets concerned. Thus, it might create economic changes or alleged "distortions", or "crowd out" private enterprise and investment. Such effects are inherent to public provision.

Our approach to the review has been to start without any prejudice or burden of proof for or against public funding of any online services.

We focus on potential benefits and detriments of BBC Online's effect on the markets

Our initial examination of consultation responses revealed that there was no common agreement on the exact meaning of the concept of the market impact of a publicly funded supplier such as BBC Online.

We therefore began the review by establishing a working definition for the proposed market

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42 Source: Article 87(1) EC Treaty

impact assessment of BBC Online. The essential features of our definition were to limit the scope of the market impact assessment in two ways:

- First, we proposed to consider only the effects of the provision of BBC Online on the rest of the market, leaving aside any benefits or detriments that flow directly from the BBC's delivery of the services that it has been allowed and/or asked to provide through the consent. The market impact assessment would therefore not be a full cost-benefit study. In particular, it would not include the measurement of direct user benefits, or the resource costs of funding BBC Online out of the licence fee.
- Second, we proposed to look only for effects that had an identifiable potential benefit or detriment on the process of competition, or that would assist or impede the delivery of clear and specific Government policy objectives such as Internet take-up. Any changes in markets induced by BBC Online that could not be regarded as good or bad for competition or for such objectives would not form part of the assessment.

Given this definition, there is a clear separation between the assessment of the effect of BBC Online on the market, and the assessment of the internal efficiency of BBC Online (which lies outside market impact assessment). This definition of market impact assessment fits with the idea that market impact assessment is one part of an overall evaluation of BBC Online, rather than the whole of it.

Consultation with interested parties raised no objections of principle to this definition. We therefore adopted it for the review.

Market impact cannot be reduced to a number

Given the definition of market impact assessment outlined above, no single number (such as the amount of commercial revenue that may have been displaced by BBC Online) can capture the extent of market impact. Indeed, the most relevant market impacts captured by this assessment are likely to be described in terms of their qualitative effects on the process of competition rather than in quantitative terms.

The impact and behaviour of a public intervention in Online

The market impact assessment involves a comparison between two states of the world: the world as it is, and a hypothetical alternative known as the counterfactual. The natural counterfactual is a world in which BBC Online would not exist.

Our assessment is therefore of the impact of the existence and activities of BBC Online. The assessment is of the impact of the policy to allow the BBC to operate online services within the framework of the existing BBC Online consent, rather than the impact of any particular ways in which the BBC has chosen to behave.

It is important to note that the existence of BBC Online might give rise to a potentially adverse market impact even if BBC Online does not have a dominant position (as defined by competition case law) and cannot therefore engage in conduct that could be considered abusive under competition law.

In summary, our market impact assessment is intended to contribute to the development of Government policy towards the BBC's online activities. It is not the same analysis as would be carried out by competition authorities in enforcing competition law.

Some responses to the consultation address a different concept of commercial impact

Given that past policy-making and research on publicly funded services do not provide a unique and commonly accepted framework for market impact assessment, it is not surprising that a range of issues have been raised in response to the consultation. Some of these issues are not directly relevant to the approach that we have adopted in this review.

The KPMG report commissioned by the BBC discuss a variety of different effects of BBC Online, but is somewhat unclear as to the relationship between impacts on commercial operators' revenues or costs and impacts on competition or the wider public interest.

The KPMG report estimates that BBC Online may have reduced the total expenditure on UK online advertising by around £5 million per annum (out of an estimated total of the order of £200 million). However, while this figure has been the subject of significant dispute, its relationship to the public interest has not been established. We have not seen any reason why an online advertising market worth £X million per annum is any better or worse for the public interest than an online advertising market worth £Y million per annum.

Some commercial operators have sought to demonstrate that BBC Online has an adverse market impact by showing that it diverts audiences and thereby revenues away from their own businesses. However, we found no reason why a consumer's decision to use a BBC Online service rather than a commercial service should be considered in itself to be a factor operating against the public interest. (If BBC Online attracts audience in a way that has an adverse impact on competition this would be relevant to the assessment, as explained below.)

A direct analysis of the effects of BBC Online on customer choice would not be appropriate

In some cases, it may be possible to conduct market impact assessment and an analysis of the value of a new public service simultaneously, through a direct analysis of the effect of the provision of that service on customer choice. This approach has been used, for example, in the case of the BBC3 digital television channel[43].

In this type of analysis, the increase in choice arising from the provision of a new and distinctive service would be weighed against the decrease in choice that would result from any foreseeable impact on the ability of specific commercial providers to continue operating their current services.

We do not consider that such an approach would be appropriate for the market impact assessment of BBC Online. The complexity and diversity of BBC Online's services means that they cannot be analysed in the same way as a specific new television channel. Uncertainty

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43 Source: Oliver & Ohlbaum Associates (2001) "An Independent Assessment of Likely Impact of the BBC's Planned New BBC3 Digital TV Service on the UK TV Market" about future market developments and the lack of relevant data (e.g. limited reliable audience measurement on the Internet) also contribute to making a direct analysis of this sort impractical.

Our assessment focuses on the mechanisms of market impact

For the reasons outlined above, the review's approach has been to emphasise a qualitative analysis of what we term the "mechanisms of market impact", by which we mean the chains of causation through which the existence of BBC Online leads to changes in markets that can have an effect on the process of competition or on the achievement of clear and specific Government policy objectives.

5.2 The market context of BBC Online

Before discussing the types of market impact that BBC Online could have, it is useful to provide an overview, from an economic perspective, of the market environment that is most likely to be affected.

BBC Online could have an impact in a range of areas

Chapters 3 and 4 explored the range of services provided by BBC Online, in terms of both technical capabilities and content. Thus, BBC Online predominantly supplies content to Internet users. It also supplies some content to third parties (such as mobile phone operators).

These activities take place within the broad online content sector or "market". In this discussion, we use the term "market" in a way consistent with the established competition law concept of a "relevant market". This means that the concept of market that we use will often correspond to what might be termed a "market segment" in other contexts.

With this terminology, BBC Online's services fall under the following two types of markets:

- Online content markets. The concept of content in general comprises a wide range of visual, audio or audio-visual information that can be accessed by consumers through a variety of distribution mechanisms (e.g. newspapers, books, CDs, television, DVDs and Internet websites). We use the term "online content markets" to describe markets in which this content is supplied to final consumers on the Internet (whether accessed through a PC, PDA, mobile phone or other device). An important fact about content markets is that although content is often provided without exchange of money (per item of content), there can nevertheless be effective competition in the supply of content. Competition may be observed, for example, along dimensions such as quality and promotion.

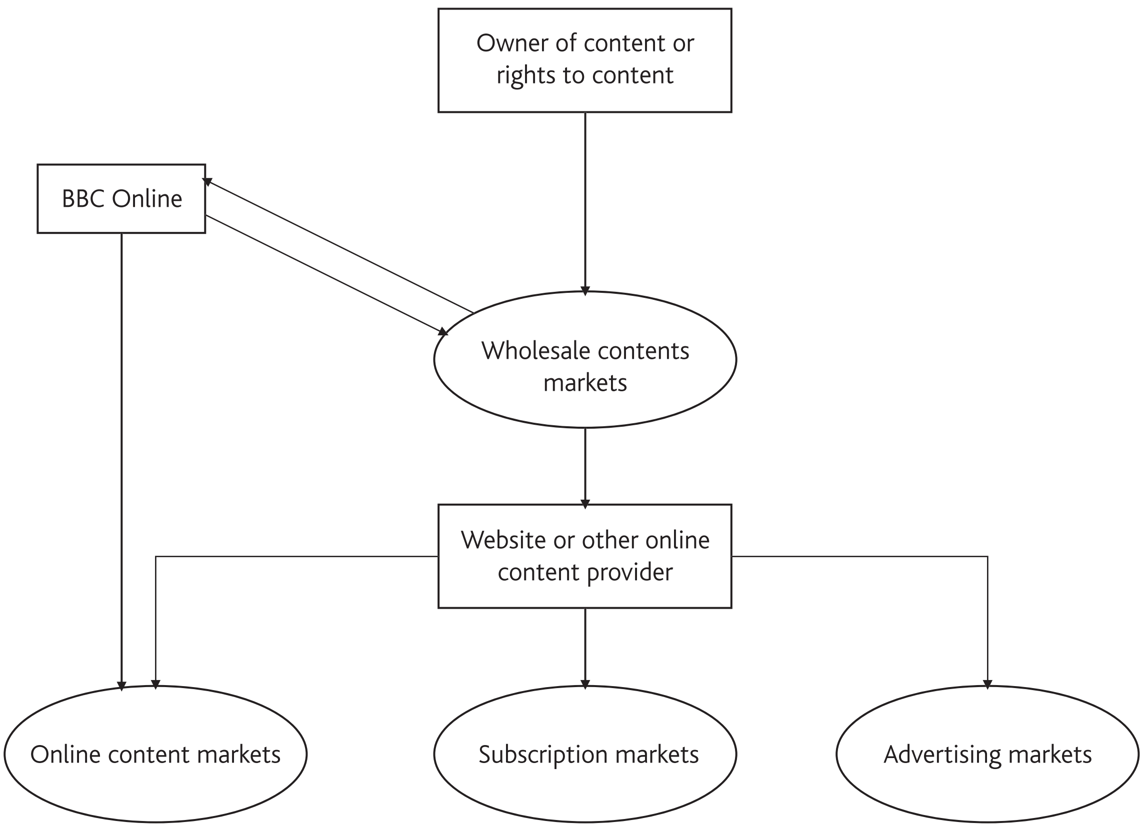
- Wholesale content markets. While some suppliers of online content markets may create all their own content in-house, others will source content from other suppliers. Wholesale content markets refer to the type of upstream markets in which Internet content, or rights that allow the creation of Internet content, are supplied to content providers. The term "syndication" is sometimes used to refer to the case where Internet content, such as news, is provided to third parties, and this would be included in this market type. Typical customers in these wholesale content markets include aggregators, portals, mobile phone operators, etc.

As in the case of broadcasting, online content markets are closely connected with two other types of markets which encompass advertising and subscription services:

- Advertising markets. Content providers often earn advertising revenue by placing advertisements alongside their own content on their websites. The content provider is able to supply a service which is essentially access to the attention of the people expected to visit the web page on which the advertisement features.
- Subscription markets. Online content markets should be distinguished from markets in which Internet users obtain subscriptions to particular sets of content. While much of the content available on the Internet is free to consume, some sites require a subscription (or free registration of user details) before the user is able to browse the site. Subscriptions allow the Internet user the option of consuming a set of content, often including unknown future content, with no direct link between the payment and what content is actually consumed. The economic exchange involved in taking out a subscription is therefore separate from the supply of content that is enabled by that subscription (which falls within an online content market): in general, these two types of transactions will not belong in the same relevant market.

The key types of markets affected by BBC Online are summarised in Exhibit 7. In this diagram rectangles represent firms or types of firms, and ovals represent types of relevant markets, which they supply; the arrows indicate supply to markets, and purchases from markets.

Exhibit 7: Main market types in which BBC Online operates



Source: Europe Economics

Exhibit 8 sets out in more detail the role of BBC Online in each of these market types. These types of markets as set out in Exhibit 8 represent, at a generic level, different categories of “relevant markets” (again, in the sense of competition law). For example, there are likely to be a large number of online content markets, many reflecting “narrow” or “focused” competition between similar content: perhaps between online suppliers of the latest test cricket score, UK headline news, cinema listings in a particular town or financial news on a specific company. Moreover, the definition of relevant markets in specific cases could well indicate that there are occasions when markets have a somewhat hybrid structure and do not quite belong in any of these types. But the market types summarised in Exhibit 8 provide convenient shorthand for the different classes of relevant markets that are likely to be taken into account in a specific case.

Exhibit 8: Role of BBC Online in Key Market Types

Market type	Role of BBC Online
Online content markets	• BBC Online’s primary activity is to supply online content markets (at zero price).
Wholesale content markets	• BBC Online supplies some wholesale content markets (at zero price).
Subscription markets	• BBC Online does not supply subscription markets (except insofar as free registration is required to access some BBC Online content). • However, demand in subscription markets is affected by competition in content markets. There is therefore scope for a market impact of BBC Online.
Advertising markets	• BBC Online does not supply advertising markets (except when content has a natural promotional aspect, e.g. music or travel reviews; and not for direct financial consideration). • However, demand in advertising markets is affected by competition (for audience) in content markets. There is therefore scope for a market impact of BBC Online.

Source: Europe Economics

The market impact assessment needs to focus on several market types and their interactions

Whilst the market types listed above encompass a very wide range of services, they cover only a subset of online activities: for example, they exclude most banking, mail order, and telecommunications services (which BBC Online does not supply). There are relationships between the markets for these services and content markets, but these are less fundamental to our assessment than the relationships between content markets and advertising and subscription markets. We consider that relevant market impacts of BBC Online are most likely to exist in the market types set out in Exhibit 8, which also formed the focus of responses to the consultations.

5.3 BBC Online could have several kinds of market impact

The purpose of a market impact assessment is to ascertain whether the existence of BBC Online has affected — or can be expected to affect — the effectiveness of markets as devices to co-ordinate the efforts of commercial operators to meet consumers' needs efficiently.

Such an assessment requires an analysis of competition as a dynamic process, promoting a flow of innovative services and superior methods of production.

This analysis needs to include three steps:

a) establishing how the current world is different to the "no BBC Online" counterfactual;

b) understanding how this difference affects the actions taken by market participants other than BBC Online; and

c) identifying the impact this is likely to have on the competitive process, or on clear Government policy objectives.

We now consider the main classes of mechanisms that are relevant to the market impact assessment of BBC Online. In doing so, we distinguish the following types of potential market impact:

- BBC Online may eliminate effective competition in content (and related) markets
- BBC Online may lessen competition in content (and related) markets
- BBC Online may have a beneficial market impact by providing services that encourage Internet take-up, bridge the digital divide, or contribute to the successful development of the UK Internet industry

BBC Online may eliminate effective competition in content markets

An obvious concern about the provision of a publicly funded, heavily cross-promoted, free-to-use set of Internet services under a strong BBC brand is that it might make it impossible for commercial providers to compete in supplying similar content funded by means such as subscription, advertising or sponsorship. There is therefore a risk of elimination of effective competition, through the emergence of the BBC as essentially the sole supplier in some relevant content markets — be these online content markets (supply to Internet users) or wholesale content markets (supply to website operators). In the language of competition law, this would be a dominant position (whose existence would mean that there is not effective competition in the relevant market).

For BBC Online to have eliminated effective competition in a market, it is necessary that there is a realistic counterfactual in which the market in question would be competitive; not all dominant positions indicate elimination of competition. For example, in the case of many

BBC programme-support websites, it is possible that without BBC Online the relevant online content market would not be supplied at all.

A common complaint about the BBC is that "the playing field is not level". BBC Online has considerable competitive advantages derived from its access to licence fee revenues, and the cross-promotional and other resources that are connected to the BBC. If the BBC wants to provide certain online services it will almost certainly be able to do so, and does not need to receive any user revenues in order to justify its investment.

However, genuine though they obviously are, and even though they might have adverse effects on competition as discussed below, these advantages do not preclude effective competition in the markets supplied by BBC Online. Effective competition does not need a level playing field. For instance, in the context of television the BBC competes against ITV1, Sky One and many others, and competition for audience appears generally effective despite the BBC's funding advantages.

Whilst the idea that extensive subsidisation leads to monopoly appears to have validity in a commodity market, it is not valid in many media markets. This is primarily due to product differentiation.

A hypothetical example helps to explain this point. A BBC petrol service that would provide standard-quality petrol through an extensive network of filling stations at a price substantially below cost would wipe out the competition fairly quickly. But the situation is different if there is significant product differentiation. Even when an organisation is given the advantages that BBC Online enjoys, elimination of effective competition may be avoided if this organisation is unable to (or chooses not to) cater for the wide variety of wants and desires that exist in markets such as those in the media sector. Notably, consumer preferences may be sufficiently diverse and fast changing to permit different operators to address different parts of each market, and nonetheless exert pressure on each other's quality of service through effective competition for the "middle ground".

In a market with high scope for product differentiation, even though they might "win" less whilst competing on a "sloping playing field" than they would on a level playing field, commercial operators can still provide an effective challenge and exert effective competitive pressures on the BBC, and vice versa.

Thus, a key characteristic to consider in assessing the plausibility of elimination of effective competition as a market impact of BBC Online is the likely diversity of consumer preferences, and the room the BBC Online leaves for others to satisfy these.

Another important relevant factor is the ease of entry. If competitive entry is easy, then there will generally be effective competition. On the other hand, if there are particular resources to which only a few potential operators may have access, then there is a risk that effective competition may be lacking.

BBC Online may lessen competition in content markets

Even if BBC Online does not eliminate effective competition, it may still lessen competition in online content and related markets.

The concept of lessening of competition is familiar in competition policy. It has been formally introduced in UK competition law by the Enterprise Act 2002, under which the main test for the acceptability of a merger is whether it leads to a "substantial lessening of competition". It is established competition policy practice to recognise the possibility that a merger, agreement or other market feature may result in a substantial lessening of competition even if effective competition would not be eliminated.

In this chapter, we use the term "lessening" as shorthand for market impacts that are adverse impacts on competition but fall short of elimination of effective competition.

A stylised example helps to clarify this concept of lessening of competition. Assume that there is a relevant market in which all suppliers of (French) Champagne compete: we might imagine that the special characteristics of Champagne (including its unique reputation) mean that competition is focused between different brands of Champagne. Were there to be a merger or export cartel between all suppliers of Champagne, these competitive constraints would be lost. It is likely that the new single Champagne supplier, freed from the constraints of inter-brand rivalry, would be able to raise its prices. However, even though Champagne has a reputation advantage over alternative drinks, if this supplier increases its price too far we might expect consumers to start shifting to alternatives, such as sparkling wines from other parts of the world. Thus, after the merger or cartel, we might still see effective competition between Champagne and other sparkling wines. The merger would nevertheless have given rise to a lessening of competition, in which "focused competition" between different suppliers of Champagne has been replaced by less focused competition in a new, broader, market for sparkling wine.

This example shows that a lessening of competition may be more about changes to "what competes with what" than "who competes with whom".

The existence of BBC Online could have a similar impact on competition as the one described in this Champagne example by changing "what competes with what". For example, if BBC Online had hindered the development of competition in supply of enhanced news services that provide bespoke online newspapers to individuals — which would represent more focused competition than today's competition between broad themed news sites — then there would have been an adverse effect on competition.

Thus, BBC Online may lessen competition by deterring investments that would otherwise be made by commercial operators. However, the following distinction applies:

- It is the essence of competition that one party's actions are affected by the behaviour — and expected behaviour — of its rivals, and deterrence of investment in this scenario would be a natural consequence of BBC Online's competitive advantages (including public funding and unique cross-promotional opportunities). So long as competition in the same markets remains effective, the loss of one or more participants in the same market does not by itself constitute an adverse impact on competition. Therefore, if BBC Online deters investment by commercial players that would have provided different services within the same markets, then there is no lessening of competition, unless the deterrence is so great as to eliminate effective competition altogether.

- If BBC Online deters investment by commercial players that would otherwise have been able to change the nature of competition, then BBC Online is likely to have lessened competition. If, for example, the effect of BBC Online is to impede competition targeted at specific consumer needs this would be a lessening of competition. In this case, the targeted competition that is lost represents the loss of a form of competition — the loss of the game itself rather than players in it — and this is an adverse impact on competition.

For deterrence of such investment to be attributed to BBC Online, there needs to be a reason to believe that in the "no BBC Online" counterfactual, this investment would have gone ahead. This requires an assessment of the commercial services that would have taken the place of BBC Online in the counterfactual, as they might have provided the same impediments to new forms of competition as BBC Online. However, it will often be the case that services provided by BBC Online could not be duplicated (even approximately) by the commercial sector if BBC Online did not exist, because of the BBC's funding arrangements (no need to earn a return) and its access to unique cross-promotional opportunities.

Thus, in summary, deterrence of investment projects would lead to an adverse effect on competition if two conditions are met:

- it is genuinely attributable to the features of BBC Online that set it apart from the commercial sector; and
- the projects that have been deterred would have changed "what competes with what", rather than merely "who competes with whom".

BBC Online may affect competition in other markets

The mechanisms outlined above relate to content markets, taking account of the associated advertising and subscription markets.

The development of the BBC's online activities may also affect competition in other types of markets, such as those for technology. For example, the BBC's principal choice of Real Networks' proprietary audio and video encoding and streaming technologies means that consumers wishing to access the BBC's online multimedia content will generally need to download and install RealPlayer on their computer. This feature could be considered to increase competition in markets for encoding software (on the grounds that other online providers can rely on the existence of a significant UK user base with access to RealPlayer, as well as to Windows Media Player which is pre-installed on the majority of computers), or to damage such competition (on the grounds that other/new encoding technologies are shut out from the market and cannot match either Microsoft's or Real's ability to establish a significant installed user base).

However, any potential adverse effect on competition arising from a requirement for Internet users to install RealPlayer in order to access BBC Online content would only exist if there was no alternative way for users to access substitutable content, which is to say in connection with a relevant content market in which BBC Online was in a dominant position. In these circumstances, competition law would place a special obligation on the BBC to avoid such a lessening of competition (as it would amount to an abuse of a dominant position). We consider it appropriate to assess the market impact of BBC Online on the assumption that it complies with the law of the land, and therefore any potential lessening of competition of this nature could not form part of our assessment. This is consistent with the fact that we are assessing the impact of the policy to allow BBC Online to exist in its present form, and not of any specific aspects of the way in which the BBC's management has implemented the consent granted by the Secretary of State.

BBC Online may have beneficial market impacts

Insofar as there are Government objectives to encourage Internet take-up, Internet usage and the UK Internet sector beyond the level of activity that would arise in a free market, then BBC Online may have a beneficial impact by providing services that encourage Internet take-up, bridge the digital divide, or contribute to the successful development of the UK Internet industry.

It is also sometimes argued that BBC Online services can strengthen competition in content markets by acting as a benchmark, "pushing" commercial operators and the market up to a higher level of quality and consumer satisfaction.

It is undoubtedly true that the BBC's presence can be expected to affect the nature of the services provided by commercial competitors, since they need to be competitive with the BBC's free content in order to survive in the market. For example, the BBC's supply of content can be expected to drive from the market some similarly themed content that would otherwise be available. It will also redirect the efforts of commercial providers towards areas in which they can be competitive with the BBC's services due to some competitive advantage of their own.

But these effects are an expression of effective competition within a market that is affected by the BBC's public funding, and do not necessarily constitute a strengthening of competition (in the sense of a change in the nature of competition that can be expected to lead to greater efficiency). Furthermore, the market impact assessment as we have defined it is not concerned with the direct benefits of BBC Online (e.g. that consumers enjoy high-quality online content provided by BBC Online).

Competition will only have been strengthened if there would otherwise have been no effective competition in a market, or if particular markets would otherwise have been wider with less focused competition than in the real world (where BBC Online exists). The only mechanism for strengthening of competition that we have identified relates to the supply by BBC Online of markets that would not otherwise have been supplied (e.g. programme support). This may be considered a benefit to competition. However, it is not included in our market impact assessment, because it is a direct benefit of BBC Online services rather than an effect on other market participants.

5.4 Evidence of past market impact of BBC Online

We now consider the evidence about BBC Online's past market impact, i.e. evidence as to whether the mechanisms outlined above might be expected to have been effective in reality since the consent for BBC Online was given.

The KPMG market impact study does not prove that adverse market impacts are "very limited"

The BBC has commissioned an extensive report by KPMG LLP on the subject of market impact. The BBC reports that, while measurement is difficult, the KPMG study finds the market impact of the BBC's online service to be "very limited"[44].

The KPMG report contains a lot of information about the nature and extent of the presence of BBC Online in various parts of the Internet. This has provided valuable groundwork for the review. However, for the types of potential market impact that matter for the review, the KPMG report does not demonstrate that there is only a limited adverse impact of BBC Online.

The KPMG report states that it adopts the standard competition framework in order to assess market impact. Since the impact of BBC Online on the competitive process has been central to our analysis, the concepts and tools of competition policy are important to the review. But the competition framework, most prominently used in assessment of mergers and possible infringements of competition law, has not been designed for analysis of how the existence of a state-funded supplier may affect the competitive process.

The KPMG report recognises the complexity of market definition and the likelihood that relevant markets can be much narrower than the "genres" that KPMG uses to structure its analysis. However, because of the data limitations associated with consumption patterns for online content (at least at the content level rather than website level) it is difficult to provide evidence about the existence of effective competition in these narrower markets.

Thus, the evidence provided in the KPMG report in its market-by-market assessment does not seem enough to show that BBC Online has not eliminated competition in any of the potentially narrow content markets. However, the statistical information presented in the report indicates that it is unlikely that BBC Online has eliminated competition across any wide areas of content. More generally, examination of the nature and range of services available online suggests that effective competition for viewers between a variety of commercial operators and the BBC is the norm in many areas of content supply, as it has been for decades in TV and radio.

The KPMG report does not directly tackle the issue of lessening of competition. In some places it discusses how BBC Online may affect the revenues and costs of online services provided by commercial players, but the analysis seems to focus on the idea that BBC Online would only be considered capable of having an adverse impact on competition if it holds a dominant position. As discussed above, we consider that the existence (rather than specific conduct) of BBC Online may lessen competition, and so the KPMG report can only be seen as a starting point for analysis of this type of impact.

Although the KPMG report touches on the potential for BBC Online to have deterred investment by commercial operators, the question that the study answers relates more to

44 Source: BBC (2003) Public Service in an Online World, page 14

whether it was the BBC or the "bursting of the Internet bubble" that has been the key factor shaping online investment decisions. Again this seems to be a potential starting point for the market impact assessment, rather than a question of direct relevance to the impact of BBC Online on competition. The more difficult question of what impact BBC Online has had on commercial investment, compared to the "no BBC Online" counterfactual, is arguably underplayed.

Finally, since KPMG's terms of reference required a historic study, the report does not directly address the risk for future elimination or lessening of competition.

Evidence provided by commercial stakeholders does not prove adverse impact on competition

A number of commercial companies and associations involved with the supply of online content have provided evidence to the review to support claims that BBC Online has impeded and damaged commercial competition in online markets. There is a crucial difference between market impact in the sense of the inhibition of competitive forces that would otherwise have arisen, and the type of impact, which most stakeholders are naturally concerned about, which is damage to their actual businesses. Nevertheless these parties have contributed to the market impact analysis, largely through anecdotal evidence on how they think BBC Online has affected their investment decisions.

The bulk of this evidence relates to the plausibility of the mechanisms for lessening of competition in online content and related markets as a result of the BBC's displacement of subscription- or advertising-funded content. In particular, the companies and associations emphasised that the BBC provides a different threat to their businesses because it does not need to justify its services by earning a financial return; that it can draw on the BBC's large financial and cross-promotional resources; and that its expenditure seems well out of line with what a commercial operator could sustain.

The evidence provided to us on the mechanisms through which BBC Online may affect competition has predominantly concerned BBC Online as a whole, rather than its constituent areas. For instance, stakeholders have claimed that BBC Online's total resources are high by the standards of the commercial sector.

The lack of evidence at the level of specific services reduces the strength of the evidence that any effects of BBC Online on competition are the result of the BBC's funding and would not have happened as a result of the services that would be provided commercially if BBC Online did not exist.

However, a number of stakeholders have argued that the lack of transparency of BBC Online, both in terms of the allocation of expenditure to particular service areas and of its planned future offerings, mean that they see the threat to their businesses as arising from BBC Online generally rather than from a particular part of it.

Some commercial companies have provided examples of cases where they think that BBC Online has deterred investment by commercial operators. Several of these examples related to the introduction of paid-for content services; some of these, and others examples, were for enhanced versions of services already offered to the market.

For example, the existence (and editorial strength) of The BBC News website may have deterred newspaper publishers from introducing subscription charges on their online news websites, and thereby precluded investment in enhanced or specialised services on these sites, such as better archive searching tools and/or personalised news delivery services that would produce a genuinely customised online newspaper. At the current stage of market development we observe a mixture of free, registration-only, pay-per-view and pay-subscription models for online news content, which suggests that managerial decisions over appropriate business models could be a close call.

For this reason, the impact of BBC Online, with a deep and wide supply of free news content, seems capable of having affected such decisions, and therefore of having affected the business models currently applied. In this way, BBC Online might have prevented "focused" competition in these value-added and/or specialist services, and instead forced all UK mainstream news providers to compete with the BBC and with each other in broader online news markets. This outcome can be contrasted with professional business and financial news, where BBC Online does not operate and commercial providers compete in supplying a range of high-value-added subscription services.

Similarly, BBC Online's narrowband sports offering may realistically be expected to have had a dampening effect on the development of more focused narrowband sports content propositions, e.g. in-depth club-specific services. This example is credible for both content accessed through desktop computers and for content delivered through 3G mobile phones.

Whilst these examples indicate that, in theory, BBC Online may have lessened competition in a range of online content markets, commercial stakeholders did not provide robust evidence (such as business plans or strategy papers) that could support these hypotheses.

It has been put to us that the impact of BBC Online is so large that many investment ideas never get off the drawing board. This factor could reconcile the lack of evidence with the hypothesis that BBC Online has a significant deterrent effect.

International and cross-genre comparisons are inconclusive

At the suggestion of a group of commercial stakeholders, we considered whether comparisons between online services aimed at customers in different countries (particularly the US) might provides further indications of the market impact of BBC Online.

The range of different online news suppliers is immense, and we do not pretend to have obtained a fully representative sample. Nonetheless our review indicates that:

- A wide variety of business models are used for the supply of online news content. Major operators typically provide a considerable amount of free content, but charge users to access specific areas within their site. For instance, it is common for breaking news content to be free and for archive material to be available only on a paid-for basis (subscription or payment for articles or bundles of articles).
- We have found no robust evidence that the business models used in the UK are different

to those used in the US or Europe, in terms of the incidence of paid-content news services. There is a diversity of fast-moving models within each country. The hypothesis that the UK may be lagging behind other countries in terms of the availability of pay models for online news content is not clearly supported.

- Paid-for content is typically for valued-added services (such as searchable archives), and some cases indicate that innovation and increased investment in quality has been associated with the move to a paid-for basis.

Whilst this evidence does not contradict the plausibility of the mechanism for lessening of competition outlined above, it falls short of demonstrating that this mechanism has had significant effects in practice.

Another possible approach would be to compare competition and innovation between genres. However, we have not been able to identify any reliable pairs of comparators of this kind.

The significance of any impact on Internet take-up is unproven

The KPMG report also provides some data related to the impact of BBC Online on Internet take-up.

This evidence is not conclusive. The fact that seven per cent of Internet users agreed with the statement that "existence of the BBC's website, www.bbc.co.uk, was one of the main reasons why I first accessed the Internet" does not itself prove that take-up would have been materially different if BBC Online had not existed, at least in the absence of a broader understanding of the other drivers of Internet take-up.

There is no other indication in the KPMG report that BBC Online has contributed to bridging the "digital divide" (e.g. by enabling or encouraging less privileged social groups to use the Internet).

5.5 Risk of future adverse effects on competition

We now turn to the future impact of BBC Online on competition. BBC Online could become a monopolistic gateway to Internet content

Effective competition is likely to prevail in many online content markets irrespective of the BBC's activities. This is because a variety of media organisations have access to suitable content and can supply it online through a variety of business models (advertising-funded, subscription-financed etc). Since many of these markets can support a wide diversity of service offerings in terms of quality, local focus, etc, it is very unlikely that the BBC will be able to provide an "unbeatable" service in all areas.

Thus, whilst the BBC will sometimes be the preferred supplier for some (and possibly for most) users, the overlap with commercial services at the margin can be expected to ensure that competition exerts effective pressure on all parties (at least if there are managerial objectives within the BBC to maximise audience and/or reach — which is to say, to compete with commercial providers in online content markets).

As discussed above, the main exception to this general picture relates to services in which there is limited scope for strong product differentiation.

These include, in particular, “hub” or “gateway” services, which enable Internet users to gain access to a range of related resources — news, entertainment listings, retailers’ websites, etc — in a convenient way. Tastes for the access or gateway service may be fairly uniform across users even if the things they want to access are different. Thus, for example, product differentiation may not be sufficient to enable diversity and effective competition in markets such as those for general news headlines, local entertainment listings, or Internet directory/search services.

Should it choose to do so, BBC Online would in all likelihood be able to out-gun any UK competitor in terms of investment (including by procuring the best search technology), and could therefore establish itself as the first port of call for this information (at least in relation to some user groups). If it maintains high investment levels, then it may face no realistic threat of entry. In such a case, BBC Online could become a dominant gateway supplier, and therefore eliminate effective competition (insofar as there would otherwise have been effective competition or at least an effective threat of entry).

One reason why this is a plausible risk for gateway services is that as Internet take-up increases, we might expect “laggard” users to include people who are less knowledgeable or confident about the interlinked nature of the Internet. A gateway service and guide to the Internet may be particularly attractive to some of these users, who might be less inclined to go and “explore” the Internet.

If BBC Online were to operate monopoly gateways, there would be a further concern if it overemphasised its own content compared to other providers’ in its choice of information sources to link to. This could lessen competition in a wide range of markets beyond the gateway. (However, the BBC’s behaviour would be constrained by the prohibition on abuse of a dominant position in the Competition Act 1998.)

There are significant risks of elimination of effective competition arising from the mechanisms highlighted above. However, we note that there is no obvious motivation for BBC Online to behave in a way that would eliminate effective competition, even if the BBC was to place little emphasis on market impact in setting its Internet strategy. Effective competition brings potential benefits for BBC top management by helping to provide (non-financial) incentives for staff to “keep up” with competitors, and by revealing objective information about performance and customer preferences. Thus, whilst the BBC may be able to eliminate effective competition, it is not clear why it should wish to do so if it can instead be a strong and wide-ranging supplier in a competitive market.

Greater independent commissioning could not fully compensate for monopoly positions

If BBC Online were to become a monopolistic gateway to Internet content, this adverse effect on competition in online content markets might be partially compensated by the development of competition between independent producers to supply content to the BBC. For example, if the BBC chooses (or is required) to commission a significant part of its content externally, then there could be effective competition in the corresponding wholesale content markets. Such a shift of competition up the supply chain would change the goal towards which the industry’s creative energy would be directed: competition to win contracts with the BBC would replace competition to attract Internet users directly.

However, effective competition in wholesale content markets is possible irrespective of whether there is competition in online content markets.

There is a real risk of lessening of competition in online content markets

Whilst this review did not uncover incontrovertible evidence that BBC Online has lessened competition in online and related markets, the level of concern among commercial operators and the inherent plausibility of the mechanism can be taken as an indication of the probability of future impacts of this nature. These impacts may be caused both by BBC Online's supply of online content markets and by its supply of wholesale content markets.

The real questions may therefore be "where", "when" and "how big", rather than "whether". But, by their nature, these questions cannot be answered with a high level of confidence, since nobody can claim to know with precision the type of innovation that will change the nature of competition in online markets.

Thus, any policy prescription will need to address structures, governance and incentives rather than the provision or otherwise of specific services by BBC Online.

Compliance with competition law is not sufficient to address all market impact concerns

Within the context of this review, an adverse market impact of BBC Online does not necessarily constitute "bad behaviour" by the BBC, or imply any abuse of competition law. It may sometimes be the case that the purpose of BBC Online is inextricably linked to a risk of adverse effect on competition. This may well be so in markets associated with online news content.

Therefore, even if the BBC's online proposition is developed with the best will in the world, taking great care to ensure competition law compliance, it would remain the case that BBC Online could have a significant adverse effect on competition. This simply reflects market impact assessment as one leg of an overall judgement of the benefits and costs to the public interest of BBC Online providing specific services.

Some BBC Online services are unlikely to have any adverse market impacts

Whilst we have identified some general ways in which BBC Online services may have an adverse effect on competition, it is also important to recognise that many types of BBC Online services are unlikely to have any adverse market impact. These include:

- Most of the websites that support the BBC's broadcast output through fact-sheets, programme notes, etc. Whilst some content provided as programme support may lead to a lessening of competition if it undermines the viability of pro-competitive investment in the same general area of content (for example, programme support for a cookery programme could affect an enhanced recipe search and selection website), such concerns cannot be expected to arise in the generality of cases.

- Any services that could have been supplied in much the same form by the commercial sector. If BBC Online provides such a service, then it essentially displaces commercial provision and does not have any effect, adverse or otherwise, on the nature of competition. This is simply because a necessary condition for market impact is that BBC Online does something different (e.g. nature and quality of content, price, promotion etc) to what would otherwise be offered by the commercial sector. Of course, the lack of market impact does not mean that it would be appropriate for the BBC to provide such services, which are unlikely to pass a test of "distinctiveness".

5.6 Conclusions on the potential market impact of BBC Online

The key conclusions of the market impact assessment of BBC Online are as follows:

- Given the nature and complexity of BBC Online's services, and the evidence available to the review, the analysis of the market impact of BBC Online does not "prove" or "disprove" the hypothesis that BBC Online has had no adverse market impact.
- However, there are indications that BBC Online may have an adverse impact on competition. In particular, BBC Online might lessen competition by deterring investment by commercial operators that would have led to new forms of competition.
- At the same time, it seems unlikely that BBC Online has eliminated effective competition across any large areas of online content. Although content markets may be very narrow, and the data do not exist for a complete analysis of market shares, there are factors that suggest that there is effective competition in many online content markets supplied by BBC Online. These factors include the obvious choice available to users in many areas, the ability for competition to be sustained on account of consumers' variety in preferences for online content, and the scope for competitive entry. Even so, a risk that BBC Online might eliminate effective competition in certain markets in the future remains.
- Although it is clear that BBC Online will have stimulated some Internet take-up, the evidence that this has been (or will be) a significant impact is weak.

SECTION III: FUTURE OF BBC ONLINE

6 Future Internet market evolution

BBC Online's agreed purposes and remit over the next five years should take account of and reflect the emerging market trends discussed in this chapter. This section, therefore, highlights some of the key developments in the UK Internet market forecast to take place over the next five to ten years and considers their potential implications for the (future) purposes and scope of BBC Online[45].

The wider media sector landscape is evolving rapidly, driven by technological developments, such as the digitisation of content production and distribution, and the accompanying trends in consumer demand and market supply. The Internet sector, in particular, has developed at great speed since 1998: whilst online was, then, still a relatively immature medium used regularly only by a minority of people (and for a limited range of services, such as email), it is now a mass market medium (over 50% of households have Internet access), capable of delivering a wide range of diverse and high quality services.

The context in which BBC Online was conceived and given approval in 1998, therefore, was a very different one to that of today. The Internet market is set to continue to evolve rapidly - in terms of technology, demand and supply. Whilst the uncertainty of future market trends should be recognised, these trends, nevertheless, inform our understanding of what the Internet world may look like in five or ten years' time – and the implications for the future of BBC Online.

6.1 Future trends in technology

Over the next five years, the Internet technology landscape in the UK will continue to mature, enabling a raft of new services for the online consumer. A combination of developments in network delivery and receiving devices will increase the richness of content that can be consumed, as well as enabling innovative and sophisticated ways of sharing and paying for that content.

Enhancements in bandwidth and compression technology will mean that the quality of audio and video content converges towards broadcast quality, whilst technology-enabling community content (content created by users and shared amongst them) will become much more widely available. Commercial models for the sale and distribution of content will become viable, as distribution mechanisms become more secure.

Two forecast trends, in particular, carry direct implications for how BBC Online will look in the future: the growing (bandwidth) capacity of fixed and mobile distribution pipes; and the ability for content to be transferred easily between consumer (household) devices.

Internet access via broadband and, later, 3G mobile will be capable of delivering a range

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45 See Appendix 11.5 for a more detailed analysis of forecast UK Internet market trends

of high quality audio/visual media services, such as on-demand broadcast quality video

Increased broadband and 3G access speeds and new compression technologies are already allowing a faster transfer of data to PCs and mobile handsets and this trend will accelerate over the next five years. Average broadband connection speeds will increase rapidly, permitting the reliable delivery of high resolution streaming and the rapid downloading of near-broadcast quality video. Mobile handsets will also become viable mainstream devices for downloading and consuming content, as hardware (including processor, storage, and display features) and software develop – although such services are unlikely to become widely available at 'mass-market' prices for several years.

These developments will make the Internet a genuine potential 'third broadcasting medium' for BBC content and services. BBC Online already provides live and archived (from the previous week) access to all of the BBC's radio services, which can be consumed via a narrowband (at a tolerable sound quality) or broadband connection. Over the next two to three years, it will also become perfectly possible for many Internet users to stream or download full-length BBC television programmes (as opposed to just video clips); within the next five years, the majority of mobile devices will be capable of receiving and storing live and archived BBC radio (e.g. the 'Chart Show') and limited television (e.g. news bulletins; comedy clips) services.

The fixed Internet will become a channel for distributing content for consumption from a number of devices (e.g. TV, mobile handset)

As devices (e.g. PCs, TVs, mobile handsets) become increasingly capable of playing and storing different types of content (e.g. linear video, audio content, interactive group chat, gaming applications), it is also becoming easier for consumers to transfer content from one device to another via personal local networks (either via fixed connections, such as USB cables, or via wireless connections, such as Bluetooth). Content delivered to the home via (broadband) fixed connections to the PC will, as a result, be easily transferable to other devices (e.g. TV, mobile) for (later) consumption.

As a result, as fixed Internet connections become faster and more capable of delivering 'rich' content and as broadband take-up rises, consumers may well choose to receive content on an 'on-demand' basis via these connections. The Internet will, therefore, offer another means, in addition to analogue and digital terrestrial broadcast networks, for the BBC (or any broadcaster or content provider) to reach the television with its content; similarly, the fixed Internet represents an additional means (over and above mobile networks) for distributing content to mobile devices.

Given the flexible nature of the online medium (which, unlike broadcast networks, already provides genuinely on-demand access to an enormous range of content), the fixed Internet has the potential to become, for the BBC, one of the main means of distributing its content to TV and mobile devices, as well as to the PC.

6.2 Future trends in demand

The number of UK citizens using the Internet continues to rise steadily, though with varying usage patterns and methods of access across different user groups. As users become more familiar with the Internet, rich audio and video content will become more popular, driving users' willingness to pay for these services, over both the fixed and mobile Internet.

The future role of BBC Online should be considered in the context of the continued rapid growth in take-up and usage of (broadband and mobile) Internet services, as well as the growing commercial value of these markets.

Internet (broadband and narrowband) penetration and usage is forecast to continue to grow rapidly between now and 2008; audio/visual services will account for a large share of this growth in usage

Broadband penetration is forecast to reach 35% by 2008[46], with the average amount of time spent online via the fixed Internet increasing by over 60% over the same period[47]. Incremental usage will largely be driven by the consumption of new content-rich services - particularly audio and video content, with the most popular new services being music, television programmes and clips, and online gaming services.

The growing popularity of audio and video services over the Internet makes them a central component of future online service offerings, from a consumer point of view; as such, these services will be an area of core strategic importance for the BBC (and its competitors) in the coming years. As a publicly funded content provider, the BBC must strive for the optimal balance between distinctiveness, on the one hand, and audience reach on the other – as well as the ability to influence the overall market. The provision of an appropriate level of audio and video services will be an important element in achieving this balance, and in preserving the attractiveness and relevance of BBC Online in the future.

Paid-for content and advertising revenues will grow rapidly over the next five years, as Internet and mobile platforms continue to mature as commercial media

Driven by the growing popularity and usage of audio and video services, paid-for content revenues from the fixed Internet are forecast to grow rapidly, from around £80m to £400m by 2007[48]; over the same period, Internet advertising revenues will grow from around £200m to £300m[49]. This growth will be driven by the take-up of 'legitimate', secure content services (such as Apple's music service, 'i-tunes') and a growing consumer willingness-to-pay for content. In mobile, the substantially larger customer base and existing payment methods mean that revenues are already nearly £500m; these are forecast to increase to around £2bn by 2007[50].

Whilst the accuracy of these forecasts is hard to gauge, taken together, they underline the fact that the Internet content (and associated advertising) market, in both the fixed and mobile domain, will be a key area of revenue growth for content providers over the next five to ten years – and, in real terms, will far outstrip the growth of the past five years.

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46 Source: Forrester, 2003
47 Source: Screen Digest, 2002
48 Source: Jupiter, 2003
49 Source: Zenith Optimedia, 2003
50 Source: Strategy Analytics, 2003

The activities of BBC Online are likely, therefore, to have an even greater economic impact on the financial performance of commercial operators than to date. This will make it particularly important that the public purposes and objectives of the BBC's individual online services are clearly articulated - and that the BBC's strategic plans are transparent and clearly communicated to the wider commercial market.

6.3 Future trends in supply

A number of drivers will play a role in shaping the overall UK Internet supply market over the next five years. As the Internet becomes a mainstream medium for all types of content, and its commercial potential grows correspondingly, leading rights holders are increasingly looking to exploit the value of their content on the Internet, as well as in traditional media. With many rights holders based in the US, the dominance of US providers and US-originated content in online markets is likely to grow.

Search providers are also becoming central to the way the Internet is consumed, as users become more experienced and look for a wider range and more specific types of content, and as search engines develop extra functionality (such as 'intelligent' searching') and features (such as e-mail and shopping tools).

Over the next five years, these projected developments in the competitive market landscape are likely to have a direct bearing on the BBC Online's purposes and priorities.

Supply of English language content to the broadband market will be led by US players

The projected dominance of US-owned and originated content in the UK market (particularly in the broadband domain) is based on a number of factors:

- The greater scale and budget of the leading US content providers give US providers an immediate advantage over UK content providers
- The US Internet market is more developed than that of the UK, in terms of consumer penetration, usage, and service availability; as a result, online content has attracted more investment
- The absence of defined geographical 'borders' between different online markets, coupled with the shared English language, means that (broadband) Internet content developed in and for the US market can easily be transported and consumed across many different markets, including the UK
- There is clearly a relationship between the type of content consumed online and 'premium' content in other media (such as film, music, and television); much of this content is owned by US operators

The relative reach and share of different sites in the UK to date is consistent with these considerations: in 2002, for example, Yahoo, MSN, and Google had the highest shares of site visits; BBC Online and Freeserve were the only UK sites to be ranked in the top ten sites, in terms of overall reach.

In fact, the BBC has been the leading UK online content provider in terms of Internet market share: over the past five years, the BBC has consistently achieved higher reach (and overall share of usage, as measured by total page impressions) than any other UK website.

In the light of the anticipated market developments outlined above, the BBC has the potential to continue to play an important role in the wider online ecology, as the leading provider of UK-originated and targeted online content (developed in-house and/or commissioned externally), especially in higher production cost areas. Indeed, in the absence of other effective regulatory means of supporting UK-specific content - as exist, for example, in the (analogue) terrestrial broadcasting environment - the BBC represents an important means of delivering the UK's public purposes in the online content sector.

Search providers are becoming central to usage, acting as a 'gateway' to content

As consumers have become more experienced in using the Internet, they have started to use search engines as a means of reaching specific content destinations (e.g. particular sports sites), rather than relying on more traditional content portals (e.g. Freeserve's homepage) to guide them to services; this has already fuelled a rapid growth in the usage of search tools. Over the next five years, intelligent search functionality will continue to develop and providers of search engines will become increasingly important as content gateways. This trend is likely to be replicated in the mobile domain, as Internet access to online content and services improves and usage grows.

The BBC launched its own search function in 2001, to serve its stated purpose as an "independent and trusted guide to the Web", as well as to make navigation around its increasingly diverse range of services more manageable.

As the importance of search tools to usage grows, the rationale for a publicly funded search tool becomes stronger: the search market is likely to be led by commercial US service providers (most notably, Google, Yahoo, and Microsoft, which will shortly launch its own proprietary product), whose search products are inevitably influenced by commercial considerations. There may be genuine public value in the provision of a search function free from such considerations (i.e. publicly funded). The BBC is one of the most obvious providers of such a search engine, especially as it is well positioned to ensure that it achieves significant market reach, although other options (such as a government-funded and provided search function) do exist.

7 Potential Economic Market Impact

This chapter, as chapter 5, has been prepared by Europe Economics. The risks to competition identified in chapter 5 are real, even though there does not appear to be enough robust evidence to substantiate fully any claim that competition has already been damaged by the presence of BBC Online.

The existence of these risks raises the question of how the consent and/or other aspects of the governance framework for BBC Online might be amended to address the risks to competition, without undue impediment to the achievement of BBC Online's objectives.

7.1 Implications of a strict market impact test for BBC Online

Is there an objective market impact "test" against which to judge BBC Online services?

The inherent uncertainty associated with the existence and consequences of adverse effects on competition means that the only systematic test of this nature would be a strict one, under which BBC Online would only be allowed to provide a service if there would be no material risk of an adverse effect on competition arising from such provision. Any lower standard would involve subjective judgements about the likelihood of adverse effects, at least in some cases.

Combined with the requirement of distinctiveness, which should prevent BBC Online from simply displacing services that would otherwise be provided by commercial operators, the use of a strict market impact test would be failed by a significant part of BBC Online's current services. It could therefore limit the scope of BBC Online to a subset of programme support activities.

Thus, a strict market impact test would dramatically reduce the size and scope of BBC Online, to the extent of preventing the delivery of the objectives of the original consent. In order to deliver objectives of this kind, BBC Online must be allowed to provide services that carry some risk of adverse effects on competition.

In other words, a judgment will always have to be made to balance direct benefits with effects on the "ecology" of the market. And whilst there can be no proof that the right judgment has been reached in any particular case, a careful analysis of potential effects on competition can be expected to lead to better decisions across BBC Online.

7.2 Requirements of a full market impact analysis

In principle, an assessment of the potential market impact of a proposed BBC Online service would identify the relevant markets or market types that might be affected, and determine whether each of the potential mechanisms through which a market impact may arise might operate in relation to the proposed service.

As set out in chapter 5, some of the key issues to be considered within such an assessment would include:

- The extent of diversity of consumer preferences within the relevant markets. In simple terms, the question is whether the proposed BBC Online service is a little like petrol, i.e. aimed at a reasonably uniform consumer need, or whether consumer preferences within the relevant market are strongly diversified. Only in the former case would elimination of effective competition be likely to result from the BBC's financial advantages over commercial rivals.

- The extent to which the provision of the BBC Online service can be expected to take audience away from commercial rivals, and whether such displacement would have knock-on effects on the viability of new services and business models, to the extent that the non-existence of these services or business models would constitute a lessening of competition. A possible example would be a premium service focused on a specific consumer need which would not be viable if a proportion of the targeted user base was content to "make do" with the less focused, but free, BBC Online service.

In both cases, any effects on competition would only count insofar as they can be linked to differences between the prospective BBC Online service and what commercial players would have provided instead. This element of the analysis is closely related to the assessment of the distinctiveness of the proposed service.

Where a risk of elimination of effective competition or of lessening of competition is identified, it should be imperative to assess possible ways of delivering the key intended benefits of the service whilst preserving effective competition. One way for BBC Online to do this would be to provide a less broad or less deep service, which would meet public service objectives but not be a complete substitute for competitively supplied services.

However, in many cases it will not be practical or desirable to undertake a detailed analysis of market impact to a standard that could convince an independent observer or regulator of the desirability of the particular service.

Thus a comprehensive service-by-service assessment of BBC Online's market impact is likely to require more effort than could be justified.

For these reasons, we think that greater weight must be placed on higher-level means of addressing the risk of adverse effects on competition, specifically:

- a deliberate precautionary approach to BBC Online investment; and
- a governance structure that ensures that market impact is taken into account fully at all levels of BBC Online's management.

7.3 A precautionary approach to investment

In order to give sufficient weight to effects on competition, the appropriate approach to assessing investment in new BBC Online services should become precautionary.

This is necessary to counterbalance the fact that the benefits of competition are generally less tangible than the direct benefits of many BBC Online services.

The benefits of protecting competition lie further in the future and are more difficult to forecast than the specific benefits that result from availability of particular BBC Online service. Particular emphasis should therefore be put on the risks to competition, to avoid the temptations of short-term expediency. Competition is a uniquely effective way of encouraging beneficial innovation that cannot readily be replaced or restored if it is eliminated or lessened by the presence of BBC Online.

In practical terms, a precautionary approach means that, if the view of the relevant decision maker is that there is a "close call" between the public service benefits of a proposed BBC Online service and the costs of that service, including potential adverse effects on competition, then the fact that the potential losses to competition are more difficult to foresee than the benefits of the service should be a good reason not to take the proposal forward.

7.4 Market impact considerations for BBC Online

The Board of Governors should reach decisions that reflect concerns about potential adverse effects on competition, following the precautionary principle set out above.

In order to demonstrate their willingness and ability to make such decisions, the Board of Governors should be wary of any proposals for new online services that are not accompanied by a reasonable judgement on market impact. This would ensure that management (e.g. BBC editors) would consider ways of meeting their service objectives with the least adverse impact on the market, including by analysing the plausibility of the potential mechanisms for market impact identified in this report.

Greater leadership from the top on market impact concerns would also render the BBC more pro-active in mitigating its adverse market impact through appropriate corporation-wide policies. For example, BBC Online could publish information about its investment plans, and inform the market of any areas in which it is not planning to develop any online services (so as to reduce market impact caused by any perceived risk that it might enter these areas). The BBC could also become more open to consultation with commercial operators who feel that BBC Online may be unduly impeding competition.

However, the level of detail of information disclosed by the BBC to the market would need to be considered carefully. BBC Online's ability to retain and motivate staff to develop innovative services would be severely impeded if the best BBC ideas were given away to rivals. And too close a relationship with rivals would not be in the interests of competition.

The BBC should be in no doubt that its activities are likely to have adverse effects on competition. Its focus should be on assessing and minimising such impacts through its everyday management choices, rather than periodic attempts to demonstrate that "the market impact of the BBC's online service is very limited".

At the same time, commercial stakeholders should recognise that BBC Online competes with them for audience, and that an apparent loss to their business is not always a detriment to the competitive process. The BBC needs to be an effective competitor if it is to achieve anything more than the narrowest set of public service objectives.

All stakeholders should also recognise that adverse effects on competition sometimes go hand in hand with public service. Under the present regime it is the BBC's Board of Governors' responsibility to make judgments about the balance between BBC-provided and market-provided services.

8 Purposes of BBC Online

This section considers the core purposes of BBC Online, as well as the criteria that must be taken into account, in order to ensure that it maximises the public value that it delivers[51]. It covers:

- The BBC's stated public purposes
- The core purposes and objectives of BBC Online
- BBC Online's stated service criteria
- Proposed criteria for BBC Online services

This structure is intended to ensure that the review's conclusions on the purposes, objectives, and criteria that should shape BBC Online's strategic priorities in the future are clearly informed by the BBC's own statement of purposes and service criteria.

It should be noted that the discussion below focuses on which purposes and objectives are legitimate ones for BBC Online, as a publicly owned and funded institution. It does not, however, consider alternative means of public provision; the wider question of whether BBC Online is the best publicly funded mechanism for the delivery of the public purposes identified is beyond the scope of this review.

The purposes and service objectives of BBC Online, and the criteria it should consider, as set out in this chapter, represent the review's conclusions on the core purposes and principles that should underpin BBC Online's strategy and service offering. Without reaching an understanding of what these are, or should be, it is difficult to prioritise or counsel against different service areas for BBC Online in the future.

8.1 The BBC's stated public purposes

BBC Online is a core component service of the wider BBC, which, in its own words, "exists to enrich people's lives with great programmes and services that inform, educate and entertain. Its vision is to be the most creative, trusted organisation in the world"[52]. More specifically, in its submission to the licence fee review panel in March 1999, the BBC listed the following purposes as its "historic" functions:[53]

- "Bringing the nation together" – providing the focal point for major national events; reflecting the nation and its diversity; creating a shared, communal experience
- "Informing democracy and citizenship" – providing fair, independent news; covering a wide range of factual and current affairs; ensuring citizens have the necessary knowledge to make

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51 The public purposes listed here assume that a rationale for the existence of the BBC, as an effective means of public intervention in the media sector, persists; as stated, this wider issue is not considered here
52 Source: BBC website, 'About the BBC', March 2004
53 Source: 'BBC Evidence to the Licence Fee Review Panel', 1 March 1999, p5

informed decisions

- “Serving a richly diverse audience” – nurturing the diversity of the UK’s heritage, identity and cultural life, across the nations and regions, across all ethnic and religious groups and minorities
- “As a cultural patron” – acting as a patron to the arts through financial investment, training, promotion
- “As a civilising force” – making arts accessible to all
- “As an educator” – enlarging people’s horizons and extending their education
- “As a technological pioneer” – pioneering new technologies and associated services, from radio and analogue television to digital television and the internet

In the same 1999 submission, the BBC highlighted the following core elements of BBC Online:[54]

- The provision of news and information
- The role of trusted guide to the internet, helping users to enjoy the full potential of the internet
- The development of communities of interest, based around BBC content
- The opportunity for viewers and listeners to provide feedback on programmes and services
- The provision of a range of educational sites and services
- Local and regional content

The link between these particular core online services and the wider set of the BBC’s stated functions (or purposes) is clear. In addition, however, BBC Online offers a number of other services – for example, programme-related sites and entertainment content – that do not map directly onto the purposes, as stated above. It is useful, therefore, to define, as comprehensively and precisely as possible, the core purposes of BBC Online, and, by extension, the service types that it is legitimate and appropriate for BBC Online to provide.

8.2 The core purposes and objectives of BBC Online

The purposes and objectives of BBC Online should flow directly from the wider purposes and remit of the BBC, which are themselves being discussed and reviewed within the context of the current Charter Review. These wider considerations are not within the remit of this report; the purposes set out in the 1999 Application (which represents the most recent formal articulation of the BBC’s purposes) have, therefore, been taken as the starting-point for this report’s analysis of the issues, for the sake of clarity and consistency.

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54 Source: ‘BBC Evidence to the Licence Fee Review Panel’, 1 March 1999, p20

8.3 The purposes of BBC Online

At the broadest level, BBC Online exists to provide online services that are in the public interest – in other words, that deliver public value over and above that delivered by the commercial markets, in the same way as the BBC's television and radio services aim to do in their respective markets.

BBC Online's core purposes may be broken down into four categories:

- **Social:** sustaining and promoting core social values, through, for example, re-enforcing:
  - Democratic values, processes and institutions
  - Educational opportunities and experiences
  - Social 'connectedness'; supporting the BBC's aim to provide 'something for everyone' (reach all licence fee payers) and creating a shared experience
  - Community-based (e.g. regional; political) cohesion and interaction; helping to connect diverse UK communities
- **New media:** complementing and promoting the BBC's broadcast TV and radio services (through extending the richness and reach of these services) and helping the BBC to remain relevant in the (future) digital media world
- **Economic:** addressing 'narrow' economic market failures. There may be certain types of content service for which the value to consumers is greater than the cost of provision, but that are not (likely to be) provided by the commercial market – for example, because of high entry costs, or lack of a billing mechanism
- **Sector-wide:**[55] playing a role in the development of the internet as a valuable and attractive medium for all. As a publicly funded body, BBC Online can focus on helping users to understand and enjoy the full potential of the internet and enable sector development, through, for example:
  - Producing innovative, diverse, and creative online content, and setting industry standards
  - Encouraging the usage of new platforms and technologies (e.g. interactivity)
  - Contributing to the development of the wider UK internet sector, through formal and informal partnerships with commercial market players

Together, these social, new media, economic, and sector-wide purposes should inform all of BBC Online's strategic objectives and the types of services that it delivers.

8.4 BBC Online's service objectives

Based on the set of core purposes set out above, BBC Online could provide the following types

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55 This purpose contains economic and social strands to it – but remains a distinct purpose from more narrow economic and social ones – and, therefore, has not been broken down into its constituent economic and social parts

of services:

Service objectives flowing from social purposes:

Publicly provided social goods: services considered to be of social value, but which the commercial market place is not providing and is unlikely to provide. Such services could include detailed political information (e.g. detailed coverage of a headline issue) and services for users with disabilities (e.g. Ouch!).

Commercially and publicly provided social goods: services that are already provided by the commercial market place, but where a combination of commercial and public service provision could contribute to the quality and scale of provision (and, thus, the overall social value) of such services. The presence, therefore, of a public service provider could be desirable – as an operator of quality and trustworthiness, free from commercial influences, and promoting plurality and quality of service provision. Services falling into this category could include the provision of news and information; educational services; and specific regional and community information and services (e.g. community chat-rooms).

TV and radio programme-related services: services derived from and/or closely complementing a TV or radio broadcast programme, which thereby extend either its accessibility and reach, or its functionality and richness (e.g. through interactivity), or provide an additional feedback and interaction channel (thus improving accountability). Such services should be based entirely or primarily on the content broadcast in the original programme and should not extend to significant amounts of incremental, related material. The sites accompanying 'Newsnight', or the drama 'The Lost Prince', would be examples of this service type.

'Hammocking' services: services that do not deliver any direct public value per se, but which enable effective delivery (i.e. reach and usage) of other services/channels which overall are considered to be of public value (through serving one or more of the purposes set out above). The 'gossip' and chat services provided on the teens site could be considered as 'hammocking' content, helping to attract target users to the site with the result that they, then, consume other (e.g. educational) service types[56].

Service objectives flowing from economic purposes:

'Narrow' market failure services: It is difficult to think of an example of such a service in the online world; content services for which the value of provision to consumers is greater than the costs of provision, but which are not provided (and are unlikely to be in the future) by the commercial sector, because commercial suppliers do not expect to earn enough revenue to make them commercially attractive. This service objective, however, could also apply temporarily, if a service is not currently provided by the commercial sector, but is likely to be in the future, as the economics of service provision change (e.g. as service usage grows and/or costs of

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56 Whilst the rationale of 'hammocking' is not as applicable in the online medium as in the TV and radio media – where consumption of content is more closely associated with specific channels – it is still relevant: audience research shows that users tend to have a relatively small number of preferred sites, which account for a large share of usage. Public service providers must, therefore, think about how to gain audience reach to enable them to deliver their public services with impact, without significantly diluting the overall public value of the service provision fall). In this case, BBC Online should only provide and invest in the service on a temporary basis – and should be expected to withdraw as the relevant sector matures. Some broadband content might represent a current example of this type of service[57].

Service objectives flowing from sector-wide purposes

Creative Content Services: innovative and diverse services that deliver real economic and social value, which the commercial market is unlikely to produce for economic (i.e. not sufficiently commercially attractive) and/or resource (e.g. absence of comparable legacy of talent and training) reasons. These services can be focused on setting and raising standards for online creative content, exposing audiences to new and diverse ideas and formats and investing in original (UK) content. The rationale for the provision of such services by the BBC essentially rests on the BBC's capabilities as a "creative powerhouse", built up over many years. This definition needs to be applied in a precise and transparent manner, in order to ensure that it is only used to justify very particular services. Service examples could include innovative '360 degree'[58] (multiple media) productions such as The Blue Planet and web-only content productions such as Ghost of Albion.

New market-leading services: BBC Online can play an important role in the awareness, development, and take-up of new technologies, to the wider benefit of the UK internet sector, through the online provision of the types of services described above. The provision of distinctive and market-leading broadband content services, for example, is likely to help drive wider demand for broadband – although driving the development of new (digital) markets is not a core purpose, per se.

All of these types of service have the potential to deliver, or assist the delivery of, public value of an economic and / or social nature in the online market – and so could serve the broader public purposes of BBC Online.

Certain types of service (and their respective purposes) may present practical difficulties in their implementation – for example, BBC Online's eventual withdrawal from areas of temporary market failure services, as commercial activity develops, may be difficult to implement, in terms of appropriate timing and actual execution.

For any given service to deliver public value, it must also reach an audience. Thus, a legitimate objective for any BBC Online service is reach – as long as the service continues to serve one or more of the core purposes set out above. As for all its services, the BBC may have to balance service distinctiveness with audience reach, to maximise the public value delivered (i.e. reach is a necessary, but not sufficient, service objective).

Reach is also a valid and important objective for BBC Online if:

- BBC Online aims to increase its reach across all licence fee payers (as opposed to its reach across existing internet users) – thereby serving the wider objective of universality of access
- BBC Online aims to reach licence fee payers who are not (effectively) reached by other BBC

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57 This type of service may also serve sector-wide development purposes
58 Multiple-media productions conceived and delivered across more than one medium (e.g. online and TV)

services – thereby serving the wider objective of providing 'something for everyone', and acting as a connecting force for UK society and its diverse constituent parts

8.5 BBC Online's stated service criteria

In its 2003 submission to the DCMS, the BBC listed a set of clear criteria against which it proposes to test prospective new services, in order to ensure that "any proposals for significant investment in new online content and applications:

- Contribute to fulfilling the public purposes which guide all BBC services, and increase our ability to deliver these purposes to the UK public
- Represent value for money
- Embody the values that audiences rightly expect of services provided by the BBC, in terms of quality, innovation, creativity and trustworthiness
- Are distinctive from content and applications which are already available through other online providers
- Consider the potential impact on other existing providers"[59]

These proposed criteria are broad-ranging in their scope and effectively address many of the core issues to be taken into account when assessing any publicly funded service. There are, however, additional criteria that are relevant to the assessment of BBC Online services and these are incorporated in the proposed list of service criteria set out below.

8.6 Proposed criteria for BBC Online services

Even where a service offered by BBC Online serves, in principle, one (or more) of the above purposes or objectives, the scope and scale of the service should, in practice, be consistent with the BBC's wider purposes and its value to the public proportionate to its impact on the market (as made explicit in DCMS' consent for new digital services). All BBC services should, therefore, be subject to a set of clearly defined criteria.

Informed by the BBC's above set of criteria, the review recommends that the provision by BBC Online of any proposed or existing service should be required to satisfy certain core criteria and should also take into account and effectively achieve a balance with other wider criteria.

All BBC Online services should meet the following core mandatory conditions:

- Legitimacy and transparency of purpose: the purpose of a service should be consistent with the wider purposes of the BBC and should be clearly expressed and communicated to the market
- Cost of consumption: the cost to the end user of a publicly provided service should not exceed the cost to the consumer of delivery (e.g. internet access charges) – i.e. the consumer should never have to pay direct charges to access BBC Online content (that has already been

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59 Source: Public service in an online world', p22, BBC submission to DCMS, July 2003

paid for by the licence fee)

The provision by BBC Online of any new or existing service should also seek to take into account and balance the following (potentially competing) criteria:

- Distinctiveness: the service should be distinctive from other existing commercial market offerings – as a result of fulfilling one or more of the purposes set out above (since these public services are not adequately served by the commercial market alone). The quality of a particular service, however high, does not constitute distinctiveness per se
- Expenditure and 'value for money': before providing any given service BBC Online should assess the associated incremental cost (e.g. content re-versioning and distribution costs) of providing a service against the public value that may be delivered
- Market impact: the potential adverse effects of a service on competition should be assessed before providing a given service

None of these criteria is likely to be straightforward to apply in practice and some may be particularly tricky - for example, the assessment of whether a new service that explicitly serves a public purpose represents 'value-for-money'; or the evaluation of a new service's economic market impact. It is, however, essential that the BBC considers these factors in a rigorous, methodical and transparent way, if the value and legitimacy of BBC Online are to be sustained and strengthened.

8.7 **Setting the purposes of BBC Online in the wider regulatory context**

Inevitably, these conclusions carry implications for the purposes and principles underpinning the BBC, taken as a whole. Both Ofcom's Public Service Television Review and the DCMS's Charter Review are considering the rationale for and public purposes of PSB and the BBC. It is hoped that this report's conclusions inform the findings of these reviews; ultimately, however, Parliament, Ofcom, and the Board of Governors will be responsible for defining and interpreting the wider purposes of public service communications and the BBC.

9 Strategic priorities for BBC Online

Future market projections are, by necessity, uncertain; nevertheless, the broad direction in which the UK internet market is forecast to develop needs to inform BBC Online's own strategic focus and direction.

In the light of the above discussion of BBC Online's core purposes (chapter 8), coupled with the forecast evolution of the UK internet market over the next five to ten years (chapter 6), BBC Online should focus on a clearly defined set of strategic service areas. These may be categorised under the following headings:

- Online content services
- Broadcast content services
- Online applications
- New technology platforms

Each of these areas is now considered in turn, taking into account the rationale, as set out in the previous chapter, for strategic prioritisation of each area, as well as the need to take into account the relevant criteria for service provision, such as potential economic market impact.

9.1 Online content services

Generally, it would be very difficult for this review to prescribe in detail what sites and services BBC Online should and should not provide, for a number of reasons: such judgements are inherently editorial in nature; they must take account of specific market conditions and factors of the moment; and they must draw on the appropriate assessment of other relevant considerations, such as the cost of provision and the potential market impact of a given service.

It is, however, legitimate to encourage the BBC to prioritise investment in and development of particular content service genres, in the light of the purposes set out in the previous chapter, and to draw some conclusions on how BBC Online should provide these services to its users.

Online content genre services

BBC Online should prioritise investment in the following content service categories:

- **News and current affairs:** BBC Online is one of the leading providers of online news and current affairs content; this is entirely consistent with the BBC's broader purposes. It should continue to provide fair, independent (national and local) news and current affairs coverage, ensuring citizens have the necessary knowledge to make informed choices and decisions and supporting the UK's democratic processes and institutions. The public value of this type of service will continue to grow, as more people use the internet as a – or even the – primary source of their news and basic information. However, due to the particular risk of adverse market impact in this area (as discussed in chapter 5), the BBC should carefully assess this risk in the provision of its services.

- **Sport:** sport remains a vital component of the BBC's wider service offering and, in many instances, delivers significant public value. BBC Online's sports services should, however, reflect clearly the service objectives set out in the previous chapter. BBC Online should, therefore, focus on the provision of the following sports services: online content, for which rights have been acquired as part of broadcast deals, which play a key complementary role to TV and radio services; coverage of listed events, which have a recognised shared public value; basic (news) coverage of non-listed sports events (e.g. the Premier League); coverage of minority or 'fringe' sports that are not covered by other online services; and services that aim to encourage users to engage in and play (new) sports - by, for example, leveraging the interactive functionality of the internet.
- **Educational content:** playing an educational role in UK society, including helping to support people's formal education, is a vital part of the BBC's wider purposes; BBC Online's educational sites and services should be an extension of the BBC's overall educational service offering, using online (interactive) functionality to extend the richness of its offering. It is important, however, that the range of online educational services (e.g. the precise categories and the age groups targeted) is consistent with its overall stated educational remit; and that its education strategy is clearly communicated to the wider market. The economic market impact of its service offering must continue to be evaluated, in the light of the (perceived) public value of BBC Online's provision of such services.
- **'Serious factual' content:** Beyond the provision of educational services, BBC Online should also provide a wide range of informal learning opportunities, enlarging people's horizons and encouraging personal development through the provision of content that stimulates interest in and knowledge of topics such as the arts, science, and history. It is legitimate for BBC Online to prioritise the provision of such 'serious factual' content – although BBC Online must exercise rigorous editorial judgement in assessing whether content effectively serves these purposes, rather than providing more generic lifestyle services.
- **Local and regional content:** the provision of information and content that supports local and regional communities is of significant social value in today's society. BBC Online has an important role to play in the provision of local, community-focused content on a local and regional basis, since the promotion of local and regional social cohesion and cultural identities is a valid public purpose of BBC Online. To serve this purpose, BBC Online should prioritise content that promotes communication and interaction between groups that would not otherwise be connected online. Examples would be local user generated content, social action or religious content tailored to local needs and concerns.
- **Distinctive creative content:** The BBC remains in a strong position to invest in and develop innovative and distinctive creative content across multiple platforms, as a result of its critical mass of talent, its production capability and its capacity to take risks in ways that commercial providers often are unable to. BBC Online should, therefore, aim to develop original creative content that sets market standards of quality and innovation. It has an important role to play in the development of distinctive UK originated content. BBC Online should look to use external content providers, as well as its own internal production resources, in the development of original online content, in order to invest and nurture the

independent online content production sector.

Online content service provision

As well as considering the nature and scope of BBC Online's content services, the review has considered how BBC Online produces these services, and then delivers them to users.

As discussed previous chapters, BBC Online has, to date, commissioned a low level of online content from external (independent third party) producers. Quotas are controversial in concept and often difficult to apply; this review, nevertheless, believes that BBC Online should consider, as a matter of urgency, commissioning a significantly higher proportion of its content from external sources. The target should be, at least, 25% of non-daily content by the financial year 2006-07.

The reasons for this recommendation are threefold:

- A higher level of contribution from external suppliers will promote the diversity, plurality, and quality of content offered by BBC Online, and will help to drive innovation and creativity, much as it has done in the TV sector
- Developing working relationships with more independent online producers will enable BBC Online to play a fuller and more positive role in the development of the UK online (production) sector
- A clearly defined and applied tendering process for online content creation and production, open to the independent sector, will encourage efficiency and may, potentially, secure significant cost savings

The Board of Governors should monitor the implementation of this target closely over the next two years and, depending on progress made, the longer-term arrangement for BBC Online's content production should be considered by the current Charter Review.

BBC Online should also, as a priority, re-assess its links strategy. A wide range of content outside of BBC Online's own services is directly relevant to the BBC's purposes, service objectives, and priorities, as set out in this and the previous chapter (for example, local sports and listings sites). BBC Online does not need to be the sole originator or provider of these services. It could, potentially, improve its delivery against its core purposes by providing a wide-ranging set of links to external sites (including those of commercial 'competitors'). Whilst BBC Online cannot unduly favour particular commercial sites, it is perfectly appropriate for editorial judgement to determine when links are relevant and would be of value to users.

Together, these measures, if adopted, would allow BBC Online better to serve its core purposes, including:

- providing high quality, diverse and distinctive content services that meet its service objectives
- encouraging the development of the wider UK internet sector - in particular, the online production sector

- helping users to understand and enjoy the full potential of the internet.

9.2 Broadcast content services

Broadcast content services include both core TV and radio programmes and programme-related services with the potential to extend the richness and impact of the original programmes.

Provision of TV and radio services

As discussed in Chapter 7, the internet is increasingly becoming a viable 'third broadcasting medium' and, over the next five to ten years, usage of online audio and video services is forecast to grow rapidly. The fixed internet is also likely to become an important distribution mechanism for content downloaded for subsequent consumption over a range of devices, from the PC to the TV.

In this context, it is appropriate for the BBC to use the internet as an additional distribution means for its broadcast television and radio content, as this will enable the BBC to maximise the availability and reach of its content services (already paid for by the licence fee). Indeed, as usage of the internet grows, especially amongst younger users, BBC Online is likely to become an important means of 'broadcast' content distribution.

Two caveats, however, apply to the provision of live and archived television and radio services via BBC Online. First, the incremental costs of providing these services must be carefully assessed before new services are approved; these costs include:

- re-versioning - likely to be relatively low, over time, once BBC content management systems are upgraded
- distribution - potentially, very high, as volume of usage grows over time, although BBC Online's network optimisation (e.g. edge-caching; multi-casting) should, in the longer run, help to reduce costs
- content rights – the likely costs of secondary rights for online broadcast – both live and archived – are still unclear, but may be significant, as, for example, the 'TV over IP' market develops.

Second, the potential market impact of offering online TV and radio services should be carefully consulted upon and assessed by the Board of Governors. Whilst BBC's TV and radio broadcast programmes are not the same as those offered by other broadcasters, the impact of offering broadcast content on a 'free' basis (over and above access costs) on levels of competition in the online audio and video content market could be significant.

Provision of programme-related 'value-added' services

In general, it would be appropriate for BBC Online to continue to offer specific services that are complementary to its TV and radio services, including:

- content based directly on original TV and radio programmes (essentially, content-rich online 'factsheets')

- complementary interactive applications that are tied directly to the broadcast programme's content, but that are not currently enabled by the broadcast medium – for example, discussion fora based on the topic covered in a programme. These interactive services should demonstrably deepen and extend the experience provided by the original programme
- direct 'feedback' channels for people to communicate with / comment on programmes and channels
- '360 degree content' – content which, in its inception, is able and intended to be consumed via multiple media (e.g. TV and internet). Such content may be originated by BBC Online, but aims to exploit the potential of content which spans and links multiple media, thereby increasing the reach and impact of the BBC's services, as a whole.

BBC Online should avoid investing in and developing content and services only loosely related (e.g. shared subject area) to the content in its broadcast services.

9.3 Online applications

Some Online services with no direct connection with the BBC's broadcast services, but which do clearly serve BBC Online's core purposes (as set out in the previous chapter), are also legitimate areas to prioritise.

Two online service areas, in particular, merit strategic prioritisation by BBC Online.

Communication services

These services can directly serve BBC Online's purposes of promoting social cohesion and helping to connect diverse groups and communities, especially when based around specifically local or cultural issues. The internet has the potential to act as a powerful connecting medium across many different geographical and cultural groups; BBC Online should aim to exploit this potential by offering compelling, easy-to-use communication services (discussion fora; web logs; chat-rooms) that focus on topics and content genres central to BBC Online's purposes (e.g. news; politics; educational / serious factual content).

The importance of communication services to BBC Online should not, however, lead it to develop such services around all topics of interest (such as entertainment or lifestyle) - in these areas, the wider commercial market already provides an ample range and quality of service.

Search services

The search engine is absolutely key to the great majority of internet users (as highlighted in the review's audience research) and is forecast to continue to grow in importance. As search engines increasingly become the gateway to much of the internet, major US service providers are already competing hard for market leadership. In this environment, there is considerable public value in the provision of a publicly funded, objective search service.

As a publicly funded service, with a core purpose of helping users to understand and enjoy the capabilities of the internet, BBC Online is well positioned to provide such a service, within the framework of a widely used and trusted media brand. BBC Online should, however, focus on the provision of a search service that genuinely helps users to navigate the wider internet; this may be distinct from BBC Online's internal navigation tool (and could, even, be presented as a separate application, rather than integrated, as currently).

BBC Online must also ensure that it communicates and markets the existence, purposes and functionality of its search service more clearly than to date. As discussed in chapter 3, the review's audience research showed that even BBC Online users amongst the respondents were either not aware of BBC Online's search functionality, or did not find it useful or appropriate (in comparison to other search engines - most notably, Google).

9.4 New technology platforms

The BBC has, historically, seen itself as "a technological pioneer"; it has been responsible for developing and driving the take-up of many new services in the UK, from the transistor radio to digital television and narrowband internet.

The BBC's role in the development and promotion of today's new technology platforms needs to be defined – notably, for broadband internet and mobile internet. BBC Online sees these platforms as additional distribution platforms for the BBC's core content services (which have already been paid for by the licence fee). It is therefore legitimate for BBC Online to provide services via new platforms. The provision of the BBC's core TV and radio services via (broadband) internet connections to the PC and, in the future, mobile devices, could be an important spur to UK demand for these platforms.

BBC Online should, however, adopt an approach to delivering its core services via new technology platforms, which takes into account its potential impact on competitive markets. Furthermore, the rationale for BBC Online making its broadcast services available over new technology platforms does not justify the development of new content services that are specifically tailored for these platforms. Given, for example, the incremental cost of provision and the potential adverse market impact of these services, the development of new original content and services for new technology platforms should not be a priority for BBC Online.

Finally, BBC Online should, as a top priority, explore how it can effectively work in partnership with the rest of the online community (for example, with the Broadband Stakeholders Group), to ensure that its role in driving take-up and usage of new technological platforms is a positive one for the sector as a whole.

10 Governance: towards the next Charter

This chapter sets out the review's findings and conclusions on the regulation and governance of BBC Online.

The regulatory and governance frameworks for BBC Online are a function of the wider framework for the BBC, set out in the Royal Charter and, also, the 2003 Communications Act. An assessment of this wider framework is not within the remit of this review – rather, it is a matter for the current Charter Review process. This chapter focuses only on specific issues relating to the regulation and governance of BBC Online and considers:

- Definition of relevant activities
- Regulation of BBC Online
- Governance of BBC Online

10.1 Definition of relevant activities

The responsibilities of the BBC's Board of Governors can usefully be considered as having three core elements – all relevant to all BBC services, including BBC Online. These are:

- Regulation – e.g. ensuring that the purposes and requirements of the BBC, as set out in its Royal Charter and/or Agreement and the 2003 Communications Act, are satisfactorily served by the BBC's strategy and services; safeguarding the BBC's political and editorial independence
- Governance – holding the management of the BBC to account and ensuring that the BBC is accountable to its stakeholders (licence fee payers and Parliament)
- Performance assessment – as part of the governance process, ensuring that actual performance is systematically measured and assessed against agreed strategic objectives

The specific activities involved in each of these steps are summarised in the table below.

Exhibit 9: Summary of BBC regulatory and governance activities and responsibilities

Regulatory	Governance
• Safeguard BBC's independence from political and commercial pressures • Ensure that BBC's purposes flow effectively through into its strategy and services • Police compliance with statutory requirements and 'Statements of Promise'[60] • Appraise, approve, and review new service proposals • Assess the value for money of different BBC services (where appropriate, in conjunction with the National Audit Office) • Consult with the BBC's audience and undertake research into their needs	• Appoint senior management • Endorse / validate strategy for the BBC's public service and commercial operations both in the UK and overseas • Allocate resources (at overall budgetary level and for major new investments) • Ensure transparent, consistent processes for performance assessment are in place and used • Communicate strategy externally to wider market • Ensure communication with and accountability to audience

Taken together, these activities should, in theory, ensure that the BBC serves its core purposes, as set out in its Charter, Agreement, and in statute; that it complies with its statutory requirements, that it is managed professionally and transparently; that it maintains its institutional independence; and that it is fully accountable to its viewers and listeners and to Parliament.

The rest of this chapter sets out the review's conclusions on how the effective regulation and governance of BBC Online can best be carried out in the future.

10.2 Regulation of BBC Online

Throughout the period under review, the Board of Governors has taken a considerable interest in BBC Online. The boundaries of Public Service provision and the development of a search engine both merited extensive discussion at Governors meetings. In addition, in 2003, the Governors sought and obtained a clarification and tightening of the editorial guidelines for BBC Online. The seminar on BBC Online, conducted in 2003, showed a welcome desire to understand the issues relating to the service.

However, the Board of Governors has not consistently ensured that BBC Online's strategy and services have, at all times, focused sufficiently on its stated core purposes:

60 Ofcom is responsible for the regulation / policing of specific aspects of BBC activities, such as compliance with general broadcasting codes and 'tier 2' conditions (e.g. programming quotas)

- The Board of Governors does not appear to be sufficiently ‘arm’s length’ from the BBC’s executive management – this may have restricted the Board of Governors’ ability to assess the strategic direction and performance of BBC Online independently of BBC Online’s senior managers
- The Board of Governors does not appear to have sufficiently scrutinised the service’s value to the public and its impact on the market, either at individual site level or as a collective

Also, because of the regulatory processes adopted by the DCMS over the past five years, the Board of Governors has not been responsible for approving and reviewing BBC Online; this responsibility has been taken on by the DCMS and, by extension, this independent review. This regulatory arrangement has somewhat diminished and, perhaps, confused, the role of the Board of Governors as a regulatory body with regard to BBC Online.

In order, therefore, for the Board of Governors to fulfil its regulatory functions and responsibilities more effectively:

- The Board of Governors should be at arm’s length from senior (New Media division) management, to enable it both to be rigorous in its review of BBC Online’s strategic objectives and service development and to allow it to exercise independent (self-) regulatory judgement

10.3 Governance of BBC Online

It is not entirely clear how the core purposes of the wider BBC, as set out in the Royal Charter and in its 1999 Licence Fee Application, have flowed through into the stated strategic objectives of BBC Online.

As discussed in chapter 4, it is not clear that the processes around the setting of BBC Online’s strategy, and the subsequent allocation of resources, have always been exercised sufficiently rigorously or effectively. The Annual New Media Strategy and Budget papers set out long-term strategic objectives, and the strategy’s implications for the allocation of financial resources, and have (subsequently) been endorsed by the BBC Executive Committee and the Board of Governors.

It is difficult to see from the papers provided, and from discussions held, how the Board of Governors have challenged and validated this strategy to any great degree. The 2000 licence fee settlement and the growth of the audience for BBC Online seem to have been accepted as sufficient justification for the growth in expenditure.

As discussed in chapter 4, BBC Online’s strategy has also not been clearly or consistently communicated to the external market (i.e. to competitors and users). This has reduced the trust of other online providers in the Board of Governors and their process. As the review’s audience research revealed, one other consequence is that a large proportion of licence fee payers remain unaware of many of the services offered by BBC Online.

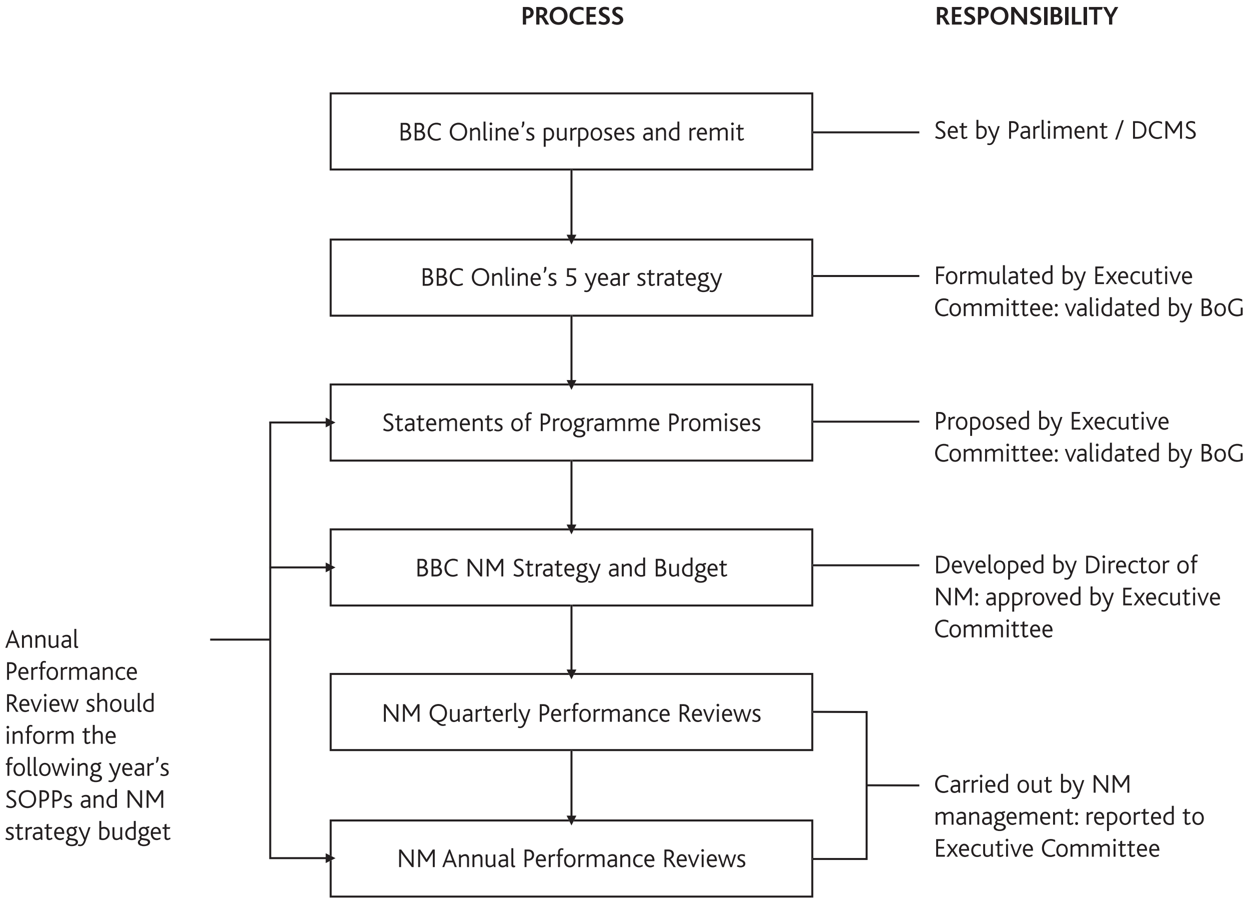
Finally, the ‘flow-through’ from BBC Online’s strategy and the relevant Statements of Programme Promises to the assessment of performance does not appear to have been sufficiently transparent and consistent over the past five years; certainly, it has proved difficult, at times, to map the assessment of BBC Online's performance (as set out in the New Media division's Quarterly and Annual Performance Reviews) against its stated strategy and published Statements of Programme Policy. This process has, however, improved in the last 12 months or so. From documents provided and discussions held, it is clear that there has been a welcome tightening of the process and some increased rigour. This needs effective communication externally.

To address these concerns about the effectiveness of the governance processes in relation to the operation and development of BBC Online:

- The Board of Governors should assess the appropriateness of BBC Online's strategy and the proposed allocation of resources more thoroughly - and more (transparently) independently from the Executive Committee
- The Board of Governors should ensure that, via formal and informal processes, BBC Online's short and longer term strategy is transparently communicated to the market, in a manner that is consistent from year to year; users also need to be made more aware of the range of BBC Online's services – and given ample opportunities to provide feedback on the appropriateness and quality of these services
- The Board of Governors should ensure that the improvement continues so that a rigorous, transparent performance assessment process, linked to the SOPPS, remains in place – and is adhered to by BBC Online's senior management

The exhibit below sets out the kind of consistent process for achieving clear and consistent performance assessment against stated strategic objectives which should be in place, and which should be embraced by all key players within the BBC. Whilst the BBC already has the constituent parts of the process in place, the priority should be to ensure that the linkage between the parts, e.g. BBC Online's SoPP and its budget, are as transparent and effective as possible.

Exhibit 10: Proposed process for performance assessment



10.4 Conclusion

Taken together, the above proposals have a number of direct implications for the way the Board of Governors approaches the regulation and governance of BBC Online. The following recommendations are, therefore, made, in order to increase the Board of Governors' effectiveness in carrying out both its regulatory and governance duties:

- The Board of Governors should become more independent from senior executive management. Whilst the Governors should be responsible for addressing this requirement, the following measures are suggested for consideration:
  - Develop more extensive analytical resources, fully independent from senior management, for the assessment of BBC Online's services and to ensure compliance with competition policy
  - Develop expertise on the Board of Governors in the Internet sector
  - Establish transparent processes for Board of Governors validation and communication of BBC Online's strategy and for the assessment of performance against this strategy

These recommendations need to be considered within the wider context of the current Charter Review, as the findings set out in this chapter inevitably have wider implications for how the Board of Governors functions in relation to other BBC services. The questions that Charter

Review will need to assess include:

- How can the separation and independence of the Board of Governors from the BBC's executive management be secured and maintained in the future?
- How should the Board of Governors build up a directly relevant mix of skills, expertise and experience (e.g. through the appointment of Governors with relevant experience and involvement in specific sectors, such as the Internet) in a fast changing, and complex media environment?
- What type and scale of resources does the Board of Governors need, in order to be able to carry out its duties effectively?

11 Appendices[61]

11.1 **BBC Online 1998 Application and Approval**

Ms Patricia Hodgson CBE
Director of Policy & Planning
British Broadcasting Corporation
Broadcasting House
Portland Place
London WIA IAA

28 October 1998

Dear Patricia,

BBC ONLINE SERVICE

Thank you for your letter of 9 October requesting the Secretary of State's approval, under Article 3(b) of the Royal Charter, for the BBC's licence fee funded Online service to be put on a permanent footing as a core public service. You also requested the issue of a direction, under Clause 10.1(a) of the Agreement between the Secretary of State and the BBC, for the application to the service of licence fee revenue.

I am writing to convey the Secretary of State's approval to the BBC's proposal. Approval is given on the basis of the matters asserted by the BBC in the above mentioned letter and in reliance on the representations and assurances as to both fact and law set out in that letter being accurate. A direction under Clause 10.1(a) is enclosed.

Yours,

Nicholas Kroll

NJ KROLL
For and on behalf of the Secretary of State for Culture, Media and Sport

61 Appendix 11.3 is available on the DCMS website only (www.culture.gov.uk). Appedices 11.4, 11.5 and 11.6 are available on the DCMS website or by request on CD.

BBC ONLINE SERVICE

Pursuant to the approval granted on 28 October 1998 by the Secretary of State, under Article 3(b) of the Royal Charter, for the BBC's licence fee funded Online service to be put on a permanent footing as a core public service, the Secretary of State hereby directs the BBC, under Clause 10. 1(a) of the Agreement between the Secretary of State and the BBC dated 25 January 1996, that sums from the licence revenue may be applied to the Online service.

Nicholas Kroll

NJ KROLL
For and on behalf of the Secretary of State for Culture, Media and Sport

28 October 1998

From the Director of Policy.& Planning

Nicholas KroII Esq
Department for Culture Media and Sport
2-4 Cockspur Street
London
SWIY 5DH

9th October 1998

Dear Nicholas,

ONLINE PUBLIC CONSULTATION RESULTS AND CONTINUATION OF THE ONLINE SERVICE

I am writing to report the results of the BBC's consultation on its Online public services, which was conducted between April and June this year in compliance with the condition attached to the Secretary of State's approval for the start of Online services given in the letter of 10th November 1997. The consultation - the widest of its kind ever carried out by the BBC - has provided valuable insight into:

- licence fee payers attitudes towards the BBC's role on the Internet
- the effectiveness of current Online services, the range and balance of current sites and services
- the way in which Online might develop in future

The consultation - through postal distribution of the consultation document, an on-line questionnaire, public meetings and demonstrations - showed:

- licence fee payers' overwhelming ~support for the BBC's provision of an Online public service (from 95% of respondents)
- support for the broad balance and range of services currently provided - particularly for news, education and programme support.
- areas for further development and enhancement - including regional services, feedback and communication links with and between licence fee payers and community links

On the basis of these results and with the consequent modifications to the service, the BBC now seeks the Secretary of State's consent for Online to be put on a permanent footing as a core public service. The Secretary of State's consent is sought under Article 3 (b) of the Charter and a new direction is sought under article 10.1(a) of the Agreement for the application of licence fee revenues to the Online service.

The results of the consultation, and the proposal to put Online on a permanent footing as a core public service have been considered and approved by the BBC Executive Committee and Board of

Governors.

By seeking this consent, the BBC aims to move its Online service from the pilot stage towards development as the 'third medium'. BBC Online would consequently become subject to the same internal processes for prioritisation, resource allocation and planning as radio and television - enabling the BBC to give proper thought to the relationship between these services'. In so doing, the BBC believes that it will be well placed to respond to technological change; the trend towards convergence and the future development of interactive and On-Demand services.

The Online Service Proposition

The BBC has taken the opportunity of the feedback from public consultation to re-assess the strategy and direction of the BBC's public online services. As a result of the process the BBC has clarified its Online public service objectives:

1. **To act as an essential resource offering wide-ranging, unique content**

- Providing useful, stimulating and up to date content:

  - up to the minute news and information, in-depth comment and analysis both nationally and regionally, including:
    * discussion forums on domestic and world news stories
    * the UK Politics database providing information on all MPs
    * plans to introduce dedicated Northern Ireland, Scotland and Wales news sections, and a similar service for the BBC English regions
    * live audio and video streamed highlights and news bulletins

  - rich and interactive educational content including:
    * educational content for schools, children, parents and teachers complementing the national curriculum and enabling further in-depth study and communication
    * taking adult learners further' into focus areas working with agencies such as the Basic Skills Agency and National Extension College
    * creating interactive learning communities - enabling people with common interests and needs to learn from one another and share their work and experiences
    * providing links to other education initiatives including access to the National Grid for Learning for children, parents and teachers and to the University for Industry for adult learners

  - access to a wide-ranging database of information and features including; weather, sports, travel, local information

  - new national regional homepages giving access to the full range of genre pages, prioritised to reflect national interests

  - new sites based on in-depth interests and passions, offering clips of audio/video footage, programme brands & personalities & links to relevant third party sites.

- Access to and guidance around a range of interesting and relevant web content, including acting as an independent guide to other sites such as Government, NGOs and existing regional sites
- User-focused navigation and overall site design which minimises download times and

maximises ease and speed of use, adopting new approaches as they are proven to have value

2. **Use the Internet to forge a new relationship with licence fee payers and strengthen accountability**

   - Provide opportunities for licence fee payers to feedback their views to the BBC on current and future programmes and services and to contribute content

   - Enable communication, exchange of ideas and experience within communities and between those with shared passions and interests. This will be particularly relevant to regional and local communities, linking through Online to reinforce the BBC's community links (eg. through local radio and regional CEEFAX)

3. **Provide a home for licence fee payers on the Internet and act as a trusted guide to the new media environment**

   - Inform users about the implications of new media capabilities for them and arm users with the tools which will enable them to make the most of them

   - Independent and trusted guide to the Web through the launch in April 1999 of WebWise

   - Enable users to develop the skills, confidence and understanding they will need

As a public service, funded by the licence fee, Online will continue to be available free at the point of use to all licence payers. We currently monitor overseas access to the UK site and have put in place an audited process for funding by BBC World Service. We are working with partners overseas eg.
Broadcast.com in the US to divert certain overseas users to overseas servers funded by joint venture partners.

There will continue to be strict separation between BBC public service sites and the Beeb sites - which are provided as part of a joint venture with ICL. This separation is achieved through the sites being separately managed (Beeb through Worldwide and BBC Online through the Broadcast and News Directorates), through ,separate budgetary arrangements and clear editorial distinction between access through BBC Online and through Beeb. The Producers Guidelines and the Online Guidelines govern the relationship between the sites and the editorial standards that apply to content.

Whilst the BBC recognises that not all licence fee payers currently have access to the internet all new technologies, including television, have taken time to reach universal take-up. Penetration of Online services is developing faster than any previous comparable technology (see Chart in Annex 2).

Currently the service reaches a large number of people (see Annex 2). The BBC's online public services are already the largest and most popular in Europe, with 27.2m pages impressions in July. The equivalent of I in 3 Internet homes are regular users of the BBC's Online service. Online also reaches parts of the audience which it is important for the BBC to build a relationship with - particularly young people - who may be under-served by other channels.

In addition, the service reaches a broad range of people - from working adults, to parents, teachers, students and school children through a strong mix of news, education and programme linked sites. Access to these services can be obtained notjust from the home and office, but also widely through schools, colleges, public libraries and community organisations. Indeed, it is the Government's aim that all children should have access to the Internet via their school by 2002.

We believe that the BBC provides a service which reflects the broad range of licence fee payers' interests and passions - which is built on strong BBC editorial values in a rapidly developing internet environment. By making this investment now, the BBC believes that it is ensuring a long term future for public service values in a converging broadcasting and communications environment. The BBC's public service presence will support the take-up of technology with benefit to individuals and their skill development and more broadly to Britain's economy.

Given that approval for the start-up phase was for one year from 10 November 1997, we are seeking the Secretary of State's approval before the anniversary in early November 1998. Please do not hesitate to contact me if you would like further information

Yours sincerely,

Andrea Smith

(approved by Patricia Hodgson and signed in her absence).

(Patricia Hodgson)

Annex 1: Results of the Online Public Consultation

1. Introduction

This paper summarises the results of the formal online and 'paper' consultation, meetings with the public, Broadcasting Councils and Regional Advisory Councils and the demonstrations for MPs and political staff. The consultation was the widest public consultation ever conducted by the BBC and gave enormously useful insights into the interests and concerns of licence fee payers. The BBC has taken on board these comments and has drawn together plans for the development of Online services accordingly.

2. Process

The formal consultation process began on 27 April and closed on 12 June. During the period the consultation paper was posted on BBC Online and mailed to over 1,500 organisations and individuals. Over 900 people attended 34 presentations/consultation meetings for the public, Broadcasting Councils and Regional Advisory Councils and over 50 demonstrations were made to MPs, Peers and political staff.

3. Executive Summary

- Of the 1,592 respondents to the survey, 93% were existing users of BBC Online and only 4% had never used the Internet. Most were giving an informed view of the BBC's services in the context of higher than average experience and frequency of use of the Internet.

- The consultation also elicited a number of responses from professional associations and voluntary organisations, which although experienced users of the Internet themselves, provide links to Non-Users and the socially excluded. These include:

  Better Government for Older People
  Citizens Advice Bureau
  Confederation of Indian Organisations
  Disabled Living Foundation
  National Council of Women
  Royal National Institute for the Blind
  Scottish Arts Council
  Voice of the Listener and Viewer
  West Midlands Arts
  Youthnet, NI

- The results indicate overwhelming support for BBC Online as a public service with support from 95% of respondents and for the broad balance and range of services provided.

- There was particular support for news and education content, for programme support, for Online as a feedback mechanism, and demand for more regional services.
- There was clear interest in how Online would develop as technologies converge and the scope for extending Real Audio and Real Video streaming and introducing on-demand services.

4. Online and 'paper' consultation results

At the end of the Online and paper consultation exercise there were a total of 1,592 UK responses (after repeats and foreign respondents were subtracted). These were made up of 1,397 responses from Online users and 195 paper responses. Of the total number of respondents, 93% were from people who had previously used BBC Online. Thus, only 97 of the respondents were non-users of the BBC sites. Overall the respondents to the questionnaire are more experienced and frequent users of the Internet than the average. ,They are predominantly male and are more likely to have Internet access at the home than average.

4.1 Analysis of the questionnaire

4.1.1 Users agreeing or agreeing strongly with the following statements:

Note: Some questions require previous use of BBC Online

- BBC Online is easy to get around 71%
- BBC Online provides me with news and commentary that I trust 84%
- BBC Online should provide something for everyone 76%

  (Non Users of BBC Online 68%]

- BBC Online should provide things that other organisations are not doing or do not do well 77%

  (Non Users 80%]

- The BBC should help me find my way around the Internet and help me find good sites ' 40%

  (Non Users 63%]

- The BBC should provide opportunities for feedback on programmes and services 89%

  [Non-Users 84%]

- The BBC's proposed Online services should be provided as a public service All respondents answering Yes 95%

These responses show overwhelming support for the BBC's Online public services and strong support for the feedback function. Also of interest are the non users responses supporting the BBC acting as a 'trusted guide' to the Internet.

4.1.2 Ranking of the top 6 areas in which it is important for the BBC to provide a wide range and depth of services (% ranking them important or very important)

Users		Non Users	
News and Current Affairs	94%	News and Current Affairs	89%
Education	90%	Education	89%
Radio/TV Info	82%	Feedback	72%
Feedback	82%	Regional Info	72%
Events	80%	Radio/TV info	69%
Regional Info	70%	Internet Guide	68%

Users and Non-Users of BBC Online place a high premium on News and Current Affairs and Education as the primary areas of importance for the BBC's public Online services. Respondents also rate highly the opportunity to provide feedback to the BBC on programmes and services and to deliver regional services. However, the results also illustrate the difference in priorities between the two groups. Non-Users of BBC Online place a higher priority on the BBC providing an Internet Guide function than Users (bottom in 'Users' rankings).

4.1.3 Services for specific client groups

Users		Non Users	
Working Adults	85%	Adults in Education	80%
Adults in Education	85%	Students	79%
Children	84%	Children	78%
Students	83%	People w. Disabilities	76%
Parents	79%	Working Adults	75%
Teachers	79%	Teachers	72%
People w. Disabilities	74%	Parents	68%
Women	65%	New Internet Users	65%
Ethnic minorities	64%	Women	59%
New Internet Users	47%	Ethnic minorities	59%

The results show that there is generally broad support for services that meet the needs of adult learners, students, children, parents and teachers. This underlines strong support for education online.

The low level of support for services targeted at women and ethnic minorities reflect the low use and response rates from people in these groups. The BBC will need to target these groups better in future to ensure that its Online services are accessible to all parts of the community.

5. Response to open-ended questions and the feedback from the public meetings

The questionnaire provided an opportunity for respondents to make further comments. The results have been combined with the feedback from the public consultation meetings and demonstrations for MPs and political staff since there was considerable agreement on the main issues.

On 938 of the questionnaires respondents made comments - of these 883 were Users and 55 Non Users of BBC Online. A third of all responses related to content of the BBC's sites, both general and specific. Comments from the 34 public meetings (attended by over 900 people) and the 50 demonstrations are also incorporated into these results.

5.1 Practical issues

- the time taken to access and download BBC sites was a common concern (and is a frequent comment about all Internet access)
- how the BBC will manage and respond to the considerable flow of feedback and e-mails generated by Online
- monitoring of sites to which BBC Online has established 'hot links'
- opportunities for revenue generation in the future and for charging/registration for overseas users and non LF payers
- the opportunities for more Real Audio on BBC sites and the potential for programmes/excerpts on demand

5.2 Issues of principle

- strong support for the role of the BBC as a leader and public service bastion of quality, integrity, authority and impartiality, on the Internet, focusing on areas central to its public service mission in which it can add real value

  'This could build into a very useful service. We hope that it will continue to be funded by the licence fee.' ***National Council of Women***

  'An excellent and very useful site - I wish everything on the web was as good quality as this.' ***Youthnet, NI***

  'BBC should establish market niches for its products and services. BBC should concentrate on front-line topics in its traditional areas of current interest, especially those not catered for by commercial vendors. BBC should promote the qualities of integrity, impartiality, fairness and truthfulness.' ***Former BBC Governor***

  'A local events page, categorised, would be helpful to the community, particularly if it was linked to CEEFAX so that community groups could advertise events to a wider audience; particularly older people.' ***Male, occasional Internet user***

5.3 Content issues

- the most important role identified was in education - both for schools and lifelong learning and the building of partnerships with key bodies and initiatives - for instance the Open University and the University for Industry

  'It is important for the BBC to be both a 'provider' and a 'persuader' in promoting individual, self-motivated learning.' ***Ex-Headteacher, BBC Secondary Programmes Committee***

  'How can the Tec's work with Online to support the National Grid for Learning and The University for Industry?' ***Manchester Training and Enterprise Council***

- broad support for news, political coverage and weather services

  'The news service is excellent, I used it almost daily to follow the conflict in Sierra Leone where we have a charitable project. The BBC Online site is the best most authoritative news site I have found - I recommend it to all new Internet users.' ***Appropriate Ltd***

  'In the absence of a TERRESTRIAL radio or television channel dedicated to parliamentary and political coverage, it would perhaps be beneficial to include some such equivalent facility within the BBC Online Service. This would not only enhance democratic accountability, but also aid political education.' ***Female, Non-User of the Internet***

- **importance of providing programme support for Radio, TV and News**

  'I am broadly very supportive of BBC's Online policy. But remember. The Internet is not just a broadcasting medium, but a medium though which people can seek and receive information and ideas. It should therefore extend people's choice by giving them access to information and ideas beyond those broadcast. For this reason material used by BBC reporters and correspondents in preparing their broadcasts and access to other websites - especially those overseas - (remember, the BBC aims to be a global player) - would be especially desirable.' ***Voice of the Listener and Viewer***

  • a strong lobby for enhanced regional and community services which give opportunities for:
    - sites linked to local/regional radio and TV and to regional CEEFAX
    - community links to local agencies, voluntary organisations etc

  'I would welcome more regional and county items (i.e. BBC local radio station areas), both news and information.' ***Member, BBC Wiltshire Sound Advisory Council***

- and in Scotland, Wales and Northern Ireland strong support for:
    - enhanced national regional services
    - opportunities for Welsh language and Gaelic sites
    - a national regional dimension to UK-wide sites - for example in education - to ensure they reflect differences in the National Curriculum

  'Online seems to have considerable scope to provide regional programmes outside the region. I have in mind say Welsh language radio channel. There are many Welsh speakers throughout the UK who would value S4C and Radio Cymru. I am more likely to trust the BBC in this than any other provider of news type items (A lifelong R4 person).' ***Anonymous male, frequent internet user***

- support for the BBC as a web educator (from new or non-Users) and for a search engine facility

  'A site telling you how to find exactly what you want with a quick, efficient, search engine that works well would be very useful for me.' ***Male, under 16 student, frequent internet user***

- the need for accessible and appropriate services for the elderly, the partially sighted and people with learning difficulties

  'As an organisation ourselves concerned with the provision of information to people with disabilities and older people, we value and commend the role of the BBC as an information provider over the Internet. The opportunity to access information when needed and more importantly how it is needed would seem to be the most valuable contribution BBC ONLINE could

make for everyone.

It is therefore of prime importance for the BBC to take full account of the issue of accessibility and to consider for themselves whether the information that they provide is truly accessible by everyone who needs it.' ***Disabled Living Foundation***

- services relevant to ethnic minority communities (Black and Asian communities were specifically mentioned)

  As Information Officer of an umbrella organisation working with South Asian groups, it would be useful to get information and news affecting our communities via the BBC's Online Service. ***Confederation of Indian Organisations***

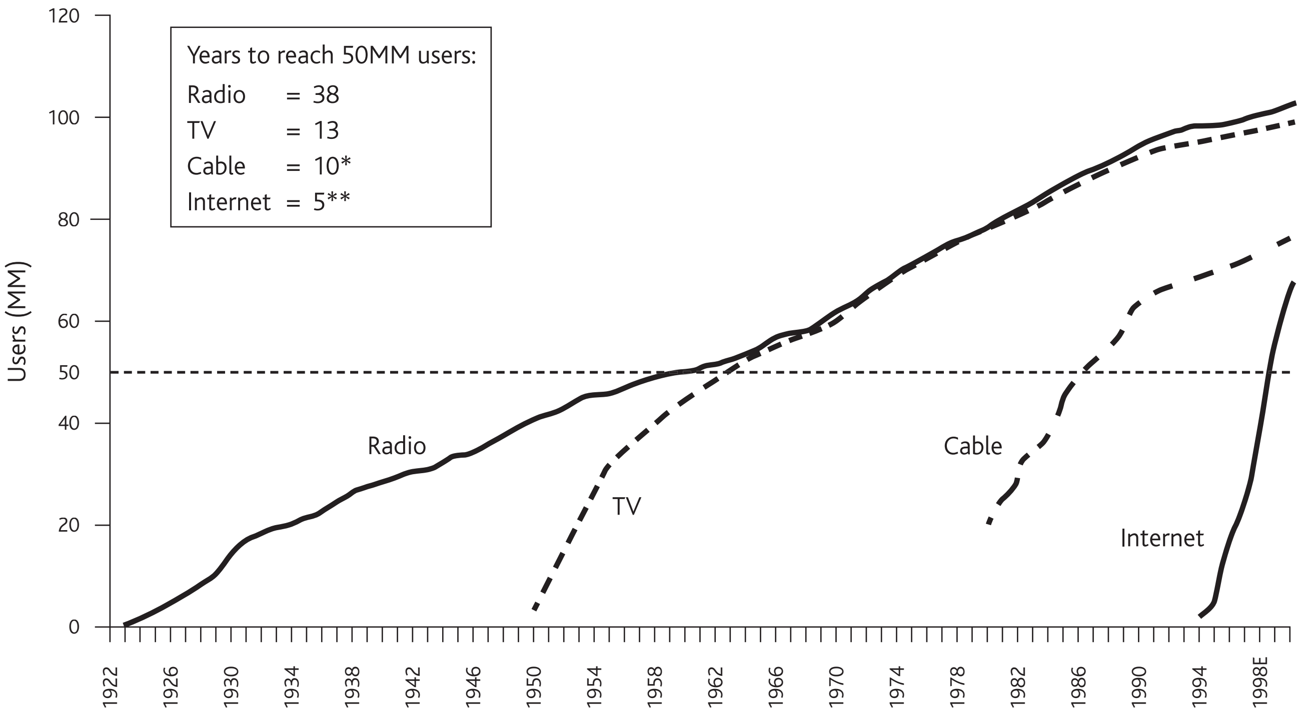
- reflecting national and regional culture and the arts

  'BBC Online should promote UK regional and national culture, and should work hard in hand with other public services including the Arts Council, English Heritage, the Regional Arts Boards and the British Film Institute to do so.' ***West Midlands Arts***

September 1998

Annex 2: Context Current Performance of BBC Online

Online has become a third mass medium, changing the way we communicate, learn, work and relax. The Internet has grown faster than either television and radio in both the UK and the US. Internet use in the USA, which is thought to be 1 1/2 -2 1/2 years ahead of the UK, has grown exponentially since 1995 and the same trend is being observed here.



The comparative growth of Internet penetration in the US.

Source: Morgan Stanley Dean Witter

In the UK, from fewer than a million users in 1994 the reach of Online (including email and Web users) has extended to an estimated 7m people today. This is predicted to grow to potentially 40% of the adult population by 2002 - by which time it is hoped that all children will have access to the Internet through their schools.

Use of BBC Online has more than doubled since January 1998 to 27.2m page impressions in July. This reflects both the rapid expansion of the public services in that period and their increasing popularity with Internet users. In January the BBC's Online public services were limited to News sites. In March Broadcast and Education sites and the Online Channel[1] were introduced. During the formal consultation period, the range of services within each of these areas continued to expand to the 24,000 pages currently available.

Of the 272m page impressions in the month of July, over half were in News (15.9m), a third in Broadcast (including Education) and the remainder in the Online Channel.

Within the UK BBC Online (excluding World Service and Beeb) is now the number one visited destination sites.

1 The Online Channel is a service which provides up-to-the-minute content from BBC News Online, sport travel and education tailored to individuals specified interests and brought to the user by 'push' technology.

Top 10 Destination Sites

	Site	Monthly page impressions (m)	Month
1.	BBC Online - combined public service sites (excl. Beeb and World Service)	27.2m	July
2.	Soccemet	19.3	July
3.	Electronic Telegraph	11.5	April
4.	CricInfo	15.9	July
5.	Sky	10.8	July
6.	Times/Sunday Times	10.3	June
7.	Electronic Share Info	7.1	June
8.	ITN	6.0	June
9.	Guardian & Observer	5.7	July
10.	FT.com	5.6	July

11.2 Glossary of Terms

Technology terms:	
Internet	A collection of many interconnected networks. The standard use of the Internet Protocol (IP) allows users connected to one network to communicate with users on another network. The common standards enable all users connected to the Internet to use services such as web browsing, file transfer, instant messaging and email.
ISP	Internet Service Provider. An organisation that enables companies or individuals to connect to the Internet. ISPs often provide e-mail capability, web hosting and other services in addition to connectivity. Large ISPs in the UK include BT, AOL, and Freeserve
Backbone	High speed network that connects the Internet points of presence of an ISP around the world
Point of presence	The physical location where an ISP's backbone circuits interconnect with the local lines of telephone companies. A Point of Presence usually means a city or location where a network can be connected to another one
Server	High-spec computer that is connected to a network and provides a range of services to other computers on the network, such as storing files, managing printers, encoding audio and video streams and hosting web pages A server farm is a collection of servers physically located together
Peering	The connecting of two networks
Cache	A network server that stores copies of Internet pages and other objects as they are requested so that future requests for the same page can be served from the cache, rather than going back to the original site (assuming the original page has not since changed). A cache is implemented to reduce the load on the content provider's server and decrease the page load times for the user. If located on an ISP's network, it is often referred to as an edge-cache.
Redundancy	More than one piece of equipment, any of which could perform a given function. These multiple pieces of equipment are used to help improve the reliability and availability of the system. 100% redundancy implies there are two of every piece of equipment, the second ready to go in the event of the first failing
Resilience	The ability for a computer system to recover back to its steady state in the event of a fault or problem. Extra equipment such as backup and uninterruptible power supplies improve resilience
Load balancing	Fast servers or routers that direct Internet requests for content to different web servers within a server farm according to their respective load (i.e. how busy they are)

Narrowband	Internet access through a telephone line with a maximum speed of 56kbps.
Broadband	Internet access defined by being "always on" and faster than narrowband. Broadband products on the market today offer download speeds that range from 128kbps to 2Mbps. Access technologies that provide broadband include ADSL and Cable
Streaming	The process of playing audio or video files over the Internet. Streamed files can begin to play while the file is in the process of downloading, eliminating the wait associated with other forms of audio and video playback in which the entire file must be received prior to playing
Encoding	The process of reducing the bandwidth and storage size required to distribute and store a piece of digital media by applying mathematical compression algorithms to it. Advanced encoders can compress data sufficiently to enable it to be economical to distribute it across the public Internet. Audio encoding techniques include MP3 and Windows Media Audio, video encoders include Mpeg 4, RealVideo
Multicast	A streaming technology that allows live streams to be effectively 'broadcast' over the Internet once and received by multiple users. Reduces outgoing bandwidth requirements for content providers
Geo-blocking	The technique of detecting where in the world an Internet user is physically based and basing the type of content they are served, if at all, on that information. Currently being deployed by the BBC to choose which News front page to show the user (UK or international). Geo-blocking systems are not 100% reliable yet and so cannot be used to block access to, for example, non-licence fee payers (i.e. anyone outside the UK)

Economic terms:	
Effect on the market	Any side-effect on any market, i.e. a difference between what happens in the real world and what would happen if consent had not been given for BBC Online, excluding the direct provision of BBC Online services.
Market impact assessment	We have defined market impact assessment as the analysis of the effects on the market that have potential benefits or detriments through their effect on competition or their impact on the achievement of explicit Government objectives.
Market impact mechanism	A chain of potential cause and effect by which the existence of BBC Online may have led to an effect on the market that is relevant to the market impact assessment.
Relevant market	As per EC case law.
Dominant position, position of dominance	As per EC case law.
Effective competition	The absence of a dominant position (same meaning as in the EC guidelines on the assessment of SMP in telecommunications markets, cf OJ 2002/C 165/03 paragraph 5).
Elimination of effective competition	A form of market impact whereby the existence of BBC Online leads to the elimination of effective competition (that would otherwise have prevailed) in a relevant market.
Lessening of competition	A form of market impact whereby the existence of BBC Online leads to a substantial lessening of competition that does not amount to the elimination of effective competition in a relevant market
Adverse effect on competition	A market impact that amounts to a lessening of competition or to the elimination of effective competition in a relevant market (similar to its meaning in the Enterprise Act market investigations provisions).

11.3 **Public submissions to the Review**

Available online only

11.4 **Spectrum's Assessment of BBC Online's use of technology**

Available online or on request, on CD

11.5 **Spectrum's Assessment of Future UK Internet market trends**

Available online or on request, on CD

11.6 **Audience research report**

Available online or on request, on CD