

BBC iPlayer Competition Assessment

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Highlights of the BBC iPlayer case



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- COST: Crowding out of private provision of content?
- BENEFIT: Key challenge: estimating preferences for video on demand

Related Literature

- Literature on mixed oligopolies
 - ▶ Disciplinary role of public firms competing with private firms (see for a survey, De Fraja and DelBono, 1990)
 - ▶ Standard result: Privatization of the public firm lowers welfare if not enough competition among private firms. White (1996), Poyago-Theotoky (2001) and Myles (2002)
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- Economic and Social Impacts of the Media, DellaVigna and La Ferrara (2015):
 - ▶ People spend a large share of time on media entertainment
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 - ▶ People spend a large share of time on media entertainment
 - ▶ In nearly all the settings, the consumer demand for media content is largely due to demand for entertainment, with the economic impacts emerging as a by-product.
 - ▶ Key question: what is the alternative use of time?
e.g., what is the alternative to watching a violent movie? (Dahl and DellaVigna, 2009)

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 - ▶ Provision of media content characterized by high fixed costs and very low marginal costs
 - ▶ Common world trend: Increase in markups and global market power (De Loecker, Eeckhout, and Unger, 2018; World Bank Development Report, 2020)
 - ▶ Incomplete pass-through of cost saving (De Loecker and Goldberg, 2014)

Markups in the service industry vs. other industries

- De Loecker, Eeckhout, and Unger (2018): Technological change accounts for roughly one quarter of the increase in average markups

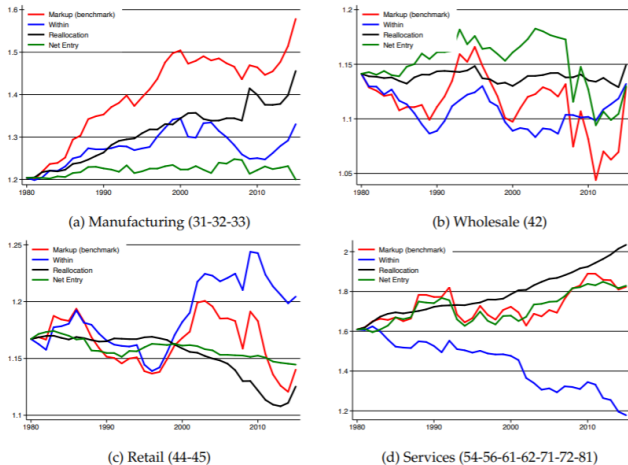
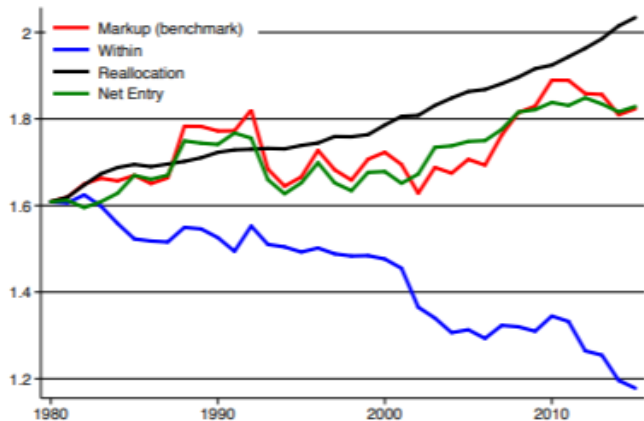


Figure 11: Firm Level Decomposition by Sectors

Markups in the service industry

- De Loecker, Eeckhout, and Unger (2018): In the service sector, reallocation of market share towards high markup firms

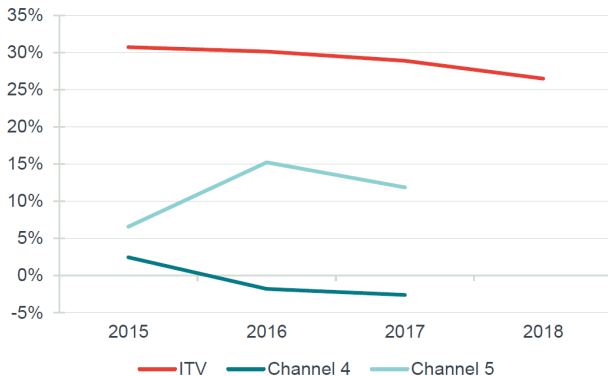


(d) Services (54-56-61-62-71-72-81)

Effect on profit margins of private media providers

- High profit margins in some private providers

Figure 32 Profit margins of selected BVoD services (%)



Source: Companies' annual reports

Note: For ITV, we use the Broadcast and Online adjusted EBITA. For Channel 4, we use the operating surplus/deficit margin. For Channel 5, we use the operating margin.

Effect on markups of private media providers

Figure 35 Annual change in BVoD profit margins as a result of the changes to the BBC iPlayer (percentage points)

	2019	2020	2021	2022	2023	2024
ITV Hub	-0.6pp	-1.2pp	-1.3pp	-1.4pp	-1.5pp	-1.6pp
All4	-1.1pp	-2.1pp	-2.3pp	-2.4pp	-2.6pp	-2.7pp
My5	-1.3pp	-2.5pp	-2.8pp	-3.0pp	-3.2pp	-3.3pp

Source: Various annual reports; Frontier Economics calculations based on Communication Chambers modelling

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- Based on calculations of Frontier, profit margins would decrease between 1% and 5%
- In addition, reduction in the volume of viewing of sVoD services of 0.5% in 2019, growing to 1.0% by 2024. The sVoD providers include Netflix, Amazon Prime Video, NowTV, ITV Hub+ and others such as Disney Life.

Role of vertical integration: Provision of original content

- Role of vertical integration: original series
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- Higher quality of original series? Perhaps because vertical integration solves a hold up problem?

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DEMAND BROADCAST TV CONTENT

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 - ★ BBC content posterior distribution in per pay platforms (Positive or negative spillover?)
 - ★ Overall demand for online content

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- Larger social benefit expected

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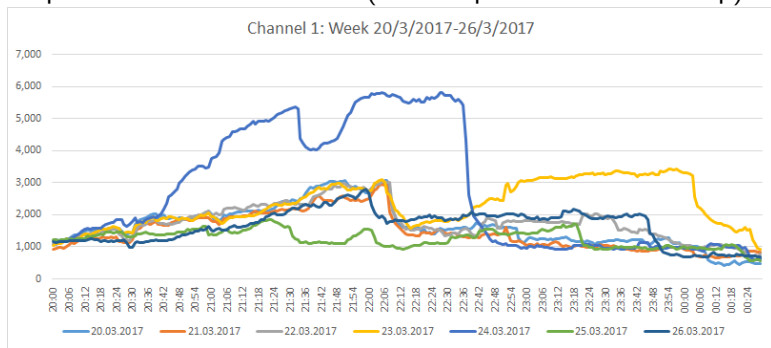
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Discussion

- Crowding out will take place although not expected to be substantial
- Positive social impact of high-quality content for free
- Pros and cons of mixed (private-public) oligopolies
- Further analysis needed on key factors:
 - ▶ Reallocation of market share towards high markup firms
 - ▶ Role of fixed investments and connection with general trend rising market power
 - ▶ Demand estimation of entertainment video on demand

Demand for standard broadcast TV

- Well defined “basket of choices” and possible intertemporal comparisons within TV shows (Data: Spanish TV viewership)



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