News Corporation

Non-confidential version

News Corporation/ British Sky Broadcasting Group Plc

Submission to Ofcom

1. EXECUTIVE SUMMARY AND CONCLUSION

1.1 This submission is made by News Corporation ("News Corp") in respect of the proposed acquisition by News Corp of the entire issued and to be issued share capital of British Sky Broadcasting Group plc ("Sky") that News Corp does not already own (the "Transaction").

1.2 The Secretary of State is considering whether to take appropriate measures to protect "legitimate interests" pursuant to Article 21(3) EUMR and issued a European Intervention Notice in relation to the Transaction on 4 November 2010. Ofcom issued an Invitation to Comment on media public interest considerations in relation to the Transaction on 5 November 2010.

1.3 This submission addresses issues which are relevant to Ofcom's initial investigation of the Transaction in relation to the public interest consideration specified in section 58(2C)(a) of the Enterprise Act.

1.4 This submission is structured as follows:

(a) **Section 2: Background to the parties and the Transaction**

(b) **Section 3: Legal framework and relevant public interest consideration and sufficiency of plurality**

(c) **Section 4: The Transaction will not change the quality of editorial influence over Sky News**

(d) **Section 5: No impact on setting of the news agenda**

(e) **Section 6: Sufficient plurality post-Transaction**

1.5 News Corp has engaged FTI Consulting and Perspective Consulting to prepare reports on media public interest considerations relevant to the Transaction. These reports are provided in **Annex I** and **Annex II** respectively.

1.6 A **Glossary** of abbreviations used in this submission is provided in **Annex III**.

1.7 In summary:

(a) In the UK, News Corp is mainly a newspaper enterprise for the purposes of the Enterprise Act and Sky is a media enterprise serving mainly a TV audience. This means that the only audience for whom plurality could conceivably be reduced as a result of the Transaction is a cross-media audience.

(b) The Transaction involves News Corp acquiring full legal control of Sky over which News Corp already has commercial influence and a degree of control, as recognised by the UK authorities.

(c) In relation to TV broadcasting, commercial influence does not equate with editorial influence. This was found by the CC and confirmed by the CoA in the Sky/ ITV case. It cannot be assumed that the Transaction will bring about a significant actual change in the editorial independence of Sky News.

(d) Furthermore, the regulatory framework and the deep culture of editorial independence in UK TV broadcasting combine to protect internal plurality within the media enterprise that will serve a cross-media audience post-Transaction.

(e) In any event, even if Ofcom wanted to assess the Transaction on the basis that there will be no internal plurality constraint in relation to Sky News post-Transaction, there would be a sufficient plurality of voices available to cross-media audiences post-Transaction. The strength, number and range of cross-media voices has increased since enactment of the Communications Act and there is every reason to believe that this cross-media diversity will continue post-Transaction.

(f) We also considered, following the Sky/ ITV precedent, whether there were particular individuals within the UK population who currently rely only on news content from Sky News and News International. This grouping was found to be of a minimal size (0.3% of the UK population).

1.8 This submission and its annexes contain confidential information which should not be disclosed to third parties without News Corp's prior written consent.

2. Background to the Parties and the Transaction

The Parties

2.1 **News:** News Corp is a diversified global media company with operations in eight industry segments: filmed entertainment; television; cable network programming; direct broadcast satellite television; integrated marketing services; newspapers and information services; book publishing; and other. News Corp had total assets as of 30 June 2010 of approximately US$54 billion and total annual revenues of approximately US$33 billion for the fiscal year ended 30 June 2010.

2.2 The activities of News Corp are conducted principally in the United States, Continental Europe, the United Kingdom, Australia, Asia and Latin America.

2.3 News Corp is a Delaware corporation whose shares are listed on the New York and Australian Stock Exchanges. News Corp has a secondary listing on the London Stock Exchange.

2.4 In the UK, News Corp's main activities include (through News International Limited) the provision of newspapers and information services and (through HarperCollins Publishers Limited) book publishing.

2.5 News Corp owns 39.14% of the shares in Sky, and is entitled to exercise 37.19% of the voting rights in Sky. According to the UK CC, News Corp at present has a degree of control of Sky.[1]

2.6 **Sky:** Sky is a holding company for a number of subsidiaries, which are active in a variety of economic sectors in the UK and Ireland, including:

(a) the creation of "linear" TV channels (i.e., channels offering a series of programmes which are available to view at a scheduled time of broadcast). Sky's linear pay TV channels are supplied on a wholesale basis to cable, DTT, and IPTV operators for them to retail to their subscribers in the UK and Ireland. Sky also broadcasts a number of its TV channels FTA (or free-to-view) via DTH satellite and via DTT;

(b) the retail distribution of Sky's and third parties' linear pay TV channels via DTH, IPTV, the Internet (via *Sky Player*),[2] and mobile technologies;

(c) the retail distribution of Sky's and third parties' "audiovisual programming" (referring to all types of content that satisfies consumers' demand for audiovisual services, regardless of how they are made available to consumers) via the services known as *Sky Anytime* and *Sky Player*;

(d) the provision of retail telephony and broadband services to Sky's residential DTH subscribers;

(e) the provision of conditional access, access control, and EPG services to broadcasters and interactive service providers on Sky's DTH platform;

(f) through Sky's advertising sales house, Sky Media, the sale of advertising and sponsorship on Sky's and third parties' channels, and on other Sky services.

2.7 Sky is a public company whose shares are listed on the London Stock Exchange.

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1 CC Report, paragraph 5.64.

2 *Sky Player* is an online application available over the Internet via PCs, games consoles and other consumer electronic devices.

The Transaction structure

2.8 The Transaction contemplates the acquisition by News Corp of Sky's shares it does not already own. After the implementation of the Transaction, News Corp would exercise sole control over Sky.

2.9 The Transaction is subject to the City Code on Takeovers and Mergers and would be implemented by way of a public offer or court approved scheme of arrangement.

Timetable and regulatory review

2.10 On 15 June 2010, News Corp made an announcement pursuant to Rule 2.4 of the City Code on Takeovers and Mergers of a possible offer to acquire the entire issued and to be issued share capital of Sky that News Corp does not already own.

2.11 Pursuant to a Cooperation Agreement entered into by News Corp and Sky on 15 June 2010, Sky has agreed to co-operate with News Corp in seeking any necessary merger clearances in relation to the Transaction from the relevant merger control authorities.

2.12 The Transaction is a concentration with a Union dimension and was notified to the Commission on 3 November 2010. The Commission's review of the Transaction at Phase I is pending.

Rationale of the Transaction

2.13 The acquisition of the entire share capital of Sky constitutes an opportunity for News Corp to achieve financial consolidation for a company with which it has been closely associated for a long time, and which is mainly active in a sector that constitutes a core business for News Corp.[3]

2.14 The Transaction will allow News Corp to achieve, among others, the following two main objectives: (1) it will allow News Corp to diversify the geographic scope of its activities by acquiring a significant presence in two territories, namely the UK and Ireland, where, as of today, News Corp's activities in the TV sector are rather limited; and (2) it will allow News Corp to diversify its sources of earnings by consolidating a business, such as Sky's business, whose earnings are less dependent on advertising than other News Corp activities in the UK/ Ireland and elsewhere (and more linked to subscription fees paid by TV viewers).

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3 News Corp has activities in the pay TV sector outside the UK and Ireland.

3. LEGAL FRAMEWORK: RELEVANT PUBLIC INTEREST CONSIDERATION AND SUFFICIENCY OF PLURALITY

Introduction

3.1 The Secretary of State is considering whether to take appropriate measures to protect "legitimate interests" pursuant to Article 21(3) EUMR and issued a European Intervention Notice in relation to the Transaction on 4 November 2010. Pursuant to such European Intervention Notice, the Secretary of State asked Ofcom to investigate and report to him in relation to the identified public interest consideration described is paragraphs 3.5 to 3.7 below. As Ofcom will be aware, News Corp has made detailed submissions to BIS explaining why, in its view, there is no substantive basis for intervention. In particular, the Transaction does not give rise to "exceptional circumstances" as to justify intervention in accordance with the DTI Guidance, paragraphs 8.2 and 8.4, and we submit that this background should inform Ofcom's advice to the Secretary of State to enable him to determine conclusively the relevance of the identified public interest consideration.

3.2 As Ofcom is aware, the scope of its report and of the following determinations to be taken by the Secretary of State, is limited to plurality considerations. News Corp is aware that a number of third parties have made submissions that the Transaction will have detrimental effects on competition (for example, it has been suggested that the merged group may choose to bundle News Corp newspapers with Sky subscriptions with anticompetitive effects). Such theories are, in any event, unsubstantiated and are based on hypothetical assertions of what "may" or "might" occur following the Transaction, without evidence. They speculate on commercial behaviour and its impact on competition and therefore fall under the exclusive competence of the Commission.[4]

3.3 In light of the CC approach in the Sky/ ITV case, as endorsed by the CoA, an analysis of plurality involves the following:

(a) a **qualitative** assessment of the range and variety of voices available to audiences, taking into account both "external" and "internal" plurality, rather than a bare assessment of the number of controllers;

(b) in terms of **content types**, the focus of the analysis should be the provision of news, bearing in mind that any activities of Sky or News Corp in relation to the supply of raw news or content or other services to third parties which do not confer control over editorial policy are **not** relevant to the public interest consideration;

(c) in terms of **audiences**, the Transaction can only conceivably affect a cross-media audience, if at all; socio-economic groupings are not themselves relevant audiences for statutory purposes, but only categorisations which may apply to some members of an audience (or members of a readership).

3.4 After establishing what qualitatively changes post-Transaction, compared with pre-Transaction in respect of the provision of news to a cross-media audience, it is then necessary to assess whether or not that change would result in insufficient plurality in the UK.

The relevant public interest consideration

4 The BIS statement accompanying the European Intervention Notice notes that, given the size of the acquisition, the Commission will investigate the proposed acquisition on the grounds of competition and it will announce its own decision by 8 December.

3.5 The relevant public interest consideration, on which the Secretary of State has asked Ofcom[5] to report, and we understand from our correspondence with BIS, is set out in section 58(2C)(a) of the Enterprise Act:

> *"the need, in relation to every different audience in the United Kingdom or in a particular area or locality of the United Kingdom, for there to be a sufficient plurality of persons with control of the media enterprises serving that audience."*

3.6 The manner in which an assessment of the sufficiency of media plurality is to be conducted was considered in detail by the CC in the Sky/ ITV case. The CC took into consideration views expressed by Ofcom, written and oral submissions from a number of interested parties, contributions from academic and other experts, literature concerning plurality and the Parliamentary debates connected with the relevant provisions, in coming to its view as to what an assessment of plurality required. The CC's approach was accepted and followed by the Secretary of State.

3.7 On the one important point on which the CC's approach was challenged in the CAT, the CC's approach was ultimately endorsed by the CoA. The CoA concluded that, when assessing the plurality of the aggregate number of relevant controllers of media enterprises and considering the sufficiency of that plurality, the CC may, and should, take into account the actual extent of the control exercised and exercisable over a relevant enterprise by another. In light of this, it should not be necessary for Ofcom to re-open the debate in areas where the CC has already made clear findings.

Plurality requires an assessment of the range and number of voices

3.8 In Sky/ ITV, the CC summarised its process as follows:

> *"We took the concept of plurality of persons with control of media enterprises to refer both to the range and number of persons with control of media enterprises. We concluded that a plurality of control within the media is a matter of public interest because it may affect the range of information and views provided to different audiences. We thought it important to draw a distinction between the plurality of persons with control of media enterprises and the implications of that plurality for the range of information and views made available to audiences. We also thought that it was appropriate to distinguish between the range of information, and views that are provided across separate independent media groups (external plurality) and the range that are provided within individual media groups (internal plurality)."*[6]

3.9 The CoA confirmed that an analysis of plurality involves more than a bare assessment of the number of controllers and encompasses an assessment of the range and variety of voices available to audiences, taking into account both "external" and "internal" plurality.

> *"The word plurality can connote more than just a number exceeding one. It may carry an implication of range and variety as well. Certainly it has that meaning in subsection (2B). We consider that it does so in subsection (2C)(a) as well."*[7]

3.10 The so-called "deeming provision" in section 58A(4) and (5) of the Enterprise Act means enterprises may be treated as ceasing to be distinct if there is a change, if at all, in the quality of control (including from the lowest, material influence, to the highest, legal control) **but** does not preclude additional qualitative analysis.

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5 In this submission, we refer to the assessment conducted by the Secretary of State and on which the Secretary of State has asked Ofcom to report.

6 CC Report, paragraph 30.

7 CoA Judgment, paragraph 90.

3.11 It is therefore necessary for the Secretary of State to consider to what extent the Transaction changes the *status quo ante* (in which News Corp already has a degree of control of Sky), so as to create a situation of insufficient plurality.

Focus of analysis should be news

3.12 The CC decided in Sky/ ITV that, in terms of content, the best metric to assess the range of information and views presented to the public (and to assess plurality) was the provision of news:

> "*We concluded that a plurality of control within the media is a matter of public interest because it may affect the range of information and views provided to different audiences.*"[8]

> "*The parties overlap in a broad range of content, but news and current affairs are the genres most closely connected with the formation of public opinion about issues of national significance through the communication of a range of information and views. National news is an important genre of programming for both ITV and BSkyB. Considering all content genres, including current affairs, documentaries and satire, viewers rank news first in terms of 'societal importance', with a majority of the public saying that news helps them feel part of the democratic process. We also believe that news provision is a reasonable indicator of, and better defined than, a wider range of other content relevant to the formation of public opinion about issues of national significance. We therefore focused on national news and refer to the range of information and views communicated to audiences through the news as the 'plurality of news.*"[9]

3.13 Consideration of other types of content provision, as raised in Ofcom's consultation document, does not assist in assessing plurality and, particularly, in light of the CC's clear finding in Sky/ ITV other content types should be should be regarded as irrelevant to a plurality analysis. Indeed, to date this seems to have been accepted even by third parties publicly expressing views about the merger who have focused their interest on news.

Supply of news content to broadcasters (in particular Channel 5) is not within the scope of the legal consideration of sufficiency of plurality

3.14 The Secretary of State is required to consider only the plurality of persons with control of *media enterprises*.

3.15 For the purposes of section 58 of the Enterprise Act, an enterprise is a media enterprise if it "consists in or involves broadcasting".[10] A "media enterprise" is therefore **not** one which consists in or involves the provision of news content or services to broadcasters.

3.16 That the supply of news content or services is not itself the focus of the plurality assessment required by section 58 of the Enterprise Act is logical and consistent with the overall regulatory framework, where the focus is not on the provider of content or ancillary services but on the owner of channels and programming and editorial control. For example, the entity that is licensed and regulated to provide a broadcasting service under the Communications Act is "*the person with general control over which programmes and other services and facilities are comprised in the service (**whether or not he has control***

8 CC Report, paragraph 5.10.
9 CC Report, paragraph 5.32.
10 Section 58A(2), Enterprise Act.

of the content** of individual programmes or of the broadcasting or **distribution of the service)" (our emphasis).[11]

3.17 This has important implications for assessment of sufficiency of plurality in relation to the Transaction. Any activities of Sky or News Corp in relation to the supply of raw news or content or other services to third parties which do not confer control over editorial policy are **not** within the scope of the public interest consideration.[12] In particular:

(a) although Sky provides raw news data and content to Five, Channel Five is the relevant broadcasting licensee and controls the editorial policy of its channel;

(b) although Sky has won the contract to supply news content to IRN, it does not control the editorial policy of the radio news service or the individual radio stations.

3.18 The regulatory framework thus draws a fundamental distinction between transactions and interests which confer influence over editorial policy and those which do not. Only the former are within the scope of a plurality assessment. The plurality assessment must focus on whether there is a sufficient plurality of persons exercising editorial control over media enterprises.

Concept of a relevant audience

3.19 The concept of an "audience" for a particular media outlet must be based on those people who are exposed to the views and opinions of that media outlet and who could therefore conceivably be impacted by any alteration in its presentation of the news. For a newspaper the assessment must relate to the voices available to the UK readership. For a television broadcaster the assessment must relate to the voices available to the audience which watches TV broadcasts in the UK. For a merger between a newspaper enterprise and a TV broadcaster the relevant audience is necessarily a cross-media audience. It is in this context that any possible reduction of plurality and its impact on "sufficiency" needs to be assessed.

3.20 For statutory purposes, socio-economic groupings or regions or "nations" of the UK are not the starting point of the analysis and are not themselves audiences. These groupings are not an "audience served by an enterprise", they are categorisations which may apply to some members of an audience (or members of a readership).

3.21 In Sky/ ITV, when considering the audiences reached by News International and Sky, the CC concluded that there were no fundamental differences between socio-economic groupings or between regions, or "nations" of the UK.

> *"We investigated the extent of such differences further using data from TGI and Touchpoints. The results of this analysis are set out in Appendix I. Our view is that, whilst viewing shares and readership vary somewhat by socio-economic group, there are no fundamental differences in the significance of ITV, BSkyB and News International to particular sections of the UK population. Nor did we find any fundamental differences in the significance of ITV, BSkyB and News International between nations within the UK."*[13]

3.22 As explained in the report by FTI at Annex I, there are no fundamental differences in the significance of Sky News and News Corp to particular sections of the UK population or

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11 Section 362(2), Communications Act.

12 It is noted that the CC did not aggregate either Five News or radio services receiving news content from Sky into Sky News' audience share when it reviewed the Sky/ ITV transaction.

13 CC Report, paragraph 5.50.

nations within the UK. The Transaction will not result in there being insufficient plurality in any sections of the UK population or nations within the UK.[14]

The Transaction can only conceivably affect a cross-media audience, if at all

3.23 In the UK, News Corp is mainly a newspaper enterprise for the purposes of the Enterprise Act[15] and Sky is a media enterprise serving mainly a TV audience.[16] This means that the only audience for whom plurality could conceivably be reduced as a result of the Transaction is a cross-media audience:

(a) the number of controllers of **television** news broadcasters would not reduce as a result (Sky would remain under entirely separate control from the other main television news broadcasters: BBC, ITV and Channel 4)[17]; and

(b) the number of controllers of **newspaper** enterprises would not reduce as a result (News International would remain in entirely separate ownership from the other main UK newspaper groups: the Daily Mail and General Trust, Trinity Mirror, Northern & Shell, the Telegraph Media Group, the Guardian Media Group, Independent News and Media and the Pearson Plc).

3.24 The only context in which the number of controllers of news sources for any audience would conceivably have reduced would be examining an audience's consumption of news across multiple media, taking into account at the very least exposure to both television news and newspapers.

"Sufficiency" of plurality for relevant audience pre and post-Transaction

3.25 Once the Secretary of State has established what qualitatively changes post-Transaction compared with pre-Transaction, and for which audience, he must then assess whether or not that change will result in there being insufficient plurality in the UK.

3.26 The meaning of "sufficient plurality" is not developed in the Enterprise Act. The Explanatory Notes to the Communications Act state in relation to section 58(2C)(a) that *"[t]he first limb of this subsection is concerned primarily with ensuring that ownership of media enterprises is not overly concentrated in the hands of a limited number of persons".*[18]

3.27 There is no indication that Parliament considered plurality to be insufficient at the time of enactment of the Communications Act which represents a relaxation of controls on media ownership and, particularly, cross-media ownership. In these circumstances, it would be legitimate to assume that intervention on plurality grounds is warranted only when it reduces plurality to a level which is materially below that subsisting at the time of enactment of the relevant legislation. In such a rich and diverse media environment, which is even more true today than in 2002, it cannot be established that the Transaction gives rise to serious public interest concerns.

3.28 The CC described its process as follows in Sky/ ITV:

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14 See, further, FTI Report, paragraphs 6.19 to 6.23.

15 A "newspaper enterprise" means an enterprise consisting in or involving the supply of newspapers.

16 News Corp has other interests in the UK that are not relevant for present purposes, including the supply of content that is available on the Fox channels.

17 Ofcom has also requested data as to the audience share of Fox News in the UK. While it is true that News Corp does already control the Fox News Channel and that it could therefore be alleged that bringing Fox News and Sky under common control would reduce the number of controllers of news broadcasters, this would fail to take into account the exceedingly marginal position of Fox News in the UK. Fox News' share of news viewing is 0.08% (BARB, January to October 2010).

18 Explanatory Note 802.

"We have considered sufficiency by reference to the current levels of plurality, having regard to any change in plurality that arises as a result of the acquisition. Moreover, in considering the sufficiency of persons with control of media enterprises, we have regard to the implications of the level of control exercised for the range of information and views available. We considered this in relation to both internal and external plurality."[19]

3.29 In Sky/ ITV, the CC (and the Secretary of State) treated Sky and News Corp as a single enterprise by virtue of News Corp's degree of control over the competitive policy of Sky. It found that, as a result of the transaction it was examining in that case, Sky had acquired material influence over ITV, an important UK broadcast news provider. Even in those circumstances the CC concluded that sufficient plurality remained for each major audience in the UK, both for a TV audience and a cross-media audience (taking into account the readership of News International's newspapers). As Ofcom will be well aware, Sky was required to divest its shareholding in ITV to below 7.5%, for reasons connected with **competition** and not media plurality.

3.30 In fact, a UK cross-media audience has actual or potential[20] access to a wide range of sources, including:

(a) all TV news broadcast in the UK;

(b) all national and local radio services available in the UK;

(c) all national, daily and Sunday newspapers circulating in the UK;

(d) all news magazines circulating in the UK; and

(e) all news available online, including but not limited to news available on dedicated news websites, blogs and via aggregators.

Conclusion

3.31 Given the conclusions reached by the CC and the Secretary of State in the Sky/ ITV case, it is extremely difficult to see how a transaction which does not involve ITV (with its relatively greater broadcast news audience share), and the only impact of which is a change in the quality of control between two enterprises which were deemed, in any event, to form a single enterprise in the Sky/ ITV case, could have any adverse impact on the sufficiency of plurality for any audience within the UK. In any event, the remainder of this submission will show that this Transaction cannot jeopardise the editorial independence of Sky News, has no impact on setting the news agenda and does not result in there being insufficient plurality of voices for any relevant audience.

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19 CC Report, paragraph 5.15.

20 Section 58A(7)(b), Enterprise Act states that the criteria for determining who can be treated as comprised in an audience "may allow for persons to be treated as comprised in an audience if they are only potentially members of it".

4. THE TRANSACTION WILL NOT CHANGE THE QUALITY OF EDITORIAL INFLUENCE OVER SKY NEWS

Introduction

4.1 When analysing the possibility of the Transaction having an impact on plurality, it is important to distinguish between, on the one hand, the degree of News Corp's control over Sky's commercial and competitive policy and, on the other hand, whether such control would result in influence over the editorial policy of Sky News. Whilst the former is relevant for jurisdictional purposes, it is only the latter that is relevant to a plurality assessment. The two concepts are not aligned and this has been accepted by the CC and, ultimately, the CoA in the Sky/ ITV case.

4.2 News Corp already has a degree of commercial influence over Sky which results in "control" for Enterprise Act purposes, as recognised by a number of UK authorities. However, despite this degree of control over Sky, News Corp does not currently exert such control to influence editorial decisions of Sky News.

4.3 The key question is, therefore, whether the degree of News Corp's influence over Sky News' editorial agenda would change as a result of the Transaction, and whether plurality would be compromised as a result. The answer is clear. Although the Transaction would result in an acquisition of full legal control over Sky, it will not change the fact that Sky News enjoys and will continue to enjoy editorial independence. The same factors that have preserved editorial independence to date, as recognised by the CC, will ensure editorial independence going forward. Therefore, plurality cannot be compromised by the Transaction regardless of any change in the level of News Corp's control over Sky.

News Corp already has a degree of control over Sky

4.4 News Corp already has a degree of commercial influence over Sky which results in "control" for Enterprise Act purposes. This has been recognised by a number of UK authorities and is also evidenced by a number of factors that highlight the relationship between News Corp and Sky.

4.5 The UK authorities have found that News Corp currently has a degree of "control" over Sky:

(a) The OFT stated that *"[BSkyB's] largest shareholder is News Corporation (News Corp) with a 39.02 per cent stake, along with several directorships, which is sufficient to confer control over BSkyB."*[21]

(b) The CC assumed that, for the purposes of its analysis of the impact of the ITV acquisition on plurality of news, *"News Corporation had material influence over BSkyB."*[22] On that basis, it assessed the impact of the acquisition on plurality of news including the links with News Corp and concluded that plurality was not affected. This conclusion was endorsed by the UK Government.

(c) Ofcom took into account the links between News Corp and Sky in its plurality assessment on the basis that it treated *"all media enterprises under the same ownership or the same control as being controlled by one person."*[23] It conducted an in-depth review of the Sky/ ITV transaction on the basis that it established an ownership link between ITV and News Corp whereby News Corp and Sky were deemed to be part of the same enterprise.

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21 OFT Report, paragraph 25.
22 CC Report, paragraph 5.64.
23 Ofcom Report, paragraphs 4.4-4.7.

(d) The CAT Judgment recites that Ofcom, in its initial report, "assumed that Sky is or may be controlled by News Corporation (39.1% shareholding held through a number of News Corporation subsidiaries)."[24]

4.6 The factors which contributed to these findings remain relevant, in particular those concerning News Corp's shareholding in, and representation on, the Board of Sky.

(a) Shareholding

4.7 News Corp was a founding shareholder of Sky and has remained its major shareholder since it was listed in 1994. Currently, News Corp holds 39.14%[25] of the issued equity capital of Sky and is the largest shareholder in Sky. As at 28 July 2010, there were only two other shareholders with more than 3% of the equity capital of Sky, such shareholdings being 3.10% and 5.02%.[26]

(b) News Corp's representation on the Board of Sky

4.8 Since the public listing in 1994, at any given time there have been between four and five directors on the Board of Sky that were (and are) affiliated with News Corp at the same time as holding their office. The position of Chairman has been occupied by Mr. Rupert Murdoch (1999 – 2007) and Mr. James Murdoch (2007 – present). Currently, there are 14 members of Sky's Board of Directors comprising 12 non-executive directors and two executive directors. The four non-executive directors which currently hold executive positions at News Corp are as follows:

(i) **Mr. James Murdoch** (non-executive director and Chairman of Sky) was the CEO of Sky with effect from 4 November 2003. On 7 December 2007, he was appointed non-executive Chairman of Sky, having relinquished the role of CEO. Mr. Murdoch is Chairman and Chief Executive, Europe and Asia, at News Corp and is a member of News Corp's Board of Directors. Between May 2000 and November 2003, he was Chairman and CEO of the Star group (a News Corp wholly owned subsidiary).

(ii) **Mr. David F. DeVoe** (non-executive director of Sky) is an executive director at News Corp and holds the position of both the Chief Financial Officer and Senior Executive Vice President of News Corp. Mr DeVoe has been a Director of News Corp and its CFO since October 1990. Mr. DeVoe has served as Senior Executive Vice President of News Corp since January 1996. Mr. DeVoe has been a director of NDS Group plc since October 1996.

(iii) **Mr. Thomas Mockridge** (non-executive director of Sky) is the CEO of Sky Italia and the Chief Executive, European Television of News Corp where he oversees News Corp's television operations in Europe (outside the UK). Prior to joining Sky Italia, Mr. Mockridge held various roles at Star Group Limited and was previously CEO of Foxtel, News Corp's pay TV joint venture with Telstra.

(iv) **Mr. Arthur Siskind** (non-executive director of Sky) is an executive director of News Corp and the Senior Advisor to the Chairman of News Corp. He was appointed as a director of Sky on 19 November 1991. Mr. Siskind has been the Senior Advisor to the Chairman of News Corp since January 2005. Mr. Siskind has been an Executive Director of News Corp since

24 CAT Judgment, paragraph 247.
25 37.19% voting interest.
26 Sky 2010 Annual Report.

1991 and was Group General Counsel of News Corp from March 1991 until December 2004.

(c) Roles and responsibilities of the non-executive Chairman of Sky, Mr. James Murdoch

4.9 From November 2003 until late 2007, Mr. James Murdoch was the CEO of Sky.[27] During that time, Mr. James Murdoch appointed and led the current senior management team of Sky. Mr. James Murdoch played a key role in devising and delivering Sky's key operational and strategic targets.

4.10 When Mr. James Murdoch announced that he wished to step down from Sky in 2007 and rejoin News Corp as its Chairman and Chief Executive of its European and Asian businesses, the Sky Board requested that he carry on in the capacity of non-executive Chairman.

4.11 **[REDACTED].**[28]

Commercial influence does not equate with editorial influence

4.12 As stated above, the scenario which the Secretary of State must address in the current case is not a change from no control to full control over Sky. Instead, the Secretary of State must consider whether a change from News Corp's current degree of control over Sky to News Corp gaining full legal control of Sky would result in insufficient plurality for any relevant audience in the UK.

4.13 Despite its degree of control over Sky, News Corp does not currently exert editorial influence over Sky News.

4.14 In this context, it is important to refer to the CoA Judgment in Sky/ ITV:

> *"when it comes to assessing the plurality of the aggregate number of relevant controllers and to considering the sufficiency of that plurality, the Commission may, and should, take into account the actual extent of the control exercised and exercisable over a relevant enterprise by another, whether it is a case of deemed control resulting from material influence under section 26 or rather one of actual common ownership or control."*[29]

4.15 The implication of this judgment is that one cannot assume that commercial influence necessarily translates into editorial influence. Equally, increasing the level of control to full legal control does not translate into the loss of Sky News' editorial independence.

4.16 In Sky/ ITV, the CC has recognised the editorial independence of Sky News:

> *"BSkyB and the BBC, which both provide news in-house, emphasized the role of their editorial staff in determining the day-to-day content of their programming. BSkyB told us that all editorial decisions regarding the content of BSkyB's various news services were taken by the Sky News editorial staff. BSkyB board's role was to consider the competitive strategy and funding of BSkyB's news content at a high level; it had no role in the day-to-day editorial control of Sky News content on television or online.* ***We received no evidence from third parties to suggest***

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27 Prior to 2003, Mr. James Murdoch was an executive of News Corp, as were all prior CEOs of Sky.

28 **[REDACTED: CONTAINS BUSINESS SECRETS].**

29 CoA Judgment, paragraph 121.

that senior executives at BSkyB or its parent companies exerted influence on the Sky News agenda".[30]

4.17 For the reasons set out below, it is clear that a stepping up in the level of News Corp's degree of control over Sky to full legal control will not translate into a corresponding exercise of influence over Sky's editorial policy.

Sky News' editorial independence will be maintained

4.18 Editorial decisions are not subject to alteration as a result of the change of a shareholders' level of commercial influence. The CC report in the Sky/ ITV case confirms that editorial decisions in TV news broadcasting are not taken at board level:

> *"We note that both BSkyB and ITV have said that the editorial content of ITV news would be unlikely to be a matter of strategic importance. We received no evidence to suggest that it features as a key policy objective for either company. We note, for example, that ITV's strategy update on 12 September 2007 made no mention of particular strategic objectives for news (with the exception of statements about a reduction in regional news). Our view that BSkyB's influence over ITV is likely to relate to matters of strategic importance suggests that BSkyB is unlikely to have the ability to exert material influence over ITV in relation to the editorial content of news.*
>
> *In addition,* ***the evidence that we received suggested to us that there was a strong commitment to editorial independence across television news broadcasting which would lead to editors resisting any direct board intervention or intervention from shareholders to set the news agenda.*** *Both ITV and ITN demonstrated a strong commitment to editorial independence. ITV said that 'it is not conceivable that a shareholder in ITV could successfully influence the editorial decisions of its news programming'. ITN had in the past broadcast news stories that were unfavourable either to the channel on which the news was provided (eg in relation to phone-in quizzes on Channel 4) or to other commercial interests (eg advertisers). We saw no reason why this should not continue"* (our emphasis).[31]

4.19 The acquisition by News Corp of full legal control over Sky would not jeopardise the editorial independence of Sky News for the following reasons:

(a) Sky's editorial policy is not a matter for Board determination. In fact, to date, editorial policy has not been a debated issue at Board level.

(b) As recognised by the CC, despite its commercial influence over Sky, News Corp has not sought to influence the editorial policy of Sky News.

(c) The Sky News editorial directors are experienced individuals, each with expertise to manage and direct the editorial policy of Sky News.

(d) There is no evidence that independent directors have had to "defend" the editorial policy of Sky News against influence by News Corp executives.

(e) News Corp has no special arrangements with Sky News which would confer on it control over editorial policy.

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30 CC Report, paragraph 5.57.
31 CC Report, paragraphs 5.67 and 5.68.

4.20 In addition, the regulatory landscape makes a significant contribution to safeguard a plural media environment. In relation to TV broadcasting, the Broadcasting Code requires that television news is presented impartially. This was recognised as an important factor by the CC:

> *"In television news, existing regulatory mechanisms—including quality controls (eg in the Broadcasting Code), requirements for impartiality and quotas for television news and current affairs programming — reduce the scope for influence over editorial decisions by owners of television channels which broadcast news".*[32]

4.21 Furthermore, the CC considered that the regulatory landscape applicable to news broadcasters which protects editorial independence, can be contrasted with the position vis-à-vis newspapers:

> *"There are fewer regulatory restrictions on newspapers than on television news and, in particular, newspapers are able and expected to take an explicit editorial position in relation to topical issues. All respondents to our questionnaires told us that day-to-day editorial decisions for newspapers and allied websites were made by editors and journalists, and not by board directors or shareholders. However, boards usually play some role in the appointment of editors, and may also determine the overall political stance in line with the target audience for a particular newspaper title."*[33]

4.22 Therefore, in order for Sky News to remain a news broadcaster it must remain impartial in the presentation of news. In particular, Sky News could not take one party line without risking losing its licence. Finally, Sky's editorial agenda is the outcome of a complex interplay of multiple factors, described in more detail in section 5 below.

Conclusion

4.23 News Corp's ability and incentive to influence the Sky News editorial agenda will not be affected by the Transaction. There is every reason to believe that the current situation will continue. Sky's editorial policy is shaped by a complex interplay of multiple factors described in more detail in section 5 below, against a regulatory framework which safeguards over-representation of one viewpoint. It is clear that the editorial independence of Sky News would not be jeopardised following the Transaction, and there is no evidence to support the assertion that it would be.

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32 CC Report, paragraph 5.54.
33 CC Report, paragraph 5.58.

5. NO IMPACT ON SETTING OF THE NEWS AGENDA

Overview

5.1 The plurality analysis also involves the assessment of the ability to "*influence opinions and **control the agenda***" (our emphasis).[34]

5.2 For the Transaction to influence or control the wider news agenda, two necessary conditions would need to hold, neither of which are likely:

(a) Condition 1: News Corp would need to be able and have an incentive to actually exert control over the Sky News agenda; and

(b) Condition 2: any control exercised by News Corp over Sky News' agenda would need to lead in a significant change in the wider news agenda.

5.3 As explained in the report by Perspective Consulting at Annex II, neither of these conditions would be satisfied, since it is not the case that News Corp could "control the agenda" - within Sky News or more widely - as a result of the Transaction.

5.4 Plurality has increased since the Communications Act was enacted and there is every reason to believe that it will continue to increase with or without the Transaction. This situation raises the bar for intervention on grounds that the Transaction will lead to insufficient plurality.

No change in the Sky News agenda

5.5 Section 4 explained that News Corp does not currently exercise influence over Sky News' editorial agenda (despite the degree of control it already has over Sky). This would not be changed by the Transaction.

5.6 In addition to the reasons set out in paragraphs 5.1 to 5.5 above, there are a number of features of the provision and consumption of TV news which safeguard the independence of the Sky News agenda from shareholder influence.

(a) Audiences have very particular expectations of TV news, which is a powerful force for similarity between outlets.

(b) Much of the TV news agenda is driven by events of the day and access to shared news gathering resources.

(c) Impartiality requirements in the regulatory framework, as mentioned in section 4, are important constraints, since they influence story choice as well as how stories are treated.

(d) For areas where plurality is most important (for instance, election coverage), it is inconceivable that a broadcaster would choose not to provide coverage of a key story of the day, and once covering a story, impartiality rules apply.

(e) TV news rooms have their own particular ethos, and imposing a newspaper approach will be difficult (and past transfers of senior newspaper staff to Sky have generally been unsuccessful).

No change in the wider news agenda

34 DTI Guidance, paragraph 7.7.

5.7 Even if there were to be a change in Sky News' agenda following the Transaction, this would be highly unlikely to lead to a situation where News Corp could have a significant influence on the wider news agenda leading to insufficiency of plurality for any relevant audience.

(a) There are numerous fierce competitors of News Corp and Sky. The BBC, in particular, is a powerful independent voice; with secure funding, a substantial audience lead in each of TV, radio and online news; and a very high reputation with consumers. It is most unlikely to become a follower of a News Corp/ Sky News agenda.

(b) Perspective estimates that Sky News currently has a 6.3% share of TV news consumption, suggesting a limited ability to influence third parties.[35]

(c) News Corp/ Sky News outlets do not represent a particularly important source of stories for other outlets. As set out in the Perspective Report at Annex II, analysis of news sources quoted by news providers demonstrates that newspapers are by no means the sole source of the stories they represent. Looking specifically at UK sources, an analysis of sources cited by Reuters demonstrates the importance of the BBC as the leading source.[36]

(d) Consumers are increasingly consuming news from specialist and international outlets that are all the less likely to be influenced by a change in news agenda at one generalist, UK outlet.

(e) The internet in particular has led to far more diverse consumption.[37] Online consumers benefit from news from news sources unavailable to them offline. Such consumers consume from a wider range of sources, exposing them to a far wider range of views. Moreover, the active mode of consumption online (for example, involving searching for a particular topic) makes users far less subject to the agenda choices of one or more traditional news outlets.

Increased and increasing plurality

5.8 There has been a dramatic increase in plurality since the Communications Act was enacted.

(a) There has been an increase in the range of choice of TV news, and due to the rise of digital TV, many more households have access to that wider range.

(b) The internet has had a transformative effect. Many more people are online, and the news consumption of those online is up significantly compared to 2003. Moreover, online consumers are using a range of news sources dramatically greater than that used by a typical news consumer in 2003.

(c) While TV remains the most important source of news for consumers, it is predicted that the internet will shortly overtake newspapers.

5.9 While there are a variety of possible scenarios for the development of the UK media market in the future[38], there is consensus amongst commentators on a number of points:

(a) Convergence will continue, with what were once entirely distinct media sectors (TV, radio, newspapers and so on) increasingly being consumed via a single

35 See, further, Perspective Report, Figure 8.
36 See, further, Perspective Report, Figure 4.
37 See, further, paragraph 6.6(c) below.
38 See, further, Perspective Report, section 6.

platform, the internet. As high speed broadband rolls out, the migration of TV online will accelerate. This will bring increased competitive intensity and plurality.

(b) Consumers will be ever more active both in customising their own personal agenda (via news search, alerts and so on) and in influencing the wider news agenda (via Twitter, YouTube, blogs and so on). This marks a shift from less plural media to more plural media (since most consumers only take one newspaper, if any), and a shift away from areas where News Corp and Sky are stronger to areas where they are relatively weak.

(c) We are at the beginning of a surge of consumption via mobile devices, which will bring the dynamics of plural, on-line consumption to areas (particularly out-of-home) that were previously the domain of paper based formats.

5.10 One consequence of these developments, as noted by Perspective[39] is that there will be a range of evolving approaches to news capture and production.

(a) If newspaper organisations move into television, the very different editorial and technical demands of broadcast news, coupled with highly specific regulatory requirements, are likely to mean that TV and print newsrooms remain separate for the foreseeable future.

(b) Where broadcasters move into new media, they will tend to place a central focus on high quality audio and video news, with text and graphics in a support role. For these ventures, the culture of the TV newsroom is likely to remain central, with audiovisual content tailored to meet the high technical and editorial specifications demanded by broadcasting use.

Conclusion

5.11 News Corp already has a degree of control over Sky. This does not translate into editorial influence over Sky News. Post-Transaction, News Corp would not have any materially increased influence over the Sky News editorial agenda than it does today. The Perspective Report shows that there is a range of constraints that will continue to make it impractical and unlikely for News Corp to influence Sky News' editorial agenda and the wider news agenda. Ultimately, a wide range of approaches will evolve to news capture and production in the future post-Transaction; and those which appeal best to consumers will be most successful.

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[39] See, further, Perspective Report, pages 42 - 43.

6. SUFFICIENT PLURALITY POST-TRANSACTION

Overview

6.1 As mentioned in section 3, the only audience for which the combination of a broadcaster and a newspaper publisher could conceivably reduce plurality is a cross-media audience. Even if Ofcom assumes that there will be a "head count" reduction in the number of voices for a cross-media audience, it must go on to consider whether that reduction will result in insufficient plurality for any relevant audience.

6.2 In order to carry out the analysis, Ofcom must consider: (i) how to measure the variety of voices available to each audience; and (ii) what the Transaction changes (if anything).

6.3 The CC analysed the sufficiency of plurality for television audiences and cross-media audiences in 2007 and had no concerns in relation to the Sky/ ITV case which focused not only a cross-media audience but also a single medium TV audience. Since 2007, the UK media landscape has evolved in ways which signal ever increasing plurality in news provision.

6.4 Therefore, the only reasonable conclusion is that the Transaction does not lead to insufficient plurality for any audience in the UK. We also considered, following the Sky/ ITV precedent, whether there were particular individuals within the UK population who currently rely only on news content from Sky News and News International. This grouping was found to be of a minimal size (0.3% of the UK population).[40]

Media landscape

6.5 As it is shown in the FTI Report attached at Annex I, the level of plurality in the provision of news to UK audiences across different media platforms is increasing, in terms of both the number of voices and the range of voices. Considering the media landscape generally:

(a) There is increased penetration of digital television meaning a greater proportion of the population has access to a wider variety of channels. Consumer survey results for the second quarter of 2010 show that take-up of digital television in UK households stood at 92.7%, up by 2.9 percentage points year on year,[41] one of the highest in Europe.

(b) The number of TV channels available in the UK significantly exceed any other country, as shown in **Figure 1** below.

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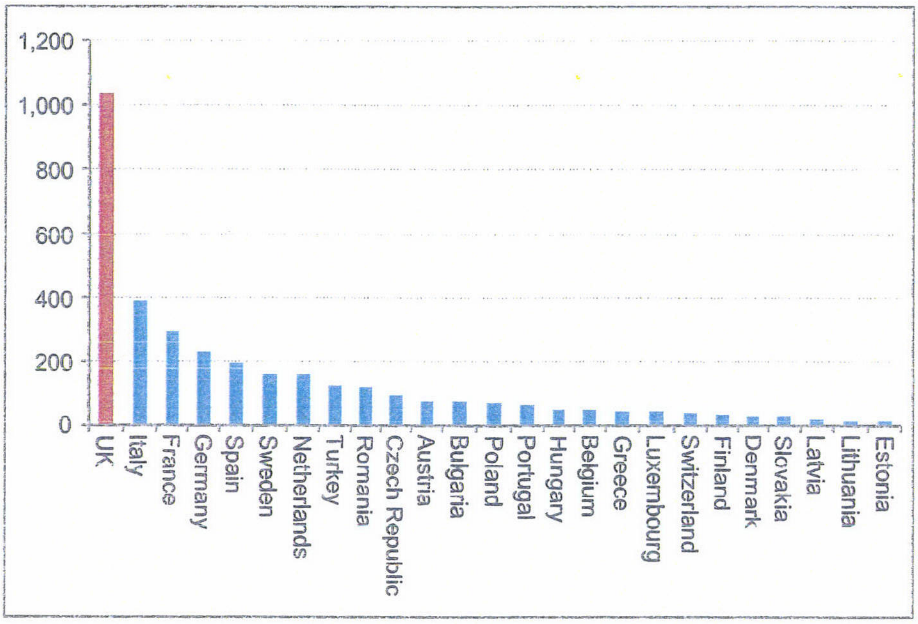
40 FTI Report, paragraphs 6.24 - 6.44.

41 Ofcom Digital Television Update - 2010 Q2.

Figure 1: Number of channels by country



Source: European Audiovisual Observatory/ MAVISE
Note: Includes regional variations; not on a consistent basis with Ofcom's figures

(c) An increasing percentage of the UK population (currently standing at around 71%) have home broadband access.[42]

News provision

6.6 Looking specifically at the implications for news *provision*, these changes increase the availability of a wide range of voices:

(a) There is a significant increase in availability of TV news options to the UK audience over and above the traditional PSBs. The BBC maintains a significant lead in market share (31.4% of multichannel homes) and a wide variety of different dedicated digital news channels are now accessible to many UK consumers.[43] Furthermore, the BBC commands in aggregate around 75% of TV news consumption as shown in **Figure 2** below.

(b) The number of voices in newspapers and magazines has not materially increased but nor has it materially decreased. However the circulation of printed media is steadily declining and so is the importance of this medium on a cross-media basis as a source of news for UK consumers.

(c) On the other hand, the internet has had a transformative effect on news plurality as a means of accessing multiple news sources.

(i) There has been an explosion in the number of online news sources. comScore tracks 675 news websites in the UK of which more than 120 have over 100,000 UK visitors.[44]

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42 Ofcom Communications Market Reports.
43 See, further, FTI Report, Figure 4.2.
44 See, further, FTI Report, Figure 4.8.

(ii) The internet is a converging medium, with offline news sources also tending to be the most important online news sources.[45] These trends are analysed in detail in sections 4 and 5 of the FTI Report. The internet also increased plurality in news reporting adding to conventional/offline news sources/providers. For example, news provision over the internet is characterised by news aggregators in addition to traditional news providers. News aggregators play a key role in online news provision. As the World Association of Newspapers has observed:

"Today, the advent of internet and mobile news has only exacerbated the prominence of news agencies and has possibly caused more problems for newspapers. Instead of having to distribute their content through newspapers or television stations, news agencies can directly contact the consumer through new media."[46]

Aggregators present a vast range of sources to their audience, including many they would otherwise likely never come across. In the year to August 2010, UK visits to Google News were up 30%.[47] In the year to October 2010, 1,738 different sources[48] have appeared on the Google News homepage (and additional sources have appeared on individual story pages). Also, as a result of the creation of blogs, political website and user generated-content root stories are generated by a great variety of sources. The Perspective Report analyses a number of instances that show the importance of this phenomenon in terms of plurality.[49]

News consumption

6.7 These developments in news provision are accentuated if looked at in the context of the trends in news *consumption*:

(a) Crucially it is becoming easier and easier for UK consumers to access multiple sources of news. Most UK consumers use 3-4 different media platforms for news and follow 4-5 news sources daily.[50]

(b) As stated in the FTI Report, research shows that TV is the most popular medium for accessing news and BBC and ITV remain the most watched channels.[51] Sky News, by contrast, accounts for approximately 6% of TV news consumption as shown in **Figure 2** below.

Figure 2: Share of TV news consumption; 2010 year to date

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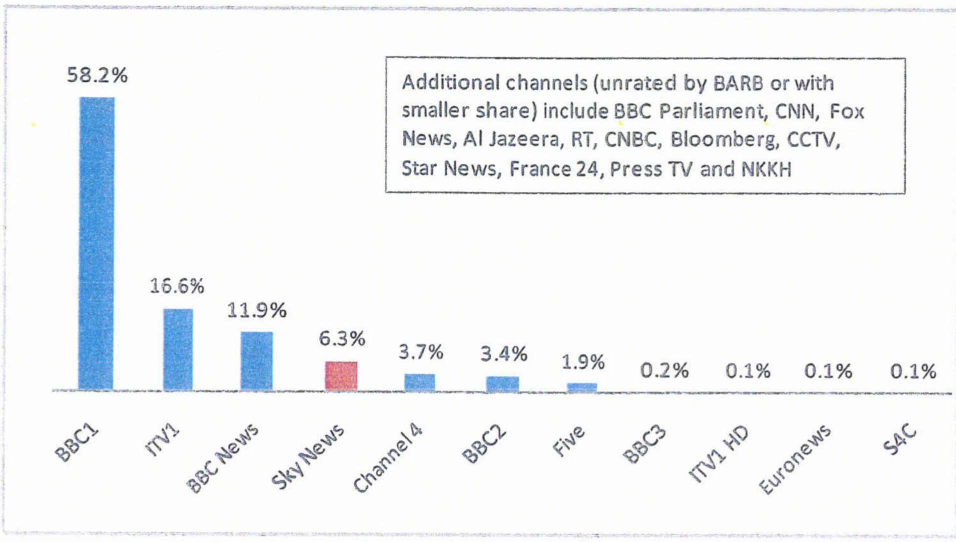
45 See, further, paragraphs 5.7(e) and 5.8(b) above.
46 World Association of Newspapers, 2006.
47 Nielsen Online/TRP.
48 Newsknife (subscription required) http://www.newsknife.com/members/front_relevant_news01.html
49 See, further, Perspective Report, pages 16 - 22.
50 See, further, FTI Report, paragraph 5.54.
51 See, further, FTI Report, paragraphs 5.51 - 5.53.



Source: *BARB, Perspective Associates analysis*
Notes: *Channels include viewing of their +1 where appropriate*
Volume of Viewing calculated based on DurMin and 000s

(c) As noted above, circulation in printed media is in long term decline and so is its importance as a source of news for consumers. The circulation of paid-for newspapers declined by 3.5% between 2003 and 2010.[52]

(d) The proportion of population accessing radio is up, while total time spent listening is down. BBC radio listening has remained more constant.

(e) The internet is currently, according a recent Mintel report, the second most important source of news with around 46% of UK population using it regularly.[53]

(f) Time spent watching TV news and consuming news on the internet are about the around same.[54]

6.8 Online news consumers have a tendency to be much more promiscuous in terms of their content consumption than those who rely primarily on more traditional media. The average of outlets used on the internet is about 3.5, much higher than TV and newspapers.[55] The internet makes it much easier to immediately access multiple views on a topic of interest, without having to wait for specific broadcast times, or purchase multiple copies of print newspapers (for example). Therefore, as the internet becomes an increasingly important source of news, it is to be expected that an increasing proportion of the population to be regularly exposed to a wide variety of "voices".

6.9 Against this background, there is a high degree of variety and range of voices available to a cross media audience which comfortably meets the criteria of sufficiency of plurality.

Sufficient plurality post-Transaction

6.10 This Transaction does nothing to alter this conclusion. In particular:

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52 See, further, FTI Report, Figure 4.8.
53 Mintel, Consumer Perceptions of News Media, September 2010. Internet figure rebased to allow for survey being online.
54 Respectively 0.36 and 0.29 hours, Touchpoints.
55 See, further, FTI Report, Table 5.1.

(a) The importance of online as a source of news will continue to grow and so will the plurality of voices that is inherent in this medium.

(b) As Perspective show, time spent on online news sites has grown by 214% since 2007, with 1,710 individual news and information sites tracked by comScore in the UK (excluding news content on social networks, blogs and emails) in July 2010.[56] Set against this growing and increasingly fragmented online landscape, Sky and News Corp will continue to have a diminutive share of voice.

(c) The number of TV news voices remains unaltered as a result of this Transaction and will continue to be led by BBC and ITV, with a wide range of additional broadcast news voices accessible to most UK consumers.

(d) The number of radio news voices is entirely unaffected, with again the BBC as the leading player.

(e) The number of newspaper enterprises is not affected by the Transaction and, in any event, the relative importance of print newspapers as a source of news for UK audiences is in long term decline.

6.11 Furthermore, as set out in more detail in the FTI Report[57] FTI considered, following the Sky/ ITV precedent, whether there were particular individuals within the UK population who currently rely only on news content from Sky News and News International:

(a) only 6% of UK adults actively watch Sky News or visit SkyNews.com **and** actively read News International newspapers or actively visit News International websites (the "Sky/ NI Overlap Group");

(b) approximately 96% of the Sky/ NI Overlap Group rely on other news sources, in addition to Sky and News International sources;

(c) only 0.3% of the Sky/ NI Overlap Group rely on only Sky and News International news sources.

6.12 These results are similar in magnitude to the findings of the CC in the Sky/ ITV case. The CC concluded that no more than 1 per cent of the UK population, and quite possibly less than this, received news from only ITV and/ or News International/ Sky. In the case of the Transaction, FTI found that only 0.3% of the population receive news only from Sky and News International.

6.13 FTI also found that no socio-economic grouping or nation in the UK was disproportionately affected.[58]

6.14 In any event, consumers within the group of consumers currently relying primarily on Sky News and News International could easily switch to different news providers or expand their choices for the consumption of news if they chose to do so. The potential availability of sources of news for this audience would be no different from the wide range and number of different voices available to the UK population as a whole.

7. CONCLUSION

7.1 There is no basis to conclude that the Transaction would operate, or be expected to operate, against the public interest by way of any reduction in the plurality of enterprises serving any relevant audience in the UK.

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56 See, further, Perspective Report, page 27.
57 FTI Report, paragraphs 6.24 - 6.44.
58 FTI Report, paragraphs 6.19 - 6.23.

7.2 First, Sky News has always been editorially independent, regardless of the degree of control News Corp has enjoyed or exercised over Sky's commercial policy over the years. Secondly, the change to full control will not change this, as editorial independence for UK TV broadcasters is deeply routed in the regulatory and cultural grain of the industry. Thirdly, in any event, any effect of the Transaction on cross-media audiences (if any) is likely to be minimal. Fourthly, the strength and number of cross-media voices has increased since enactment of the Communications Act and will continue to increase. There is clearly a sufficient plurality of voices available to cross-media audiences following the Transaction.

Hogan Lovells International LLP **Allen & Overy LLP**

23 November 2010

Annex I

Measuring plurality in news

A report by FTI Consulting

Annex II

Past and future trends in plurality and the setting of the news agenda

A report by Perspective Consulting

Annex III

Glossary

The following main definitions are used in this submission:

BIS	Department for Business, Innovation and Skills
Broadcasting Code	Ofcom Broadcasting Code, the most recent version of which took effect on 1 September 2010
CAT	Competition Appeal Tribunal
CAT Judgment	*British Sky Broadcasting v Competition Commission and Secretary of State and Virgin Media Inc v Competition Commission and Secretary of State* ([2008] CAT 25), 29 September 2008
CC	Competition Commission
CC Report	Acquisition by British Sky Broadcasting Group Plc of 17.9% of the shares in ITV Plc, Report sent to Secretary of State (BERR), 14 December 2007
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CoA	Court of Appeal
CoA Judgment	*BSkyB v Competition Commission* [2010] EWCA Civ 2 – Case Nos C12008/3053 and 3066
Commission	European Commission
Communications Act	Communications Act 2003
COO	Chief Operating Officer
DTH	Digital direct-to-home
DTI	Department of Trade and Industry
DTI Guidance	DTI "Guidance on the operation of the public interest merger provisions relating to newspaper and other media mergers", May 2004
DTT	Digital terrestrial television
Enterprise Act	Enterprise Act 2002
EPG	Electronic programming guide
EUMR	EU Merger Regulation (Council Regulation (EC) No. 139/ 2004)
European Intervention Notice	An intervention notice pursuant to section 67, Enterprise Act
Explanatory Notes	Explanatory notes to the Communications Act
FTA	Free-to-air
FTI Report	The report prepared by FTI Consulting at Annex I to this submission
IPTV	Internet Protocol television
News Corp	News Corporation
Ofcom	Office of Communications
Ofcom Report	Ofcom Report for the Secretary of State pursuant to Section 44A of the Enterprise Act 2002 of British Sky Broadcasting plc's acquisition of a 17.9% shareholding in ITV plc, 27 April 2007
OFT	Office of Fair Trading
OFT Report	Acquisition by British Sky Broadcasting Group plc of a 17.9 per cent stake in ITV plc, OFT Report to the Secretary of State for Trade and Industry", 27 April 2007
Perspective Report	The report prepared by Perspective Consulting at Annex II to this submission
PSB	Public Service Broadcaster

Secretary of State	Secretary of State for Business, Innovation and Skills
Sky	British Sky Broadcasting Group plc
Sky/ NI Overlap Group	UK adults who actively watch Sky News or visit SkyNews.com and actively read News International newspapers or actively visit News International websites

Measuring plurality in news

Report prepared for News Corporation

23 November 2010

Privileged and confidential: prepared at request of external counsel

FTI UK HOLDINGS LIMITED 322 HIGH HOLBORN, LONDON WC1V 7PB

Important notice

This report has been prepared by FTI UK Holdings Limited ("FTI") for News Corporation in connection with measuring plurality in news under the terms of the engagement letter between Hogan Lovells (on behalf of News Corporation) and FTI dated 12 November 2010.

This report has been prepared solely for the benefit of News Corporation in connection with measuring plurality in news and no other party is entitled to rely on it for any purpose whatsoever.

FTI accepts no liability or duty of care to any person (except to News Corporation under the relevant terms of the agreement) for the content of the report. Accordingly, FTI disclaims all responsibility for the consequences of any person (other than News Corporation on the above basis) acting or refraining to act in reliance on the report or for any decisions made or not made which are based upon such report.

The report contains information obtained or derived from a variety of sources. FTI has not sought to establish the reliability of those sources or verified the information so provided. Accordingly no representation or warranty of any kind (whether express or implied) is given by FTI to any person (except to Hogan Lovells on behalf of News Corporation under the relevant terms of the Engagement) as to the accuracy or completeness of the report.

The report is based on information available to FTI at the time of writing of the report and does not take into account any new information which becomes known to us after the date of the report. We accept no responsibility for updating the report or informing any recipient of the report of any such new information.

Table of Contents

1 Introduction

Purpose

1.1 This report has been prepared by FTI UK Holdings Limited ("FTI") for News Corporation under the terms of the engagement letter between Hogan Lovells (on behalf of News Corporation) and FTI dated 12 November 2010.

1.2 The purpose of this report is to present the findings of FTI's research in relation to any changes in media plurality arising as a result of the proposed merger ("the Transaction") between News Corporation ("News Corporation") and British Sky Broadcasting Group plc ("Sky").

1.3 FTI researched the following areas:

- trends in news provision by provider by medium/platform;
- trends in news consumption by audiences by medium/platform; and
- differences pre- and post-transaction.

Preparation and use of this report

1.4 The information presented in this report has not been subject to independent audit or verification by FTI. We reserve the right to reconsider any opinions in this report in light of additional information that may be made available to us in the future.

1.5 We understand that this report may be made available to Ofcom. It has been prepared solely for use in this matter. In all other respects, this report is confidential. It should not be used, reproduced or circulated for any other purpose, in whole or in part, without our prior written consent. FTI accepts no responsibility to third parties for breaches of this obligation nor for any opinions expressed or information included within this report.

Background

1.6 On 3 November 2010 News Corporation notified the European Commission of its intentions to acquire the entire issued and to be issued share capital of Sky that it does not already own.

1.7 The Secretary of State issued a European intervention notice in relation to the Transaction on 4 November 2010 and Ofcom issued an Invitation to Comment on 5 November 2010. Ofcom is to report on the effects of the proposed acquisition on media plurality by 31 December 2010.

1.8 Ofcom has indicated that it will specifically consider:

- Content types;
- Audiences;
- Media platforms;
- Control of media enterprises; and
- Future developments in the media landscape.

1.9 Ofcom is also seeking views about the potential future impact of the proposed acquisition on the sufficient plurality of persons with control of the media enterprise and on potential remedies or mitigations to any public interest concerns identified by interested parties.

1.10 The test which Ofcom has to apply is set out in section 58(2C)(a) of the Enterprise Act:

> *"the need, in relation to every different audience of the United Kingdom or in a particular area or locality of the United Kingdom, for there to be a sufficient plurality of persons with control of the media enterprises serving that audience."*

1.11 In relation to the scope of Ofcom's considerations, we disagree that "content types" are relevant. The only genre of relevance is news.

Scope of the study

1.12 The scope of the study covers the provision and consumption of news in the UK. In respect of consumption such consumers are defined as an "audience served by an enterprise". Socio-economic groupings or regions or nations of the UK are members of an audience. While such groupings are therefore not an audience per se we also examined whether there are any key differences between the nations and demographic groupings.

1.13 In respect of news provision, we examined news provision on TV, radio, the internet and the press. We did not examine news provision in magazines in detail as these represent a minor source of news consumption and are not deemed of sufficient importance to be subject to sector-specific regulations in respect of ownership or content.

1.14 A number of areas in relation to the proposed Transaction are beyond the scope of this study. These include matters of control and editorial independence, how the news agenda is set and commercial matters. We understand that Perspective Associates has prepared an expert report on these matters.

Our approach, objective and key assumptions

1.15 Our approach to the study comprised desk research, data collection and analysis. We gathered data from a wide range of sources (see below).

1.16 We use the Communications Act 2003 (the "Act") as a basis for our assessment.

1.17 The objective of the study is to analyse relevant data to demonstrate the impact (if any) of the Transaction on media plurality with a focus on cross-media audiences in the UK. The only audience for whom plurality could be reduced as a result of the Transaction is a cross-media audience as Sky is a media enterprise serving mainly a TV audience and News Corporation is mainly a newspaper organisation.

1.18 In order to build up the picture of cross-media plurality, we have to consider plurality both within media and across media and usage within media and across media.

1.19 We compare pre-and post transaction:

- news provision; and
- news consumption.

1.20 For the latter we examine from the consumer's perspective the differences based on the combined entity's positioning in the cross-media environment taking into account the presence of other players and their strength together with the shift in consumption patterns in cross-media.

1.21 As a final step, we also formed an estimate of the population that takes its news exclusively from News International and Sky. Given the assumption we make in respect of headcount reduction, this group experiences a loss of one voice. We note however that this group in any case has access to the large number and wide range of news sources available today.

Sources of information

1.22 A list of the documents that we relied upon in preparing this report is set out below and in more detail in Appendix 2.

1.23 Notable documents include:

- Communications Market Report 2010, Ofcom, 19 August 2010;
- Consumer Perceptions of News Media, Mintel, September 2010;
- Media Ownership Rules Review, Ofcom, 31 July 2009;
- New News, Future News: the challenges for television news after Digital Switch-over, Ofcom, 26 June 2007;
- Media Monitor Report, FD; and
- Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007.

Content of this report

1.24 This report is structured as follows:

- In Section 2 we provide a summary of conclusions;
- Section 3 sets out the framework for our assessment. We consider the features of plurality, how cross-media plurality may be measured and relevant issues including sufficiency. Our starting point is the Communications Act 2003. We then discuss the framework of our approach for assessing the potential impact of the Transaction on the sufficiency of cross-media plurality;

- In Section 4 we examine news provision by medium and by owner, including trends in provision and access. We assess the sufficiency in provision and access;
- Section 5 provides an assessment of recent trends in news consumption in terms of time spent, number of sources used and perceptions of the relative importance of the various sources. We consider cross-media trends and assess the sufficiency of plurality from the consumption perspective; and
- In Section 6 we examine the sufficiency of plurality pre- and post-transaction. We examine this in terms of provision, access and consumption.

1.25 Supporting appendices are as follows:

- Appendix 1 – principal data sources;
- Appendix 2 - consumer perceptions of news brands; and
- Appendix 3 – supporting data analyses.

2 Summary of conclusions

Introduction

2.1 In this section, we set out our overall conclusions. We conducted significant research into trends in news provision and news consumption. It is clear that the number of platforms and sources from which people take their news has increased during the past 3-5 years. Digital TV penetration now stands at more than 92% and will reach 98.5% by the end of 2012 once digital switchover is complete.

2.2 Around 75% of the population uses the internet and this too is expected to increase as the government (and private sector) addresses broadband "not-spots[1]" and "Networked Britain" aims to get all people of working age online by 2015. Meanwhile, radio listening (until recently when there was a re-bound) and newspaper circulation have been on a consistently downwards trend.

2.3 The internet is a cross-media environment and distinctions between traditional media blur. All kinds of rich, vast and varied news content (from the UK and globally) and services are available. The internet typifies plurality in media.

Sufficiency of plurality

2.4 We demonstrate that there has been a significant increase in plurality of sources in news provision because of increased digital TV penetration combined with new news channel launches and the explosion of sources online. Access to these platforms has increased and we therefore conclude that the availability of this increased provision has also increased. Access is expected to continue to increase.

2.5 There have been no major changes in the provision of news on radio or in the press. We note that there has been some consolidation in radio but that

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1 One of Ofcom's priorities for 2010/11 is to make progress on broadband and mobile phone not-spots.

in press the number of voices has remained the same over time. There is however a sufficient number of voices in both radio and press.

2.6 Given that our benchmark is 2003, on the basis that since then there has been significant increase in the number and range of voices in news provision then, it is axiomatic that we conclude that currently there is sufficiency in plurality in news provision on a cross-media basis.

2.7 Cross-media consumption has increased in terms of (i) number of platforms accessed, (ii) number of sources used.

2.8 Our assessment of the current status and recent trends in cross-media news consumption demonstrates that there is a sufficiency of plurality in cross-media consumption. The range and number of voices in the cross-media landscape have increased, offering the consumer considerably more choice in platforms and sources. We found:

- The plurality of cross-media consumption of news has increased in line with its increased provision;
- Press and radio are reducing in importance in the cross-media share of voice as both usage and user perceptions of their importance as news media has fallen;
- The internet is expected to continue to grow in importance in terms of time spent and usage;
- Overall there is a shift in cross-media news consumption patterns towards online which is even more plural than traditional media;
- These trends are expected to continue as internet penetration increases; and
- In the media in which it has a presence, the BBC remains the leading player by a significant margin.

2.9 Importantly, the balance of usage (reach, number of outlets and time spent) and ascribed importance by consumers amongst the various media has been changing. There is a clear trend of reducing radio and press consumption together with a steady consumption of TV and an increase in online usage.

2.10 The share of voice of each medium within the cross-media consumption mix is changing. The weight remains towards the TV voice, with online voices increasing and radio and press voices in decline.

2.11 On the basis of a similar assessment to the CC in its analysis of the Sky/ITV we identified no fundamental differences between the significance of Sky and News International to nations and socio-economic groups.

Comparison of pre-and post transaction

2.12 We assume, for the purposes of the analysis, that there is a reduction of one voice at the cross-media level. Within the total universe of media enterprises available, the loss of one voice cannot be considered to be substantial given the range and number of such enterprises, particularly as we demonstrate that the number and range of voices have increased since 2003. Within each of TV, radio and press, there is no change.

2.13 The only change, given the assumption of the loss of headcount, is within the cross-media environment.

2.14 In the off-line cross-media environment, even if the number of players is reduced by one, this cannot be regarded as material, particularly as these are sectors with many players and no concerns regarding the sufficiency of the number of voices. Print is in long term decline. Radio is unaffected.

2.15 The BBC is the leading player in TV, followed by ITV. Sky has a relatively weak position in TV broadcast news so we do not consider that this reduction in headcount could have a material impact.

2.16 Online has hundreds (and potentially millions) of news voices (and media, formats, and services). Moreover, there are several other players in this space, primarily the BBC, that enjoy a much stronger market position than Sky and News Corporation.

2.17 Sky's position in the overall cross-media environment is weak. It has a negligible share in online and, given the position of the BBC and ITV, it has a relatively low share in TV news. It has less than half of the share of ITV. It is difficult to see how this share will increase substantially in future as digital TV penetration already stands at around 92%. The remaining TV households to be switched over to digital are late adopters, satisfied with the current terrestrial channels and therefore likely to have weaker preferences for digital TV channels than current digital TV households.

2.18 News International also has a weak position in the online environment. While it has a strong position in press, this is a medium in decline and one that has a decreasing share of the cross-media voices from a consumption perspective. Its importance in the cross-media mix has declined and is expected to continue to do so.

2.19 The assumed reduction in headcount leads to a single entity that does not enjoy a strong position in the most important news media from the consumer perspective i.e. TV. In press, while its position is strong, the medium is in long term decline. In online its share is around 6% and subject to competition from strong players such as the BBC, Mail Online, and potentially numerous others. The stated market share relates to news websites only. There is additionally competition from portals such as Google and Yahoo.

2.20 Online is the most plural environment with thousands of voices so it is difficult to envisage how the combined organisation could increase significantly its share of voice from its present base.

2.21 News Corporation's position in the press is strong but, as we show, this medium is declining in importance in the cross-media mix as consumers increasingly take their news online.

2.22 Based on this assessment together with the evidence presented in this report, we conclude that this Transaction does not materially reduce the range and number of voices in the cross-media environment; therefore that it would not have a material impact on the sufficiency of plurality.

2.23 As a final step we identified whether there were particular individuals within the UK who currently take news from Sky and News International and no other source (as the CC did in paragraph 5.50 of its Sky/ITV report). We found that the proportion of the population that takes news from Sky and News International is 4% excluding online and 6% including online. We found that the proportion of these groups that takes news from no other source is negligible - 0.3% - (and lower than the proportion affected in the Sky/ITV case).

3 Framework for assessment

Introduction

3.1 In this section we set out the key assumptions that underpin our approach and discuss the data sources we used. We describe the framework that we adopted to assess the impact of the Transaction on the sufficiency of media plurality in the UK.

Media Plurality

3.2 The objective of media plurality is to ensure that there is a range of competing voices available to citizens so they might form their own opinions. However, there are many different facets to consider regarding range. There is the range of opinions and information provided across platforms, the range of competing voices of the owners of media enterprises and the range of opinions within media enterprises.

3.3 These are difficult concepts to grasp and measure. However, an informed analysis of news provision and consumption and the underlying trends based on appropriate metrics enables the development of informed judgment on what constitutes sufficiency and what constitutes material change.

Assumptions

3.4 For the purposes of our analysis we made the following assumptions.

3.5 Relevant benchmarks to compare and assess the current sufficiency of media plurality include 2003 (year of the Act) and 2007 (CC investigation of Sky/ITV[2]).

3.6 The genre to be assessed is news in line with the approach taken by the Competition Commission in its investigation of Sky/ ITV.

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2 The CC raised no concerns in relation to the sufficiency of plurality in this case.

"We concluded that a plurality of control within the media is a matter of public interest because it may affect the range of information and views provided to different audiences" (paragraph 5.10); and

"The parties overlap in a broad range of content, but news and current affairs are the genres most closely connected with the formation of public opinion about issues of national significance through the communication of a range of information and views" (paragraph 5.32).

3.7 As we are concerned with media plurality this assumption is endorsed and followed.

3.8 The audience is the UK population.

3.9 Key indicators of news plurality include:

- Provision: trends in the number of providers; market shares of the providers;
- Consumption: trends in reach of each media; the number of platforms and sources used both within media and cross-media; time spent; and consumers' perceptions of the importance of platforms for obtaining their news.

3.10 Trends in access to specific platforms are important as these indicate the extent to which the news provision is effective. For example, if there were, say, 30 digital TV news channel providers, this would not be an effective plural source of news if only 5% of the population had access to digital TV.

3.11 We do not consider matters in relation to editorial independence or broadcasting codes. These are being dealt with in a separate expert report prepared by Perspective Associates. In conducting our assessment for the differences pre- and post-Transaction, we assume that the media enterprise headcount reduces by one following completion of the Transaction[3].

3.12 We examine the impact of the reduction in headcount from a cross-media perspective in respect of news provision and consumption.[4]

Framework for our assessment

3.13 The framework we developed for assessing the possible impact on the sufficiency of media plurality is thus as follows:

- Identify the audience;
- Assess any changes in the provision of news (first at the level of single media to inform the assessment of cross-media) since 2003 and form a view on the sufficiency of plurality in provision;
- Assess any changes in access to news since 2003 since in combination with provision is a building block of the determination of sufficiency today;
- Assess any changes in news consumption (first at the level of single media to inform the assessment of cross-media) at the cross-media level. This assessment enables us to understand the trends and thus sufficiency in the plurality of consumption today;
- Assess the impact of the Transaction on the provision and consumption of news. For the former, as discussed we make the assumption that there is a loss in headcount. For access, we take into account relevant exogenous trends. For the latter, consumption, we examine from the consumer's perspective the differences based on the combined entity's positioning in the cross-media environment taking into account the presence of other players and their strength together with the shift in consumption patterns in cross-media; and

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3 As discussed this is an artificial construct because in practice the voices of Sky News (broadcast and online) and News Corporation (off-line and online titles) would not be lost post-Transaction. However for the purposes of our analysis we disregard these factors.

4 From a single media perspective there is no change. The headcount in press does not change and the headcount in TV does not change.

- As a final step, we also formed an estimate of the population that takes its news from Sky and News International and no other source. We note however that this population in any case has access to the large number and wide range of news sources available today.

Data sources

3.14 We used a number of publicly available data sources and surveys in compiling the information to assess consumption trends. These are referenced throughout the text and summarised in Appendix 2. For the assessment of the nations and socio-economic groups and the overlap group described above, we commissioned some bespoke data runs to replicate the exercise that the CC undertook in the Sky/ITV case as far as are relevant to this transaction.

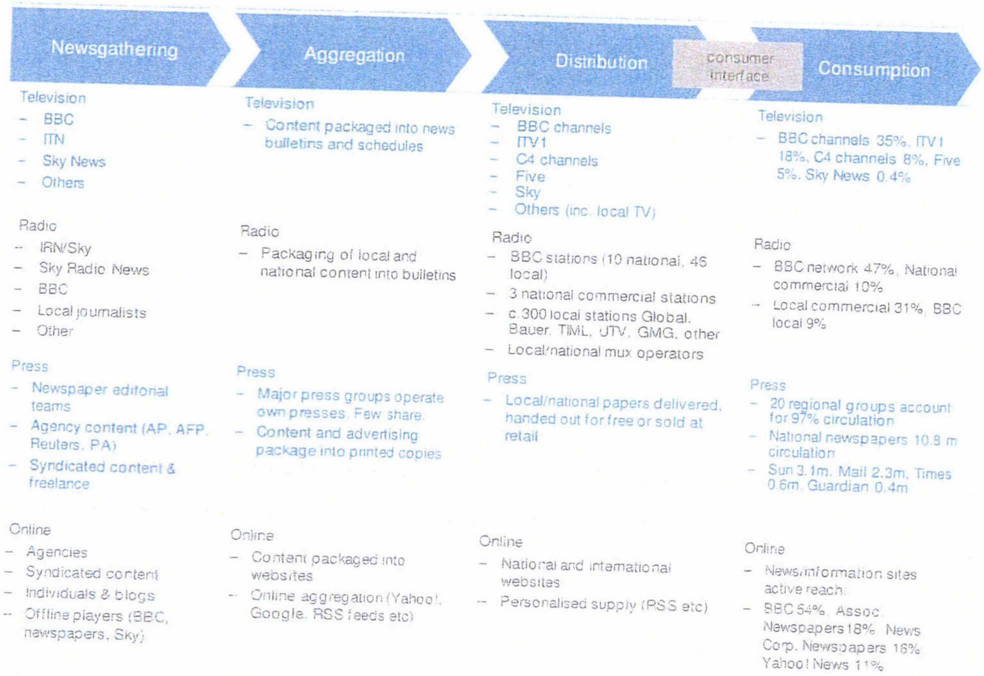
4 News provision

Introduction

4.1 In this section we provide an overview of UK news provision by medium. We outline the key changes in provision since 2003 based on both changes in access (e.g. more people online) and also in respect of the supply side.

4.2 In Figure 4.1 we provide a summary of the chain of main news delivery in the UK, sourced from Ofcom's 2009 Media Ownership Rules Review[5]. Ofcom notes that the consumer interface is the point of influence and hence the importance of assessing news consumption trends in addition to the provision of news when assessing media plurality.

Figure 4.1 Simplified news delivery supply chain



Source: Media Ownership Rules Review, Ofcom, 31 July 2009: p35.

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5 Media Ownership Rules Review, Ofcom, 31 July 2009

4.3 We provide a discussion of the principal news providers by medium. We note that TV and radio broadcast licensees are held responsible for the news they broadcast as per the conditions of their licences. Thus responsibility for the news broadcast lies with the broadcaster rather than the service supplier.

Principal news providers

TV

4.4 The principal TV broadcasters of TV news in the UK are the BBC, ITV, Channel 4, Five[6] and Sky News. TV news is produced by the BBC, ITN and Sky News.

4.5 ITN supplies news to ITV and to Channel 4. GMTV maintains its own news operation although it is broadcast on ITV1 and shares facilities with ITN. In addition to Sky's News, Sky News provides news for Channel 5's news service.

4.6 In addition to the broadcasting of news by the principal broadcasters (BBC, ITV, Five, Channel 4 and Sky News), there are approximately a further 8-9 news channels available on cable, satellite and the IPTV platforms. These include CNN International, Al Jazeera English, Euronews, CNBC, Bloomberg, Fox News, and France 24. There are also several foreign language news services.

4.7 In Figure 4.2 we display the recent trends in the principal broadcaster shares in multichannel homes since 2004. These demonstrate that the BBC and ITV still manage to attract more than half of the available audience.

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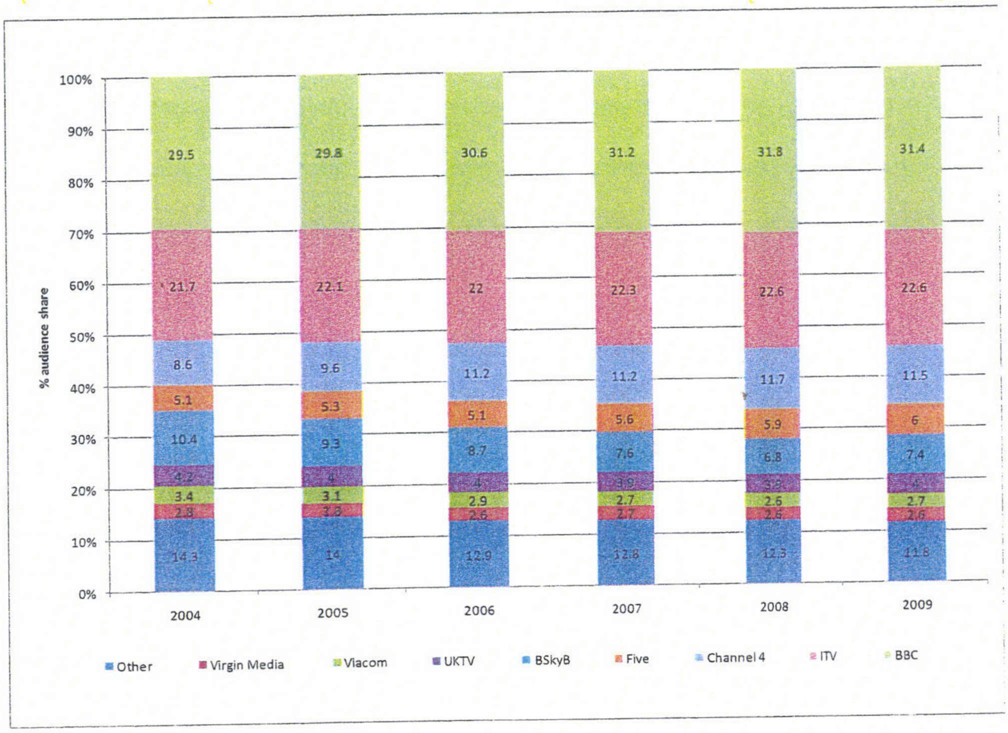
6 Northern and Shell purchased Five from RTL in July 2010.

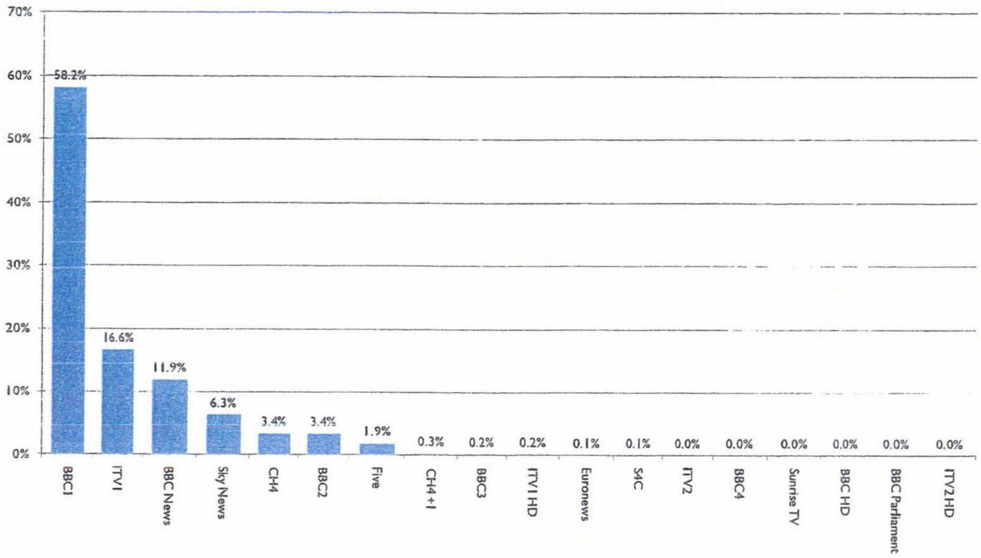
Figure 4.2 Broadcaster portfolio shares in multichannel homes



Source: Communications Market Report, Ofcom, 19 August 2010: p167.

4.8 In Figure 4.3 we provide the broadcasting share data for news channels. This demonstrates that news on BBC1 takes a large share of the TV news broadcasting market (more than 58%). ITV1 is the next, achieving around 16.6% share. Seven channels register more than 2% of the news viewing and include as we would expect, the PSB channels and Sky News. The BBC in total (i.e. including all its channels) achieves a 78% share. The broadcast TV news sector is plural comprising a range of voices including the leading PSBs – BBC, ITV, Channel 4 and Five and a number of digital only channels such as Sky News, Al Jazeera, Euronews, and France 24.

Figure 4.3 Shares of broadcast TV news



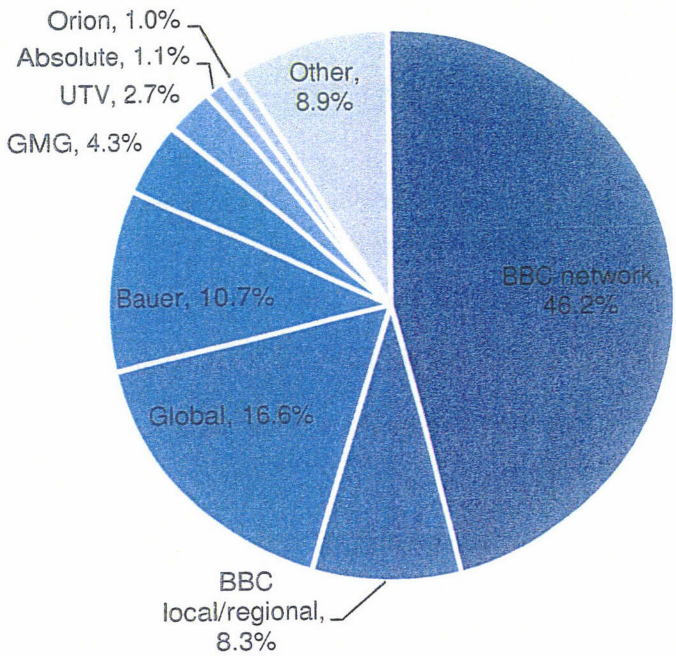
Source: Perspective analysis of BARB data

Radio

4.9 The main radio broadcasters are the BBC, Global Radio, Bauer, Guardian Media Group, UTV, Absolute Radio and Orion. On radio, news is produced by the BBC (BBC stations) and Sky Radio News supplies the commercial radio stations. In Figure 4.4 we indicate the share of listening achieved by the principal radio broadcasters. We note that data on radio listening by genre are not available.

4.10 Although Ofcom, as we discuss below, noted that there had been recent consolidation in the sector, the sector as shown has a range of voices providing the services.

Figure 4.4 Share of all radio listening hours, Q2 2010



Source: Communications Market Report, Ofcom, 19 August 2010: p204.

4.11 This demonstrates that BBC network radio has a 46.2% share of total. The Independent National Radio stations Talksport (owned by UTV), Absolute (owned by the Times of India Limited) and Classic FM (owned by Global radio) achieved a share of 2.7%, 1.1% and 4% respectively.

4.12 The two largest commercial radio groups are Bauer (owns more than 40 local commercial radio stations) and Global (owns around 60). A relaxation of localness requirements has enabled both companies to change the format of local stations and roll out national brands.

Press

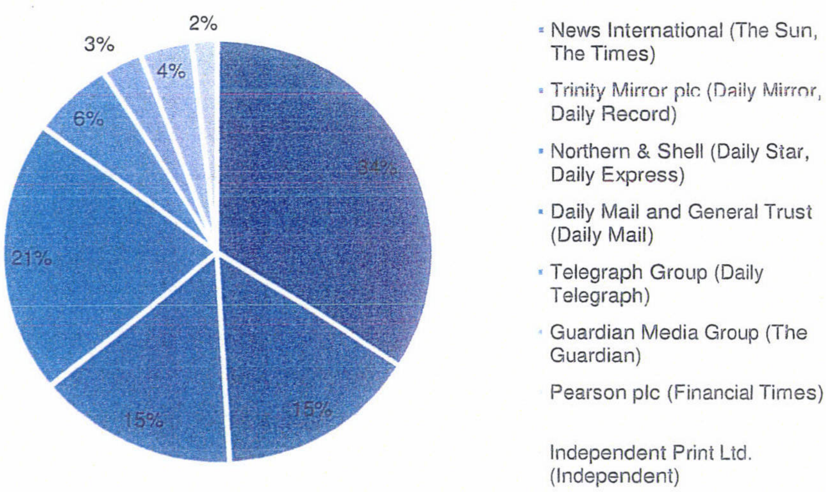
4.13 The principal publishers of national newspapers are:

- News International – The Sun, News of the World, The Times and The Sunday Times;
- Daily Mail and General Trust – Daily Mail, Mail on Sunday and the Metro;

- Trinity Mirror – Daily Mirror, Daily Record, People, Sunday Mirror and the Sunday Mail;
- Pearson – The Financial Times;
- Independent Print Ltd – The Independent and the Independent on Sunday[7];
- Northern and Shell – Daily Express, Sunday Express, Daily Star and the Daily Star Sunday;
- Telegraph Group – Daily Telegraph and Sunday Telegraph; and
- Guardian Media Group – The Guardian and Observer.

4.14 The market shares of the daily newspaper owners in 2010 are displayed in Figure 4.5.

Figure 4.5 Ownership of daily national newspapers in the UK



Source: Guardian, 10 September 2010, based on ABCs: national daily newspaper circulation August 2010,

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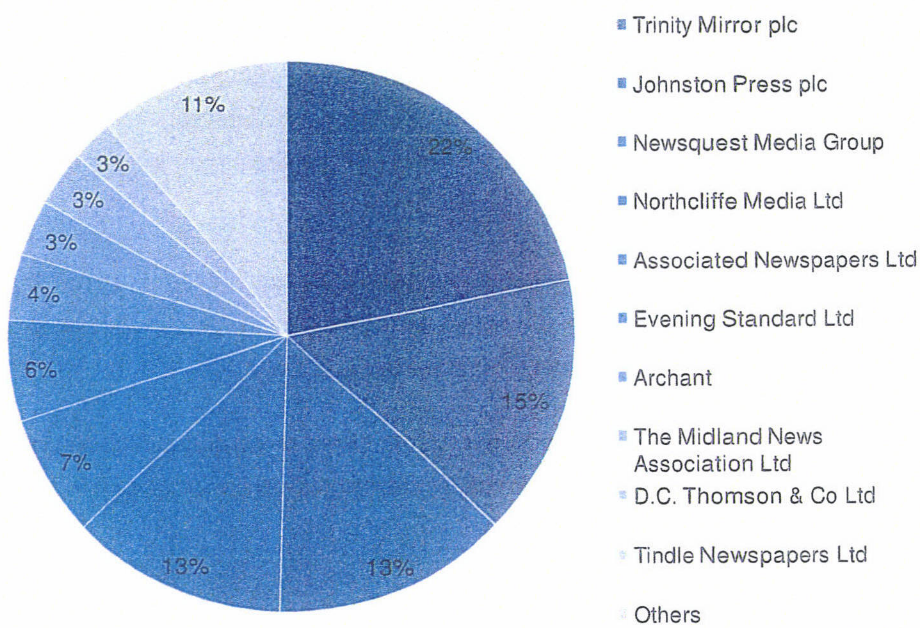
7 The Independent titles were sold to the owner of the Evening Standard, Alexander Lebedev, in May 2010.

4.15 The market shares of the regional press publishers are displayed in Figure 4.6

Figure 4.6 Ownership of regional newspapers in the UK



Source: Newspaper Society Intelligence unit, 1 July 2010; ABC/VFD/Independently audited figures.

4.16 In both the national and regional press as can be seen above, there is a range of voices in provision.

The internet

4.17 News is ubiquitous on the internet[8]. As Ofcom reports, "The web offers the potential for almost limitless diversity in news, discussion and debate...In future there will be ever more outlets for audiovisual news including through the internet with its almost limitless capacity for information, analysis and

8 New News, Future News: the challenges for television news after Digital Switch-over, Ofcom, 26 June 2007: p33.

opinion...The unprecedented availability of such a huge range of traditional and new sources of news opens up possibilities for real diversity of opinion to be heard ... in future, this new environment may expose limitations in the traditional notion of plurality on PSB television news, which was originally based around a simple BBC/ITV duopoly.[9]"

4.18 Online news sites may be broadly grouped into news organisation sites (broadcasters and newspaper publishers), news agency sites and aggregator sites. Online portals/search engines providing news include AOL, MSN, Yahoo and Google.

4.19 The content available ranges vastly and includes text, audio and audiovisual and may be delivered personally to fixed and mobile devices. Services include podcasts, RSS feeds, and blogs.

4.20 In Figure 4.7 we present the share of page views to the top 20 news sites in September 2010, noting that the top 20 are a fraction of the total universe.

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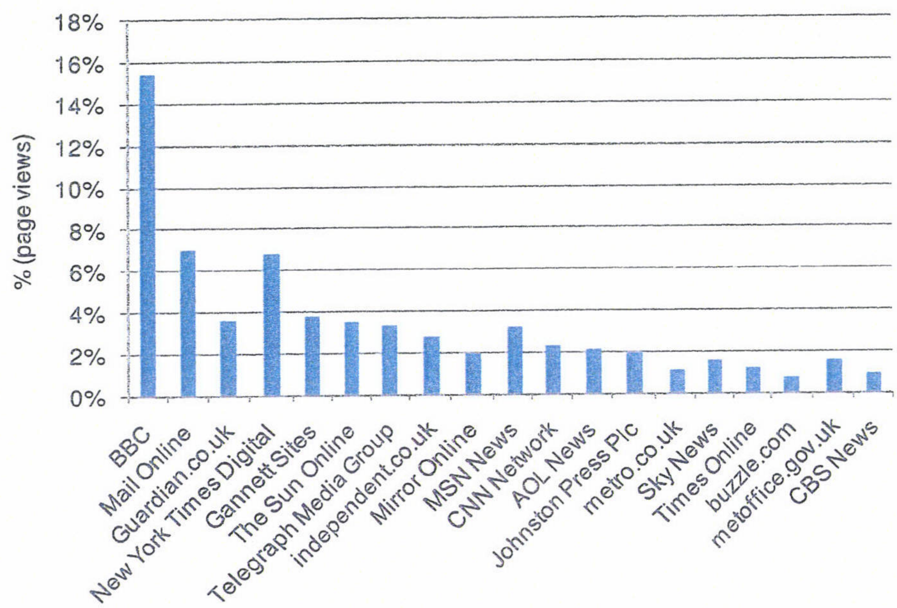
9 New News, Future News: the challenges for television news after Digital Switch-over, Ofcom, 26 June 2007: p2.

Figure 4.7 Share of page views, top 20 news sites, July 2010



Source: Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

4.21 This demonstrates that the BBC is the leading news site with more than double the share of the next, Mail Online. In terms of UVs, there were 19.3 million visitors to the BBC news site and 9.7 million to the Mail Online.

4.22 Further, we note that from October 2009 to October 2010 the number of page views on News International websites has decreased at a CAGR of -3.5% and page views on SkyNews.com has decreased at a CAGR of -0.9%[10]. The decline in traffic to News International websites could be caused in part by the Times Online moving behind a pay wall.

4.23 As demonstrated, the internet is the most plural media environment. As we discuss below, there are hundreds and potentially millions of voices

10 Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

available including media owners, news agencies, portals, aggregators and individuals.

Magazines

4.24 Additionally, there are several news magazines available including The Economist, Private Eye, Newsweek, The Week and the Spectator. The Week sold 176,680 weekly copies in the first half of 2010, representing a 6.7% year on year growth. Sales of The Spectator fell by 6.3% year on year to 70,366 for the same period whereas The Economist sales grew 4.2% during the same period to 195,244 per week.

4.25 News magazines however tend to have relatively low circulation and hence reach. Moreover, relative to TV, the internet, radio and press, consumers do not consider that they are important sources of news (for example there was an insignificant proportion of the population to register in the Ofcom Media Tracker Survey[11]). In FD's Media Monitor survey[12], magazines are one of the lowest scorers in respect of influencing consumers. Moreover, also in the most recent FD survey, they emerged as the least popular medium for news (below social networks and smart phones). We do not consider magazines further.

Changes in news provision since 2003

4.26 In Figure 4.8 we provide a summary of the principal relevant changes in the provision of news since 2003. We also consider the principal changes in access.

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11 Ofcom media tracker survey, 7 April 2010.
12 Media Monitor Report, FD, 2010.

Figure 4.8 Main changes in provision of/access to news since 2003 by medium

Medium	Changes in provision of news	Access to news
TV	New digital channels (e.g. Al Jazeera, France 24, Press TV) Several digital channels available on Freeview	Increased digital penetration (48% in 2003 to 92.7% by Q2 2010)
Newspapers	Independent launched 'I' newspaper in October 2010	Reduced average daily circulation (-3.5% CAGR) Increased freesheets Some regional closures
Radio	Fewer regulations on localness	Increased DAB penetration (2% in 2003 to 35% by Q1 2010). Reduced radio listening (CAGR - 1.5%)
Internet	Increased number of news sites (Comscore in 2010 tracks UK visitors to more than 675 news websites) Increased range of news sites (range of owners – press agencies, other off-line media, specialist sites, aggregators, including regional, national and global providers) Increased broadcaster live and catch-up services (e.g. ITV Player launched 2008) available on the internet Increased blogs Increased apps Increased personalisation	Increased online penetration (64% in 2003 to 73% by 2010) Increased broadband penetration (52% in 2003 to 71% by Q1 2010) Increased reach of online services (broadband 11% in 2003 to 71% by 2010) Increased access to radio, online news websites and broadcaster catch-up services Increased access to broadband by other devices (mobile phones (23%) and tablets (2% of households by Q1 2010))

Source: TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010; Digital Progress Report: Digital TV, Q2 2010, Ofcom, 7 October 2010; Communications Market Report, Ofcom, 19 August 2010; Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

4.27 As can be seen, there has been negligible change in traditional media provision, although as discussed, there is already sufficiency of plurality in these sectors. Paid for newspaper circulation has fallen, and there has been a rise in access to freesheets. Radio listening has fallen.

4.28 Most of the changes that have occurred are either in access and or/in the newer media. There has been an increase in the range and number of voices in both TV and online.

4.29 Digital TV penetration has increased, enabling increased access to more news channels (e.g. BBC 24, Sky News, Al Jazeera, and France 24).

4.30 Most of the change that has occurred is in relation to online news – both access and provision. There has been an explosion in online news sources. Comscore tracks 675 news websites that UK consumers visit, of which more than 120 sites registered more than 100,000 UK visitors in September 2010[13].

4.31 On the provision side, online news content includes text, audio and audiovisual and services include TV broadcaster live and catch-up services, podcasts, blogs, various 'apps', and RSS feeds. There are also personalisation services.

4.32 The online environment is convergent and distinctions between the media become blurred. Online is thus a truly cross-media environment.

4.33 We also reviewed Ofcom's perspectives in its 2009 Media Ownership Rules Review[14] to assess the extent to which there had been recent changes in media ownership that may impact the number of voices in the provision of news. As we discussed, Ofcom notes that media ownership patterns had not changed substantially (since 2006) except in radio where there had been consolidation with Bauer and Global radio emerging as the largest groups.

4.34 Ofcom also noted that while not a change in ownership, Sky News took over the Independent Radio News contract from ITV. Thus the service agreement for news supply to commercial radio that ITV had enjoyed for many years changed hands. However, as stated, broadcasters are responsible for the news they broadcast; not the service supplier.

Cross-media news provision

4.35 In Figure 4.9 we summarise the current voices in UK news provision by medium and cross-media.

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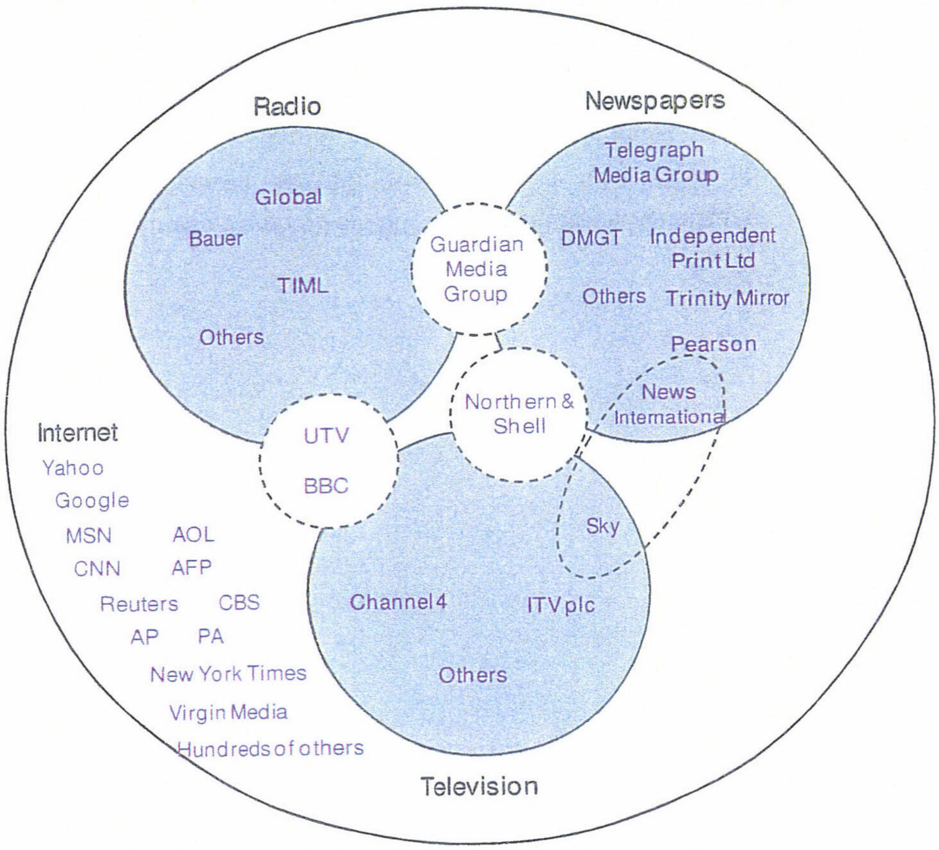
[13] Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

[14] Media Ownership Rules Review, Ofcom, 31 July 2009.

Figure 4.9 Summary of UK news provision by medium and cross-media



Source: Media Ownership Rules Review, Ofcom, 31 July 2009; FTI analysis.

Sufficiency of plurality in news provision

4.36 Based on the above discussion we conclude that since 2003, there has been a significant increase in the plurality of news provision on two of the important[15] news platforms: TV and online.

4.37 Access to these platforms has increased and so we conclude that the availability of this increased provision has also increased. There have been no major changes in the provision of news on radio or in the press. We note that there has been some consolidation in radio but that in press the number

15 See Section 5 for a discussion on consumer perceptions of the importance of the various platforms as sources of news.

of voices has remained the same over time. There is a sufficient number of voices in both radio and press.

4.38 Given that our benchmark is 2003, on the basis that since then there has been significant increase in the number and range of voices in news provision then, it is axiomatic that we conclude that currently there is sufficiency in plurality in news provision on a cross-media basis.

5 Consumption of news

Introduction

5.1 In this section we examine the trends in news consumption by the UK audience. We consider such consumption by medium and by time spent. We assess the extent to which consumers use news across the various media (cross-media consumption). We also briefly review consumer perceptions in respect of trust, impartiality and reliability of the various news sources available.

5.2 Each of the above is an important building block to determine qualitatively and, where possible, quantitatively, the extent to which the sufficiency of media plurality for cross-media audiences has changed in the UK and whether it may be impacted by the Transaction.

5.3 We also summarise some of the recent trends in media consumption as they relate to the consumption of news. We examine trends during the past 5 years subject to data availability. We provide a high level summary based on a number of relevant trends largely based on Ofcom's Communications Market Report 2010.

5.4 Specific data on news consumption are compiled from a variety of sources. There is no one source that continually monitors time spent on each medium and the variety of sources used. In compiling this section we have relied on a number of sources, including surveys.

5.5 To gain an understanding of cross-media news consumption, it is necessary first to understand the trends in news consumption by individual medium.

Consumption by medium

5.6 Table 5.1 summarises the current weekly reach of the various media, together with the time spent on each and the average number of properties per medium used.

Table 5.1 Weekly reach, time spent and number of news sources by medium

Medium	Weekly Reach	Time spent per day	Average number of channels/stations/ titles/websites used
TV (news)	98%	0.36 hrs	1.1
Radio (total)	89%	2.1 hrs	2.2
National newspapers (total)	59%	0.57 hrs	1.4 (of those that take)
Internet (news)	75%	0.29 hrs	3.5

Source: TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010; Ofcom, Newspaper Marketing Agency; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

5.7 For news, according to Ofcom[16], while television is the main platform used for news for around two-thirds of adults, individuals used an average of 3.8 news platforms in 2006. TV is also the most trusted platform for news, with around three times as many adults considering its output impartial as compared to newspapers and magazines and around two times as many adults considering its output impartial compared to the internet. Table 5.2 shows the perceived impartiality of media by platform in 2009.

Table 5.2 Perceived impartiality of media platforms, 2009

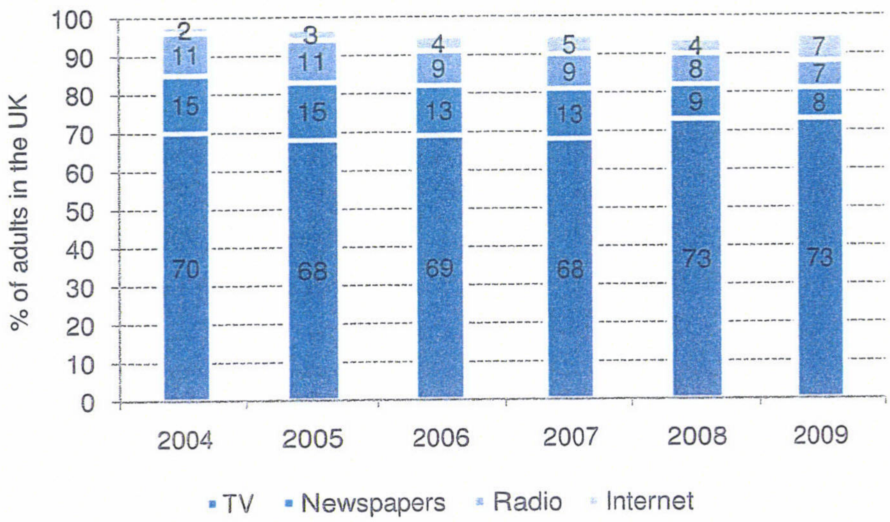
Medium	All adults (% saying impartial)
TV	42
Radio	35
Internet	21
Press	17
Magazines	14

Source: Media Ownership Rules Review, Ofcom, 31 July 2009: p26.

5.8 TV is the source of news cited as the most important by consumers and increased in importance during the period 2007 to 2009, as shown in Figure 5.1. Press continued to decline during the period 2004 to 2009, as did radio. The internet on the other hand has increased in importance

16 New News, Future News: the challenges for television news after Digital Switch-over, Ofcom, 26 June 2007.

Figure 5.1 Main source of UK news



Source: Media Ownership Rules Review, Ofcom, 31 July 2009: p25; Ofcom media tracker, 7 April 2010.

5.9 According to research conducted by Mintel[17], TV is the most popular medium for accessing news as more than 75% of adults claim to use it regularly. The internet is cited as the second most popular source, with around two-thirds using it to access news. According to the survey, less than 50% claim to use national newspapers.

5.10 Another survey, by McKinsey, has tracked interest in the various news media by age.[18]

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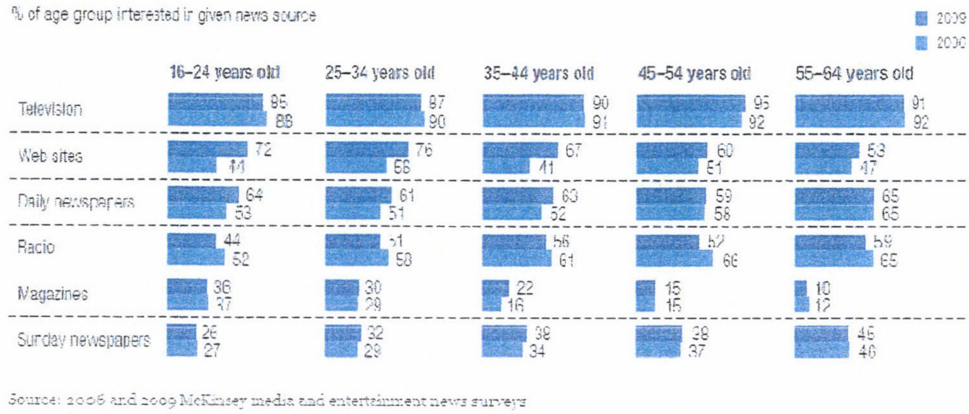
17 Consumer Perceptions of News Media, Mintel, September 2010.

18 A glimmer of hope for newspapers, McKinsey Quarterly, April 2010.

Figure 5.2 Interest in news source by age group



Source: A glimmer of hope for newspapers, McKinsey Quarterly, April 2010.

5.11 According to the survey findings, the younger age groups prefer to get their news from the internet and as a result in 2009, the internet was the third most popular news source, just behind newspapers.

5.12 The above findings accord with other survey results whereby TV remains the most popular source of news but that the internet continues to gain in popularity.

5.13 In respect of news consumption by medium, we make the following observations.

Television

5.14 TV remains the most important medium for accessing news. TV viewing has increased slightly over time and in multichannel homes, the BBC and ITV are the most watched channels. The BBC has the most favourable perceptions amongst consumers according to, inter alia, Ofcom and Mintel. Take up of digital television has risen markedly since its introduction in 2003, reaching more than 92 per cent in Q2 in 2010[19] and considerably expanding

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[19] Digital Progress Report: Digital TV, Q2 2010, Ofcom, 7 October 2010.

alternative access to news. On digital, there have been new entrants to the UK TV news market - Al-Jazeera and France 24 are prime examples - expanding consumer choice.

5.15 However, despite the proliferation of television channels and concomitant access to news, the traditional Public Service Broadcast (PSB) channels of BBC1, BBC2, ITV, Channel 4, and Five continue to dominate viewing; their combined viewing share in all homes was 57.8% in 2009.[20]

5.16 Entertainment channels (of which there are more than any other genre) consistently account for by far the highest proportion of audience share and news channels account for roughly 2% of audience share.

5.17 Catch-up television services account for a small, but growing proportion of all television viewing, with 31% of adults with the internet having watched catch-up TV in Q1 2010, up from 23% a year earlier. Time-shifted television viewing (viewing through a recording device) is also increasing,

5.18 YouView (previously Project Canvas) (and others such as Google TV) will enable the seamless integration of TV and internet services on the TV screen. YouView is scheduled to launch in the UK during the first half of 2011.

Radio

5.19 Radio's reach, which declined gradually between 2004 and 2009, recently rebounded, reaching 90.6% (46.8 million adults) in Q2 2010, the highest weekly reach recorded since the current research methodology was introduced in 1999.[21]

5.20 However, although more people are listening to the radio, the time spent listening has fallen over the past five years, down 5.3% in 2009 from 2004.[22]

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20 Communications Market Report, Ofcom, 19 August 2010: p164.
21 Communications Market Report, Ofcom, 19 August 2010: p189.
22 Communications Market Report, Ofcom, 19 August 2010: p189.

5.21 However, despite declining reach, BBC still accounts for a higher proportion of radio reach than commercial radio, at 64.9% in 2009, compared with 61.2% listening to commercial radio.

5.22 Digital radio uptake has increased, from circa 5% of households owning a DAB digital radio in 2004, to 33% by 2009, and in Q2 2010, digital radio accounted for 24.6% of the total radio audience, up by 3.5% from the previous year.[23]

5.23 The BBC broadcasts the four most listened-to radio stations in Q2 2010 with BBC Radio 2 achieving a weekly reach of 14.8 million, Radio 1 reaching 13.7 million, 10.9 million listening to Radio 4, and 7.2 million to Radio Five Live.

5.24 New technologies are also changing the way in which people listen to the radio. By June 2010, 13% of adults at some time used their mobile handset to listen to radio, more than double those who did so in 2005,[24] with 13% of adults at some time using their mobile handset to listen to radio, by June 2010.

Press

5.25 According to research conducted by Mintel[25], less than 50% of people claim to use national newspapers. Print media are more relevant among older demographics, accounting for 10% of the media use of the 55+ age group.

5.26 Newspaper circulation has been consistently falling during recent years, with the number of sales in August 2010 down on the same month in 2009 for every major daily and Sunday publication.

5.27 Freesheets represent a recent and serious challenge to national print media: approximately 1 in 5 people across the UK follow them daily. When asked about their views on freesheets, a significant proportion stated that they do

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23 Communications Market Report, Ofcom, 19 August 2010: p190.
24 Communications Market Report, Ofcom, 19 August 2010: p191.
25 Consumer Perceptions of News Media, Mintel, September 2010. The survey is based on 2,000 internet users aged 16+. See: http://oxygen.mintel.com/sinatra/oxygen/display/id=547288.

not in fact like the quality or content although they continue to read the format every day. This demonstrates that allure and popularity may not be linked to influence and quality.

5.28 The traditional broadsheet newspapers have particularly suffered over the past 5 years. Daily Telegraph sales fell by more than 17 percent during that period, with The Times and The Guardian falling by over 12% each. Of the traditional broadsheets, The Daily Telegraph has the highest circulation, selling over 67,000 copies in August 2010.[26]

Internet

5.29 Internet take-up has continued to grow in the UK, reaching 75% in 2010, with total broadband take-up reaching 71%.[27] Government policy aims to address broadband "not-spots"[28] and "Networked Britain" aims to get all people of working age online by 2015, so internet penetration is expected to continue to rise.

5.30 In addition to the increased internet usage, the percentage of people using their mobile phones to access web content has risen significantly in recent years, with an annual rise of 3% to 23% in 2010.[29]

5.31 Brands based on search engines such as Google and Bing rank the highest amongst online brands in terms of reach, but the time per person spent on each site is significantly lower than entertainment sites such as Facebook and AOL Media.

5.32 Within total visits to news and information sites, the BBC enjoys the largest number of unique visitors (UVs).

5.33 There has been a large relative increase in the proportion of total internet time spent accessing news, of 84% (during the period April 2007 to April 2010)[30].

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26 ABCs: national daily newspaper circulation August 2010, Guardian, 10 September 2010.
27 TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010.
28 One of Ofcom's priorities for 2010/11 is to make progress on broadband and mobile phone not-spots.
29 Communications Market Report, Ofcom, 19 August 2010: p235.

5.34 Around 48% of 25-34 year olds use the internet to keep up to date with news. This function is significantly more prevalent amongst men than women, with 47% of men using the internet for news, compared to 32% of women. Around 50% of the AB socio-economic group uses the internet to access news, whereas 25% of the DE group use it for the same purpose.

5.35 The most popular online newspaper website in the UK is the Daily Mail online, with nearly 18 million readers a month and, globally, is second only to the New York Times[31].

5.36 However, the global nature of the internet means that, via platforms such as Google News, readers are accessing a previously unimaginably diverse range of international news sources.

Trends in cross-media news consumption

Overview

5.37 In this section we provide an overview of key developments in cross-media news consumption based on a number of surveys and data sources as referenced. We note that sources are not equivalent to voices.

5.38 According to the FD survey of news consumption, the UK consumer in 2010 consumes around 5 different news media each working day (the various adult averages range between 4.7 and 5.4)[32]. The breadth of news consumption has grown in line with digital penetration. Increased availability of relatively inexpensive fast broadband has driven the online boom and digital TV penetration has also been a significant driver of the increased breadth of take-up.

5.39 Digital media have not replaced traditional media, they have been adopted as additional media sources and as a result, consumers have continued to

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30 Communications Market Report, Ofcom, 19 August 2010.

31 Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

32 Media Monitor Report, FD, 2010.

get their news from more sources. During the past 7 years, the breadth of weekday consumption has risen by around 30%.

5.40 As the range of media used for news has increased, loyalty to specific titles/channels has fallen, although some, particularly the BBC, do retain significant loyalty.

5.41 In respect of which news media are the most important, TV scored top, closely followed by the internet. A September 2010 Mintel Survey[33] also accords with the FD survey and finds that the internet is the next most important news medium after TV.

Number of news sources

5.42 Most people tend to get their news from more than one source. According to FD's latest Media Monitor[34], as discussed the average number of sources used per day was around 5 by September 2010. When the survey was launched in 2003 more than half of the sample stated that they used two or fewer media. The Mintel survey referenced above also finds that the average number of sources is around 5[35] (see below).

5.43 Interest in the news tends to be broad based, with more than 40% saying that they follow more than 6 types of news and more than half of those say that they often check more than one source to confirm news stories they have read[36].

5.44 Moreover, consumers tend to use on a regular basis around 5 types of media to access news (see Table 5.3).

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33 Consumer Perceptions of News Media, Mintel, September 2010. Note that the sample comprises 2,000 internet users aged 16+.
34 Media Monitor Report, FD, 2010.
35 See Table 5.3.
36 Consumer Perceptions of News Media, Mintel, September 2010.

Table 5.3 Number of media accessed regularly for news

	1-3 types %	4 types %	5 types %	6 types %	Average number
All	10	15	15	59	5.1
Daily internet usage up to 1 hour	15	14	14	55	4.9
ABC1	9	14	16	60	5.1
C2DE	13	15	13	58	5.0

Source: Consumer Perceptions of News Media, Mintel, September 2010; FTI analysis.

5.45 As shown, even those who are the lightest users of the internet (in the survey) use almost 5 media for news on a regular basis. We acknowledge that the Mintel survey sample comprises people that use the internet. If we make the assumption that the proportion of the population that are not internet users (25%, according to the most recent Touchpoints survey[37]) only use 1 medium, then the average number of different types of media regularly used remains in excess of 4.

5.46 Mintel also provides analysis of media usage across media by type, concluding that TV and the internet tend to be the dominant sources among those who use a smaller number of media types. Newspapers are the next used among those who use four types of media. National radio enters once five media are assessed. We reproduce the data in Table 5.4.

37 TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010.

Table 5.4 Number and types of media accessed regularly for news by media type used

	All %	1-3 types %	4 types %	5 types %
TV	98	92	99	98
Internet	95	78	96	93
National newspapers	85	25	69	86
Local/regional newspapers	84	24	64	89
National radio	80	19	41	83
Local/regional radio	72	12	31	51

Source: Consumer Perceptions of News Media, Mintel, September 2010.

Time spent

5.47 The amount of time spent consuming news varies by medium. Not all of the data sources for consumption of media (BARB for TV, RAJAR for radio, etc.) report on time spent by genre, so we have to rely on a number of alternative sources to form estimates (RAJAR for example does not report listening by genre).

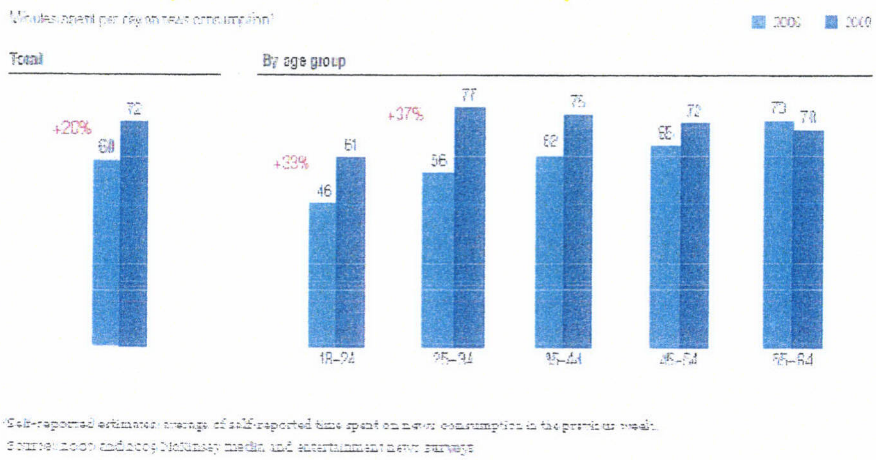
5.48 Based on data from the latest Touchpoints survey, people spent almost as long consuming news online (0.29 hours) as they did on TV (0.36 hours). According to data published by Ofcom[38], during the period April 2007 to April 2010, online news consumption had increased by 84% (in terms of proportion of time spent on the internet).

5.49 Another data source indicates that the time spent consuming news media has increased since 2006. According to research conducted by McKinsey[39], the amount of time spent by consumers consuming news in the UK increased by 20% from 60 minutes per day in 2006 to 72 minutes per day in 2009.

38 Communications Market Report, Ofcom, 19 August 2010.

39 A glimmer of hope for newspapers, McKinsey Quarterly, April 2010.

Figure 5.3 News consumption in total and by age group



Source: A glimmer of hope for newspapers, McKinsey Quarterly, April 2010.

Summary of cross-media news consumption

5.50 TV remains the main source of news and is perceived as the most impartial of the news media. That said, the internet is gaining in importance and now appears to be the second most important source of news (according to a range of sources including Ofcom, Financial Dynamics, Perspective Associates). Conversely, press and radio are declining (relatively) in importance as news sources.

5.51 The time spent watching TV news and consuming news on the internet are around the same according to the IPA Touchpoints survey in 2010.

5.52 Most people tend to use 3 to 4 platforms for news and follow around 4-5 news sources per day. The most popular brand for news is the BBC on TV, on radio and online[40].

5.53 In Table 5.5 we provide a summary of the current status and recent trends in cross-media news consumption. This demonstrates that:

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40 Consumer Perceptions of News Media, Mintel, September 2010.

- The plurality of cross-media consumption of news has increased in line with its increased provision;
- Press and radio are reducing in importance in the cross-media share of voice as both usage and user perceptions of their importance as news media has fallen;
- The internet is expected to grow in importance in terms of time spent and usage as it continues to increase in importance to consumers;
- Overall there is a shift in cross-media news consumption patterns towards online which is a highly plural environment;
- These trends are expected to continue as internet penetration increases; and
- It is striking that the media in which it has a presence, the BBC is the leading player by a significant margin.

Table 5.5 Summary of cross-media news consumption

PLATFORM	TELEVISION	INTERNET	NEWSPAPERS	RADIO	CROSS-MEDIA
PLURALITY					
- today	Sufficient	Sufficient (high)	Sufficient	Sufficient	High
- trend	Increasing	Increasing	Steady	Steady	Increasing
PLAYERS	BBC (74%), ITV (17%), Sky News (6%), Channel 4 (4%) and Five (2%)	BBC attracts the most UVs but there are no dominant players and a very large number of players	News Corporation (34%), Daily Mail & General Trust (21%), Trinity Mirror (15%) and Northern and Shell (15%)	BBC (55%), Global (17%) and Bauer (11%)	A significant number of voices available excluding online; literally thousands if online is included
CONSUMPTION					
Importance of source					
- today	1st	2nd	3rd	4th	
- trend	Steady	Increasing	Decreasing	Decreasing	Internet increasing part of the cross-media mix
Impartiality					
- today	42%	21%	17%	35%	
- trend	Steady	Steady	Steady	Steady	
Reach					
- today	98%	75%	59%	89%	
- trend	Increasing	Increasing	Decreasing	Decreasing	Internet and digital TV penetration expected to increase
Usage (hrs/ day)					
- today	0.36	0.29	< 0.57 *	Not available	1.2
- trend	Steady	Increasing	Decreasing	Decreasing	Increasing
Sources **					
- today	1.1	3.5	1.4	2.2 ***	5
- trend	Steady	Increasing	Steady	Steady	Increasing
CROSS-MEDIA SHARE OF VOICE					
- today					Cross-media consumption mix has changed. Consumption has shifted away from press and radio towards TV and online. Plurality continues to increase in TV and online; online has thousands of voices
- trend	Steady	Increasing	Decreasing	Decreasing	Trend of increasing shift away from press and radio towards TV and online expected to continue

Source: *Perspective analysis of BARB data; Communications Market Report, Ofcom, 19 August 2010: p204; ABCs: national daily newspaper circulation August 2010, Guardian, 10 September 2010; TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010; Newspaper Marketing Agency; Media Ownership Rules Review, Ofcom, 31 July 2009: p26; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010; A glimmer of hope for newspapers, McKinsey Quarterly, April 2010; Media Monitor Report, FD, 2010; Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010; FTI analysis.*

** this figure corresponds to time spent reading any newspaper which overestimates the time spent reading the news*

*** we note that the number of platforms used is 3 to 4 and this may increase in line with internet penetration*

**** this figure corresponds to total number of radio channels listened to rather than just the number of news radio channels*

5.54 Importantly, the balance of usage (reach, number of outlets and time spent) and ascribed importance by consumers amongst the various media has been changing. There is a clear trend of reducing radio and press consumption together with a steady consumption of TV and an increase in online usage. The share of voice of each medium within the cross-media consumption mix is changing. The weight remains towards the TV voice, with online voices increasing and radio and press voices in decline.

Sufficiency of plurality based on cross-media consumption

5.55 It is clear from our conclusion in Section 4 that plurality in news provision and access has increased significantly owing to the increases in digital TV news services and the explosion in online news services. While there have been limited or no changes in the plurality of the traditional media (radio and press), the impact of changes overall have led to an increase in plurality in cross-media.

5.56 These changes in provision have also led to changes in consumption patterns within each medium and across media including:

- an increase in consumption of news on the internet;
- a decrease in the importance of radio and newspapers; and
- an increase in the number of sources and platforms the UK population uses to consume news.

5.57 These trends along with those demonstrated in Table 5.5 imply there is a sufficiency of plurality in cross-media consumption. The range and number of voices in the cross-media landscape have increased, offering the consumer more choice in platforms and sources.

6 Pre- and post-Transaction

Introduction

6.1 In this section we provide our assessment of the differences in the sufficiency of plurality post-Transaction. We consider the assessment in terms of provision and consumption.

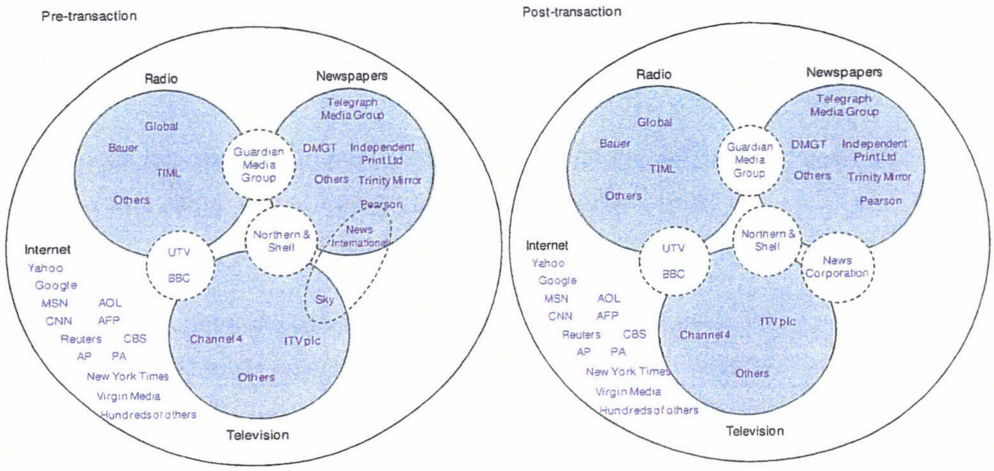
6.2 As discussed in Section 3 we were requested to evaluate the sufficiency of plurality pre- and post-transaction. In so doing, we make the assumption that the media enterprise "headcount" reduces by one following completion of the Transaction. This reduction is considered from a cross-media perspective in respect of provision and consumption.

Provision

6.3 As we also discussed in Section 3, as a result of the transaction *on the basis of our assumption that there is a reduction in headcount*, at the level of mono-media there is no change in the number of voices in TV, radio or press. On the internet, there would be a loss of one voice. At the cross-media level there is also therefore the loss of one media enterprise.

6.4 We provide a schematic (see Figure 6.1) to summarise the change to the number of media enterprises pre- and post-transaction. We note that the loss in the number of enterprises (i.e. one) does not imply a loss in the number of media properties (i.e. TV channels, newspaper titles, online properties etc.).

Figure 6.1 Number of media enterprises pre- and post-transaction



Source: Media Ownership Rules Review, Ofcom, 31 July 2009[41]*: p34; FTI.*

6.5 As indicated in the chart, within the total universe of media enterprises available, the loss of one voice cannot be considered to be substantial given the range and number of such enterprises, particularly as we demonstrated that the number and range of voices has increased since 2003. Within each of TV, radio and press, there is no change.

6.6 The only change given the assumption of the loss of headcount is within the cross-media environment.

6.7 In the off-line cross-media environment, while the number of players is fewer (by one), this cannot be regarded as substantial. As we have shown these are sectors (i.e. TV and press) with many players and no concerns regarding the sufficiency of the number of voices considering developments since 2003.

6.8 The BBC is the leading player in TV, followed by ITV. In that sub-sector there are many others and as we demonstrate in the next section when we assess the impact on consumption, Sky has a relatively weak position in TV

41 We note that Ofcom did not distinguish Sky and News International in its assessment of changes in media ownership; it treated them as one entity (News International).

broadcast news so we do not consider that this reduction in headcount can have a material impact.

6.9 Radio is unaffected.

6.10 In the online cross-media environment, as we discussed in Section 5, Comscore tracks UK visitors to more than 675 online news sites, of which more than 120 have more than 100,000 UVs.

6.11 We also highlighted that in the online environment, owing to the plethora of diverse media types and sources, distinctions between the various media in any case blur.

6.12 We cannot conclude that this hypothetical 'loss of one voice' in the online environment has a material effect on the sufficiency of cross-media plurality. Online has hundreds (and potentially millions) of news voices (and media, formats, and services). Moreover, there are several other players in this space, primarily the BBC, that enjoy a much stronger market position than Sky and News Corporation. We demonstrate this in the next section.

Consumption

6.13 In Section 5 we provided a summary of the news consumption trends in the cross-media environment. We now consider the impact of the Transaction from the consumption perspective.

6.14 In Table 6.1 we examine the position of the two separate entities and the two merged together, building on Table 5.5.

Table 6.1 Pre- and post-Transaction – impact on cross-media consumption

PLATFORM	TV	INTERNET	NEWSPAPERS	RADIO	CROSS-MEDIA
Cross-media share of voice					
Today					Cross-media consumption mix has changed. Consumption has shifted away from press and radio towards TV and online. Plurality continues to increase in TV and online; online has thousands of voices.
Trend	Steady	Increasing	Decreasing	Decreasing	Trend of increasing shift expected to continue.
Sky News	6%	1%	NA	NA	
Comments	3rd in the medium but < half the share of the next largest player (ITV)	Negligible share of highly plural medium	NA	NA	Sky has a relatively low share in TV and online and therefore a relatively weak position in the cross-media landscape.
News International	NA	4%	34%	NA	Cross-media
Comments	NA	Negligible share of highly plural medium	Strong market position in a medium that is in long term decline	NA	While News International's position is strong in press, in the cross-media environment, the medium is in long-tem decline. Relatively low share in online.
News Corporation	6%	6%	34%	NA	
Comments	3rd in the medium but < half the share of the next largest player (ITV) and no concerns in respect of share of voice	Negligible share of highly plural medium	Strong market position in a declining medium and no concerns in respect of share of voice	NA	The combined entity, News Corporation has a position that comprises strength in press, the declining segment, a relatively weak position in TV and a 6% share in online which has thousands of voices.

Source: Perspective analysis of BARB data; Daily circulation figures, MediaTel (audited by ABC), as accessed on 10 November 2010; monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010.

6.15 We replicate from Table 5.5 our assessment of how the weight of share of voice amongst various media is changing in the cross-media environment.

6.16 We consider first the position of the two entities separately and then combined:

- Sky – its position in the cross media environment is weak. It has a negligible share in online and given the position of the BBC and ITV, it has a relatively low share in TV news. It has less than half of the share of ITV. It is difficult to see how this share will increase substantially in future as digital TV penetration stands at around 92%. The remaining TV households to be switched over to digital are late adopters, satisfied with the current terrestrial channels and therefore likely to have weaker preferences for digital TV channels than current digital TV households.
- News International – also has a weak position in the online environment. While it has a strong position in press, this is a medium in decline and one that has a decreasing share of the cross-media voices from a consumption perspective. Its importance in the cross-media mix has declined and is expected to continue to do so.
- News Corporation – the combined entity has a weak position in TV, around a 6% share of the online news sector[42] and a strong position in press, the medium that is declining in usage in the cross-media mix.

6.17 The assumed reduction in headcount leads to a combined entity that does not enjoy a strong position in the most important news media from the consumer perspective i.e. TV. In press, while its position is strong, the medium is in long term decline. In online, its share is around 6% and subject to competition from strong players such as the BBC, Mail Online, and potentially numerous others. The stated market shares however are for

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[42] We note that from October 2009 to October 2010 the combined page views of News International websites and SkyNews.com has decreased at a CAGR of -3.0% (Source: Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010).

news websites only. There is additionally competition from portals such as Google and Yahoo.

6.18 Based on this assessment, and the evidence presented in this report, we conclude that this Transaction does not materially reduce the range and number of voices in the cross-media environment; therefore that it would not have a material impact on the sufficiency of plurality.

News consumption by socio-economic group and nation

6.19 Following the approach of the CC in the ITV/Sky case, we use TGI data to examine news consumption by socio-economic group and nation.

6.20 While news consumption behaviours today are broadly similar to behaviours examined by the CC in the ITV/Sky case, we note some differences below:

- the proportion of UK adults who actively use the internet as a source of news has increased from approximately 21% in 2006 to more than 35% today;[43]
- the number of different platforms through which UK adults actively consume news has increased. According to TGI data, the proportion of UK adults who use 3 or more media platforms has increased from approximately 35% in 2006 to more than 50% today;[44]
- the proportion of people who actively watch any BBC news program has increased slightly since the CC's report in the ITV/Sky case; and
- the proportion of UK adults who read The Sun and the Metro has increased slightly.

6.21 Further, we have identified the following statistically significant differences between news consumption across socio-economic group and nation:

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43 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: Appendix I, Figure 4; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

44 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: Appendix I, Figure 5; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

- the ABC1 socio-economic group tends actively to consume more news, while the C2DE socio-economic group tends actively to consume less news, both by media platform and by number of media platforms used. See Figure A3.1 and Figure A3.2 for more information;
- the ABC1 socio-economic group tends actively to watch more of the BBC, Channel 4 and Sky News and less news on ITV whereas the C2DE socio-economic group actively watches more news on ITV and less news on the BBC, Channel 4 and Sky News. See Figure A3.4 for more information; and
- the C2DE socio-economic group and Scotland tend to actively read at least one News International newspaper in a higher proportion than UK adults as a whole. See Figure A3.7 and Figure A3.8 for reference. This may be due to a disproportionately high number of active readers of The Sun in both groups as can be seen in Figure A3.5 and Figure A3.6.

6.22 In the ITV/Sky case, the CC concluded that "whilst viewing shares and readership vary somewhat by socio-economic group, there are no fundamental differences in the significance of ITV, Sky and News International to particular sections of the UK population. Nor did we find any fundamental differences in the significance of ITV, Sky and News International between nations within the UK."[45]

6.23 We have identified no fundamental differences in news consumption among socio-economic groups or nations since the CC report in the ITV/Sky case. Therefore, we uphold their conclusion. That is, we conclude that there are no fundamental differences in the significance of Sky and News Corporation to particular sections of the UK population or nations within the UK.

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[45] Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: paragraph 5.50.

A final step in our assessment

6.24 As a final step we examined the proportion of the population that would be directly affected by the Transaction. Namely, the proportion of the UK population who take news from both Sky News and News International. In doing this, we follow the approach taken by the CC in their investigation into the effect on media plurality in the ITV/Sky case.

The connection between the Transaction and the ITV/Sky case

6.25 In order to assist their investigation into the effect on media plurality in the ITV/Sky case, the CC examined the news consumption behaviour of the proportion of the population that would be directly affected by the acquisition. Namely, the proportion of the population who actively watch ITV news and actively watch Sky news and/or actively read News International newspapers. The CC names this group the "ITV/Sky News-NI overlap group."

6.26 The CC determined that 16% of UK adults fall into the ITV/Sky-NI overlap group. Further, the CC states "over two-thirds of this group read a newspaper from another media group. Over 70 per cent watch news on the BBC. Just under one-fifth watch Channel 4 news and just over one-fifth visit news websites. Around 95 per cent of the ITV/Sky News-NI overlap group also actively consume news from at least one other source. Less than 1 per cent of the total population actively take news from ITV and Sky/NI but no other source."[46]

6.27 We depict the CC's results diagrammatically in Figure 6.2.

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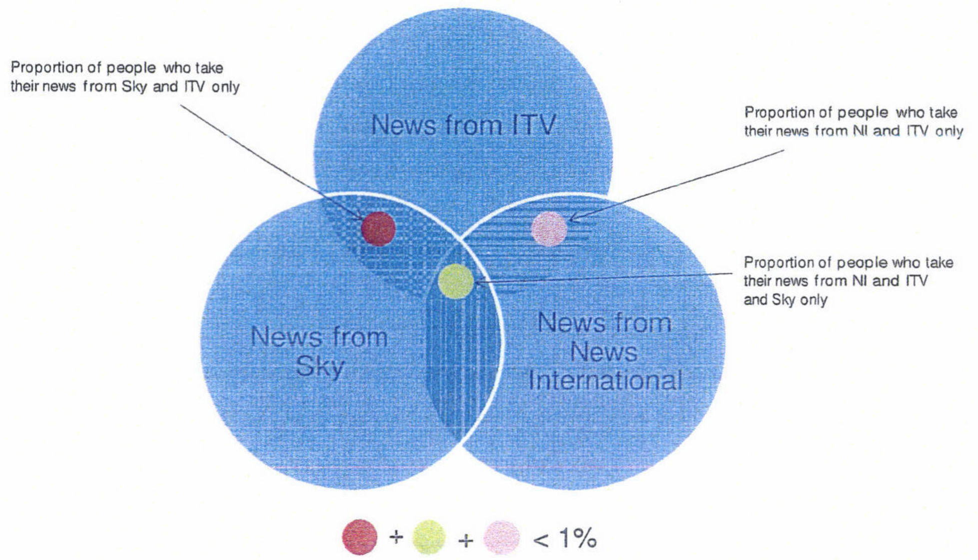
46 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: appendix I, p12-13.

Figure 6.2 Results of the CC's investigation in the ITV/Sky case

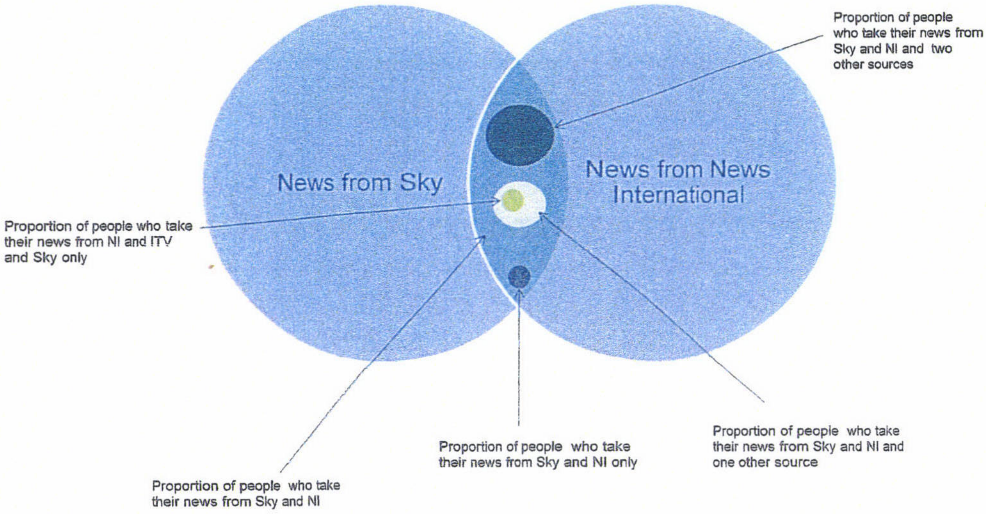


Source: FTI analysis based on CC's report in the ITV/Sky case

6.28 While the entire population of interest in this Transaction is not a subset of the affected population in the ITV/Sky case, the results in the ITV/Sky case can be a useful benchmark in the analysis of this Transaction.

6.29 Building on this approach, we are concerned in this Transaction with only the lower section of the above chart. We present in Figure 6.2 the relevant population of interest.

Figure 6.3 Possible impact on cross-media plurality of the Transaction



Source: FTI analysis

6.30 We present a stylised example of possible news consumption combinations in the overlap area in Table 6.1. This demonstrates how consumers may be affected given the assumption (for the purposes of our analysis) that there is a reduction in the number of voices as a result of the Transaction.

Table 6.2 Overlap or cross-over between Sky News and News International

	Sky News	Sky News online	The Sun	The Sun online	The Times	The Times online
Sky News	NA					
Sky News online	NA	NA				
The Sun	One voice	One voice	NA			
The Sun online	One voice	One voice	No change	NA		
The Times	One voice	One voice	No change	No change	NA	
The Times online	One voice	One voice	No change	No change	No change	NA

Source: FTI analysis.

6.31 In Table 6.1 above, the blue shaded areas represent replication, overlaps that are not applicable, or where there is no change in media plurality. The areas shaded mauve and white areas represent overlap where post-Transaction there is now one enterprise supplying these properties rather than two (as per our assumption for the purpose of the analysis) i.e. there is a reduction in the number of voices.

6.32 For the mauve overlap areas, there should be minimal concerns in respect of the assumed reduction in voices from two to one as these include online. As discussed thus far, there is a plethora of voices and news properties available on the internet.

6.33 The white cells indicate possible combinations of broadcast and print media only (i.e. no online) where there has been a reduction from two voices to one voice (as per our assumption for the purpose of the analysis).

6.34 We made an estimate of the size of the population that takes its news from News International and Sky, including and excluding online, which we discuss below.

Results

6.35 To analyse the population affected by the Transaction we use survey data provided by TGI. We note that this is the same source used by the CC in their investigation in the Sky/ITV case. For more information regarding the data see Appendix 3.

6.36 We calculate approximately 4% of UK adults actively watch Sky News and actively read News International newspapers.[47] Further, approximately 0.2% of UK adults actively watches Sky News and actively read News International newspapers and does not take news from any other source.

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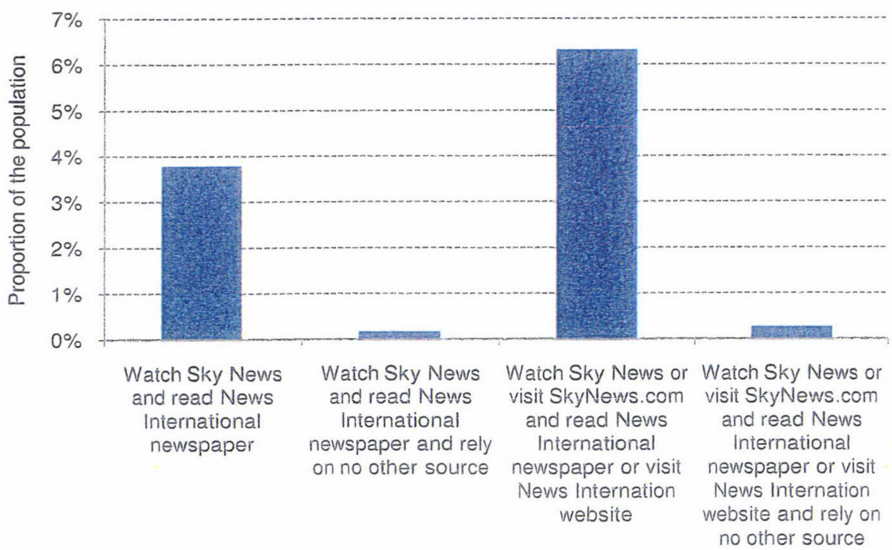
[47] To confirm our approach we recalculated the proportion of the population who actively watch news on ITV and either actively read News International newspapers or actively watch Sky News. We calculated that approximately 15% of UK adults fell into this group whereas the CC calculated 16%. This small difference is consistent with developments since the ITV/Sky case (i.e. an increase in the number of news sources/platforms being used). Therefore, we are confident our approach is consistent with the CC's approach in the ITV/Sky case.

6.37 We calculate 6% of UK adults actively watch Sky News or actively visit SkyNews.com and actively read News International newspapers or actively visit News International websites (the "Sky/NI Overlap Group"). Approximately 96% of the Sky/NI Overlap Group relies on other news sources in addition to the Sky and News International news sources. Therefore, 0.3% of UK adults actively watch Sky News or actively visit SkyNews.com and actively read News International newspapers or actively visit News International websites and do not take news from any other source.

6.38 We note these results are similar in magnitude to the findings of the CC in the Sky/ITV case. That is, in the Sky/ITV case the CC concluded that no more than 1 per cent of the population, and quite possibly less than this received news from only ITV and Sky and/or News International. Whereas, we find that 0.3% of the population receive news from only Sky and News International.

6.39 Figure 6.3 below summarises the proportion of UK adults who would be affected by the Transaction.

Figure 6.4 Proportion of UK adults affected by the Transaction

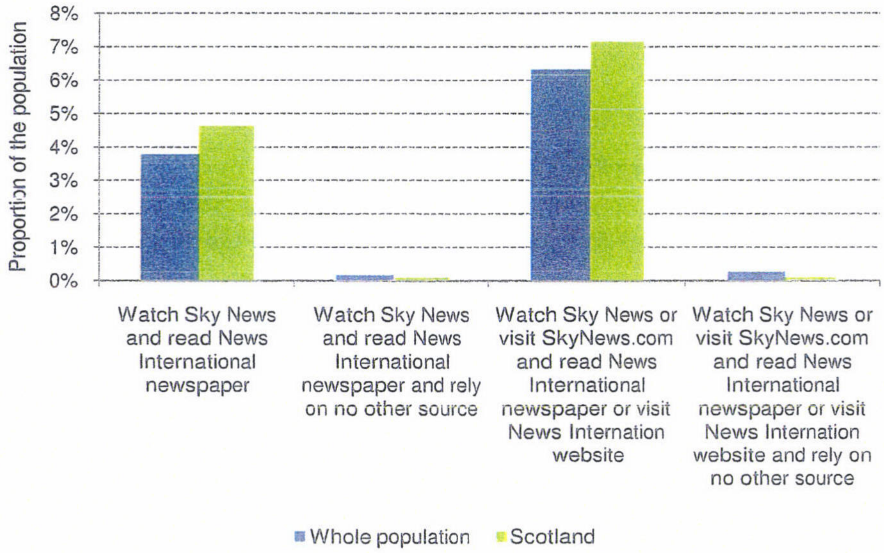


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

6.40 We note that a disproportionately high proportion of adults in Scotland actively watch Sky News and actively read News International newspapers. However, the proportion of Scottish adults who actively watch Sky News and actively read News International newspapers and rely on no other source is *not* statistically different from the proportion of UK adults who fall into the same group.

6.41 Further, we note that the proportion of Scottish adults who fall into the Sky/NI Overlap Group and rely on no other news source is statistically significantly *lower* than the proportion of UK adults who fall into the same category. See Figure 6.4.

Figure 6.5 Proportion of UK adults and adults in Scotland affected by the Transaction

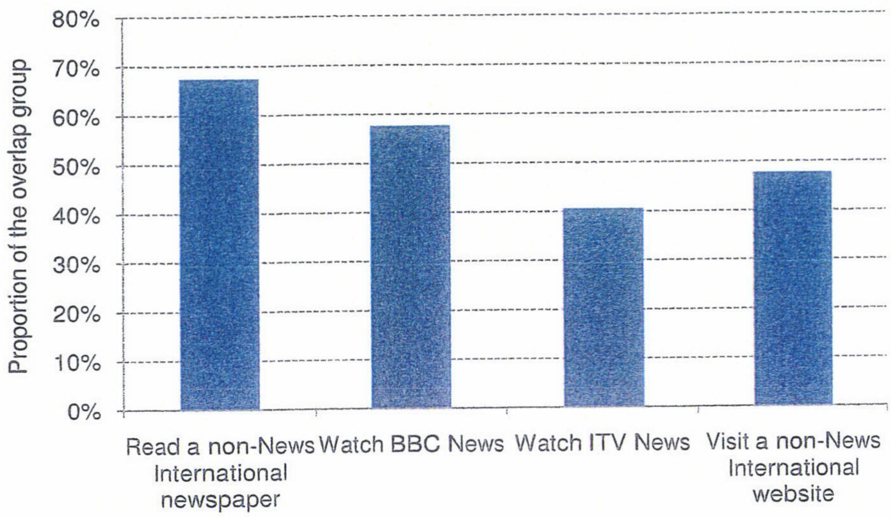


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

6.42 Therefore, we conclude that no socio-economic group or nation would be significantly disproportionately affected by the Transaction.

6.43 Figure 6.5 shows the news consumption behaviour of the Sky/NI Overlap Group.

Figure 6.6 News consumption behaviour of the Sky/NI Overlap Group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

6.44 Figure 6.5 shows that nearly 70% of the Sky/NI Overlap Group actively read a non-News International newspaper, nearly 60% actively watch BBC News, approximately 40% actively watch ITV News and nearly 50% actively visit a non-News International website.

Appendix 1 Sources of information

Description
Report for the Secretary of State pursuant to Section 44A of the Enterprise Act 2002 of British Sky Broadcasting plc's acquisition of 17.9% shareholding in ITV plc, Ofcom, 27 April 2007
Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007
Final decisions by the Secretary of State for Business, Enterprise & Regulatory Reform on British Sky Broadcasting Group's acquisition of a 17.9% shareholding in ITV plc dated 29 January 2008
Judgment of the Court of Appeal regarding British Sky Broadcasting Group plc, Virgin Media inc., the Competition Commission and the Secretary of State for Business Enterprise and Regulatory Reform, 21 January 2010
Communications Market Report, Ofcom, 19 August 2010
Consumer Perceptions of News Media, Mintel, September 2010
ABCs: national daily newspaper circulation August 2010, Guardian, 10 September 2010
TouchPoints Super Hub 2010 survey data, as accessed 12 November 2010
Media Ownership Rules Review, Ofcom, 31 July 2009
New News, Future News: the challenges for television news after Digital Switch-over, Ofcom, 26 June 2007
Monthly total unduplicated unique visitors accessing news/information, Comscore, as accessed on 11 November 2010
Ofcom media tracker survey, 7 April 2010
Media Monitor Report, FD, 2010
A glimmer of hope for newspapers, McKinsey Quarterly, April 2010
Media's most trusted brands, Marketing, 4 October 2010
TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010
Quarterly listening figures, RAJAR, as accessed on 28 October 2010
Daily circulation figures, MediaTel (audited by ABC), as accessed on 10 November 2010
Digital Progress Report: Digital TV, Q2 2010, Ofcom, 7 October 2010
Newspaper Society Intelligence unit , 1 July 2010

Appendix 2 Consumer perceptions of news sources

A2.1 A survey conducted by You Gov for the Press Gazette in 2005 found that the BBC was by far the most trusted news brand with almost 41% of those surveyed naming its brand. The next tranche of most trusted brands (at around 7% each) were Sky News, The Daily Mail, The Guardian, The Daily Telegraph and The Times. The survey does not appear to have been updated, however and so we consider more recent data from other sources.

A2.2 In TV news, according to Mintel[48], the BBC is perceived to be authoritative, reliable, traditional, accurate and responsible. Sky is associated with attributes such as up-to-the-minute and innovative.

A2.3 Consumers also have positive perceptions about the BBC in radio news. In contrast, perceptions of the news coverage of commercial radio stations are relatively poor. While consumers consider the news coverage as entertaining, consumers consider them 'lightweight' and overly commercial.

A2.4 In online news provision, consumers perceive the BBC to have similar attributes as its TV and radio services. Online news sites of the major newspapers are also rated highly by consumers.

A2.5 In press, the Times has the most positive perceptions among consumers; it is seen as authoritative, traditional, reliable and responsible. In contrast, the Sun, while seen to be entertaining, is viewed as sensationalist, biased and lightweight.

A2.6 The survey also provides consumer perspectives by demographic groups. Examples include:

- *"the biggest fans of Sky's online news tend to be 45-54 year olds and higher earners";*
- *"the most hostile to the Sun's online presence are over 45s, ABs and higher earners";*

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48 Consumer Perceptions of News Media, Mintel, September 2010.

- For the Sun newspaper, "*those from the older 45+ age group are most likely to view its coverage as sensationalist, lightweight and biased*";
- The news content of the Times is seen as authoritative, traditional, reliable, accurate and responsible, attributes most likely associated with the brand, "*by older (45+) people and those from the AB socioeconomic group, reflecting the core of its readership*"; and
- *"Men are more likely than women to regard Sky's news content as trustworthy ... agreement peaks among 25-54 year olds ... it is concentrated among mid-market and popular tabloid readers".*

A2.7 The most trusted news media brands according to the Mintel survey are reproduced in Table A2.1.

Table A2.1 News media brands perceived as trustworthy

Brand	%
BBC TV	54
ITV	31
bbc.co.uk	29
Channel 4	24
Sky News	24
The Times	24
BBC Radio 4	20
BBC Radio 1	19
The Guardian	19
BBC Radio 2	18

Source: Consumer Perceptions of News Media, Mintel, September 2010.

A2.8 A recent survey conducted by Carat asks 11,000 consumers which media brands (rather than news brands) are the most trusted. As displayed in Table A2.2, the BBC scores the most highly. Specific news brands in the top 10 include the Financial Times, Times, Telegraph and The Guardian. TV channels ITV and Channel 4 also featured.

Table A2.2 Top 10 trustworthy media brands

Brand	Proportion (%)
BBC	46
Google	32
Amazon	27
Financial Times	24
Microsoft	24
The Times	23
ITV	22
Daily Telegraph	19
Channel 4	18
The Guardian	18

Source: Media's most trusted brands, Marketing, 4 October 2010.

Appendix 3 Data analysis

Introduction

A3.1 This analysis follows the approach taken by the CC in Appendix I to its report in the ITV/Sky case. Therefore, we analyse the consumption of news by media/platform, examine the news consumption habits of the proportion of UK adults that rely on Sky and News Corporation for news and identify any significant differences in behaviour across socio-economic group and nation.

Data

A3.2 Consistent with the CC, we based our analysis on TGI data. TGI is a quarterly survey run by Kantar Media with a total sample size of 28,265 adults (age 15+).[49] The survey was conducted between April 2009 and March 2010. This survey was not conducted for the purposes of informing this analysis.

A3.3 We used the questions asked in the TGI survey to identify active users of particular news sources or platforms. The definitions that we have used to define active consumption are contained in Table A3.1.

49 The TGI survey used to be run by BMRB, as indicated in Appendix I to the CC's report in the ITV/Sky case, however, following a restructuring within the Kantar Group, the TGI survey is now conducted by Kantar Media. Further, for the remainder of this section "population" refers to adults in the UK.

Table A3.1 Definitions of active use of particular news sources or platforms

Active use of media platforms	
Television	'I usually or sometimes watch news/current affairs on TV'
Radio	'I specially choose to listen to news/current affairs on the radio'
Newspapers	'I am very or fairly interested in reading newspapers for local news OR National news OR European news OR other foreign news OR business/company news'
Internet	'I visited a news website in the last month'
Magazines	'I am very or fairly interested in reading magazines for local news OR National news OR European news OR other foreign news OR business/company news'
Active use of specific media outlets	
BBC	'I specially choose to watch' BBC Six O'Clock News OR Ten O'Clock News OR The One O'Clock News OR BBC Eight O'Clock News summary OR BBC Breakfast'
ITV	'I specially choose to watch' ITV Evening News OR ITV Late Evening News'
Channel 4	'I specially choose to watch' Channel 4 News'
Sky News	'I watched Sky News today/yesterday'
Specific newspaper titles	'I read [Newspaper] almost always/quite often'
Specific internet news websites	I visited [website] today/yesterday'

Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.4 We have been very careful to use definitions of active use that are consistent with the definitions used by the CC in the ITV/Sky case as this can have a significant effect on the results.

A3.5 Further, country data is based on ISBA regions. Therefore, the figures for Scotland are the addition of "Central Scotland" and "Northeast Scotland" and the figures for Wales are equal to "Wales and West."

A3.6 The relevant sample sizes used in our statistical analysis are set out in Table A3.2 below.

Table A3.2 Relevant sample sizes

	Survey sample size	Sky/NI Overlap Group sample size[50]
Whole population	28,265	1,549
ABC1	13,832	846
C2DE	14,433	703
England	23,675	1,254
Scotland	2,562	180
Wales	2,028	115

Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

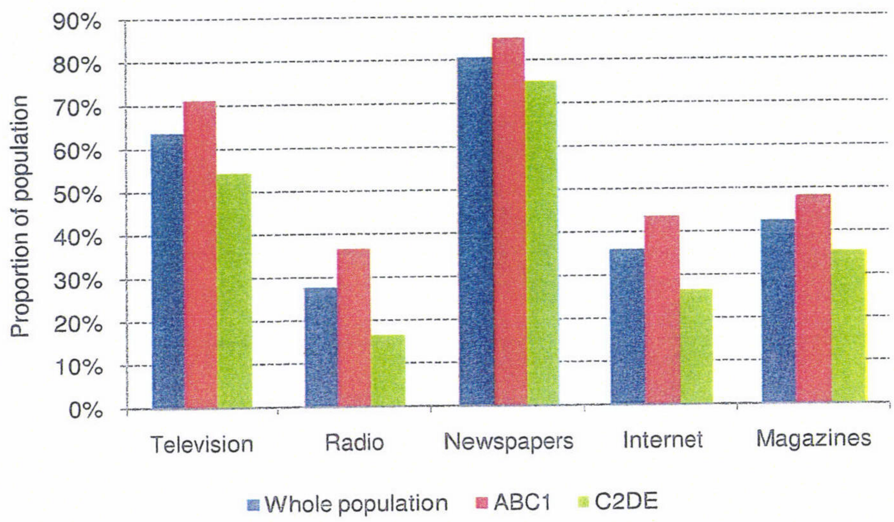
A3.7 Finally, we note, as does the CC in their report in the ITV/Sky case, that in a survey of this nature, there is a risk in artificially inflated responses as respondents may overstate their actual levels of news consumption because they feel they should be consuming more news.

News consumption

A3.8 Figure A3.1 below shows the proportion of adults in the UK who actively use television, radio, newspapers and the internet to receive news. Further, the figure also shows the results by socio-economic group. We will discuss significant differences between socio-economic group and nation further below.

50 We only use this sample size in Figure A3.11.

Figure A3.1 Proportion of the population who actively take news by platform by socio-economic group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.9 As can be seen in Figure A3.1, large proportions of the population rely on all major news platforms. Further, Figure A3.1 is very similar to Figure 4 in Appendix I to the CC's report in the ITV/Sky case. The only significant difference is the increase in the use of the internet which was approximately 21% and now exceeds 35%.[51]

A3.10 Figure A3.2 shows the number of different media platforms though which customers actively take news by socio-economic group.

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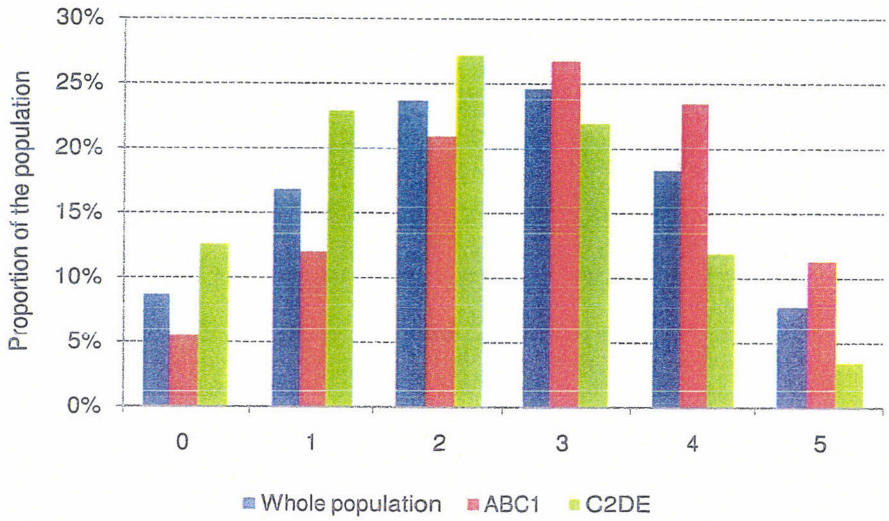
[51] Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: Appendix I, Figure 4; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

Figure A3.2 Number of different media platforms through which customers actively take news by socio-economic group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.11 Figure A3.2 shows a significant increase in the number of different media platforms through which customers actively take news when compared to the corresponding figure in Appendix I to the CC's report in the ITV/Sky case. The proportion of UK adults who use 3 or more media platforms has increased from approximately 35% to more than 50%.[52]

A3.12 As discussed in Section 5 above, an increase in the number of different media platforms through which customers actively take news will, all other things equal, correspond to an increase in cross-media plurality.

Major platforms through which news is consumed

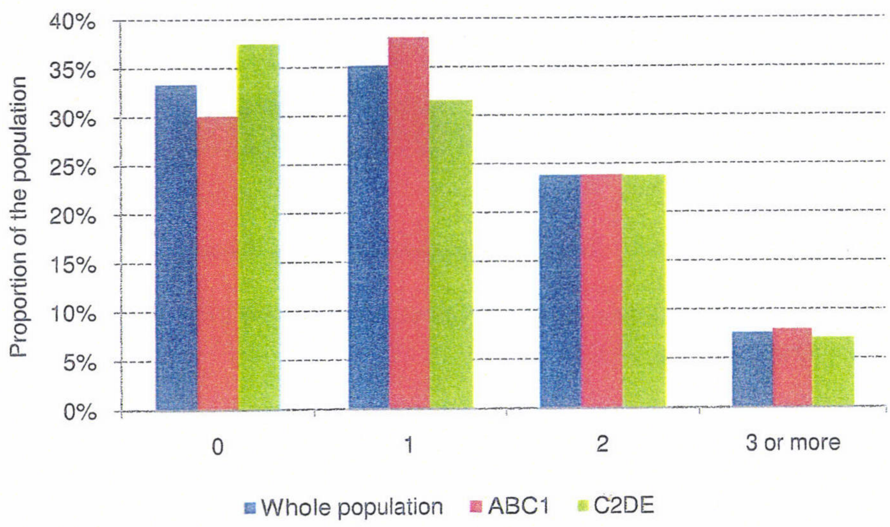
A3.13 Television and newspapers are major platforms through which news is consumed and they directly relate to the parties involved in the Transaction. Therefore, we examine

52 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: Appendix I, Figure 5; TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

these platforms more closely in this section. Further, we note that the importance of newspapers in news consumption is declining.

A3.14 Figure A3.3 below shows the number of different channels on which UK adults actively watch television news by socio-economic group.

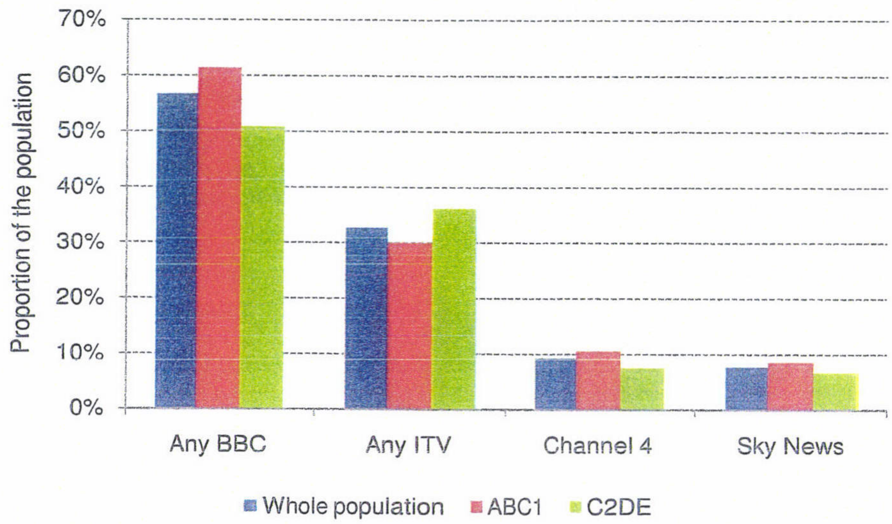
Figure A3.3 Number of different channels on which UK adults actively watch television news by socio-economic group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.15 Figure A3.4 below shows the specific channels on which UK adults actively use television news by socio-economic group.

Figure A3.4 Active television news sources by socio-economic group

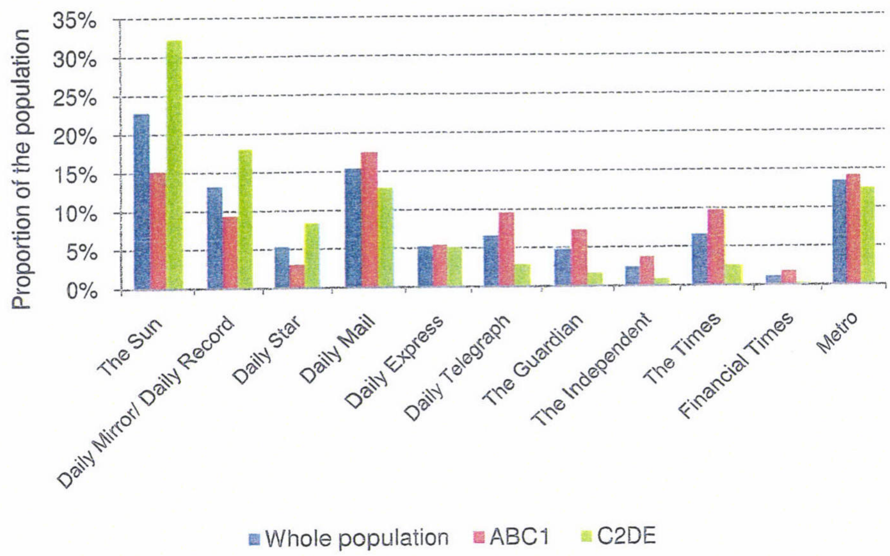


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.16 We note that Figure A3.3 and Figure A3.4 are broadly similar to Figure 6 and Figure 7 in Appendix I to the CC's report in the ITV/Sky case. Further, the proportion of people who actively watch any BBC television news may have increased since the ITV/Sky case was investigated.

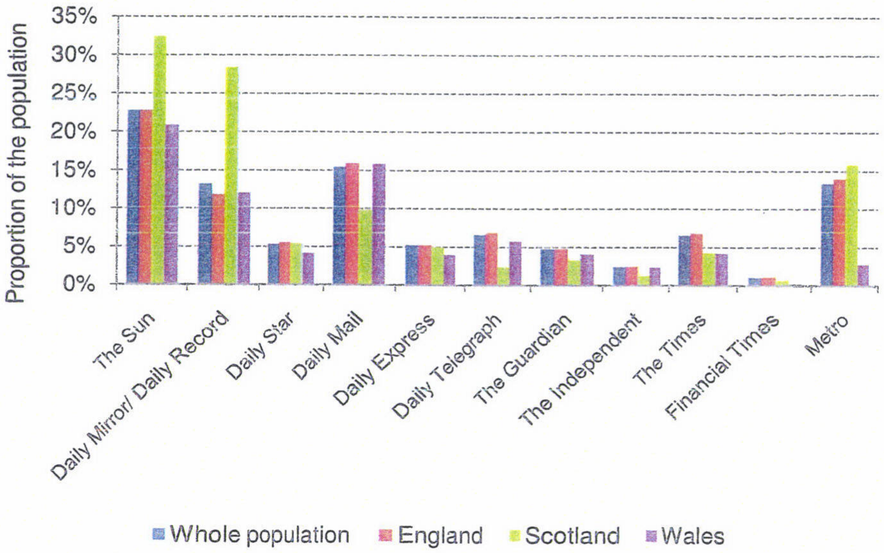
A3.17 Figure A3.5 and Figure A3.6 show the proportion of the population that actively read daily newspapers by socio-economic group and nation.

Figure A3.5 Active readership of daily newspapers (Monday to Friday) by socio-economic group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

Figure A3.6 Active readership of daily newspapers (Monday to Friday) by nation

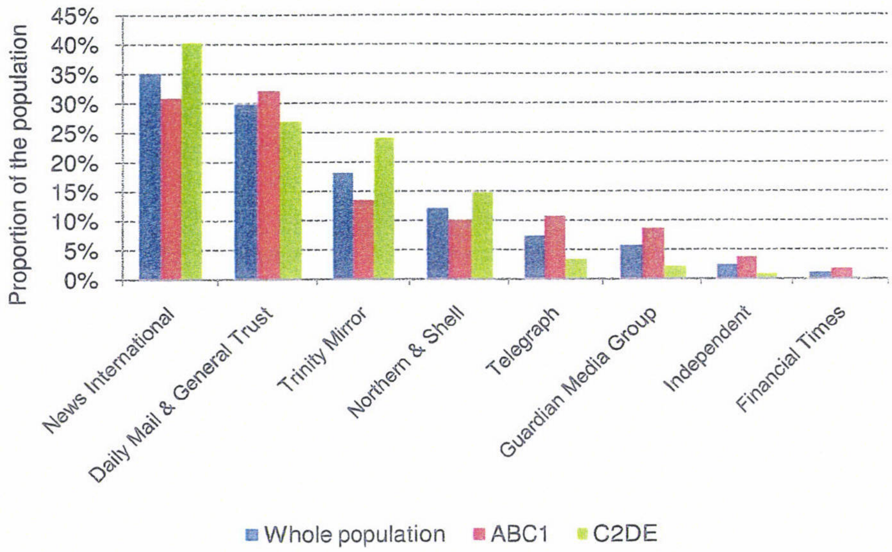


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.18 We note that Figure A3.5 and Figure A3.6 are very similar to Figures 8 and 9 in Appendix I to the CC's report in the ITV/Sky case. The proportion of UK adults who actively read The Sun and Metro appears to have increased slightly.

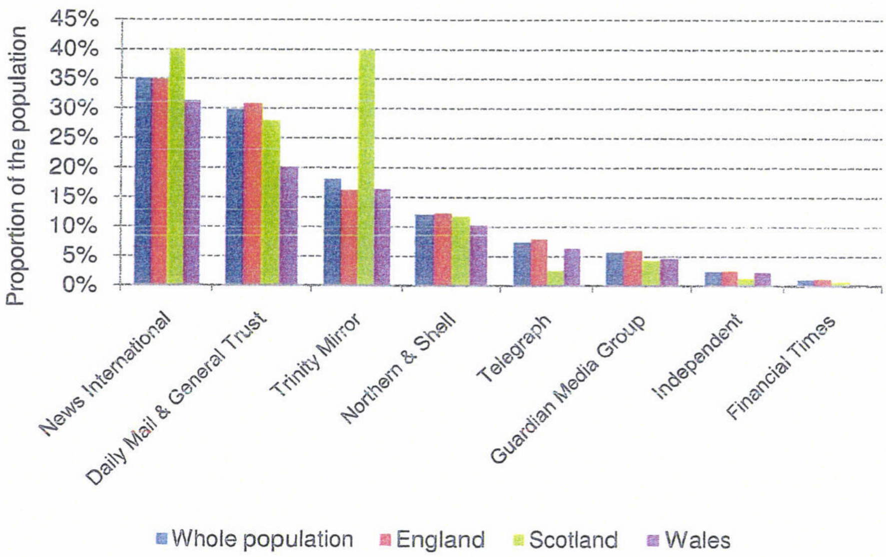
A3.19 Figure A3.7 and Figure A3.8 below shows the proportion of the population who actively read at least one newspaper from each of the main media groups by socio-economic group and nation.

Figure A3.7 **Proportion of the population who actively read at least one newspaper from each of the main media groups by socio-economic group**



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

Figure A3.8 Proportion of the population who actively read at least one newspaper from each of the main media groups by nation



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.20 By comparing Figure A3.7 to Figure 10 from Appendix I to the CC's report in the ITV/Sky case one can see that all media groups have seen a decline in the proportion of UK adults who read at least one newspaper from their group.

Significant differences in news consumption among socio-economic group and nation

A3.21 The above figures in this appendix bear a striking resemblance to those contained in Appendix I to the CC's report in the ITV/Sky case and we have tried to comment on the relatively few differences. That being said, in this section we will discuss some statistically significant[53] differences in news consumption behaviour among socio-economic groups and nations.

A3.22 Regarding general news consumption, the ABC1 socio-economic group tend to actively consume more news, while the C2DE socio-economic group tend to actively

[53] Two-sided $\alpha = 5\%$. Therefore, each tail area equals 2.5%.

consume less news, both by media platform and by number of media platforms used. See Figure A3.1 and Figure A3.2 for more information.

A3.23 Regarding the major platforms through which news is consumed; the ABC1 socio-economic group tend to actively watch more of the BBC, Channel 4 and Sky News and less news on ITV whereas the C2DE socio-economic group actively watches more news on ITV and less news on the BBC, Channel 4 and Sky News. See Figure A3.4 for more information.

A3.24 Further, the C2DE socio-economic group and Scotland tend to actively read at least one News International newspaper in a higher proportion than UK adults as a whole. See Figure A3.7 and Figure A3.8 for reference. This may be due to disproportionately high number of active readers of The Sun in both groups as can be seen in Figure A3.5 and Figure A3.6.

A3.25 In the ITV/Sky case, the CC concluded that "whilst viewing shares and readership vary somewhat by socio-economic group, there are no fundamental differences in the significance of ITV, Sky and News International to particular sections of the UK population. Nor did we find any fundamental differences in the significance of ITV, Sky and News International between nations within the UK."[54]

A3.26 We have identified no significant differences in news consumption among socio-economic groups or nations since the CC report in the ITV/Sky case. Therefore, we uphold their conclusion. That is, we conclude that there are no fundamental differences in the significance of Sky and News Corporation to particular sections of the UK population or nations within the UK.

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54 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: paragraph 5.50.

Size of the population affected by the Transaction

A3.27 Using TGI survey data we calculate approximately 4% of UK adults actively watch Sky News and actively read News International newspapers.[55] Further, approximately 0.2% of UK adults actively watches Sky News and actively read News International newspapers and does not take news from any other source.

A3.28 We calculate 6% of UK adults actively watch Sky News or actively visit SkyNews.com and actively read News International newspapers or actively visit News International websites (the "Sky/NI Overlap Group"). Approximately 96% of the Sky/NI Overlap Group relies on other news sources in addition to the Sky and News International news sources. Therefore, 0.3% of UK adults actively watch Sky News or actively visit SkyNews.com and actively read News International newspapers or actively visit News International websites and do not take news from any other source.

A3.29 These results are similar in magnitude to the findings of the CC in the Sky/ITV case. In the Sky/ITV case the CC concluded that "no more than 1 per cent of the population, and quite possibly less than this fell into this category [individuals within the UK population who currently took news from ITV and BSkyB and/or News International but from no other source]."[56]

A3.30 Figure A3.9 below summarises the proportion of UK adults who would be affected by the Transaction.

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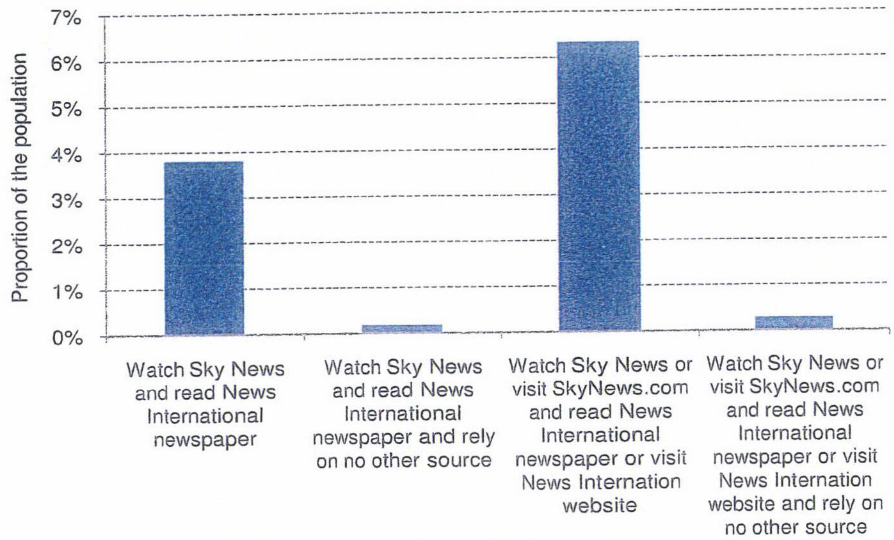
55 To confirm our approach we recalculated the proportion of the population who actively watch news on ITV and either actively read News International newspapers or actively watch Sky News. We calculated that approximately 15% of UK adults fell into this group whereas the CC calculated 16%. This small difference is consistent with developments since the ITV/Sky case (i.e. an increase in the number of news sources/platforms being used). Therefore, we are confident our approach is consistent with the CC's approach in the ITV/Sky case.

56 Acquisition by British Sky Broadcasting Group plc of 17.9 per cent of the shares in ITV plc, Competition Commission, 14 December 2007: paragraph 5.51.

Figure A3.9 Proportion of UK adults affected by the Transaction

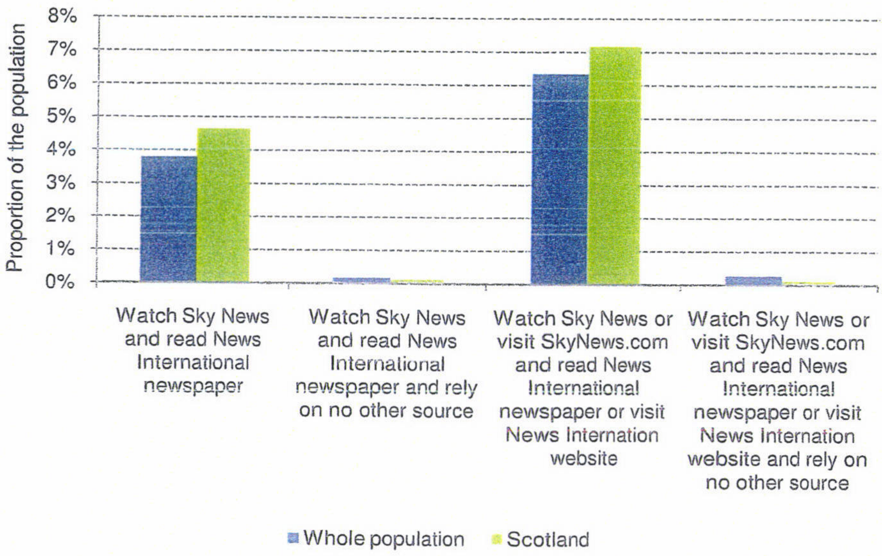


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.31 We note that a disproportionately high proportion of adults in Scotland actively watch Sky News and actively read News International newspapers. However, the proportion of Scottish adults who actively watch Sky and News and actively read News International newspapers and rely on no other source is *not* statistically different from the proportion of UK adults who fall into the same group.

A3.32 Further, we note that the proportion of Scottish adults who fall into the Sky/NI Overlap Group and rely on no other news source is statistically significantly *lower* than the proportion of UK adults who fall into the same category. Please see Figure A3.10 for more information.

Figure A3.10 Proportion of UK adults and adults in Scotland affected by the Transaction

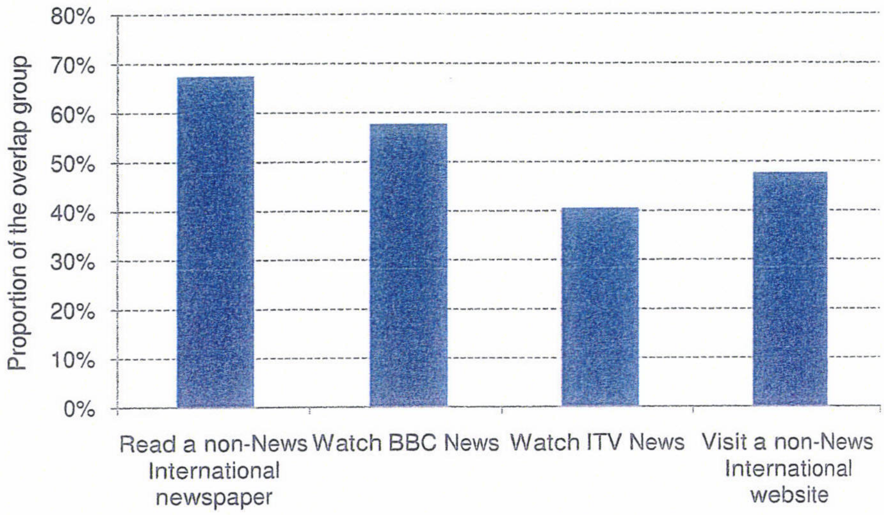


Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.33 Therefore, we conclude that no socio-economic group or nation would be significantly disproportionately affected by the Transaction.

A3.34 Figure A3.11 below shows the news consumption behaviour of the Sky/NI Overlap Group.

Figure A3.11 News consumption behaviour of the Sky/NI Overlap Group



Source: TGI survey data, survey conducted between April 2009 and March 2010, as accessed 12 November 2010.

A3.35 Figure A3.11 shows that nearly 70% of the Sky/NI Overlap Group (including online, i.e. 6% of the population) actively read a non-News International newspaper, nearly 60% actively watch BBC News, approximately 40% actively watch ITV News and nearly 50% actively visit a non-News International website.

Robin Foster, Tim Suter & Robert Kenny

Past and future trends in plurality and the setting of the news agenda

23 November 2010

PERSPECTIVE

Contents

1. Introduction

The Secretary of State for BIS has asked Ofcom to report on the media plurality impact of a potential acquisition by News Corp of the shares of BSkyB it doesn't already own. Against this background we have been commissioned by Hogan Lovells on behalf of News Corp to provide a commentary on:

- How the news agenda is in practice set in the UK market
- Trends in UK media plurality, and in particular news plurality, since the Communications Act of 2003
- How the UK market is likely to develop in the coming years.

Note that an analysis of the current level of plurality of consumption is outside the scope of this paper, but we understand a parallel report on this topic has been prepared by FTI.

In writing this report we have drawn both on desk research and our extensive experience of the UK media market. Robin Foster and Tim Suter were formerly Ofcom partners with responsibility for strategy and content respectively. Robin Foster, Tim Suter and Robert Kenny have worked on consulting projects for a very wide range of UK media clients, including Ofcom, the DCMS, the BBC, the BBC Trust, the Newspaper Society and BSkyB.

2. Executive summary

Against the three areas of scope for this report, our conclusions are as follows:

The setting of the news agenda

TV news operates under a requirement of impartiality. However, for some commentators this has left a concern that a broadcaster might seek to influence opinion via careful choice of stories covered. Thus the ability of a broadcaster to pursue an independent news agenda, and (potentially) to influence the agenda of other outlets is a key consideration.

We focus on Sky News, since this is the outlet that is subject to speculation that it might see a change in its output. We find that TV news operates under a range of practical constraints that make it very difficult to alter the news agenda of a given outlet in such a way as to have material impact on plurality. In particular:

- Audiences have very particular expectations of TV news, which is a powerful force for similarity between outlets
- Much of the TV news agenda is driven by events of the day and access to shared news gathering resources
- Impartiality requirements are important constraints, since they influence story choice as well as how stories are treated
- For areas where plurality is most important (for instance election coverage), it is inconceivable that a broadcaster would choose not to provide coverage, and once covering a story, impartiality binds
- TV news rooms have their own particular ethos, and the imposition of a newspaper approach will be difficult (and past transfers of senior newspaper staff to BSkyB have generally been unsuccessful)

Hypothetically, even if Sky News' output was altered, the combination of BSkyB and News Corp would still be most unlikely to materially alter the wider news agenda:

- There are numerous fierce competitors of News and BSkyB. The BBC in particular is a powerful independent voice; with secure funding, a substantial audience lead in each of TV, radio and online news; and a very high reputation with consumers. It is most unlikely to become a follower of a News Corp/BSkyB news agenda
- Sky News (the entity whose output might theoretically change as a result of the transaction) only has a 6% share of TV news consumption, suggesting limited ability to influence third parties
- News Corp/BSkyB outlets do not represent a particularly important source of stories for other outlets. For example, our research showed Reuters sourced as many stories from Al Jazeera as from Sky News
- Consumers are increasingly consuming news from specialist and international outlets that are all the less likely to be influenced by a change in news agenda at one generalist, UK outlet

Therefore there are substantial practical, cultural and regulatory constraints on the ability of a unified News Corp and BSkyB to materially alter Sky News' output, and even if this were possible, there are substantial further barriers to this having material impact on the news agenda of third parties.

Trends in plurality since the Communications Act of 2003

We find that there has been an increase in both plurality of provision and consumption since 2003. There has been an increase in the range of choice of TV news, and thanks to the rise of digital TV, many more households have access to that wider range. More importantly the internet has had a transformative effect. Many more people are online, and the news consumption of those online is up significantly compared to 2003. Moreover, online consumers are using a range of news sources dramatically greater than that used by a typical news consumer in 2003.

As of 2009 TV remained the most important source of news for consumers, it is predicted that internet will shortly overtake newspapers (and indeed may already have done so). This marks a shift from a media with less plurality of individual consumption to a media with more (since most consumers only take one newspaper, if any), and shift away from areas where News Corp and BSkyB are relatively strong to areas where they are relatively weak.

Thus plurality has risen appreciably since 2003, and News Corp and BSkyB's 'share of news voice' has fallen. This makes it much less likely that the transaction in question would reduce plurality to the level of the market in 2003, and it would seem unreasonable to reject a transaction that left plurality at a level higher than that that existed at the time the requirement was created.

Future developments in the UK market

While there are a variety of possible scenarios for the development of the UK media market, there is consensus amongst commentators on a number of points:

- Convergence will continue, with what were once entirely distinct media sectors (TV, radio, newspapers and so on) increasingly being consumed via a single platform, the internet. As high speed broadband rolls out, the migration of TV online will accelerate. This will bring increased competitive intensity
- We are at the beginning of a surge of consumption via mobile devices, which will bring the dynamics of plural, on-line consumption to areas (particularly out-of-home) that were previously the domain of paper based formats
- Consumers will be ever more active both in customising their own personal agenda (via news search, alerts and so on) and in influencing the wider news agenda (via Twitter, YouTube, blogs and on the like)

All these trends point to a continuation of the increase in plurality, particularly plurality of consumption, and also a continuation of the trend of declining 'share of voice' for News Corp and BSkyB. In our view this makes it hard to make the case for intervening in the market now to pre-empt a hypothetical future threat to plurality, given that the wider context is of generally increasing plurality and a weakening of the influence of News Corp and BSkyB.

Conclusions

No full assessment of the sufficiency of plurality is complete without an analysis of the size of the audience that is dependent on both News Corp and BSkyB for all its news. This analysis is outside the scope of this paper, though we understand the size of this audience to be very small.

However, we believe for each of the individual issues we have examined, the evidence suggests that there will not be a material impact on plurality, and that in aggregate across these issues the case is even stronger.

3. The objectives and challenges of regulating for plurality

The case for plurality was well put in the House of Lords Communications Committee first report (11th June, 2008):

> *"There has always been a broad political consensus in the UK that ownership of the media should be considered separately from ownership of other assets. In 2001, the Government published a consultation paper on media ownership in which it was stated that "A healthy democracy depends on a culture of dissent and argument, which would inevitably be diminished if there were only a limited number of providers of news". This was a sentiment shared by the previous Conservative administration "A free and diverse media are an indispensable part of the democratic process. They provide the multiplicity of voices and opinions that informs the public, influences opinion, and engenders political debate. They promote the culture of dissent which any healthy democracy must have. If one voice becomes too powerful, this process is placed in jeopardy and democracy is damaged". It is also a view of the competition regulator. The Competition Commission stated in written evidence to us that "Whether or not they raise competition concerns, certain mergers raise public interest considerations. Media mergers in particular may raise plurality concerns because they might concentrate newspaper and other media ownership in too few hands, to the detriment of the quality of journalism and broadcasting."*[1]

As a policy goal, therefore, plurality is primarily required to ensure that no single voice can control the news agenda, stifle debate or allow government, or indeed other powerful players, to escape scrutiny.

The existence of the specific test that Ofcom is now being asked to apply can be traced back to the debates in the House of Lords during the passage of the Communications Act, where concern about plurality was expressed in very similar terms to the recent debate earlier this month[2].

The test is expressed in the Communications Act as:

> *"the need, in relation to every different audience in the United Kingdom or in a particular area or locality of the United Kingdom, for there to be a sufficient plurality of persons with control of the media enterprises serving that audience"*

Clearly, the test is designed to capture issues other than those that are covered by competition inquiries into market concentration. The analysis has to encompass also the capacity of the newly created entity to unacceptably influence public debate quite separately from any competition issues.

Equally clearly, the test requires more than a simple headcount of persons with control, not least because a reduction may have no impact whatsoever on whether there is *sufficient* plurality, if the starting point is ample plurality. However, the pattern of market consumption also is relevant. Consider the following illustrative scenarios:

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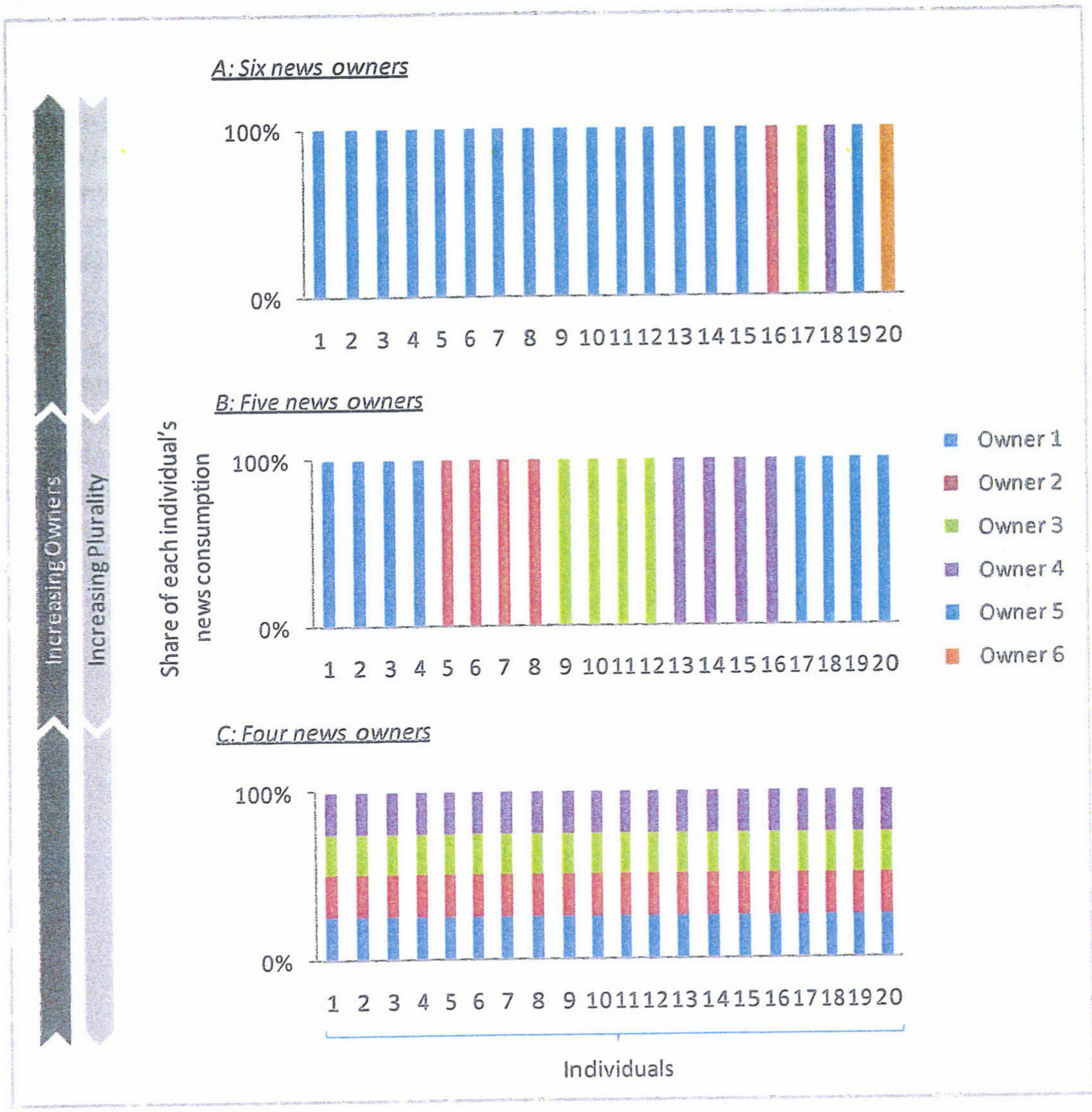
[1] http://www.publications.parliament.uk/pa/ld200708/ldselect/ldcomuni/122/12202.htm: chapter 5. Footnotes removed

[2] 4 November 2010

Figure 1 Illustrative scenarios of news consumption



In Scenario A there are six news providers, but Owner 1 clearly dominates, and might well control the news agenda. In scenario B, there is one fewer news owner, but given that the remaining owners have equal share, there is far less chance that any one owner can dictate the news agenda or push his own perspective unimpeded. In scenario C there are even fewer owners – only four. However, this is the most plural scenario of all. Each individual consumes news from multiple owners ('plurality of consumption'), and is able to make up their own mind based on a spectrum of opinion. Thus in this illustration the scenario with fewest owners is the most plural and vice versa.

This is more than an artificial construct. As we will see, one of the important features of online consumption is that (in terms of individuals' consumption) it looks much more like Scenario C than B, and thus even if it didn't increase the number of media owners (in fact it does) it would nonetheless increase plurality.

This means that the application of the plurality test needs to take into account a wider set of reflections, relating directly to the capacity of any organisation to influence public debate. In practical terms therefore, the assessment needs to assess the different impact of different media, and the constraints as well as the freedoms that they have to create a uniform approach to news and public discourse.

It must also balance consideration of availability alongside patterns of actual consumption: the fact that people choose to consume news services which take a similar editorial line is not in itself evidence of a problem with plurality if services offering alternative viewpoints are freely available. In this context, and to a degree that is not matched in competition assessments the role of the publicly funded BBC is critical, since its capacity to deliver high quality impartial and comprehensive news is crucial to the shape of the wider broadcast news market.

We must also understand that, in the context of today's developing media, plurality is a fluid notion. We are no longer assessing broadly comparable media organisations operating in broadly similar ways with broadly similar types of outlet: we are increasingly dealing with services that are sharply differentiated in both the type of content they specialise in, the specific audience they seek to address, and the disproportionate impact (when their size and resource is compared to "traditional" news media) that they can have on the wider news agenda.We now turn our attention to how, in practice, the news agenda is set and the constraints on any one organisation in the wider market and regulatory context.

4. Setting the news agenda

Might a single owner have the ability to drive a particular point of view, both by promoting an editorial stance of their own, and by starving the audience of a wider range of voices and opinions? Consideration of the question of influence on the news agenda, following the distinctions that were helpfully drawn by the CC in their consideration of BSkyB's acquisition of a stake in ITV, needs to be split into two:

- First, the ability of News Corp to drive a single news agenda within all its news outlets – which is of specific relevance to the very small percentage of viewers who are reliant solely on News Corp and BSkyB for their news now, and for whom in theory therefore the transaction could result in a more narrow news agenda
- Second, and notwithstanding the availability (see later sections in this report) of a wide range of news providers, the ability of the combined "shelf space" of News Corp and Sky News nevertheless to affect the wider news agenda of other media organisations such as to have a material effect on a wider range of audiences

As we discuss, there are a range of constraints, internal and external, formal and informal, that will in practice have the effect of making day-to-day influence more difficult.

General drivers of the news agenda

Over and above the press of both calendar – budgets, summit meetings - and breaking stories which every news organisation will want to reflect, there are a number of vital ingredients in the setting of a news agenda:

- *The selection of stories and editorial decisions about the issues to cover.* Conventional media are limited in the space available for stories, and will always need to choose, not only what stories to cover, but also the degree of prominence to accord them – their position in the paper or the running order, the length or duration of the coverage, and the amount of resource devoted to the story
- *The balance of reporting and comment.* Not every story that a news provider covers in one of their titles is going also to be the subject of editorial comment. Decisions taken about the subjects to focus on give shape to the editorial stance that news providers take on particular issues of the day, and are therefore instrumental in setting the context for their own coverage
- *The original source of the story.* All news providers value their own original journalism: breaking a significant story, either through their own investigative journalism or by being recipients to the revelations of others, gives a news organisation real edge in driving the news agenda – sometimes only briefly, but sometimes, as with the recent case of MP's expenses, for a considerable time and to very widespread effect
- *The degree to which the story is already a matter of controversy.* Clearly, breaking news essentially sets its own agenda – the Chilean miners were a story no news provider could ignore. But even in matters of political controversy, there is a momentum to events that news providers cannot ignore, and where they will end up essentially following a news agenda that is imposed upon them.

In other words, there are a broad range of factors that drive news agendas. As a consequence, although often the big stories of the day will be covered across all news outlets, the degree of emphasis they are given and the range of accompanying stories will differ. News agendas can vary widely, even within a single organisation, driven (for instance) by different target audiences of different outlets. A news organisation that produced identikit product under different badges would be much more likely to cannibalise its own customers rather than winning or retaining share from competitors.

The issue at stake here is not the ability of a news organisation to develop its own news agenda: it is impossible for any news organisation not to have one, even where it is not seeking to exploit a particular editorial position through it. Instead, the issue is the capacity of a cross-media organisation to homogenise its news agenda to the extent that it unacceptably narrows the range of voices and opinions heard by its audience.

We focus our analysis on the impact on viewers to Sky News, since it is the issue of Sky News' output becoming opinionated and partial in its presentation that has raised concern. There could be no material change to the news agenda set for readers of News Corp titles, which are not changing hands as a result of this transaction.

Cross-media news agenda setting within News Corp and BSkyB

Albeit small, there is nevertheless a proportion of the audience (0.2% of the population[3]) that consumes Sky News and News Corp newspapers and no other TV news or newspapers. For this group, therefore, it is possible to conceive that a single editorial line extended from the print titles could represent a significant change to the balance of news and opinion that they were receiving.

In effect, however, we believe there are five important constraints that make such influence impractical.

Constraint 1: Audience expectation and experience

UK viewers to television news bring with them specific expectations about what television news is and how it will be delivered.

The "look and feel" of television news

The majority of news viewing is to the main terrestrial channels, who therefore exercise significant power over the "grammar" of television news: the way stories are constructed, the balance of studio to film, even the typical running order.

Content analysis shows that there is a surprising lack of diversity in the treatment of stories, or the construction of bulletins and news schedules. This is not driven by any requirements about impartiality or constraints on the expression of views: this is simply the effect of audience expectation about how television news operates and what it looks like.

Ofcom's content analysis of PSB news bulletins (for *New News, Future News*) found:

> *"On the whole, key stories across the period appear to be treated with similar prominence by all channels. Some significant international stories - including the situations in Iraq and Afghanistan – were generally towards the top of the news agenda. And although there were differences between channels about which story was the 'lead', it was often the case that – whatever the precise order – the top three stories were consistent across the broadcasters"*[4]

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[3] FTI analysis. Some of this group may receive radio news from other sources

[4] Source: Ofcom "New News, Future News" annexes, 3.14

Audience expectations of balance and impartiality

As well as determining the look and feel of television news, the context also shapes the audiences' expectation about the balance of views they expect to see represented. Audiences to television news expect it to deliver impartial news and measure the performance of a news channel against an impartiality yard-stick: Ofcom's research for its review of the future provision of news showed that 87% of audiences thought it important to deliver television news impartially, and an even higher percentage (93%) gave the same importance to the accuracy of television news[5]. UK TV audiences have shown little interest in more opinionated news – Fox News achieves average audiences of 740 people for instance (compared to an average audience of approximately 57,000 for Sky News)[6].

But while TV audiences may insist on impartiality, these same people nevertheless widely expect to consume opinionated news from other providers, such as newspapers – and who indeed choose their newspaper based on its editorial stance.

Cost of television newsgathering

Audiences do not look to television news for comment and opinion: instead, they look to television news to deliver authenticity and immediacy. The authority of the major news bulletin is supplemented by the "liveness" of witnessing real events. This in itself can impose a "sameness" on both agendas and treatment.

The costs of television news production have fallen over recent years with the introduction of lighter equipment, multi-skilling of journalists to serve as their own cameraman and the availability of cheaper satellite communications to file from remote parts of the world. Nevertheless television news remains a costly enterprise. Significant resource is needed to cover major incidents or stories: not only will this therefore "tie up" resource available to cover other stories, and drive decisions about the amount of coverage to give; it also leads to practical co-operation on the ground between news organisations – pooling production resource, pictures and satellite up-links. This naturally drives the agendas of television news closer together – pursuing an individual agenda is a more costly business.

Newspapers clearly value their ability to report on the ground from major stories, and the individual insight that their own journalist can bring through their reporting. But the added value of a print medium is rarely in the immediacy of witness, which television viewers expect, but rather in the summarising of a story, and the comment and context the newspaper can give it.

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[5] Ofcom, *New News, Future News*, Figure 5.4, p 65

[6] Source: BARB, Jan to Nov 2010

The life cycle of a news story

A typical news story cycle can have three main components:

News – coverage of breaking events, witness and first hand reporting	*Analysis – placing the story in wider context, providing an up-sum of events to make sense of an unfolding narrative*	*Comment – taking the analysis and placing it within a specific political, social or economic point of view*

Television news is prized for its ability to deliver the first: the immediacy of the pictures, live 2-way's from the scene etc. it is also true that different bulletins will concentrate on a different balance of stories, catering to the interests of the different audiences available.

Television news also extends into the second phase, typically in stories or issues with a longer narrative and which therefore repay investment in either more complicated packages (commissioning graphics, background interviews with experts) or less audience friendly formats (talking heads in a studio)

Newspapers derive their added value differently. Like other organisations, titles may chose to focus on different kinds of story – either across the paper as a whole or in individual specialised sections: but much of their added value is also derived from the way they can extend into the two right hand columns. While there is clearly a role for a newspaper to deliver a far wider range of stories than a television news bulletin their point of difference lies in the analysis and comment that they bring to bear

In this context it is worth noting the importance attached by viewers to what they see as Sky News' particular point of difference: their speed and accuracy with breaking news[7]. Breaking news is inherently less open to any form of editorial bias, since it is based not on (potentially) opinionated talking heads, but rather primarily on the camera pointing at the developing story and the reporting of unvarnished facts as soon as they are available.

Constraint 2: Impartiality requirements of broadcast news

It is widely, and rightly, observed that, television news is required to observe "due impartiality" in its coverage of matters of political or industrial controversy, or matters relating to current public policy. Indeed, the Broadcasting Code requires impartiality in terms of news presentation, and breach of this code on a regular basis could result in the loss of the broadcasting licence[8].

Critics assert that this provision has limited bearing on the news provider's original choice of stories. The concern, therefore, is that, while the broadcast operations may be impartial in what they actually broadcast, they will nevertheless pursue an editorial agenda by virtue of the stories they chose to cover. However, impartiality is not only a test for individual stories – it does also constrain story choice. A broadcaster who only reported the scandals of party A and did not mention the scandals of party B would be in breach of the impartiality requirement. Thus there are in fact regulatory fetters on the news agenda.

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[7] Mintel report, *Consumer Perceptions of News Media*, September 2010: p 31

[8] We note, for example, that Bloomberg TV was reprimanded for breach of Ofcom rules during the 2005 UK General election after being found to have shown pro-Labour Party bias

Even setting aside the regulatory constraints, the risk that, as a result of the transaction, the combined entity would be able to avoid impartiality rules by virtue of its ability to set its own story agenda is greatly overstated.

As we have already discussed, plurality matters because of the availability it guarantees to citizens of a range of voices and opinions on matters of democratic and social importance. Concern would be wholly legitimate if the transaction narrowed the range of views in relation to broad political debate, by promoting a single political view, especially in an election period; or if matters of major political controversy, such as the decisions about the appropriate relationship between the UK and the European Union, or the coverage of immigration were subjected to a single interpretation; or if matters bearing directly upon the security of the state, for instance at time of conflict and war, were not held up to adequate scrutiny.

However, simply stating the areas where there might be legitimate concern demonstrates how unlikely it is that a proprietor could influence the agenda by simply forbearing to cover the topic; but that would be the only option available to them under the current regulatory regime. From the moment they chose to cover a controversial subject, they are bound by the impartiality rules to offer a range of viewpoints and to balance views either within individual programmes or across range of programmes. Crucially, no matter what views they represented in their programmes they are not permitted to use their broadcast outlet as an opportunity for airing the views of the owner.

Indeed, in its investigation into BSkyB's purchase of 17.9% of ITV Plc, the Competition Commission noted that they:

> *"... received no evidence from third parties to suggest that senior executives at BSkyB or its parent companies exerted influence on the Sky News agenda"*[9]

There is one area where broadcasters are given greater licence to express their own opinions, and that is in relation to matters that directly bear upon their own provision of television and radio programmes[10]. Importantly, however, the carve out is very specific: it does not relate to the provision of news and information by the provider of the news service, but only to the provision of television and radio programmes. It would therefore not be possible to use this provision to comment on any issue of commercial or business relevance to News Corp except and only to the extent that it related to the provision of their broadcast programmes.

The effect of the impartiality provisions is therefore not as limited as critics have chosen to portray them. The issues where the news agenda is most controversial and matters most are not those which are likely to be influenced by a policy of silence – declining to cover an election, for instance, is inconceivable. But once a topic is covered, the impartiality rules bind.

Constraint 3: The wider impact of the Broadcasting Code and other broadcasting regulation

All television news services are required to abide by the Ofcom Broadcasting Code. This contains strict requirement for impartiality, as already discussed: but it also makes other requirements of the broadcaster:

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[9] Competition Commission report into BSkyB/ITV, Paragraph 5.57

[10] Communications Act 2003, section 320 (3)

- News must be presented "with due accuracy" (Rule 5.1)
- Views and facts must not be misrepresented and must be presented with due weight over appropriate time-frames (Rule 5.7)
- Personal interests of presenters or reporters which might affect the impartiality of their presentation must be made clear to the audience (rule 5.8)
- No undue prominence must be given to the views of any particular person or body on matters of particular public controversy (Rule 5.13)

Taken together, these rules not only significantly restrict the room for a broadcaster to treat controversial subjects impartially: they also, in practice, have a constraining effect on the integration of news operations.

Journalists who file stories from a particular angle for inclusion in a print outlet will find themselves required to report the story in a different way for their broadcast transmission: apart from the practical problems involved in filing the same story in two quite different ways, the individual journalist or presenter could face the problem of having their public persona as presented through their print outlet in conflict with their on-screen presentation.

Trevor Kavanagh – the former political editor of The Sun and one of its star commentators – could be used by Sky News to comment on stories, provided his views were balanced by the inclusion of other views. However, if he were used to present programmes, he would either have to present them in such a way that he did not air his own views (thus at odds with his print role) or, if he used the programmes to air his own views, then these programmes would themselves need to be balanced by other programmes of equal prominence airing alternative viewpoints.

Constraint 4: Pressures to preserve quality in broadcast news

It is important to differentiate between concerns about making the news more partial and opinionated in order to drive a particular point of view or political stance: and concerns about a narrowing or coarsening of the news agenda such that stories of weight and substance traditionally covered by broadcast news services – including, for instance, a greater volume of foreign reporting, or deeper analysis of economic and business news – may be reduced in favour of stories pursuing a more populist agenda (e.g. entertainment and celebrity news).

This does not appear to be central to the concerns of those who have expressed reservations about the current proposed transaction. This may be in part because it is already recognised that individual news programmes may well pursue an agenda that is to some degree tailored to the interests of the audience available, or choosing, to view at that time. Early evening news bulletins already have a different agenda from later evening bulletins, and different services, with very different demographic profiles, already present news in very different ways.

Ofcom is also required to ensure that the news offered by television licensees is of "high quality". It is for Ofcom to decide how it best proposes to enforce this: it if it considered that too high a proportion of time was being devoted to celebrity and "showbiz" news, it would presumably be because it was in conflict with the quality obligation – and Ofcom would therefore presumably expect to take corrective action.

Constraint 5: 'Internal' constraints

The individuals already working in a news room represent a certain cultural approach to news that is not easy to change, and this represents an internal constraint on radical change.

For instance, there have been attempts to make more tabloid television news in the past, but these have not been particularly successful. High profile recruits from the newspaper industry – Kelvin McKenzie, Nick Ferrari, both highly successful and opinionated journalists from The Sun – did not have the impact on television broadcast news that many feared they would have.

Although anecdotal, this nevertheless suggests that, even where one might expect a news agenda to be driven in a very different direction, there is something inherent in the difference between television and newspaper news operations in the UK that makes such integration of styles difficult to achieve.

This may in part be because of where television news operations have tended to recruit their staff. Television news operations recruit young journalists who have been trained on local and regional newspapers – although with the decline in the commercial fortunes of the regional press, it is becoming a less secure source for well-trained journalists. However, the exchange between national newspapers and broadcast news is much more rare. Television news, with its different technical and logistical sills, tends to recruit from within itself, rather than looking to Fleet Street. For example, when considering the current Sky News editorial team, all but one has a broadcast background.

Figure 2 Overview of current Sky News editorial team

	Position	Previous employers	Background
Sophie Turner Laing	Managing Director, Entertainment & News	BBC, Flextech, Henson International Television	Broadcast
John Ryley	Head of News	BBC, ITN	Broadcast
Chris Birkett	Executive Editor	Local newspapers, trade magazines, BBC	Press & Broadcast
Adam Boulton	TV Editor	TV-AM	Broadcast
Mark Kleinman	TV Editor	Sunday Telegraph, Daily Telegraph, The Sunday Times	Press
Tim Marshall	TV Editor	IRN, BBC	Broadcast
Simon Bucks	Online Associate Editor	News agency, HTV West, ITN, London News Network	Press & Broadcast

Thus those who work in TV newsrooms generally:

- Have grown up in TV, absorbing a culture of impartiality and independence
- Will likely get their next job in TV, and will not want to be seen to have abandoned that culture
- Will seek professional recognition and awards (such as BAFTAs) from their peers working in other parts of TV news

Together these form a powerful social and cultural constraint, making journalists and editors reluctant to accept a radical shift away from a traditional TV news approach.

Implication

We started this discussion with an analysis of the major drivers of any news agenda. The first two – story selection and decisions about treatment – are the two crucial factors in determining whether this transaction would lead to a material change in the ability of News Corp to narrow the news agenda unacceptably for the very small number of viewers who would remain wholly reliant on News Corp and BSkyB for their news.

The analysis suggests that such fears are unfounded. The centripetal forces of television news itself, as demonstrated by the common approach that broadcasters take to look, style and substance, are rooted in audience expectation. They are also driven by technical and cost limitations inherent in television news and the internal constraints created by the existing newsroom culture.

However, even if the combined entity were to choose to drive a single agenda, it would only be able to do so by forbearing to cover any controversial issue. It is at least arguable that the silence of the broadcast part of the combined entity would do more to undermine the credibility of the partisan stance of an associated newspaper than to support it. Conversely impartial presentation of controversial issues in no way undermines strong editorial positions taken in sister publications.

For these reasons, we believe that News Corp will not be able to materially influence SkyNews' news agenda, and by extension it clearly would not be able to influence the wider news agenda. Consequently we do not believe that there would be a material impact on plurality.

Setting the wider news agenda

Even if, hypothetically, News Corp *were* able to materially influence Sky News' news agenda, this leaves open the question of whether this would result in any change in the wider news agenda. In this argument, it is not so much the lack of other providers that matters, as the ability of a single, cross-media provider to create an agenda that others will be compelled to follow.

Any consideration of this issue must take account of the analysis set out above, which demonstrates the constraints upon the combined entity to drive a homogenous editorial agenda across its own services.

There are two further constraints that would limit News Corp's capacity to narrow the terms of wider debate.

Constraint 1: the source of stories

Any editorial agenda depends on the seedbed of news stories to build and grow. It is undoubtedly the case that major newspapers are distinctive in the resources they choose to invest in original newsgathering, and News Corp's titles are no exception. Nevertheless, analysis of news sources quoted by news providers demonstrates that newspapers are by no means the sole source of the stories they report.

For example, a 2009 US study by Pew Research examined all the outlets that produced local news in Baltimore for one week. Of the new stories[11], although print was the single most important media, TV, niche content providers, radio and new media all broke new content. (In the UK, with a well funded BBC, TV might be expected to be more important).

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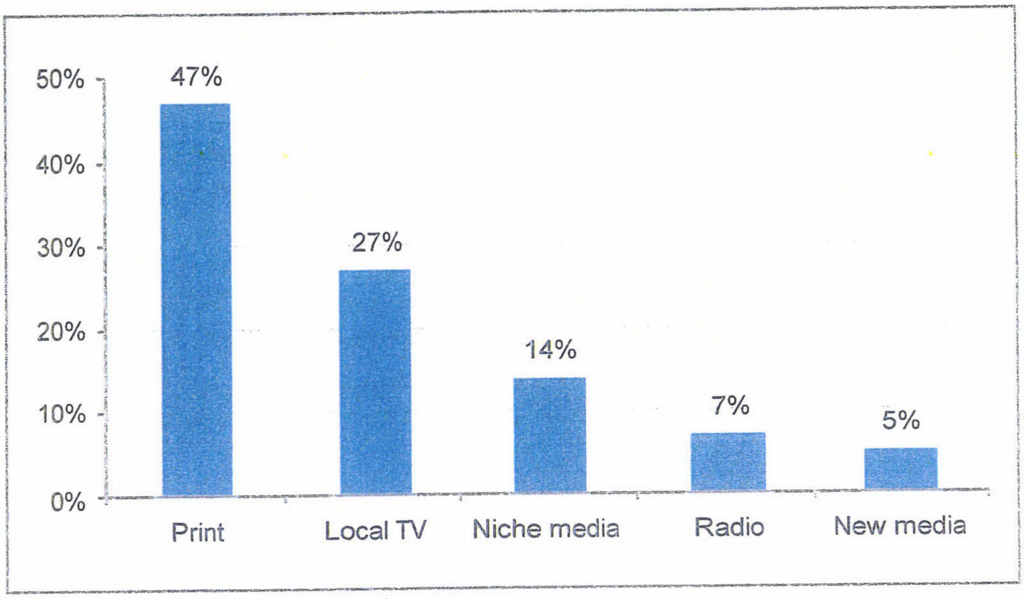
[11] Pew found that eight out of ten stories studied simply repeated or repackaged previously published information

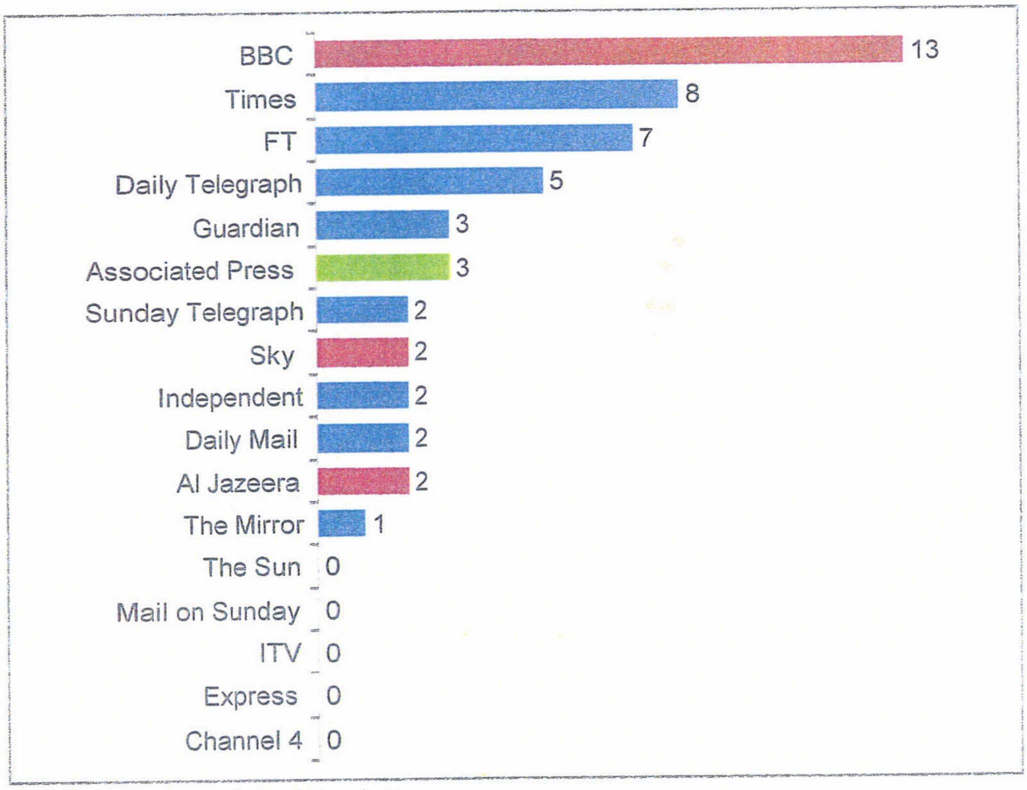
Figure 3 Who reported new information, by media



Source: Pew Internet, 2009, How news happens

Looking specifically at citing of UK sources news outlets, an analysis of sources cited by Reuters demonstrates the importance of the BBC:

Figure 4: Sources for Reuters articles, 19th to 31st October 2010

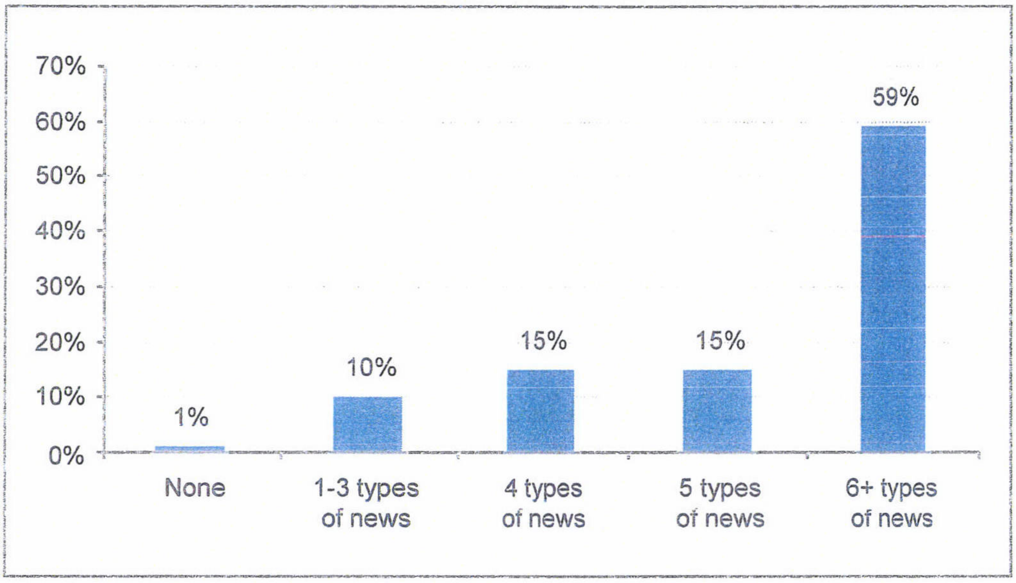


Source: Perspective analysis of Google News

The BBC aside, newspapers tend to be much more influential than broadcasters, and that influence is quite widely distributed. Sky News and The Sun are not particularly influential. Even the combination of Sky News, the Times and the Sun would not be the top ranking UK source for Reuters.

Where readers or viewers do find an original story, there is evidence that they follow it through in a variety of different ways: exploring a variety of news web-sites (on average, a visitor to a news website in the UK In August 2010 visited 3.8 different news sites[12]) and a range of different media, thus exposing them to a wide range of reflections even about stories that have been broken by a particular news provider. Indeed, the majority of consumers state that they are interested in acquiring news content from 6 or more media.

Figure 5 Proportion of consumers interested in multiple forms of news media

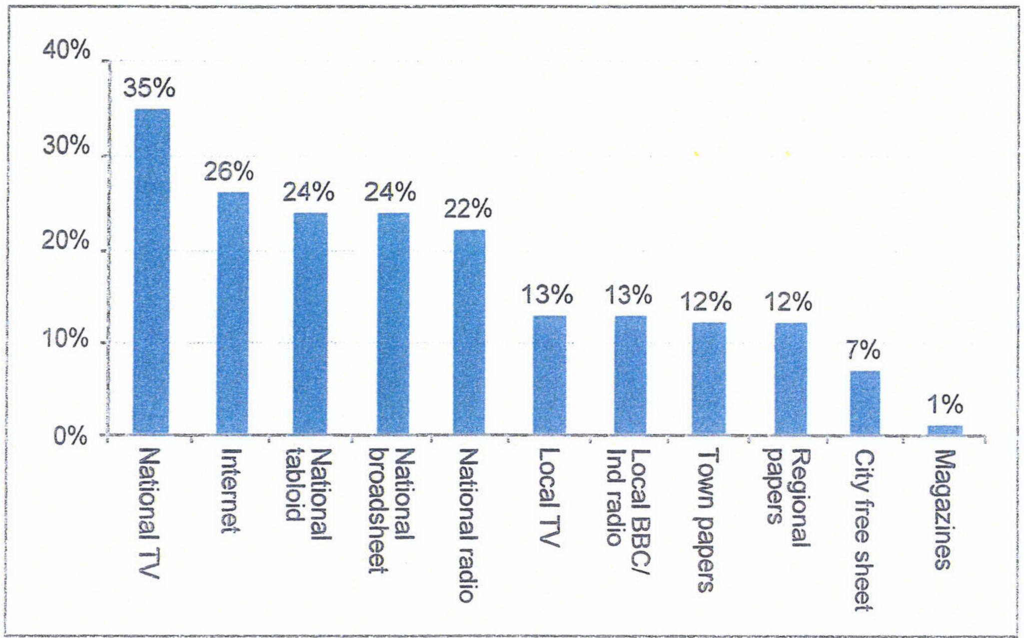


Source: GMI / Mintel, April 2010

Only 35% of consumers state that they are loyal to a single TV channel for acquiring news content on a daily basis, with even this modest figure higher than all other media.

[12] Source: ComScore

Figure 6: Proportion of respondent who are loyal to a single news provider on a daily basis



Source: FD Media Monitor 22

For stories that are not originated by either News Corp or Sky News, they are by definition unable to prevent it airing elsewhere. Internet derived stories are openly available, while news agencies by their very nature provide their material to any news provider who subscribes to their service. Twitter, for example, has widely been acknowledged at being the first to break stories such as the G20 violence, Michael Jackson's death and the 2009 New York plane crash[13].

Constraint 2: the delivery and impact of news from other providers

For the combined entity to be able to have a disproportionate effect on the ability of other providers to set their own agenda, it will need to weaken the capacity of both existing and emerging news providers to pursue their own news agenda.

To do this successfully, the new entity will have to overcome the reliance that audiences place in the BBC as not only the provider of the most trusted and accurate news, but also the source of television news that they are most likely to turn to.

The recent Mintel survey of attitudes to news demonstrates the regard with which the BBC is held, across all parts of the audience[14]. This regard translates itself into actual viewing, with audiences to BBC news outstripping all other television news providers.

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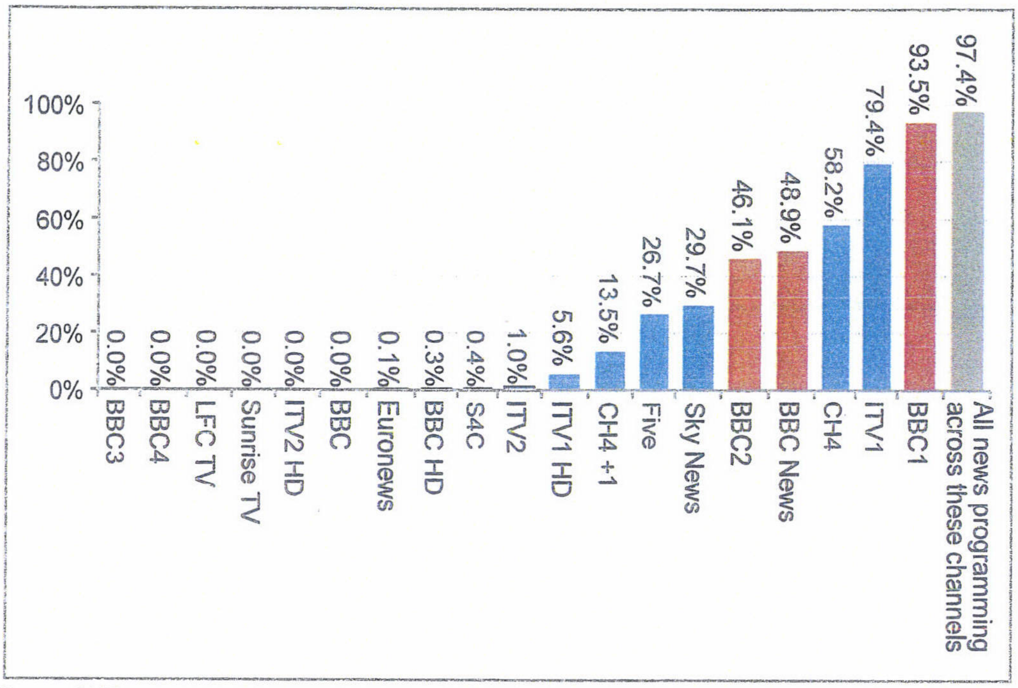
[13] See http://www.techradar.com/news/internet/10-news-stories-that-broke-on-twitter-first-719532

[14] Mintel report, Consumer Perceptions of News Media, September 2010: p 30

Figure 7: Total 15 minute non-consecutive reach of TV news programming, 2010



Source: BARB

The BBC certainly sees itself as the most influential in setting the news agenda:

> *"Today has ... been recognised for setting the news agenda"*
> BBC press release, February 2006[15]
>
> *"Newsbeat aims to set the news agenda for our audience"*
> BBC Statements of Programme Policy 2006/07[16]
>
> *"Robert Peston has made a habit of setting the day's business news agenda early in the day (in a businesslike way) on his blog"*
> BBC 'The Editors' Blog, 9 November 2007[17]

The relevance of this is not simply the presence of a strong publicly funded provider: it is the combination of their market performance with their reputation of independence and authority that makes the capacity of News Corp and Sky News to exert any greater influence over the BBC's agenda as a result of this transaction minimal.

We have noted that audiences have an increasing number of other news providers available to them. These providers generally serve a niche audience with greater depth and relevance on a given topic than the larger, more generalist news organisations are able to provide. Channels such as Al-Jazeera or Bloomberg News have built a reputation and loyalty with their specific target audience. This, combined with an international orientation makes them even less likely to be swayed by a hypothetical unified UK news agenda from News Corp & BSkyB than would be the UK generalist news providers.

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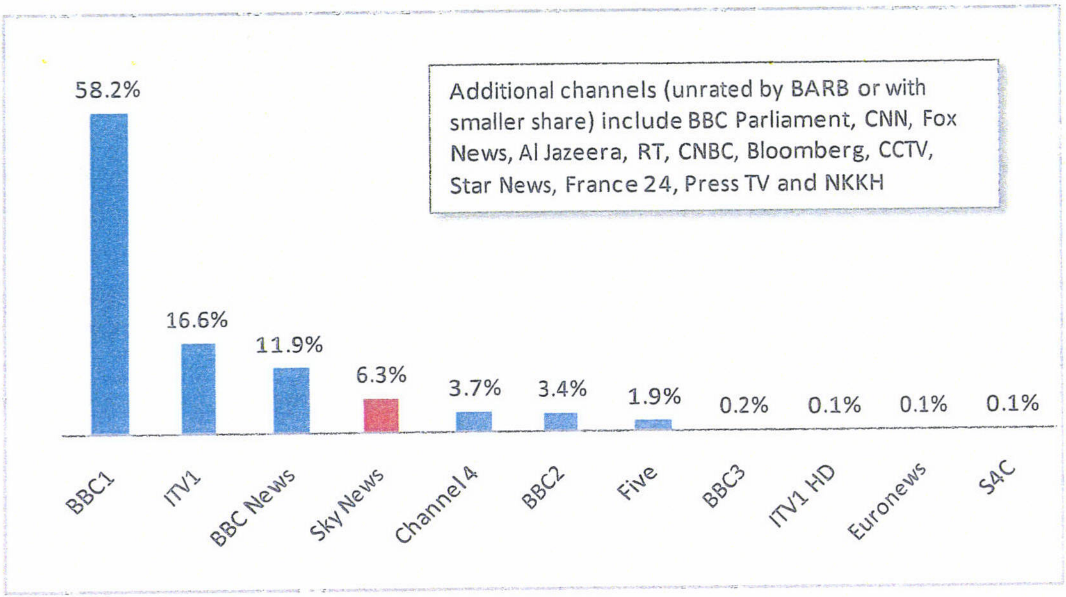
[15] http://www.bbc.co.uk/pressoffice/pressreleases/stories/2006/02_february/23/marsh.shtml

[16] http://www.bbc.co.uk/info/statements2006/radio/radio1.shtml

[17] http://www.bbc.co.uk/blogs/theeditors/2007/11/taking_stock.html

This is all the more true given the relatively small market shares that News Corp and BSkyB have outside newspapers. Sky News retains a share of just 6.3% of news viewing.

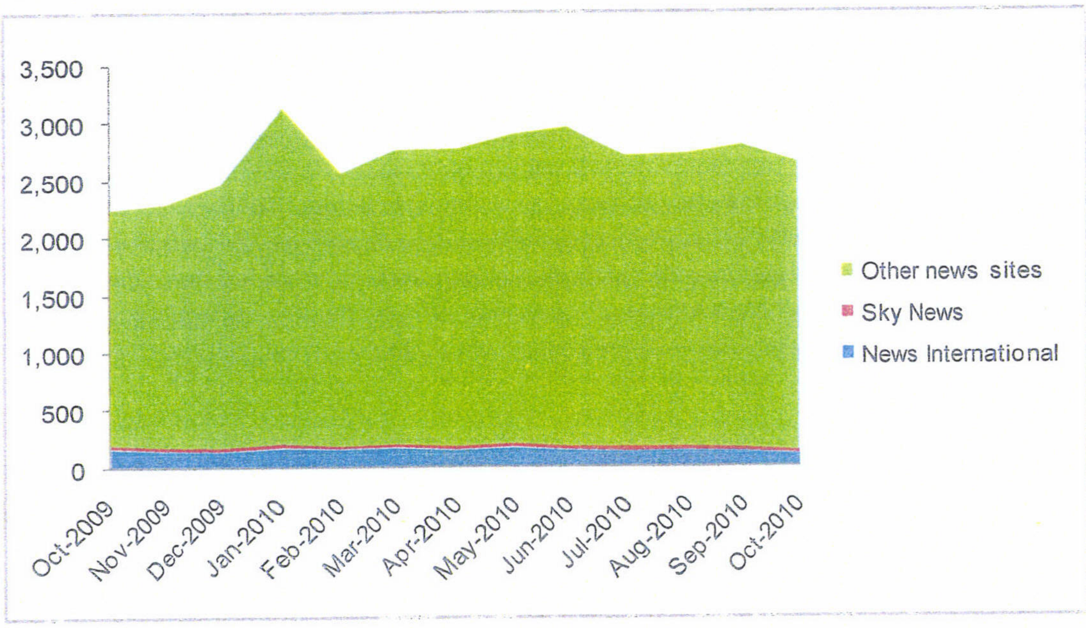
Figure 8: Share of TV news consumption; 2010 year to date



Source: BARB, Perspective Associates analysis
Notes: Channels include viewing of their +1 where appropriate
Volume of Viewing calculated based on DurMin and 000s

Online, share of consumption is even lower and more fragmented. For example, in October 2010, only 1.1% of news page views were on SkyNews.com, and just 4.0% were on News Corp news sites (compared to 1.5% and 7.1% a year earlier).

Figure 9: UK page views of news and information sites (m)



Source: Comscore

Finally, the growth of digital and interactive media places the opportunity to shape the agenda in many more hands than just the conventional news providers. We have already reflected the extent to which the root stories will be provided by a range of sources: but increasingly, specialist services will differentiate themselves by their ability to focus in depth in a particular area and become a news-maker in that very narrow field. Political bloggers such as Paul Staines (who blogs as Guido Fawkes[18]) or political websites such as Tim Montgomerie's *Conservative Home* have demonstrably been able to break stories that were subsequently picked up by traditional media outlets.

The recent Wikileaks release of papers relating to the Afghan war is strikingly parallel to the 'Pentagon Papers', a history of the Vietnam war that was leaked to the New York Times and published in 1971. Wikileaks of course is not a traditional media outlet, though the story was picked up by newspapers and TV.

Traditional media outlets acknowledge that their control of the new agenda is declining. The House of Lords Select Committee on Communications report on ownership of the news noted:

> *"All the [US] networks [interviewed] stated that the proliferation of news sources had limited their power to control news agendas."*[19]

According to Lionel Barber, Editor of the Financial Times:

> *"raw journalism is found among the community of bloggers around the world which are becoming increasingly influential in setting the news agenda"*[20]

Peter Horrocks, then Head of the BBC Newsroom, said in 2008[21]:

> *"There is no doubt that the stronger voice of the audience is having a beneficial effect on the range of stories and perspectives that journalists cover"*

Implication

As we have seen, Sky News does not have a large enough audience to be a major factor in the setting of the UK's news agenda. Moreover it operates in a market where the BBC is an extremely powerful player, measured by audiences or as a source for stories. This would further limit News and BSkyB's ability to drive the news agenda.

Finally, the hold of all *traditional* media on the news agenda is being appreciably weakened by new media. Some have argued that while there may be a proliferation of bloggers delivering stories, there are only a handful of well-enough funded news organisations to deliver a service across a wide range of different subject areas[22]. However, this is rather to miss the point, which is not that the bloggers can replace traditional "full service" news media – which it is unlikely that they either can or would even wish to; but rather whether they will be able, by concentrating on particular subject areas, to drive the news agenda there, not least by taking full advantage of the licence offered them as unregulated bloggers rather than regulated broadcasters. The evidence would appear to suggest that this is indeed the case.

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[18] And was number in the "Top 50 newsmakers of 2006" in *The Independent*

[19] http://www.publications.parliament.uk/pa/ld200708/ldselect/ldcomuni/122/122i.pdf

[20] http://www.pressgazette.co.uk/story.asp?sectioncode=6&storycode=43985

[21] http://www.bbc.co.uk/blogs/theeditors/2008/01/value_of_citizen_journalism.html

[22] See for instance http://www.guardian.co.uk/media/2010/nov/08/news-corp-sky-media-pleurality

5. The relevant market and how it is changing

Any consideration of plurality needs to be based on a realistic assessment of the different sources of media available to and then accessed by consumers. Since the plurality test was created in 2003, the UK media landscape (including news) has seen a substantial increase in plurality, both in the range of outlets available, and in their consumption.

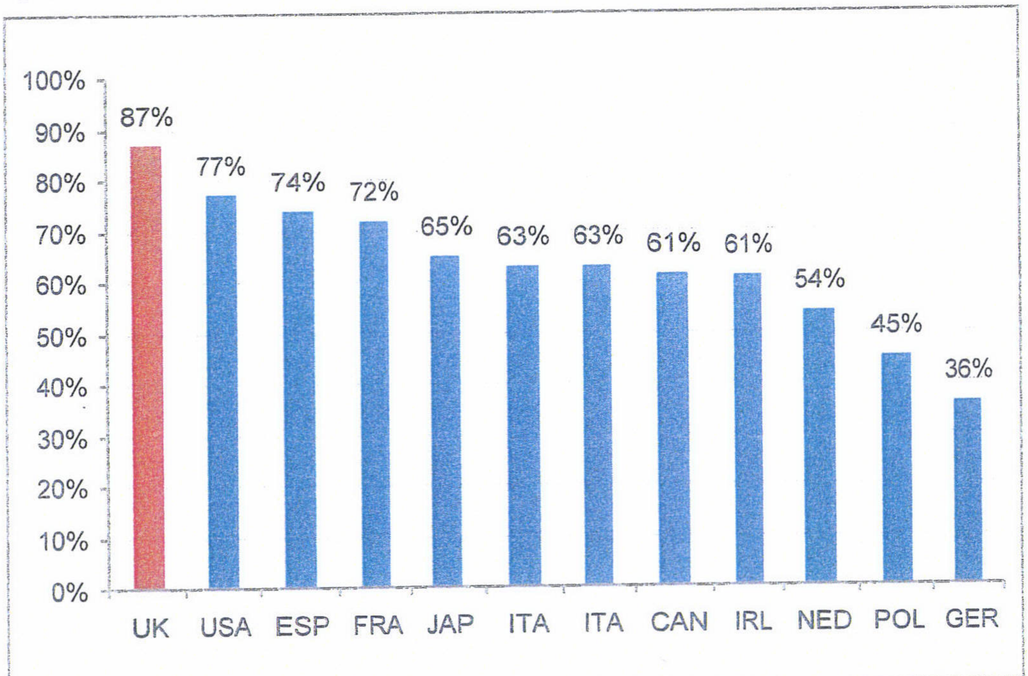
A hypothetical transaction that reduced plurality needs to be seen in this context – it would be strange to block a transaction that, while reducing plurality, left it well above the level at the time the test was created.

In this section we consider general media plurality in the UK, and then turn our attention to news, the heart of the requirement for plurality.

General plurality

Plurality of TV consumption has grown substantially since 2003. From Q1 2003 to Q1 2010, digital TV on the main set grew from 48% to 92%[23], representing a dramatic increase in available channels for 44% of households. On second sets digital penetration has grown from likely near zero in 2003 to 75%, further increasing the availability of wider choice. As of 2008, the UK had one of the highest penetrations of digital TV reception in Europe.

Figure 10: Proportion of households with digital TV on their main set, 2008



Source: Ofcom, The International Communications Market 2009
Note: 2009 figure for UK is 91%

In addition the number of channels available in the UK has grown – the number has more than doubled since 2003. This is not simply existing media owners launching more channels (which would not provide an increment in plurality of media ownership). Much of the channel expansion of the PSBs was largely complete by 2003. For instance, BBC4 launched in

[23] Ofcom Communications Market Report 2010

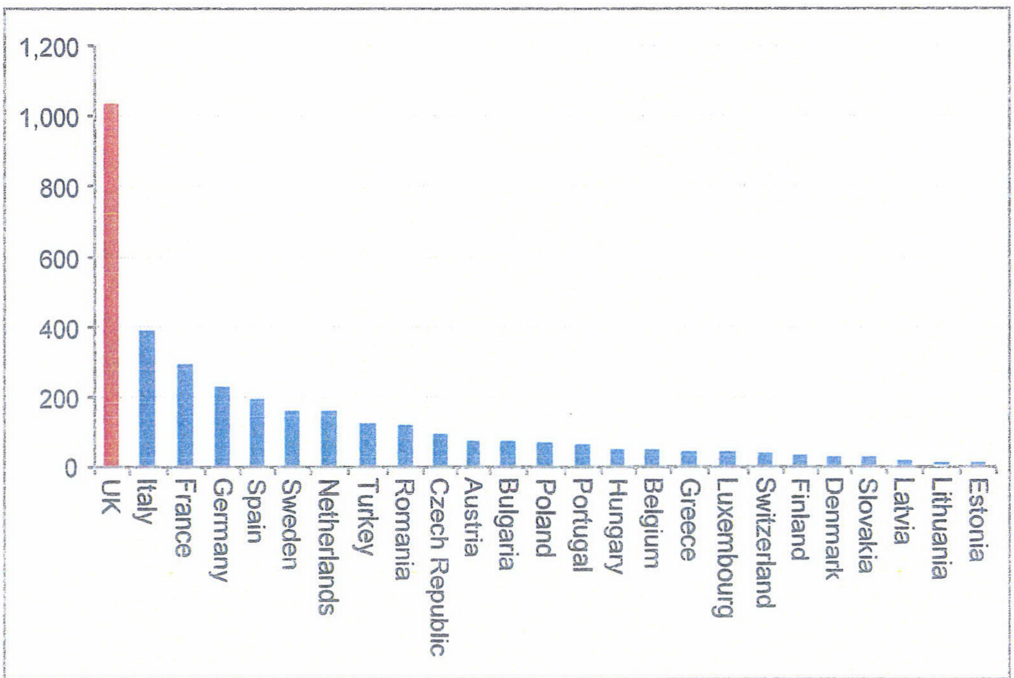
2002 and E4 in 2001. A number of new owners brought channels to UK screens, including Al Jazeera English, CCTV News and Press TV, which contributed particularly to plurality of international news.

Figure 11 Channels broadcasting in the UK

Source: Ofcom Communications Market Reports

The UK's level of TV plurality also compares well to other parts of Europe. For instance, the number of channels available here significantly exceeds any other country.

Figure 12 Number of available channels by country



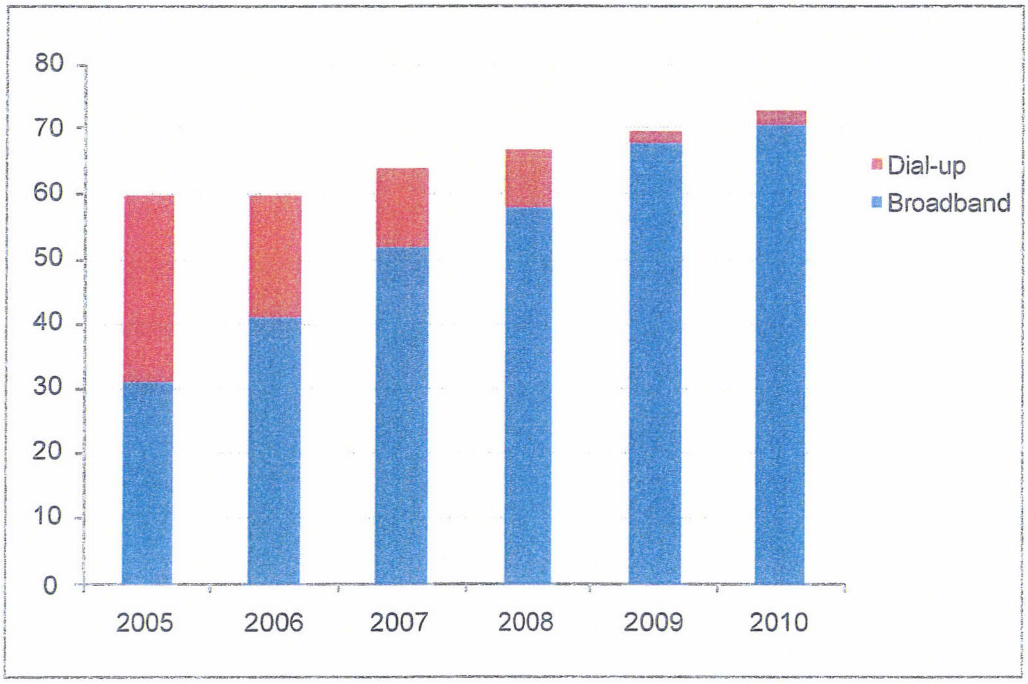
Source: European Audiovisual Observatory / MAVISE[24]
Note: Includes regional variations; not on a consistent basis with Ofcom's figures

[24] via http://www.digitaltvnews.net/content/?p=12410

Radio plurality has not seen quite so sharp a growth as TV over the period. Nonetheless, DAB penetration is up from 2% to 33% between 2003 and 2009[25] and the number of DAB stations has risen to 192. (The number of analogue stations is unchanged).

Since the Communications Act, the internet has become far more important. Broadband penetration has risen from 11% (Q4 2003) to 71% (Q1 2010)[26], with broadband households growing by 70% since 2006 alone (to 20m today).

Figure 13 UK internet penetration over time (% of households)



Source: Ofcom Communications Market Report 2010

The change in mix between dial-up and broadband is important because broadband users spend far more time online than narrowband users. This is one of the contributory factors in the rapid growth of total time online. Just between April 2007 and April 2010, UK online time grew by 65% to 884m hours[27] (or approximately 43 hours per online household per month). Given the enormous variety of information online, this increase in consumption represents a substantial increase in general plurality for consumers since 2003. In addition to the range of content available, the internet by its nature encourages plurality of consumption. Content is generally free and links between content encourage surfing across a variety of sources. To take a practical example, it is a rare individual who takes more than one print newspaper, but most consumers will sample multiple newspaper sites online.

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[25] Ofcom Communications Market Reports

[26] Ofcom Communications Market Reports

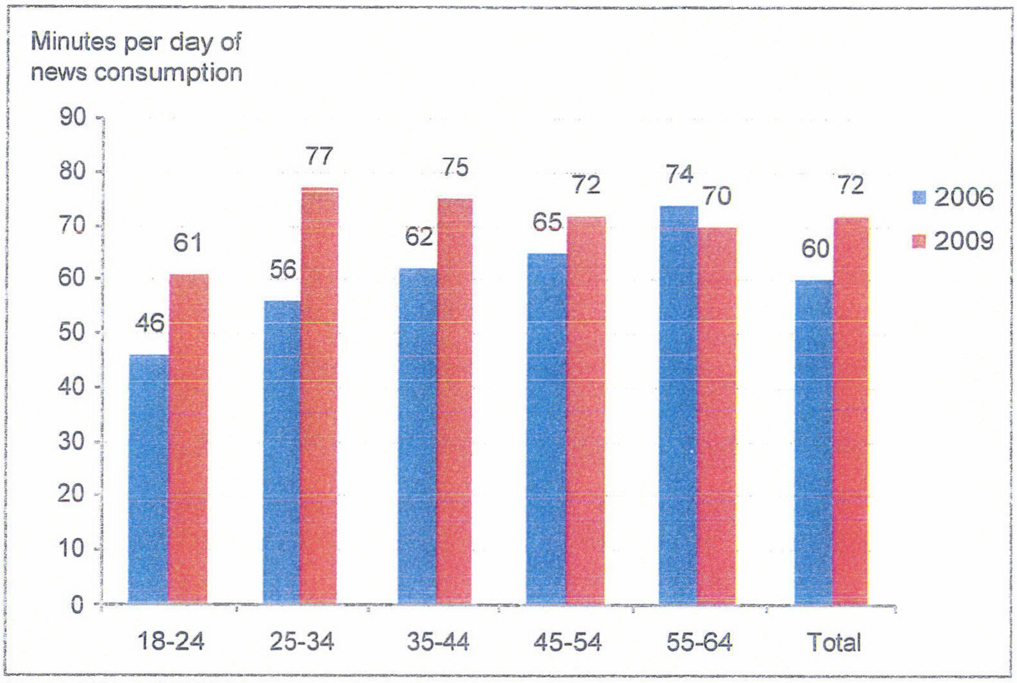
[27] UKOM, UKOM *reveals the changing way in which Britons spend their time online*, 19 May 2010
http://www.ukom.uk.net/News/487947/ukom_reveals_the_changing_way_in_which_britons_spend_their_time_online.html

News plurality

While content in its widest sense can impact on public attitudes and understanding of social, political and cultural issues, the prime focus for this assessment should be on news and current affairs. As we discuss in section 3, concerns about news plurality were at the heart of the original rationale for a plurality test. The societal value of plurality primarily derives from diverse sources of news, ensuring that audiences have access to diverse opinion and coverage, thereby underpinning democratic discourse. News is all the more relevant in this case, where it is the prime content overlap between the parties (though both also provide sports coverage).

Reported consumption of news is up across virtually all age groups.

Figure 14 Minutes of consumption of news content per day, UK consumers 2006 & 2009



Source: 2006 and 2009 McKinsey media and entertainment news surveys

We believe this consumption is both plural within media (for example, most consumers will access more than one source of TV news), but also plural across media – most consumers use multiple media to get news in a typical day (89% of UK consumers say they regularly access news content from four or more media, for instance[28]).

TV news

There has been a significant increase in availability of TV news options to audiences since 2003, firstly because many more households now have digital TV. Take-up has risen from 43% in 2003 to 91% in 2009[29]. Thus a far larger portion of the audience has access to alternatives to the news bulletins of the PSB main channels, such as BBC News, BBC Parliament, BBC3, CNN and Sky News. Secondly, several news channels have been launched in the UK since 2003, including Russia Today (2005 – now RT), Al-Jazeera English (2006), France 24 English (2006) and Press TV (2007). All of these were new media owners to the

[28] GMI / Mintel, April 2010

[29] Ofcom Communications Market Reports

UK. Thirdly existing channels have also expanded their footprint – CNN joined Freeview in 2009, for instance. Thus the range of TV news (measured either by owners or channels) available to the average consumer has increased appreciably.

Figure 15 UK TV news providers, November 2010

Note: Excludes foreign language services

Radio news

The BBC is still the leading broadcaster of radio news, with commercial radio relatively fragmented. While not relevant to an assessment of plurality, we note that commercial radio news has continued to be contracted out to a single underlying provider (formerly ITN, now BSkyB). Editorial responsibility of course remains with the broadcaster.

Internet news

In its review into the BSkyB investment in ITV, the Competition Commission took the view that:

> *"for the time being and for the foreseeable future, online sources of news are more likely to complement than to replace television and other traditional news platforms"*

However the situation has been developing rapidly. As noted, broadband penetration has increased substantially. Time spent online per internet user has grown by 65% over the same period[30]. Visits to news sites online grew 92% between January 2005 and May 2010[31], and total time spent on news sites per month increased by a phenomenal 214% since 2007 (growth second only to social networks and blogs).

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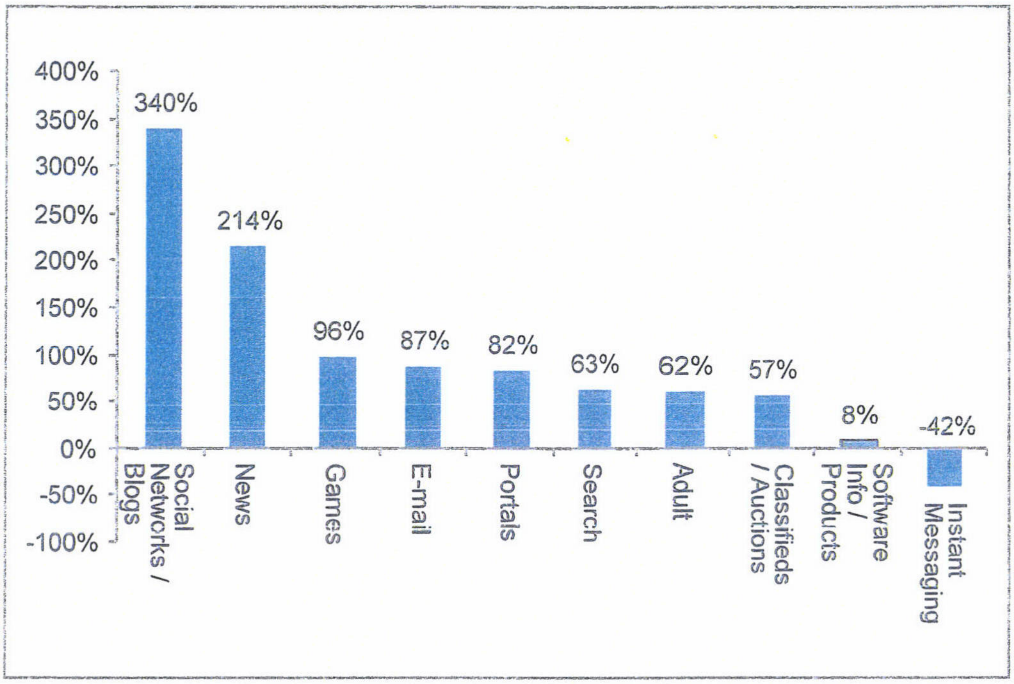
[30] UKOM

[31] Comscore, quoted in Mintel, *Consumer Perceptions of News Media*, September 2010

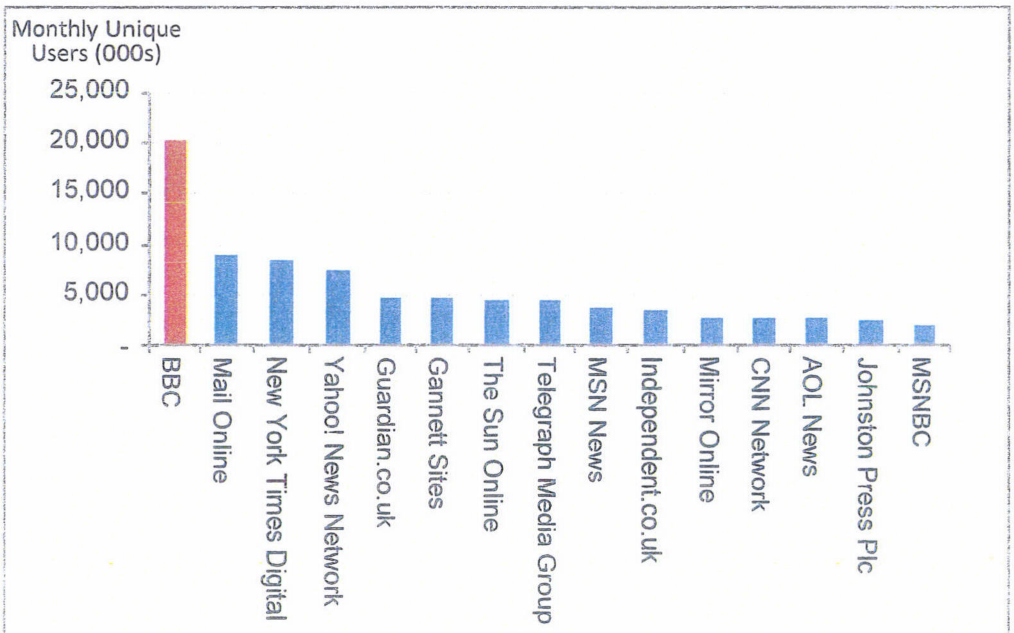
Figure 16: Change in consumption of online content, April 2007 to April 2010



Source: UKOM April 2007, April 2010; calculation based of hours of online consumption

The period since 2003 has also seen a significant increase in available news sources online. The Mail Online, now the number one newspaper site in the UK[32] (and after only the BBC for news) was not even launched until 2004.

Figure 17 Monthly unique UK audience for news sites, (000s)

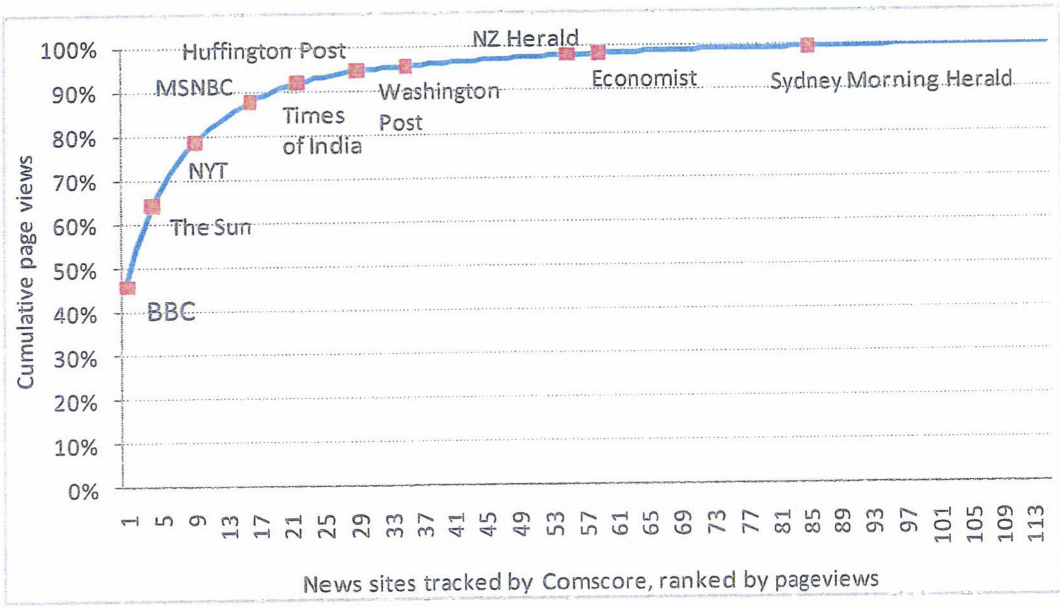


Source: ComScore top news sites, UK, July 2010

[32] Comscore, July 2010

While the traditional news outlets (particularly the BBC) remain important online, they have been joined by a substantial 'long tail' of news providers, both overseas and non-traditional, that either did not exist in 2003 or would have had essentially nil physical distribution in the UK. While individually small, the players in this long tail in aggregate contribute meaningfully to consumption. Sites with 25m pages views or less (the size of MSNCB) contribute 14% of online news consumption (a share double that of Sky News' TV news share).

Figure 18 Distribution of news page views by UK audiences, by site (with sample titles)



Source: Comscore, July 2009

The increasing plurality of online news is evident in the number of news and information sites tracked by Comscore with measurable UK audience. This figure increased[33] by 14% just between August 2009 and August 2010, to 706.

Additionally, the growing trend of news agencies disintermediating traditional news providers, and publishing content through aggregators or directly to consumers, is likely to continue. As the World Association of Newspapers has observed:

> *" the advent of internet and mobile news has only exacerbated the prominence of news agencies and has possibly caused more problems for newspapers. Instead of having to distribute their content through newspapers or television stations, news agencies can directly contact the consumer through new media."*[34]

Thus while traditional news providers remain important online, their control of the news agenda is much less. The typical mode of consumption is *not* that the consumer visits timesonline.co.uk once a day. Rather, the consumer visits news aggregation sites, or searches for a particular topic of interest (or simply searches for 'news', the sixth most popular Google search term in the UK[35]). As a result, on average less than 30% of newspaper traffic comes direct to the website, with the balance coming from third party websites. Google itself accounts for just under half of all traffic to UK newspaper websites:

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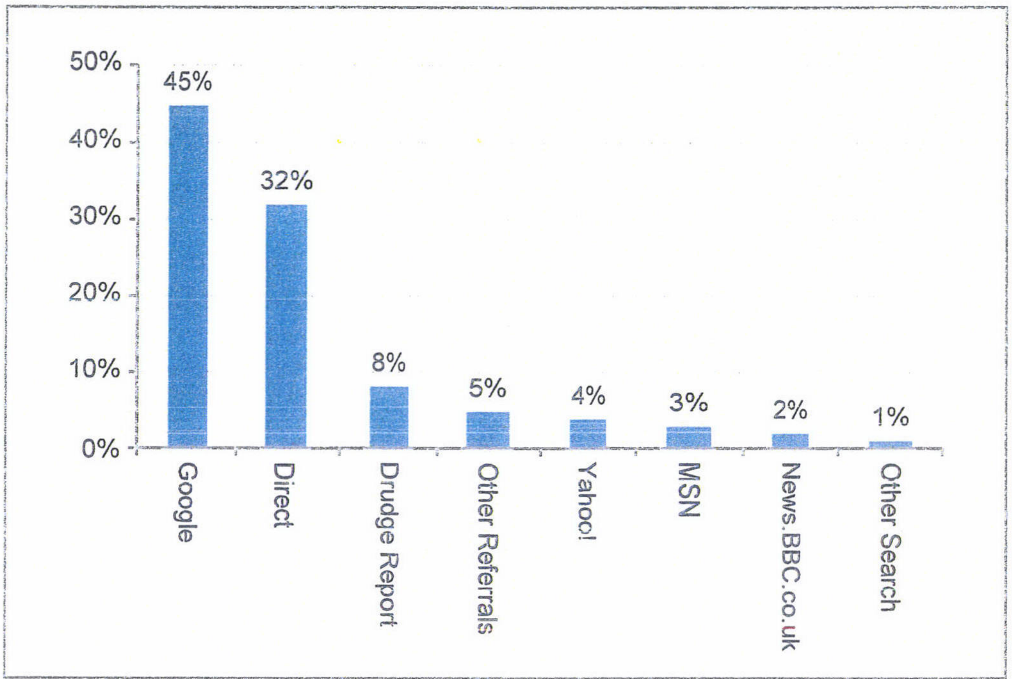
[33] ComScore, based on total number of News/Information sites with unique UK audience of 7,000+

[34] World Association of Newspapers, 2006

[35] UKOM/Nielsen,home and work panel, May 2010., quoted in Ofcom Communications Market Report 2010

Figure 19 Proportion of traffic to newspaper websites by source, UK



Source: Hitwise

Thus while the traditional sources may provide the underlying stories, their control of the news agenda is far less online than it is in the offline world. Audiences are in no way dependent on the particular selection of items an outlet chooses to present on its home page, and will frequently arrive direct at the coverage of a particular 'below the fold' story. In this mode consumers are directly controlling their own personal news agenda, independent of any decision by an editor to prioritise certain stories. In a similar vein, in the US 28% of internet users have customised their home page to receive news of specific interest to them[36].

Given that diffuse control of the news agenda is one of the important benefits of plurality, if the internet is acting to reduce traditional media outlets' control, then this goes directly to 'sufficient' plurality, even if the underlying news providers are the same (and, as we have seen, the internet has in fact brought important new providers to audiences).

Google News, which was first launched in 2002, is a key news aggregator. By 2005 it already had a UK audience of 6m[37] and has continued to enjoy rapid growth. In the year to August 2010, UK visits were up 30%[38]. It is important to plurality, because it presents a vast range of sources to its audience, including many they would otherwise likely never come across. In the year to October 2010, 1,738 different sources[39] have appeared on the Google News homepage (and additional sources have appeared on individual story pages).

Looking at the prominence of different news sources cited, as we note below, News Corp outlets are not particularly prominent, with only three titles (Wall Street Journal, FOX News

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[36] Pew Research, *Understanding the Participatory News Consumer*, 2010

[37] http://business.timesonline.co.uk/tol/business/industry_sectors/media/article531735.ece

[38] Nielsen Online/TRP

[39] Newsknife (subscription required) http://www.newsknife.com/members/front_relevant_news01.html

and Times Online) in the top 30. The next ranked UK News Corp title is Sky News, at 142. Amongst UK outlets, the BBC, the Guardian and the Telegraph all outrank the Times. Thus it is clear that users of Google News are going to be exposed to a highly diverse range of perspectives on stories, and that the perspectives of News Corp titles will not be particularly prominent.

Figure 20 Top ranking sources for Google News, January to October 2010

Top 30 sources

1 Associated Press	11 CNN	21 CBS News
2 Al-Jazeera, Qatar	12 Christian Sci Monitor	22 Telegraph.co.uk
3 New York Times	13 Voice of America	23 Miami Herald, FL
4 **Wall Street Journal**	14 BusinessWeek	24 **Times Online, UK**
5 Reuters	15 guardian.co.uk, UK	25 MTV
6 Los Angeles Times	16 AFP	26 CNN International
7 Washington Post	17 **FOX News**	27 New York Daily News
8 USA Today	18 Bloomberg	28 ESPN
9 BBC News	19 MSNBC	29 PC World
10 ABC News	20 Xinhua, China	30 ABC Online, Australia

Selected other UK sources

40 Financial Times
81 Independent
130 Daily Mail
142 **Sky News**
277 The Mirror
504 **Sun**

Key
News Corp sources
UK sources

Source: Newsknife
Note: Newsknife rankings based on a combination of frequency and prominence

Furthermore, Google News continues to draw on an ever increasing number of news sites. At November 2010, 5,697 individual news sites had been used by Google News during the year, a 50% increase on the comparable figure for 2007.

Google News has brought international news outlets to the attention of UK audiences. The top 25 sites by reach for news in the UK include the New York Times, CBS News and the Huffington Post. By reach, the New York Times is the third most important news site for the UK, and receives 8.3m unique visitors per month from this country[40]. This compares to the New York Times' *global* audience of 11.2m in 2003[41].

This online consumption of overseas outlets is in addition to consumption of outlets such as MSNBC and CNN (also in the top 25), which do have a niche TV presence in the UK, but who are reaching additional audiences online.

On a topic basis, sites that may not be large in aggregate may be highly important for plurality. For instance, for audiences interested in (say) Poland, they are now able to access the entire range of Polish media. The Polish title Gazeta had 110,000 unique visitors from the UK in September 2010[42]. Specialist titles, previously only available to those in a given

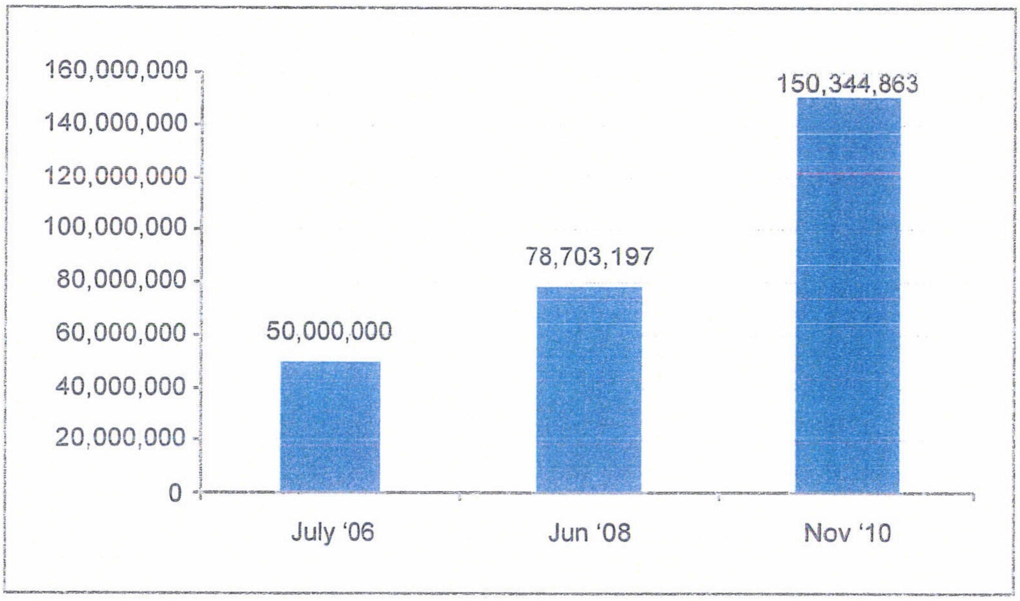
[40] ComScore, July 2010
[41] ComScore, quoted in http://www.imediaconnection.com/content/1535.imc
[42] Doubleclick Ad Planner

industry, are now available to all. A general reader interested in an air disaster, for example, can now read coverage from *Flight International*, as well as receiving coverage from newspapers and broadcasters.

An associated point is that while some aspects of online consumption are 'push' based (such as the headlines on the bbc.co.uk or Google News), consumers are also able to consume on a 'pull' basis. That is, they can (for example) search on Google News for a range of coverage on a specific topic that is of interest to them, quite possibly one that did not appear on the Google News home page.

Blogs, too, are an increasingly important, and plural, source of news. Since 2006 the number of blogs has trebled. The Associated Press has recognised that blogs do legitimately break news stories[43].

Figure 21 Growth in the number of blogs



Source: Technorati, BlogPulse

The emergence of blogs as conduits for more informal news content and commentary has also helped to increase plurality *within* titles. News providers, no longer constrained to a thirty minute broadcast or a 30 page publication, can provide broader coverage and allow greater editorial autonomy. Blogs on Guardian.co.uk, leveraging traffic from the main site, are contributing to increasingly plural news reporting.

Thus both the increasing adoption of the internet since the Communications Act, and the increasing use of diverse news sources amongst those online mean that audiences now draw on a substantially wider array of news sources than in 2003, representing a material increase in aggregate plurality.

'Blended' news plurality

Looking across media, in line with shifts of consumption (for instance, the decline in newspaper readership), what consumers report as their main source of news has been changing. Newspapers and radio have seen significant drops, and TV and internet have both

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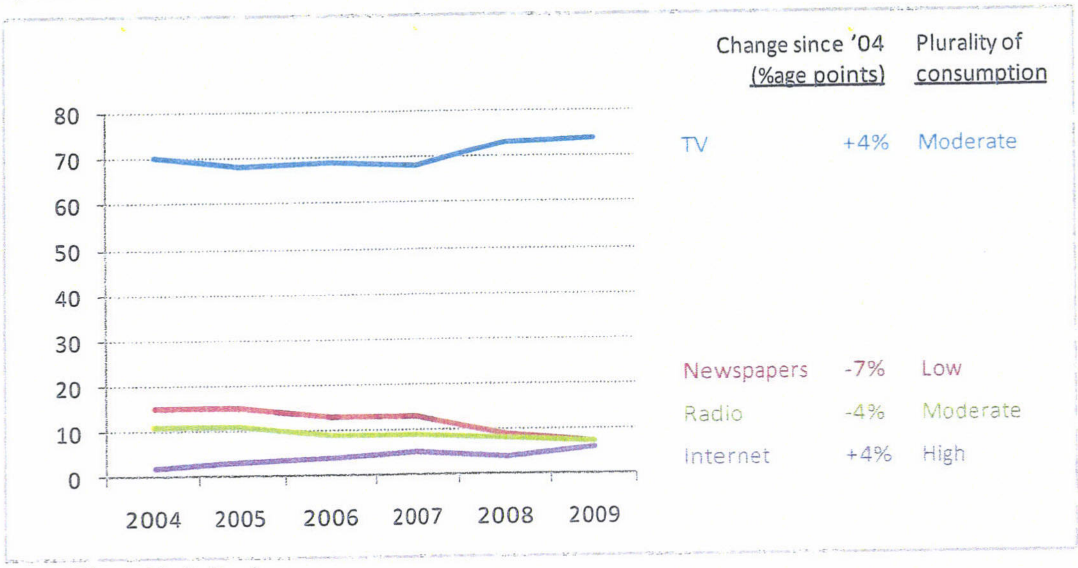
[43] http://www.ap.org/pages/about/pressreleases/pr_090110a.html

seen significant growth. In Ofcom's 2009 Media Tracker, the internet appeared to be about to overtake newspapers as a prime source of news, and more recent research by McKinsey suggests this has indeed happened.

Figure 22 Consumers' Main Source of National News

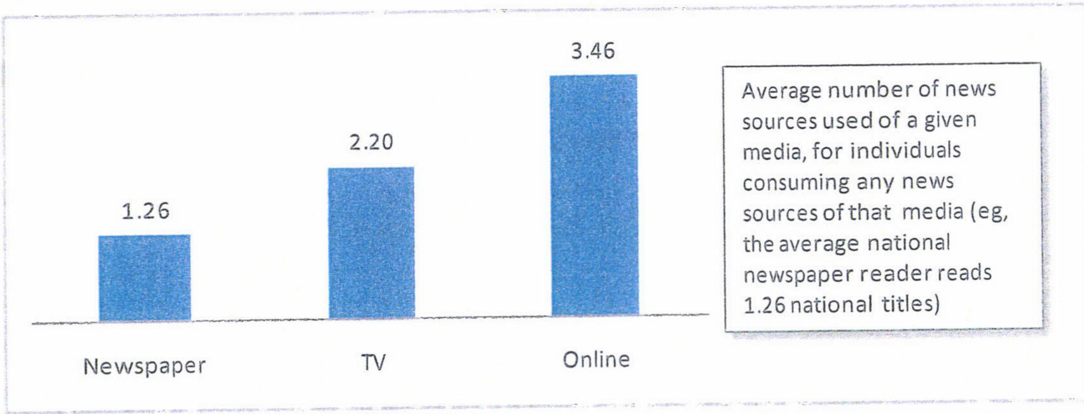


Source: Ofcom Media Tracker

Frequency of usage tells the same story. As of April 2010 46% of individuals now 'regularly' use the internet for news, exactly the same number as use newspapers (the figure for TV is 78%)[44].

These trends since the Communications Act are important for two reasons. Firstly they mark a shift of usage from media with less plurality of individual consumption to media with more:

Figure 23 Plurality of consumption by media type



Source: NRS, BARB, Comscore, Perspective Analysis

As discussed above, most people take only one newspaper (Sundays aside), but likely consume multiple online sources - 3.46 on average. Thus even if there has been no change in plurality within a given medium, if a consumer switches from getting their news from

[44] Mintel, *Consumer Perceptions of News Media*, September 2010. Internet figure rebased to allow for survey being online

newspapers to online, his plurality of consumption has increased. Put another way, as consumption shifts (particularly from newspapers to online), the 'weight average' plurality of consumption rises.

Secondly, this shift is important because it is a shift in consumption from media where News Corp is strong (newspapers) to media where it is relatively weak (online and TV). News Corp's share of daily newspaper circulation is 35%[45]. By contrast, its share of online news consumption is 5.1%[46] (including Sky News' site), and its share of TV news is 6.3%[47]. Thus on a blended basis, as newspapers have become a less important source of news for consumers, the cross-media 'share of voice' for News Corp (including BSkyB) has been falling. Moreover, in recent months the Times Online moved behind a paywall, resulting in a drop of traffic and further reducing News Corp's share of voice.

Conclusion

Since the Communications Act of 2003 (and indeed since the previous plurality decision in 2007) there has been a substantial growth in plurality, both of available sources and of consumed sources. The internet in particular has led to far more diverse consumption.

It is sometimes argued that the internet is not relevant to plurality, since it is just the same media owners distributing through a new medium. This argument is flawed for three reasons:

- Online consumers *do* get news from news sources unavailable to them offline, including existing overseas and specialist titles, in addition to new, online-only sources
- Online users consume from a wider range of sources (either existing or new), exposing them to a far wider range of views
- The active mode of consumption online (for instance, searching for coverage of a particular topic) makes users far less subject to the agenda choices of one or more traditional news outlets

Indeed, given that the internet is now a more important source of news for consumers than newspapers, the argument could be turned on its head: "newspapers are not relevant to plurality, since it is just some of the same media owners available online distributing through an old medium". We do not of course actually dismiss newspapers – they undoubtedly do contribute to plurality – but so (substantially) does the internet.

Finally, the shift of consumption from newspapers to the internet has resulted in a smaller 'share of voice' for News Corp plus BSkyB. The current proposal should be assessed against this background.

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[45] ABC, September 2010

[46] ComScore, October 2010, measured by page views

[47] BARB, Year to date 2010

6. Future market developments and their importance for plurality

The previous section considered changes in the market since the 2003 Act and the 2007 BSkyB/ITV decision. In this section we examine possible future trends, refer to a number of plausible future media market scenarios, and assess their likely impact on the plurality of news in the years ahead. In our view, there will be a further step change in the openness and diversity of the news market.

The key developments (some of which are continuations of existing trends) will include:

- Emergence of many new online sources of news, analysis, comment and debate, alongside traditional print and broadcast news. These services will co-exist with and in some cases supplant existing print and broadcast news media.
- Enhanced quality of news services, with advanced broadband technologies making possible a richer combination of continually updated text, graphics, and audiovisual material, coupled with in-depth and inter-active access to data and archived information.
- New approaches to packaging and selecting news stories, with content aggregators and search engines increasingly used by consumers to find the news they want, rather than traditional media gateways.
- More "active" and "promiscuous" consumption of news, with users selecting the stories they are interested in from multiple sources, and participating themselves in the debate about the news.

News consumers will have a high degree of choice between different news sources and will take their stories from across the different media – TV, radio, newspapers and online - and news providers will face tough competition for attention and revenues. There are of course uncertainties about the pace and extent of the changes outlined: in particular, existing news suppliers are still experimenting with different business models for the online world, while new entrants to the news market - such as Google – are taking share from conventional providers, but so far investing little in original content.

But the direction of change is clear. The scope for any single individual news organisation to determine the overall news agenda will in future be further limited. News will be reported from a much wider range of sources than has been possible in the past, and consumers will be able to access news directly, rather than via traditional intermediaries. Indeed, plurality of news provision should be a much less significant policy concern. Any decision now about the possible impact on plurality of the proposed News Corp/BSkyB transaction should factor in these changes, and should not anticipate problems which are increasingly unlikely to arise.

Future media scenarios

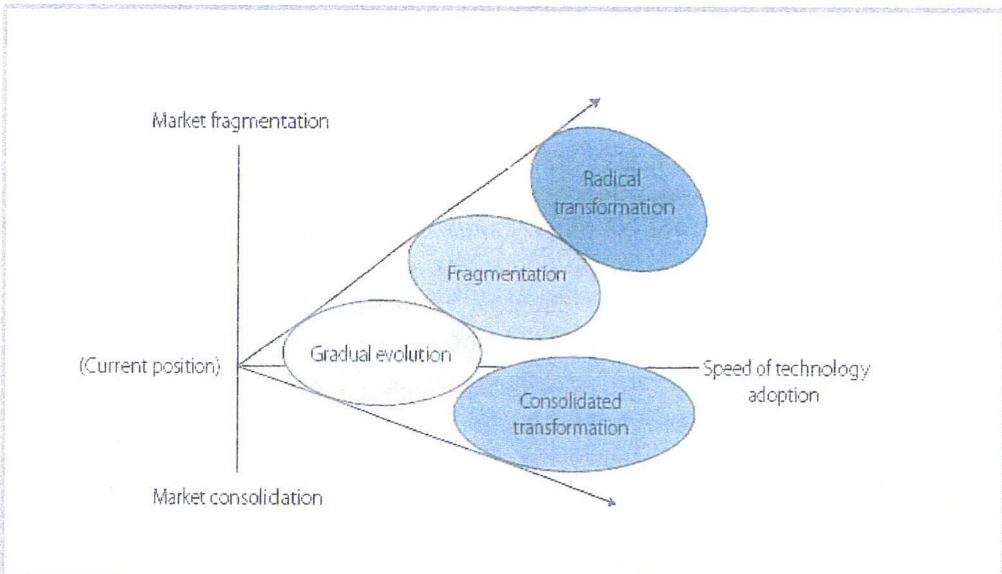
Developments in the supply and consumption of news are part of a wider set of trends in the media market as a whole. One helpful way of thinking about what this future world will bring is to examine a range of plausible scenarios which describe alternative outcomes and use them to identify important policy concerns which might need to be addressed – and equally importantly, identify those areas in which regulation could be inappropriate and counter-productive.

An extensive existing body of literature seeks to explore what the UK broadcasting landscape may look like in 8 -10 years' time. In a 2008 report for the Social Market Foundation ("Public Service Broadcasting in the UK") its authors Robin Foster and Kip Meek pulled together the findings of three previous scenario analyses to explore their implications for the media future. The three analyses were:

- *Future of Broadcasting Regulation*, Robin Foster, for DCMS, 2007
- *Economic Modelling of Future Scenarios for Public Service Content*[48], Oliver & Ohlbaum, for Ofcom, 2008
- *Summary of Market Modelling*[49] for BBC's Response to Ofcom PSB Review, Capgemini, for BBC, 2008.

As Foster and Meek explained, although the results of each of these scenario studies differ in detail, they are similar in their overall construction and hypotheses. The authors were therefore able to cluster the scenarios into groups that reflect four contrasting views of the future with a view to providing a framework for assessing policy decisions. They found that the two most important drivers of the scenarios were the speed of technology adoption and the degree to which consumption fragments between the providers of audiovisual content. Figure 24, taken from the SMF report, provides a stylised overview of the four futures against these drivers of change.

Figure 24 Illustration of how UK broadcasting may develop, by speed of technology adoption and level of market fragmentation



Source: Public Service Broadcasting in the UK: A Longer Term View, SMF

Summary of the scenarios

These scenarios are interesting for what they can tell us about the sort of media world we might experience in several years time, and whether plurality of news provision might be an issue in any of those possible outcomes.

In the *"Radical transformation"* scenario, there is a very fast pace of change with high non-linear penetration across all demographic consumer groups and a dramatic decline in the

[48] http://stakeholders.ofcom.org.uk/binaries/consultations/psb2_1/annexes/annex7.pdf

[49] http://www.bbc.co.uk/aboutthebbc/future/pdf/market_modelling.pdf

consumption of linear TV. The non-linear (online) market supports a wide range of new business models and consumer empowerment means that consumers support a vast range of content suppliers – often new entrants rather than traditional media players. In this scenario, news plurality is no longer a concern at all.

In the *"Fragmentation"* scenario, the studies similarly suggest a world in which technology is highly developed and in which for many the internet becomes the most important platform for the distribution and online consumption of all types of audiovisual content, including news. There are many new providers of content, but fragmentation of revenues means that not all of this content is well funded. A residual group of consumers – those who lack the skills and confidence to find and use new media content, or who cannot afford to connect to the new networks or pay for the new services – face more limited choice. But overall there is a multiplicity of news sources and much active news consumption.

In the third scenario, *"Consolidated transformation"*, there is high and widespread adoption of new technology, and non-linear services broadly replace traditional linear consumption. Crucially, though, many consumers look to trusted content and news providers to help them navigate the new marketplace, and incumbent media companies are well placed to become the online trusted brands of the future. But there is vigorous competition between this smaller number of large players, operating increasingly across old and new media, ensuring consumers still have a significant degree of choice.

Finally, in the *"Gradual evolution"* scenario, the world looks much more like the recent past. Even so, the trends described in the earlier section underline how different this world is from that which prevailed only five years ago.

A more recent scenario analysis carried out for Ofcom by Plum Consulting, "Entertainment in the UK, in 2028", which was carried out in 2009, also constructed some future scenarios. These were:

- "Broadcast Plus": very similar to the "gradual evolution" scenario described above
- "Infinite Choice": similar to the "consolidated transformation" scenario described above, but with an emphasis on the role of global media companies
- "Anywhere now": similar to the radical transformation scenario, but with more of an emphasis on mobile services.

In many ways, the difference between the various scenarios is one of timing and degree, rather than overall direction of travel. Their key finding is that media markets on the whole are likely to become more open, more diverse, and more competitive, with much greater fragmentation of consumption. Consumers will be able to access many more sources of content, including news, even if they do not always choose to take advantage of the choices available to them. If anything, market trends since these scenario analyses were first published suggest a faster move towards the more radical of the scenarios than was perhaps envisaged at the time.

In more detail, some clear underlying patterns and trends can be identified, which will have a significant impact on the future supply and consumption of news.

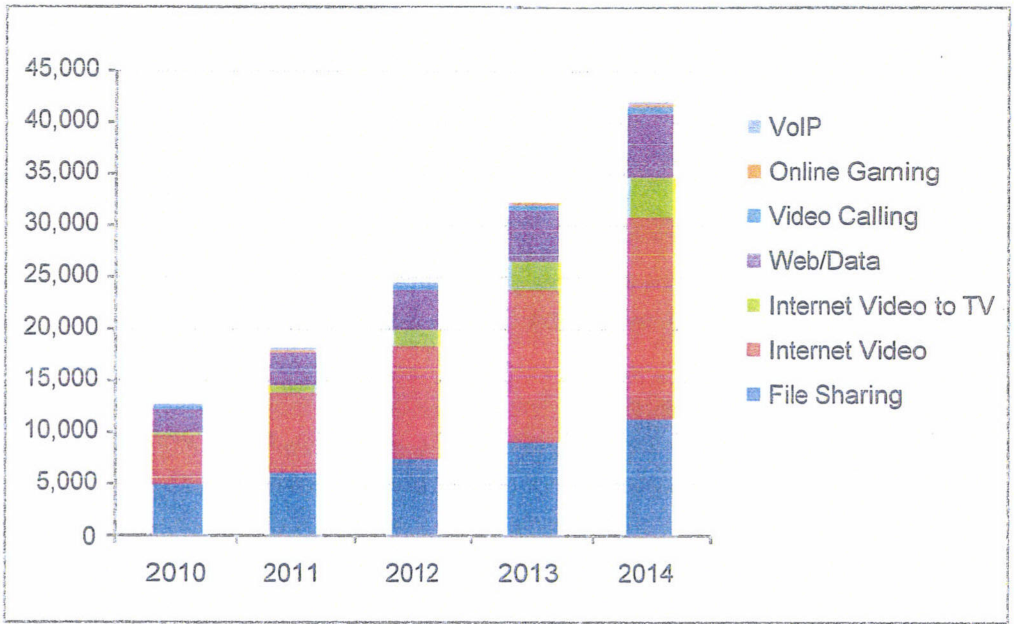
Technology change

The next ten years are likely to see further acceleration in technology change which will affect how content, including news, is distributed, where it is consumed, and what form it takes. In its 2009 report for Ofcom (cited above) Plum Consulting highlighted further significant increases in storage and processing power, upgraded capacity of fixed and wireless networks, and the intelligence of consumer devices as key influences on the future media market.

For example, BT is now rolling out its 'Infinity' service that will provide up to 40 Mbps for 2/3 of UK households by 2015. This will enable the majority of these households to stream TV (and HDTV), substantially reducing the barriers to entry for Pay TV, which otherwise depended on a purpose-built infrastructure (such as BSkyB's satellite distribution or Virgin Media's cable network).

Coupled with more sophisticated navigation and search tools, these developments will continue to transform the consumer experience across all types of media content. In practice, this is likely to mean high quality mixed media content being increasingly consumed online. Cisco estimate that the sum of all forms of video (TV, video on demand, Internet, and P2P) will exceed 91 percent of global consumer traffic by 2014[50]. Internet video alone will account for 57 percent of all consumer Internet traffic in 2014[51].

Figure 25 Forecast global internet traffic by type of use (PB per month)



Source: Cisco Visual Networking Forecast (2010)

More and more content will be consumed on the move, across a range of highly portable and increasingly converged devices such as netbooks, tablets and smartphones. In 2010 Q2 there were already around 13m smartphone users in the UK - a year on year increase of over 80%.

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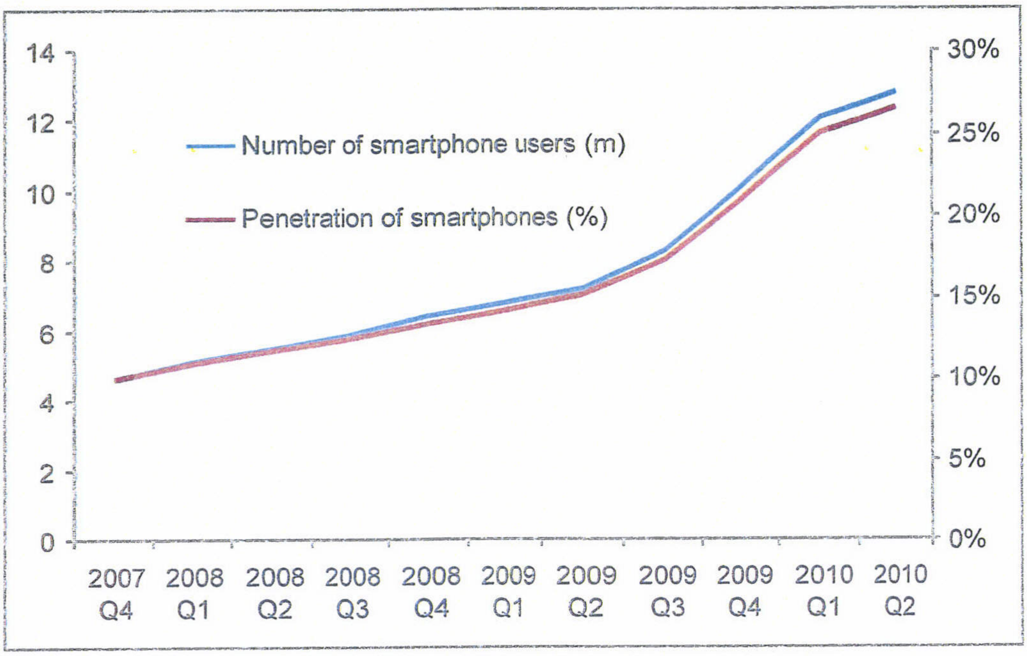
[50] Source: Cisco VNI Forecast 2010

[51] Source: Cisco VNI Forecast 2010

Figure 26 Smartphone takeup over time



Source: Ofcom Communication Market Report, 2010

According to Cisco[52], global mobile data traffic will double every year through 2014, increasing 39 times between 2009 and 2014. In the context of plurality, the rise of smart phones and tablets is important because it brings the inherent plurality of online consumption out of the home, and to places that until recently were the domain of less plural media consumption. For instance, the news consumer commuting by train previously depended on reading a single newspaper – now they can (and do) read multiple sources on their iPhone.

For all content, and especially for news, the impact on more traditional formats will be immense. Instead of simple internet pages which display conventional stories, the online news service of the future will be interactive, allow search and interrogation of archives and databases, and combine high quality video and graphics in imaginative new ways.

Consumer behaviour

In parallel, consumers will demand more active control over the content they consume, and there is likely to be further fragmentation of media tastes and preferences. Social networking will assume greater importance still, as the "cohort" effect ensures that today's younger internet-focused generation become mainstream consumers. Media analyst Mark Oliver, in his 2009 study for the Policy Exchange "Changing the Channel", described how we will see further significant changes in consumers' relationships with media:

- From a largely passive to a much more active relationship
- An increasingly active role in search and selection of content
- A more participative relationship with service providers
- Supporting many niche as well as mainstream content suppliers (the "long tail").

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[52] Cisco Visual Networking Index Forecast (2010)

In a recent OECD report "The future of news and the internet" (2010), the authors describe what they call the "social phenomenon of the internet". News users of the future will have a constant desire for updates "on the go", will want personalised information, and will expect to access multiple sources on the same topic and from different geographies. Although some internet news sites will retain a degree of user loyalty, overall retention of users by a single news service is likely to be low compared with traditional newspapers.

Similar trends are reported in the US. Research carried out for the US based Pew Research Centre's Project for Excellence in Journalism (2010) suggests that news in the US is increasingly a shared social experience. According to Pew, half of Americans say that they rely on people around them to find out at least some of the news they need to know. Some 44% of online news users get news at least a few times a week through email alerts, automatic updates, or posts from social networking sites. "While most original reporting still comes from traditional journalists, technology makes it increasingly possible for the actions of citizens to influence a story's total impact". Today's US trends are often good pointers to what will happen in the UK in the near future.

While the decline of mainstream media such as broadcast TV and newspapers should not be exaggerated – many consumers still like the shared experiences offered by popular television and the convenience of conventional print – the growth of "new" media will be an increasingly important component of media consumption. For some genres like news, which benefit most from the added capabilities of online provision, change is likely to be faster than average.

Market dynamics

A combination of the above trends means that the structure and intensity of competition in the UK media market is set to change again, with an important impact on news.

Greater competition is likely between UK digital distribution platforms, making it difficult for any one platform owner to dictate terms of entry into the market or to influence consumer access to a wide range of voices:

- YouView, backed by a seven-strong consortium of broadcasters and ISPs including the BBC, should be launched in mid to late 2011
- Alongside YouView, BT continues to offer its own IP based TV service, BT Vision
- Virgin Media plans to launch its own next-generation on-demand service, powered by TiVo's set-top boxes
- Apple's second-generation IPTV boxes have now been launched in the UK
- Google TV is likely to be launched in the UK next year
- Sony has developed an integrated IPTV system which streams more than 50 live broadcast television channels from Freeview and satellite, plus show reels of its own music videos
- Samsung has launched its own App store and, with Yahoo!, is offering the Yahoo! Connected TV service to 135 countries around the world
- Over-the-top services[53] will be increasingly viable as broadband speeds increase
- New entrant Boxee has already launched its web TV hardware in the UK
- Mobile network operator Vodafone is launching an IPTV service in Spain and Germany

[53] Those providing TV over a standard broadband connection from a third-party supplier

Competitive intensity in the provision of and packaging of content will continue to rise:

- Existing media providers are entering adjacent media markets (newspapers and television for example) increasing competition in each of the former single medium markets. The Accenture Global Content Study found that 60% of senior content executives thought that cross-sector competition was the greatest threat to their business, and a greater challenge than both declining demand and industry changes[54]
- New entrants are accessing consumers directly – for example, on-demand content provided online direct to consumers rather than via intermediaries. In November 2010, there were around 1,500 news apps on Apple's app store, 180 featured news and weather apps on Android Market and 200+ news apps on Blackberry's App World.
- Search and aggregation are playing an increasing role in leading consumers to the news they are interested. In the UK 45% of traffic to news websites comes from one single prominent search engine alone[55].
- Across national borders, new international players are moving into markets which were formerly beyond their reach. See for instance the New York Times' position as the news site with the third highest reach in the UK.
- Falling production costs mean that bloggers can reach many thousands of readers at very little cost, and community news sites are burgeoning. The number of blogs has increased three-fold between July 2006 and November 2010[56].
- Conventional news "packagers" are being by-passed. The OECD report (cited above) suggests that news wires, freelance journalists, photographers or camera teams which previously as suppliers fed linearly and directly into newspapers, might opt to "cut out the middleman" and start supplying source content directly to internet users. Already today audiences can access agencies' news feeds directly[57], previously the strict preserve of traditional media organisations.

As Plum consultants noted for Ofcom, "internet-based entertainment will lead to disruptive new value chains" and "we will see a growing diversity of business models for entertainment services in the UK". The OECD envisioned a far more complex and interactive value chain:

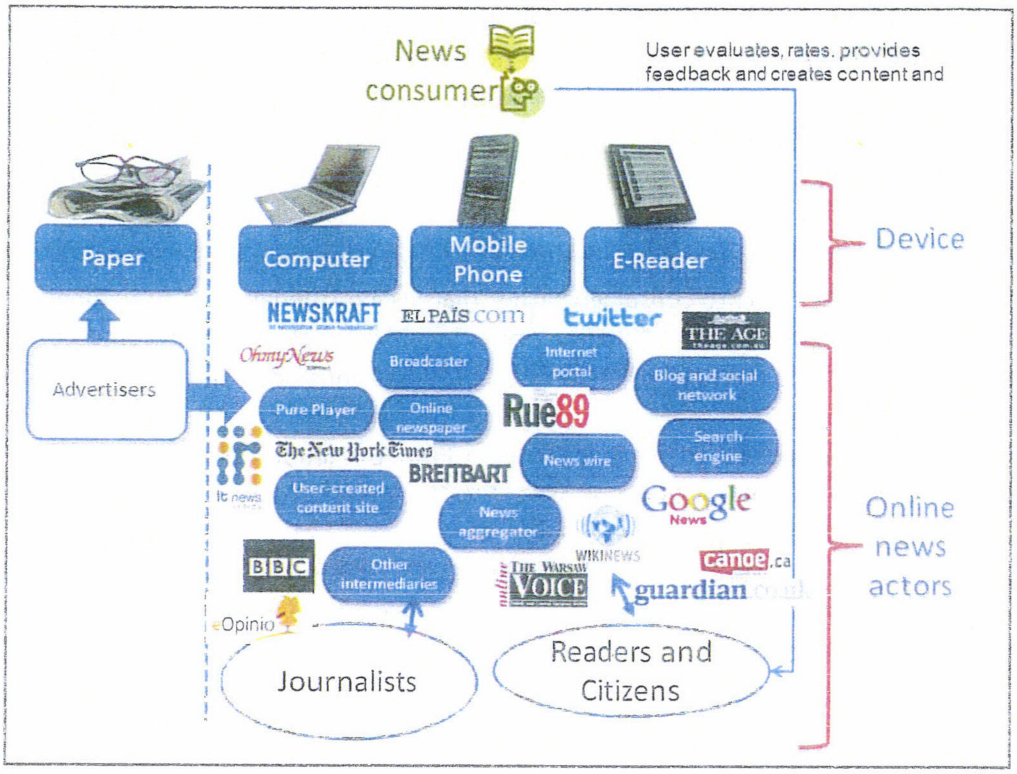
[54] Hitwise

[55] The Evolution of News and the Internet, OECD

[56] Technorati, BlogPulse

[57] Uk.reuters.com for example

Figure 27 The increasingly complex value chain



Source: The future of news and the Internet, OECD

Developing strategies

In response many media organisations are developing their own cross-media strategies, similar to those being pursued by News Corporation. Indeed, Accenture's interview of 102 senior content executives found that 65% believed that using new platforms or ways of delivery was the most important source of revenue growth for their industry[58].

One consequence of this is that there will be a range of evolving approaches to news capture and production. If newspapers move into television, the very different editorial and technical demands of broadcast news, coupled with highly specific regulatory requirements, are likely to mean that TV and print newsrooms remain separate for the foreseeable future. Where broadcasters move into new media, they will tend to place a central focus on high quality audio and video news, with text and graphics in a support role. For these ventures, the culture of the TV newsroom is likely to remain central, with audiovisual content tailored to meet the high technical and editorial specifications demanded by broadcasting use. Newspaper-led initiatives in new media may take a different approach, with print journalists increasingly expected to file online as well as for their newspaper, and many expected also to file stories to camera for audiovisual inserts. Even here, however, demand from consumers over time for better quality audiovisual material is likely to lead to the import of highly skilled broadcasting expertise to work in parallel with the existing news teams. Ultimately, a wide range of approaches will evolve; those which consumers like best will be most successful.

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[58] Source: "This Time, It's Personal: The Accenture Global Content Study 2009", Accenture, 2009

Alongside these new developments, the BBC remains a strong player in the supply of news. The BBC has recently agreed a guaranteed licence fee for the next six years which will give it a significant degree of funding certainty in what is elsewhere a highly uncertain environment. While its overall funding has been reduced, news is fundamental to its PSB role, and is unlikely to have its budget significantly cut. The BBC's most recent strategy statement (the BBC Strategy review, March 2010) underlines the BBC's intention to play a continuing prominent role in news provision across broadcast and online media. This role, as mentioned above, enables the BBC to have an important influence on consumer expectations of news media in the UK, and will continue to affect the way in which stories are selected and reported across many other news outlets.

The BBC's news priorities will include:

- *Strengthened specialist analysis, in particular in science, the environment and social affairs*
- *Increased business coverage at a global and local level*
- *Strengthened commitment to international newsgathering and reportage in parts of the world with growing geo-political importance such as China and Brazil*
- *Enhanced commitment to scrutinising the local democratic process, including through multi-platform coverage of local government and politics through Democracy Live*
- *Enhanced coverage of UK arts and culture.*
- *News Online will remain a highly accurate, impartial and trustworthy source of news, analysis background information and debate about stories of significance and seriousness. It will always be free at the point of use.*

Source: BBC Strategy Review, March 2010

Implications

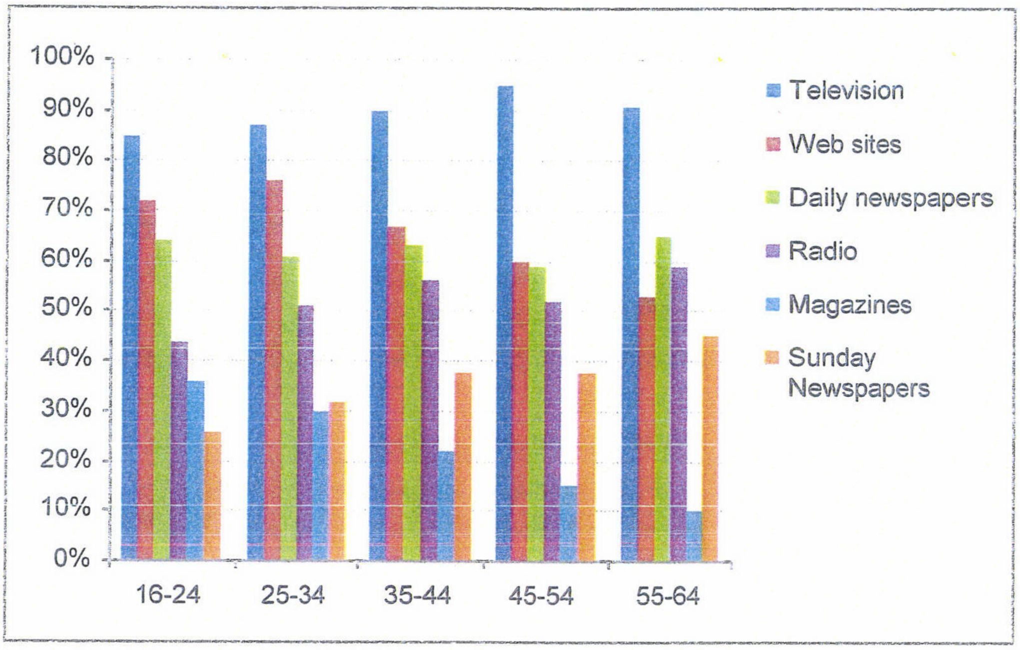
News plurality

Taken together, the trends and developments we have outlined point to a clear conclusion. The increase in sources of news which has already begun will gather pace in the coming years. In parallel, more consumers will take advantage of the opportunities provided by more choice to select the range of news suppliers and stories that most interest them.

A picture emerges of a world in the not too distant future where the supply and consumption of news is very different from that of the 2003 Communications Act. This transformation will be associated with widespread use of online and mobile sources of news, alongside more conventional provision. There will be an increasingly unified cross-media market for news, not one constrained by each individual medium. For some demographic groups, online will be the only source of their news. Already studies show that the internet is the main source of news for 15-24 year olds (OECD) and a recent paper for the Reuters Institute for the Study of Journalism (UK Election 2010, Nic Newman, 2010) reported that online news sites were the most important source of election news for 18-24 year olds in the UK, ahead of TV and printed newspapers.

McKinsey's 2006 and 2009 studies into levels of interest in different news media found that websites were now rank above daily newspapers for all groups bar the over 55s.

Figure 28 Respondents interested in different media for news consumption, 2009



Source: 2009 McKinsey media and entertainment news survey

If online were simply repeating what is available offline, in newspapers and broadcast television, it could be argued that the internet were merely a new platform for old news providers. This, however, is not the case. As we have noted, consumption of online news content is highly fragmented, with only one provider with significant share, the licence-funded BBC. Further, there are no regulatory rules requiring impartiality of online news.

While BBC Trust has put in place editorial guidelines stressing the need for impartiality in online news, this is self-imposed as opposed to a regulatory requirement that covers other creators of news.

Drawing on the research already referred to in this paper, the characteristics of this new world can be summarised as follows:

Supply:

- More news sources available at community, local, national and international levels: either commercially funded, not for profit, or funded by philanthropic support.
- A blurring of the distinction between different media – key news brands will stretch across platforms, and increasingly focus on what we now think of as "online" as the core of their proposition.
- Different ways of packaging and accessing news – while there will still be a role for trusted brands in the supply of news, content aggregation, search, and recommendations from social networking sites will play an important role in helping people find news and make choices about which news sources to use.

Demand:

- Consumers will access multiple sources of news, using different platforms.

- Online/mobile will be the most important source of news for younger users, and will be used alongside more conventional sources by most regular news consumers.
- Online news consumers will mix different sources of news, compile their own personalised information, and move frequently between different news sources.
- News consumers will be more likely to participate in its provision – for example in discussion groups, by sharing stories, or by posting their own views and news.
- Television and print news will remain in demand, each having characteristics valued by some – but they will be used as part of a wider portfolio of news sources, and not as a single voice.

In his Policy Exchange paper, Mark Oliver describes this outcome as a "utopian world" in which the internet is the ultimate egalitarian force, designed to reduce the power of big business and hand power back to the consumer and citizen. Plurality would no longer be an issue. The OECD suggests that in this world, "public opinion will be shaped by many different voices with different emphasis and points of view, not by a small elite group of journalists". Barriers to entry to publishing have been lowered and users carry out their own selection and filtering of editorial content.

As noted above, though, risks remain. Pessimists fear not that there will be a lack of diversity of news; rather that fragmentation will reduce overall quality, as investment in newsgathering suffers and rigorous fact checking and editorial oversight disappears.

Proposed News Corp/BSkyB transaction

In conclusion, news is more exposed to the radical trends outlined above than almost any other genre:

- Competition from new online provision
- Changes in the way it is consumed and in consumer expectations
- Competition across media and from outside the UK
- Uncertainties about viable business models

Even if the type of world outlined earlier is enthusiastically taken up by only part of the UK population, the important point is that the choices will be there if wanted. If consumers dislike the approach taken by any one supplier, they will be able to switch to another. Indeed, many will already be using multiple sources. In this environment, there will be little scope for any one news provider – no matter how successful – to set the editorial agenda for the news market as a whole. Indeed, a more pressing concern may well be the inadequacy of funding to support high quality newsgathering infrastructure. If that is the case, then the emergence of a reasonable number of well-funded news providers, able to build innovative and high quality multimedia news propositions should be seen as providing significant consumer benefit, rather than as a threat to plurality.

Thus any speculative concern about hypothetical future consequences for plurality needs to be seen against a market that is widely expected to have rapidly rising general plurality (in much the same way that any current loss of plurality needs to be seen against the background of increases in plurality since 2003). In this respect, it should be noted that upcoming generations will likely be even less dependent on newspapers (News Corporation's traditional media position) and on television, and increasingly influenced by the internet, the medium in which News Corp is relatively weaker.