23rd July 2008

Mr Denis Kelly
Inquiry Coordinator
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Dear Mr Kelly

**stv Central Limited and stv North Limited (together "stv")**

**ANTICIPATED JOINT VENTURE BETWEEN BBC WORLDWIDE LIMITED, CHANNEL 4 TELEVISION CORPORATION AND ITV PLC RELATING TO THE VIDEO ON DEMAND SECTOR: PROJECT KANGAROO**

Thank you for your letter of 16 July and the request for further information in respect of Project Kangaroo. I reply on behalf of stv, the holder of the two regional Channel 3 licences in Scotland, and a member of ITV Network, who broadcast as "stv" in Scotland and not as ITV1 as in England and Wales. ITV Network is made up of the 15 regional Channel 3 licensees, and ITV plc holds 11 of the 15 licences within the Network. (The other two are held by UTV and Channel Television respectively).

Unfortunately at this stage we cannot provide any further input over and above that contained in our previous response on this matter to the OFT (appended for ease of reference).

[✂] we have not received any detailed information on Project Kangaroo which would allow us to form a view as to whether it would be in our best interests to be part of it (via ITV Network) or not. [✂]

stv, for its part, uses the portal www.stv.tv as its broadcast related online site, and we have recently launched catch-up services through this route in relation to material commissioned to be shown on the ITV Network www.video.stv.tv.

[✂]

Yours sincerely

Rob Woodward
**CHIEF EXECUTIVE**

**PROJECT KANGAROO**

**QUESTIONS TO VOD CONTENT SUPPLIERS**

1. **Please briefly describe your business and its involvement in relation to video-on-demand (VOD) services. Do you operate, or have an interest in, VOD services in the UK or elsewhere?**

   <u>ANSWERS</u>

   Refer Question 1 per VOD service provider list

2. **What do you consider to be the product market relevant to VOD content supplied to VOD websites and TV platforms? For example, what are your views on substitutability between:**
   a. **Film and television content;**
   b. **UK- and US-originated TV content;**
   c. **Long form and short form VOD content;**
   d. **Recently broadcast ('catch-up') and archive TV content?**

   <u>ANSWERS</u>

   In our view, it is difficult to assess substitutability at this stage as market is still embryonic.

3. **Do you licence content for UK VOD exploitation direct to VOD platforms or via UK broadcasters, or both. What factors influence such decisions?**

   <u>ANSWERS</u>

   stv licences content (ie the ITV Network Schedule) through our membership of the ITV Network and the acquisition of rights under the Terms of Trade. Under the Terms of Trade, rights are taken by ITV Network on behalf of all fifteen Channel 3 licensees for exploitation in their respective licensed areas.

   Alternatively, stv (or its associated production arms) may have been the producer of the programme and hold the rights (if the ITV licence has expired).

   If the rights are out of licence to ITV, and stv's associated production company was the producer, then stv is currently contemplating licensing models, likely to be an arms length intra company deal to enable the material to be cleared for VOD exploitation.

4. **What are the main parameters of negotiation over broadcast and/or (subsequent) VOD rights?**

   <u>ANSWERS</u>

   Normally rights will be taken at the point of acquisition of the broadcast rights. If not, then rights will have to be cleared. The precedent of the ITV Union agreements provides for a multi-media royalty to be paid, namely a percentage of the arms length deal.

5. **To what extent do the Kangaroo joint venture parties (BBC Worldwide, Channel 4 and ITV) compete for broadcast and/or VOD rights to your content? Please describe relevant specific examples.**

   ANSWERS

   If stv were to decide not to be part of Kangaroo, there would be competition between the extended on demand offerings of stv on www.stv.tv and that of Kangaroo.

6. **What is the typical relationship between prices achieved for broadcast rights and for VOD rights?**

   ANSWERS

   Currently, the value lies with broadcast rights however this may evolve over time as the market develops and devices converge.

7. **Do you place restrictions on the types of advertising place in or around your content licensed to VOD services? Please explain.**

   ANSWERS

   stv would follow broadcast regulation and guidance and internal policy.

8. **Do you have any competition concerns about the Project Kangaroo joint venture? Please explain your answer.**

   ANSWERS

   See Q22 response per service provider questions

   **End**

**PROJECT KANGAROO**

**QUESTIONS TO VOD SERVICE PROVIDERS**

1. **Please briefly describe your business and its involvement in video-on-demand (VOD) services.**

<u>ANSWERS</u>

Our core business is television and multi platform content exploitation. We hold the two Channel 3 licences operating wholly within Scotland (stv Central Limited and stv North Limited) who broadcast under the brand name "stv" (and not ITV1 as in England and Wales). Our related website is www.stv.tv (not www.itv.com which applies to ITV1).

In addition we have associated network production businesses that produce programming for ITV1 and for the other UK terrestrial and digital channels – SMG Productions and Ginger Productions.

Our website, www.stv.tv is stv's news, sport and entertainment platform. We are planning to launch a new video player over the summer of 2008 which will feature simulcast (of the stv signal), catch-up (of the stv schedule) and extended on demand services.

<u>Supply of VOD services to end users</u>

2. **Provide a detailed description of your VOD service, including:**
   a. **Date of launch**
   b. **Main features**
   c. **Platform(s) over which it is provided**

<u>ANSWERS</u>

a. Over the summer of 2008
b. This will feature simulcast, catch-up and extended on demand services.
c. This will occur online

3. **Describe the business model(s) for the service including:**

   a. **Sources of revenue (advertising, subscription, download-to-rent/pay-per-view; download-to-own, etc.);**
   b. **Pricing;**
   c. **If advertising supported, details of advertising offered and prices;**
   d. **Information on revenues since launch;**
   e. **Expected future growth in your service and the VOD market;**

<u>ANSWERS</u>

a. Primarily through advertising
b. This is still to be finalised

c. This will be through pre and post roll video, MPU, sky and banner ads, pricing TBC.
d. N/A
e. Cannot be estimated because the market is embryonic

**4. What do you consider to be the product market relevant to the VOD service planned by the Kangaroo joint venture (JV)? For example, what are your views on substitutability between**

- **a. Television VOD content and film VOD content?**
- **b. UK and US-originated content?**
- **c. Internet VOD and TV-platform VOD?**
- **d. 'True' VOD, near-VOD and use of PVRs?**
- **e. Long-form and short-form VOD content?**

ANSWERS

The market is very immature to be able to form considered views.

**5. What do you consider to be the geographic market relevant to the JV?**

ANSWERS

Principally the UK

**6. Please describe the nature of competition between VOD services. How do you measure competitive 'success' in this arena (e.g. share, reach, page impressions, number of downloads, etc.)?**

ANSWERS

Competitive success would be measured by the number of video streams / downloads and advertising sales

Advertising

**7. If relevant, what types of advertising do you place in and around VOD services?**

ANSWERS

See above

**8. How are advertising rates/prices set?**

ANSWERS

There are various models, but none yet crystallised as standard

a) Payment based on number of video streams or
b) Cost per click –contextual based advertising

**9. What do you consider the relevant product market in which internet advertising on VOD websites should be assessed? Should it be wider than internet display advertising (defined as video, moving or static displays placed on a website); or segmented according to type of website, or between static and video display advertising?**

ANSWERS

It is difficult to see how it could be defined narrowly as the market is in the early stages of development, but the market may change.

**10. What do you consider the relevant geographic market for internet advertising in this case?**

ANSWERS

Principally UK

Entry conditions

**11. Are there significant barriers to entry with respect to the provision of VOD services? What factors are most relevant?**

ANSWERS

Content rights are the key barrier as infrastructure is not a significant cost in relative terms.

**12. Please give details of own entry costs and experiences in establishing VOD services?**

ANSWERS

On infrastructure c£200k - £300k, depending on requirements. Content is difficult to isolate as we pay c£50m into ITV network programme budget to access rights re simulcast, catch-up and archive online

Acquisition and syndication of VOD content

**13. If applicable, please fully describe the nature and history of your VOD content rights (syndication) relationship with each of the parties to the JV.**

ANSWERS

As television producers we have rights and as part of the ITV Network we share rights

**14. Are the parties' VOD content offers substitutes? In putting together a range of VOD content, how important are each of the parties?**

ANSWERS

Each of the parties brings different content that will appeal to different audiences – in our view, BBC and ITV may have “richer” archives.

**15. Do the parties represent important alternative options for acquiring VOD content rights? Have you actively switched purchases between them (if so, give examples)?**

ANSWERS

We are not a third party looking to acquire large scale rights. We have rights either through our membership of ITV Network, or as a producer with our own library of rights in content.

**16. Who are your (other) main providers of VOD content?**

ANSWERS

See question 15 response.

**17. What are the main parameters of negotiation for VOD content supply rights?**

ANSWERS

In our experience the vast majority of times it would be acquired as part of a television commission. This may change as the online market develops and matures.

**18. Please discuss the degree of substitutability (for providers of a VOD service) between (i) TV and film VOD content; (ii) UK and US TV content. Should they all be considered part of the same market at the syndication level?**

ANSWERS

The market is very immature to be able to form considered views.

**19. Explain the extent to which negotiation of VOD content rights directly with production companies an alternative for TV content.**

ANSWERS

As devices converge it will become an alternative in the future.

**20. Please estimate shares of content (for all VOD, TV content, and UK-originated TV content respectively) provided by each of the parties and by other significant suppliers.**

ANSWERS

We have no detailed information to allow us to make a reliable estimate however we expect that the relative shares provided by each party will depend on their negotiation power and richness of their archive.

General

**21. In the absence of the JV, how would you see the market developing? In particular, do you expect that BBC Worldwide would develop its own archive VOD platform?**

ANSWERS

Each party would develop their own services. They are doing this with different content on their own video players in any event.

**22. Do you have competition concerns about the JV? Please explain your answer, and provide any internally-produced business documents which analyse or discuss the relevant concerns.**

ANSWERS

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**end**