



Competition Commission: Project Kangaroo

An IPA viewpoint

July 2008

Anticipated joint venture between BBC Worldwide, Channel 4 and ITV relating to the video on demand sector: Project Kangaroo

The IPA welcomes this opportunity to submit views to the Competition Commission with regard to the above venture.

1 About the IPA

- 1.1 The Institute of Practitioners in Advertising is the trade body and professional institute for UK advertising, media and marketing communications agencies. Our 273 corporate members, who are based throughout the country, handle over 80% of the UK's advertising worth £18 billion in 2006 (Ad. Assoc. Statistics Year Book 2007), on behalf of many tens of thousands of their client companies and organisations worldwide.
- 1.2 Since its inception, one of the IPA's core aims has been both to encourage and maintain the existence of high-quality media through which our members can deliver their clients' commercial messages - and to ensure a competitive marketplace in which these media can flourish.
- 1.3 It is against this background that our observations on Project Kangaroo are made.

2 Format of this response

- 2.1 In as far as is possible in such a new market-place with very limited data, we will seek to supply answers to the Competition Commission's general queries, before going on to make a few brief observations on the project itself, our potential concerns and possible remedies at the conclusion.

3 Overall thoughts

3.1 Relevant markets

On a macro basis, the new venture will compete with all other media (press, outdoor, radio etc) for advertisers' funds.

However, more practically, from an advertiser's point of view, Video on Demand (VoD) will be seen as a variant of television, possibly making use - at least in the early days - of material developed for mainline television campaigns.

More specifically, Project Kangaroo will then compete with all the other VoD services, from the individual film and catch up offerings of the main terrestrial and satellite broadcasters (including Sky and Virgin Media) - to BT Vision - to the likes of YouTube , Google Media and Microsoft's on-demand services via its X-box).

3.2 How might this market evolve over time?

This is a brand new sector, where very little evidence is available to anyone.

To this extent, we feel sympathy with the joint-venture partners in their perceived inability to supply detailed information on the potential impact of their service on the market, since the novelty of the area means that any thoughts on the future will inevitably be a matter of major speculation.

Kieron Clifton, the head of strategy at Five has stated that products like "Demand Five " will "allow us to learn about what people want to watch and where and what they will put up with in advertising" (Marketing Magazine, 30th July 2008).

However, before this takes off fully we believe that viewers will need to be able to access VoD more easily than at present - either through their TV sets or similar.

To some extent the equipment for allowing this to take place already exists - however, we believe that it will be the development and widespread availability of entertainment centres capable of receiving satellite, terrestrial and broadband from wherever content is available and from whatever rights permission allows that will really drive this market.

This, in turn, will link in with other factors like download speed, and the ease and sophistication of the service provided (the BBC i-player is applauded this area).

How these factors will interact and over what time, however, is not something on which we feel qualified to speak.

3.3 Current and future competitors in the relevant markets

We have suggested current competitors to Kangaroo under 3.1 above.

However, while research from Starcom Media on Internet TV may reveal that 56% of the broadband population has downloaded or streamed video content from the Internet over the last 12 months (Marketing Magazine, 30th July 2008), it is

still far too early - and regular usage still far too small - to assess who else might be attracted to the sector in the future.

Much has been made of the dangers of Google and Apple carving out a dominant position in this area - particularly since Google's dominance elsewhere on the Internet is of increasing concern to many in the advertising community.

Having said this, however, the extent to which any company can dominate in this area will be massively determined by its ability to source content - which facility, we believe, offers Kangaroo the greatest potential to hold off leviathans like Google and Apple, while posing competition problems of its own elsewhere.

3.4 How is Kangaroo viewed in the marketplace?

As stated at the outset of this paper, the IPA and its members have a direct interest in supporting and promoting the development of new media through which advertisers can deliver their commercial messages to customers.

To this extent, then, we appreciate the valuable role which a large-scale operation like Kangaroo could play in establishing VoD as a concept with the public and in attracting large enough audiences to be of interest to advertisers.

Likewise, we have some sympathy with the view that it could better invest in technology and act as a counterbalance to global players like Apple and Google, should they become more active in the sector.

Having said this, we also understand the inherent dangers of Kangaroo becoming what other broadcasters have seen as a potential cartel, controlling over 90% of UK produced programming with a direct interest in putting its competitors out of business.

Clearly, this viewpoint is particularly fierce from companies which currently take up this content - and who would be concerned if this were not made available on similar terms to competing services.

From the IPA's position, we therefore find ourselves torn between the desire to see the VoD area grow as a result of Kangaroo raising the sector's profile with the consumer - and the dangers of allowing the creation of a giant, which might subsequently exploit its dominant position to the detriment of advertisers/viewers.

The extent to which the latter poses a real danger, we believe, lies in satisfactory answers in two inter-related areas:

- The constraints placed on Kangaroo re the availability to others of the original programming supplied by its founding partners;
- The structure of the joint-venture itself - where its shareholders currently obtain payment in the form of overall dividends - incentivising those members to act in concert to maximise their returns.

Unless the market is re-assured in these areas, we believe that irrespective of current and prospective size of VoD, Kangaroo will be potentially anti-competitive.

4 Conclusions

- 4.1 While the IPA applauds the development of Kangaroo as an operation which could give "substance" to VoD and help raise its profile with viewers, we are concerned at the power its stranglehold over UK produced programming will grant it.
- 4.2 In addition, we are worried concerning the current structure of Kangaroo – and the extent to which the partners will act jointly on key issues like sales and pricing.
- 4.3 Before any permission is given for the Kangaroo consortium to go forward, we therefore believe that action must be taken to ensure:
 - That Kangaroo's content is made available to others under "fair and reasonable" terms.
 - That members of the consortium offer their materials on the website separately and are rewarded individually (i.e. that the benefits of the joint-venture should derive from the greater audience attracted by "one-stop" convenience versus any internal trading arrangements, which might encourage members to leverage their position of power.)
 - That prevention of "shared rewards" and/or the possibility of joint sales should be extended to all those commercial areas presently handled individually by the broadcasters (eg brand web-sites, interactive ads and sponsorship etc) - currently excluded from Project Kangaroo - but potentially capable of being brought under its remit at some future date.

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