

## Strategic rationale and business plan

### Introduction

1. Paragraphs 3.18 to 3.29 of our report set out an overview of the parties' strategic rationale for the proposed JV. This appendix describes the strategic rationale for the JV arrangement in more detail, as well as reviewing the UKVOD business plan.

### Strategic rationale for the transaction

2. We examined the rationale for each of the BBC Trust, the BBC Executive and each of the parties for contributing to the JV by reviewing their internal documents. This is set out in paragraphs 3 to 30.

### **BBC Trust/BBC Executive/BBCW**

#### *BBC Trust review*

3. The BBC Trust has reviewed BBCW proposals for the JV at a number of stages from both a strategic perspective and in order to ensure compliance with the Agreement. The initial review was on 20 June 2007 where agreement in principle was given to the JV. A detailed review, in light of the OFT findings and negotiations around the long-form agreements, took place on 19 June 2008.

#### *BBC's reputation and brand*

4. The overarching strategic principle of the BBC Trust is that no BBC service must jeopardize the reputation of the BBC or the value of its brand. With this in mind, BBCW approached the Trust to consider the following in terms of the JV editorial proposition:
  - *BBC's release policy.* [✂]
  - [✂]
  - *Editorial principles for BBC content on the JV website.* [✂]
  - *JV branding strategy.* The overall branding strategy of the JV will be subject to approval by each of the parties [✂].
  - *Advertising.* Each party will sell its own advertising on the JV platform, on its own behalf or via an agency. [✂]

#### *Fit with the BBC's public purpose activities*

- A commercial service is considered to fit with the BBC's public purposes if:
  - it is appropriate to be carried on in association with the promotion of the public purposes; and
  - it is connected otherwise than merely financially, with the ways in which the BBC promotes its public purposes.

- [REDACTED]<sup>1</sup>

*Commercial efficiency*

[REDACTED]

*Fair trading and avoiding market distortion*

- The relevant principles of the Fair Trading guidelines include:
  - appropriate use of BBC brands;
  - financial and operational separation between the BBC's public service activities and its commercial activities—[REDACTED];
  - fair pricing by the BBC's commercial activities; and
  - no unfair promotion of the BBC's commercial activities through its public service activities—any reference to the JV on the BBC's public services must therefore comply with BBC editorial guidelines and the Trust's Code on Cross and Digital TV promotion.

*BBCW strategic rationale*

[REDACTED]

*UKTV and 2 entertain*

5. [REDACTED]

6. [REDACTED]<sup>2</sup>

7. [REDACTED]<sup>3</sup>

8. [REDACTED]

[REDACTED]

9. BBCW told us that a new management team was put into UKTV a year ago which has updated the channel portfolio with the relaunch of a channel called Dave, leading to a 'very significant improvement in ratings'. [REDACTED]

10. [REDACTED]

[REDACTED]

11. [REDACTED]<sup>4</sup>

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<sup>1</sup>[REDACTED]  
<sup>2</sup>[REDACTED]  
<sup>3</sup>[REDACTED]  
<sup>4</sup>[REDACTED]

[REDACTED]

12. [REDACTED]<sup>5,6</sup>

[REDACTED]

13. [REDACTED]<sup>7</sup>

*2 entertain*

14. [REDACTED] According to press reports in late November, BBCW had confirmed that it was in discussions with Woolworths to buy out the latter's shares in 2 entertain although the price offered was reported to have been reduced from £100 million to £40 million in December 2008.

15. [REDACTED]

16. [REDACTED]

### **C4C strategic rationale**

#### *Existing VOD service*

17. 4OD was launched in Q4 2006 as an online open VOD service and a catch-up service was launched on Channel4.com in Q2 2008. 4OD is the umbrella brand for C4C's VOD service across all platforms. The service was syndicated to Virgin Media in October 2006, BT Vision in December 2006 and Tiscali in March 2007. It has a registered user base of approximately [REDACTED] people, with monthly visitors of about [REDACTED].
18. The 4OD site contains over 3,000 hours of archive and 50 to 60 hours of catch-up content each week, with the majority of this content being available streamed on a free, advertising-funded basis (with some film and US content which is pay-per-view only). The move to a free advertising-funded model has been the most significant change to the 4OD business model since launch, as it started as a predominantly pay model.
19. Channel4.com has been redeveloped over the last year and extended its catch-up service from 0–7 to 0–30 days in September 2008. This site offers a catch-up service and is a 'click-and-play' model unlike 4OD which requires software to be downloaded to a PC.

#### *The future of 4OD*

20. [REDACTED]

#### *Rationale for choosing UKVOD*

21. [REDACTED]

22. [REDACTED]

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<sup>5</sup>[REDACTED]  
<sup>6</sup>[REDACTED]  
<sup>7</sup>[REDACTED]

23. [REDACTED]

24. [REDACTED]<sup>8</sup>

### ***ITV strategic rationale***

#### *UKVOD negotiations*

25. [REDACTED]

#### *The future of ITV.com*

26. In September 2007, as part of its 'Turnaround Plan',<sup>9</sup> ITV set a target of growing online revenues from about £35 million in 2007 to £150 million in 2010, primarily through increasing its share of online advertising revenue. In their presentation to investors in September 2007, management stated that of the £150 million in revenues, they expect 'at least 75% to come from online display, video and local classified advertising ... fuelled by the scale of traffic on ITV.com and Friends Reunited and our growing ability to target consumers individually. The balance of the revenues will come from subscription and transactional services'.<sup>10</sup>

27. [REDACTED]

28. [REDACTED]

#### *Rationale for choosing UKVOD*

29. [REDACTED]

30. [REDACTED]

### **Analysis of the financial benefits of the JV**

31. Table 1 sets out the UKVOD Business Plan for the five years to 31 December 2012.

TABLE 1 **UKVOD five-year plan**

[REDACTED]

Source: [REDACTED].

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32. We reviewed several iterations of the UKVOD business plan and noted the following key points in the most recent version we reviewed:

- The most significant change to the business plan from earlier versions was that [REDACTED]. The syndication rights granted to the JV by the parties had been changed from that envisaged in the SFA, with C4C and ITV retaining rights to syndicate 0–30-day catch-up content. The revised business plan therefore reflected syndication from archive content only, whereas previous versions also reflected revenue expected from the syndication of C4C and ITV catch-up.

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<sup>8</sup>[REDACTED]

<sup>9</sup><http://www.itvplc.com/files/presentation/2171/StrategyUpdate07.pdf>.

<sup>10</sup>ITV turnaround speech, September 2007.

- The parties told us that the effects on the business plan were [REDACTED].

[REDACTED]<sup>11,12</sup>

33. [REDACTED]

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<sup>11</sup>Joint position paper of the effects of the transaction on competition, 2 October 2008, p4.

<sup>12</sup>[REDACTED]

[✂]

[✂]<sup>13</sup>

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<sup>13</sup>[✂]

[REDACTED]

[REDACTED]<sup>14</sup>

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<sup>14</sup>[REDACTED]