

Measuring Market Impact in Public Service Broadcasting



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Situation

- /// Since June 1st the **12th Amendment to the Interstate Broadcasting Treaty** has come into force
- /// With this Treaty, Germany is complying to the provisions of the European Commission regarding the **application of state aid rules to public service broadcasting**
- /// Based on the Treaty a special **procedure to assess** the nature and value of new services or products offered by public service broadcasters has been implemented recently

Amsterdam Protocol

The role of the public service broadcasting sector is outlined in the Amsterdam Protocol

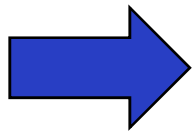
Amsterdam Protocol

1. The system of public broadcasting in the Member States is directly related to the **democratic, social and cultural needs of each society** and to the need to preserve media pluralism,
2. **Funding** is granted to broadcasting organisations for the fulfilment of the public service remit as conferred, defined and organised by each Member State, and insofar as
3. Such funding **does not affect trading conditions and competition** in the Community to an extent which would be contrary to the common interest, while the realisation of the remit of that public service shall be taken into account.

Broadcasting Communication 2009

Ensures that the public funding of audiovisual services does not distort trade and competition

- /// Assess the overall impact of a new service on the market by comparing the situation **in the presence and in the absence** of the planned new service
- /// **Aspects:** Existence of similar or substitutable offers, editorial competition, market structure, market position of the public service broadcaster, level of competition, potential impact on private initiatives
- /// **In the case of predominantly negative effects on the market, State funding for audiovisual services would appear proportionate only if it is justified by the added value in terms of serving the social, democratic and cultural needs of society**



Three-Step Test

All new and existing online services have to be reviewed

The broadcasters have to examine the following:

... that it is (1) part of the public service mission and thus corresponds to the democratic, social and cultural needs of a society and

... that it (2) contributes to the quality of editorial competition and

... that (3) the expenditure is planned for providing the service

Further criteria

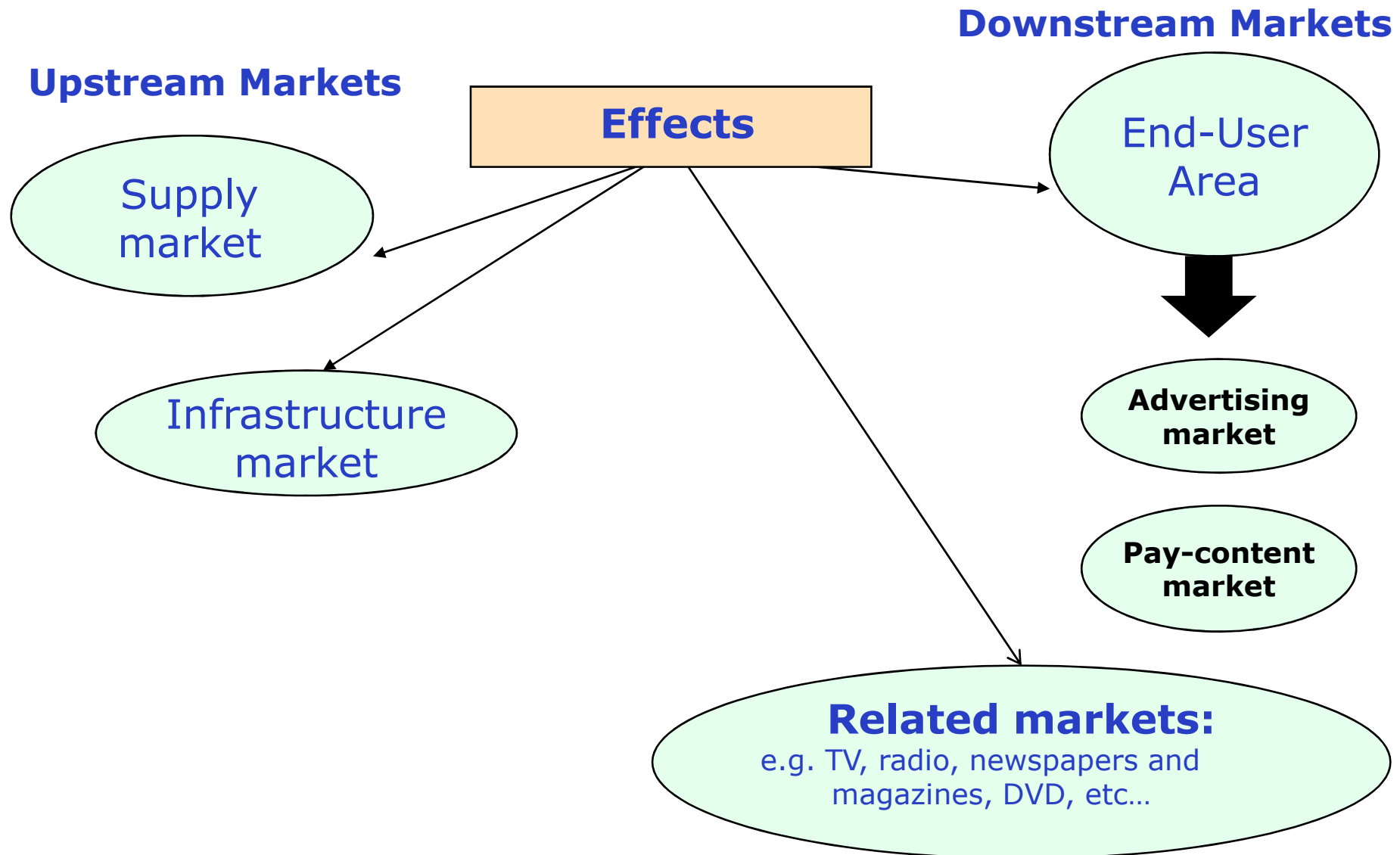
- /// quantity and quality of the existing free accessible services and
- /// **market-relevant impacts of the (planned) services** and
- /// Function of the planned service (that may include entertainment) in shaping public opinion in view of existing services

Stages of the Market Assessment

For existing online services

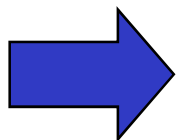
1. Definition of the relevant market
 - § Separation of editorial and economic markets
2. Static analysis: market assessment with the affected online service
 - § Identification of the status quo
3. Dynamic analysis: market assessment without the relevant online service
 - § Identification of market-relevant impacts

Affected Markets



Market Definition State Aid

- /// For the purpose of the market definition in state aid cases, the **same instruments** are to be applied, which are applied in antitrust and merger cases (EC, Common Principles, Fn. 55 ff.)
- /// **Identifying the competitors** affected by the aid is equivalent to delineating the product markets where the aid may lead to a shift of demand away from competitors and in favour of the aid beneficiary
- /// The product markets concerned comprise all those products which are regarded by the **consumer** as interchangeable or substitutable with a product concerned

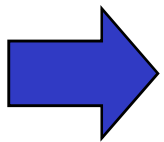


In the media sector the market is defined based on demand-side substitutability

European Commission Notice Market Definition

European Commission: „A relevant product market comprises all those products and/or services which are regarded as interchangeable or substitutable by the consumer, by reason of the **products' characteristics**, their **prices** and their **intended use...**“

(EC, Commission notice on the definition of relevant market for the purposes of Community competition law, 9.12.1997)



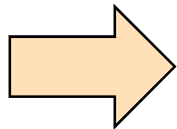
Demand substitution constitutes the most immediate and effective disciplinary force on the suppliers of a given product

Hypothetical Monopolist Test in the Media Sector

The theoretical approach to define markets put forward by the European Commission notice is based on the **hypothetical monopolist test**

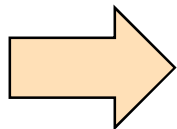
(DG Competition, Market Definition in the Media Sector – Economic Issues)

1st step: Assumption of a hypothetical non-transitory reduction of price and analysis of customer reactions



Measurement of switches in demand

2nd step: Evaluation of the profitability of the price increase



Impact of the switch on the profit situation

Practical Implementation of the HM-Test

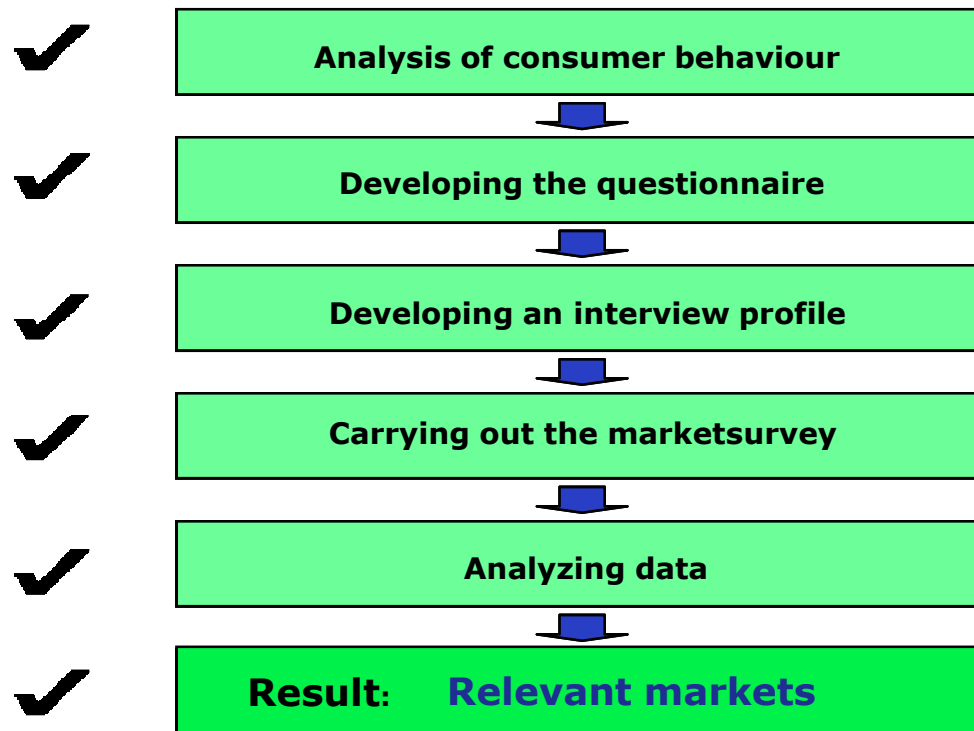
For existing online services

- /// The relevant product market or service market comprises all those products/services that are **sufficiently substitutable**
- /// The question to be answered is whether users of online services of public broadcasters would **switch** to online services of commercial broadcasters in response to a price increase or reduction of „quality“
- /// The responses by the users concerned will aid in determining whether online services of public and commercial broadcasters are **substitutable** and, if so, where the **boundaries of the relevant product market** should be delineated
- /// To implement the HM-Test, modern market research tools are applied

Conjoint Analysis

Conjoint analysis is an indirect survey method for empirical research

Procedure



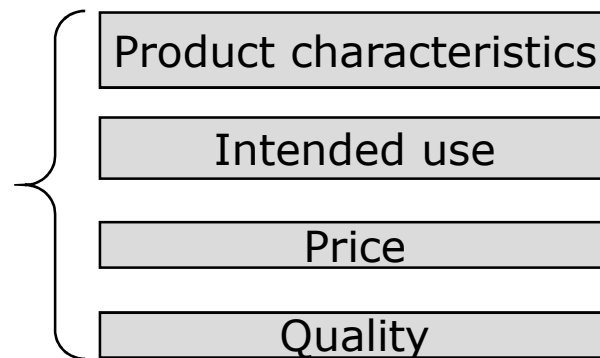
Indirect Interview Technique

- ∥ No stated, but revealed preferences
- ∥ No provocation of strategic responses
- ∥ Similar to a real „buying“ decision

Example Question

The respondent has to make a „trade-off“

Elements of
the buying
decision

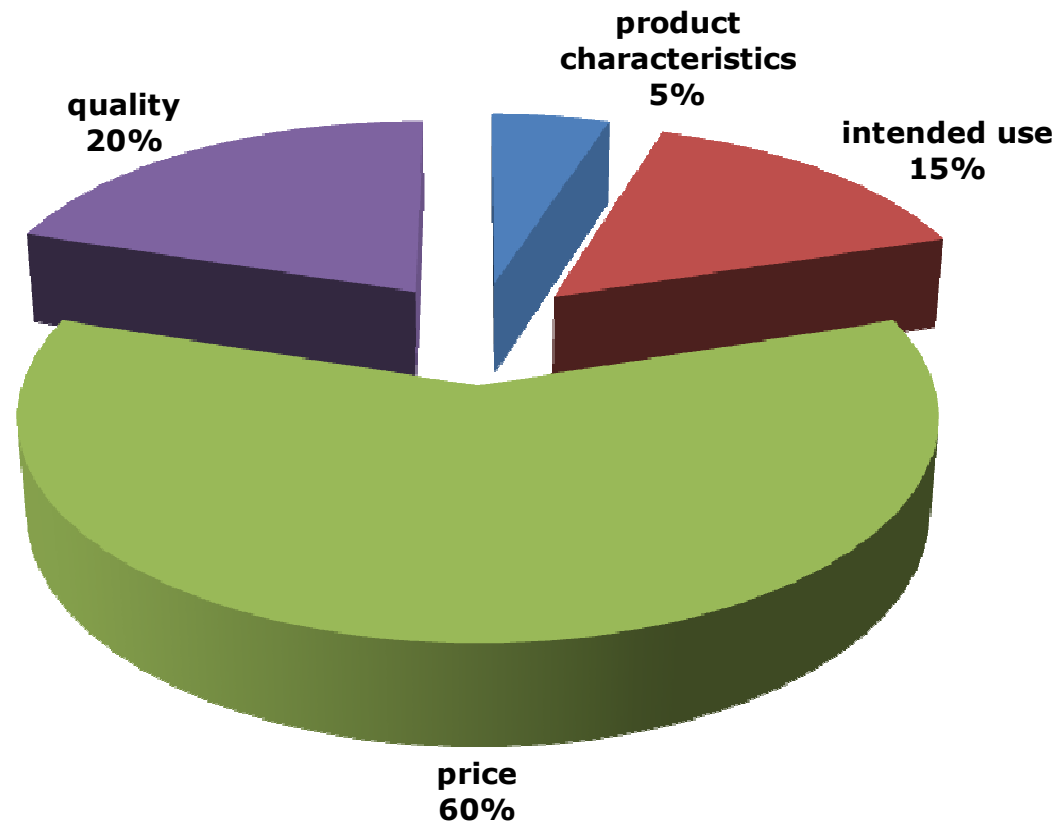


Which fibre purchase would you prefer?

Viscose	Lyocell
The fibre is biodegradable.	Wet tenacity is essential.
€ 1,20 /kg (US \$ 1,47 /kg)	€ 2,25 /kg (US \$ 2,76 /kg)
The level of quality is high and steady.	The quality of fibres is low (e.g. causing standstill period).

Importance of Attributes

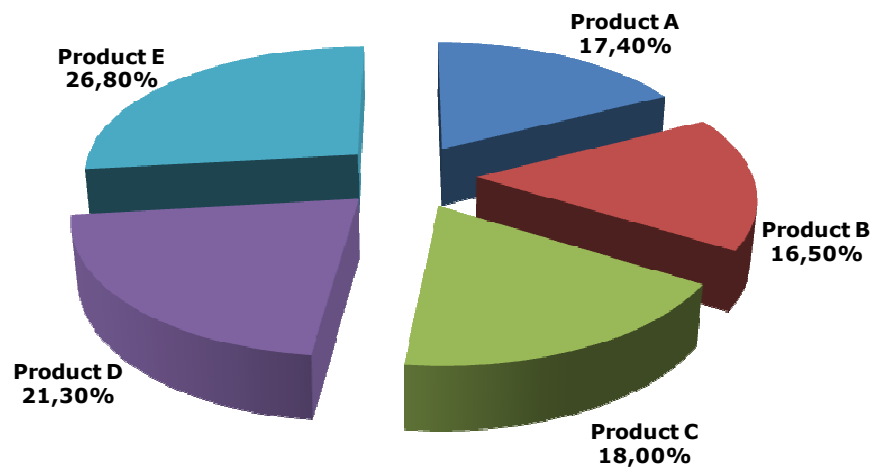
Partial result of the Conjoint Analysis is to identify the importance of the attributes



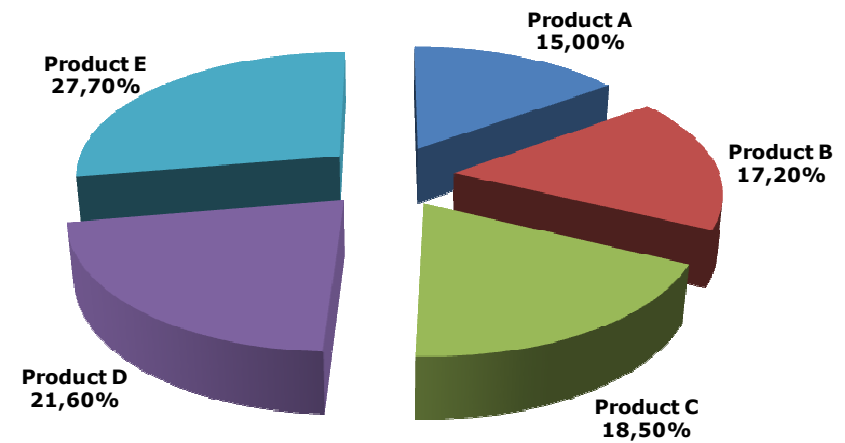
Change of "Share of Preference"

Due to a quality decrease of product A preferences will shift to alternative products

Before



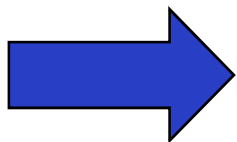
After



Counterfactual Analysis

Enforcing a counterfactual analysis: what if a public service broadcaster would exit the market?

- Comparing the market situation **with** and **without** the service
- Empirical analyzed consumer behaviour is inducted into the market simulation model
- Calculation of the market-relevant **impacts** after the exit of the service



Assessment of the increase in demand of commercial broadcasters after the exit of the online service of the public service broadcaster

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