

LICENCE to THRILL

The BBC should be **PRIVATISED** and **LIBERATED** to provide a **MODERN RANGE OF SERVICES** across the whole **BROADCASTING** and **TECHNOLOGY** SECTOR, says **TIM CONGDON**

"Triple play" and "quad play" are two new phrases in financial markets. They may herald a busy round of merger and acquisition activity in the global media industry over the next few years.

All being well, the banking system and the investment community can put the agonising of the Great Financial Crisis behind them and start to think about the future. They can do something useful, by translating ever-changing technology into profitable business opportunities.

Too many people have forgotten the New Era euphoria of the late 1990s, when the fusion of technological innovations in telephony and computers created the Internet and a host of Internet-related ventures.

The stock markets of the world buzzed with "TMT", as analysts salivated over the possibilities created by the coming together of telecoms, media and technology.

Many economists even thought that the new technologies would facilitate a higher rate of productivity growth.

In practice, New Era thinking has turned out to be over-optimistic and unjustified, and productivity growth over the last decade has been disappointing in most advanced countries.

Even so telecoms, media and technology are being joined up in exciting ways, and public policy needs to respond.

In the old days before mobile telephony and the Internet, telephone utilities (often state-owned) provided phone services over fixed lines; broadcasting organisations (also often state-owned, such as the BBC) put out live broadcasts over television and radio; and film companies recorded films which could be viewed in cinemas. Consumers paid separately for these services.

Nowadays advances in technology have enabled people to

enjoy the same set of images and sounds over televisions, computers and mobile phones.

A media business is engaged in "triple pay" if it tries to persuade customers to take from it television, broadband and fixed-line telephony, and to pay for all three of these on one bill.

The notion of payment for television by subscription began in Britain only in the late 1980s, and it took BSkyB (now Sky) over a decade to become entrenched in the national media scene.

In November 2013 BT plc, which 35 years earlier had been the telephone arm of the Post Office, announced that it was buying up the television rights to 350 football matches so that it could compete in the market for subscription television. BSkyB had already started to market itself as a provider of telephone and broadband services. Both Sky and BT are therefore now competitors for triple-play customers.

"Quad play" is an extension of "triple play", involving the addition of mobile telephony.

Again, 35 years ago the idea of seeing moving real-time images on a portable device (such as a tablet or mobile phone) was science fiction.

It would have been inconceivable for phone utilities, broadcasting organisations and film companies to form conglomerates with the intention of marketing such images and charging for them.

But the science fiction of the

1970s is the everyday reality of the 2010s. Free-market capitalism is endlessly versatile and innovative. The corporate world has transformed the technological possibilities into marketable products and is re-organising commercial structures to deliver the best return to shareholders.

There are no national markets

Also revolutionary is the inevitability of globalised markets for media output. Top sports events involve teams from many countries, while dozens of countries share English as the language of business, politics and high culture.

There is a prospect of combined supply of mobile, fixed-line,

TELECOMS, MEDIA AND TECHNOLOGY ARE BEING JOINED UP IN EXCITING WAYS – AND PUBLIC POLICY NEEDS TO RESPOND

broadband and television not just within countries by suppliers defined by national markets, but across national frontiers by media giants intent on capturing a big slice of the global market.

Google has cleverly positioned itself as the world's top search engine, with ample cash flows from internet advertising to fund its ambitions across all the media and telephone markets.

Indeed, Google's dominance

as a search engine terrifies all its rivals. Its revenues this year may well exceed \$70 billion, ahead of the much longer-established Walt Disney Company (\$50 billion), Time Warner (\$30 billion), CBS Corporation (\$15 billion) and Viacom (also about \$15 billion). All these businesses are American.

On this side of the Atlantic Sky tends to be seen as "British", but it is in fact almost 40 per cent owned by 21st Century Fox, which is headquartered in New York and has annual revenues in its own right of over \$30 billion.

Yes, the UK is present in this space, with both BT and Vodafone as significant potential participants in the triple-play and quad-play

markets. But for the time being their income is predominantly from phone bills rather than media and television. (BT has revenues of about \$30 billion and Vodafone of over \$60 billion.)

All these companies are working out corporate strategies for the next few decades, when media output of all kinds (both recorded and live) will be conveyed over fixed-line phone and cable networks, over broadcasting masts of the traditional type and over mobile phones, and when the marketplace will become increasingly global.

Vast sums of money will change hands, as subsidiaries are bought and sold, mergers are agreed, bids are announced and resisted, and so on.

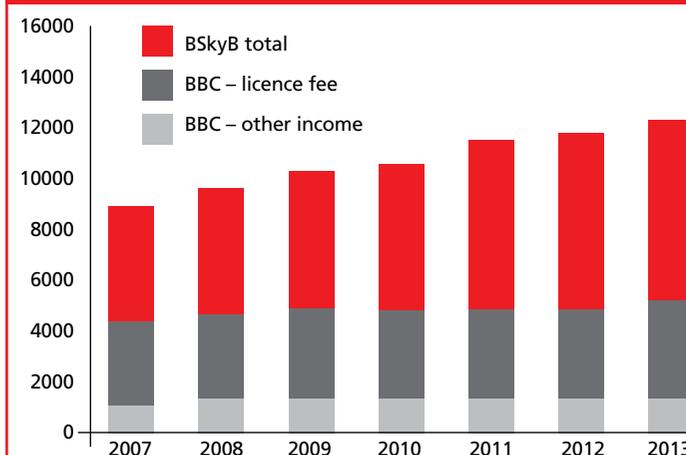
Some concerns will specialise on content and others on technological platforms, and every outfit will have its own distinctive geography (of market share, the location of production, the siting of legal and administrative headquarters). No one knows the eventual outcome.

Anyone trying to forecast, over the next 10 or 20 years, the revenues of Google, Walt Disney, 21st Century Fox, BT and so on would be mad. The only certainty is the rough and tumble of the international market-place.

The BBC should enter the international league
What about the BBC? Surely, the

IS THE BBC ALREADY AN UNDERDOG?

Bars show total revenue received by the BBC and BSkyB, annually since 2007 in £m.





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BBC has the best brand of any British broadcasting organisation.

It likes to think of itself as still enjoying immense goodwill and prestige not just in Britain, but in a global context.

According to Anthony Scadding, head of public affairs at the BBC, a Populus survey of 14 countries in October 2013 rated "BBC One highest on quality out of 66 major TV channels", while BBC Two was in third place.

Fine, but the truth is that it is being marginalised and increasingly forgotten on the global media scene.

The BBC's problem is that it is state-owned and depends on a special kind of tax, the licence fee, for over 70 per cent of its revenues of about £5 billion (\$8 billion).

It does nowadays have market-based revenues, largely from its international arm, BBC Worldwide, of about \$2 billion.

However, the BBC is a midget in a world setting and, as the chart shows, it no longer dominates Britain: its revenues are smaller than the revenues of Sky.

Furthermore, the BBC's licence fee commitments limit its expansion outside old-style broadcasting.

Its current Director-General, Tony Hall, has said that he wants the BBC iPlayer to be "the best in the world", but for obvious reasons

PROJECTED REVENUES 2015

GOOGLE	\$70 BILLION
WALT DISNEY	\$50 BILLION
TIME WARNER	\$30 BILLION
CBS CORPORATION	\$15 BILLION
VIACOM	\$15 BILLION
BBC	\$8 BILLION

the BBC cannot seek revenues from fixed-line or mobile telephony.

The BBC therefore cannot position itself for a "triple play" or "quad play" market presence. More generally, while it is in public ownership, it can never have the resources and commercial freedom to compete against the global media conglomerates that are now emerging.

A new government after May 2015 must decide what to do about the BBC's licence fee in the next Royal Charter, due for review in 2016.

Powerful arguments have been

assembled for ending the licence fee altogether.

A safe forecast is that the licence fee will fall in real terms, just as the global media conglomerates are establishing strong positions in the new competitive landscape.

The right long-run answer is both to end the licence fee and to privatise the BBC, so that its top management can maximise the value of the brand in a rapidly changing world.

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