



OC&C Strategy Consultants

Assessing the Competitiveness of European Publishing

Response from the European Publishers Council, prepared in association with OC&C Strategy Consultants

Overview and Assessment of Required Fact-base

November 2005



EPC | European
Publishers
Council

The EPC believes the European Commission's consultation on the Competitiveness of European Publishing is insufficient since it relies on an incomplete data set and fails to address fully the key issues facing Publishers

- The EPC welcomes some of the preliminary conclusions of the consultation document 'Strengthening the Competitiveness of the EU Publishing Sector'
 - Heterogeneous nature of European Publishing and the limitations this poses on drawing generally valid policy conclusions
 - Revolutionary impact of structural shifts taking place due to convergence of media, telecoms and technology
 - Enormous challenges faced during the move towards digital media and declining advertising revenues
 - The consultation paper cannot fully address all key issues facing European publishers given the limitations of the current data-set
- To achieve its objectives fully however we believe the Commission should:
 - Undertake a fuller assessment of the challenges facing European Publishing
 - Consider the broader questions these challenges raise for the industry
 - Develop a complete and current fact-base on the state of European publishing
 - Some of the data on which the consultation document is based appears sound
 - ... however, the overall fact-base appears incomplete and out-of-date



The EPC suggests a broad study to build a complete understanding of the challenges facing European Publishers and to assemble the necessary data-set to measure competitiveness effectively

- Therefore, the European Commission should undertake a study with the following objectives
 - Overview of the key challenges facing European publishing
 - Identify how these determine the key drivers of European Publishing's competitiveness
 - Assemble key data sets necessary to conduct regular and full assessments which might include inter alia:
- Key questions the Commission should be asking :
 - How far have digital media been adopted in Europe and what challenges does this pose to European publishers?
 - Which sub-sectors are most vulnerable to the advertising spend cycle ?
 - What does this mean for European culture as well as for plurality and diversity?
 - Extent of impact of convergence of telecoms, media and technology industries now and in the future
 - Changing European consumer and business media consumption relative to US
 - Extent of migration to digital media by publishing sub-segment vs US
 - Assessment of which markets are most vulnerable to advertising decline
 - Overview comparison of EU and US publishing regulatory environments
 - Outline an approach to enable ongoing measurement of competitive critical metrics
 - An example of what the research might identify is provided in the appendix (US example)



EPC Agenda

- **Challenges Facing European Publishing and Key Questions**

- Data Required to Make Full Assessment
- Next Steps
- Appendix



Select Challenges Facing European Publishing¹

Illustrative

Customers

Managing Customer Migration to Digital Media

- Managing customer migration
- Dual cost bases of online and offline content
- Cannibalisation of offline revenue streams
- Online adoption lags US in many markets

Changing Media Consumption Patterns

- Structural shift in time and spend away from print to digital
- Structural shift in customer demand, for example:
 - Significant decline in circulation of newspapers
 - Budget pressure in B2B / academic

Content

Threats to IP / Copyright / DRM

Increasing Commoditisation of Core Content Business

- Increasing number of sources and access points
- Search engines impacts greater in specialist markets ie Google Scholar threat to academic publishers
- Move to value-added adjacent software, services and solutions to recoup content creation costs

Vulnerabilities

Constraints of Competition Policy / Regulation

- Potential for regulatory constraints to significantly impact competitiveness vs US
- Sensitivity to restrictions on ad spend

Reliance on Advertising Spend and exposure to US Dollar

- Impact of downturns on publisher profitability
- Segments moving rapidly to internet (i.e. recruitment)
- Increases cross media competition

Industry Structural Change

Convergence of telecoms, media and technology

Fragmentation of Media

- Media and publishing companies face a whole new set of competitors
- Rules of the publishing game revolutionised

- Rise of multi-channel media environment
- Revolutionary impact on advertising revenues by media
- Content ownership increasingly under threat in digital age
- DRM critical in digital media

1. Not intended to be a comprehensive list merely illustrative

The Commission is asking some of the right questions but they appear to be insufficient to cover all of the challenges European Publishing businesses are facing

Questions the EC is Asking in the Consultation

1. Will industry structures across all segments survive the transition to electronic value chains? What are the barriers / threats to publishers during the transition? What are the opportunities for publishers arising from new information and communications technologies?
2. How will business models evolve and how far will Digital Rights Management systems be essential for their successful implementation?
5. How far is there tension between the need for open outcomes in economic terms at a time of rapid technological change and the political desire to support democratic values including diversity?
6. How far is diversity of content and ownership likely to be self-sustaining in fully electronic markets, given for instance lower entry barriers to citizens' direct participation (eg blogs)?
7. In converging markets, from the perspective of publishing, what approaches would you suggest for co-existence between the two different traditions of regulated, licensed broadcast media and unlicensed press?
8. In relation to advertising regulation, what are your reasoned preferences in relation to the different instruments available, voluntary self-regulation, co-regulation and statute law?
9. What are the main issues that an integrated media policy – i.e one that covers all media sectors – should address?

Some of the Questions They Should Be Asking

1. What are the key drivers of European Publishers' competitiveness? And which metrics do we need to assemble to monitor fully and understand these drivers?
2. What are the key challenges facing European Publishers?
3. What impact is the convergence of media, telecoms and technology sectors having on publishers?
4. How far have digital media been adopted in Europe and what challenges does the rise of digital pose to European publishers?
5. What problems do European publishers face in migrating customers to digital offerings? How does EU digital adoption compare to more advanced markets?
6. Which sub-sectors are most vulnerable to the advertising spend cycle and what do ad forecasts mean for prospects for next 5–10 years?
7. How is media fragmentation affecting advertising value of media?
8. What protection of IPR is needed to underpin incentives to invest in content creation? How is US market managing DRM issues?
9. Which sub-sectors are most affected by commoditisation of content driven by search engines?
10. What does this mean for European culture as well as for plurality and diversity



Questions the European Commission should be asking in order to conduct a full assessment of the competitiveness of European Publishing

Customer

Managing Customer Migration to Digital Media

- How far have publishers got to through the process of migrating to online?
- How far does this lag the US?
- Are European publishers at a competitive disadvantage to US competitors?
 - What additional costs do publishers face during this migration phase ie dual cost base or traditional and new media?
 - Higher barriers to migration than their US / RoW counterparts?
 - Are US competitors winning the battle to dominate digital media?

Changing Media Consumption Patterns

- How have media consumption patterns changed already?
 - Consumer media consumption
 - B2B media
 - By customer need (e.g. entertainment, news, customer and market knowledge, professional advancement, purchasing services/products)
- What are these changes forecast to mean for media consumption in the next 5-10 years?
- What can we learn from trends in the US?
- What is the likely impact of these changes on European publishing businesses by sub-segment?



Questions the European Commission should be asking in order to conduct a full assessment of the competitiveness of European Publishing

Content

Threats to IP / Copyright / DRM

- What protection of intellectual property rights is needed to underpin incentives to invest in content creation?
- How is US market managing DRM issues?
- *Note: CMBA 2010i Position Paper and Overview of Piracy in Sweden attached as an appendices 2 and 3*

Increasing Commoditisation of Core Content Business

- Which sectors have been hardest hit by 'free' internet access to content?
- Which sub-segments of European publishing are most threatened by the search engines such as Google?
- What is the likely impact of business model shifts from subscription/advertising to license (and open access) models?
- What challenges do publishers face as they move into value-added software and services?



Questions the European Commission should be asking in order to conduct a full assessment of the competitiveness of European Publishing

Advertising and Regulatory Vulnerability

Constraints of Competition Policy / Regulation

- In what ways does current regulatory environment disadvantage European publishers?
- In which areas is regulatory policy likely to have the greatest upside / downside for European publishing?
- How does the publishing regulatory environment compare to US?

Vulnerability to Advertising Spend and US Dollar

- What is the extent of advertising spend impact on European publishers?
- What is the exposure by level by publisher type?
- How will future movements in European ad revenues impact publishers?
- Which types of advertising are moving online fastest and who will this affect?
- What is the extent of exposure of European publishers to US dollar and how does this impact pricing / competitiveness?



Questions the European Commission should be asking in order to conduct a full assessment of the competitiveness of European Publishing

Industry Structural Change

Convergence of telecoms, media and technology

- What are the threats facing European publishers in a convergence environment?
- What does the competitive landscape look like now and in future as markets converge?
- Which sub-segments are most affected?
- How does Europe compare to US in terms of convergence?
- What will the impact of future technologies be?

Fragmentation of Media

- What is the impact of increasing multi-channel / multi-platform media
- How does this compare to US?



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EPC proposes that a fuller fact-base of knowledge around the key drivers of European Publishing competitiveness be built up

Illustrative

Preliminary Assessment of Data Required to Assess Challenges Facing European Publishers

Customers

Managing Customer Migration to Digital Media

- Comparative data on extent of customer migration in EU / US
- Assessment of extent of US competitive advantage in digital
- Quantify cannibalisation of offline revenue streams

Changing Media Consumption Patterns

- See attached example of US media consumption shift

Content

Threats to IP / Copyright / DRM

Increasing Commoditisation of Core Content Business

- Content sales in volume and value terms over time
 - By market
 - By publishing sub-segment

Advertising / Regulatory Vulnerability

Constraints of Competition Policy / Regulation

- Comparison of EU and US publisher regulation

Reliance on Advertising Spend and exposure to US Dollar

- European ad spend forecasts
 - By media (TV, print, online etc)
 - By type (classifieds, display etc)
 - By geography (country markets)
 - By publishing market

Industry Structural Change

Convergence of telecoms, media and technology

- Data on extent of convergence
- Assessment of new competitive landscape
- Outline threats posed to traditional publishers

Fragmentation of Media

- Data on extent of multi-channel and platform media environment (EU vs US)
- Impact on advertising value of media
- What are the costs of content creation to publishers?
- Overview of markets where content has become perceived as 'free'

The Commission is relying on an incomplete and out-of-date data set for its assessment of European Publisher competitiveness

Data the EC is Relying Upon

1. Eurostat data on number of publishing companies by size (2004)
2. Eurostat data on relative size of publishing sub-sectors (2004)
3. EU productivity and competitiveness data (2003)
4. Specialisation index data (2003)
5. PIRA International data on cost distribution of publishers by country (2003)
6. Activity in e-marketplaces data (2003)
7. Use of ICT technologies in media and printing (2003)
8. Allocation of media time one year snapshot for whole of Europe , European Interactive Advertising Association (2003)
9. PIRA data on access to capital in publishing (2003)
10. Eurostat data on value added by country (2001 data last available year)
11. Labour productivity data by country, Eurostat (2004)
12. World Association of Newspapers, Press Trends (2002)

Some Key Elements of the Fact-base Required for a Full Assessment

1. **Publisher Competitiveness** - Assessment of key macro drivers of competitiveness (ie relative pricing, labour productivity, regulatory environment, currency exposure)
 - Assemble and prioritise key metrics driving competitiveness
2. **Media consumption** - trends over past 5 years and forecast for 5 years Comparative data on extent of customer migration in EU / US (spend and time by media over time)
 - Assess extent of impact of shift to digital media by sub-sector
3. **Convergence** - Data on extent of and impact of convergence of media, telecoms and technology sectors (By country / compared to US)
 - Assess new challenges and competitors facing publishers
4. **Regulation** – Overview of relative regulatory environments within the EU and other markets (ie competition, ad restrictions, DRM)
 - Highlight areas of competitive disadvantage driven by regulatory environment
5. **Plurality / Diversity** – overview of the extent of impact of search engines by sub-sector
 - Scenario modelling of impact of different options on economics of publishing



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EPC Suggested Next Steps

- EPC suggests that the European Commissions should undertake a study with the following objectives
 - Overview the key challenges facing European publishing
 - Identify how these determine the key drivers of European Publishing competitiveness
 - Assemble key data sets necessary to conduct regular and full assessments which might include inter alia:
 - Extent of impact of convergence of telecoms, media and technology industries now and in the future
 - Changing European consumer and business media consumption relative to US
 - Extent of migration to digital media by publishing sub-segment vs US
 - Assessment of which markets are most vulnerable to advertising decline and forecast impact in next 10 years
 - Overview comparison of EU and US publishing regulatory environments
 - Outline an approach to enable ongoing measurement of critical metrics which illustrate the relative competitive positions of European publishing versus its key competition



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■ Appendix

- 1. Illustrative Data from US on Changing Media Consumption
- 2. Swedish Piracy Overview
- 3. CMBA 2010i Position Paper



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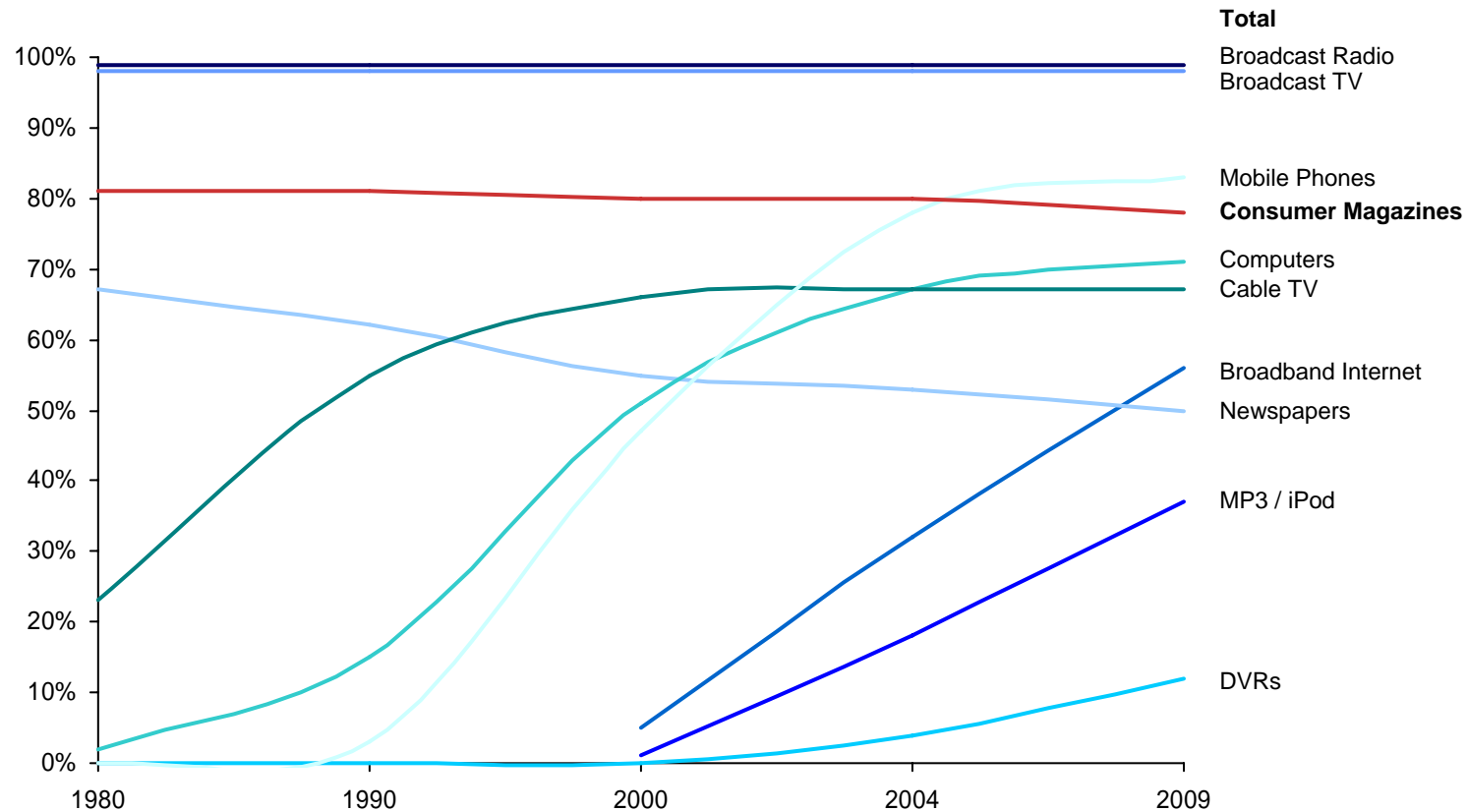
A case study of the changing nature of US media consumption serves to highlight the magnitude of the digital revolution taking place and highlights the sort of data that should be assembled before policy decisions are taken

- As an example of the data required to make a full assessment of the dynamic period publishing is going through the following slides overview the changing nature of consumer media consumption in the US
- This data highlights the both the challenge facing media and publishing businesses due to the pace of digital adoption...
- ...and makes clear the sort of quality of data that should be in place before making policy decisions impacting the ability of European Publishers to compete



US Case Study: US media penetration patterns indicate the revolutionary change in media distribution channels

Penetration Rates of Consumer Media (US) ¹
%



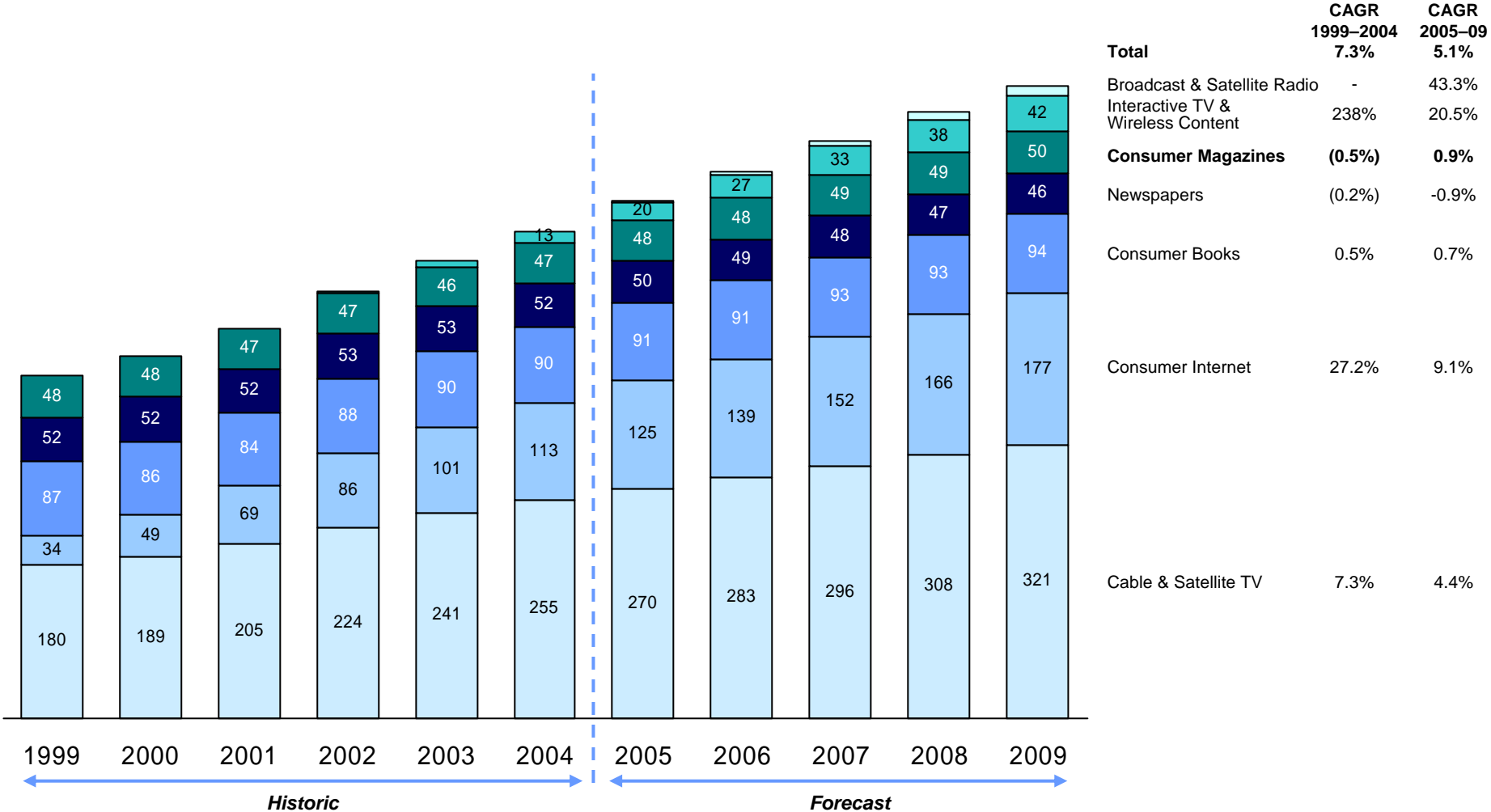
1. Based on the number of households with the electronic device (eg, television set, DVD player, etc), survey results on the share of the population, that indicated using a medium in a given year (eg, read newspaper, went to a movie), or estimates based on circulation or unit data

Source: Communications Industry Forecast, 2005–09



US Case Study: Spend per head growth driven by digital media

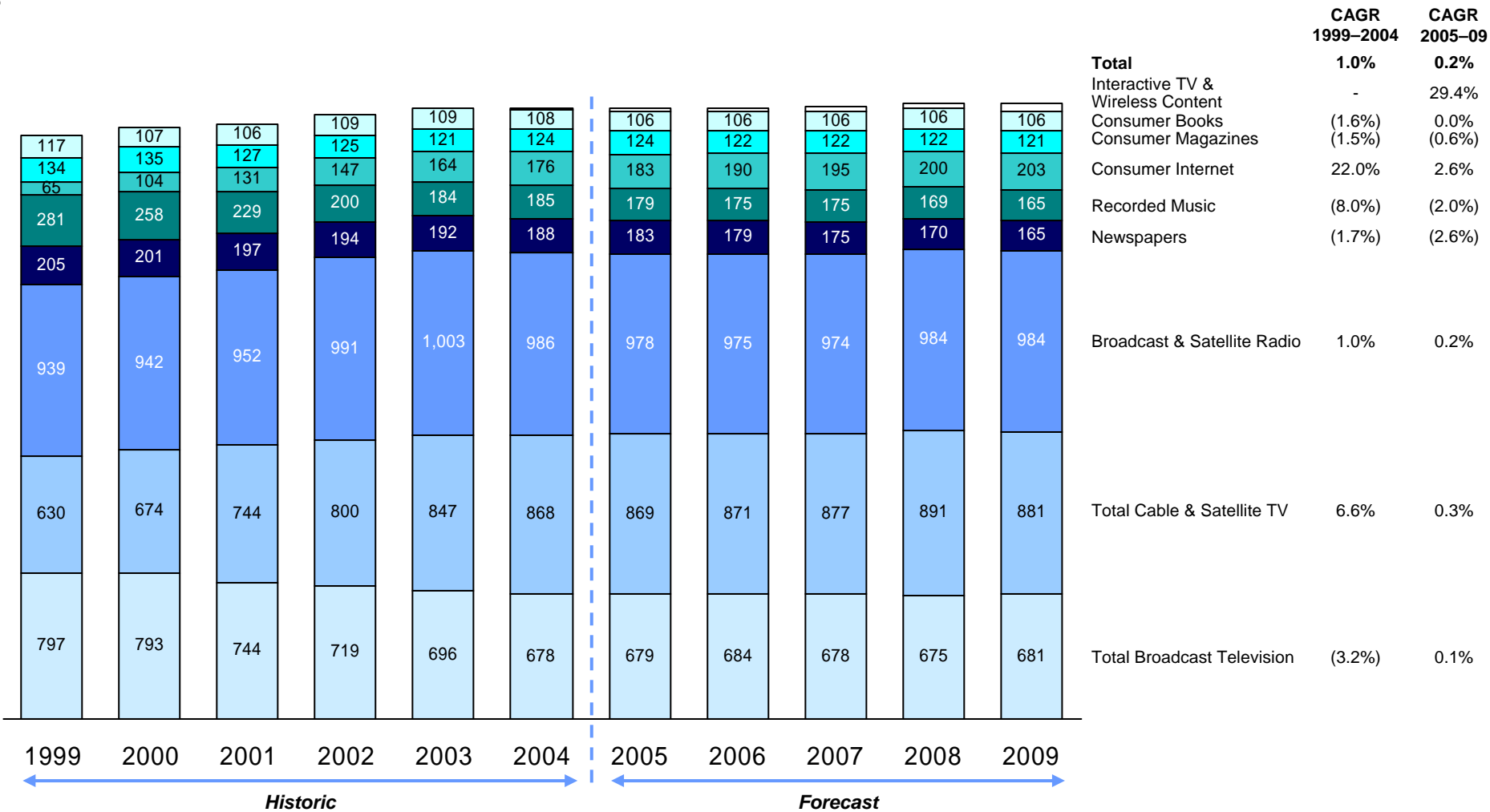
Consumer Spending per Person per Year (US)
\$m



US Case Study: Total hours of media consumed flattens off with declining share of time for traditional media in favour of internet, cable TV and interactive

Hours per Person per Year Using Consumer Media (US)

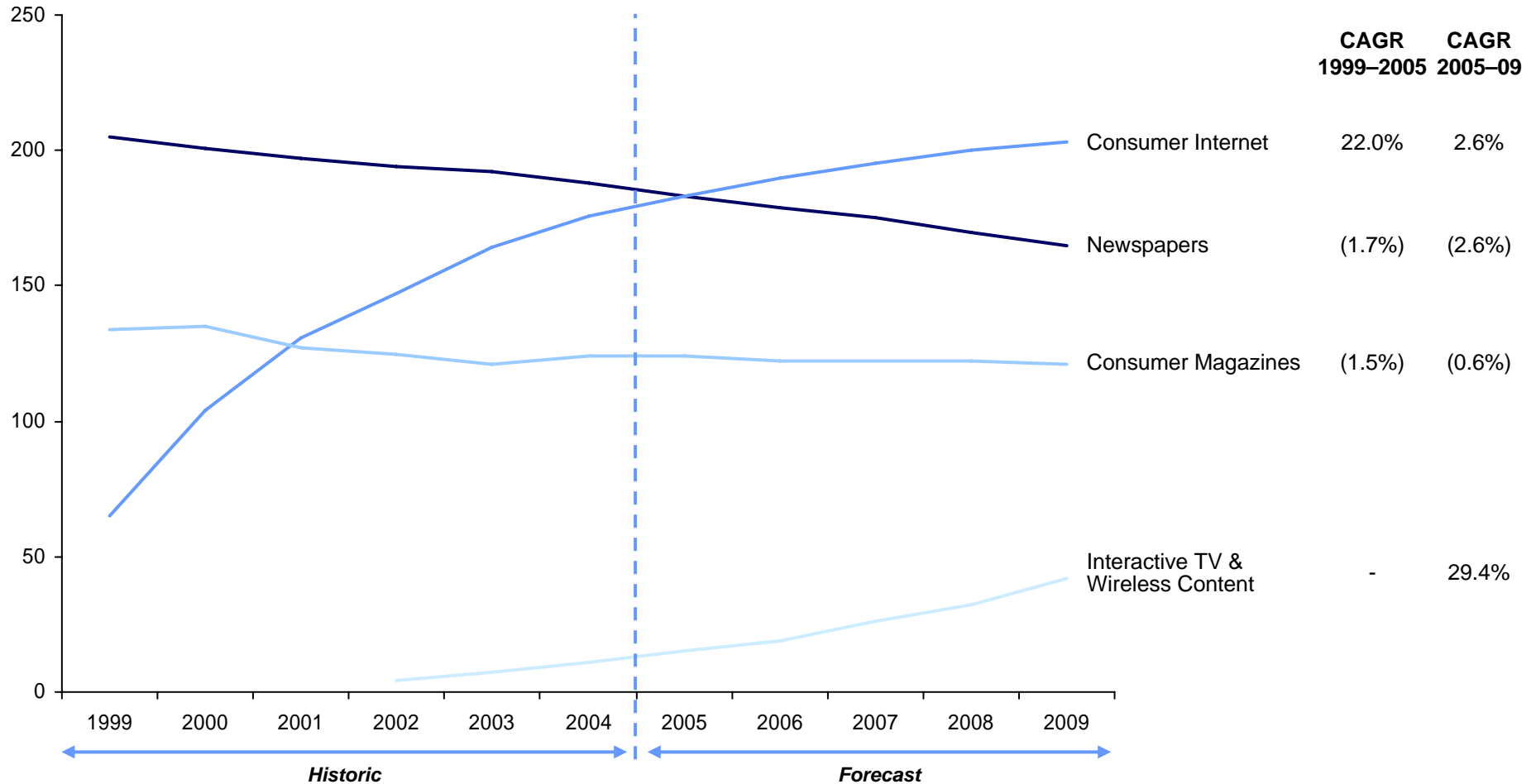
Hours



US Case Study: Internet and interactive usage has been rising rapidly as the consumption of traditional published media has been declining

Hours per Person per Year Using Consumer Media (US)

Hours



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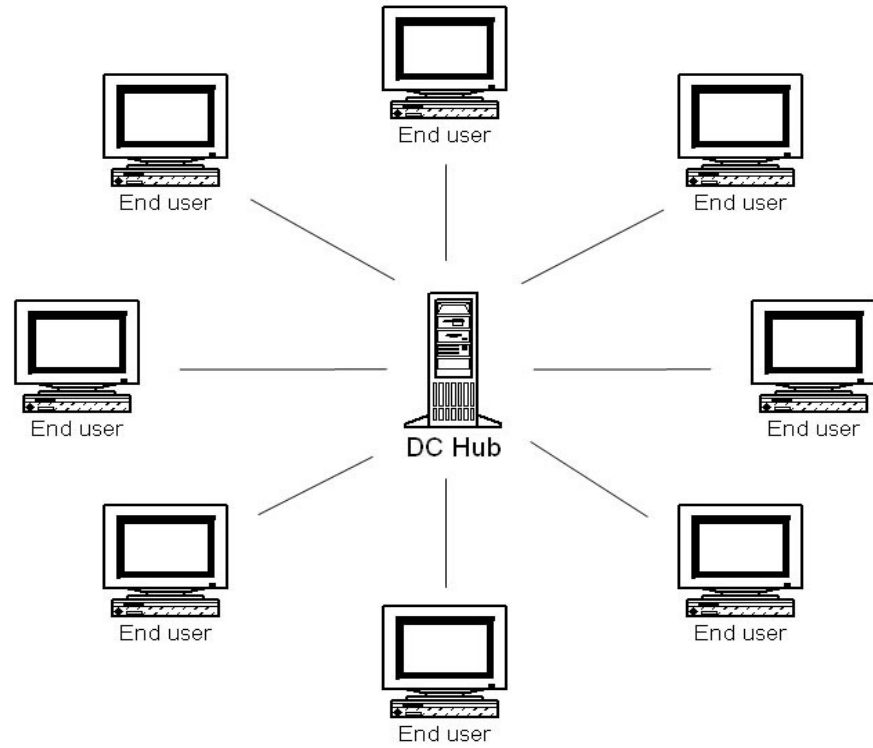
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Direct Connect Hubs

Submitted by EPC Members

- Lots of clients available
- The DC hub works as a central server, distributing films/music and more



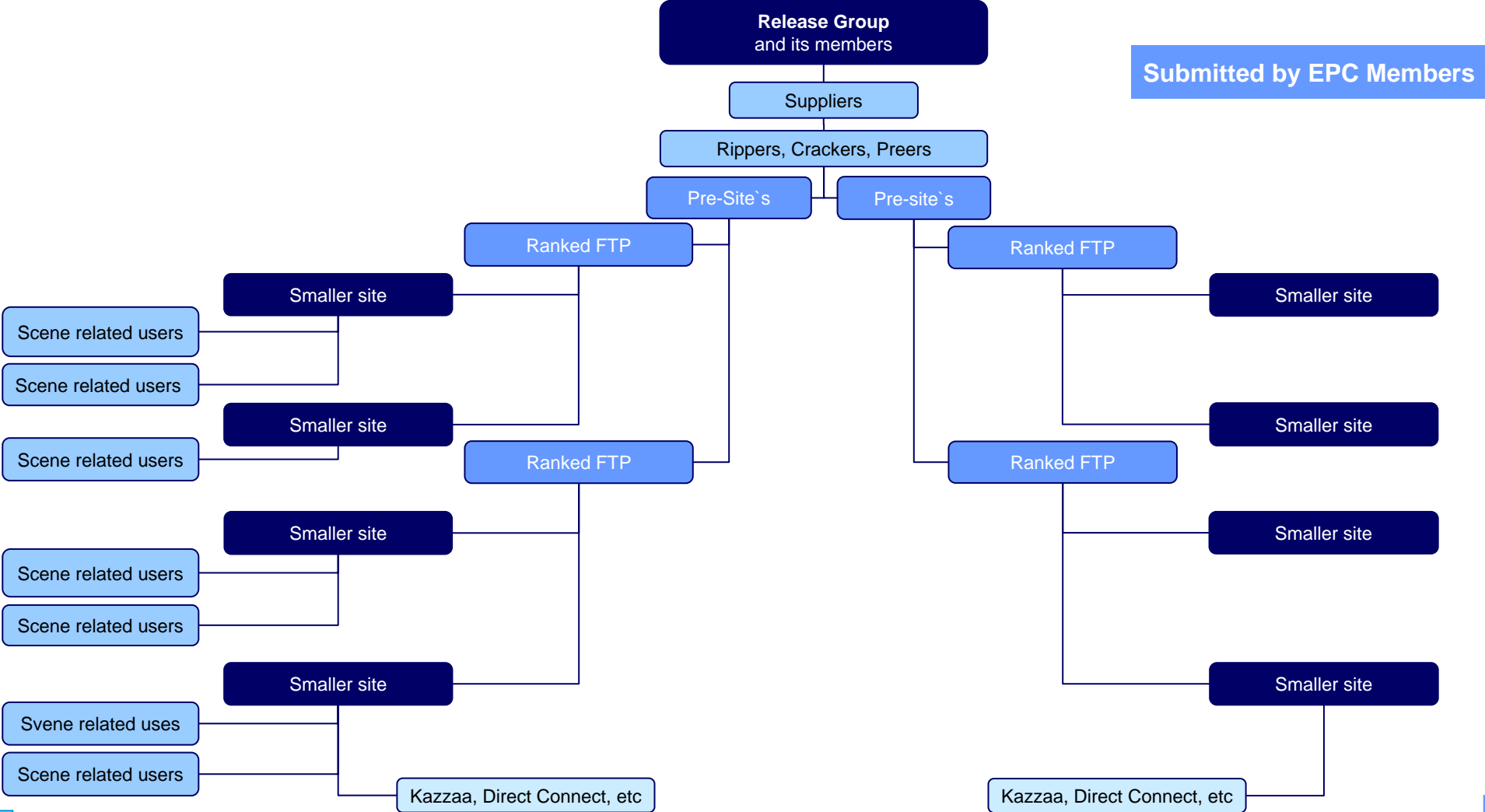
Volumes

Submitted by EPC Members

- 750 000 Swedes active
- 60% of all Internet-traffic (CacheLogic)
- 3 billions SEK in revenue for telecoms
- 15 millions films downloaded
- Estimated value: 2,5 billions SEK in lost revenue for rightholders



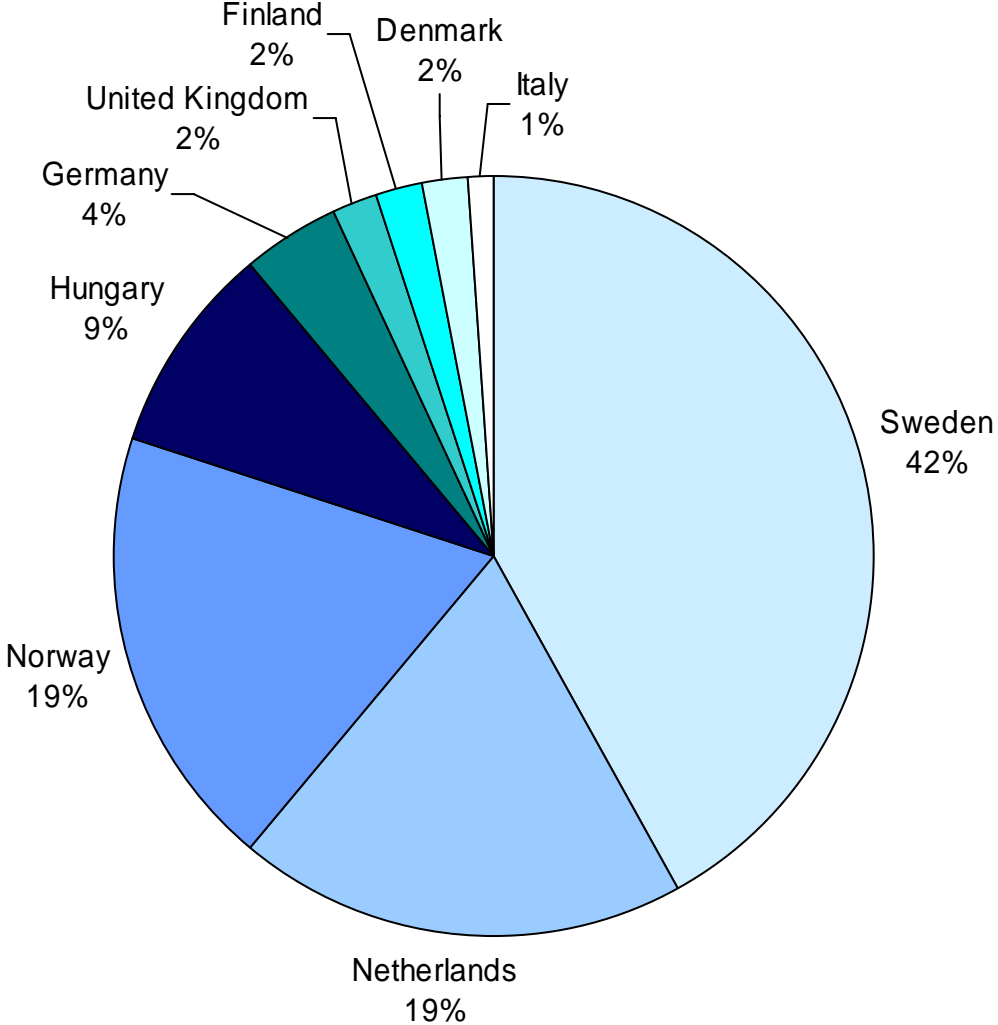
Release Group and its members



Submitted by EPC Members

Europe top sites

Submitted by EPC Members




The Pirate Bay - The worlds largest BitTorrent tracker - Mozilla Firefox

File Edit View Go Bookmarks Tools Help

http://thepiratebay.org/browse.php

konton.se Klick ... klick ... inne.



[Search Torrents](#) | [Browse Torrents](#) | [Recent Torrents](#) | [Top 100](#)

All Audio Video Applications Games Other

Browse Torrents

Audio
[Music](#), [Audio books](#), [Sound clips](#), [Other](#)

Video
[Movies](#), [Movies DVDR](#), [Music videos](#),
[Movie clips](#), [TV shows](#), [Other](#)

Applications
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647598 registered users.
 1621040 peers (1279882 leechers + 341158 seeders) in 102175 torrents on tracker.
 Last updated 19:25:02
 Tracker software: hypercube tracker by anakata

[RSS](#)


Which PRICE is Right?
 Whether buying online or offline at the store,
 PriceRunner.com ALWAYS lists the lowest price first!

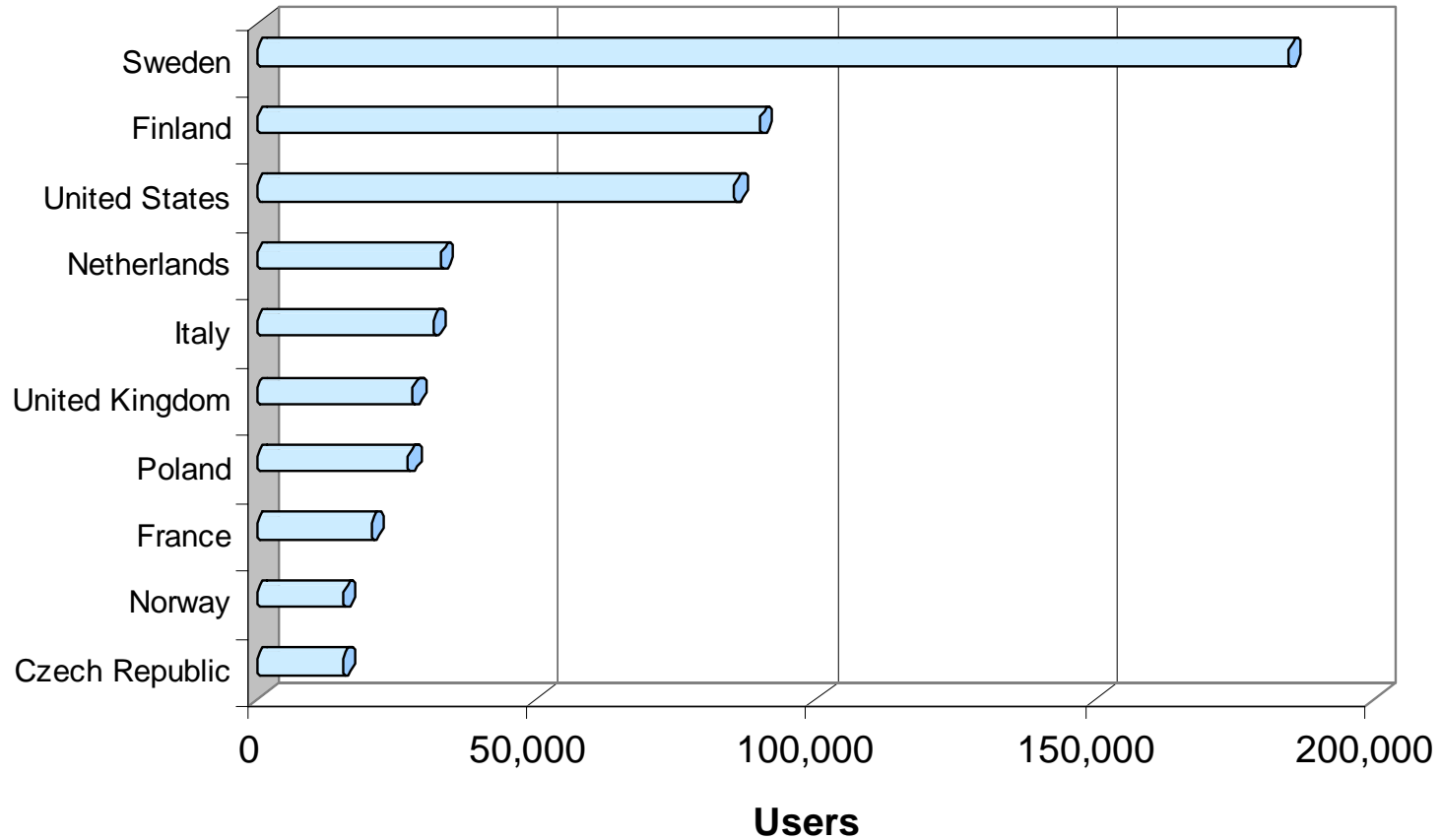
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Submitted by EPC Members



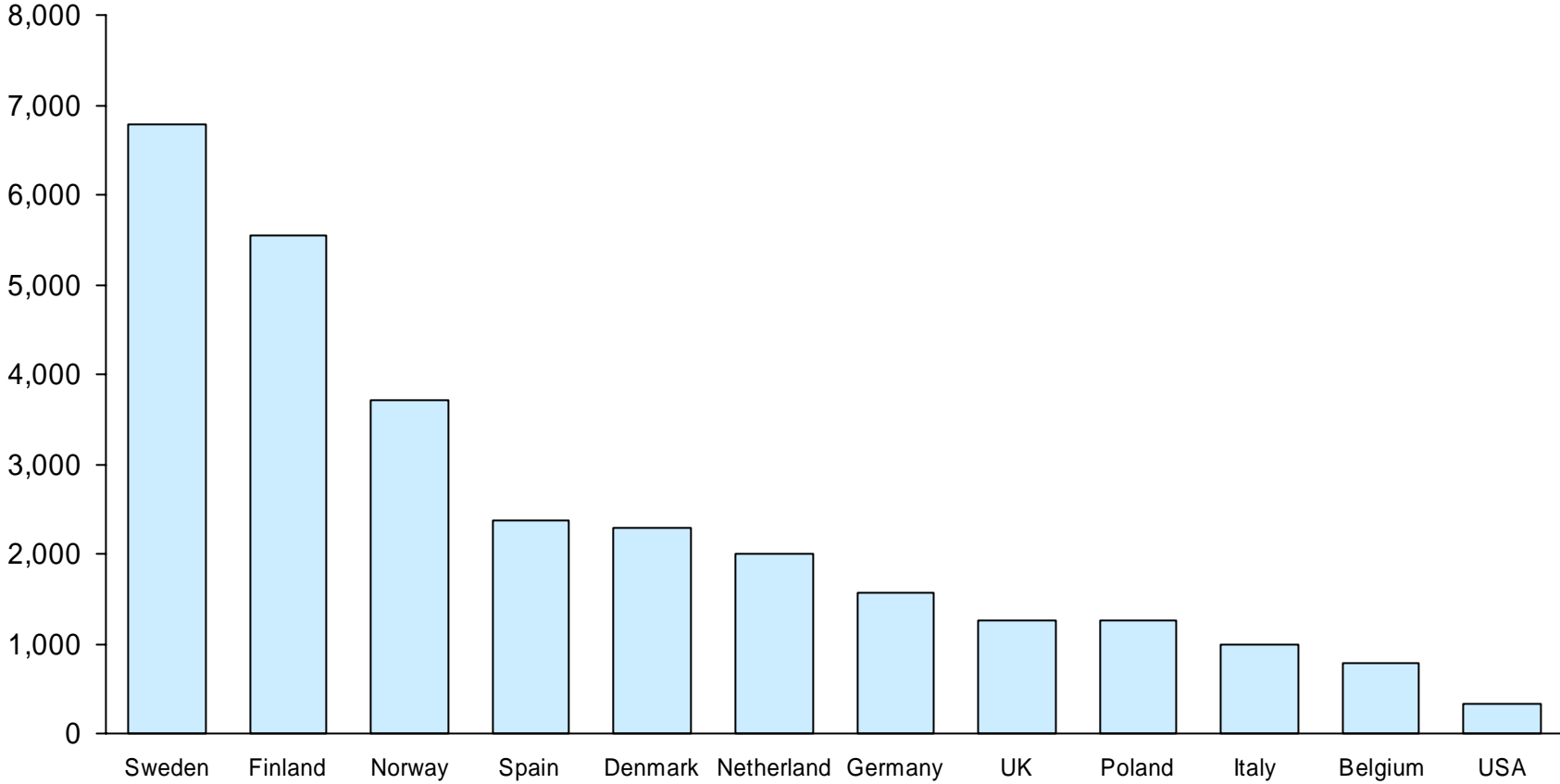
Top 10 Direct Connect Users Count

Submitted by EPC Members



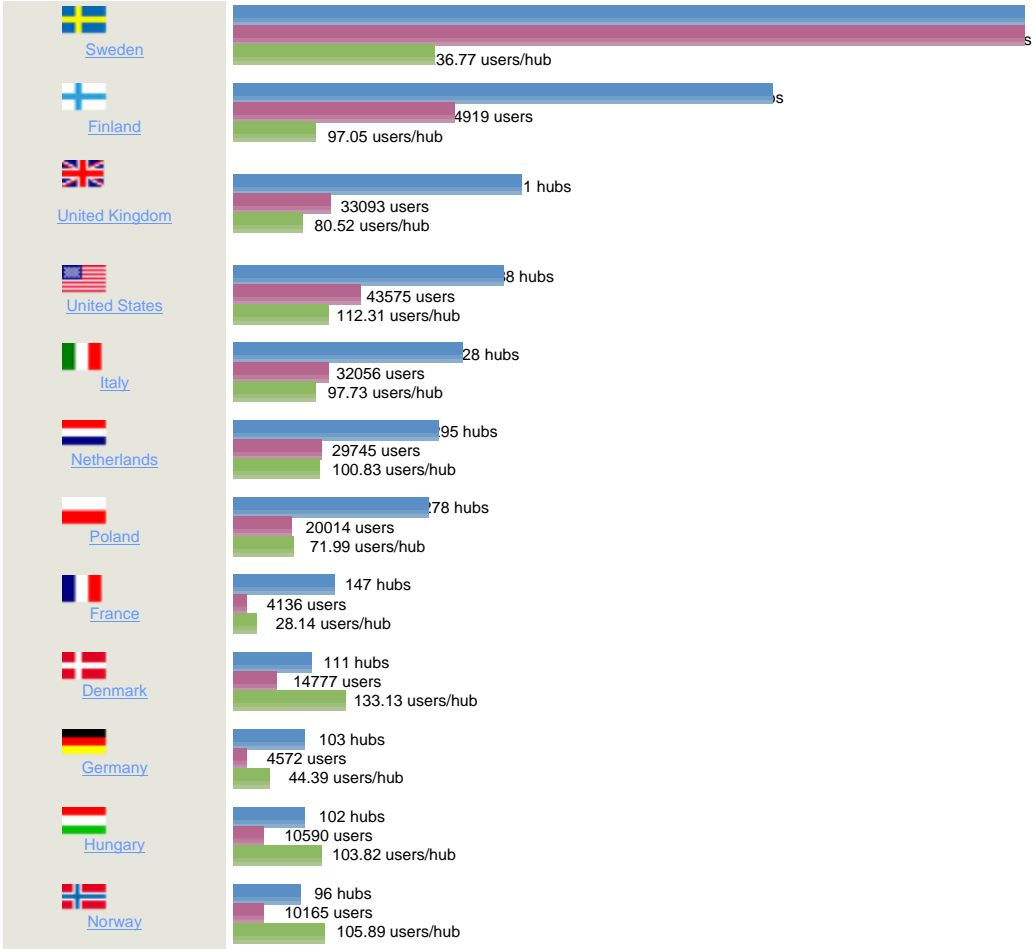
Warning letter sent out: Numbers / million inhabitants

Submitted by EPC Members



DC hubs and users

Submitted by EPC Members



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