

ERICSSON/CREATIVE MERGER INQUIRY

Summary of hearing with Globecast held on Tuesday 19 November 2013

Background

1. Globecast had been bidding on playout opportunities since 2006. It was current playout provider for 30 to 35 channels. It employed 106 staff.
2. The lifecycle of a channel would be three to five years before being reviewed.

Playout provider market

3. The OFT identified two tiers in the playout provider market. The bottom tier of the market was to provide a standard solution that was off the shelf. The upper tiers required a more bespoke product. Globecast thought that there was also a middle tier and that the OFT's definition was blurred.
4. The majority of its business came from the middle to bottom tier but it had been involved with tendering with the BBC and ITV.
5. In the middle tier of the market there was more demand for skill and capability than the lower tier. It felt that customers in the middle tier were prescriptive but also relied on the provider to manage difficulties which created problems in delivery of playout services.
6. Credibility and existing relationships between provider and customer became less of an issue in the lowest tiers of the market. Customers in the lower tiers of the market changed relationships quickly as their requirements were less complex and were more driven by price.
7. It thought the market was becoming less prescriptive where customers were buying more for a service. Some customers expected a more formal approach in communication, which placed a strain on staff resources. Customers had an increased appetite for risk management and process governance which could act as a barrier to entry or growth.
8. Bespoke products for a customer were only economically viable if the customer's requirements were large enough to warrant the cost. Customers with smaller requirements would need to fit in with existing products.
9. Playout providers would need to be based in the UK as customers wanted them to be based locally usually for non-technical reasons.

Tendering strategies

10. The tendering process would start with the customer sending out requests for information (RFIs). The RFIs were used to identify the providers that would meet the needs of the customer. Based on those responses, a shortlist would be created to identify potential providers. The shortlisted providers would then be asked more complex questions—often in the form of a request for proposal (RFP)—and those responses would be used to identify the most suitable provider.

11. Incumbent providers who were already providing playout services to the customers would have an advantage during the tender process. The customer would use information gained from other providers during the tendering process to renegotiate terms with the incumbent provider. The effect of this was that the incumbent provider had a second chance.
12. It was unlikely that a provider would win a contract when it came up for renewal for the first time. However, it was still important to be involved in the tender process as it would build credibility and it might lead to winning a contract in the future.
13. Globecast did not participate in every tender process due to it being resource intensive and required taking staff away from existing commitments. An example of this was Channel 5's tender.
14. Existing relationships from distribution agreements gave it a path into securing play-out agreements.
15. Although during tender processes exact information about competitors' bids were generally unknown, Globecast did have knowledge on competitor pricing gained from previous bids that had been won or lost. However, knowledge gained was broad and valid only for a short period of time, therefore it had limited value for future bids.
16. Negotiation of pricing occurred towards the shortlisting stage of the tender process or once a provider had been selected. Price was more important for some customers than others. Customers with a strong brand reputation such as ITV were less likely to be driven primarily by price.

Live coverage

17. Globecast did not currently offer playout services to channels with significant live content but occasionally did some live coverage for mixed genre channels. Although live coverage was a good learning opportunity, it was resource intensive as it required additional staff. It thought larger providers such as Red Bee Media (RBM) would have dedicated staff to manage live broadcasts and would be able to carry out live broadcasts more easily.
18. It gave an example where it had worked on live coverage which was for the BBC. It was required to manage the live coverage of the Queen's jubilee to viewers in Poland. Although the coverage was for around 5 hours, it required considerably more hours of manpower. Specific tasks had to be managed that were unique to the event such as live management of a translator and coordination of timings when the broadcast had to be fed back to the main BBC service.
19. Live coverage would probably become easier with more experience.

Future growth

20. The downside of increasing in size was that individual contact between staff and clients would become more difficult to maintain.
21. Globecast would not target premier-tiered channels. It thought the BBC would be harder to work with than ITV as, due to its experience with ITV, it had a greater understanding of ITV's business. It understood that ITV was driven by commercial incentives, whereas the BBC was a publicly-funded broadcaster with different objectives which made it difficult to predict.

Service

22. Service credits were used in recognition of a failure in playout service. The effect of this was a payment of a fine to the customer but also reputational damage which could affect future business. The effects would be greater for more serious failings such as missing part of a football match rather than minor graphical errors.
23. Globecast was aware that its good reputation within the distribution market could be affected by an error made during its playout operations. For this reason it was developing its playout business slowly.

Top-tier channels

24. When Globecast worked with larger clients such as ITV it had to establish dedicated teams which led to a change in how it managed its work. It thought any of the playout providers looking to work with the premium-tier channels for the first time would not be able to work with those channels without direct sponsorship from them in the short term.
25. If it did decide to work with the larger channels it felt the biggest investment would be made to operational support rather than technology. It felt that expertise would be required to carry out these changes and that this would be difficult to find. A possible route to moving to working with bigger channels was to work with global channels such as Discovery or Sony that would improve its credibility.
26. There were three key factors a playout provider should consider if it wished to work with the top-tier channels. These were quality of service, regionalization and reactivity. To develop these would require significant investment in infrastructure and staff.
27. Service quality for larger channels was important as their coverage was greater. It said that a 5-minute outage on BBC1 would have more severe consequences than if it happened on a small channel due to population viewing size.

Competition

28. Globecast considered Arqiva to be its main competitor. Most of this competition was in distribution but a small amount was in playout. It felt it had a stronger presence in France whereas Arqiva had a stronger presence in the UK.
29. Arqiva and Encompass were [X].
30. RBM was considered a mature provider in part because it grew from the BBC. Globecast said that RBM had a large workforce which made it more expensive but its price had become competitive over recent years. Globecast was losing more business to RBM than to Technicolor.
31. Technicolor had some maturity but was considered not as mature as RBM. Globecast thought Technicolor offered stronger experience of processes and procedures than itself. It thought Technicolor was more aggressive on prices than RBM but was not particularly successful at winning business over the past two or three years. Although it found Technicolor to be generally impressive, its problems with coverage of football on ITV had damaged its reputation. The takeover by Ericsson had led to more control in Technicolor, resulting in an improvement in its credibility.

32. Globecast did not think the merger between RBM and Technicolor would seriously affect its performance. It did think that as the merger would give RBM/Technicolor an 80 to 85 per cent market share, it might affect how larger channels such as ITV and the BBC selected playout providers. For example, it did not think that ITV would wish to share a playout provider with the BBC. This could mean that a smaller provider would have the opportunity to work with a larger channel (should it have the appetite for such risk and investment) which would have been otherwise less likely.
33. Globecast thought it could compete more effectively for international channels due to its distribution services.

BBC Worldwide

34. In 2010, BBC Worldwide placed a tender for a playout agreement. At the time, playout was being provided by Technicolor. BBC Worldwide was a separate commercial division to the BBC.
35. Globecast had an existing relationship with BBC Worldwide in relation to distribution. RFIs were sent to the major competitors in the market which it believed included RBM.
36. Globecast was successful in winning the tender. It believed this was due to its competitive price offer [redacted]. In 2010 there was a change in the playout market where customers were focusing on price. It thought that BBC Worldwide was used to paying higher prices as it had used RBM and Technicolor.

ITV International

37. In the summer of 2012 Globecast won a tender with ITV International. It believed this was based on its ability to offer a comprehensive solution.
38. It felt that larger providers such as RBM might be less able to adapt and change their offering due to the size of their workforce. However, for smaller providers like itself it would be harder to provide at the upper levels of the market.