Executive Response to the Trust Review of Online Supply 2012/13

[Images clockwise from top left: Dick & Dom's Hoopla - interactive game, produced by Team Cooper Ltd for CBBC; Supplier Briefing slide from 2012 A&Mi industry briefing; Connected Studio ideas wall; BBC Online industry briefing, May 2012]

Overview

This paper summarises the BBC Executive's response to the strategic issues raised by the BBC Trust's review of external supply[1] .

After consultation with internal and external industry stakeholders our overall recommendation is to retain the existing quota and supply arrangements, although we have identified some specific changes that we will now make to improve operational effectiveness of these arrangements in certain areas.

We believe the current quota system can deliver strategic benefits for the Licence Fee Payer in two main areas: driving Value for Money (VfM); and promoting creative innovation to improve the quality of our products. We note the findings of MTM London that there is no one single view from industry on how any alternative to the quota might deliver comparable benefits in these terms. In the Executive's view the existing quota system offers the right balance of meeting our strategic goals at an acceptable overhead in terms of management and support.

These recommendations and the research on which they are based have been shared in full with the BBC Trust. The Trust has accepted the recommendations.

Background

Since 2006/07, BBC Online has met its regulatory commitment to spend 25% of eligible spend with external suppliers. In 2010 the Trust conducted a review of this commitment where it questioned both the operational processes with which BBC Online's external spend was met and the strategic aims of the quota. In response BBC Management introduced a number of changes in 2011/12, designed to improve operational processes.

This paper addresses the broader strategic questions posed by the Trust in 2012, responding to each of their six questions in turn.

Approach

The responses outlined here were developed through a combination of workshops with internal stakeholders and interviews with more than 20 external stakeholders. These were conducted by MTM London, a specialist media consultancy, and took place between May and September 2012. The 'Summary of Market Response' , as included in this report, reflects the findings of this work, and MTM London's final report is available online[2] (redacted to maintain commercial confidentiality).

Market context to this review

The Online market is very different to that of TV and Radio, where the BBC is a market leader with a substantial market share. By comparison, BBC Online's external quota spend of £19.7m in 2011/12 represents a negligible market share in an online production market that is valued in excess of £790m[3].

In addition, the nature of digital production brings operational complexity to management of the quota not experienced on other platforms. TV and Radio quotas are measured through share of "programme hours" delivered by each group. However as there is no meaningful common unit of measure equivalent to the "programme hour" for BBC Online, the quota is measured through share of spend. There is also no equivalent in Online to the exemption from public procurement regulations for technology spends as applies to linear broadcasting.

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[1] http://www.bbc.co.uk/bbctrust/our_work/services/online/other/online_independent_supply.html
[2] http://www.bbc.co.uk/blogs/bbcinternet/external_supply_review.pdf
[3] 2010 Deloitte Review
http://downloads.bbc.co.uk/bbctrust/assets/files/pdf/our_work/radio_supply/independent_report.pdf

BBC Executive response to Trust questions

1. Would the introduction of competition into the commissioning system bring comparable benefits to those delivered in TV and Radio?

Assessment:
BBC Online's external eligible spend is relatively small given the overall size of the digital market. It is therefore not possible for the BBC to have the same economic impact in this sector as it does for TV and Radio. Similarly, given the distinctive nature of Online as a medium, it is not possible to do a direct read-across of the benefits of competition (e.g. lack of an equivalent unit of comparison to the "programme hour"), or implement a Window of Creative Competition (WoCC) in the same way as it applies to those markets

In lieu of any comparable market-leading role, we see the quota for Online as a mechanism for achieving two distinct benefits for Licence Fee Payers (LFPs), based on the principle of increasing competition between internal and external teams:
       (1) Delivering continuous improvements in VfM; and
       (2) Providing increased support for innovation and creativity.

Summary of market response:
There is general agreement that a WoCC for Online similar to those which bring benefits to TV and Radio would not work for Online – due to the diverse nature of what is commissioned, which ranges from pure content commissions to technology-only projects, as well as "hybrid" developments based on a blend of technology and editorial inputs (e.g. iPlayer and Connected Red Button).

However our external suppliers felt there are further ways in which the BBC could deliver benefits for LFPs through increased levels of competition - for example by ensuring the "build versus buy" process is fully adopted across all product development teams.

Commentary:
Although we believe the operational complexity of a WoCC would outweigh its benefits, the BBC is committed to delivering the benefits of competition to this space however possible. Two current examples include:

1) The introduction of Framework agreements with the Online Roster of suppliers, which has improved the business case for taking large (£50k+ project to market), thereby increasing opportunities for competition between BBC and third party developers.

2) The Connected Studio innovation programme, which is backed by £1m funding. The goal of the programme is to add a range of new features across our existing digital services beyond the current priorities. This increased support for innovation is delivered via Connected Studio events, e.g. structured opportunities for creative competition between internal and external teams.

We believe there are sufficient competitive opportunities in the existing commissioning system, while recognising that there are further changes we can make to improve operational efficiencies in certain areas. These are detailed in our response to Question 6.

2. Is an eligible base appropriate given the complexity it brings?

Assessment:

In response to the complexity of the eligible base at the time of the Trust review (2010), BBC Online made fundamental changes to the way we construct and communicate what spend is eligible for the quota. This change was based on the principle that all audience-facing content should be eligible, with the exception of news and sport, which are covered by the journalistic exemption. The new eligible base came into effect at the start of FY12/13, with a number of positive benefits:

- More spend is now considered eligible than would have been under the previous base
- Greater simplicity of definitions improves transparency, both internally and externally
- Focus on audience-facing services promotes spend in the most creative areas of our business

As part of this review we considered the possibility of removing the eligible base altogether. However we felt this carried the risk, over time, of external work drifting towards back-end technologies at the expense of audience-facing product development. Although this would still meet our VfM objective, it may reduce the scope for creative competition.

Summary of market response:

MTM, and the BBC, have found the new eligible base to be broadly welcomed by our external partners - *"Captures the main areas where BBC Online should be using external suppliers to drive innovation" – MTM interviewee.*

However there were fairly polarised views amongst those we spoke to about the value of having an eligible base. Technology providers were keen to remove the eligible base, perceiving that this would open up more of the BBC's operations to their business. More content-driven companies thought the reverse – fearing that reducing the focus on audience-facing activity would dilute the value of the quota system itself.

Commentary:

Based on this assessment of "fit", and the apparent lack of industry consensus on suitable alternatives (as reported by MTM), we recommend that the eligible base as currently constructed, should be maintained, especially as it is still in its infancy. We are committed to reviewing its efficacy – for example in reducing complexity – on a rolling basis. We expect to carry out these reviews in line with publication of the annual BBC Online Out-turn report on external supply.

3. What is the appropriate balance between tech and content focussed external commissioning? And how should 360 degree commissioning fit into the new system?

Assessment:

It is our view that it may no longer be meaningful to focus on a "content versus technology" split, as so many online projects defy categorisation in these terms. BBC Online, like many digital services, is a hybrid medium combining technical and editorial skills, in order to deliver a seamless audience experience- the BBC iPlayer is perhaps the most successful example of this marriage.

Our organisational structure and commissioning processes reflect this. Each of our Online products is managed by a Product Direction Group (PDG) which provides both technical and editorial leadership – making build versus buy decisions for all product developments, including those with connection to linear output ("360 degree commissions").

Our current product strategy means we only commission a small number of 360 degree projects annually[4]. Spend on digital product-related TV assets is estimated to be less than 5% of the eligible

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[4]The TV Terms of Trade which gives the independent programme maker first right of refusal for any digital enhancements to the programme. The rights in such additional content or material follow the rights in the TV programme. In each case, the digital spend is included in the eligible base.

base. Where these are based on or relate directly to an independently- produced TV show, these are covered by the TV Terms of Trade.

Summary of market response:
There is general agreement from those we spoke to that the boundaries between 'content' and 'technology' are becoming blurred – and indeed, the BBC has a role to play in supporting companies with expertise in either area make the transition. They also agreed a clear model exists for supporting 360 degree commissions where they become available.

However, MTM also found some support for introducing new quota definitions, e.g. separate quotas for technology and content-related activities, or for merging the TV and Online quotas.   Generally these were representations from commercial organisations with an interest in the outcome of the "technology vs. content" debate.

Commentary:
Our view is that splitting the existing system into two separate content and technology quotas (and trying to manage this split) would have a number of negative consequences, including undermining the current integrated commissioning model for our PDGs; introducing greater complexity, given that the reality of the product lifecycle means that commissioning needs change over time; increasing operational overhead; and risking anti-strategic commissioning decisions being made to meet a regulatory commitment.

4. Is it important to distinguish between "external supply" and "outsourcing"?

Assessment:
BBC Executive's view, developed at the time when the new eligible base definitions were agreed, is that all audience-facing elements of our Online spend can support the dual objectives of our external supply quota. Some areas cited as more akin to 'outsourcing', such as testing, are integral to our agile software development process. Therefore in terms of market expertise, as well as VfM reasons, external input in these areas is beneficial.

Summary of market response:
We found no overall industry consensus on what constitutes external supply versus outsourcing. Controversy in this area was mostly centred on whether items such as testing and moderation were supply-based services, relevant to the quota, or whether they were more akin to back-end technology and should therefore be excluded.

There was general agreement in favour of outsourcing wherever this meant VFM savings could be achieved

Commentary:
In the interests of simplicity the eligible base is built around what is audience-facing, not "outsourced vs. external". If we included all spend the BBC's overall commitment would be significantly higher. We therefore recommend maintaining the existing focus on audience-facing activities which support the product development strategies.

5. How might intellectual property rights (IPR) influence the outcomes of any quota?

Assessment:

The BBC's new media rights frameworks are currently among the most generous rights positions in the digital media sector. They allow for the digital media indies to retain rights in their original proposals, subject to the BBC getting a back end share of revenue; whilst the BBC retains rights in any digital media proposition which the BBC originates and specifies.

Despite this favourable rights position, we could find no evidence of either successful exploitation of secondary rights by the digital media suppliers with whom the BBC has contracted since the quota was introduced (although there have been attempts to do so); or that the introduction of the new media rights frameworks has influenced the desire of suppliers to work with the BBC.

Summary of market response:

MTM found very limited support for other IPR models in the digital media sector. They noted the lack of a secondary market, although this situation may change over the next few years, and industry would like the BBC to provide more proactive support for this. Nevertheless, MTM found that very few of the BBC's suppliers currently expect to earn significant revenue by commercialising their intellectual property. MTM also noted that many multiplatform producers "include the online rights for free when selling on multiplatform formats".

Commentary:

Evidence to date suggests that IPR has limited impact on the outcomes of the quota. We also noted that most public funded organisations take all rights when commissioning in order to own the output.

We continue to consider whether there may be opportunities to increase the flexibility of the IPR models in the digital media space, as part of the BBC's commitment to support creativity and innovation in the industry as a whole. We are committed to explore this further through interventions such as the Connected Studio[5].

6. Are more fundamental changes needed to the quota system (and is the quota minimum of 25% still appropriate)?

Assessment:

Following conversations with the BBC Trust, Industry and internal teams, it is our view that we should retain the existing quota with a primary objective to create a powerful audience proposition at the best possible value for money.

We will use the roster framework agreements to further drive competition between selected suppliers, particularly where there are opportunities to achieve efficiencies of scale by commissioning across products; and where innovation is valuable and required. We will maintain the quota minimum of 25% given this is stretching but manageable. We would hope that as our operational processes mature that we would routinely over-deliver against this minimum, at which time we would deem the quota redundant as an incentive.

Although we do not feel the BBC has the power to direct the digital production market, we recognise the view expressed by some stakeholders that the BBC may have a disproportionate impact in some market segments. We will continue to support those areas of the market where the BBC can have

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[5] We are considering what further flexibility may be built into our approach to IPR models in the digital media space, in relation to the first phase of the Connected Studio programme, with a view to taking forward any learning into future phases.

significant impact, for example in the devolved Nations, where this in line with the objectives of the wider BBC strategy.

Summary of market response:

In addition to the assessment above, MTM proposed the following changes and clarifications to the existing quota system following their consultation with the market:

- Ensuring the "build vs. buy" commissioning process is operational across all PDGs and clearly communicated to the market

- Implementing a new reporting system to more accurately track performance by type of activity

- Continuing to explore potential new models of IPR via the Connected Studio; and also using the Connected Studio as a way of opening up internal teams to wider creative competition

Commentary:

We accept and will implement the recommendations from MTM London as outlined above.

We are committed to making commissioning points of contact in general much clearer to industry via a range of interventions, including more regular Industry Briefings (building on the success of recent events), the publication of tenders awarded, and providing regular industry events around other activities such as the Connected Studio days.

Conclusion and next steps

As noted above, we remain committed to delivering the benefits of competition in this space to the Licence Fee Payer. Taking the market context into account, along with the recent changes made to the quota definitions, we recommend retaining the existing quota and supply arrangement for a further two years (i.e. to end of financial year 14/15).

Over the same time frame we will make several specific changes aimed at improving overall operational effectiveness, including:
- Communicating the quota objectives and performance more widely with the market
- Ensuring that the "build vs. buy" decision-making process is fully rolled out across product groups and teams
- Ensuring commissioner contact details are readily available and up-to-date online
- Replacing our existing reporting metrics with a new set of categories which are more meaningful to industry
- Working with industry to explore new models of IPR via programmes such as the Connected Studio.

We will report annually to the Trust on performance against these commitments, and publish a summary of these findings alongside the annual BBC Online Out-turn report. We expect to carry out a further review of the quota and its objectives and report back to the Trust in financial year 15/16.

Discuss this report on the BBC Internet Blog
For a discussion of any of the issues raised in this report please see the BBC Internet Blog
http://www.bbc.co.uk/blogs/bbcinternet/2013/01/external_supply_review.html