Final report

BBC – Online External Supply Review

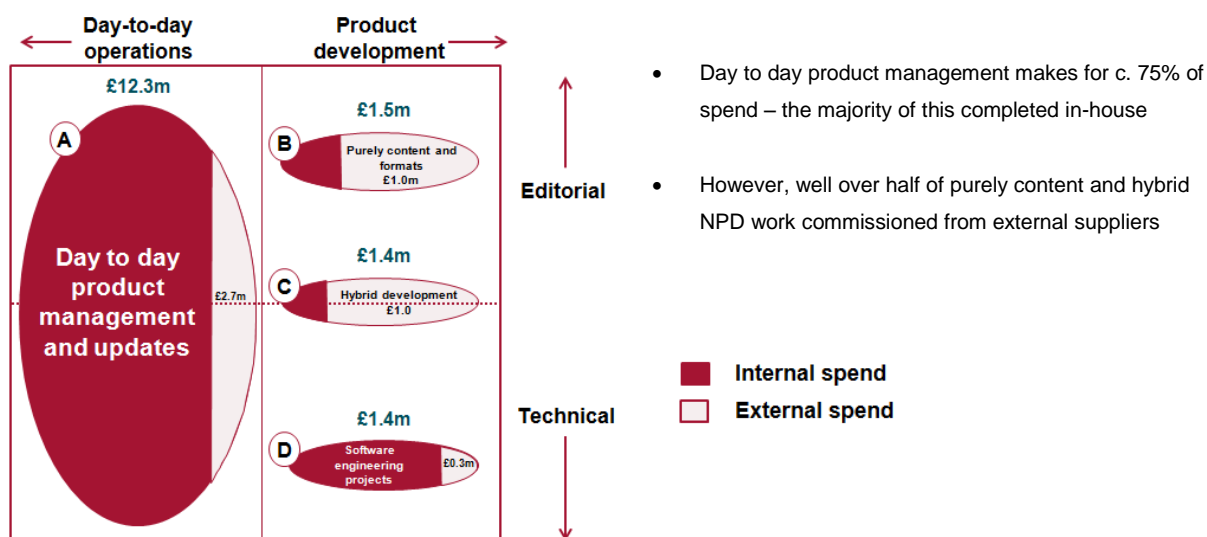September 2012

Table of contents

1   Executive Summary

A complex and controversial subject – however, consensus that the quota should be retained

The BBC Online quota for external supply was designed with the intention of both serving the license fee payer (by harnessing the best ideas and delivering value for money) and supporting the development of the digital production sector.

Since the quota was introduced, the proportion of BBC Online's eligible base spent on external suppliers has risen from 17% (2005/06) to 29% (2011/12). External spend is proportionately higher in areas of new product development (often over 50% of spend) and in editorial and content focused areas.

Internal and external interviewees agree that the rise in external spend is a direct consequence of the quota and that, despite shortcomings, the quota is a good thing because of this. The majority believe that the quota should be retained going forward: however, there are a wide range of often contradictory views as to the objectives the quota should be designed to meet and, consequently, how it should be designed.

Exhibit 1:   [Product name redacted] "Product A" Product Team - estimated spend 2012/13 [1]

- Day to day product management makes for c. 75% of spend – the majority of this completed in-house

- However, well over half of purely content and hybrid NPD work commissioned from external suppliers

Views differ as to what objectives the quota should be designed to meet

All parties agree that harnessing the best ideas and delivering value for money for the license fee payer are valid quota objectives.

Stakeholder views differ about the external market objective. Pact and some of its members argue that the quota should focus purely on the creative content sector. However, our analysis (and the majority of interviewees) suggests that the BBC can support the development of (and benefit from engaging with) suppliers from across the digital agency market and not just the creative content sector.

Importantly, the external market objective should not drive the quota design over and above the value for money and quality of service objectives. Whereas the BBC accounts for almost a quarter of the revenue of the independent TV sector, its share of the online digital media markets is less than 1%, suggesting its

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[1] Questionnaire for BBC Product Managers; MTM Analysis

influence on the development of the markets is similarly small.[2] Where the BBC can still support external providers it is by supporting clusters of specialist companies that operate freely within their wider markets, and do not constitute separate markets in themselves.

The external market objective could potentially be redefined along the following lines to reflect this:

"The BBC's limited purchasing power means that it should not be responsible for enabling independent production companies to become sustainable businesses. However, it should still seek to use its key assets, including its brand and distribution platform, to make the UK's digital media companies better and stronger."

Similarly, a wide range of differing views around how the quota should be designed

There are a wide range of different views about how the quota should be designed, and specifically, what aspects of BBC Online spend it should be applied to. These include:

- Merging the TV and online quota into one: "*it would be disruptive but it would encourage the BBC to behave like a genuinely cross-platform organisation*"

- Redefining the quota as a smaller, more tightly defined digital creative quota: *"including technology dilutes the quota – focus on the content, where the ideas that drive the audience proposition are."*

- Expanding the quota to include core technology: "*innovation and value for money are just as relevant to the core technology platform*"

- Keeping the status quo: *"the eligible base captures the main areas where BBC Online should be using external suppliers to drive innovation"*

Despite the lack of consensus, a degree of clarity on what drives these differing views

At the moment the quota covers a wide range of products and activities, from software engineers designing the iPlayer, to freelancers creating editorial content for the K&L product. Views about the relative value of these different areas of activity vary by interest group. This in turn drives views about what should be included in the quota:

- Many content specialists see the value as being primarily in the content. They regard the services that create the digital product as important enablers of the idea, rather than part of the idea itself

- In contrast, suppliers from beyond the content sectors argue that this view is out of date and that the value in innovative experiences lies as much with the functionality and UX as the content.

Consequently, the content specialists tend to favour a more tightly defined quota, focused on digital content specialists. In turn, suppliers from beyond the content sectors tend to take a broader view of where 'the idea' comes from and what suppliers the quota should be applied to.

We recommend retaining the definition of eligible spend as is

Given this situation, we are minded to leave the definition of what constitutes eligible spend largely as is.

BBC Online engages in a wide range of activities, and the benefits of using external suppliers clearly varies across these areas. However, we see no evidence that sources of creativity and innovation in online product development are solely related to content. There is certainly no consensus to this effect, and indeed some evidence to the contrary based on where audiences spend their time and where VCs invest their money. On

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[2] Terrington, *BBC Online External Supply Review* (2010) Data based on 2008, 2009 and 2010 data

this basis we see no reason to focus the quota on content alone as long as harnessing the best ideas is a core objective.

One quota rather than several

We are also minded not to divide the quota up into multiple quotas on the basis of the blurred boundaries between different areas of activity: whilst some projects would sit neatly in a 'creative content-only' quota, or in a separate technology quota, others defy categorisation. If there was a content and technology quota, where would a Sherlock game sit that required a new game engine? How about a re-imagining of iPlayer or the BBC homepage? In addition, there is a chance that separate quotas for technology and content would work against the desire to create integrated, multi-disciplined product teams. We also reject the concept of a separate quota for digital content related to TV assets on the basis that the current quota system provides a clear model for handling this type of content (see section 5.6) and, at c. £2m-3m p.a., spend in this area is not significant enough to merit a stand-alone quota.

We also recommend leaving the quota target at 25%

We are also minded to leave the quota at its current level.

The current target of 25% has proved stretching to date, in part because up to 75% of spend tends to go on day-to-day product management, which is mainly completed in-house. Any increase could compromise the value for money objective by forcing the BBC to make buy decisions in order to hit the quota rather than for legitimate business reasons. Whilst there is nothing necessarily wrong with increasing the target and taking this risk if the upside from changing BBC behaviour justifies it (the original target did just this) we believe that the BBC's small market share means that any increase in spend would only result in a small GVA to the economy, reducing the incentive to take such a risk.

However, the BBC's needs continue to evolve rapidly in a fast-moving marketplace. Therefore we recommend re-visiting the quota target and design once it has operated in its current form for a minimum of two years, thus allowing us to better understand its impact.

However, some important refinements to the processes and reporting around the quota, to ensure BBC Online is commissioning a suitable range and diversity of material

Firstly, BBC Online should consider revising the current out-turn report format to provide a clearer view of where and how they spend their money. This will enable the BBC and stakeholders to establish more readily whether it is commissioning a suitable range and diversity of material. We have proposed the skeleton for an alternative reporting mechanism in section 5, developed in collaboration with the BBC and external interviewees, but recognise there is work to be done to establish what is realistic given current reporting systems and resourcing.

Secondly, although a digital WoCC is impractical (see section 5.8), we do believe that there are benefits to be had from increased levels of competition. The Connected Studios initiative is an important step in the right direction - in addition we recommend exploring two related areas for introducing additional competition:

- Ensure the online product direction group commissioning process is rolled out across all teams, with all projects leaving a paper trail to this effect – this should complement the quota system by ensuring BBC Online is making build-buy decisions in the right way and at the right time in a project lifecycle

- Provide a clearer account of where BBC Online does and doesn't issue one line creative briefs to external suppliers, with a view to identifying additional opportunities to issue such briefs.

Thirdly, BBC Online should consider additional KPIs designed to monitor whether teams are commissioning projects in the right way, notably:

- The adoption rate of the online product direction group commissioning process (or a suitable equivalent) across teams

- Evidence that producers issue one-line innovation briefs to external suppliers where appropriate, rather than just production briefs

- Evidence that producers are proactively working with suppliers to identify IP opportunities at project outset.

We recognise that some of these KPIs may be easier said than done, and it is important to be pragmatic given budgetary restrictions. Our instinct is that many of these could be achieved if, at the commissioning stage of a project, 3-4 questions could be posed to producers and commissioners, and subsequently tracked over time.

2   Introduction

2.1   Project background

Since 2007, BBC Online has had a regulatory commitment to spend 25% of eligible spend with external suppliers.

In January 2011 the BBC Trust published a review of the quota in which it questioned the strategic aims of this commitment, the operational processes by which external spend was allocated and the value of the current system to the licence fee payer. The Trust asked BBC Online to review the design of the quota, in discussion with industry.

Subsequent to this report, the BBC has made a number of revisions to the commissioning system, providing more clarity on how the quota is constructed and reported and expanding the definition of what constitutes eligible spend to include UXD, moderation and testing.

The BBC Executive has now commissioned MTM London to review the objectives underpinning the quota and the design of the quota itself, in discussion with BBC stakeholders and industry, asking:

What strategic goals should the quota for external online supply seek to deliver against and how should it operate in practice to best deliver against these?[3]

In the course of answering this question we took particular note of six additional questions posed by the Trust:

1. Would the introduction of competition to the commissioning system bring comparable benefits to those delivered in television and envisaged for radio?

2. Is an eligible base still an appropriate structure given the inherent complexity in such a system?

3. Is the role of the BBC the same in both technology-focused and content focused commissioning? What is the appropriate balance of investment between the two ends of this spectrum?

4. How should 360 degree commissioning fit within the new system?

5. Is it important to distinguish between 'independent supply' and 'outsourcing' when considering a new quota structure?

6. How might intellectual property rights influence the outcomes of any quota?

2.2   Approach

The research was conducted between June and August 2012 in three main stages:

- A programme of interviews and workshops with internal stakeholders to develop and articulate BBC Online's view on the objectives and operation of the online quota

- A programme of deliberative engagement with industry stakeholders, to explore and understand their views

- The development of a clear set of recommendations, outlining the BBC's position, the views of the industry, and a clear perspective on the challenges and concerns raised by stakeholders

The project was led by Richard Ellis from MTM London, with Bianca Abulafia acting as core consultant.

Appendix A contains a list of internal stakeholders and industry participants consulted during the research process.

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[3] The project's key research question incorporates the Trust's three over-arching questions, posed in the Trust's *Review of Independent Supply* (2011): 1) In what ways can the independent sector contribute to BBC Online's delivery of the public purposes and the new strategy for online? 2) What precise benefits could be delivered for licence fee payers, the BBC and the industry from a quota system? 3) Are changes to the current structure and level of the quota needed in light of the answers to 1) and 2) above?

3   BBC Online and its position within the external market

3.1   BBC Online – what does it do, where does it commission?

BBC Online in 2012 is designed to be one service, comprising ten discrete products delivered across four screens. These products range from TV & iPlayer to CBeebies.

Exhibit 2:   BBC Online: One service, four screens, ten products
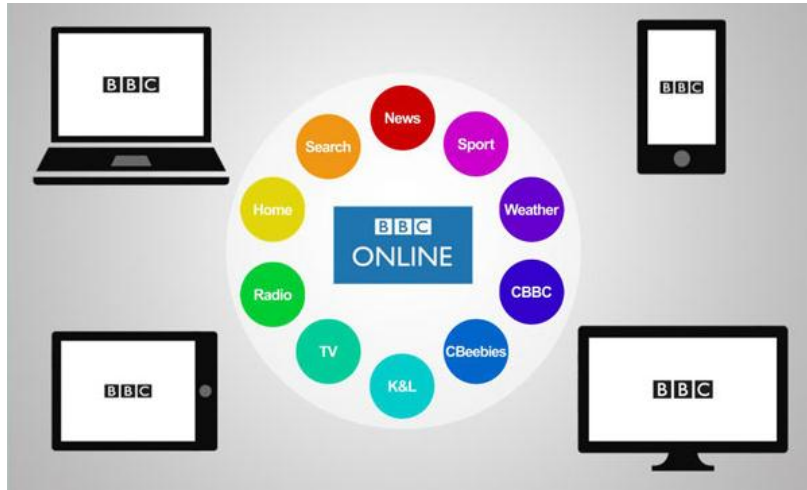
BBC Online's total budget for 2011/12 was £122m. It spent approximately £47.6m of this externally, comprising £19.7m of eligible spend and a further £27.9m of its non-eligible budget on external suppliers. [4]

Designing and delivering this strategy requires BBC Online teams and suppliers to work across a wide range of products and areas, from internal software teams designing the iPlayer to freelancers creating original video content for the K&L product.

The BBC structures its teams (and its commissioning of suppliers) as follows:

- Ten multi-disciplined product teams, one for each product
- Shared client-facing services: UX, moderation
- Shared non-client facing services: distribution and infrastructure, core technology

This is set out in more detail in Exhibit 3.

Product team activities can be grouped into four broad categories:

- Category A: Day-to-day operations, product management and updates: iterative development to keep the content and experience up-to-date and operational
- Category B: Product development – purely content, formats and experiences: major new content commissions and concepts
- Category C: Product development – hybrid development: major new experiences that require a mix of tech, design and editorial skills. E.g. Designing a Sherlock interactive game and building its engine
- Category D: Product development – software engineering projects: major new software engineering projects. E.g. Developing live rewind for iPlayer.

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[4] BBC Analysis by Head of Business Operations, TV & iPlayer, Future Media (2012)

It is important to note that boundaries between categories are fuzzy – for example, when does the development of a new game become large-scale enough to move from day to day development (where a small-scale casual game with an Olympics theme for CBeebies might sit) to new product development?

Exhibit 3: BBC Online products – key areas of activity
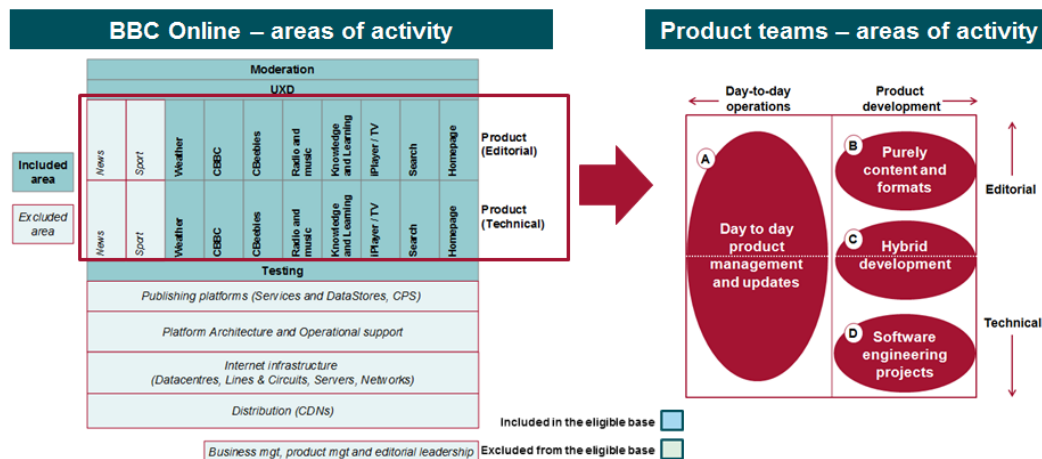
3.2 In what ways can the BBC contribute to the development of the UK digital media sector?

When Philip Graf first recommended a quota, one of his primary motivations was that the BBC should play a fuller and more positive role in the development of the UK online (production) sector, much as it had done with television and radio.

However, eight years on it is clear that whereas the BBC accounts for almost a quarter the revenue of the independent TV sector, its share of the online digital media markets is less than 1% (see Exhibit 4). The BBC is not even a top twenty client for the major digital agencies such as AKQA and LBi.[5,] The total size of the set of markets relevant to the BBC's online commissioning activity is very large (around £65bn total). These markets are competitive, dynamic, and to a large extent operating within a global context. The customer base ranges across the entire UK economy, including government, retailers and global entertainment companies. Although the largest agencies are based in London, there are also many small firms with a workforce reasonably spread across the UK. In each of the major market segments, the BBC's external spend represents a negligible share, suggesting its influence on the development of the markets is similarly small.

In addition, there is not one UK 'online production sector'. The various online production sectors are dynamic and global – defining boundaries can be problematic as they keep changing. However, interviewees broadly agreed that the BBC engages with suppliers across six broad categories of supplier (see Exhibit 5 below).

> "*The BBC is not even a top 10 client for leading independent agencies*"

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[5] Terrington, *BBC Online External Supply Review* (2010) Data based on 2008, 2009 and 2010 data

Exhibit 4: Estimated BBC spending as a proportion of UK independent suppliers' total revenue [4]
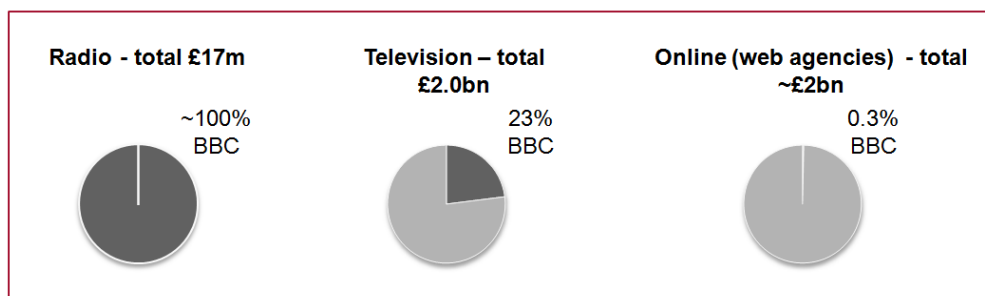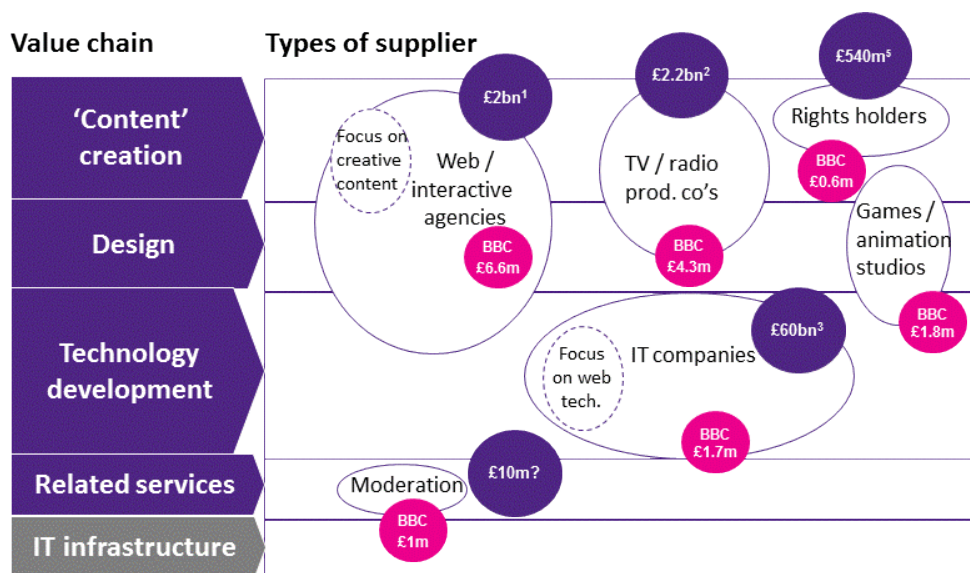

Radio - total £17m	Television – total £2.0bn	Online (web agencies) - total ~£2bn
~100% BBC	23% BBC	0.3% BBC

Exhibit 5: Estimated turnover and BBC external spend by sector [6]

"*This chart is useful but a simplicifcation – we are a digital media agency but with elements of games studio and IT company. So I recognise the categories, but perhaps they would work better as a Venn diagram , showing overlapping boundaries*"

It is important to look beyond these top level figures when considering the ways in which the BBC can contribute to the development of the online sector. Whilst BBC Online remains a small player in each segment in terms of purchasing power, there are clusters of companies where the BBC has greater share, including:

- Technology companies focused on media
- 'Creative content' agencies focused on digital media connected to TV or children's and education
- Regional clusters, such as the North West.

"*The external market objective is relevant across technology and content services… there are opportunities to support market development, even with the BBC's limited purchasing power*"

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[6] Terrington, *BBC Online External Supply Review* (2010)

Interviewees cited a range of ways in which the BBC can have a positive impact on these clusters, in particular:

- Helping UK TV indies develop as market-leading multiplatform producers
- Helping suppliers across technology and creative sectors explore emerging opportunities for creating rights that can be commercialised
- Releasing software to the open source community
- Giving suppliers access to the BBC distribution platform and brand to promote products (e.g. games)
- Supporting the development of vibrant regional clusters that do not have such easy access to the London international client base.

It is clear that the nature and extent of these benefits varies somewhat across sectors – releasing software to the open source community is likely to be of more benefit to IT companies, for example. It is also important to recognise that, with the exception of TV indies, these are opportunities to support clusters of companies rather than the market as a whole. The 'creative content' agencies and IT media specialists operate freely within their wider markets, and do not constitute separate markets in themselves.

3.3 In what ways can the independent sector contribute to BBC Online's delivery of the public purposes and the new strategy for online?

The Graf report originally proposed that the quota could serve the BBC and the license fee payer in two broad ways:

- Improved audience-facing quality: harnessing the best ideas and skillsets; access to talent and IP; wider range of social and regional representation
- Value for money: suppliers who can deliver certain services more efficiently than in-house resource; lower costs brought about by competition between suppliers

Graf also noted potential downsides to engaging with out-of-house suppliers – both external issues (supporting inefficient markets) and internal (loss of in house capabilities and economies of scale in house).

In the intervening period, we have learnt more about the pros and cons of engaging with external suppliers. Whilst Graf's basic premises about how the independent sector can contribute to BBC Online still stand in general, it is clear that they vary depending on the service the BBC is commissioning:

- Range of commodity 'yellow pages' services, such as distribution and infrastructure, where the benefit is predominantly value for money
- At the other end of the scale, new product development services where a new experience needs to be created and the benefit is predominantly in quality of service
- Different downsides depending on type of project – for example, integration costs and loss of internal capacity are often seen as potential downsides of using external suppliers on software NPD and production projects but not content-only projects.

Importantly, views as to the relative benefits to the BBC of working with external suppliers vary by interest group. Many content specialists see quality audience-facing services (harnessing the best ideas and skillsets and access to talent and IP) as predominantly relating to the content commissions, and see the tech-focused services that create the functionality – e.g. the live rewind on iPlayer – as more commodity and value for money purchases.

"At the moment the trend is to think all the value is in the product…but the only reason that instagram works is because of the

vs.

" With Instagram, the innovation is in the product rather than the content on it"

In contrast, many technology providers and online product specialists insist this view is out of date and suggest that the value in creating innovative online products and experiences is as much in functionality and UX as the content it carries.

Whilst we cannot find any incontrovertible evidence that allows us to say one view is right and the other is wrong, we are inclined to believe that the BBC can benefit from access to innovative services across a range of content and technology services. Technology is a key enabler of great online experiences and storytelling, and thus it appears logical that innovation in technology can be a major contributor to enhanced quality of service.

We have set out our views on the various pros and cons to BBC of working with external suppliers across its different areas of activity on this basis, in Exhibit 6 below:

Exhibit 6:   Pros and cons to BBC of working with external suppliers

Areas of activity	Benefit to BBC	Ways in which the BBC can benefit from external suppliers	Potential issues/downsides
• Distribution and infrastructure; testing	Value for money	• Outsource to suppliers who can deliver service more cost-effectively	• Potentially more efficient for internal teams that know core platform and other teams
• Day-to-day product management		• Value for money and flexibility – gain access to resource at short notice to address capacity issues or skills gaps	• More efficient for internal teams that know core platform and other teams
• Production (across core tech and client facing products)		• Benefits vary depending on project scope, as many are a hybrid of creative and production: – quality: access to talent and skills that can contribute to agile product development – Value for money: access to production resource, drive down price through competition	• Integration costs for software projects • Loss of economies of scale and production efficiency in house • Strategic importance of retaining control of core tech in house
• New Product Development – content, hybrid and technology	Quality of audience-facing service	• Better ideas and superior product generated as a result of access to talent, skills and IP from wider market	• Potential for higher integration costs when using external suppliers on tech project

4 What value does the quota deliver for the license fee payer, BBC Online and external suppliers?

4.1 The quota system – what is it for, how does it work?

The BBC's current online supply strategy originates from the Graf report (2004), which recommended that BBC Online implement a 25% quota for externally supplied 'online content'.

At the time, Graf envisaged three broad objectives for the quota:

- Driving innovation and creativity, and promoting the diversity and quality of content offered by BBC Online
- Enabling BBC Online to play a fuller role in supporting the development of the independent digital production sector
- Encouraging efficiency and delivering value for money for licence fee payers.

The quota was implemented in 2007. As of 2011, eligible spend accounts for £67m of BBC Online spend, derived from total net cash spend of £122m. It includes all, "*online content and services sourced from an external entity, commissioned on an output delivery basis that directly impacts the BBC's audience via the product structure of BBC Online*".[7] The major exclusions from eligible spend are daily news (to maintain journalistic independence), core technology services and platforms (where there is a strategic rationale for keeping in house) and distribution and infrastructure (commodity technology).

Exhibit 7: Reconciliation of service licence spend and eligible base 2011/12 (£m) [8]

[redacted item]

4.2 The impact of the quota system from 2007-11

Since 2007 the proportion of BBC Online's eligible spend that is spent on external suppliers has risen from 17% in 2005/06 to 29% in 2011/12, and a projected 26% in 2012/13.

Internal and external interviewees agree that this is a direct consequence of the quota and that, despite shortcomings, the quota has been a good thing because of this: *"It is a struggle, and there is always a risk of outsourcing for the sake of it, to make up the numbers… but in general the quota has made us more open to using external suppliers, and that is a good thing."*[9]

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[7] BBC Online, *Online External Spend Definitions* (2012), which includes more detail of what is included and excluded from the eligible base
[8] BBC Online, *Data request* (2012)
[9] BBC Online, *Internal interview* (2012)

Exhibit 8: External spend as a percentage of base (2009-2013) [10]
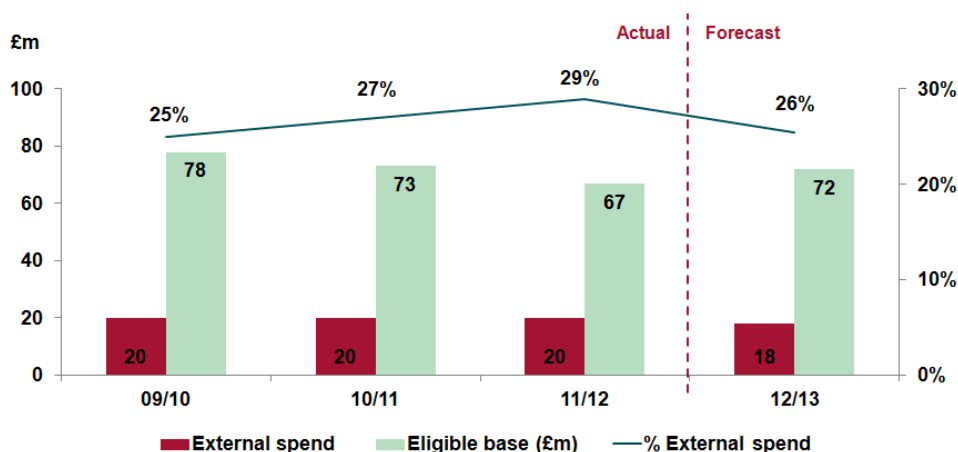
Historically, external spend has skewed towards content and design, and away from technology: 65% of external spend in 2010 was either 'mainly content' or 'mainly design', with only 24% 'mainly technology'.[11] BBC's divisional forecast for 2012/13 shows █% of FM spend (wholly technology) going out of house, compared to █% of K&L and Radio and Music division spend (content and design). [12]

Exhibit 9: External vs. internal spend by division (2012-13 Forecast) [13]

[Internal forecast redacted]

4.3 What types of project is the BBC commissioning from external suppliers, and what benefits does it get as a result?

The out-turn reports that show the BBC's performance against the quota do not break down use of external suppliers by product team. They provide limited data about types of project commissioned.

In order to understand how suppliers are used in more detail we have mapped spend for two product teams, broken down by areas of activity. This in turn enables us to draw some cautious conclusions about where and how the BBC and the market may be benefiting from the quota.

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[10] BBC Online, *Finance update to ODG* (June 2012); BBC Online, *External Quota Out-turn* (2011)
[11] Terrington, *BBC Online External Supply Review* (2010)
[12] BBC Online, *Finance update to ODG* (June 2012)
[13] BBC Online, *Finance update to ODG* (June 2012)

Exhibit 10: [Name of product redacted] Product A - estimated spend 2012/13 [14]

- Day to day product management makes for c. 75% of spend – the majority of this completed in-house

- However, well over half of purely content and hybrid NPD work commissioned from external suppliers
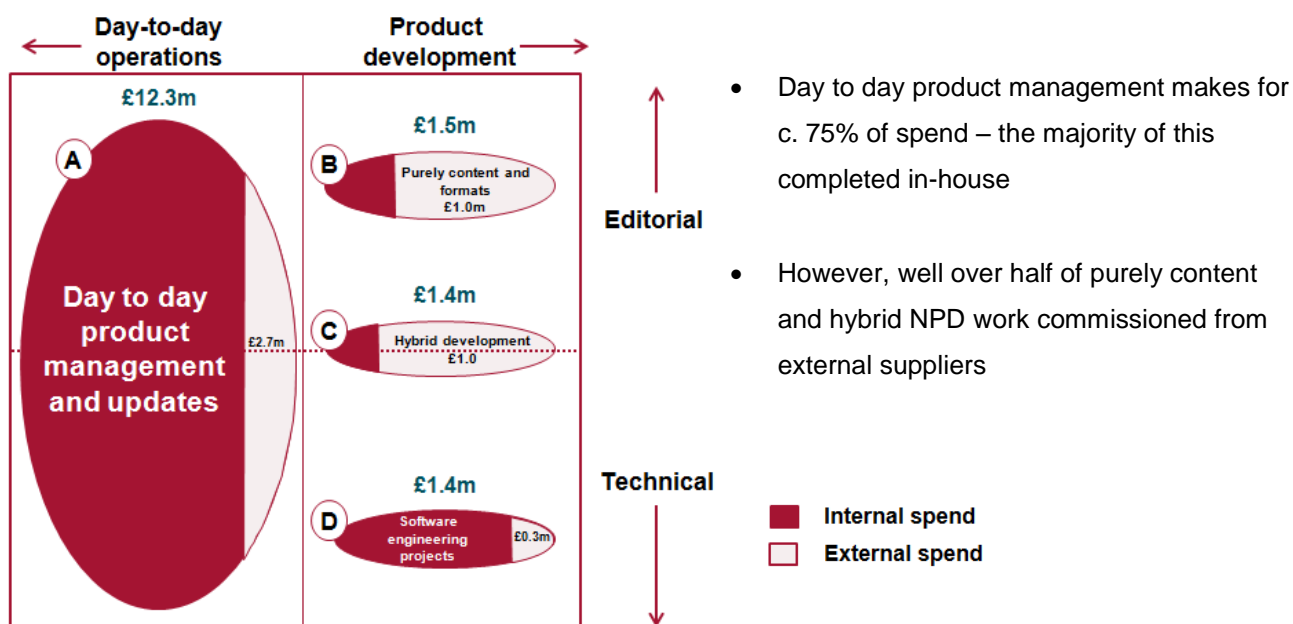
Exhibit 11: [Name of product redacted] Product B - estimated spend 2012/13 [15]

- Day to day product management makes for c. 80% of spend – the majority of this completed in-house

- Due to a need to maintain editorial and technical control over the homepage, only a small proportion of spend is external – this is however, from a very small base
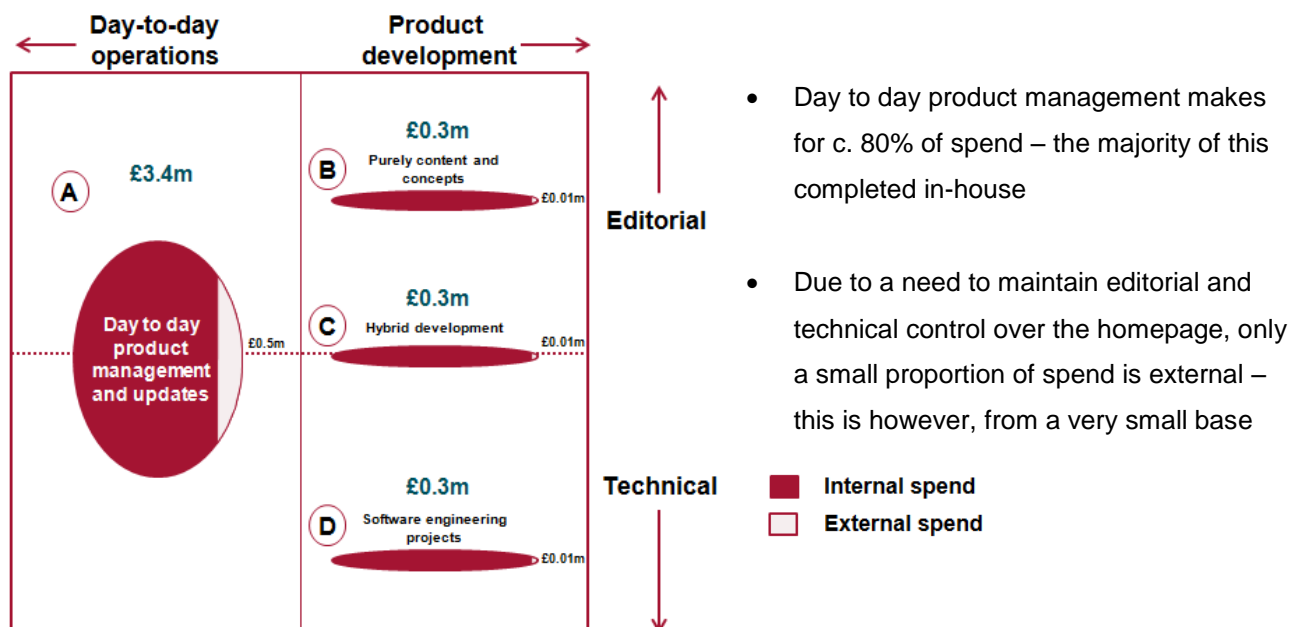
The majority of eligible spend goes on day to day product management and updates, which is mainly carried out by in-house product teams. There is a clear rationale for this: these teams know the product, platform and other teams well. Where the BBC does use external suppliers here it is either to alleviate capacity issues or to access specialist resource (e.g. a freelance photographer).

"*We receive a steady stream of innovation projects from the BBC. When I hear suppliers complaining these do not exist I wonder whether it is simply that they are a production agency wanting*

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[14] Questionnaire for BBC Product Managers; MTM Analysis
[15] Questionnaire for BBC Product Managers; MTM Analysis

New product development represents a minority of spend: however, many team managers estimate that for most product teams, around three quarters of this is on external suppliers (see Exhibit 10). Commissions vary widely by team and project, from open-ended NPD innovation briefs to production briefs in support of NPD ideas conceived in house.

External interviewees have mixed views about the nature of this spend. Many complain that BBC briefs are prescriptive and production focused, and thus more likely to deliver value for money benefits, but a small minority of interviewees disputed this and claimed they received a steady stream of one-line creative briefs, suggesting that the picture is mixed.

In addition, testing and moderation represent small but significant chunks of the total eligible external spend, with an eligible base of £3.7m in 2011/12 and an eligible external spend of £1.9m, comprising 10% of the total external spend by BBC Online. [16]

What is clear from this analysis is that the BBC spends externally across a wide range of teams and areas of activity, from production work and freelancers predominantly delivering value for money benefits through to content-only, hybrid and technology-only NPD projects that predominantly deliver quality of service benefits.

Interviewees suggest that it is these NPD projects where external spend has grown most due to the quota – the rationale being that value for money commissions (i.e. business managers dealing with capacity and flexibility issues) were likely to have been made regardless of the quota.

"The briefs we receive through Bravo are very detailed and production focused. The BBC team have had the idea and are commissioning someone to build it for them"

4.4 What value does the quota deliver for external suppliers?

It is beyond the scope of this report to conduct an economic analysis of the impact of the quota on the digital production sector as a whole.

However, a high level review of the economic data suggests that the GVA to UK PLC is likely to be limited. The quota had led to the BBC spending in the region of an extra £10m p.a. on external suppliers as of 2011/12, across a range of sectors with total annual revenues in excess of £65bn.[17] The majority of suppliers operate as work for hire and do not retain or exploit secondary rights. Even where suppliers are retaining rights, there is limited evidence of a secondary rights market to date, meaning there is unlikely to be a significant multiplier on the original spend.

As we have seen in section 3.2, interviewees nonetheless identify a number of areas where the BBC can deliver value for external suppliers:

- Helping UK TV indies develop as market-leading multiplatform producers

- Helping suppliers create rights that can be commercialised

- Releasing software to the open source community

- Access to BBC distribution platform and brand

- Supporting development of regional clusters

- Providing access to BBC training.

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[16] BBC Online, *Data request* (2012)
[17] Terrington, *BBC Online External Supply Review* (2010)

However, whilst the increase in spend resulting from the quota may have had a positive impact on regional clusters and possibly also multiplatform producers, it is unlikely to have had a positive impact on the other areas, largely because it is a blunt instrument – good at encouraging the BBC to source work externally, but far less effective at encouraging the BBC to commission work in particular ways.

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5 Given this situation, what objectives should the quota seek to deliver against, and how should it be designed?

5.1 What objectives should the quota seek to deliver against?

There are differing views amongst stakeholders as to the relative importance of the three quota objectives.

All parties agree that improved audience-facing quality (harnessing the best ideas, access to talent and IP) should be a primary objective of the quota.

Many rate the value for money objective as less important on the basis that using suppliers where they can deliver services more cheaply than in-house resource is common sense and should not require a quota to enforce.

Views around the external market objective are more mixed. As set out in section 3.2, the majority of interviewees believe that whilst the BBC's share of online spend is too small to influence market development in the way that it does in TV and Radio, there are still opportunities to support market development across technology and content sectors. Consequently, they argue that the external market objective should be retained, whilst recognising that it should not drive the design of the quota above the other objectives.

However, a small number of external interviewees in the creative content sectors argue that the external market objective should remain as a primary driver of quota design, but with the objective re-written to focus on the creative content sector, on the basis that this is one sector where the BBC can genuinely influence market development. Some even believe it should be focused purely on creative content connected to TV assets.

> *"Using suppliers for efficiency is common sense and should not require a quota"*

> *"The external market objective should be the primary driver of the quota, but focused purely on creative content market"*

Recommendation

Our recommendation is that the primary objectives driving the quota should be to create a powerful audience proposition at the best possible value for money.

The external market objective should be retained, but with a recognition that the BBC should not be held responsible for creative sustainability in the sector and that the external objective should not drive the quota design over and above the internal value for money and quality of service objectives.

Our rationale is that the market data demonstrates that BBC Online draws on suppliers across sectors which are very large compared to the BBC's spend (see Exhibit 4), with customer bases ranging across the entire UK economy – including government, retailers and global entertainment companies. In each of the major market segments, the BBC's spend represents a negligible share, suggesting its influence on the development of the markets is similarly small. Where the BBC can influence the market, it is in clusters of specialist companies that move freely in the wider market.

The external market objective could potentially be redefined along the following lines to reflect this:

> *"The external market objective should be the primary driver of the quota, but focused purely on creative content market"*

> *"There are opportunities to support market development, even with the BBC's limited purchasing power"*

"The BBC's limited purchasing power means that it should not be responsible for enabling independent production companies to become sustainable businesses. However, it should still seek to use its key assets, including its brand and distribution platform, to make the UK's digital media companies better and stronger."

5.2 Given these revised objectives, should the quota be retained?

There is a general consensus amongst external interviewees that the quota for external supply should be retained, albeit in a revised form. However, we note that this is unsurprising given that the majority of our interviewees were suppliers to the BBC.

The quota is – again, unsurprisingly – less popular amongst internal interviewees. However, there is a general recognition that it has made BBC Online more open to using external suppliers, driving up spend from 17% in 2005/06 to over 25% in the period it has operated.[18] When the BBC does this well (which the quota is less effective at dictating), interviewees agree that there are benefits to license fee payer and the market.

Despite the consensus amongst external interviewees, a case can be made for disposing of the quota altogether:

- A major driver of the quota at inception was the external market objective. However, the benefits that the BBC can bring to the external market are less about its purchasing power (which the quota is effective at increasing), and more about helping them develop in other ways such as access to training and making software available on open source. The quota is a weak instrument when employed to this end

- The other two main drivers of the quota were using external suppliers to harness the best ideas and to increase value for money. Arguably, this is down to sound management, and the BBC should not need a quota to support this behaviour – there are other, more sophisticated tools that can be used to this end (such as training and new procurement processes with appropriate governance and reporting). Indeed, in a fast-changing landscape where the build/buy case varies on a project by project basis, there is an argument that a quota distracts from good decision-making.

Notwithstanding these concerns, we recommend retaining the quota for now, with a number of refinements set out in the remainder of this report. The case for and against the quota is not clear cut, and given the refined eligible base is only just up and running, it makes sense to let it operate in its revised form for long enough to form a view on its effectiveness. However, we do recommend reviewing it again in a couple of years, consulting a wider base of interviewees than just suppliers and industry bodies (who are likely to favour a quota for their own interests).

> "*It is a struggle, and there is always a risk of outsourcing for the sake of it, to make up the numbers… but in general the quota has made us more open to using external suppliers, and that is a good thing.*"

5.3 How should eligible spend be defined in order to best deliver against these objectives?

5.3.1 The re-defined eligible base

In January 2011 the BBC Trust review stated that it was not clear to the external market how the 'eligible base' of activity for the quota was constructed and noted stakeholder concerns that eligible spend included technology- and commodity-focused services. In their submission to the Trust, Pact argued that this runs contrary to Graf's objectives on the basis that outsourcing these services is unlikely to deliver either innovation or support the development of the independent production sector.

In response, BBC Online conducted a 'first principles' review of the definition of the eligible base, based on the principle that all spend should be included, unless there were:

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[18] BBC Online, *Out-turn report* (2007/08)

- Clear reasons for exclusion based on the 'commodity' nature of the function (i.e. the only objective it would serve was value for money)

- There was a strategic rationale for retaining in-house control (journalism, core technology).

As a result of the review, the eligible base was expanded to include additional technology functions, UXD for News and Sport, and some testing, representing an increase in value of roughly £6 million.[19]

The internal view within the BBC is that the revised definition is fit for purpose, as it is:

- Aligned with BBC Online's strategic objectives: all areas where external supply can contribute to quality of service in audience facing services now in scope

- Easier to administer: aligned with the BBC's ten product operational structure, making management of the scheme more cost-effective, subject to further changes in the BBC's financial reporting system

- More transparent to external suppliers: a clear and logical definition of what constitutes 'eligible activity', with published criteria on how the base is constructed.

5.3.2 Wide range of views about how eligible spend should be defined

The majority of interviewees believed the definition of the new eligible base to be relatively easy to understand, although this comes with two caveats:

- Most interviewees were not aware of the revised (or indeed the old) definitions, so could only pass comment once it had been explained to them

- The definition is inherently complicated, given the wide range of activities undertaken and services procured (see Section 3 for more detail).

There are a wide range of different views about what should be included in the definition of eligible spend, and consequently how the quota should be structured. These include:

- Merging the TV and online quota into one, on the basis that the distinction between linear television spend and online spend is increasingly out of date and encourages the BBC to operate in silos, in an age when it should be seeking to deliver entertainment on a device and platform-agnostic basis

- Expanding the quota to include core technology, on the basis that the BBC can access IP, talent and ideas that are crucial to the quality of the BBC Online product as much from technology providers as from other suppliers, whilst the BBC can also support the development of a vibrant UK technology sector

- Retaining the eligible base as is: many interviewees believed that the current definition of the eligible base captures the main areas where BBC Online should be using external suppliers to drive up the quality of the audience-facing product

- Creating a smaller, more tightly defined quota focused on digital creative content, or on digital content related to TV assets only, on the basis that these were the services that drove the quality of the online product and the markets that the BBC could really influence.

"It would be disruptive but it would encourage the BBC to behave like a genuinely cross-platform organisation…"

"Innovation and Value for money are just as relevant to the core technology platform – the BBC should be open source"

"Including technology dilutes the quota – focus on the content, where the ideas and value is"

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[19] BBC Online, *Online External Supply Strategy board paper* (March 2011)

Many of these views are driven by interest groups. As noted in section 3.2, there are relatively distinct sectors engaged in supplying services to the BBC, and, unsurprisingly, representatives of these sectors often value their services more highly than others do.

In particular, many content specialists believe that the value lies predominantly in the content they create. They regard the product that carries their content to be secondary: the most frequently cited example is that consumers come to iPlayer for the content, not the player. Many (but not all) go on to conclude that the technical suppliers that help create the functionality are important enablers of the idea rather than part of the idea itself, and thus less relevant to the quality of service objective.[20] As a result they favour a more tightly defined quota for creative industries.

In contrast, many technology providers and online product specialists argue that the value in creating innovative online products and experiences is as much in functionality and UX as the content it carries.

As a result, there is no single point of view emerging from external interviewees about how eligible spend should be defined.

5.3.3 Recommendation – retain a broad definition of eligible spend including client-facing technology services

We recommend retaining the definition of what constitutes eligible spend as is, including client-facing technology services.

BBC Online engages in a wide range of activities, and the benefits of using external suppliers clearly varies across these areas. As shown above, views differ about where the 'value' lies in these online products, and which aspects of spend the innovation objective applies to.

However, we see no evidence that sources of innovation in online product development are solely related to content. There is certainly no consensus to this effect, and indeed some evidence to the contrary based on where VCs invest their money and where audiences spend their time. People largely come back to iPlayer for the content on it, although the great product helps (e.g. enables them to discover new content once there). But the story is more nuanced in gaming, where a compelling game experience appears to be as much about great functionality as it is about characters and storytelling.

On this basis we see no reason to focus the quota on content alone as long as quality/innovation is a core objective. We also recommend leaving the core non-audience facing technology platforms out of scope, on the basis of the BBC's strategic rationale for retaining control of core technology platforms.

> "*The value is in the content…people come to iPlayer for the television rather than the product*"

> "*That (focus on content) view is out of date… the value in creating innovative online products is as much in functionality and UX as the content it carries*"

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[20] To be more precise, they see value in conceiving the experience, which includes the functionality, but regard that as their domain and see the software engineers as the "do-ers" who bring their vision to life.

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5.4   Should there be a separate quota for technology and content?

5.4.1   Introduction

We have recommended in the previous section that audience-facing technology services should be retained within the definition of eligible spend. However, the question remains as to whether content and technology-focused services should be treated differently – for example, through separate quotas for content and technology.

5.4.2   BBC Executive view – single quota for client-facing technology and content

BBC Online interviewees are unanimous in opposing separate quotas for client-side technology and content on the basis that the boundaries between the two are blurred and it would work against their desire for editorial and technology teams to work more tightly together. Part of BBC Online's product team strategy involves editorial and technical teams making collaborative build/buy decisions across the '*technical and content boundaries, rather than disaggregating these disciplines... reflecting the blurring of these disciplines as the interactive web develops.*' [21]

5.4.3   External stakeholder views on separate quotas for technology and content differ – but consensus that the boundaries between the two are blurred

External stakeholder views as to whether there should be separate quotas for technology and content differ along similar lines to the views about whether technology should be included in the eligible base in the first place.

The spectrum of opinions is varied, but at a high level:

- Those who favoured a content-only quota would generally support separate quotas if client-facing technology services were to be included in the eligible base

- The majority of other respondents agreed that separate quotas for client-facing technology and content would be hard to implement in practice on the basis that whilst some projects could be easily divided up, many would defy categorisation, *"there are many contracts where it would not be possible to say whether it was a technology or a content contract, or to separate out the content and technology elements of that contract in any meaningful way."* [22]

5.4.4   Recommendation

Whilst the issue of how technology-focused services themselves should be treated is extremely controversial, the fact that the boundaries between the two are often blurred is uncontroversial. Some projects would sit neatly in separate technology and content quotas, but others would defy categorisation. If there was a content and technology quota, where would a Sherlock game sit that required a new game engine? How about a re-design of iPlayer?

In addition, separate quotas for technology and content would work against the desire to create integrated, multi-disciplined product teams that made joint build/buy decisions across a range of projects.

> "*For what we do, it's difficult to say whether we are a content or technology provider*"
> Games Provider

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[21] BBC Online, *Online External Supply Strategy ODG paper* (March 2011)
[22] BBC Online, *Internal interview* (2012)

As such, we do not recommend dividing the quota up into separate technology and content quotas.

5.5 Is it important to distinguish between 'independent supply' and 'outsourcing' when considering a new quota structure?

5.5.1 Introduction

The Trust Review asked the BBC to consider how it should distinguish between outsourcing operational services and commissioning external suppliers in the quota design.

The question appears to have been prompted by PACT, whose submission raised concerns that the eligible base included outsourced services such as moderation that were 'non-creative' and not in the spirit of Graf's objectives. Although they meet value for money objectives, the argument goes that including them in the eligible base dilutes the quota by enabling the BBC to meet a disproportionate part of its obligations through outsourced commodity services.

5.5.2 The BBC's current definition 'outsourced' and 'external supply'

BBC Online's 2011 review of the definition of the eligible base defined outsourcing and external supply as follows:

- outsourcing: all external spend that is not output based – i.e. work that is in '*substitution for a BBC staff member*'

- external supply: online external spend '*commissioned on an output delivery basis that directly impacts our audience*'. [23]

The review excluded all services that the BBC defined as outsourcing, including the range of distribution and infrastructure services that it already outsourced (and had always been excluded from the quota) and freelancers who were substitutes for staff members. It included moderation within the quota on the basis that it was an editorial function that was an audience-facing service core to the BBC Online product, enabling its audiences to interact with the BBC, its content and each other. It also included testing related to product specific activity but excluded testing of all non-audience facing software and systems. [24]

5.5.3 All stakeholders agree commodity services should be excluded – however, views on what constitutes commodity are mixed

All parties agree with the principle that outsourced services that are not output based should be excluded from the quota.

However, many interviewees go beyond this and argue that all commodity services that just meet the value for money objective should also be excluded from the quota on the basis that the quota should encourage the BBC to access the best talent, ideas and IP

"*Testing is crucial to an agile software development process…it's not just about bug-fixing at the end*"

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[23] BBC Online, Online External Spend Definitions
[24] BBC Online, Online External Spend Definitions

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and using suppliers where they can deliver services more cheaply than in house resource is common sense and should not require a quota to enforce.

A number of interviewees, predominantly from the creative content industries, cited testing and moderation as examples of services currently included in the eligible base that should be excluded because they are commodity outsourced services. They argue that sourcing testing and moderation is not about access to IP and ideas in the spirit that Graf originally intended.

The view from beyond the creative content sectors is more nuanced. Interviewees from across technology and hybrid providers argue that whilst aspects of testing are commodity, it is also fundamental to an agile product development process. Similarly, whilst aspects of moderation services are arguably a commodity, others, such as community management, require highly skilled individuals who can corral and steer a community. In general, the view from beyond the content industries was that moderation services are important to the product quality but not 'the idea'.

"Lots of moderation is a commodity service…such as profanity filters…other aspects require highly skilled individuals"

5.5.4   Recommendation

Ongoing outsourced services such as hosting and distribution should remain excluded from the eligible base.

We recommend retaining moderation and the aspects of testing currently included in the base within eligible spend. Moderation is an editorial service, just like copy-editing, that has a key role to play in the ongoing development of the BBC Online service. Testing is fundamental to an agile product development process. Undoubtedly, aspects of testing and moderation are 'commodity' services and are not about access to IP. However, they are just some of a wide range of services that have a crucial role to play in the creation and management of high quality, value for money online BBC products.

5.6   How should 360 degree commissioning fit within the quota system?

5.6.1   Introduction

BBC Online contains a small range of products related to TV assets. There is an ongoing debate about how these commissions, often called multiplatform or 360 degree commissioning, should be treated in the online quota.

5.6.2   How 360 degree commissioning fits into the current system

The BBC commissions approximately 10-12 multi-platform projects a year under its current editorial strategy. Spend on digital products related TV assets is estimated to be between £2-3 million in 2011/12, less than 5% of the eligible base. [25]

" The BBC may have a small role in the wider digital media sector, but it has a major role to play in helping the tv indie sector adapt for a four device- twin screen era"

The decision to commission digital products related to TV assets is taken by the relevant TV genre team, in collaboration with the Online Product Group. Digital content related to independent TV shows is dealt with under the TV Terms of Trade. Digital content related to BBC TV shows is dealt with under the new media rights framework. In both cases, the digital spend is included in the eligible base.

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[25] BBC Online, *Data request* (2012)

5.6.3   Stakeholders from the TV indie sector tend to favour a stand-alone quota for multiplatform content

As set out in section 5.3, many of the interviewees connected to the TV indies favour a smaller, more tightly defined quota focused on digital creative content, with some interviewees requesting the quota should be focused on multiplatform content alone. Their rationale is two-fold:

- They see the BBC as having a major role to play in helping independent television producers develop as multiplatform producers
- Many content specialists believe that value lies in the content alone, and regard the quality of service objective as referring to access to ideas, talent and IP in content. They see other technology-focused services as outside the spirit of the Graf objectives

It is important to note that interviewees from the independent television sector expressed a number of concerns that went beyond the scope of this report and the design of the quota, including:

- Editorial strategy: many believe that the BBC's decision to largely withdraw from the multiplatform market is misguided
- Lack of clarity on roles and responsibilities in commissioning system: several interviewees claimed they would not know who to take a multiplatform idea to within the BBC.

5.6.4   Recommendation

The current quota system provides a clear model for handling 360 degree commissioning. Although the rights frameworks vary depending on who owns the rights to the TV show, all spend on digital content related to TV shows counts towards the online quota.

The main concern relating to the design of the quota itself is that there should be a separate quota for digital content related to TV assets: either by narrowing the focus of the quota overall or having separate quotas for content and technology. We have considered these options in 6.3 and 6.4 and do not recommend them.

5.7   How might intellectual property rights influence the outcomes of any quota?

5.7.1   Introduction

The approach that BBC Online adopts towards handling IP can impact the extent to which the quota meets its objectives in three broad ways:

- By helping suppliers across technology and creative sectors explore emerging opportunities for creating rights that can be commercialised
- By releasing software to the open source community
- By encouraging the best talent to work with the BBC.

The nature and extent of these benefits varies across sectors. For example, a games company might retain the rights to a game and then release it directly to consumers, whilst TV indies will most likely exploit multiplatform ideas through secondary television

"I don't know who you would go to in order to get something big and multiplatform at the moment"

"Everything we do is related to TV … the system works well… we recently went through a creative process with TV and online in parallel… it felt like a real step forward…"

markets. Releasing software to the open source community benefits the community as a whole rather than a single organisation.

5.7.2 Have IPR influenced the outcomes of the quota to date?

The majority of suppliers to the BBC operate as work for hire. The BBC's approach to rights does not appear to have influenced their desire to work with the BBC to date.

We interviewed a small number of digital content and games specialists who said that retaining and exploiting IP was a significant part of their business model today. In theory, these suppliers can (where appropriate) retain digital rights under either the BBC TV Terms of Trade or the new media rights framework. However, we found limited evidence of this happening in practice and limited evidence of a secondary rights market to date in the wider market. As a result, it seems clear that IPR have had an extremely limited influence on the outcomes of the quota to date.[26]

"The process gets in the way …even if the frameworks are there to be used, the prescriptive tenders and roster get in the way"

5.7.3 What is the potential for IPR to influence the outcomes of the quota going forward?

It appears highly likely that a significant proportion of the BBC's suppliers going forward will continue to operate primarily as work for hire, with commercialising IP making up limited if any of their revenues. Given this situation, it is unlikely that IPR will influence the outcomes of the quota going forward to anything like the degree that it does with TV and Radio, where commercialising IP through secondary windows is core to their business model.

However, these rights markets are still early stage. There are likely to be opportunities across a number of different sectors as they develop over the next 3-5 years. Key sectors will include digital products related to TV, games and elements of the software market.

"The standard practice is for BBC to come up with a specific brief that is tendered competitively into the market – this is fair…but it means that indies with great ideas are mostly dissuaded from bringing them to us unsolicited"

Interviewees believe that the BBC could do more to proactively support them as they explore new models. Whilst the new media rights framework and TV Terms of Trade in theory allow suppliers to bring ideas to the BBC and retain the rights, in practice several said that this is hard to achieve, "*either process gets in the way, such as the roster, or the BBC behaves like an aggressive commercial organisation. Rather than seeking to empower us it feels like we are fighting against them.*"

Interviewees identified a number of ways in which the BBC could support suppliers as they explore new opportunities, which should benefit both the market but also the BBC, by attracting the best talent and ideas:

- By expanding the Connected Studios programme, which encourages suppliers to bring ideas to the BBC or to develop them together
- By releasing more creative one-line briefs to suppliers, rather than production-focused tenders
- By encouraging BBC staff to take a more proactive role in working with suppliers to explore these opportunities.

"Could the BBC help us explore new rights models when the project is appropriate – for example, selling a game outside the UK"

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[26] Data is not available for the exact proportion of the activity that BBC Online commissions leads to suppliers retaining IP, but suspect it is less than 5%. A small number of interviewees claimed that IP made up in excess of 25% of their business, but these are a minority of interviewees. One indicator of the lack of a secondary market of note is that many multiplatform producers appear to include the online rights for free when selling on multiplatform formats

In addition, the BBC should consider adding a check-and-balance to the build/buy commissioning process, whereby suppliers and BBC producers are asked to record whether there is an IP opportunity at the commissioning stage.

5.8   Would the introduction of competition into the commissioning process bring comparable benefits to those delivered in TV and radio?

5.8.1   Introduction

Although the Trust's original question did not include explicit mention of a Window of Creative Competition (hereafter, WoCC), the reference to 'TV and Radio' suggests that the Trust had the WoCC in mind when it posed this question.

There were two broad reasons for introducing the TV and Radio WoCC:

- Increasing the level of external supply by making an additional 25% of spend available to external bids

- Delivering better quality and value for money by enabling open competition between internal and external production teams.

So far, the TV and Radio WoCC appears to have been successful in meeting these objectives, [27] and the Trust is therefore keen to explore whether similar benefits could be delivered for Online commissioning. In addition, Pact's submission to the BBC Trust's review of online external supply argued that the BBC should implement a WoCC of 25% for online commissioning, to ensure genuine competition in commissioning and mitigate the decline in external spend likely to result from cuts to BBC Online's budget.[28]
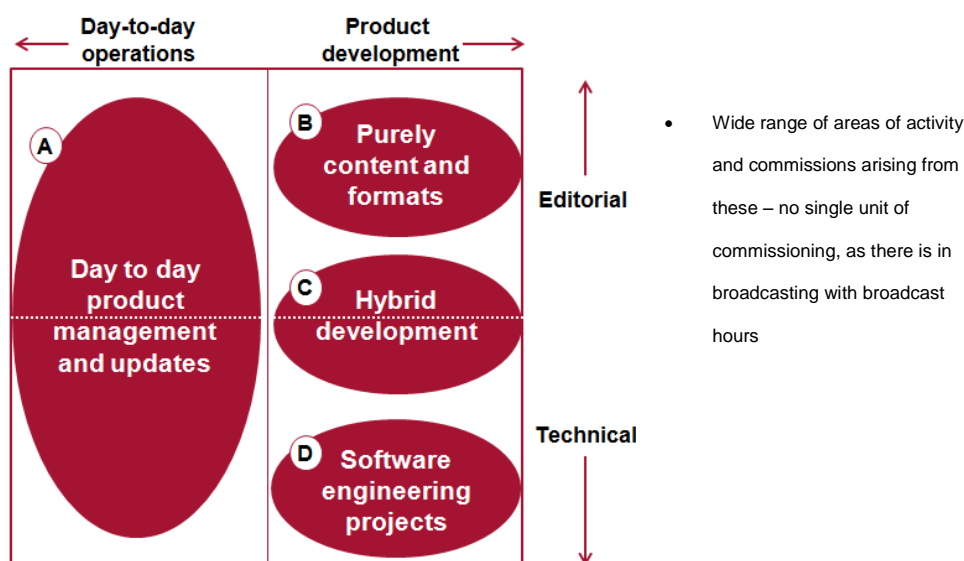
5.8.2   A WoCC would not work in online due to the diverse and bespoke nature of what is commissioned

The majority of products and services commissioned by BBC Online are not suited to a WoCC-like commissioning mechanism. In TV and radio, the unit of commissioning is a discrete programme that can be parcelled out to the market in its entirety, with a single unit of commissioning (broadcast hours). In contrast, the unit of commissioning varies by project for BBC Online, from a concept for a new game to a re-imagining of the BBC homepage, through to projects based on service output, for example, building live-rewind into iPlayer.

Whilst these commissions are eminently suited to competition, they are not suited to one-line creative briefs issued to internal and external teams in parallel, as what is being pitched is best described as a service rather than an idea. Where the BBC is seeking product ideas, these might often be generated as effectively through collaborative and agile development models such as those being explored through Connected Studios.

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[27] BBC Trust, *Review of the Window of Creative Competition* (2010)
[28] Pact, *Submission to BBC Trust Review of online external supply* (2010). Pact cites supporting arguments from Analysys Mason and Perspective Associates

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Exhibit 12: Product team areas of activity – no single unit of commissioning [29]

- Wide range of areas of activity and commissions arising from these – no single unit of commissioning, as there is in broadcasting with broadcast hours

5.8.3 Nonetheless, there may be opportunities for license fee payers and suppliers to benefit from increased levels of competition in the online commissioning process

In theory, product teams already take a 'build/buy' decision on all spending within the eligible base, following the online product direction group commissioning process. Projects worth more than £20,000 have to be made open to competition between three or more external suppliers. Taken together, these mechanisms should help to ensure that at least some of the benefits of competition (such as encouraging high-quality proposals from suppliers, and increasing value for money) are already delivered to BBC Online.

However, back in 2010 the Deloitte report noted, '*The 'build/buy' decision for new developments is taken before external providers are consulted and, at present, direct competition (and objective comparison) between the relative merits of in-house teams and the external market does not happen.*' [30]

Internal interviewees suggested that as of summer 2012 the online product direction group commissioning process was not fully adopted across product teams, and that even when it was, the build/buy decision making process is still largely taken before suppliers are consulted.

External interviewees support this view, saying that the majority of ITTs they receive are fully specified by internal teams, even when they related to new product development. In effect, the BBC is outsourcing the production part of new product development. They suggest there is room to explore ways of involving suppliers more in the ideation and creative process. Connected Studios is seen as a key part of this, but could be supplemented by the BBC producing more creative and open-ended ITTs.

"The ITTs are fully specified - BBC is outsourcing the production part of NPD, not the creative bit"

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[29] MTM London analysis
[30] Deloitte, *The Online Quota* (2010)

In addition, a number of technology providers suggested that the BBC should consider ways to reduce integration costs and move towards a more open source set of software solutions in order to engage the software development community more fully.

"We receive plenty of open-ended briefs…I am suspicious when I hear other suppliers complain about this"

5.8.4 Recommendation – ensure the online product direction group commissioning process is fully adopted across product teams

As set out above we do not believe that a WoCC is an appropriate mechanism for BBC Online.

However, we do believe that there are benefits to be had from increased levels of internal-external competition, as set out above. Although it is still in its early stages, and it will be another 12-18 months until we have evidence to support it, the Connected Studios initiative appears to be an important step in the right direction, as it enables suppliers to work with BBC teams collaboratively to conceive and develop new ideas. However, in addition we recommend exploring two related areas for introducing this competition, both based around improving the online product direction group commissioning process:

- Ensure the online product direction group commissioning process is rolled out and adopted across all project teams. At the moment internal interviewees state that the build/buy model is still quite theoretical. The BBC should move to a scenario where all projects follow the process and leave a paper trail to this effect

- Introduce refinements to the process to encourage creative one-line briefs (where appropriate) to be released to external suppliers or even in parallel to internal and external teams.

5.9 Do we recommend any other refinements to the quota target and design?

5.9.1 Retain quota target at 25%

We are minded to leave the quota at its current level.

The current target, 25%, has proved stretching to date according to internal interviewees, and is likely to prove more so given recent decisions to move spend away from major content commissions. Any increase could compromise the value for money objective by forcing the BBC to make buy decisions in order to hit the quota rather than for legitimate business reasons.

A number of interviewees argue that a higher target should be set, on the basis that the BBC is always likely to claim current targets are stretching. However, as our analysis of BBC Online activities demonstrates, the business case that drives build/buy decisions varies significantly by product and the type of service commissioned and should be taken on a case-by-case basis. We have analysed this but can see no metric that enables us to point meaningfully to an alternative target as achievable without taking significant risk.[31]

Whilst there is nothing necessarily wrong with increasing the target and taking the risk if the upside from changing BBC behaviour justifies it, the original target did just this, we

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[31] It is, of course, possible to radically change the BBC's level of spend – for example, by demanding it outsource entire products for the good of the market. We dismiss this on the basis of the BBC's limited role in sustaining the market. The BBC is, of course, still empowered to make that decision of its own accord if it believes it is in the license fee payer's interest.

believe that the BBC's small market share means that any increase in spend would only result in a small GVA to the economy, reducing the incentive to take such a risk.

However, the BBC's needs, and therefore its need for suppliers, continue to evolve rapidly in a fast-moving marketplace. Therefore we recommend re-visiting the quota target and design once it has operated in its current form for a minimum of two years, thus allowing us to better understand its impact.

5.9.2   *However, some important refinements to the reporting of the quota*

Firstly, the BBC should consider revising the current out-turn report format to provide a clearer view of where and how the BBC spends its money. We propose using the categorisation of activities set out in section 3.1 as the basis for this reporting. This has been developed in collaboration with BBC stakeholders and has proved a useful tool when explaining the BBC's commissioning activity to external interviewees. However, we recognise there is work to be done to establish what is realistic given current reporting systems and resourcing.

Secondly, the BBC consider should introducing additional KPIs around the quota and commissioning system, to enable the Executive and Trust to monitor performance against objectives more effectively. Examples of these KPIs might include:

- The adoption rate of the online product direction group commissioning process (or a suitable equivalent) across teams

- Evidence that producers issue one-line innovation briefs to external suppliers where appropriate, rather than just production briefs

- Evidence that producers are proactively working with suppliers to identify IP opportunities at project outset.

We recognise that some of these KPIs may be easier said than done, and it is important to be pragmatic given budgetary restrictions. Our instinct is that many of these could be achieved if, at the commissioning stage of a project, 3-4 questions could be posed to producers and commissioners, and subsequently tracked over time.

6   Appendix A – interviewees

6.1   External interviewees

Organisation	Type of supplier
[Interviews were carried out a non-attributable basis; Organisation names have been redacted to maintain confidentiality]	Games/ animation studio
	Web/ interactive/ ad agency
	Web/ interactive/ ad agency
	Multiplatform
	Consultancy
	Industry body - IT/ web tech
	Web/ interactive/ ad agency
	Web/ interactive/ ad agency
	Web/ interactive/ ad agency
	Web/ interactive/ ad agency
	IT/ web tech
	Web/ interactive/ ad agency
	Web/ interactive/ ad agency
	IT/ web tech
	IT/ web tech
	Public/ third sector
	Web/ interactive/ ad agency
	Industry body - TV, radio, film
	IT/ web tech
	Public/ third sector
	Multiplatform

	Games/ animation studio
	IT/ web tech

6.2   Internal interviewees and workshop attendees

Name	Title
BBC policy is to redact staff names other than senior managers. The most senior manager to be interviewed for this report was Andy Conroy, Chief Operating Officer, BBC Future Media.	

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