Final report

BBC ±Online External Supply Review

September 2012

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

BBC Online

2   Introducti on

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

3   BBC Online and its   position   with in 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

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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		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		Better ideas and superior product generated as a result of access to	

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*

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

5.2 Given these revised objectives, s   hould 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

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

5.4.1

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

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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

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 business7>-10<00520003>] TJ ET I1.62 662.863Tm [(7>-10<00)

Exhibit 12: Produ ct team areas of activity ±no single unit of commissioning [29]
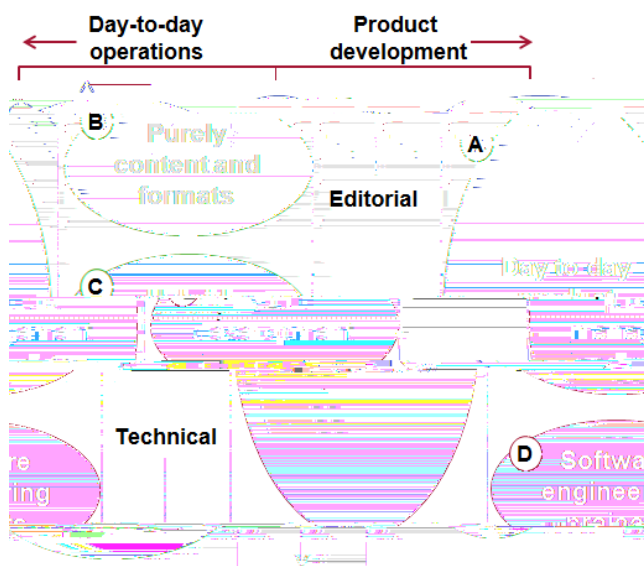
Wide range of areas of activity and commissions arising from these – no single unit of commissioning, as there is in broadcasting with broadcast hours

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, '
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.

BBC is outsourcing the production part of NPD, not

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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 dev

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-

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

	Games/ animation studio
	IT/ web tech

6.2   Internal interviewees and workshop attendees

Name	