

## **Extract on Commercial Services from “ Review of the BBC’s Royal Charter: The BBC’s response to the DCMS consultation”**

### **Chapter 4: Commercial services**

#### **Should the BBC run commercial services?**

The BBC’s commercial activities play an important supporting role in the delivery of public value to licence payers and the UK as a whole. The BBC has repeatedly been challenged to increase the financial contribution its commercial activities make. However, in doing so it is always recognised that the BBC must trade fairly and that its commercial activities must have a clear rationale and appropriate structure.

#### **4.1 The BBC’s commercial activities**

##### **Do you think that the BBC should continue to run commercial services alongside its licence fee funded services?**

The BBC’s commercial activities play a number of important roles and deliver benefits to the BBC, to the licence payer and to the UK as a whole. They support the public service with revenues and add to the BBC’s overall value and impact in the UK and around the world. The BBC has successfully risen to the repeated challenge from successive governments to increase the financial contribution of its commercial activities over the current Charter period.

##### **The purpose of the BBC’s commercial activities**

Ever since its creation as a public service broadcaster, the BBC has also undertaken commercial activities. In the earliest days, the publication of Radio Times and the sale of books and recordings extended the audience’s enjoyment of the BBC’s public services, while the sale of programming overseas brought returns on the investment from the licence fee.

The principal reason that the BBC engages in commercial activities is to help meet its fundamental responsibility to maximise the effectiveness of the public’s investment in the licence fee. As recognised by successive governments, the BBC must be able to continue to use commercial activities to support that aim.

The BBC’s commercial activities deliver a range of important benefits to the BBC and to the UK as a whole:

- They generate extra funds and build long-term asset value to support its core public service output.
- They enable efficient use of resources, using BBC infrastructure and expertise to generate new revenue streams (for example, editing content for 3G mobile phones) and to reduce operating costs for the BBC’s own activities (for example, facilities).
- They extend audience appreciation of BBC content through products linked to programmes (such as books, videos and multimedia products), while commercial channels offer further chances to see quality UK content.
- They help to raise awareness around the world of the UK’s cultural values.

- They grow international audiences for UK content, creating a cultural bridgehead for UK talent around the world.
- They raise awareness of the BBC brand.
- They help support the BBC's position as a global media player to provide a counterweight to increasingly dominant overseas multimedia companies, supporting the UK's position in the global content market and the UK's reputation for quality and impartiality.

## The commercial challenge to the BBC

Over the current Charter period, the BBC has been explicitly tasked to grow its commercial activities and the contribution they make towards paying for the public services. In the run-up to 1996, the Government saw new technologies and increasing globalisation providing the BBC with fresh commercial challenges and opportunities. The Government's White Paper said that by launching new commercial ventures at home and overseas, the BBC could help drive broadcasting exports, ensure a distinctively UK voice, outlook and culture in the global marketplace and generate more income to support its public services<sup>58</sup>.

"The BBC must take full advantage of the new commercial opportunities which are now available. Getting this balance right is, in my view, one of the main challenges to you as Chairman. Under your leadership, I hope that the BBC will exploit overseas markets to the full, building on its strengths and global reputation and playing its part in enhancing UK competitiveness." *Rt Hon Virginia Bottomley JP MP, Secretary of State for National Heritage, letter to Marmaduke Hussey, BBC Chairman, 1 April 1996*

The Government's review of licence fee funding in 1999/2000 endorsed this approach and went even further, challenging the BBC to increase significantly the return from its commercial activities as well as generating efficiency savings. The contribution the commercial activities are to make to the BBC's £3.29bn 'self help' programme is some £550 million by 2006/07, helping to provide the funds required for the BBC to support the next stage of the growth of digital.

"The Government agrees that the BBC should be able to deliver significant additional proceeds from its commercial activities and the BBC has been challenged to raise more revenue from both BBC Worldwide and BBC Resources." *Government response to the Culture, Media and Sport Select Committee, March 2000*

In response to this challenge, the BBC has developed a strong portfolio of businesses operating in the commercial marketplace, all funded completely separately from the licence fee: BBC Worldwide, the BBC's content exploitation business; BBC Ventures, providing technology and craft skills to the BBC and third parties; and BBC World, the BBC's advertising-funded international news channel. *The Future of the BBC – Serving the Nation, Competing World-wide (Department of National Heritage, 1994), para 4.12*

## BBC Worldwide

- BBC Worldwide is the BBC's content exploitation business. It owns or part-owns a range of international commercial channels which reach 267 million homes around the globe.
- BBC Worldwide accounts for virtually all the growth in the UK's TV programme exports in recent years and is now responsible for 54% of all such exports. Sales of BBC programming to overseas broadcasters rose by 13% in

2002/03, to some 40,000 hours. Examples of Worldwide's success in selling BBC programmes and licensing formats around the world are given on p 29-30.

- BBC Worldwide sold 100 million magazines and 30 million books, videos, tapes and CDs in 2002/03 and is now the UK's third largest magazine publisher.
- Through its UKTV joint venture with Flextech, BBC Worldwide operates nine commercial television channels on Freeview, satellite and cable in the UK.

### **BBC Ventures**

- BBC Ventures comprises arm's-length companies incorporating the BBC's core technical and other expertise in support of programme-making: BBC Resources, BBC Technology, BBC Broadcast and BBC Vecta.
- These provide cutting-edge technology and craft skills on commercial terms to the BBC and also compete for work outside the BBC.
- During 2002/03, BBC Ventures companies played a key role in a number of landmark BBC events: the Commonwealth Games, the Queen's Golden Jubilee and the launches of Freeview and BBC Four.
- BBC Ventures companies grew their non-BBC revenues by 50% to £40m in 2002/03.

### **BBC World**

- BBC World is an international, English-language commercial news channel.
- Global distribution of BBC World grew by 25% in 2002/03. The channel is now available in 260 million homes around the world.

Together, the activities of these businesses have met with growing success over recent years, bringing increasing benefits to the BBC and to the UK:

- They have increased their contribution to BBC revenues – since 1996/97, they have almost tripled the financial contribution they make to the BBC's public services, from £53m to £147m in 2002/03, equivalent to almost £6 per licence payer, and have built valuable long-term assets.
- They have grown international awareness of the BBC around the world – across the ten major media markets around the world, 79% of people were aware of the BBC in 2001, up from just 55% in 1998.
- They have opened up new markets for all – for example, when the BBC's joint venture UKTV launched in 1998, the secondary rights market for British television programmes in the UK was virtually non-existent. UKTV led the way in developing this market for UK talent and independent producers to derive additional commercial value from their programmes.
- They have made household names of British talent internationally – for example, *The Office*, which was turned down by other US broadcasters but broadcast and promoted by BBC America, earned Ricky Gervais two Golden Globes. BBC Worldwide's successful sales of BBC wildlife programmes have brought international recognition of Britain as a centre of excellence for this type of programming, as well as personal acclaim around the world for leading talent such as Sir David Attenborough.

## The structure of the commercial activities

The BBC itself does not run commercial services. All activities, at the top level, are controlled through wholly-owned companies, over which the BBC has strategic oversight. There are good reasons for this approach:

- It gives the BBC full commercial and editorial control over the BBC brand, allowing it to take long-term strategic decisions which create and exploit maximum asset value over time.
- It provides security of supply of vital craft and technology skills that underpin high-quality output and landmark events.
- It ensures that commercial activities are consistent with the BBC's public services.
- It allows critical mass and economies of scale across multiple formats, platforms and territories.
- It reserves all the net profit for the benefit of the licence payer.

However, BBC subsidiaries employ a range of business structures, using in each case the structure most likely to maximise performance. For example, BBC Worldwide's activities fall into three broad categories:

- Wholly-owned businesses (for example magazines, programme sales, audio and books) with an annual turnover of around £474m in 2002/03.
- Joint ventures and partnerships (for example channels, magazine distribution, exhibitions, internet access and television listings) such as UKTV (with Flextech), Animal Planet and JVP (with Discovery) and Frontline (with Emap and Haymarket), with an annual turnover of £276m (see box).
- Licensing arrangements to third parties (for example, children's merchandise, records and formats), with annual wholesale sales worth £289m.

*59 Global Consumer Awareness Survey 2001, Buckingham Research Associates*

Figure 24: BBC Worldwide – Revenue breakdown 2002/03, including wholesale licensing value This pie-chart compares shows the split of Worldwide's revenues from different sources: £474m from wholly-owned ventures, £289m from licensing activity (wholesale value), and £276m from joint ventures.

Following its development of joint ventures and licensing arrangements over recent years, less than half of the revenues for BBC Worldwide's products and services are now generated from wholly-owned subsidiaries – 26% comes from joint ventures and 28% from licensing arrangements<sup>60</sup>.

## 21st-century BBC: joining forces

The BBC's joint venture with the US broadcaster Discovery Communications Inc was signed in 1998. It covered three elements: the funding of the BBC wholly-owned BBC America channel which reaches 40 million households; investment by Discovery in BBC programmes; and opportunities for both equity stakes in and programme sales to overseas channels. To date, Discovery has invested \$139m in BBC America and over \$226m in BBC programmes, and BBC Worldwide has earned \$50m in programme sales to these channels. This model has since been the basis for other successful joint ventures, such as BBC Canada with Alliance Atlantis.

UKTV, BBC Worldwide's long-term partnership with Flextech plc, has grown the UK secondary market for TV programmes. British writers and actors have benefited significantly from this new source of revenue and independent producers benefit from both programme sales and original commissions. The financial returns help to fund new BBC programming.

The BBC/Haymarket joint venture runs a profitable business in consumer exhibitions based on BBC titles such as *Gardeners' World* and *Good Food*. It announced a profit of £1.4m in its most recent results.

BBC Worldwide has recently created a jointly owned company with Penguin for the global exploitation of children's books. By harnessing Worldwide's intellectual property management skills with the publishing, creativity and distribution strength of Penguin, this company will significantly strengthen the impact of the BBC Children's Books imprint and offering.

*60 Uses the wholesale value of BBC Worldwide's licensing activities for comparability*

In November 2003 the BBC announced its intention to sell BBC Technology Limited. Since its launch as a commercial subsidiary, BBC Technology has delivered significant benefits to the BBC, £19m in profit and price reductions in 2002/03 alone. However, a review of this business identified a further savings potential of £20–30m a year by contracting technology services out to larger suppliers, as well as a one-off payment for the sale of the business.

The BBC will continue actively to seek to establish new business models where this will improve performance – including seeking out new opportunities for partnerships with commercial companies where these look likely to enhance returns. It is also prepared to divest additional businesses where the demonstrable public benefits of BBC ownership – in terms of the volume of cash returned to public service over the long term, linked to asset creation, protection of BBC brand values, and so on – are no longer sufficient to justify a direct presence in the commercial marketplace. The BBC starts from the premise that it does not need to own commercial businesses for their own sake.

## **4.2 Ensuring fair competition**

**If the BBC should continue to run commercial services, how should we ensure that the relationship between the public and commercial services is fair to the BBC's commercial competitors?**

The BBC has always believed it important to ensure that its commercial activities are carried out fairly – including at arm's length from its public services. The BBC has underpinned the delivery of this objective through a clear and transparent system of fair trading which has withstood the toughest scrutiny.

### **Trading fairly**

BBC commercial activities must trade fairly in the markets in which they operate. All such activities are subject to the full requirements of competition law. In particular, both UK and EU law require transparent separation between publicly funded and

commercial activities. In common with other companies, the BBC's subsidiaries can now be fined up to 10% of turnover for anti-competitive behaviour.

However, in addition to the requirements of competition law, the BBC must also comply with the more stringent requirements of the BBC's Fair Trading Guidelines. The BBC Charter makes it a specific responsibility of the Board of Governors to ensure that commercial services are funded, operated and accounted for separately, and the Governors both approve the Fair Trading Guidelines and monitor compliance with them. The Guidelines impose the following specific requirements<sup>61</sup> on commercial activities, to ensure that the BBC trades fairly and can demonstrate it:

- There should be clear separation between publicly funded and commercial activities in terms of their operation and accounting.
- Commercial activities must pay fair charges for any goods or services (including rights) received from the BBC's publicly funded services.
- All of the BBC's commercial activities must charge fair prices for any goods and services (including rights) they supply.
- No public funds must be used, or put at risk, by commercial activities.
- The BBC's publicly funded services may not be used unfairly to promote BBC commercial goods and services.

<sup>61</sup> *The BBC's Fair Trading Guidelines (2004 edition), para 1.13*

- All of the BBC's activities should comply with European and UK competition law and with European law on state aid.

The BBC has in place comprehensive systems of controls and processes to ensure compliance with all aspects of the Guidelines. Specialist advice is provided by the Head of Fair Trading and their department, supported by a network of Fair Trading Representatives within each BBC division and commercial subsidiary.

The Head of Fair Trading reports on a quarterly basis to the Governors' Fair Trading Compliance Committee (FTCC) on the BBC's performance on fair trading issues. The FTCC specifically oversees compliance with the Fair Trading Commitment and where appropriate takes advice from external advisers on fair trading issues, independently of management. The trading processes and controls are subject to annual review by independent auditors whose opinion is published in the BBC's Annual Report.

The BBC's fair trading systems have long stood up to the most detailed scrutiny. The independent auditors have never had cause to qualify their opinion following their annual review. Over this entire Charter period, no complaint to UK or EU competition authorities against the BBC has been upheld. The overall robustness of the fair trading arrangements has been reaffirmed through independent external review by the British Standards Institute and by competition law expert Professor Richard Whish appointed by the Government to review the BBC's policies, who said: *Richard Whish, Review of the BBC's Fair Trading Commitment and Commercial Policy Guidelines (for the DCMS, April 2001), para 6.1*

"I am familiar with the compliance policies of many public and private sector undertakings, including several that occupy positions not dissimilar to that of the BBC. In my view the fair trading policies of the BBC compare favourably with those of other undertakings. Indeed, I am not aware of any organisation that is subject to as much scrutiny – internally and externally – to ensure compliance with

Competition Law." *The BBC's fair trading processes were the first to be awarded the BSI's ISO9001/2000 standard in April 2001*

The BBC will continue to ensure that its fair trading systems are effective, and proposals to ensure greater transparency are included in Building public value.

#### **4.3 The scope of the BBC's commercial activities**

**Should there be any limits on what the BBC is allowed to do commercially and, if so, what should those limits be?**

The BBC must ensure that its commercial activities are carried out in line with clear principles, supporting the BBC's core purposes and its duties to licence payers.

#### **Setting the boundaries**

The BBC's Fair Trading Guidelines identify three key principles<sup>64</sup> concerning the BBC's commercial activities:

- Commercial activities must be consistent with, and supportive of, the BBC's purpose as a public service broadcaster.
- The BBC must always trade fairly.
- The reputation of the BBC brand must not be undermined.

In line with these general principles, the Guidelines say that BBC commercial activities should:

- Offer the prospect of generating significant funds for reinvestment in the BBC's public service activities
- Offer genuine added value to customers
- Not conflict with the long-term strategies of the BBC and its position as a public service broadcaster
- Reflect BBC values of quality, integrity, decency and distinctiveness and avoid bringing the BBC into disrepute or causing offence
- Offer good value for money to the consumer

The BBC keeps the principles of the Guidelines under regular review. The latest edition was published in 2004. The Guidelines are underpinned by advice from the Head of Fair Trading and their department, supported by the Fair Trading

Representatives within each subsidiary, to ensure that all activities are consistent with them.

Proposals for clarifying the appropriate scope and operation of the BBC's commercial activities going forward are set out in Building public value.

*The BBC's Fair Trading Guidelines, paras 1.11–1.12*