

Reed Educational and
Professional Publishing
Halley Court
Jordan Hill
Oxford
OX2 8EJ

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Kennedy Humphreys
Department for Culture, Media and Sport
Broadcasting Policy Division
2-4 Cockspur Street
London
SW1Y 5DH

kennedy.humphreys@culture.gsi.gov.uk
Digital.Curriculum@culture.gsi.gov.uk

Dear Kennedy Humphreys

Reed Elsevier response to BBC proposal on digital curriculum

Thank you very much for your letter, dated 23rd May, inviting comments on the BBC new licence fee funded digital curriculum service.

I was pleased that Bob Osborne, Managing Director of our UK Schools Division, was able to present the main arguments of our case to the Secretary of State at the meeting on 16th July with our Industry group known as the Digital Learning Alliance (DLA).

This submission, however, is sent on behalf of Reed Elsevier PLC who, through our Heinemann, Ginn and Rigby imprints, are the largest Educational Publisher in the UK as well as one of the largest global Educational publishers. This response draws on our deep and detailed knowledge of the UK schools market.

We are wholly supportive of the DFES Curriculum Online initiative and want to be in a position to invest confidently in making this a success.

Reed Elsevier Response

Summary

- We have been a key player in the development of the Digital Learning Alliance and the Publishers Association response. We fully support the arguments made by these two bodies not to proceed with the BBC proposal as presented.
- We do believe and fully support the DFES Curriculum Online initiative as we see it as an important opportunity both for education in the UK itself and also as a

way for our industry to become a world leader on behalf of the UK in this growing and exciting market.

- We believe that, under your auspices and guidance, a satisfactory resolution can be reached with the BBC and all parties that delivers the vision of Curriculum Online, based on a vibrant and competitive market for the supply of electronic educational materials. To achieve this there needs to be significant movement on the part of the BBC coupled with a clear undertaking on long term demand side funding to counterbalance the BBC expenditure.

Detailed response

Attached to this letter is our detailed response to the issues raised in your letter.

We thank you for giving us the opportunity to make this submission. We would be delighted to discuss our position at any time.

Yours sincerely

John Philbin
Chief Executive Officer – Reed Educational & Professional Publishing

Reed Elsevier

Response to BBC Digital Curriculum service approval

This submission is sent in on behalf of Reed Elsevier PLC who, through its UK imprints Heinemann, Ginn and Rigby is the market leading Educational Publisher in the UK in both the Primary and Secondary market sectors.

We are committed to helping improve standards in UK schools through the provision of high quality teaching and learning materials and include in this the development of innovative digital curriculum resources specifically for the UK. We already have a sizeable and growing list of such digital resources and we are strong supporters of the Governments Curriculum Online initiative. We are keen to invest heavily in the future development and support of further digital materials provided that we are satisfied that there is a long term sustainable and viable market which will not be undermined by an under-constrained and unbalanced BBC service.

We are party to both the DLA and the PA submissions. Our position is fully in agreement with the views expressed in these documents.

We understand that the decision that the Secretary of State is asked to make in this approvals process needs to be taken in the context of the 'BBC PUBLIC SERVICES: APPROVALS' criteria and accordingly have structured our reply to address these points directly.

SECTION 1: Overall position

1. Overall position on the BBC application

We believe that it should be rejected as it currently stands. If the BBC is allowed to proceed on the terms outlined in their submission, it will have the effect of undermining the market. The current range of commercial digital resources available will decline and innovation and investment will slow. It is likely that many commercial players, including ourselves, will be forced to reduce or stop investment in this area with the result that schools will have far less choice than they currently have. In the longer term, we, both as an Industry and as a country, will have missed the opportunity to develop a vibrant, sustainable market which would have evolved to meet the changing needs of schools and ensure that we get the best educational return from the considerable investment in ICT infrastructure already made in this country. We will also have missed the opportunity to become a world leader in the development of electronic curriculum materials.

We consider that the proposal fails in the following areas:

- **Inadequate consultation process**
The BBC consultation process was flawed – it was carried out two years prior to the submission, was on a substantially different proposal,

and had an extremely low response and cannot be considered as adequate.

- **Failure to acknowledge products of a similar nature**
The BBC proposal takes no account of the wide range of existing materials in this area.
- **Lack of distinctiveness**
The BBC service is in no way distinctive and simply duplicates existing commercial provision.
- **Extreme and adverse market impact**
The market impact of the BBC entry will be very great and any benefit will be completely outweighed by a reduction in the choice and diversity of ICT materials available to schools and the decline of an important and vibrant industry.
- **Failure to deliver universal access**
The service cannot deliver universal access in a reasonable period of time for technical reasons springing from poor broadband access in schools.

SECTION 2: The Secretary of State's concerns

2. The consultation was inadequate and is misrepresented in the submission

The BBC proposal was carried out almost two years ago. Although it was sent to all schools, the response rate was extremely low. The results from such small samples will be statistically unreliable and it is highly likely that with, for example, just 53 Primary teachers replying from a universe of 250 000, it will be a self selected group who are particularly interested in such a proposal. Indeed the report itself suggests that there is evidence of a lobbying campaign in the responses on behalf of Classical Studies – raising further concern over the validity of the results.

2.1 Response rates were very low and likely to be unrepresentative

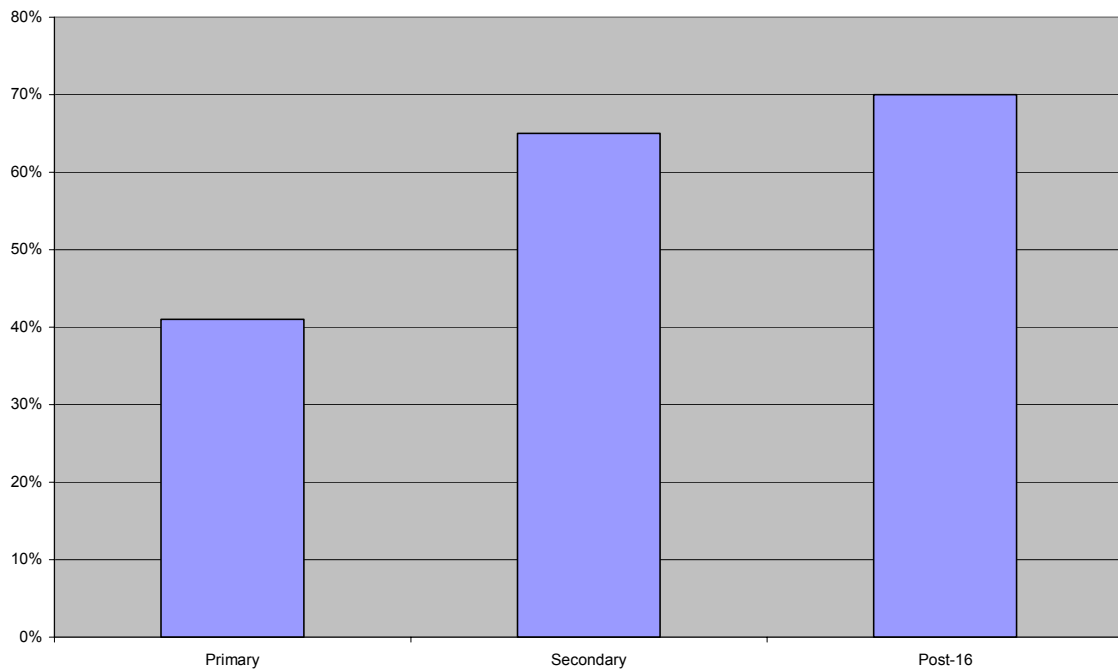
The report gives the impression that there was a strong and overwhelmingly positive response. It uses headline percentages to emphasise this but completely fails to provide the appropriate context. Of a total of over 500 000 teachers in schools in the UK, the number of classroom teachers responding was:

	Total replies	Universe	Response
Primary Teachers	54	250000	0.021%
Secondary Teachers	94	250000	0.037%

This level of response cannot be taken to be either positive or representative.

2.2 There is a mismatch between the results and the proposal

The BBC proposal focuses on providing material for 5-16 and completely ignores the results of the consultation which suggest that the most useful area for them to focus on would be post-16 and lifelong learning.



Graph shows % identifying area as extremely useful in consultation.

The most valuable aspect of the proposed service – at 69% - was identified by the survey as being for ‘Revision Aids’ and yet there is no mention of this in the proposal. Instead the BBC has decided to target an already well served sector in core classroom provision.

3. The nature and coverage of materials of a similar nature

The BBC submission uses the report from PwC to provide details of the coverage of the materials of a similar nature. Yet this report was produced under the specific instruction that there was to be no contact with the Industry itself. It is not surprising therefore that the resultant report is inaccurate and shows little awareness of the range and depth of materials already available in the commercial sector. The analysis of this report by NERA (appendix 5) highlights the inadequacies of this report and effectively discredits it.

In the BBC submission (section 2.2) there is an unsubstantiated suggestion that:

‘There is a gap in the current range of curriculum-based offerings for teachers, students or independent learners.’

There are many sources of evidence to show that there is already a rich range of resources available and that, as market needs develop and schools have the funding to acquire such materials, much more material will be published to meet the needs of schools by many educational suppliers. The key pieces of external data are that:

- There is already a market of £85m growing at 15% a year for such materials
- The BECTA database already lists over 2500 such products
- The TEEM review site carries extensive reviews of new materials as they become available

Reed Elsevier are very active in the production of resources in these areas and will be publishing over 100 new titles this year to add to our range of digital curriculum resources available to schools. We would be prepared to give details of further plans that we have for investment in this area if there is a market environment which we can be confident will be sustained and not undermined by an inappropriate and unconstrained BBC service.

4. Market impact on existing services

If the BBC are allowed to enter the market on the basis of their current submission and there are no further electronic learning credits provided to schools over the period of provision of the BBC service, then the impact will be such as to completely undermine the market and cause Reed Elsevier, along with other major and niche players, to cease investing in this market in any sizeable or systematic way. Schools will thus be restricted to effective monopoly provision by the BBC and, because the normal market disciplines will not apply, innovation, choice and diversity will fail to develop.

4.1 BBC entry at the proposed level will reduce the market by £400m

The BBC state that they will spend about 60% of their proposed £150-170m on content. The report from SRU shows that this resultant figure of about £100m equates to the commercial equivalent of R&D spend in normal book and software production. Included in our R&D figures is the complex process of working with large numbers of schools, pupils and teachers to ensure that our materials meet needs and contribute to raising standards. The industry 'rule of thumb' is that R&D normally equates to 25% of the total resultant revenues arising from this investment. The balance goes into customer services, customer training and support, sales and marketing, production and distribution, regular updating of the materials and, with a fair wind, some element of profit to enable the development of new materials in the future.

Hence £100m of BBC R&D = £400m of displaced market revenue.

4.2 £800m of ELCs needed to support the market

The SRU report suggests that a figure of £800m needs to be put into ring fenced demand side funding to support the market. Again, there is a relatively straightforward way of explaining this figure. If the BBC R&D of £100m can provide coverage of one course across the range of subjects and will displace £400m of revenue, then to provide choice at the level of two alternative choices in each subject area will require 2 x £400m of ELC funding.

There are several important points that need to be made about this ELC funding:

- Similar funding needs to be put in place for Scotland, Wales and N Ireland and unless this is done, the BBC will become the monopoly provider in the Nations
- The funding needs to continue for the full period of provision of the BBC service – so if it continues beyond 2006-2007, so too does the ELC funding need to continue.

5. The materials lack any sense of distinctiveness and simply duplicate existing provision

There already exists a wide range of software meeting many of the needs of schools. The market is growing and needs are changing and, as a consequence, there are many new products and services in development from a large number of companies both large and small. The SRU report, the most authoritative report available, estimates that without BBC entry the market will grow to £160m which will ensure comprehensive coverage of all segments.

The BBC have given very little detailed description of their materials but from what is contained in the submission and from what we have seen at recent demonstrations the material is very similar to existing materials and in some respects is inferior. In itself, this mixed quality is not surprising because the BBC is developing their material with little prior experience as opposed to the commercial sector which has far more experience and depth of understanding.

The BBC materials lack distinction and will do no more than duplicate existing provision of electronic curriculum materials.

The BBC have published a market impact report by PwC, since discredited by NERA, which accepts that the material is not of itself innovative but suggests that the distinctiveness lies in the scale and the fact that the material will be free to air. **Whilst scale and zero cost are not, in our view, appropriate characteristics for defining distinctiveness, they are the two factors which will have maximum negative market impact on commercial services already in the market and on potential future services.**

SECTION 3: Detailed constraints which should be applied to the BBC

6. The BBC should be limited to a maximum coverage of 20% of the curriculum

The current BBC proposal is to cover 50% of the curriculum and this is about three times the amount of material schools will be able to use. This should be capped at 20% for the following reasons:

Computer to pupil ratios in schools average about 1:10 across the Primary and Secondary sector hence, on average, a pupil will be able to spend no more than 10% of classroom time in front of a computer on a one-to-one basis. By 2004, the Government targets are for a Primary ratio of 1:8 and a Secondary ratio of 1:5 – this implies a maximum 12.5% in Primaries and 20% in Secondaries – an overall average of about 15%.

The production by the BBC of material for pupils to cover 50% of the curriculum will thus be about three times the amount that can be used in the school day and will leave no space for commercial provision. Hence, 15-20% coverage is the absolute maximum the BBC should be allowed to cover. On a model of complimentary provision, the average coverage should be 10%

The BBC spend should be kept at the current proportions of 25% core, 35% non-core, and 40% minority but, as previously agreed, the core coverage should include the provision of core materials for the Nations.

7. The size of the BBC spend should be reduced to £60m.

The BBC should be required to scale back its investment to match the proportion of curriculum coverage. Thus if the coverage is reduced from 50% to 20%, the investment should equally be reduced to 40% of its current level – that is from £150m to £60m.

If the BBC feel it necessary to make further investment in digital materials they should be encouraged to consider the area on which there was the highest level of approval from the consultation, and arguably, the greatest argument for public sector investment, namely that of the 16+ and lifelong learning market. But any such new proposal should be subject to proper due process involving a new proof of concept and a new submission to DCMS.

8. The BBC proposal to outsource 50% of their commissioning is irrelevant in any argument about supporting or growing the market.

The BBC proposal is based on a broadcasting model when in fact we are looking at the impact of entry on publishing businesses. Publishing businesses aim to build content and services from which long term sustainable revenues can be derived which are then reinvested for future growth. The BBC model is based on production done as once-off work for hire with no prospect of significant ongoing revenue streams since the BBC will, in fact be giving away the IP on their free-to-air service.

In fact, for every £10m of production work done, there will be a displacement of up to £40m of sustainable publishing revenues since this R&D investment normally equates to 25% of the future revenue base in a typical software publishing project.

In passing, it should be noted that the BBC will be placing about £9-10m of work out of house annually against a current market of £85m – so there is no sense in which this activity would provide any significant replacement for loss of revenues as customers switch to free materials

9. The BBC and BBC worldwide should not be allowed to produce any pupil print material since this could adversely affect the adjacent print material and there is no case for this activity.

The BBC plan to produce technical guides for teachers and home users to support the use of the Digital Curriculum. This is acceptable providing a level playing field is applied to commissioning and publishing of these materials.

There should, however, be an absolute restriction on the BBC and BBCWW's ability to produce or be associated with the production of pupil material in print for use either in school or home. The BBC proposition is a digital one and it should be strictly limited to this. There should be no possibility of the BBC 'filling in the gaps' using

print, nor producing partial or comprehensive textbooks that could substitute in the existing successful print market.

Any technical manuals and allowed support materials produced by the BBC for the Digital Curriculum should be strictly limited to the same coverage as the Digital materials with no ‘creep’.

10. The BBC and BBC worldwide should be forbidden to access (either directly or indirectly) any demand side funding in the form of ELCs or any other mechanism used for market support. All references to BBC DC materials should be set in the context of COL.

ELCs are designed to provide some element of market protection in the face of the BBC market entry with free materials funded by public funds. There can be no case for the BBC or BBC Worldwide to be allowed to access demand side funding either in their own right or through a partnership or licensing arrangement.

Where the BBC seek to make known the availability of their materials to schools using on-air or other promotion, this should be done in the broader context of Curriculum online referring schools and students to the COL url.

11. The BBC should be required to limit the functionality of its VLE and ensure that it complies with all national open standards. There must be no possibility of further development of functionality.

The BBC should be allowed only to provide a simple ‘find and play’ VLE environment. It must be absolutely clear from the beginning and rigorously enforced that the BBC will not, under any circumstances, be allowed to further develop their VLE beyond this low level functionality.

The BBC must be required to adhere fully to all open standards developed by the DFES so that its material can be incorporated in any other systems that schools may want to use in the future; and it must be fully interoperable with other commercial systems through these open standards.

12. Accountability.

There is great unease in the Industry about the ability to track and regulate BBC activity in this area. The BBC should be required to participate fully in the Content Advisory Board (or whatever mechanism is finally used to ensure that they play a complementary role in COL). And there should be a credible mechanism for monitoring and regulating BBC activity with a right of appeal and remedy.

13. The crucial importance of demand side funding

It must be reiterated that the BBC should only be allowed to enter this market if there is adequate demand side funding with an efficient and ring fenced mechanism in place to provide the right level of demand side funding to properly protect the market from the BBC intervention.

This funding will need to be in place for the entire time of the provision of the BBC service and at the level suggested by the SRU report. Similar mechanisms and funds

will need to be put in place to cover the Nations and the Independent schools sector who will be severely undermined and underprovided for if BBC entry in these sectors is not balanced in the same way.

Bob Osborne
22nd July 2002