



Revenue House
32 The Oaks
Milton
Cambridge
CB24 6ZG
United Kingdom

Email: info@billingspecialists.co.uk

www.billingspecialists.co.uk

6th August 2014

BBC Trust Commercial Framework consultation
BBC Trust
180 Great Portland Street
London
W1W 5QZ

Sent by e-mail to commercialframework@bbc.co.uk

Dear sir or madam

As experts in enabling our clients to provide cost-effective commercial services using modern delivery methods and innovative pricing and discounting models we have pleasure in sending the BBC Trust our response to the consultation on BBC Trust draft strategic framework for the BBC's commercial services.

We are happy for our response to be published in full.

We are hugely supportive of the BBC, believing it to be one of the greatest institutions in Britain and indeed the world. We hope that our contribution will lead to future BBC success.

Yours faithfully

A handwritten signature in black ink that reads "JC Alderson".

JC Alderson
Director, Billing Specialists Ltd

Billing Specialists Ltd, Revenue House, 32 The Oaks, Milton, Cambridge, CB24 6ZG, United Kingdom

Registered office: Unit 4 Vista Place, Coy Pond Business Park, Ingworth Road, Poole BH12 1JY
Company number 6160902 incorporated in England and Wales

Response to BBC Trust Commercial Framework consultation by Billing Specialists Ltd

Billing Specialists Ltd, which is based in Cambridge, is an established consultancy specialising in growing revenue based on innovative product pricing and discounting models, primarily for communication service providers (CSPs). With a client base largely in the European Union we have, for example, supplied consultancy to several Tier 1 mobile operators providing content-based Value Added Services. We have experience on how content can be distributed in an efficient manner and high value obtained.

We wish to comment, with relevant business examples, on the BBC Trust's principles for the BBC's commercial services, which it has listed as follows:

- (a) - Strategic alignment of public and commercial service activities
- (b) - How, where and when commercial business can be conducted
- (c) - Generating a return for licence fee payers
- (d) - Commercial efficiency
- (e) - Separation between publicly funded BBC activity and its commercial services

Rather than tackling each of the above in turn, we believe all five are inextricably linked, and therefore we will suggest principles and revenue generation ideas that combine them all.

We believe that the severe financial constraints that the BBC has been forced to endure since the 2010 licence fee settlement are extremely unlikely to vanish with a new BBC Charter, regardless of which political party forms the next government. The government's refusal to grant an acceptable level of income has less to do with its close relationship with (and fear of) some commercial rivals but more a result of the Labour government's introduction of free television licences to households with a person over 75. A substantial proportion of the BBCs current income comes directly from central taxation and no government in the current financial climate (high annual deficit and very high accumulated debt) wishes that sum to increase substantially.

Our view is that the BBC cannot hope to increase revenue to the level needed to sustain quality programming attractive to all members of British society unless it produces sufficient programming that generates commercial revenue using as many viable sales channels as possible both nationally and internationally. Our concern with the BBC Trust's proposed Strategic Framework for the BBC's Commercial Services is that it sees the activities of BBC Worldwide as a minor part of the BBC that needs to be controlled whereas we see it as a fundamental part, without which the BBC has no viable future. The BBC Trust must recognise this reality.

It appears to us that the BBC Trust is aiming just to define a remit for BBC Worldwide as a way of addressing concerns, for example, to prevent further incompatible, adventurous and ultimately disastrous forays in acquisitions such as Lonely Planet. In other words, it is trying to address criticism of BBC Worldwide both in terms of its past failures (valid concerns to the public) and pressure from commercial rivals (irrelevant to the public and actually harmful if it weakens the BBC) by constraining the activities of BBC Worldwide. We believe that is the wrong way around. Instead the BBC Trust should revisit its proposals and change them to liberate BBC Worldwide whilst requiring BBC Management to work closely with BBC Worldwide when making *most* of its commissioning decisions to maximise the commercial return at every opportunity. This is necessary to generate an acceptable return for the BBC's licence fee payers.

We recommend that the BBC Trust puts in place a *partnership* framework between BBC programming commissioners and BBC Worldwide that gives the latter a much stronger role, without putting it in the driving seat, whilst giving protection for a level of Public Service Broadcasting where commercial return will have no say. We envisage BBC commissioners deciding what is suitable for their channels, thus putting viewers and listeners above commercial imperatives and retaining the identity of a channel but BBC Worldwide having a very strong say in the life of those programmes once an initial commission has taken place. BBC Worldwide should be able to insist on a) a minimum number of episodes, b) the commissioning of further series (i.e. prevent a BBC channel controller from axing a successful programme), c) frequency of seasons (avoiding unnecessary breaks) and d) sufficient exposure of programmes on the BBC (not dictating a specific timeslot on a particular day or time of year, but ensuring a controller does not try to kill a series by scheduling it in a death-slot).

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In short, we believe the majority of commissioning decisions should involve BBC Worldwide, at least to the extent that BBC Worldwide has the resources to exploit that level of programming output, not just in terms of programme sales but all kinds of licensing.

Clearly, suggesting that the commercial return should dictate the entire schedule of the BBC's channels, or influence artistic decisions to the extent that sponsors on commercial channels hold sway, is a step much too far in Public Service Broadcasting. However, we feel that the BBC Trust has not recognised how far commissioning drivers have changed in the last 30 years – the BBC is already more than 'a little bit pregnant' (to borrow the rhetoric when dismissing calls for *some* advertising).

It is now financially impossible for the BBC to reinstate Play for Today, never mind Play of the Month. It finds itself unable to reinstate minority genres such as Out of the Unknown, which ran from 1965 to 1972, despite the commercial sales at the time and lack of any such series being produced in any country. However, the BBC is far more risk-averse compared to, say, DR, which commissioned 20 hours of the detective series Forbrydelsen (The Killing).

Let's take some examples of where the BBC needs more commercial acumen.

When the BBC decided in 2004 to re-launch Doctor Who, which had become a tarnished brand during the 1980s, it was prepared only to commission six episodes, despite knowing that there was an audience for it. Fortunately BBC Worldwide stood its ground and demanded 13 episodes as the minimum that was worth the effort of selling. BBC Worldwide won. However, the BBC threw away in excess of £1m when it indulged the lead actor (David Tennant) by only producing four episodes instead of fourteen in 2009. Given that those four episodes were to be his swansong, a commercially driven BBC would have filmed the episodes of his successor (Matt Smith, already publicly announced) in the interval (and possibly producing both series concurrently given the complete changeover of production team). History repeated itself when fifteen episodes were spread over two years, apparently this time to indulge the show-runner (Steven Moffatt). Any commercially minded organisation would have brought in an assistant show-runner. With the further change of lead actor there is yet more slippage in the season's schedule (commencing in autumn rather than spring). For one of the BBC's top five worldwide brands to produce only eight series in the ten years from March 2005 to December 2014 is lamentable, especially given the paucity of episodes (a mere 14 per year when US television can generate 22).

BBC Three pioneered the immediate post-transmission behind-the-scenes series such as Doctor Who Confidential. Given that anything related to Doctor Who will generate money we are incredulous that BBC Three's controller chose to axe the programme despite its low cost and the ability to include the material filmed as DVD extras. We do not believe a channel controller should have the ability to axe a commercially successful programme on a whim. To fail to commission something that would have been successful (e.g. Alan Yentob refusing to commission what became the highly successful ITV series Band of Gold, for which he has since apologised) is a mistake but to axe something that is generating money is sheer folly. The root cause is probably that the channel controller does not see a direct return from the profits made. We do not believe that simply providing financial incentives to the channel is adequate since the controller could still put their personal tastes above incentives hence our strong belief that such freedoms should be removed from controllers.

We note the recent decision by the BBC One controller to decline a second series of the Sarah Phelps drama The Crimson Field supposedly "in order to create space for new shows and to keep increasing the variety of BBC One." We support axing programmes that have overstayed their welcome (Last of the Summer Wine would be a good example) but to axe a series after one series is nonsense when BBC Worldwide needs more than one season in order to make a return on their sales effort. Consider also the Ripper Street cancellation debacle. As outlined in our recommendations above the BBC One controller should not have the power to decline a second series of a programme with mainstream appeal that has met audience number and appreciation targets without approval from BBC Worldwide.

We are also incredulous that senior managers at the BBC could seriously consider losing £100 million revenue over the next decade by sacking its star presenter because of a few complaints about an un-broadcast recording in which he apparently recited an antiquated nursery rhyme. Whilst the BBC clearly cannot give carte blanche authority to someone on the basis of their commercial value, losing vast sums of money because of a minor embarrassment in which a few people *chose to be offended* is surely much more damaging in the eyes of licence fee payers.

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Prior to multi-channel broadcasting there was no proof that Britons were willing to pay for broadcast content – the choice was stark between an apparently free ITV (in reality a regressive tax on the working class) and paid-for BBC. However, these days people are used to paying considerable sums each month to CSPs for content, whether it's Virgin Media, Sky or BT, often, but not always, bundled with telephony and broadband services.

At the moment the BBC avoids charging the British public for anything that it broadcasts. Actually it does charge, of course, by disguising it as joint ventures without BBC branding, so that viewers are paying considerable sums to watch 40-year-old repeats of *Porridge*, for example, all of which require viewers to put up with insufferably frequent and long advertising breaks.

The BBC's USP is the lack of adverts, for which it is highly regarded. The recent World Cup final viewing share against ITV's simultaneous coverage has shown, yet again, very strong public support for an advertising-free BBC. We believe the BBC should offer a BBC-branded repeats facility, either on a conventional channel in a multi-channel platform or via iPlayer. However, it is vital that it shows a broad range of programmes and not endless repeats from a limited range.

It concerns us that the BBC makes so little profit from repeats, in order to plough back into new programming and generate more work for talent, because of the very large sums paid in royalties to talent. We believe that the talent unions must decide what is more important to them: is it a small number of people getting a huge income from one lucky break or a lot of people getting a fair reward for most of their work? We believe it should be the latter. If the royalties are high then only popular programmes are repeated or commercially released, since only those are able to get a return on investment. Moreover, royalties need to be set at a level that is competitive with US content. British television is swamped with US programmes because they are cheaper to broadcast than repeats of British-made programmes. We are alarmed that the BBC still does not archive all programmes. We understand game shows are a casualty, which seems foolish given the existence of niche channels such as Challenge. However, new programming must remain the priority for the BBC.

We believe that the BBC should have increased funding not least to ensure that the British public are not swamped with a diet of US content. An alarming number of examples of profligacy and financial incompetence at the BBC over the last decade (high salaries, high payoffs, New Broadcasting House overspend, DMI debacle, TV Centre standing idle for four years) have, we believe, ruined any chance of the BBC winning public support for anything beyond an inflation-linked increase simply to provide the same service. The BBC can only expect to receive more income from the public if it offers more in return that is actually wanted by the public. Its commercial rivals, who have an enormously vested interest, will naturally argue that the BBC should do less regardless but we disagree and believe there is enormous scope for discretionary top-ups.

A threat that the BBC Trust must resist at all costs is the introduction of a two-tier broadcasting system, whereby only the well-off can watch or listen to certain types of content (in effect what happens with the arts where working class taxpayers who subsidise it cannot afford to see it). This would sound the death-knell of PSB and hugely damage the well-being of society as people's tastes would not widen as they currently do when people stumble upon something freely available. No-one should be excluded from the wealth of BBC programmes. However, the BBC Trust should recognise that there is a huge difference between excluding people from content and offering some people additional *convenience* to receive that content.

A top-up (premium) service can be achieved without depriving viewers and listeners. Evidence from VAS content demonstrates that many people would be willing to pay another £2 a month (around 15% on top of the basic licence fee) to allow them to use BBC iPlayer to see:

- a) programmes in advance of broadcast
- b) programmes for more than seven days after broadcast
- c) extended versions of programmes
- d) programmes when abroad.

People who are abroad are able to listen to many BBC radio programmes on the internet, not just live but also on demand for a week or more after broadcast. The BBC presumably pays fees to talent to allow listening abroad (e.g. comedy on BBC 4 Extra) but crucially receives no revenue for this. We believe it is missing a trick. Moreover, much greater revenue would be obtained by people being able to watch BBC television programmes from abroad: holidaymakers, business travellers, ex-pats and Anglophiles. However, people abroad cannot watch anything on iPlayer because their IP address

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identifies them as being outside of the UK. Some people resort to tricks to fool iPlayer, such as paying for a VPN or attaching a Sling-Box to their home broadband connection. Other parties are making money from programmes funded by BBC licence fee payers. We believe the BBC should sell a service to allow remote viewing. It may make sense to combine this with other channels, such as ITV and Channel 4, but the benefit of doing so will depend on many factors including revenue sharing.

Given that many of the BBC's programmes are dubbed or subtitled when sold abroad we wonder whether there is a market for those versions to be available in the UK via iPlayer for a top-up fee. We accept that there may need to be a royalty required to actor speaking the foreign language.

Whilst an ISP has a fair-usage policy the BBC does not have one for iPlayer. We believe the BBC should look at charging a small amount for high usage. There are various options available, such as buying additional chunks (whether by volume or duration) or micro-payments e.g. 5p for every additional programme. We believe the latter is the way forward.

It goes without saying that we support the closing of the loop-hole that allows people *claiming* to watch only non-live television to avoid paying for a television licence. We do not understand why access to iPlayer within the UK cannot require the input of a television licence number. As the increasing number of web-site paywalls shows people are familiar with having to register to gain access. Indeed many free Wi-Fi hotspots require registration, such as on Heathrow Express trains.

As an aside, we find it incredible that the concept of a black and white television licence exists in 2014. If this concession is for the visually impaired then it should be renamed as such.

Further to our suggestions for *convenient content*, we believe that the BBC could offer an on-demand two-minute audio news bulletin as part of a top-up package. This is an example where we believe the BBC could leverage savings from its radio services to provide a new commercial service. We believe that it makes no sense to broadcast two minutes of news on the hour on BBC Radio 2, 3 and 4 that has 90% of the same content, with three different presenters speaking RP. A single broadcast could be recorded and played out on all three radio channels. It is not easy to sync up three stations to the second 100% of the time but given that all output is now stored and played out on digital equipment all three channels could play the same news recording automatically at the appropriate time. That same recording could then be made available on the 'top-up' service, as well as weather forecasts.

Whilst we have suggested various ideas for the BBC to generate further income, this will only be successful if the services can be cost-efficiently delivered and the income can be efficiently collected.

Our concern is that the BBC has historically had great difficulty in doing such things in a highly profitable way, which would obviously be necessary to generate substantial additional net revenue. We believe the BBC to be over-managed and it needs to become leaner. There is little point in creating new commercial ventures unless they are lean to begin with. Removing inefficiency is much harder than avoiding its creation in the first place. Many of the BBC's new commercial content offerings are going to be IT-led. We are concerned about the BBC's reliance upon large inefficient service providers acting as a delivery agent. The BBC Trust should ensure that the BBC identifies suitable cost-effective delivery partners.

The BBC currently has a cumbersome legacy IT system that provides almost all of this income (licence fee collection). To bill top-up services efficiently the BBC needs to look at whether that system can be leveraged (unlikely), a separate system is used (inefficient) or a completely new convergent billing solution is deployed, Billing Specialists Ltd has expertise in billing for service provided by CSPs and would urge serious consideration of the latter.

END.

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6th August 2014

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