

Public Service Broadcaster II:

The organisational challenges ahead for BBC Worldwide,

Channel 4, and anyone else who comes to the party

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Tomorrow

Tomorrow Lord Carter publishes the final version of “Digital Britain.” For those not involved in the media world, this is the culmination of a year-long investigation into the future of digital information and communication in the UK.

There should not be too many surprises. Lord Carter produced an interim report in January. He included his point-of-view on the future of press (albeit briefly), introduced some radical thinking on universal broadband and surfaced a few ideas on the digital migration of radio. Yet the topic that piqued most people’s interest was whether...

“...a long-term and sustainable second public service organisation providing competition for quality to the BBC [could] be defined and designed, drawing in part on Channel 4’s assets and a re-cast remit.”

In short, given the switchover to digital from analogue and the rapid growth of content providers, which has led to a dilution of commercial revenues, should a second PSB be set up as an alternative to the BBC?

There has been support amongst key influencers - including Lord Carter, Ed Richards the OFCOM chief, and Andy Burnham the former Secretary of State for Culture, Media & Sport.

At **Q5** we wonder whether the UK can afford two properly funded public service broadcasters, where many countries in the world cannot even afford one. But, if the wind of change is blowing into the sail of PSB2, as seems to be the case, who are we to argue?

In January it became clear that a ‘tie-in’ with the commercial part of the BBC, BBC Worldwide, was being muted. The Digital Britain team were keen to explore it, and the executives at Channel 4 seemed positively buoyant at the prospect. The BBC, initially less enthusiastic, has opened up to the idea of some sort of a joint venture. Both Andy Duncan of Channel 4 and his counterpart John Smith of BBC Worldwide have been chairing meetings to work through the agreement and are close to signing-up to something.

But what might this ‘tie-in’ look like? What will be needed to make it happen? Ben Bradshaw, Culture secretary for all of 10 days, is about to reveal all. And we wait with interest to find out...

Why might BBC Worldwide and Channel 4 enter into some sort of joint venture?

Throughout the last couple of years UK broadcasters have been caught up in the ‘perfect storm’; the coming together of two forces -- the dramatic collapse in advertising revenues -- and significant structural change in the marketplace.

And the market is radically different to how it was at the beginning of the millennium. There has been a proliferation of digital broadcast channels, huge growth in online consumption, a change in TV viewing habits brought about by the i-player, and catch-up services, not to mention the growth in video-on-demand. The mainstream broadcasters are on a constant battle to evolve their business models, and some are now giving away their content for free.

The BBC’s primary challenge is to keep pace with a changing audience profile and avoid the trap of growing old with its audience. They have the funds, through the licence fee, to invest in strategies to appeal to the key 16 to 34 audience. And boy do they have money to burn. Last year, for example,

despite an overspend of £36m on its web presence, an extra 27% will be invested on the web for the next three years ... a cool £145m per year.

However, commercially funded organisations in the UK have experienced a drop of 3.5% in overall advertising spend in the UK in 2008, and are likely to drop double that this year (according to ZenithOptimedia, April 2009).

Finding investment for new digital and online activities is much harder to do against the backdrop of reduced revenues and smaller viewing figures.

The interim Digital Britain report landed clearly on the page that the BBC with its funding, reach, and ability to innovate was a key component of taking the UK forward into an all-digital age, providing content that was varied and firmly of public service value. It also said that it must, in some way, be a part of the enablement of a second public service broadcaster, one that included as a core element of it, Channel 4.

The lowdown on BBC Worldwide

BBC Worldwide is an international rights-exploitation and channel operating entity with revenues of £916m and earnings of £118m. It is one of the more successful UK international media operators. It is well placed in the field of global rights exploitation upon which the strongest growth within the digital economy is based. It also has a portfolio of distribution channels in the UK and around the World which act as a shop window for those rights. Its success over the quarter century it has existed (as BBC Enterprises before becoming BBC Worldwide) has rested in large part on its proximity to the BBC license-fee funded public services, the BBC brand around the world, and its first-look exploitation relationship of the relevant rights.

In recent years, BBC Worldwide has been run as a vigorously commercial entity. Its contribution in terms of earning for the BBC and its place as a successful rights-exploiter and channel operator domestically and globally are testament its commercial team. But the evidence suggests that BBC Worldwide may now be testing the limits of what can be achieved commercially within the way that it is currently structured.

Some have suggested that a greater degree of operational and financial flexibility for BBC Worldwide in the future could be beneficial for Worldwide as a business, might enable more money to be returned to the BBC, which would benefit the license fee payer, and enable it to provide more for the creative system of the UK as a whole.

There may be a range of possible options and structures for the evolution of BBC Worldwide, That could enable it to meet public purposes while playing a larger part as a successfully commercial British Rights Company internationally. The Government will discuss this issue further with the BBC before the final report.

The lowdown on Channel 4

Over the last 26 years, Channel 4 has been greatly valued as a successful public policy intervention. But it was launched in the analogue era, where there were only three other television channels and no

internet. Today, while it remains a strong brand and continues to provide distinct content, the myriad of different content providers means that its place in the world has shifted. In the digital world and against the backdrop of falling advertising revenues across the medium, Channel 4 has said that it will find it increasingly difficult, in its current institutional guise, to balance its public purposes and its commercial future.

Many of the public purposes for which it was created remain as pertinent in the digital age as they did 26 years ago – innovation, diversity, original production from a wide range of independent producers. In the digital age however, these purposes need to be broadened to provide a strong source of plurality and competition to the BBC. At the heart of this new remit should be strong commitments to international and national news, current affairs, documentaries and film with the prospect of introducing programming for older children and news for the nations.

In the medium term such a role could only be discharged successfully by an institution of sufficient scale and flexibility to sustain a viable commercially funded business model:

- **Scale:** to achieve impact, reach and effectiveness in a globally competitive multi-media, multi-platform market place;
- **Flexibility:** to allow it to adapt to a fast changing media environment.

Musings since January '09

Since the publication of the Interim Report, the media focus has been on some sort of 'tie-in' between Channel 4 and BBC Worldwide.

To our mind some form of 'tie-in' between Channel 4 and BBC Worldwide might have legs, if Channel 4 is able to buy the 50% of UKTV from Virgin Media that BBC Worldwide currently doesn't own. The other option is to free Channel 4 from its public service obligations and privatise it. This would be the easier thing to do, but with ITV struggling, and FIVE tipped by many to close down this year, it is likely that the PSBII initiative will be the preferred option. The real question is: what will be the extent of the 'tie-in' and what will each party get from the deal?

There are significant areas of synergy between Channel 4, BBC Worldwide and VMTV not least the balance between PSB ethos and commercial intensity. Whilst both parties have this there is also scope to learn from each other. BBC Worldwide has a much stronger track record of exploiting the commercial advantages of the BBC brand, whereas Channel 4, albeit hampered by not owning the rights to its programmes, has never really capitalised on the value of its brand. Commercial activity at Channel 4 has been seen by many of its people as a diversion from its core activity; that is programme commissioning.

A full merger though, between the two entities looks unlikely and whilst this might be where the true extent of synergies can be realised and costs efficiencies made, it certainly is not being pushed by the BBC, and we cannot see why it would be.

Instead, what is likely to be proposed is a series of joint ventures across complementary elements of the BBC Worldwide and Channel 4 businesses. This would include the assets resulting from the purchase of the remaining 50% stake in UKTV and the 40% of 2Entertain.

What could change?

Simply bundling Channel 4 and BBC Worldwide together will not work. It is important to look at where the opportunities and challenges might be, and what sort of structure could be put in place to achieve it. At this stage, we do not know what is in the report, but we would not be surprised to see a some of the following :

- *A single ad sales providing a sales service for UKTV, VMTV, Channel 4 and the Channel 4 multi-channels.* This would provide more powerful negotiating positions, enabling the team to get better deals, through the massive share of audience the new venture will have across a broad spread of channels. That said, this will require significant process change, and a comprehensive development programme for staff in the new sales function.
- *Access to iplayer technology* to create a commercially driven platform to enable Channel 4 and BBC content to be played out online, and then to charge for it via micro-payments. Channel 4 has recently made its entire back catalogue available online for free. We cannot understand why they are not charging ...
- *Marketing savings from the joint venture* – in terms of a single, streamlined marketing team, and a single marketing process.
- *One organisation, one location.* We believe that, if the coming together of BBC Worldwide and Channel 4 is more than a joint venture, there would be substantial savings through basing in one location.
- *Multi-platform commissioning;* The BBC are doing this well already, but the experience gained here could drive a change at C4. Again, this would require some fundamental process redesign, and an engaging development programme for employees.
- *A single team* focused on developing a multi-channel strategy across the digital spectrum.
- *An implementation head-ache:* whatever the outcome, there are likely to be big challenges and a jostling of egos for the leadership teams to make a joining together work effectively. It will take some time to define what the future organisation should look like. Existing leaders will need to make sure that new venture does not have the worst bits of both organisations. This will required careful definition of cultures, outlooks and behaviours.
- *Consolidation of back offices;* integration usually provides two organisations with an opportunity, first of, to take out cost in the finance, HR, Ops and IT functions.

If the BBC Worldwide and Channel 4 JV gets the green light – what next?

Any form of joint venture between two businesses requires careful planning and a well-thought out governance structure to lead it from “As Is” to “To Be”.

We will sign off by outlining the key foundation stones that we believe have to be in place for the JV to be successful.

- (1) Identify what UK (and rest of world) consumers want. Understand where your demand is coming from
- (2) Develop a strategy to deliver these demands
- (3) Calculate the business benefits of moving from “where you are” to “where you want to be”
- (4) Ensure that enough funding is put aside to sustain investment in the change. The last thing anyone wants is a useless Public Service Broadcaster ...
- (5) Develop a “Journey Plan” – how to take both organisations from point A to point B, ensuring that the right processes, people etc are in place
- (6) Ensure that leaders on both sides demonstrably own the change, at an intellectual and emotional level.
- (7) Define how you will engage all your people along the way --- “it’s do or die”

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