



The BBC's processes for the management of sports rights

Review by MTM London Ltd presented to the BBC Trust's Finance and Compliance Committee, 13th January 2011

DEPARTMENT FOR CULTURE, MEDIA AND SPORT

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management of sports rights**

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Finance and Compliance
Committee**

*Presented to Parliament by the Secretary of
State for Culture, Olympics, Media and Sport
by Command of Her Majesty
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BBC Trust response to the Value for Money Study 'The BBC's processes for the management of sports rights'

Background to this study

As the BBC's governing body, the BBC Trust acts to get the best out of the BBC for licence fee payers. In part this means ensuring that the BBC continues to provide excellent value for money. We commission Value for Money investigations into specific areas of BBC activity to help ensure that licence fee payers are getting the best possible return on every pound of their licence fee.

Each year the Trust commissions a series of Value for Money studies. The studies are generally undertaken by external and independent agencies, including the National Audit Office and external consultants, reporting to the Trust. The Trust carefully examines the findings from each study and requires a full response and action plan from the BBC Executive explaining how it will take forward the specific recommendations made.

This study, commissioned by the Trust's Finance & Compliance Committee on behalf of the Trust and undertaken by MTM London, looked at the BBC's processes for the management of sports rights. The Trust recognises that sports broadcasting is central to the delivery of some of its public purposes, but the BBC and the Trust are also under an obligation to ensure that this is carried out in a way that provides value for money to licence fee payers.

The Trust places significant value on all the VfM studies commissioned and has carefully considered this report's conclusions and recommendations.

Our views on MTM London's findings

The Trust recognises that sports rights are an expensive and complex commodity. The acquisition and negotiation processes set up by sports rights owners are often not fully conducive to transparency and can vary significantly from sport to sport. The BBC must therefore tread a fine path; including (amongst other things), having both the right processes in place to ensure value for money across different types of negotiation while retaining the ability to move quickly in rapidly changing negotiations. The Trust is mindful that the BBC is sometimes operating in a field dominated by commercial organisations¹, and in which its overall spend on sports rights is less than a fifth of the UK sports rights spend.

We set MTM London three core questions around which to investigate the BBC's processes for the management of sports rights. These reflected both the challenging economic circumstances, as well as the Trust's specific value for money concerns which were identified in a Fair Trading appeal partially upheld in 2009².

The Trust is pleased that, overall, MTM London reported that the BBC's processes are fit for purpose. However, the key output of any Value for Money report is any recommendations for improvement, and the Trust has carefully considered MTM London's recommendations, and the BBC's response.

There are seven main recommendations, of which the majority represent incremental improvements. We are pleased that the Executive have committed themselves to implementing all the recommendations.

There is one recommendation that directly relates to an area in which the Trust has taken an interest in recent years – carrying out competitive impact assessments (CIA) when considering the purchase of sports rights. The Trust considered an appeal by talkSPORT, reaching a decision in October 2009, in which it found that "the BBC Executive failed to conduct a proper competitive impact assessment in relation to the acquisition of the [radio] FA Cup rights by the BBC". The Trust directed the Executive to ensure that competitive impact is assessed and minimised where possible.

¹BSkyB spent £944 million on sports rights last year (The Independent, 1 April 2010), compared to the BBC's £261 million. MTM stated in their report that the "notional cumulative value of the UK's top ten sports rights is estimated at just over £1.4 bn per event/season".

²BBC Trust, Fair Trading Appeal Investigation: Appeal regarding the BBC's acquisition of the radio broadcasting rights to the FA Cup for the period 2008/9 to 2011/12 (October 2009)

The Trust is therefore pleased that MTM found that the new CIA processes, introduced by the Executive in April 2010, “provide appropriate levels of control in relation to the acquisitions and approvals process”. However, MTM also made a recommendation that the BBC’s CIAs include further analysis in three key areas. In addition, although the guidelines already set out when a CIA is necessary, MTM London recommend that exclusive radio bids over £0.5 million automatically require a CIA. This is in view of the BBC’s much higher market power in radio than in TV. The Trust welcomes the BBC’s response to action this recommendation, which should help to further ensure the BBC’s consideration of the markets in which it operates.

Action plan

Many of MTM London’s recommendations have already been implemented by the Executive following the period studied. The Trust has discussed the remaining recommendations with the Executive and considered its response, which is published in this document. The Trust is satisfied that the Executive’s proposed actions are an appropriate initial response to MTM London’s findings, but will require the Executive to provide a more detailed action plan for Trust review. Progress against this will be reported to the Trust.

BBC Trust
February 2011

BBC Executive response to the Value for Money Study 'The BBC's processes for the management of sports rights'

The BBC Executive has considered the report by MTM London into the review of the BBC's processes for the management of sports rights - including how the BBC decides what sports rights to try to acquire, how it manages the bidding and negotiation process, and whether the BBC has achieved its objectives (hereafter the 'MTM Report').

Response to conclusions on the BBC's processes for the management of sports rights

Sport is at the centre of UK culture: it can break down barriers and provide a common language, and it can unite the nation in a way that very few other things can. Putting Quality First reaffirmed the BBC's commitment to broadcasting sporting events with special national resonance to the widest possible television audience. And our research continually suggests that licence fee payers love watching sport on the BBC: over 90% of the population watch sport on BBC One each year alone; coverage of the 2010 Football World Cup on the BBC reached 44 million people across the UK; over half the population recently rated the BBC 'best for sport' be it on TV, radio or online.

The BBC commits a significant proportion of its licence fee to the acquisition of sports rights. This reflects the importance of sport in delivering the BBC's Public Purposes as well as the extremely competitive marketplace in which the BBC operates. The BBC Executive recognises the importance of employing a set of systems and processes for the acquisitions of sports rights that are robust and fit for purpose, and which demonstrably deliver value for money ('VFM') for the licence fee payer. These processes have been strengthened recently and are kept under constant review.

We are pleased that the MTM Report concludes that the BBC:

- operates rights bidding and acquisition processes which are fit for purpose and well suited to market conditions;
- has set clear objectives and targets for BBC Sport, with a strong focus on delivering high quality and original content to all audiences, including those that may be under-served by the rest of the BBC; and
- has generally been successful in securing its objectives from its sports rights portfolio.

The MTM Report states that where opportunities have been identified for improvement these are mostly considered to be iterative to existing processes.

Response to recommendations for further strengthening the BBC's processes for the management of sports rights

The BBC Executive accepts the broad principles of the recommendations in the MTM Report. Taking each of the recommendations in turn:

Additional objective and target setting

The BBC is in the process of updating its strategic sports rights plan in light of the recent Licence Fee settlement. We accept MTM's recommendation that the updated plan should include objectives and targets which are specific to rights acquisitions in addition to those for the Sport division as a whole. A revised set of objectives and targets will be included within the new strategic plan, taking into account the time horizon over which rights are acquired and exploited.

Enhanced performance monitoring

We accept MTM's recommendation that the BBC should consolidate data about the performance of major sports rights against targets and ensure that it is updated and reviewed regularly. BBC Sport intends to incorporate this reporting enhancement within existing documentation that is compiled and reviewed on an annual basis.

BBC Sport agreed with the BBC's Finance Group that post-event performance reporting could be incorporated within the new Investment Case where the BBC wishes to renew or extend a rights agreement. We accept that in a few instances the level of detail contained in standalone post-event performance reports was greater than that contained in historic Investment Cases. We believe that the most recent Investment Cases (for rights renewals/extensions) have addressed this point and hence no such anomalies are likely to arise in the future.

Ensure alternative options considered are documented in Investment Cases

The strategic sports rights plan considers the alternative sports the BBC could seek to acquire within the constraints of a fixed budget. The BBC's commitment to broadcasting sporting events with special national resonance is well-established and its portfolio of events has been reasonably stable for a long period of time. The potential options for alternative rights investments are discussed on a regular basis within the Sports Rights Group. We note the recommendation that Investment Cases should articulate briefly which options (i.e. other sports) have been considered and the rationale for discounting them. We will ensure that future cases include an appropriate level of documentation on the options analysis process.

Document cross-departmental controls to minimise risk of breaching service licence budgets or acquiring rights that cannot be fully exploited

The MTM Report notes the range of processes in place to minimise the risk of Service Licence budgets being breached and/or rights not being fully exploited. Historically, the BBC has not encountered any significant non-compliance within the sport genre but nonetheless acknowledges there is value in documenting the operation of these controls in order to demonstrate the robustness of the processes in place. BBC Sport has implemented the recommendations raised by MTM in its most recent Investment Cases.

Competitive Impact Assessments

The MTM Report acknowledges the significant enhancements made recently to the Fair Trading processes and concludes that the Competitive Impact Assessments undertaken to date contained an appropriate level of analysis and the headline conclusions of each are robust. The BBC Executive agrees with the recommendation that higher risk acquisitions (as and when they arise) should contain further economic analysis to support the decision-making process.

We also note the recommendation that the Fair Trading department should undertake and document a Competitive Impact Assessment for all exclusive radio bids with an estimated value in excess of £0.5m per annum. The proper application of the current risk-based approach for referral of sports rights acquisitions (with an estimated value below £2 million) would have led to a request from BBC Sport to the Fair Trading department to undertake such an assessment. This recommendation will therefore codify that understanding and improve the transparency of the process.

More systematic use of performance data when calculating the value of a right to the BBC

The MTM Report recommends that more should be done to improve the consistency of approach in Investment Cases when comparing a proposed acquisition with other sports rights. While we have historically benchmarked investments against key rights comparables, we acknowledge that there is scope to implement a more uniform process. Recent Investment Cases have already begun to address this point through the categorisation of comparable sports rights (e.g. major events) and we will ensure that all future cases adhere to this format.

Formalise and document approach to competitor valuations

The BBC's assessment of the appropriate price to pay for a particular sports right is dependent on a wide range of factors, including the likely audience size and profile, importance to the fulfilment of the Public Purposes and the expectations of rights-holders. An estimate of the value placed on the rights by competitors is also a relevant consideration. There are various methods of forming an opinion on likely market valuations such as adjusting historic payments to present day valuations, modelling of competitor business models and the use of general market intelligence. The appropriate approach for any particular rights investment will vary from case-to-case. We note that the BBC's modelling of competitor business models has increasingly taken the form (in the highest value cases) of a commissioned valuation study by an independent third party.

The MTM Report recommends that the approach taken to assessing value to competitors should be more clearly documented in Investment Cases and where market intelligence is limited (and no independent benchmarking is commissioned) the approach should be formalised (for example through greater documentation of financial analysis). We note the recommendation and will further document and/or formalise our approach.

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1 Summary of findings and recommendations

1.1 Scope of review

MTM London was commissioned by the BBC Trust to undertake a Value for Money study focused on the BBC's processes for managing sports rights. The study was structured around three questions posed by the BBC Trust:

1. Is the BBC making the best decisions as to which sports rights the BBC should attempt to acquire?
2. Is the BBC managing the bidding process in such a way as to maximise value for money?
3. Has the BBC secured its objectives from its acquisition of sports rights?

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The project team was not asked to evaluate the BBC's editorial decision to use sports as a means of delivering public value or to assess whether the prices paid for individual rights was appropriate.

1.2 Some useful context

Sport is an important part of our national culture and, as such, the BBC perceives sports broadcasting to be central to the delivery of some of its public purposes. To this end, the BBC spent £261m on sports rights in 2009/10, and a similar amount the year before, helping it deliver mass audiences and audiences that may otherwise be under-served by the BBC.

pp. 7-14

In bidding for sports rights the BBC is operating in a highly competitive market. Major sports rights are prized by rival broadcasters: they command high values and represent major investments. As such, it is important that the BBC has a robust set of processes in place for deciding which rights to acquire, whilst remaining agile enough to operate in a fast moving and dynamic market.

1.3 Is the BBC making the best decisions as to which rights to acquire?

The BBC has taken steps to strengthen its management of sports rights following an investigation by the BBC Trust found that the Corporation did not conduct its internal processes in a manner best designed to ensure value for money.¹ Our analysis suggests that these revised processes are well suited to the market conditions and the Corporation's requirements, combining:

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- Long term financial planning: the long-standing Sports Rights Funding Model allows the BBC to model committed and forecast spend to the end of the current Charter period
- Regular strategic reviews: roughly every two years the BBC undertakes a major review of its rights portfolio, setting out its strengths and weaknesses and identifying opportunities for improvement
- An appropriate mix of experience and expertise: the Funding Model and Strategic Review are over-seen by the Director-General's Sports Rights Group, which includes senior management with extensive expertise in the field from across BBC Sport and the Executive Board
- Appropriate challenge and control: all acquisitions over £2m (c. 95% of sports rights spend) are approved by the Finance Committee (previously >£4m), the BBC's most senior body for investment approvals.

However, we have identified opportunities to strengthen the BBC's processes in five areas, including by setting clearer objectives, monitoring performance more effectively and by documenting key cross-divisional controls. These are outlined below in Exhibit 1.

Exhibit 1: Opportunities for improving the existing planning and approvals processes

Area for improvement:	Observations:
1) Objective and target setting	<ul style="list-style-type: none"> • Objectives and targets are not clearly or consistently captured in the key sports rights strategy documents, making it difficult for stakeholders to contextualise and challenge recommendations • Future sports rights strategy documents could also be strengthened through the setting of additional targets specific to sports rights (current targets are for BBC Sport overall)
2) Performance measurement	<ul style="list-style-type: none"> • Data on the performance of sports programming is available but is not always systematically brought together to provide a clear "snapshot" of how the portfolio is performing • Post Implementation Reviews (hereafter, PIRs) are not always carried out in sufficient detail for rights that are being renewed

¹BBC Trust, *Fair Trading Appeal Investigation: Appeal regarding the BBC's acquisition of the radio broadcasting rights to the FA Cup for the period 2008/9 to 2011/12* (October 2009)

Area for improvement:	Observations: continued...
3) Options appraisal	<ul style="list-style-type: none"> Whilst senior management routinely consider and discount other options when deciding whether to acquire a right, Investment Cases tend to document only the preferred option for consideration
4) Cross-divisional controls	<ul style="list-style-type: none"> There is no formal documented control in place at the point of rights acquisition to ensure there is room in schedules and that service licence budgets are not breached
5) Competitive Impact Assessments	<ul style="list-style-type: none"> The BBC has strengthened its processes for ensuring compliance with the Competitive Impact Principle and now prepares a Competitive Impact Assessment (hereafter, CIA) for all acquisitions over £2m Whilst the CIAs produced to date are fit for purpose, we would expect additional levels of analysis in future cases where there is a greater risk of the BBC having a negative impact on the market In addition, we recommend that a CIA is produced for all exclusive radio bids of a value in excess of £0.5m

1.4 Is the BBC managing the bidding process in such a way as to maximise value for money?

As with the acquisition and approvals processes (with which they overlap) the BBC's processes for managing the bidding process are fit for purpose. They allow for:

- Rigorous analysis to inform bidding strategy: the team calculate the value of sports rights to the BBC using appropriate measures and routinely analyse which deal options are likely to represent best value (for example, acquiring rights on a non-exclusive basis)
- Use of externally-commissioned, independent third party assessments of likely commercial value for highest risk bids
- Appropriate controls through Finance Committee mandate: if the Finance Committee approves an acquisition it issues a mandate to negotiate up to a pre-defined price
- An experienced negotiating team: negotiations are led by senior members of the Sports Rights Team. This team is generally held in high regard by rights holders and other industry stakeholders.

pp. 29-32

In the eight attempted acquisitions reviewed during the course of this project the BBC lost on three occasions and in one further case shared rights with another broadcaster. This suggests that the Corporation is operating at market rates and exploring a range of options when negotiating.

However, there is room for improvement, notably by using data more systematically to assess the value of an individual right to the BBC and to competitors. This is outlined below in Exhibit 2.

Exhibit 2: Opportunities for improving the existing approach to managing negotiations

Area for improvement:	Observations:
1) Calculating the value of a right to the BBC	<ul style="list-style-type: none"> Investment Cases regularly compare the likely performance of an acquisition with that of other rights in the portfolio as part of establishing its value However, Investment Cases are inconsistent in which KPIs they use, which limits the value of the comparison – for example, most make regular use of cost per viewer hour metrics, but only use audience KPIs such as reach intermittently

Area for improvement: Observations: continued...

2) Estimating the value of a right to competitors

- The BBC routinely evaluates the competitive environment as part of establishing its bidding strategy, relying primarily on market intelligence but also independent benchmarking. However, the BBC does not routinely document its approach to competitor valuations
- Going forwards, we recommend that Investment Cases more clearly document the approach taken to assessing value to competitors (and in cases which rely primarily on market intelligence, provide an indication of its reliability), so that the process is more open to peer review
- Where market intelligence is limited and no independent benchmarking is commissioned, we recommend that the Sports Rights team formalise their approach to competitor valuations (for example through documented financial analysis)

1.5 Has the BBC secured its objectives from its acquisition of sports rights?

The BBC has a clear set of objectives and targets for BBC Sport, with a strong focus on delivering high quality and original content to all audiences, including those that may be under-served by the BBC.

pp. 33-36

Given its public purposes and the wider market context, the BBC has generally been successful in securing its objectives from its sports rights portfolio:

- The BBC exceeded or met 8 of its 15 targets in 2009/10, including stretching targets for achieving 40% weekly cross-platform reach amongst the UK population
- In addition it is worth noting that many of the targets were aggressive and that when the BBC missed a target it was generally within 10% of its target – for example, 45% of the UK population regard BBC Sport as the best for sport, against a target of 50%.

Exhibit 3: BBC Sport objectives and selection of targets (2009/10)²

BBC Sport Objectives	Key Targets Include
<p>1 Quality and originality:</p> <ul style="list-style-type: none"> • Editorial and production excellence • Innovative and distinctive content • Improved quality and impact of sports journalism 	<ul style="list-style-type: none"> • 50% of the population to regard the BBC as the best for sport on television • 62% to regard the BBC as the best for sport on radio
<p>2 Value to all audiences:</p> <ul style="list-style-type: none"> • Maximize impact of spend • Deliver content that is relevant and reactive to audiences, including underserved audiences • Build partnerships that help BBC deliver its public purposes 	<ul style="list-style-type: none"> • 40% weekly cross-platform reach for adults • 38% weekly reach cross-platform among 16-34 • 32% weekly reach for BBC Sport on TV (15mins)
<p>3 On demand/building digital Britain</p>	<ul style="list-style-type: none"> • Build online traffic to 8.6m for BBC Sport

²BBC Sport internal reporting

The performance of individual rights is more mixed:

- Formula 1 has been a significant success in 2009/10, exceeding all of its reach, average audience and cost per viewer hour targets
- In contrast, Euro 2008 was the least successful of those reviewed, missing its CPVH target by a significant margin (largely driven by no home nation making it into the European Championship)
- Whilst the other key rights reviewed all hit their cost per hour targets, performance against cost per viewer hour targets was more mixed (five of nine targets hit).

1.6 Summary of recommendations

The project team has conducted a detailed analysis of the BBC's processes for the management of sports rights, reviewing minutes of Finance Committee meetings, contracts, internal guidelines and Investment Cases and interviewing a wide range of internal and external stakeholders.

The main finding from this analysis is that the BBC's processes for sports rights management are well suited to market conditions and enable the Corporation to make sensible decisions about which rights to acquire and manage the negotiating process so as to secure value for money.

Where we have found opportunities for improvement these are generally iterative improvements to existing processes, and fall into seven broad areas:

1. Additional objective and target setting

At present the divisional objectives and targets set for BBC Sport are used by the Sports Rights Team as a guide to which rights to acquire. This is, broadly speaking, appropriate, as sports rights are the single most important contributor to delivering against overall sports targets. However, there are also some shortcomings to this approach: for example, the BBC Sport targets focus on the next 12 months of output, whereas many sports rights do not reach broadcast until two-three years after acquisition. In addition, the BBC Sport targets do not include financial objectives and targets (over and above the budget) that relate explicitly to sports rights acquisition.

Going forward, the Sports Rights Team should therefore develop an additional set of objectives and targets as part of its strategic plan, building on the overall BBC Sport objectives but adding extra detail around areas such as financial value for money targets where appropriate.

2. Enhanced performance monitoring

The BBC should consider creating a 'dashboard' that consolidates data about the performance of major sports rights against targets and ensure that this is updated and reviewed regularly, and at the very least on an annual basis. This will allow for easier monitoring of the performance of individual rights throughout their lifecycle and enable the team to adjust their plan accordingly.

In addition, the BBC should ensure that Investment Cases for renewals should contain an equivalent level of analysis as would be included in a standalone Post Implementation Review (PIR). This will help to ensure that the full range of relevant performance data is presented to the managers responsible for deciding whether to renew (and at what level).

3. Ensure alternative options considered are documented in Investment Cases

Whilst there is clear evidence that senior management routinely consider and discount other options when deciding whether to acquire a right, Investment Cases tend to document only the preferred option for consideration.

Going forwards, Investment Cases should as a matter of course either state that there is no clear substitute for a proposed acquisition or briefly set out any key alternative rights that have been considered and the rationale for discounting them.

4. Document cross-departmental controls to minimise risk of breaching service licence budgets or acquiring rights that cannot be fully exploited

BBC Sport is responsible for ensuring that any rights acquired are fully accounted for in service licence budgets and can be fully exploited. There are a range of processes in place to support this but no documented control in the rights acquisition process.

Going forwards, we recommend that Investment Case templates include a section requiring the author to confirm that they have liaised with other departments to confirm that rights costs are (or will be) accounted for in the appropriate service licence budgets and that the BBC is likely to be able to fulfil its scheduling requirements.

5. Competitive Impact Assessments (CIA)

Since the new fair trading processes were introduced in April 2010 the BBC has only been required to produce CIAs for relatively low risk sports rights acquisitions. The CIAs produced in these cases contained an appropriate level of analysis. Going forwards we would expect to see CIAs in higher risk acquisitions contain additional analysis in the following key areas:

- Baseline data on the affected markets, including share of key competitors and key competitor dynamics, where data is available
- Importance of rights in terms of output hours/revenue vis-a-vis the whole market
- The BBC's likely impact on competitors and future levels of competition in the market.

In addition we recommend that a CIA is produced for all exclusive radio bids of a value in excess of £0.5m.

6. More systematic use of performance data when calculating the value of a right to the BBC

Investment Cases currently lack consistency in their approach to comparing a proposed acquisition with other sports rights. Going forwards, we recommend that the BBC should agree a core set of audience and value for money KPIs that are typically used in comparable cases. This will enable stakeholders to develop a clearer view of the value of a right in comparison to similar rights in the portfolio.

7. Formalise and document approach to competitor valuations

Going forwards, we recommend that the Sports Rights Team more clearly documents the approach taken to assessing value to competitors (and in cases which rely primarily on market intelligence, provide an indication of its reliability). This should be included in Investment Cases so that the process is more open to peer review.

Where market intelligence is limited and no independent benchmarking is commissioned, we recommend that the Sports Rights Team formalise their approach to competitor valuations (for example through documented financial analysis including, where appropriate, the development of 'light-touch' models for commercial free to air television and radio broadcasters).

2 Introduction and project background

2.1 Scope of review

The BBC Trust commissioned MTM London to examine the BBC's processes for sports rights management in order to assess the extent to which the BBC is using its resources efficiently and achieving best value for its Licence Fee payers.

The Trust has posed three specific questions for this Value for Money study:

1. Is the BBC making the best decisions as to which sports rights the BBC should attempt to acquire?
2. Is the BBC managing the bidding process in such a way as to maximise value for money?
3. Has the BBC secured its objectives from its acquisition of sports rights?

The study comprises a review of the efficiency of BBC operations with regard to sports rights management. It focuses on the processes and actions undertaken by the BBC Executive so as to ensure value for money and compliance with fair trading obligations and reviews outcomes against targets.

Importantly, the project team was not asked to evaluate the BBC's editorial decision to use sports as a means of delivering public value or assess whether the prices paid for individual rights was appropriate.

2.2 Overview of methodology

MTM London developed a four stage approach designed to map and assess the BBC's processes and to deliver, if necessary, clear and practical recommendations for strengthening these processes.

These stages are summarised in Exhibit 4 below and described in more detail in appendix A.

Exhibit 4: Overview of approach

Stage:	Description:
1) Process mapping and audit of deals	<ul style="list-style-type: none"> • In close collaboration with BBC, MTM London produced a comprehensive map of the BBC's processes for sports rights and list of rights acquired and ITTs received in the past two years.
2) External interviews and benchmarking	<ul style="list-style-type: none"> • MTM London undertook a round of external interviews in order to develop a view of rights holder processes and benchmark best practice amongst the BBC's competitors.
3) Evaluation of processes and case study analysis	<ul style="list-style-type: none"> • Drawing on internal expertise and external best practice, MTM London developed a framework and set of criteria for evaluating the BBC's processes for the management of sports rights. • Each task within the BBC's processes was then assessed and scored against our criteria. • Finally, eight individual acquisition case studies were assessed in detail to ascertain whether the BBC followed its processes in each case and the process proved fit for purpose.
4) Development of recommendations	<ul style="list-style-type: none"> • MTM London produced a list of potential recommendations arising from the process evaluation and case study analysis. • These were individually analysed and prioritised to provide a clear view of changes necessary to improve value for money going forwards.

3 The BBC and sport

3.1 Introduction

In March 2010 the BBC Executive published *Putting Quality First* which reaffirmed the BBC's mission 'to inform, educate and entertain audiences with programmes and services of high quality, originality and value'. The BBC Strategy Review emphasised the importance of the BBC continuing to provide a broad mix of UK and international sports coverage that includes:

- Major events that bring communities and nations together
- Minority and public service sports that bring communities of interest together and broaden cultural horizons
- Sports serving audiences that are otherwise under-served by the BBC, such as young men, lower-income and ethnic minority audiences.³

To this end, the BBC spent £261m in 2009/10, and a similar amount the year before, in acquiring the right to broadcast many of the most important sporting events in the UK and international sports calendar.

This chapter briefly sets out the BBC's rationale in support of this mission, the role of sport in the BBC service licences and the BBC's current sports rights portfolio.

3.2 Sport and the BBC public purposes and priorities

The BBC has six public purposes that describe the different types of value it is intended to deliver as it seeks to fulfil its mission. These purposes are set out in Exhibit 5, along with the strategic priorities that it has identified for the period 2010-16.

Sport plays a key role in helping the BBC to deliver against some of these purposes and priorities.

Exhibit 5: The BBC's Mission, Public Purposes and Priorities⁴



Representing the UK, its nations, regions and communities

Sport forms an important part of our national culture. Research undertaken by the BBC suggests that after news, audiences ranked sport as the second most important genre for society, with ethnic minorities and women in particular believing that major sporting events are important to society.⁵ At a time when UK society is increasingly diverse, sports can foster national pride and a sense of community by bringing together viewers from a range of different backgrounds and societal groups.

The coverage of sporting events such as the Olympics and Football World Cup which have particular cultural significance is thus seen as central to the BBC's purpose of Representing the UK, its nations, regions and communities.

In addition, sports such as rugby in Wales and football in Scotland also play a key role in maintaining the identity of the devolved nations.

³BBC Trust, *Putting Quality First* (March 2010)

⁴BBC Trust, *Putting Quality First* (March 2010) and BBC Trust website (retrieved 24 September 2010)

⁵BBC, *Response to the Government's Free-to-Air Events consultation* (July 2009)

Reaching all audiences, including those that are otherwise under-served by the BBC

Sport is valuable in helping the BBC meet its strategic priority of serving all audiences and staying relevant to all licence fee payers. In particular, sport enables the BBC to reach audiences that are otherwise under-served by the BBC, such as young men, lower-income and ethnic minority audiences.

Other creative and cultural benefits

Coverage of sporting events can play a role in delivering against other key public purposes:

- *Stimulating creativity and cultural excellence:* BBC coverage of niche events can provide valuable exposure to, and encourage participation in, minority sports
- *Bringing the UK to the world and the world to the UK:* Coverage of major sporting events can play a role in expanding UK audiences' exposure to and experience with different cultures from around the world.

Service licence remits

The varied roles of sport in delivering against the BBC's public purposes is reflected in the service licence commitments to sports events, with BBC One and Radio 5 Live focused on major national and international sporting events, whilst BBC Two maintains a commitment to minority sports and bringing niche communities of interest together, in addition to supporting BBC One in covering the major events. The key service licence commitments are set out in Exhibit 6.

Exhibit 6: Service licence commitments to sports events.⁶

Channel:	Service licence commitment to sports events:
1) BBC One	'[BBC One] should be the place where large audiences come together. . . Major national and international sporting events should continue to play a major role on BBC One, rights permitting.'
2) BBC Two	'[BBC Two] should offer coverage of the UK's biggest sporting events and those which bring communities of sporting interest together. In doing so, from time to time it should aim to encourage active participation in sporting activities.' '[BBC Two's] sports coverage should include an important commitment to minority sports.'
3) Radio Five Live	'[Radio Five Live] should seek to unite people around the big sporting occasions that form a key part of UK culture and encourage participation in sport.' 'The service should appeal to news and sports fans of all ages and from all ethnic backgrounds and areas across the UK.' 'Much of BBC Radio Five Live should be broadcast live . . .' 'The station should cover sports not widely accessible on UK radio.'
4) BBC Online	'BBC Online's sports output should reflect and extend the breadth of depth of the BBC's broadcast sports coverage. It should offer sports journalism, event coverage, fixture results and a range of other information.' 'As well as its coverage of major sports and events, the BBC's online sports output should cover minority interest sports which are less likely to have broadcast coverage or be covered by other providers.'

⁶BBC Trust, *BBC One Service Licence* (May 2010); BBC Trust, *BBC Two Service Licence* (May 2010); BBC Trust, *BBC Radio Five Live Service Licence* (May 2010); BBC Trust, *BBC Online Service Licence* (July 2010)

3.3 The BBC Sports Rights Portfolio

The BBC's portfolio of sports rights is structured around four categories of content which the BBC believes should allow it to offer a wide range of sports content to different audiences:

- Events that bring the UK or individual nations together, including:
 - the major 'listed' events such as the Olympics, Football World Cup and the Grand National
 - the other major events that can also bring the nation and communities together
- Sport that drives audience value:
 - investment in public service sports, including Olympic sports
 - investment in sports that deliver value for money to the licence fee payer and provide range and breadth to the portfolio, such as darts

These four pillars, and a selection of the key rights in each category that are currently in the BBC portfolio, are set out in Exhibit 7.

Exhibit 7: The BBC's four pillars of sports rights⁷

Events of national resonance that bring the nation together		Sports that drive audience value	
Listed Events	Non-listed major events	Olympic sports	'Value for money'
Examples include: <ul style="list-style-type: none"> • Olympics • Football World Cup • Wimbledon • Grand National • Open Golf Championship • Commonwealth Games 	Examples include: <ul style="list-style-type: none"> • Premier League • Six Nations Rugby • Football league • Formula 1 • Masters Golf 	Examples include: <ul style="list-style-type: none"> • British Swimming Championship • Diamond League • Track Cycling World Cup • Badminton Horse Trials • European Gymnastics 	Examples include: <ul style="list-style-type: none"> • World Darts Championship • Snooker Masters • Ascot • MotoGP • World Indoor Bowls Championship

3.4 Competitive impact

Whilst the recent strategic review emphasised the role sport can play in helping the BBC deliver against its public purposes, it also recognises that the BBC is not the only terrestrial, free-to-air broadcaster with an interest in sport. The recent BBC Strategy Review emphasised that the BBC should not distort the market for sport and restrict commercial competitors unnecessarily, either by driving up the prices for sports rights or monopolising key rights. This is regarded as particularly important in the radio market, where the BBC is the single largest buyer of broadcast rights.

To this end, the BBC has proposed a limit on how much it can invest in sport rights, capping the expenditure at an average of 9p in every licence fee pound.⁸ It has also introduced key internal processes for assessing the competitive impact of all major sports rights acquisition and only proceeding if the acquisition is consistent with the requirements of the BBC Trust's Competitive Impact Principle (CIP).⁹

⁷BBC Sport internal reporting

⁸BBC Trust, *Putting Quality First* (March 2010)

⁹These criteria are assessed in detail in Chapter 6.3 of this report.

4 The UK market for sports rights

Sport remains one of the few genres that consistently attract large and diverse TV audiences. As a result, major sports rights are prized by commercial and public service broadcasters alike: competition to acquire them is intense, making it a challenging market in which to operate.

This chapter describes the UK market for sports rights in more detail and sets out the key challenges that the BBC faces when competing in it. It covers the markets for television, radio and new media sports rights, but focuses on broadcast television rights as this is by some distance the largest of the three in terms of value and BBC expenditure.

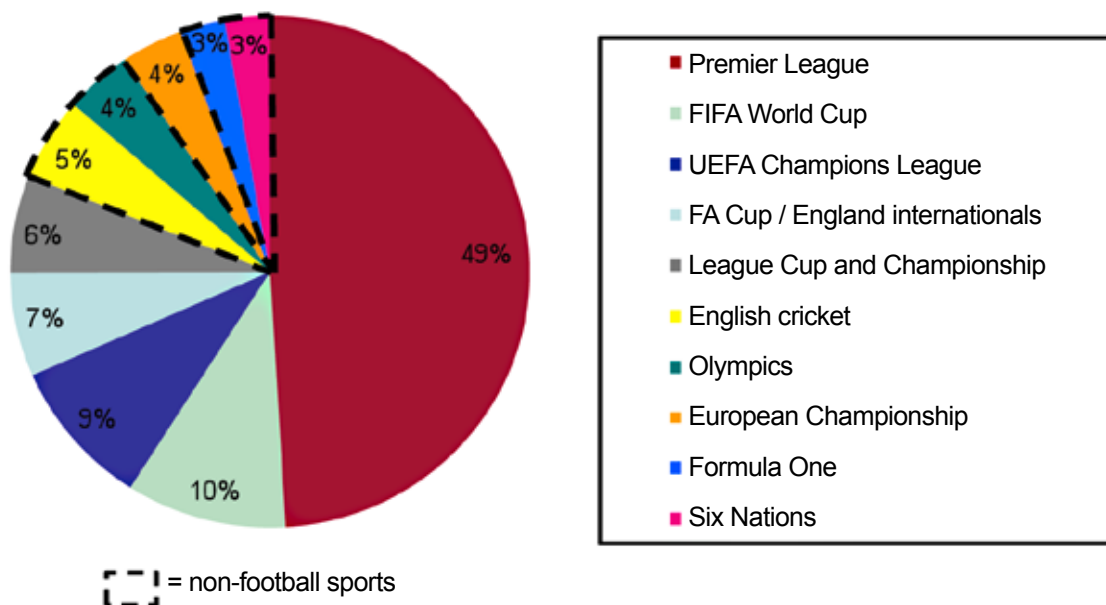
It is worth noting that the figures used in this section have been sourced solely from public domain reports or third-party estimates. Where MTM London has access to relevant confidential information, we have not used this. Readers should be aware that, in the absence of officially released information, an element of uncertainty exists over deals.

4.1 Size and structure of the market

The notional cumulative value of the UK's top ten sports rights is estimated at just over £1.4bn (per event / season).¹⁰ The English Premier League accounts for half of this, whilst football also accounts for the next four most valuable sets of rights. Non-football rights constitute four of the top ten most valuable rights in the UK but constitute just 20% of the reported value of these rights.

Although there are a wide range of additional sports rights outside this top ten, there is a relatively limited 'mid-tier' of rights (e.g. the Rugby World Cup) – the value of the majority of sports rights is extremely limited relative to the top ten rights.

Exhibit 8: Top ten UK sports rights properties (most recent deals), per season/event, % by reported value



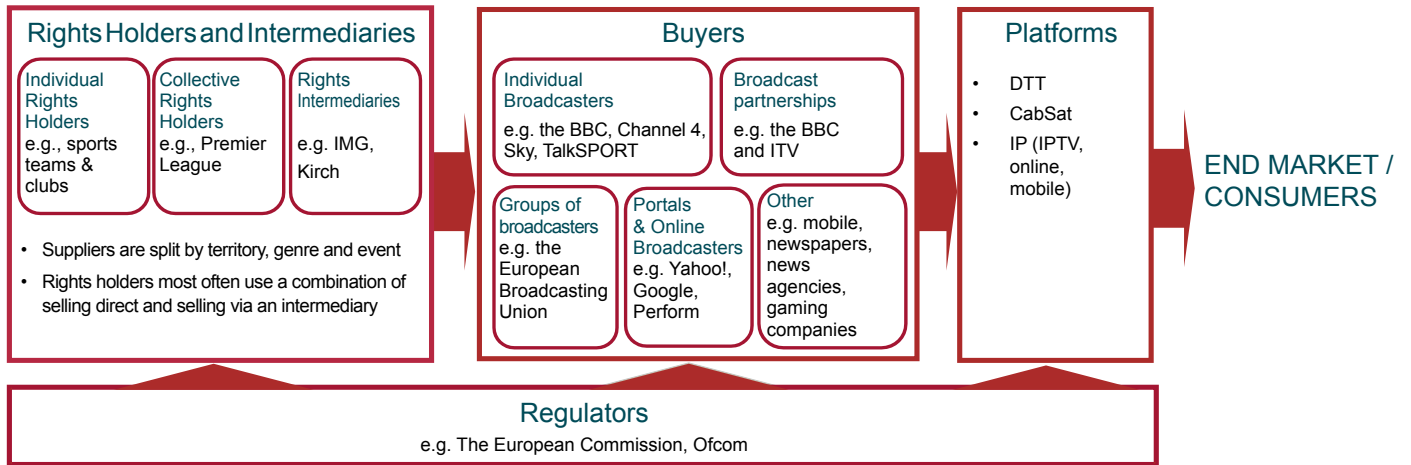
At a high level the market can be segmented into three broad categories of participant: rights holders, buyers and platforms.

Rights holders can vary widely, from individual teams and clubs to corporations owned by groups of teams, such as the Premier League, through to governing bodies such as the Football Association. Whilst some sell their rights directly, others sell via agencies such as SPORTFIVE and IMG. Similarly, there are a wide range of acquirers of rights, including individual broadcasters, groups of broadcasters and other media owners.

¹⁰SportCal database, Press reports and MTM London Analysis (2010). Yearly averages taken where a rights deal covers a number of years. Where events are not annual, e.g. FIFA World Cup and Olympic Games, the value is used for the year when the event occurs.

The market structure is complicated by vertical integration (for example Sky is both a broadcaster and a distribution platform) and growing signs of disintermediation. The market is becoming more complex as changes in technology introduce new players into the market (e.g. online portals acquiring new media rights) and create new opportunities for rights holders to either sell new rights or monetise their assets directly through, amongst other things, their own television channels or online applications.

Exhibit 9: The UK sports rights market value chain



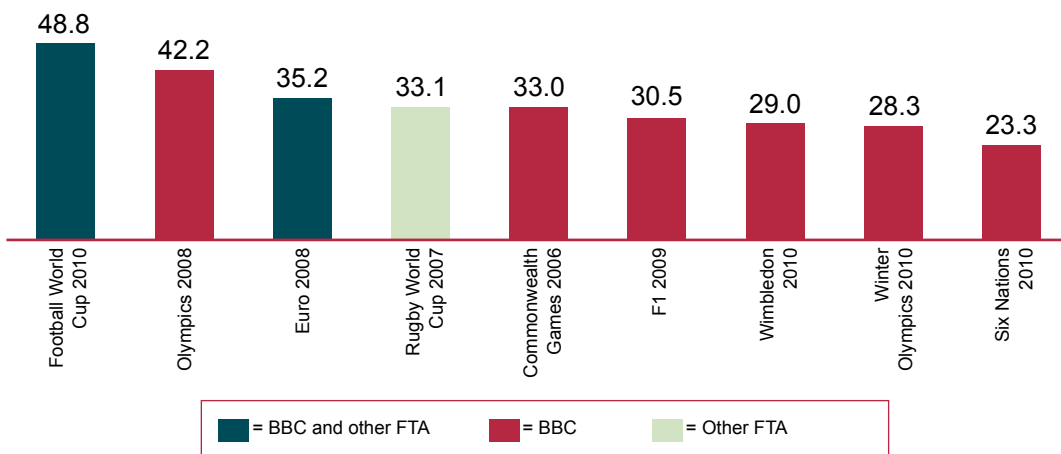
4.2 Market dynamics – demand and supply

4.2.1 Consumer demand drives broadcaster (and other media owner) demand

Sport is one of the most popular television genres and is in high demand across a wide range of viewers. In times of increased content choice and on-demand media, major sports events provide one of the few broadcast events that can deliver truly mass audiences that span social and cultural boundaries.

Major sporting events drive very large audiences on FTA channels: the 2010 World Cup and the Beijing Olympics reached 48m people and 42m people, equivalent to 81% and 72% of the UK population respectively.

Exhibit 10: Audience reach (millions) among major sporting events¹¹



Meanwhile, sport has been a key driver of take up for pay TV services. Analyst estimates suggest that more than 69% of Sky's total subscriber base pays for Sky Sports channels (more than 6m of 8.7m Sky households).¹² Major sports rights are thus highly prized by free-to-air and pay broadcasters alike for their ability to deliver large and commercially-attractive audiences. As a result, sports rights can be among the most expensive programming investments that broadcasters make and competition for premium rights is intense.

¹¹BBC internal reporting

¹²Screendigest cited in Value Partners, *Listed Events: Market Impact Potential* (July 2009)

Importantly, the most popular sports rights have experienced significant inflation. Value Partners reported that the value of major sports properties grew at 15.2% per year between 1997-2006.¹³ In addition, figures from recent deals show a continuing trend of high inflation among the values of top rights: for example, Premier League rights were worth a reported £1.2bn for the 2004/5-2006/7 seasons,¹⁴ rising to the region of £1.75bn for the 2010/11-2012/13 seasons.¹⁵

The principal buyers of sports rights in the UK in terms of spend are broadcasters: Sky, BBC, ITV, and ESPN, with Sky the largest. In 2010, Sky spent £1.62bn on the rights to the majority of Premier League football matches between 2010 and 2013.¹⁶ By way of comparison, the BBC spent £261m on sports rights in total in 2009/10, and a similar amount the year before. There are also a range of smaller buyers in the market for TV sports rights, including Channel 4, Five and Eurosport.

Sports rights are also occasionally acquired by broadcasters working in partnership -- for example, when the BBC and ITV partnered to purchase the 2006 and 2010 FIFA World Cups -- or by groups of broadcasters. The European Broadcasting Union (EBU) comprises state broadcasters across Europe, and negotiates rights to large international events, such as the Olympics, on behalf of its members.

4.2.2 Supply-side dynamics: major rights holders and the rest

Sellers of sports rights include individual rights holders (e.g. a sports team), bodies of collective rights holders acting on behalf of individual members (e.g., the Premier League), or rights intermediaries (e.g. IMG, Kirch) who sell rights on behalf of holders. Most commonly, rights holders use a combination of selling direct and selling via an intermediary.

The dynamics of the market vary significantly between the small number of "tier one" sports events, such as Premier League football, and the rest. Tier one rights holders are generally in a position of significant power and have seen the value of their rights increase rapidly. As Ofcom set out in its Pay TV review, in the case of the major rights holders *"It is the rights holders that drives control of the bidding process in the major deals, not the broadcasters."*¹⁷ In contrast, other rights holders command much smaller fees, with many just grateful for the exposure granted by television.

Importantly, major rights holders structure the sales process and select who they sell their rights to based on what they believe is likely to drive most value for them. Whilst maximising the value of their rights is the single most important factor for many, other factors are also important. For instance, securing reach and exposure is a major factor for sports that are heavily reliant on sponsorship, whilst rights holders may also value a strong fit with a broadcaster's brand and production values.

In practice this means that bidding processes vary widely by rights holder, from open competitive tender through to structured conversations between a rights holder and a long-standing partner. These varied approaches by rights holders require broadcasters to be flexible in turn.

4.2.3 Regulation and listing of major sports events

The market for sports rights in the UK is subject to both national and EU regulation. One of the most significant interventions in the market was the Broadcasting Act of 1996, empowering the Secretary of State to designate key sporting and other events as 'Listed Events'. This is designed to ensure that key sporting events are made available to all television viewers, particularly those who do not pay for subscription television. As such, the rights to broadcast Listed Events must be offered to qualifying broadcasters (BBC One, BBC Two, ITV1, C4 and Five). Although these broadcasters must pay a fair price for rights to Listed Events, the lack of pay television competition does significantly increase the buying power of qualifying broadcasters (including the BBC).

Listed Events are categorised either as Group A (for which live rights must be offered to qualifying broadcasters) or Group B (for which highlight rights must be offered).

¹³Ofcom, *Summary of UK sports rights – Annex 10 to pay TV market investigation consultation* (December 2007)

¹⁴As above

¹⁵Sportcal database

¹⁶The Times (February 2009)

¹⁷Ofcom, *Summary of UK sports rights – Annex 10 to pay TV market investigation consultation* (December 2007)

Exhibit 11: Listed sporting events¹⁸

Group A (full live coverage protected)	Group B (secondary coverage protected)
<ul style="list-style-type: none"> • The Olympic Games • The FIFA World Cup Finals Tournament • The European Football Championship Finals Tournament • The FA Cup Final • The Scottish FA Cup Final (in Scotland) • The Grand National • The Derby • The Wimbledon Tennis Finals • The Rugby League Challenge Cup Final • The Rugby World Cup Final 	<ul style="list-style-type: none"> • Cricket Test Matches played in England • Non-Finals play in the Wimbledon Tournament • All other matches in the Rugby World Cup finals Tournament • Six Nations Rugby Tournament matches involving home countries • The Commonwealth Games • The World Athletics Championship • The Ryder Cup • The Open Golf Championship

European Commission intervention with regards to sports rights in the UK market has largely been concerned with ensuring that the sale of sports rights complies with EU competition law. For example, the European Commission raised concerns in 2002 that the collective selling of Premier League broadcast rights had a number of potentially anti-competitive effects, such as reducing the number of media companies that can show matches. The EC and the Premier League came to an agreement in 2006 that joint selling could continue as long as the Premier League abided by certain legally binding commitments. These commitments are in place until 2013 and include making more rights available (including mobile and online rights), ensuring no single buyer secures all live Premier League television rights and provisions for the manner in which the auction is conducted.

Additionally, Ofcom has recently intervened in the pay TV market, which may have knock-on effects for the sports rights market. Ofcom found that Sky's position in sport (due to its control of live rights for many of the most important sports) was being exploited by Sky limiting the wholesale distribution of its premium channels, with the effect of restricting competition from retailers on other platforms. Sky is now required to offer its most important sports channels to other operators at a set wholesale price.¹⁹ Although this is unlikely to have a major impact on the sports rights market in the short-term, increased availability and affordability of premium sports channels is likely to increase competition for rights in the long-term.

4.3 The market for sports radio rights

Although sports rights in the radio sector are worth significantly less than TV, they generally follow the same broad trends – in particular, those rights that are most valuable in the TV market are the most valuable in the radio market. For example, the Premier League sold live radio rights from 2010-13 for a reported £42m, compared with around £1.75bn for live television rights over the same period, though both are the most valuable rights on their respective platforms.²⁰

The BBC is the largest buyer of sports radio rights in the national UK market –Radio 5 live is the most popular of the radio stations broadcasting sports output (although the service licence requires 'news' to account for around three-quarters of its annual output) with an audience share of 4.7%. talkSPORT, a station focused primarily on sports output, holds a 2.1% audience share. Additionally, Absolute Radio recently acquired the rights to one package of Premier League radio rights and has a 1.2% share of total radio listening, although the majority of its air time is music rather than sport.²¹

In general rights holders will offer both TV rights and radio rights. Where the rights holder perceives that there is a separate and attractive competitive market they will sell the radio and TV rights separately (e.g. Rugby World Cup), otherwise rights are sold as a bundle (e.g. Rugby Six Nations) for simplicity. In certain cases, such as the UEFA Champions League, radio rights are provided on a non-exclusive basis, where they are broadcast by multiple

¹⁸Ofcom, *Code on Sports and Other Listed and Designated Events* (2008)

¹⁹Ofcom, *Pay TV Statement* (March 2010)

²⁰Sportcal database

²¹Rajar Listening Figures (Q3 2010)

radio stations.

The BBC's position in the sports radio sector has been subject to complaint from its closest competitor, talkSPORT. Following a fair trading complaint by talkSPORT against the BBC's acquisition of FA Cup radio rights that was 'partially upheld' by the BBC Trust, the BBC reinforced its strategy of attempting to secure non-exclusive radio rights where possible.

4.3.1 The emerging market for new media (online and mobile) rights

Although television is still the dominant medium, consumers are increasingly using online and mobile platforms to consume sport. This explosion in digital media has created new complexities in terms of how rights are packaged and sold, with rights holders seeking a balance between maximising value in a multi-platform world and insulating themselves from content piracy.

As with radio, online sports rights are typically worth less than their TV counterparts, and are frequently sold as a bundle with TV rights. However, rights holders will continue to seek ways to maximise revenue by selling digital rights separately from other formats. Examples of such deals include the recent Yahoo! acquisition of rights for English Premier League UK online highlights for the next three seasons (2010-13) for around £7m per season.²² Also, when no TV broadcaster was prepared to bid high prices for the October 2009 live coverage of the World Cup England versus Ukraine qualifier match, online sports broadcaster Perform purchased it and offered it on an online-only, pay-per-view only basis.

For rights to live coverage, increasing format convergence makes it even more difficult for sellers to sell digital rights separately. 'Platform neutral' deals that allow broadcasters to stream video coverage across TV, mobile and online channels are becoming more common. The picture around catch-up on demand content is more complex, although again convergence is in evidence. There is also likely to be greater convergence between new media and TV rights as IPTV platforms gain popularity.

Importantly, emergence of the online sports rights market introduces new players that compete for TV rights. Portals and other online players such as Google and Microsoft are likely to further explore the option to buy sports rights in order to position themselves as homes of premium content and attract online viewers, as with YouTube's acquisition of key international rights to IPL (Indian Premier League) cricket in 2009. As a result, new competition in the TV market will likely further inflate TV rights values in the future.

4.4 Implications for the BBC

The market for sports media rights is increasingly complex and competitive, creating a range of challenges that the BBC must address in order to operate successfully and deliver value for money. At a high level there are five broad challenges:

- Major rights are in general subject to rapid inflation, potentially leading to diminished buying power for the Corporation given the recent licence fee settlement and the proposed cap on sports rights expenditure²³
- Major rights holders tend to hold the power and choose whichever sales processes best suit them. Broadcasters are required to adapt to these sales processes if they want to compete for the rights
- The sales process can be fast moving and unpredictable, with rights becoming available and being bought and sold at short notice and outside of formal tender processes
- Whilst there are a small number of major competitors in the market, competitor behaviour, and therefore the value of rights, can be unpredictable, making long term planning and planning negotiating strategy difficult
- The growth in an on-demand multi-platform market leads in turn to more complex deal structures and negotiating processes.

²²Sportcal database

²³BBC Trust Press Release (October 2010)

5 Mapping the BBC's processes for the management of sports rights

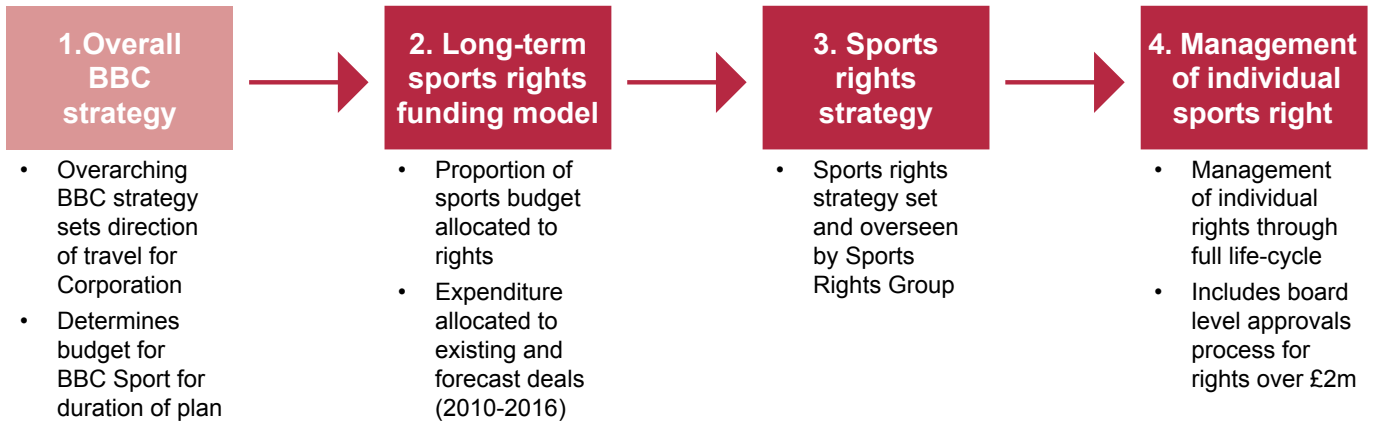
5.1 Introduction

There are four discrete but interrelated BBC business processes that contribute to the management of sports rights: a Corporation-wide strategic planning process, a long term sports rights budgeting process, a detailed strategic planning process and a process for the management of an individual sports right through its lifecycle.

These processes are set out in Exhibit 12. Importantly, these processes require input from a wide range of teams within the BBC. These teams and their involvement in the sports rights management process are set out in Exhibit 13 on the facing page.

The remainder of this section describes these processes and how they relate to each other in more detail.

Exhibit 12: The four BBC business processes that contribute to sports rights management



Key: = out of scope = in scope

5.2 Setting the overall BBC Strategy

In March 2010, the BBC Executive published *Putting Quality First*, which sets out the proposed strategy for the second half of the BBC's Royal Charter (2012-16) and is currently under review by the BBC Trust.²⁴

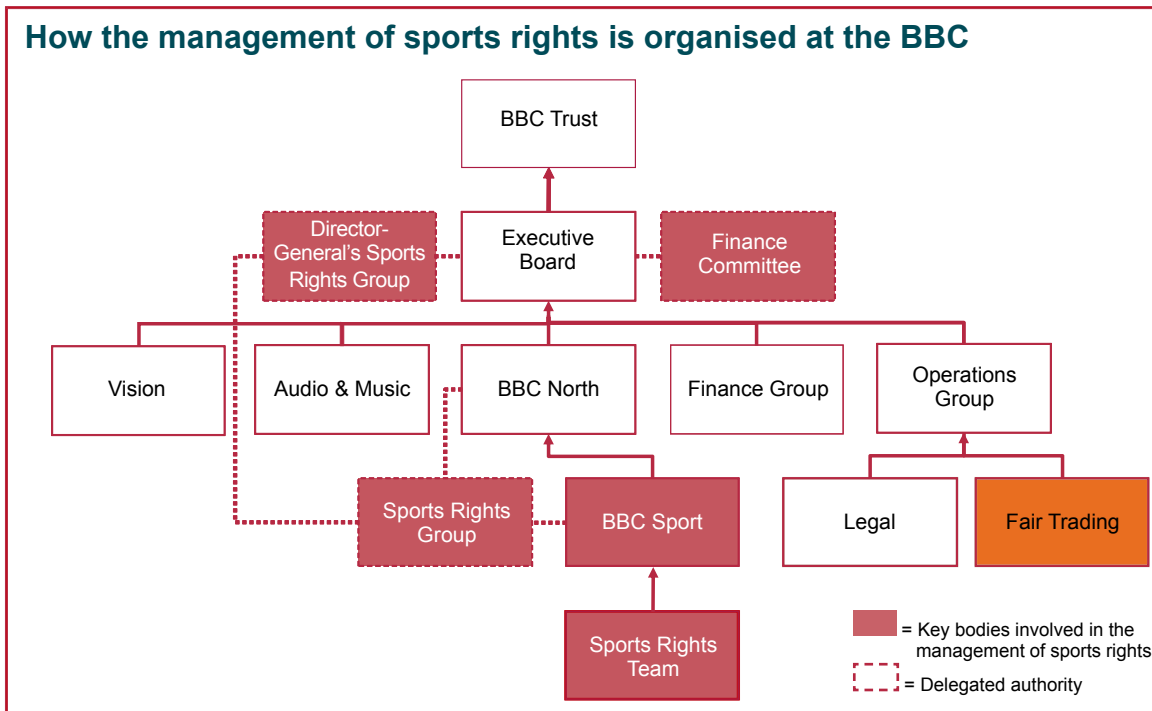
This plan sets out a vision and direction for the Corporation as a whole and a high-level view of the role that sport plays in delivering against that vision. It is accompanied by a detailed budget for the period covered by the plan, which allocates expenditure across key divisions, including BBC Sport.²⁵

The BBC's Corporation-wide strategic planning process – including the financial planning process that leads to an allocation of a proportion of its budget to BBC Sport and sports rights – is out of scope for this review and is thus only covered here briefly, for context.

²⁴The BBC Trust published its initial conclusions in July 2010. Final conclusions are due by the end of 2010.

²⁵The BBC's Finance Group maintains a more detailed three-year budget that takes this long term budget as its starting point but varies it year on year as necessary.

Exhibit 13: Organisation of sports rights management at the BBC



Key departmental responsibilities

- Executive Board**
 - Overall responsibility for the running and management of the BBC.
- Vision**
 - Overall responsibility for commissioning, producing, scheduling and broadcasting the content of all of the BBC's television channels (although some divisions, including BBC Sport, have a degree of autonomy over the production and commissioning process).
- Audio & Music**
 - Responsible for the BBC's national radio networks, with the exception of 5 live. Key sports broadcasts include Test Match Special on Radio 4.
- BBC North**
 - Responsible for the BBC Sport Division. Group also includes 5 live and 5 live sports extra.
- Operations Group**
 - Group includes Fair Trading (responsible for ensuring BBC fulfils its competitive impact obligations) and Legal Affairs (including Regulatory Legal department, responsible for ensuring BBC abides by competition and state aid law).
- Finance Group**
 - Manages all aspects of the BBC's finances, including planning and strategy.

5.3 Long term sports rights budget

The BBC Sport senior management team allocate a proportion of their budget to sports rights, drawing on a number of data points including existing deals (committed spend), the forecast value of upcoming deals and the previous proportion of BBC Sport budget allocated to rights.

This data forms the basis of the rolling sports rights budget, which is the key long term financial planning tool for sports rights management at the BBC. The budget currently forecasts spend on sports rights to the end of the Royal Charter (2016/17). It is updated throughout the year to reflect the value of new rights acquisitions.

The rolling sports rights budget incorporates several key components:

- A seven-year budget for sports rights overall, showing committed spend and forecast spend on a deal by deal basis (level of committed spend is relatively high over first 2-3 years but declines over time)
- Separate spreadsheets include detailed analysis of spend by sport and by platform (television and radio)
- Forecasts of surplus/deficit under different rights inflation scenarios and licence fee settlement scenarios.

The rolling sports rights budget is prepared by the Head of Sports Rights in collaboration with the Head of Finance for Sport.

It is worth noting that most other departments in the BBC (e.g. BBC Vision) operate three year rolling budgets. The budget for sports rights has a longer horizon as many of the major sports rights deals have 3-5 year lifecycles.²⁶

5.4 Sports rights strategy

BBC Sport develops a strategic plan for sports rights roughly every two years. The last strategy was produced in Q1 2008, and the next sports rights strategy document is due to be completed by the end of 2010.

The 2008 sports rights strategy document sets out:

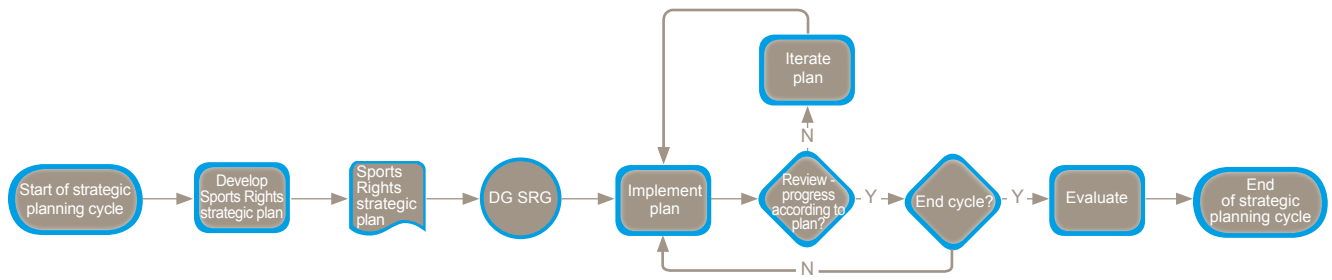
- Why sport is important to BBC
- Market context
- BBC Sport Goals
- Options analysis for allocation of budget (focus on 2008/09 and 2009/10, but with implications for subsequent years)
- Recommendation on which option to pursue (and therefore which rights to seek to acquire).

It is important to note that the sports rights strategy evolves over time to take account of market developments, such as a major sports right becoming available unexpectedly or not winning a bid. For example, early in 2008 the BBC had an opportunity to acquire the rights to Formula 1. The BBC had recently failed to acquire a major football right (FA Cup) and Formula 1 offered an ideal replacement (a key sports right that would help meet major reach and target audience goals). The BBC thus moved to acquire Formula 1 even though it was not considered as an option in the 2008 strategic plan as the right was not expected to be available.

Exhibit 14, below, describes the process by which the sports rights strategy is developed, implemented, iterated and evaluated in more detail.

²⁶For example: The Premier League tender is typically issued every three years; Open Golf is up for renewal every five years.

Exhibit 14: Strategic planning cycle for sports rights management



Develop strategy

- Sports Rights strategy iterated every two years and signed off by the Director-General's Sports Rights Group
- Includes targets, options analysis and recommended option

Implement, review, iterate

- Implementation focused on management of individual rights
- Ongoing performance evaluation through Slate Review and PIRs
- Changes to plan overseen by SRG

Evaluate

- Performance evaluated, capturing lessons and feeding into revised strategy
- Evaluation builds on Slate Reviews and PIRs of individual rights

Key: = start/end = activity = inspection = decision = document

The sports rights strategy is overseen and signed off by the Director-General's Sports Rights Group (DG SRG), which comprises senior management from BBC Sport and BBC North²⁷ and meets regularly to review progress against the plan and to respond to market developments, and can be convened at short notice if required. The newly formed Director-General's SRG, which includes the Director-General and Group Finance Director as well as the members of the SRG, now meets on a six monthly basis to review progress against strategy, formalising the Director-General's involvement in sports rights.

5.5 Management of individual sports rights

As the lifecycle of any single right may pre-date or outlast a two-year strategic plan, the BBC has defined a set of business processes for the management of an individual sports right.

The processes for managing an individual sports right and the overall strategic planning process are closely interrelated. The sports rights strategy document recommends which sports rights the BBC should seek to acquire. In turn, the outcome of an individual rights management process can impact the sports strategy: for example, a failed bid might necessitate a reappraisal of strategic options.

The lifecycle of an individual sports right progresses across four key stages:

- Right becomes available and the BBC makes a decision to bid
- The bidding process up to point of acquisition or otherwise
- Production and broadcast
- Review of performance.

The BBC has taken steps to strengthen its processes for the management of sports rights following an investigation by the BBC Trust into the acquisition of FA Cup radio rights which found that the BBC did not conduct its internal process in a manner best designed to ensure value for money.²⁸

²⁷The SRG comprises: Director of BBC North; Director of Sport; Director of Sports Rights; Finance Director, BBC North; Head of Sports Rights. The quorum necessary for the transaction of business is three members, which must include either Director of BBC North or Director of BBC Sport.

²⁸BBC Trust, *Fair Trading Appeal Investigation: Appeal regarding the BBC's acquisition of the radio broadcasting rights to the FA Cup for the period 2008/9 to 2011/12* (October 2009)

Under the processes introduced in April 2010, the Sports Rights Team must prepare an Investment Case for all rights worth over £2m (previously £4m).²⁹ The Investment Case sets out the business case for securing the right and requests a mandate from the BBC Finance Committee to negotiate up to a fixed value. In parallel, the BBC Fair Trading department must produce a Competitive Impact Assessment, which sets out how the BBC will meet its fair trading obligations. These documents are then submitted to the Finance Committee. The process is described in detail in Exhibit 15.

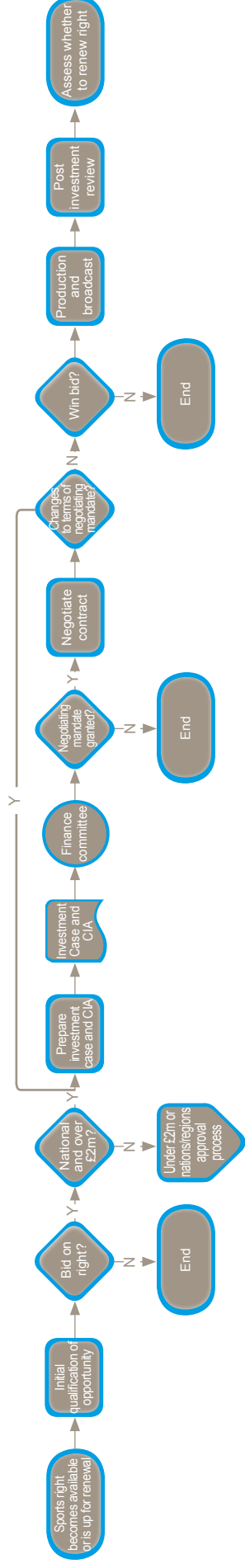
For bids under £2m authority for approval of Investment Cases is delegated by the Finance Committee to the SRG or members of the Sports Rights Team (depending on value of acquisition).³⁰ Although a full CIA prepared by the BBC Fair Trading department is not mandated, the associated Investment Case must include a written assessment of the proposal's fit with the CIP with referral, if necessary, to the BBC Fair Trading department. Sports rights acquisitions funded by the Nations or English Regions, while following the same broad processes as those outlined above, are subject to approval from different committees to those responsible for approving country-wide bids, as per the BBC's Nations Approvals Guidelines.³¹

²⁹The Sports Rights Team is led by the Head of Sports Rights with support provided by, inter alia, a business manager and rights & archive executive.

³⁰Bids under £0.05m require approval from one of: Head of Sports Rights, Sports Rights Executive. Bids between £0.05m and £0.5m require approval from two of: Director of Sports Rights, Head of Sports Rights, Sports Rights Executive, Sports Rights Business Manager (at least one must be Director of Sports Rights or Head of Sports Rights). Bids between £0.5m and £2m require approval from two of: Director of Sport, Director of Sports Rights, Head of Sports Rights.

³¹Bids over £4m require Finance Committee Approval (and a Competitive Impact Assessment). Authorisation of bids between £2m and £4m require approval from the Journalism Group Finance Committee (including Director of Sports Rights). Bids between £0.5m and £2m require approval from: COO, Nation, Divisional Director, Nation, and Head of Sports Rights.

Exhibit 15: End to end sports rights management process for bids over £2m



BBC decides whether to bid for right

- To secure a mandate to bid over £2m for a sports right, the Sports Rights team prepares an Investment Case requesting a mandate to negotiate up to a set price and submits this to Finance Committee for scrutiny and approval
- The Investment Case is accompanied by a CIA detailing any potential threats to the BBC's compliance with its regulatory obligations and setting out any relevant mitigating actions

Bidding process

- Sports Rights team negotiates with rights holder within negotiating mandate granted by Finance Committee
- If successful, contract drawn up by BBC Sport legal team

Production and broadcast

- From production through to final broadcast
- Note: *out of the scope of this project*
- PIR required for all £2m+ acquisitions prior to contract renewal or within 3 months of broadcast

Key: = start/end = activity = inspection = document = decision = separate process

6 Is the BBC making the best decisions as to which sports rights to attempt to acquire?

This section of the report assesses the extent to which the BBC's processes for deciding which rights to acquire are fit for purpose by exploring whether the BBC:

- Sets clear objectives and targets for its sports rights acquisition strategy
- Reviews its options for sports rights acquisition appropriately
- Takes appropriate consideration of competitive impact and fair trading issues before deciding which rights to acquire
- Regularly reviews its performance against plan and amends the plan accordingly.

6.1 Does the BBC set out clear objectives and targets for its sports rights strategy?

The BBC's objectives and targets for acquiring sports rights are driven by the Corporation's overall sports strategy. Under this strategy, BBC Sport has set itself targets of reaching 40% of the overall UK population and 38% of 16-34 year olds every week through either radio, television or online. In addition, the BBC has set itself challenging quality targets, including being rated as best for sport on television by 50% of the UK population.

Exhibit 16: BBC Sport objectives and targets 2009/10³²

BBC Sport Objectives	BBC Sport Targets
<p>1 Quality and originality:</p> <ul style="list-style-type: none"> • Editorial and production excellence • Innovative and distinctive content • Improved quality and impact of sports journalism 	<ul style="list-style-type: none"> • 7 out of 10 – average score BBC Sport approval • 38% high approvers of BBC Sport (8-10) • 50% best for sport on television; 62% best for sport on radio • #1 best for sport – online, best for great presenters • #1 (36%) best for innovative and dynamic sports coverage
<p>2 Value to all audiences:</p> <ul style="list-style-type: none"> • Maximize impact of spend • Deliver content that is relevant and reactive to audiences, including underserved audiences • Build partnerships that help BBC deliver its public purposes 	
<p>3 On demand/building digital Britain</p>	<ul style="list-style-type: none"> • 40% weekly cross-platform reach for adults • 38% weekly reach cross-platform among 16-34 • 32% weekly reach for BBC Sport on TV (15 mins) • 4.1m weekly reach BBC Live Sport on 5 Live • 8.6m weekly UK unique users of bbc.co.uk/sport • 2.5m monthly BBC Sport mobile users
	<ul style="list-style-type: none"> • Build online traffic to 8.6m for BBC Sport

At present the objectives and targets set for BBC Sport are used by the Sports Rights Team as a guide to which rights to acquire, along with the commitments in the service licences. This is, broadly speaking, appropriate, as sports rights programming is the single most important contributor to delivering against overall targets. However, there are also shortcomings to this approach: for example, the BBC Sport targets focus on the next 12 months of output, whereas many sports rights do not reach broadcast until two-three years after acquisition. In addition, the financial and value for money targets set for BBC Sport overall are not relevant to sports rights acquisition (with the exception of the overall budget).

Going forward, the Sports Rights Team should therefore develop an additional set of objectives and targets as part of its strategic plan, building on the overall BBC Sport objectives but adding extra detail around areas such as financial value for money targets where appropriate.

In addition, the next sports rights strategy document could be strengthened by ensuring that the full set of sports objectives and targets are presented as part of the document – the 2008 sports rights strategy document captures the key departmental objectives, but does not map them to targets, making it difficult to read as a stand-alone strategic planning document.

³²BBC Sport internal reporting

6.2 Does the BBC review its options for sports rights acquisition appropriately?

The BBC has had to design a set of processes that are capable of dealing with a market in which the acquisition process can be fast and unpredictable and in which deals commit the Corporation to significant levels of expenditure over a number of years.

Our analysis suggests that the BBC's processes for deciding which rights to acquire are well suited to these market conditions and the Corporation's requirements, combining:

- Long term financial and strategic planning, enabling the BBC to plan the development of its portfolio over the long term
- Approvals process for acquisitions that can move quickly where necessary, whilst retaining appropriate levels of challenge and control.

The remainder of this section sets out our findings in detail and goes on to identify a number of areas where the current processes can, nonetheless, be strengthened.

6.2.1 Long term strategic and financial planning

The BBC maintains a rolling sports rights budget that provides it with a clear view of committed and forecast expenditure for the duration of the Royal Charter against a range of inflation and funding scenarios.

In addition, the Corporation undertakes a Strategic Review of its rights portfolio roughly every two years, assessing its relative strengths and weaknesses and identifying opportunities for improvement.³³ This is overseen by the Sports Rights Group, and therefore receives scrutiny and sign-off from senior management within BBC Sport but also from the BBC Executive.

The strategic review adopts a portfolio-wide approach to reviewing the BBC's options for acquiring new rights. It analyses the strengths and weaknesses of the current portfolio against the BBC's RQIV performance framework and identifies the major upcoming opportunities for rights acquisitions. It then sets out plausible combinations of rights to acquire and analyses the relative costs and benefits of acquiring these combinations as follows. The timing of the review appears appropriate given that the majority of the major sports rights operate on a 3-5 year cycle and thus the portfolio refreshes over roughly a four year cycle.³⁴

Forecasting the cost of different rights and portfolio options

The cost of each potential acquisition is forecast using the historic value of the right and forecasts about likely price inflation based on past trends and market intelligence. The affordability of different combinations of rights is modelled using the BBC's rolling sports rights budget, which captures:

- Committed spend and forecast spend under the different options (including a high-low scenario for each option)
- The projected sports rights budget for the remainder of the Royal Charter under a range of different assumptions about licence fee settlements.

Forecasting the benefit of different portfolio options

Each potential acquisition is assessed for its ability to add value to the current portfolio using the BBC's RQIV performance measurement framework, incorporating:

- Reach – how is the proposed acquisition likely to perform against overall reach targets and against key priority audiences? To what degree will it be helping the BBC access a unique audience?
- Quality and impact – how highly are audiences likely to value BBC coverage of this event?
- Value for money – given forecast audience sizes and likely cost of right, how does the acquisition perform against key value for money criteria?

Finally, combinations of options are assessed, drawing together performance data from each individual right to form a view on how the portfolio performs as a whole against the RQIV framework.

The main output from this strategic review is a recommended sports rights strategy for the upcoming 12-24 months and an accompanying budget.

³³The business processes under-pinning this financial and strategic planning are mapped in Chapter 5.2.

³⁴This is reflected in the level of rights spend that is committed going forwards: the BBC has already committed 92% of its forecast budget for 2011/12, this drops to 81% in 2012/13, 52% in 2013/14 and 31% in 2014/15.

6.2.2 Individual approvals process – developing an Investment Case

Although the sports rights strategy document charts a likely combination of acquisitions over the upcoming 12-24 months, the decision to seek to acquire a given right, and the mandate to bid up to a certain point, is taken on a case-by-case basis and is subject to a separate process.

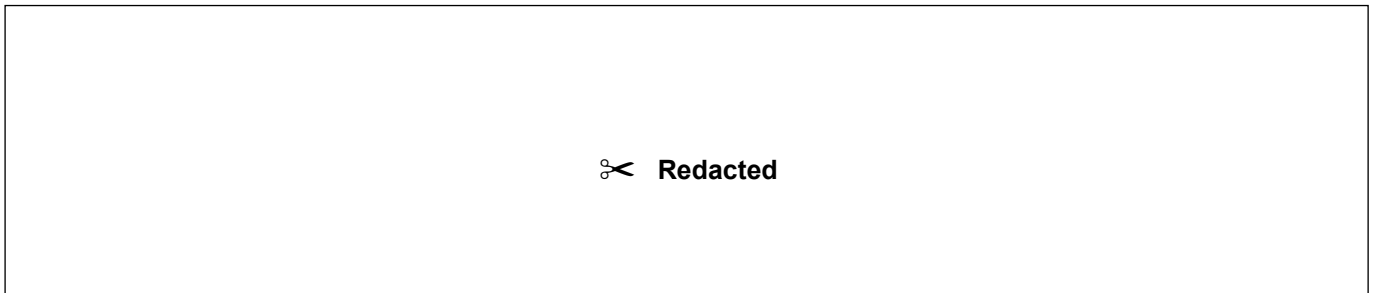
The approvals process hinges around three main deliverables – an Investment Case, which sets out the business case, a CIA, which sets out the fair trading implications (and is evaluated in Section 6.3), and an Investment Critique, which assesses the Investment Case for value for money.

The production of Investment Cases is over-seen by the Sports Rights Group. Investment Cases typically include an assessment of the:

- Extent to which the rights in question fit with BBC public purposes and strategic priorities
- Different options for acquiring a given right (e.g. how many packages to bid for, or whether to acquire live rights or highlights)
- Value of the right to the BBC
- Value of the right to competitors.

All sports acquisitions over £2m go through an Executive Board level approval process. The Finance Group prepares an Investment Critique which evaluates acquisitions for value for money using a combination of financial metrics (e.g. cost per viewer hour), audience metrics (e.g. evaluating the right's ability to add value to the portfolio by reaching an audience that is otherwise under-served) and qualitative criteria, such as fit with public purposes. The acquisition is then debated at Finance Committee, the BBC's most senior body for investment approvals, which grants a mandate to negotiate where appropriate.

Exhibit 17: BBC Sports Rights spend by deal size³⁵



Importantly, whilst this process typically takes 3-4 weeks to complete, papers can be prepared and committees convened at short notice in order to respond to market developments such as a right becoming available unexpectedly or a bid being rejected.

Taken as a whole, this set of processes means that Investment Cases are developed under the stewardship of experienced personnel in the Sports Rights Group and that all acquisitions over £2m (in practice around 95% of sports rights spend) then receive a high level of scrutiny and control from the BBC's most senior finance body. Approval for acquisitions under £2m is delegated to divisional level.

6.2.3 Areas for improvement

Although our analysis suggests that the BBC's processes are fit for purpose, allowing the Corporation to make sensible decisions as to which rights to acquire given its objectives and the wider market, there are areas in which the BBC's strategic planning and approvals processes can be strengthened going forward:

- Whilst the sports rights strategy document contains a portfolio-wide options appraisal, individual Investment Cases tend to document only the preferred option for consideration. Whilst senior management are consistent in stating that other plausible options will have been considered (and discounted) by the time an acquisition reaches the Finance Committee, there is some benefit to be had in briefly setting out (if relevant) the key alternatives that have been considered and the rationale for discounting them in the Investment Case
- Whilst it is appropriate that the options analysis focuses primarily on the major broadcast rights, the next sports rights strategy document would ideally include a light-touch options analysis for radio and minority sports
- The portfolio budget for each option should be appended to the next strategy document to ensure that the two can be read in tandem going forwards.

³⁵BBC Sport internal reporting and MTM London analysis

6.3 Does the BBC take appropriate consideration of competitive impact and fair trading issues before deciding which rights to acquire?

6.3.1 Context

The BBC must comply with competition and state aid law when carrying out its Public Service Activities. In addition, the BBC Trust requires that all of the BBC's Public Service Activities must comply with the Competitive Impact Principle (CIP), which states that:

'Whilst always ensuring the fulfilment of its Public Purposes and taking into account its other obligations in the Charter and the Agreement, the BBC must endeavour to minimise its negative competitive impacts on the wider market.'³⁶

The CIP does not necessarily require that the BBC should eradicate all potential negative impacts of its Public Service Activities and is not intended to protect the commercial interests of every company that believes they are undermined by the BBC's presence. Rather, the key objective of the CIP is to protect the interests of consumers, which are generally considered to coincide with the aim of protecting competition in the market.

The CIP has been operationalised by the BBC Executive through the Fair Trading Guidelines and is managed through the BBC Fair Trading department, working closely with the BBC Regulatory Legal department (who advise on issues relating to Competition Law).³⁷

6.3.2 The BBC's enhanced fair trading processes

The BBC introduced enhanced fair trading processes for sports rights in April 2010 – specifically the requirement to produce a written CIA for all bids over £2m. This followed the BBC Trust's fair trading investigation regarding the BBC's acquisition of FA Cup radio rights, which found that the Corporation failed to conduct a proper competitive impact assessment in relation to the acquisition of these rights.³⁸

In summary, the key steps in the approvals process are³⁹:

- Early informal discussions between BBC Sport and the BBC Fair Trading department to pre-empt CIP issues related to an acquisition
- A written CIA produced by the BBC Fair Trading department for all bids over £2m – if BBC Sport identifies fair trading risks on a bid under £2m then they must refer the case to the BBC Fair Trading department, who then produce a written CIA
- CIA included with the Finance Group critique of Investment Cases that is submitted to BBC Finance Committee
- BBC Regulatory Legal department provide advice to Sports Rights Team and Finance Committee on compliance with competition and state aid law and the Royal Charter & Agreement
- Approval by BBC Fair Trading department and BBC Regulatory Legal department required for papers submitted to Finance Committee.

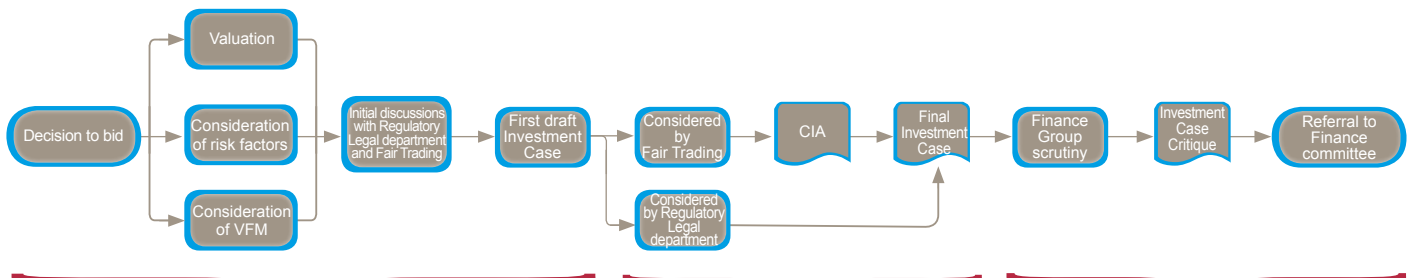
³⁶BBC Trust, *Statement of policy on fair trading* (June 2007)

³⁷BBC, *Fair Trading Guidelines* (April 2009)

³⁸BBC Trust, *Fair Trading Appeal Investigation: Appeal regarding the BBC's acquisition of the radio broadcasting rights to the FA Cup for the period 2008/9 to 2011/12*, October 2009

³⁹The second and third bullets represent the key changes from the previous (i.e. pre-April 2010) fair trading approval system.

Exhibit 18: Fair trading process for bids over £2m



Early qualification of fair trading issues

- Once BBC Sports Rights team has decided to bid for a right, fair trading risk factors assessed
- In sensitive cases, informal discussions will be held with BBC Fair Trading or Regulatory Legal department to qualify level of risk and, if necessary, adjustments made to bidding or negotiation strategy
- BBC Sport then produces Investment Case

Formal consideration of fair trading issues

- Investment Case delivered BBC Fair Trading and BBC Regulatory Legal
- BBC Fair Trading department produces CIA detailing acquisition's fit with the Competitive Impact Principle (CIP)
- Regulatory Legal assesses compliance with competition and state aid law – findings included with final Investment Case

Submission to Finance Committee

- CIA submitted to Finance Committee
- Fair Trading recommendations are compulsory

Key: = start/end = activity = document

These processes provide appropriate levels of control in relation to the acquisitions and approvals process. They happen in parallel with the preparation of the Investment Case and on an iterative basis, which should minimise the chance of substantial work being done on an acquisition prior to a problem being identified. The CIA is produced by a member of the BBC Fair Trading department, which ensures appropriate levels of independence, expertise and specialism. Finally, the CIA is submitted to the Finance Committee. Any actions mandated by the BBC Fair Trading department are endorsed by the Finance Committee.

6.3.3 The BBC has followed its revised processes since they were introduced

There have been [Redacted] proposed sports rights acquisitions worth over £2m since the enhanced processes were introduced. These were for broadcast rights for [Redacted].....]

In each case a CIA was prepared and submitted to Finance Committee along with the Investment Case. The CIAs followed the 3-step test set out in the BBC's Fair Trading Guidelines, namely:

1. Consider how the activity fulfils the BBC's Public Purposes
2. Consider the impact on competition in the markets in which the activity operates
3. Consider whether any negative impact on competition can be minimised by redesigning the activity without significantly compromising the Public Purposes or any of the BBC's other regulatory obligations.⁴⁰

Each concluded that the proposed acquisition fitted with the BBC's public purposes and went on to state that the acquisition was unlikely to result in any significant impact on competition in the wider market as:

- Each of these cases primarily concerned the sports television rights market and the downstream broadcast market, where the BBC is one of at least five or six potential competitors and competition for rights remains high
- The rights in question constitute a limited segment of the market in question in terms of value and output hours
- In the [Redacted] case(s) where radio rights were part of the acquisition they were acquired on a non-exclusive basis.

As such, no further action was deemed necessary to ensure compliance with the BBC Trust's Competitive Impact Principle.

⁴⁰BBC, *Fair Trading Guidelines* (April 2009)

6.3.4 Level of analysis and evidence required in support of CIA

The BBC Fair Trading department emphasise the need for a 'proportionate and risk based approach' to preparing a CIA – i.e. not investing significant licence fee resources to conduct detailed analysis on acquisitions where there appears to be minimal risk of breaching the CIP.⁴¹

Since the enhanced fair trading processes were introduced the BBC has only been required to produce CIAs for relatively low risk sports rights acquisitions. The CIAs produced in these cases contain high level information about the affected market and the value of the rights.⁴² This represents an appropriate approach given the associated risk profile.

Exhibit 19: Analysis undertaken in support of step 2 of the CIA⁴³

	Key features of affected markets		How BBC may impact the behaviour of other market participants
	Identifies affected markets	Baseline market data	Competitor analysis
⌘< Redacted	Yes	<ul style="list-style-type: none"> Some baseline market data including turnover of key competitors Qualitative commentary on market structure and competitor dynamics Indicative data on market size or share and buying power of BBC and competitors 	<ul style="list-style-type: none"> Some limited data on historical value of right Identifies likely competitors Does not need to explicitly assess how BBC actions may change behaviour of other market participants as in each case potential impact is deemed to be minor

Whilst acknowledging that the headline conclusions of the [⌘< Redacted] CIAs reviewed appear robust – i.e. that it is unlikely that the BBC is in danger of breaching the CIP in any of these cases – we note that in the future there are likely to be rights auctions where the BBC has greater potential to negatively impact levels of competition, such as an auction for Premier League radio rights. In these cases, it may be appropriate to undertake more detailed analysis in order to provide greater transparency about the BBC's impact on the market, including:

- Additional baseline data on the affected markets, including share of key competitors and key competitor dynamics, where data is available
- Further analysis of importance of rights in terms of output hours/revenue vis-a-vis the whole market
- Further analysis of the BBC's likely impact on competitors and future levels of competition in the market.

In addition, we note that in the future there are likely to be radio rights auctions under the value of £2m where there might be significant fair trading risks. Whilst the current process does allow for this situation as it requires BBC Sport to refer any case where there is a significant risk to the BBC Fair Trading department, who then produce a written CIA, we recommend that current processes should make this mandatory for all exclusive radio bids of a value in excess of £0.5m.

⁴¹This is in keeping with the proportionate approach advocated in the BBC's Fair Trading guidelines: BBC, *Fair Trading Guidelines* (April 2010)

⁴²In high risk cases the Fair Trading team may seek to conduct independent benchmarking of the value of a right, but in general, and to avoid duplication, Fair Trading relies on the Sports Rights Team's analysis of the commercial value of rights, with the Finance Group and Finance Committee providing an additional level of control.

⁴³Fair Trading department internal documents and MTM London analysis

6.4 Does the BBC regularly review its performance against plan, and amend the plan accordingly?

The BBC monitors the performance of its sports rights both at a portfolio level and at an individual right level. In both cases it uses the Corporation-wide RQIV framework, which includes key performance indicators for reach, quality, impact and value for money. This is set out in more detail in Exhibit 20.

Exhibit 20: BBC's RQIV framework⁴⁴

RQIV	Measure of:	Example metrics include:
Reach	How far the BBC's services extend throughout the UK population	<ul style="list-style-type: none"> Overall weekly 15 minute reach for TV and radio Share of audiences Reach of online services Reach of underserved audiences
Quality	The characteristics of the BBC's services – excellence, distinctiveness, originality and innovation	<ul style="list-style-type: none"> Overall approval of the BBC and BBC services (rating from monthly Pan BBC Tracking Study) Appreciation rating (Pulse – online survey run by GfK) Awards
Impact	The benefits to society created by the BBC's services and how memorable, challenging, engaging, and supportive of the BBC's purposes individuals found the BBC's content	<ul style="list-style-type: none"> Perceptions of challenging and engaging (face-to-face survey run by Ipsos MORI) Perceptions of meeting BBC purposes (Pan BBC Tracking Study)
Value	Efficiency and effectiveness in delivering public value on behalf of the licence fee payer	<ul style="list-style-type: none"> Cost per hour Cost per viewer hour

The overall performance of BBC Sport (and by implication, the portfolio of sports rights) is monitored throughout the year in two key documents:

- **Performance Reports**, produced each quarter and annually, capture the performance of BBC Sport against key audience metrics such as reach and average audience
- **Slate Reviews**, produced annually, monitor the performance of BBC Sport against a range of primarily financial indicators, such as cost per hour and cost per viewer hour.

Taken together, the Slate Reviews and Performance Reports contain a rich and robust set of data on audiences reached, audience appreciation and the cost of reaching this audience, and provide a clear view of how BBC Sport is performing against its divisional targets. The BBC's performance against these targets for 2009/10 is set out later in this report, in Chapter 8.

In addition, the performance of individual sports rights is monitored at key stages in their lifecycle:

- **Audience Reports** produced after a major event or season contain detailed audience data (but do not assess performance against targets or provide data on key financial and value for money targets)
- **Slate Reviews** contain some information about performance of key rights against value for money metrics such as CPVH (but do not assess performance against targets set in Investment Cases)
- **PIRs** are completed at the end of a right's lifecycle and evaluate the success or otherwise of an acquisition across its full lifecycle by evaluating performance against targets set in Investment Cases. For regular renewals, the BBC incorporates the PIR into the Investment Case for the renewal.

⁴⁴BBC Sport internal documents

There are important strengths to the existing system for performance measurement: the RQIV framework provides a flexible framework for measuring performance and performance at a divisional level is monitored on a regular basis against targets.

However, the existing system could be further strengthened in a number of key areas with regard to the monitoring of individual rights:

- Data on the performance of individual sports rights is available in various places, including the Audience Reports and Slate Reviews, but is not systematically and regularly brought together to provide a clear view of how different rights are performing. In addition, where that data is available it does not routinely assess performance against targets
- The renewal Investment Cases we reviewed did not report on performance against the full range of RQIV targets as a matter of course, limiting the BBC's ability to form a clear view on the value of the right. Going forward, renewal Investment Cases should contain an equivalent level of analysis to the standalone PIRs
- The BBC sets targets for sports rights at the point of acquisition. However, these targets may need to be updated come year of transmission as they could be 3-4 years out of date. The BBC should introduce an approvals process for revising these targets to ensure they remain relevant (e.g. to allow for changes in external market conditions) whilst making sure that original targets aren't lost (so as to avoid a scenario where aggressive targets are consistently used to justify a business case and then revised down). If targets are adjusted then PIRs should include the original and revised targets, and set out the rationale for why they were adjusted.

7 Is the BBC managing the bidding process for sports rights so to maximise value for money?

7.1 Introduction

The project team reviewed eight case studies of attempted acquisitions from the period 2008-10 in order to establish whether the BBC was managing the bidding process for sports rights so as to maximise value for money.

The project team assessed each case study against four criteria:

- Does the BBC consider the full range of factors when determining the value of the right to the BBC?
- Does the BBC conduct a full commercial bidder evaluation to inform its own bidding strategy?
- Is there evidence that the BBC is driving a hard bargain, including walking away where the price is too high to represent value for money?
- Does the BBC ensure that internal stakeholders were kept informed and involved in the rights acquisition process as it affects their own delivery against service remits?

The project team reviewed a wide range of documentation associated with each case study during the course of the investigation, including Invitations to Tender, Investment Cases, Investment Critiques, minutes of Finance Committee meetings and contracts.

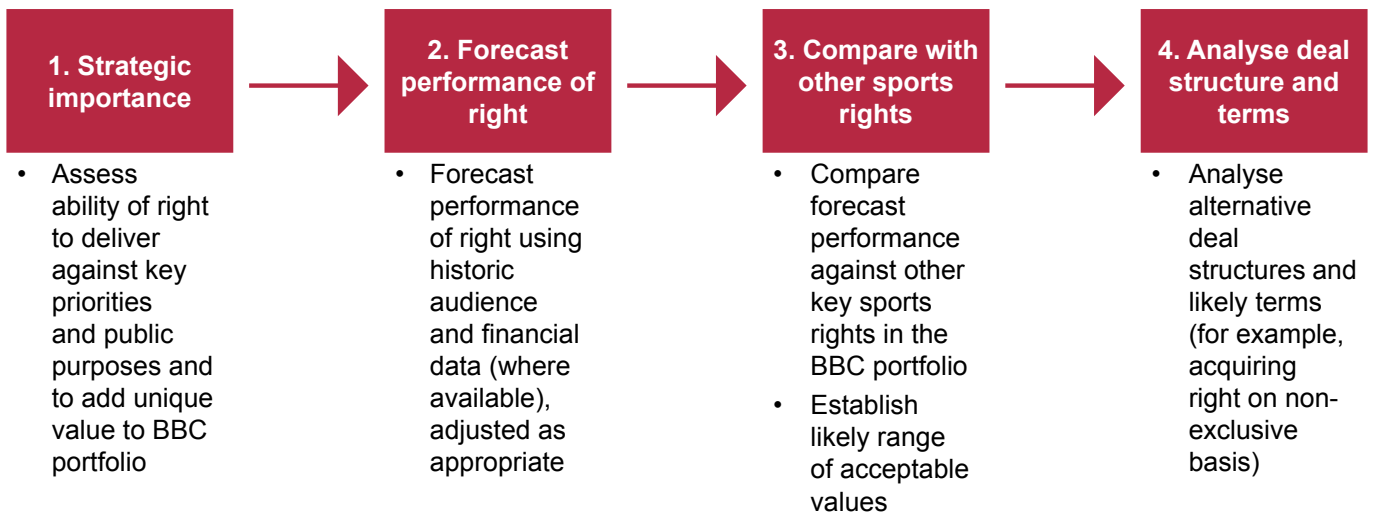
7.2 Does the BBC consider the full range of factors when determining the value of the right to the BBC?

Unlike commercial competitors, the BBC cannot use revenue generated by a sports right as the basis for calculating value. In the case studies reviewed, the Sports Rights Team calculated the value of a sports right to the Corporation through a four stage process:

1. Assess strategic value to the BBC
2. Forecast performance of right
3. Compare forecast performance with other sports rights
4. Analyse deal structures and terms.

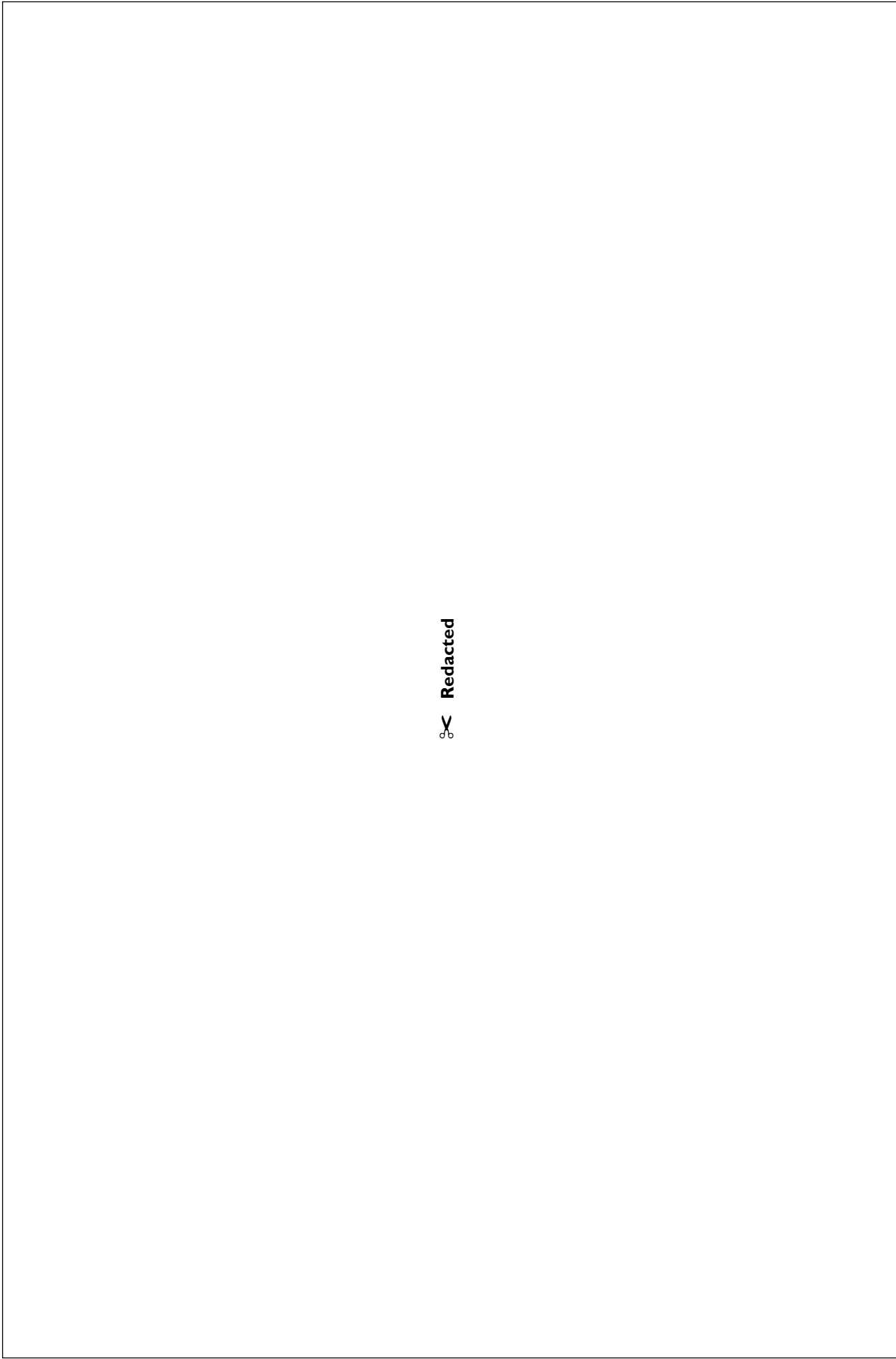
This is set out in more detail in Exhibit 21.

Exhibit 21: Summary of factors considered in determining value of rights to BBC



The BBC's approach to calculating the value of a right to the BBC combines a qualitative analysis of the right's fit with the current BBC portfolio with measurable key performance indicators. As with the approvals process, this analysis is subject to independent value for money scrutiny by the Finance Committee prior to a mandate being issued.

Exhibit 22: Summary of Case Studies of attempted sports rights acquisitions (2008-10)



However, the current valuation process could be strengthened in two key ways:

- Investment Cases are inconsistent in their approach to comparing a proposed acquisition with other sports rights. Whilst Investment Cases regularly compare proposed acquisitions with equivalent rights using cost per viewer hour benchmarks, they are much less consistent in their use of audience reach and demographics and quality/impact measures. Going forwards, we recommend that the BBC should agree a set of KPIs that are used in all cases. This will enable stakeholders to develop a clearer view of the value of a right in comparison to other rights in the portfolio and minimise the risk of KPIs being used selectively to support a business case.
- As set out in Chapter 6, the renewal Investment Cases do not report on the historical performance of a right against the full range of RQIV targets, limiting the BBC's ability to form a clear view on the value of the right. Going forward, renewal Investment Cases should contain an equivalent level of analysis to the standalone PIRs.

7.3 Does the BBC conduct a full commercial bidder evaluation to inform its own bidding strategy?

The BBC routinely evaluates the competitive environment as part of establishing its own bidding strategy, assessing which competitors are likely to be interested and their likely bidding strategies.

The nature and extent of the analysis varies in proportion to the strategic importance and financial value of the right and the level of fair trading risk involved. Each Investment Case identified the most likely competitors for the rights and provided (where market intelligence was available) a clear view on the competitor's level of interest and the value they might attach to the right. Two of the case studies included some additional information on value to competitors and likely bidding strategy based on a benchmarking and financial modelling exercise carried out by independent third parties.⁴⁵

Importantly, the BBC has a clear process for ensuring that market intelligence is factored into negotiating strategy. In several cases revised Investment Cases were produced and debated at Finance Committee, and the negotiating strategy was subsequently revised to take account of emerging market intelligence or competitor activity.

However, although it commissioned independent valuations in two of the eight cases we reviewed, the BBC does not maintain its own financial models for calculating the value of rights to competitors or for modelling the auction process or document any other financial analysis it undertakes in order to calculate the value of rights to its competitors.

Going forwards, we recommend that the Sports Rights Team more clearly documents the approach taken to assessing value to competitors (and in cases which rely primarily on market intelligence, provide an indication of its reliability). This should be included in Investment Cases so that the process is more open to peer review.

In addition, where market intelligence is limited and no independent benchmarking is commissioned, we recommend that the Sports Rights Team formalise their approach to competitor valuations - for example through documented financial analysis. This might include, where appropriate, the development of 'light-touch' models for commercial free to air television and radio broadcasters.

7.4 Evidence that the BBC is driving a hard bargain, including walking away where the price is sufficiently high as to not represent value for money?

It is challenging to assess whether the BBC is driving a hard bargain in the context of this project for three main reasons:

- In general, the winner of a rights auction has by definition bid the highest amount
- It is generally not possible to find reliable public data on competitor bidding strategies or on the sums bid by rival bidders
- Modelling the value of individual rights and acquisitions is out of scope.

However, some high level conclusions can be drawn from our analysis. Interviews with stakeholders at the BBC and a review of minutes from Finance Committee meetings confirm that the BBC had been unable to bid what it expected competitors to bid on a number of occasions as it believed the likely sales price exceeded the value of the right to the BBC. Furthermore, in the last two years the BBC has lost bids for the Paralympics, World Athletics [Redacted.....]. The BBC agreed a deal to share rights with Sky for the US Masters, having previously held the rights exclusively, and secured four of the seven Premier League radio packages, having previously held six. In two further cases the BBC secured the rights it was seeking, whilst one is still out-standing.

These outcomes suggest that the Corporation is operating at market values and in addition exploring a range of options when negotiating with rights holders.

⁴⁵In both of these cases this was driven primarily by Fair Trading.

7.5 Does the BBC ensure that all internal stakeholders are kept informed and involved in the rights acquisition process as it affects their own delivery against service remits

The BBC's processes for acquiring sports rights require input from a wide range of stakeholders across the BBC. These teams and their involvement in the sports rights management process are described in more detail in Chapter 5 but tend to involve two broad categories of stakeholder:

1. Senior managers from BBC Vision, FM&T and Audio & Music, to ensure that any sports rights acquired can be accommodated within the schedules and service licence budgets of the key television, radio and online outlets
2. The BBC Fair Trading department and the BBC Regulatory Legal department, to ensure that the BBC is compliant with its various regulatory obligations.

The involvement of BBC Fair Trading is a central component of the BBC's processes for all bids worth over £2m as Investment Cases cannot proceed to Finance Committee without a Competitive Impact Assessment. The Sports Rights Team are responsible for securing advice from Legal.

However, the process for involvement of Vision, Audio and Music and FM&T is not documented as clearly. BBC Sport retains a degree of editorial independence with regard to sports acquisitions and neither Vision, Audio & Music nor FM&T have a documented sign off for individual rights. In theory, this could raise the prospect of BBC Sport acquiring a right which either breached a service licence budget or could not be incorporated into the schedules.

In practice BBC stakeholders believe that the risk of this is minimal for four reasons:

1. There is regular informal consultation (regarding both the long term rights strategy and individual acquisitions) amongst BBC Sport personnel and channel controllers and finance staff across Vision, Audio & Music and FM&T to ensure alignment
2. BBC Sport maintains a long-term rights diary up to 2015 designed to ensure that sports acquisitions are compatible with scheduling requirements – this is managed by the Head of Scheduling for BBC Sport in close collaboration with Channel Controllers and Schedule Managers across BBC Vision and A&M
3. BBC Sport's three-year budget (which reflects the long-term sports rights budget discussed in Chapter Five) feeds into the BBC's overarching three-year budget. The BBC Sport budget includes a section on spend in relation to each service licence (e.g. BBC ONE, Radio 5 Live). This allows relevant service licence budget holders – ultimately responsible for ensuring compliance with their allocated budget – to raise any potential budget deviations at an early stage
4. The Finance Committee acts as a 'back-stop', regularly requiring that BBC Sport receive the approval of Vision and/or Audio & Music before issuing a mandate to bid for a right (although this only applies for bids worth over £2m).

However, given the increasing complexity of scheduling content across multiple platforms we recommend documenting these cross-departmental controls by introducing a section to the Investment Case templates requiring the author to confirm that they have liaised with other departments to confirm that rights costs are (or can be) accounted for in the appropriate service licence budgets and that the BBC is expected to be able to fulfil its scheduling requirements.

8 Has the BBC secured its objectives from its acquisition of sports rights?

8.1 The BBC's portfolio of sports rights

The recent BBC Strategy Review and revised service licences confirm the BBC's role in continuing to provide a broad portfolio of UK and international sports coverage that includes:

- Major events that bring communities and nations together
- Minority and public service sports that bring communities of interest together and broaden cultural horizons
- Sports serving audiences that are otherwise under-served by the BBC, such as young men, lower-income and ethnic minority audiences.⁴⁶

The BBC spent £261m in 2009/10 in pursuit of this remit.⁴⁷ Importantly, the BBC is happy with the portfolio as it is and believes it provides a balance across audiences, genre and the calendar year.

The majority of sports rights expenditure and output is focused on a small number of sports events that deliver against the BBC's reach targets and key purpose of covering major events that bring the nation together. In total these major events (incorporating Listed Events such as the Olympics, and other major events such as Formula 1) account for around 60% of output but over 90% of the BBC's rights expenditure.

In addition, the BBC delivers a range of sports that appeal to minority audiences – specifically Olympic sports and 'value for money' sports that appeal to specific communities of interest and add breadth and depth to the BBC portfolio. These minority sports account for just under 40% of the BBC's output, but only 9% of rights expenditure.

Exhibit 23: The BBC's four pillars of sports rights⁴⁸

	Events of national resonance that bring the nation together		Sports that drive audience value	
	Listed Events	Non-listed major events	Olympic sports	'Value for money'
	Examples include: <ul style="list-style-type: none"> • Olympics • Football World Cup • Wimbledon • Grand National • Open Golf Championship 	Examples include: <ul style="list-style-type: none"> • Premier League • Six Nations Rugby • Football league • Formula 1 • Masters Golf 	Examples include: <ul style="list-style-type: none"> • British Swimming Championship • Diamond League • Track Cycling World Cup • Badminton Horse Trials • European Gymnastics 	Examples include: <ul style="list-style-type: none"> • World Darts Championship • Snooker Masters • Ascot • MotoGP • World Indoor Bowls Championship
% output hours	21.2%	40.4%	8.1%	30.3%
% rights spend	✂ Redacted			

Note: (1) Percentage of output hours are an average of total output for calendar years 2009 and 2010. (2) Percentage of rights are an average of financial years 2008/09 and 2009/10. Note all RFL spend is in the 'Value for money' category; however Challenge Cup is a Listed Event and all Snooker spend is in the 'Value for money' category (although World Snooker is categorised as a major non-listed event).

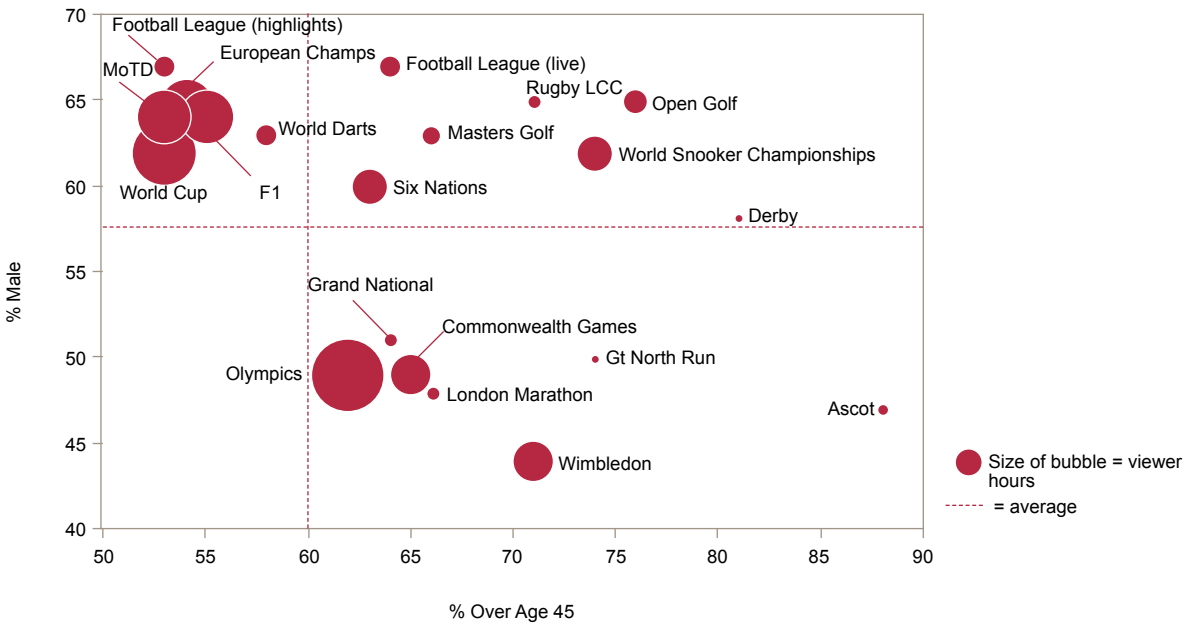
Formula 1 and Premier League highlights attract a younger (16-34) male audience that is otherwise hard to reach, whilst the Olympics and Wimbledon perform well with a more balanced male and female audience (see Exhibit 24 for more detail). Six Nations rugby is particularly important in Wales and Scotland. Together, these five events account for over 70% of the BBC's sports rights spend.

⁴⁶Chapter 3 includes further detail on the BBC's public service purposes, strategic priorities and the service licences for each of the channels as they relate to sport.

⁴⁷BBC Sport internal reporting

⁴⁸BBC Sport internal reporting and MTM London analysis

Exhibit 24: BBC Sports rights by audience demographics and viewer hours⁴⁹



In addition, there are a range of smaller events that offer breadth and depth to the BBC's portfolio in terms of the audiences they attract: the Masters Golf is strong in the BBC heartland (which skews towards ABC1s), whilst Snooker performs well amongst an audience that skews towards C2DEs.

The portfolio is further designed to represent an even spread of sporting events by genre and across the calendar year, which is particularly important in minimising clashes in scheduling (see Exhibit 25).

The BBC's portfolio is relatively stable, with most of the rights in place for many years and the Corporation focusing primarily on rights renewals unless it loses significant rights or new rights become available at competitive rates. The BBC has been covering Wimbledon since the tournament's first radio broadcast in 1927, whilst Masters Golf has been available on the BBC since 1967. This stability has a number of important incremental benefits: it enables the BBC to build close relationships with rights holders, develop event coverage expertise and co-ordinate its rights strategy with its talent strategy. Perhaps most importantly, it enables audiences to become familiar with and attached to BBC coverage.

Exhibit 25: Distribution of selected BBC Sports in 2010⁵⁰

Sport	Q1			Q2			Q3			Q4		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Football	MOTD Football League									MOTD Football League		
F1/Motor GP				F1/Motor GP								
Tennis	Australian Open			French Open			Queens Wimbledon			ATP Final		
Golf				US Masters PGA			Scottish Open The Open Women's Open					
Rugby Union	Six Nations									Autumn Internationals		
Rugby League				R4 R5 Q/F			S/F Final					
Athletics	UK Indoor UK Indoor GP			London Marathon			Euro Team British GP Euro Trials London GP			Great North Run		
Snooker	Masters			World Championship						World Open UK Championship		
Racing				Grand National The Derby Royal Ascot			The King George			Q&A Stakes Prix de l'Arc		
Major Events	Winter Olympics						World Cup Euro Athletics					

⁴⁹BBC Sport internal reporting and MTM London analysis. The audience data is from the most recent season/event available.

⁵⁰BBC Sport internal reporting

8.2 Has the BBC met its value for money objectives regarding the acquisition prices paid for sports rights?

8.2.1 Divisional performance

The Sports Rights Team monitors its performance against value for money criteria at a division-wide level using the BBC RQIV performance management framework (see section 6.4 for further detail on the RQIV framework).

The reach, quality, impact and value for money targets for 2008/09 and 2009/10 are set out in Exhibit 26, below.

With regard to reach and quality, the BBC improved its performance against audience targets in 2009/10 compared with 2008/09, hitting 8 of its 15 reach and quality/impact targets compared with 5 of 15 in 2008/09.⁵¹ Actual performance improved over the previous year or remained constant in all but two cases.

The BBC hit stretching targets for achieving 40% weekly cross-platform reach and 38% weekly reach amongst 16-34 year olds, although it missed its overall TV reach target. In addition it is worth noting that many of the targets were stretching and that when the BBC missed a target it was generally within 10% of its target – for example, 45% of the UK population regard BBC Sport as the best for sport, against a target of 50% (see Exhibit 26).

Exhibit 26: Performance against divisional wide targets⁵² [all targets to be redacted]

RQIV	MEASURE	Financial Year 2008/09			Financial Year 2009/10		
		Target	Achievement	Objective Rating	Target	Achievement	Objective Rating
REACH	Weekly reach BBC Sport (cross-platform)	45%	40%	MISS	40%	43%	HIT
	Weekly reach BBC Sport among 16-34 (cross-platform)	44%	38%	MISS	38%	38%	HIT
	Weekly reach BBC Sport on TV (15 mins)	32%	29%	MISS	32%	29%	MISS
	Weekly reach BBC Live Sport on 5 live (m)	4.1	3.9	MISS	4.1	4.1	HIT
	Weekly UK unique users of bbc.co.uk/sport (m)	7	7.7	HIT	8.6	7.5	MISS
	Monthly BBC Sport mobile users (m)	1.9	1.8	MISS	2.5	3.6	HIT
QUALITY	BBC sport approval (average score out of 10)	7	6.9	NEAR MISS	7	6.9	NEAR MISS
	Maintain level of high approvers of BBC Sport (8-10)	38%	38%	HIT	38%	40%	HIT
	Best for Sport – Television	50%	46%	MISS	50%	45%	MISS
	Best for Sport – Radio (5 live / 5 live SE)	62%	60%	NEAR MISS	62%	60%	NEAR MISS
	Best for Sport – Online	Number 1	Number 1	HIT	Number 1	Number 1	HIT
	Best for great presenters	Number 1	Number 1	HIT	Number 1	Number 1	HIT
	Best for expert opinions	Number 1	Number 1	HIT	Number 1	Number 1	HIT
	Best for innovative and dynamic sports coverage	Number 1	Number 2	MISS	Number 1	Number 2	MISS
	NetPromoter for Sport on bbc.co.uk	60	59	NEAR MISS	66	59	MISS

8.2.2 Measuring the performance of individual rights

Although the BBC does set performance targets for individual rights as part of Investment Cases, the nature and extent of these targets is not wholly standardised (for example, four of the eight cases reviewed did not have targets for reach). Furthermore, the performance of these rights against key performance metrics is not routinely brought together and monitored in one place (a key recommendation from Chapter 6 of this report). However, during the course of this project we have worked with the BBC project team to compile a table charting the performance of sports rights for which targets have been set. These are set out in Exhibit 27, below.

Exhibit 27: Individual rights – performance against targets⁵³

	CPVH	CPH	Reach - cumulative (m)			Average live audiences (m)		
	Rating	Rating	Target	Actual	Rating	Target	Actual	Rating
Euro 2008	MISS	HIT	✂ Redacted	35.2	N/A	✂ Redacted	5.3	MISS
RFU Rugby 2005/6-2009/10	HIT	HIT		N/A	N/A		0.9	MISS
Olympics 2008	MISS	HIT		42	MISS		2.1	MISS
Winter Olympics 2010	HIT	HIT		28.3	MISS		0.9	MISS
Wimbledon 2009	HIT	HIT		60%	HIT		2.3	HIT
Formula 1 2009	HIT	HIT		54%	HIT		4.1	HIT
Open Golf 2009	MISS	HIT		13.1	N/A		1.6	MISS
Masters Golf 2009	HIT	HIT		9.2	N/A		1.8	MISS
Snooker 2009	MISS	HIT	17.1	N/A	0.9	MISS		

⁵¹2 of the 15 2009/10 targets had been reduced compared to 2008/09. Actual performance improved or remained constant in 13 of 15 cases.

⁵²BBC Sport internal reporting and MTM London analysis

⁵³BBC Sport internal reporting and MTM London analysis. The reach percentages for Wimbledon 2009 refers to the target and actual for Week 2. The reach figure for Snooker 2009 is for the World Snooker Championship.

Importantly, the performance of individual rights must be set in a wider context, as a broad range of factors can impact the on-air performance of any individual event: for example the success or otherwise of a domestic team can have a significant impact on viewing figures.

The cost per hour (CPH) and cost per viewer hour (CPVH) metrics are the key targets for measuring the performance of the BBC's individual sports rights investments because of the range of factors they take into account: CPH measures the cost adjusted for output hours and CPVH combines this with audience figures. In this light, the picture for the rights reviewed is relatively positive with 14 of 18 CPH or CPVH targets hit.

Importantly, there is a pattern amongst the KPIs reviewed:

- All rights hit their cost per hour targets, suggesting that the BBC met or beat its core forecasts about expenditure and volume of output
- In contrast, a majority of targets for average audience (7 of 9) were missed
- As a result of the missed average audience targets, performance against CPVH is mixed – however, a majority of rights (5 of 9) still hit their targets.

The rights' performance against average audience targets should be read with caution as average audience is highly sensitive to the external factors discussed above as well as scheduling decisions taken near to broadcast. Nonetheless we would suggest that the BBC continue to track performance in this regard to ensure that targets set are not too optimistic or, where performance is measured against historic average audiences, that declining viewing is monitored.

With regards to the performance of the individual rights themselves:

- [Redacted] is the outstanding success, significantly exceeding all of its reach, average audience and cost per viewer hour targets
- In contrast, [Redacted] was the least successful, missing its CPVH target by a significant margin [Redacted].
- A number of rights (for example [Redacted]) hit the CPVH target but missed the average audience target, suggesting that they delivered exceptionally well against actual rights/production expenditure and/or output hours.

9 Recommendations

The project team has conducted a detailed analysis of the BBC's processes for the management of sports rights, reviewing minutes of Finance Committee meetings, contracts, internal guidelines and Investment Cases and interviewing a wide range of internal and external stakeholders.

The main finding from this analysis is that the BBC's processes for sports rights management are well suited to market conditions and will enable the Corporation to make sensible decisions about which rights to acquire and manage the negotiating process so as to secure value for money.

Where we have found opportunities for improvement these are generally iterative improvements to existing processes, and fall into seven broad areas:

1. Additional objective and target setting

At present the divisional objectives and targets set for BBC Sport are used by the Sports Rights Team as a guide to which rights to acquire. This is appropriate, as sports rights are the single most important contributor to delivering against overall sports targets. However, there are also some shortcomings to this approach: for example, the BBC Sport targets focus on the next 12 months of output, whereas many sports rights do not reach broadcast until two-three years after acquisition. In addition, the BBC Sport targets do not include financial objectives and targets (over and above the budget) that relate explicitly to sports rights acquisition.

Going forward, the Sports Rights Team should therefore develop an additional set of objectives and targets as part of its strategic plan, building on the overall BBC Sport objectives but adding extra detail around areas such as financial value for money targets where appropriate.

2. Enhanced performance monitoring

The BBC should consider creating a 'dashboard' that consolidates data about the performance of major sports rights against targets and ensure that this is updated and reviewed regularly, and at the very least on an annual basis. This will allow for easier monitoring of the performance of individual rights throughout their lifecycle and enable the team to adjust their plan accordingly.

In addition, the BBC should ensure that Investment Cases for renewals should contain an equivalent level of analysis as would be included in a standalone Post Implementation Review (PIR). This will help to ensure that the full range of relevant performance data is presented to the managers responsible for deciding whether to renew (and at what level).

3. Ensure alternative options considered are documented in Investment Cases

Whilst there is clear evidence that senior management routinely consider and discount other options when deciding whether to acquire a right, Investment Cases tend to document only the preferred option for consideration.

Going forwards, Investment Cases should as a matter of course either state that there is no clear substitute for a proposed acquisition or briefly set out any key alternative rights that have been considered and the rationale for discounting them.

4. Document cross-departmental controls to minimise risk of breaching service licence budgets or acquiring rights that cannot be fully exploited

BBC Sport is responsible for ensuring that any rights acquired are accounted for in service licence budgets and can be fully exploited. There are a range of processes in place to support this but no documented control in the rights acquisition process.

Going forwards, we recommend that Investment Case templates include a section requiring the author to confirm that they have liaised with other departments to confirm that rights costs are (or will be) accounted for in the appropriate service licence budgets and that the BBC is likely to be able to fulfil its scheduling requirements.

5. Competitive Impact Assessments (CIA)

Since the new Fair Trading processes were introduced in April 2010 the BBC has only been required to produce CIAs for relatively low risk sports rights acquisitions. The CIAs produced in these cases contained an appropriate level of analysis. Going forwards we would expect to see CIAs in higher risk acquisitions contain additional analysis in the following key areas:

- Baseline data on the affected markets, including share of key competitors and key competitor dynamics, where data is available
- Importance of rights in terms of output hours/revenue vis-a-vis the whole market
- The BBC's likely impact on competitors and future levels of competition in the market.

In addition we recommend that a CIA is produced for all exclusive radio bids of a value in excess of £0.5m.

6. More systematic use of performance data when calculating the value of a right to the BBC

Investment Cases currently lack consistency in their approach to comparing a proposed acquisition with other sports rights. Going forwards, we recommend that the BBC should agree a core set of audience and value for money KPIs that are typically used in comparable cases. This will enable stakeholders to develop a clearer view of the value of a right in comparison to similar rights in the portfolio.

7. Formalise and document approach to competitor valuations

Going forwards, we recommend that the Sports Rights Team more clearly documents the approach taken to assessing value to competitors (and in cases which rely primarily on market intelligence, provide an indication of its reliability). This should be included in Investment Cases so that the process is more open to peer review.

Where market intelligence is limited and no independent benchmarking is commissioned, we recommend that the Sports Rights Team formalise their approach to competitor valuations (for example through documented financial analysis including, where appropriate, the development of 'light-touch' models for commercial free to air television and radio broadcasters).

10 Appendix I: Methodology

10.1 Overview

MTM London developed a four stage approach designed to map and assess the BBC's processes and to deliver clear and practical recommendations for strengthening these processes.

These stages are summarised in Exhibit 28 and described in more detail below.

Exhibit 28: Overview of approach

Stage	Description
1) Process mapping and audit of deals	<ul style="list-style-type: none"> In close collaboration with BBC, MTM London produced a comprehensive map of the BBC's processes for sports rights and list of rights acquired and ITTs received in past two years.
2) External interviews and benchmarking	<ul style="list-style-type: none"> MTM London undertook a round of external interviews in order to develop a view of rights holder processes and benchmark best practice amongst other bidders.
3) Evaluation of processes and case study analysis	<ul style="list-style-type: none"> Drawing on internal expertise and external best practice, MTM London developed a framework and set of criteria for evaluating the BBC's processes for the management of sports rights Each task within the BBC's processes was then assessed and scored against our criteria Finally, eight individual acquisition case studies were assessed in detail to ascertain whether the BBC followed its processes in each case and the process proved fit for purpose.
4) Development of recommendations	<ul style="list-style-type: none"> MTM London produced a long-list of potential recommendations arising from the process evaluation and case study analysis These were individually analysed and prioritised to provide a clear view of changes necessary to improve value for money going forwards.

10.2 Process mapping and audit of deals

MTM London produced a comprehensive map of existing BBC processes and an audit of rights that the Corporation had attempted to acquire over the previous 24 months. This was achieved through a combination of internal interviews and a detailed review of key documents held by the BBC, including:

- Over-arching strategy and process documents – BBC Investment Guidelines; sports rights approval and procedures documents; BBC strategy documents
- Day-to-day bid management and operations documentation – ITTs received from rights holders; Investment Cases and CIAs from individual bids; post-project evaluations; internal business management and performance reports; minutes of meetings.

During the course of the project, we consulted extensively with BBC personnel (a full list of those interviewed is presented in Exhibit 29, below). Many personnel were interviewed on multiple occasions. The primary aims of internal interviews were to:

- Understand and evaluate roles and responsibilities
- Make detailed further enquiries regarding our process mapping, evaluation and case study analysis
- Seek the perspectives of key stakeholders on potential process improvements.

Exhibit 29: Internal interview participants

- **Balbir Binning**, Controller, Fair Trading
- **Dominic Coles**, Director of Sports Rights; COO Journalism
- **Patrick Dalzell**, Planning Editor, BBC Sport
- **Dan Davies**, Rights and Finance Manager
- **Nicola Gale**, Fair Trading
- **Brendan Knox-Peebles**, Head of Legal, BBC Sport
- **Neil Land**, Chief Adviser, BBC Sport
- **David Murray**, Head of Rights, BBC Sport
- **Derek O'Gara**, Finance Director, BBC Vision
- **Zarin Patel**, Chief Financial Officer
- **Peter Salmon**, Director, BBC North
- **Tim Senior**, Director of Financial and Commercial Strategy
- **Barbara Slater**, Director, BBC Sport
- **Giles Totterdell**, Business Manager, Sports Rights
- **Adrian Van Klaveren**, Controller, 5 live
- **Noel Watson-Doig**, Competition and Regulatory Lawyer

10.3 External interviews and benchmarking

MTM London undertook a round of external interviews in order to develop a clear view of external rights holder processes and benchmark best-practice in other rights bidders. The interviews were intended to help us understand:

- UK Sports rights market dynamics, trends and developments
- Rights holders' processes and approach, and what drives this
- Best-practice (as far as possible) in other broadcasters.

During the course of the project, MTM London interviewed a range of stakeholders from three interest groups: rights holders, broadcasters and other interested parties (e.g. media agencies). The interview programme participants are listed below.

Exhibit 30: External interview programme participants

- **Walter Böhm**, Vice President TV & Media Rights, SPORTFIVE
- **Piers Collins**, Business Development, talkSPORT
- **Will Jones**, Director of Business Affairs, Augusta National Golf Club
- **Richard Masters**, Director of Sales and Marketing, Premier League
- **Ben Nicholas**, Head of UK Sales and Acquisitions, IMG Europe
- **John Perera**, Commercial Director, England and Wales Cricket Board
- **Ian Ritchie**, Chief Executive, All England Lawn Tennis & Croquet Club
- **Oliver Slipper**, CEO, Perform Group
- **Scott Taunton**, CEO, talkSPORT
- **Andrew Thompson**, CEO, Quicken Media and former Head of Sport, Channel 4
- **Chris Townsend**, Commercial Director, LOCOG

10.4 Evaluation of processes and case study analysis

Our evaluation of BBC processes comprised two key steps:

- MTM London developed a framework for evaluating the BBC's processes using industry standard business process mapping techniques and drawing on the internal process mapping and external benchmarking
- Each stage in the business process was broken down into its component tasks and scored against the framework.

Following our evaluation of the BBC's processes, we assessed eight attempted acquisitions in detail to ascertain whether:

- The BBC's processes were complied with in practice
- These processes proved fit for purpose.

10.5 Development of recommendations

MTM London developed a long-list of potential recommendations arising from the process evaluation and case study analysis. These were subjected to a detailed cost-benefit analysis designed to:

- Prioritise process changes according to achievability and attractiveness
- Take into account the realities of the market in which the BBC operates, in particular the requirements of rights holders
- Ensure the Corporation is fully meeting its obligations.

Following this step we were able to provide our view on the changes necessary to improve value for money going forwards.

11 Appendix II: Glossary

AI (Appreciation Index)	An indicator of the audience's enjoyment of a television programme. Derived by calculating a programme's average score out of 10 from respondents to the Pulse survey, then multiplied by 10 and expressed out of 100 (for example, an average score of 8.1 out of 10 becomes an AI of 81).
BARB (Broadcasters, Audience Research Board)	The organisation that collects data on television viewing in the UK and creates the UK television ratings. Data includes which channels and programmes are being watched and the demographic composition of the audience.
CIA (Competitive Impact Assessment)	A document that sets out how a proposed activity complies with the BBC's fair trading obligations.
CIP (Competitive Impact Principle)	BBC Trust's Competitive Impact Policy states that: 'Whilst always ensuring the fulfilment of its Public Purposes and taking into account its other obligations in the Charter and the Agreement, the BBC must endeavour to minimise its negative competitive impacts on the wider market.'
CPH (Cost Per Hour)	A financial indicator that measures the cost adjusted for output hours of a particular programme, right, or division overall.
CPVH (Cost Per Viewer Hour)	A financial indicator used to determine value for money that combines spend and consumption to measure the cost per viewer hour of a particular programme, right, or division overall.
DG SRG	A senior management group comprising: BBC Director-General; BBC Chief Financial Officer; Director of BBC North; Director of Sport; Director of Sports Rights; Finance Director, BBC North; Head of Sports Rights.
EBU (European Broadcasting Union)	An organisation that comprises state broadcasters across Europe, and negotiates rights to large international events, such as the Olympics, on behalf of its members.
Finance Committee	The BBC's most senior body for investment approvals, a delegated authority of the BBC Executive Board.
FTA (Free-to-air)	Broadcast content that a person can watch or listen to without having to pay a subscription.
Investment Case	Document that sets out the business case for securing a particular right. Investment Cases are produced by BBC Sport and submitted to the Finance Committee for approval.
Investment Critique	Document prepared by the BBC Finance department that evaluates an Investment Case.
Listed Events	Designation included in the UK Broadcasting Act of 1996 which ensures that certain key sporting events are made available free to all television viewers, particularly those who cannot afford subscription television.
Ofcom (Office of Communications)	The regulatory body for the UK communications industries.
PBTS (Pan BBC Tracking Survey)	Monthly tracking study administered by TNS to measure audience perceptions of the quality and impact of BBC programming and the BBC overall.

PIR (Post Implementation Review)	Document created upon the expiry of a right, or prior to renewal of a right, that assesses performance.
Pulse	Online, nationally representative survey run by GfK that collects responses on programmes that were viewed on the previous day. Used to determine quality and impact ratings (including AI) amongst audiences.
Rolling Sports Rights Budget	Long-term financial planning tool that forecasts sports rights expenditure to the end of the Royal Charter (2016/17).
RQIV (Reach, Quality, Impact, Value)	A pan-BBC performance measurement framework.
SRG (Sports Rights Group)	A senior management group comprising: Director of BBC North; Director of Sport; Director of Sports Rights; Finance Director, BBC North; Head of Sports Rights.

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