

# FINANCIAL TIMES

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## What next for the BBC?

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With its budget squeezed by the government, the world’s most famous public broadcaster will have to slim down to survive

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The proposal for *Marvellous* was not entirely promising. It told the true story of Neil Baldwin, a failed clown with learning disabilities, who wants to manage Stoke City Football Club and write an extra verse for the Lord’s Prayer.

“If the BBC had turned it down, we wouldn’t have taken the show elsewhere,” said Patrick Spence, head of the production company Fifty Fathoms. “We did not have a plan B. No other broadcaster in the world would have made it.”

The BBC did not turn it down. *Marvellous* aired on BBC Two last year, was watched by 1.5m

people, and won the Bafta for best single drama.

The idea that “only the BBC” can commission certain programmes is now ingrained in the British psyche — alongside a visceral urge to apologise, and a belief that future monarchs’ middle names are an acceptable topic of conversation.

Only the BBC turns cake-making into prime time television (*The Great British Bake Off*) and lectures about ancient bibelots into popular radio (*A History of the World in 100 Objects*). Only the BBC covers major sporting events such as Wimbledon and the Olympics without pesky ad breaks. Only the BBC’s regulator receives more than 250,000 complaints a year — and even that is probably a disguised compliment.

In the coming years, however, the world’s most famous public broadcaster will probably do less. Under a new funding deal, agreed in July, it will gradually absorb the £725m yearly cost of free TV licences for the over-75s, in exchange for an increase to the licence fee in line with inflation and an extension to cover those who only watch online. Overall, the BBC’s budget will remain roughly flat. But that means an estimated 10 per cent cut after taking into account rising salaries and other costs, a reduction that is roughly the combined current cost of Radio 1, 2, 3, 4 and 5.

“I’m genuinely shocked,” says Patrick Barwise, a media commentator and emeritus professor of management and marketing at the London Business School. The BBC could continue cutting costs but, according to the professional services firm PwC, it already spends much less on overheads than other public sector bodies. If it keeps producing the same amount of television and radio, “quality will erode,” says Mark Oliver, a media consultant and the BBC’s former head of strategy.

Though the story is in some ways a familiar one — of a rightwing government and a public institution long seen as left-leaning and bloated — the current circumstances also make it exceptional: the BBC is about to endure the longest financial squeeze since at least the second world war.

For six decades from 1946, the licence fee rose and rose — and, when it didn’t, the number of households who owned televisions, and who therefore had to pay it, did. Even Margaret Thatcher, who accused the BBC of behaving “treacherously” over the Falklands War and wondered why its studios were so full of staff, sanctioned an increase of £12 a year (equivalent to a 26 per cent rise) in 1985. Now, however, after a five-year freeze, the licence fee is lower in real terms than when she became prime minister.

The BBC’s plight is not unique: public broadcasters around the world are struggling to navigate the new age of media. In the US this month, PBS lost the best rights to *Sesame*

*Street* after 45 years because it could only cover about one-tenth of the show's cost. Weeks earlier, Europe's public broadcasters were outbid for the rights to air the Olympics by Discovery Communications, the owner of Eurosport.

In the UK, as the BBC's wings are clipped, its rivals are preparing for lift-off. Amazon's streaming service has signed Jeremy Clarkson, recently ejected from the BBC's motoring programme *Top Gear* for punching a producer. Clarkson, his two co-presenters and their (other) producer will be paid about £160m for three series of a new show on Amazon. The BBC's total budget for all its presenters, actors and performers — from Gary Lineker to the extras on *EastEnders* — is £188m a year.

To some, the growth of Amazon, Netflix and others suggests that the BBC's size should be protected — to keep British public-service content competitive. The government is toying with the contrasting view: that a more crowded landscape reduces the need for the BBC, which receives £3.7bn in public money each year. “With so much more choice in what to consume and how to consume it, we must at least question whether the BBC should try to be all things to all people,” John Whittingdale, the newly appointed culture secretary, told Parliament last month, launching a consultation on the broadcaster's future.

That leads to another question: in an age of endlessly available online media, what parts of the BBC can we live without?

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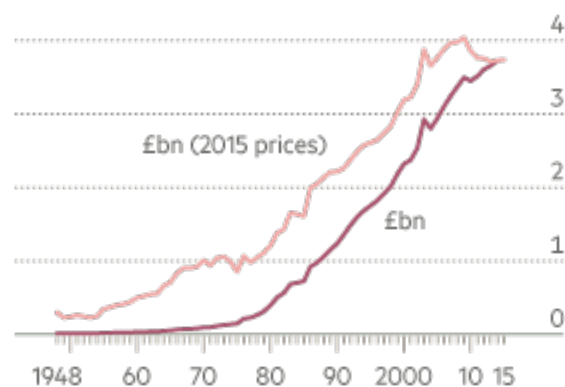
When companies shrink, they cut what is not popular. The BBC may have to take almost the opposite approach.

By most measures, its output is absurdly popular. BBC One is Britain's most watched TV channel, Radio 2 is the most listened-to radio station and BBC News Online is the most used news website. Some 97 per cent of British adults use the BBC every week.

But a public broadcaster is meant to be different. It should make “the good popular, and the popular good”, said Sir Huw Wheldon, managing director of BBC TV between 1968 and 1975.

The BBC's more thoughtful critics think it is trying to be popular full stop. “It ought to do much less, and to do what it does better,” wrote Jason Cowley, the editor of the *New*

BBC licence fee income



Source: BBC

FT

Statesman, last month. “Why does the BBC website operate as if it is in competition with national newspapers and magazines, which are subject to the cold realities of the market?”

When the BBC emerged in the 1920s, the country’s newspaper barons did not perceive a threat. Comments by the BBC’s founding director-general John Reith might have reassured them. “The programmes will neither be very interesting nor very good,” Reith said on launching the Empire Service in 1932. In fact, the Empire Service went on to become the World Service, described by former UN secretary-general Kofi Annan as “perhaps Britain’s greatest gift to the world”.

Today, as media and markets converge, both newspapers and the BBC are aiming for a single online audience; competition is inevitable. Local newspapers complain that the BBC sucks up their stories and their audience. The chancellor George Osborne thinks the BBC website, by offering features and cooking recipes (12,023 and counting), “is becoming a bit more imperial in its ambitions”.

Though the recipes could go — the katsu curry is fairly inedible anyway — nobody thinks this would solve the problems of newspapers’ business models, or the BBC’s funding squeeze. The BBC’s online operation costs about £100m; the latest funding requires savings of three times that amount. Cutting funding for Radio 1 and Radio 5, whose output could be partly replicated by commercial radio stations, would be similarly inadequate.

Any serious cuts to BBC output must start instead with television, which accounts for two-thirds of its spending. One option, suggested by consultant Mark Oliver in 2009, would be for the BBC not to compete where others would do a similar job. The BBC should not bid for FA Cup rights, because ITV will show the games in similar form. It should not pay big money to stars such as Graham Norton if someone else would hire him.

That would solve the BBC’s budget problems. It would also leave a huge hole in its appeal. “You want the BBC to offer a schedule that engages a large portion of the population. To do that you have to have a mix of stuff,” says David Liddiment, a former member of the BBC Trust, the body that has overseen the broadcaster since 2007, and a former director of programmes at ITV.

Liddiment and many others would, nonetheless, like the BBC to make more distinctive programmes. “Are they doing enough to change the face of TV, when they’ve got guaranteed income?” says one executive at a rival broadcaster.

Take *Poldark*, a Cornish romp set in the 18th century, where the protagonist is unable to scythe the grass and keep his shirt on simultaneously. Critics scoffed that it was barely an improvement on a previous BBC series — which aired in the 1970s. “Depressingly

unambitious,” says the rival executive. But 6m viewers tuned in, and, in the BBC’s own research, 60 per cent said that they “strongly agreed” that Poldark was “fresh and new”, the in-house Holy Grail.

*Strictly Come Dancing*, the celebrity dance competition that airs on BBC One, regularly tops 10m viewers, and is no less divisive. “Is there a public-service argument for *Strictly*? Debatable,” John Whittingdale said in an interview with the Guardian before he became culture secretary.

Another approach would be just to cut the budgets of the BBC’s biggest channels and hope only the best stuff remains. “You could take tens of millions of pounds’ worth of programming out of BBC One every year and nobody would notice,” says Neil Midgley, a media commentator at Forbes.com. But there is a limit. To save money, BBC Two has, since January 2013, shown only repeats during weekday afternoons. ITV has cut its spending on British drama by two-thirds since 2008, and its audiences are falling. Lower budgets may reduce the BBC’s appetite for innovation.

Another route is for the BBC to shut smaller services. It already plans to make BBC Three, a youth-focused channel, online-only. That will save about £30m a year — at the cost, according to the BBC Trust, of losing many 16- to 34-year olds who watch none of the BBC’s other channels. Some 270,000 people signed a petition against the move, pointing out that the BBC is meant to be doing more for younger viewers.

Next could be the BBC News channel, which costs £63m a year, or £2.50 per household. Rolling news seemed like the future 10 years ago but now it is arguably being surpassed by the web. One-fifth of British adults watch the BBC News channel each week but they could flick over to Sky News or, indeed, Al Jazeera or Fox News.

Then there is BBC Four, which also costs £63m a year. It was launched in 2002 with the slogan “Everybody Needs a Place to Think” and the aim of being “the most intellectually and culturally rewarding channel on television”. Every evening it broadcasts a range of documentaries that are many people’s definition of public service broadcasting. It has the highest audience satisfaction level of any BBC television channel. It also has the oldest and wealthiest viewers.

“People who like BBC Four — like me — are people who vote and make a lot of noise,” says Professor Barwise. “Cutting it would produce a massive backlash, far bigger than for BBC Three.” But BBC Four’s audience is already well-served by BBC Two and Radio 3 and 4. “Younger, ethnically diverse and less affluent audiences are getting less value for their licence fee pound than older audiences,” says Danny Cohen, the BBC’s director of television.

Ultimately, the BBC has to decide which audiences to disappoint. If it closes BBC Four, the

chattering classes will protest. If it invests less in sport or popular entertainment, the broader population will wonder why they are paying a licence fee. Something has to give. And when it does, there'll be a petition to save it.

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And then what about Netflix? In this age of disruption, surely the BBC should not just be tinkering — it should be reimagining. About 4m of the UK's 27m households subscribe to Netflix, the streaming service that launched in the country three years ago. It took Sky, Britain's biggest pay-TV company, a decade to achieve the same number.

Netflix has already sent a shudder down the US television industry by showing audiences' taste for a cheap alternative to the big cable bundles to which 90 per cent of American households subscribe. Its first implicit challenge to the BBC is full-frontal: if so many people are prepared to pay £5.99 a month to subscribe to quality television, why do we need a more expensive compulsory service? For the moment, the public, when polled, is fairly supportive of the licence fee — although that depends on whether it is described as £145.50 a year, £12.13 a month or 40p a day.



Benedict Cumberbatch (right) and Martin Freeman in 'Sherlock'

Netflix's second challenge is more subtle. Its business model does not lead to BBC levels of investment in British TV. Even if half of all UK households signed up, the total subscription fees would be well below the current cost of BBC One. If Netflix replaced the BBC, the quantity of original British TV would shrivel — and, with it, the UK's lively production sector, which last year exported £1.3bn-worth of programmes. Netflix's catalogue of mostly old shows would be unlikely to satisfy the average British viewer, who watches more than three and a half hours of TV a day.

But Netflix's model does allow spending on a few big global hits, such as *House of Cards*. Ultimately, it could help to push the BBC out of premium drama, just as Sky pushed the BBC out of premium sport. (Next season the rights to broadcast Premier League matches will cost £1.8bn a year, as much as the BBC's entire spending on TV programmes.)

The tousle-haired mayor of London Boris Johnson asked last month, "Why on earth can it

not produce something that is quite as brilliant as *Breaking Bad*?” This idea is half baloney: *Breaking Bad*, a US series about a crystal meth-dealing chemistry teacher, was so marginal for British audiences that it was pulled from terrestrial TV after two series. But Johnson also stumbled on a big issue.

The BBC’s most internationally successful programmes — *Sherlock*, *Top Gear*, *Doctor Who* and David Attenborough documentaries — hark back decades. They are mostly funded out of revenues from international sales. For David Attenborough’s 2014 series *Life Story*, for example, 71 per cent of the funding came from selling the programme rights around the world, and other commercial revenues.

But today’s BBC has yet to prove it has enough money and creativity to make a defining piece of box-set TV. There are fewer top-quality dramas set in Britain of the sort which engage broad swaths of the population. For the BBC’s supporters, this may be an argument for extra public funding. Instead, the corporation is drawing up plans for further efficiencies. “If you take a rational policy analysis, you simply wouldn’t end up in this place,” says Professor Barwise. And so the BBC’s director-general Tony Hall has to square a circle. On September 7 he will lay out his vision for how the BBC will slim down. Can he convince the press and politicians that the BBC is changing — while also assuring audiences that it is not?

*Henry Mance is the FT’s media correspondent*

## **The state of public broadcasting in India**

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If Britain’s BBC suspects that a stripped-down service might lead to national irrelevance, it need look no further than India’s beleaguered public-service broadcaster for evidence, **writes James Crabtree in Mumbai.** India’s government launched its flagship broadcaster Doordarshan back in 1959, enjoying a complete monopoly until the advent of private players in the early 1990s — albeit in a country where vanishingly few people actually owned televisions.

Nowadays, however, it is all but ignored, lost amid the clamour of a burgeoning cable scene in which viewers are beset by hundreds of high-energy outlets offering everything from news to movies.

With a budget of Rs18.2bn (\$278m) last year, Doordarshan is hardly expensive, and now operates news and sports channels alongside more than a dozen regional language offerings. Surveys from India’s Broadcast Audience Research Council regularly place its channels close to the bottom of lists of most-watched outlets.

Led by stodgy bureaucrats and beset by perennial financial crisis, Doordarshan does pop up

on the national agenda from time to time, although generally for the wrong reasons. Last October it broadcast a speech by the leader of a prominent Hindu nationalist religious organisation linked to prime minister Narendra Modi. This prompted a storm of criticism from liberals, fearful that the broadcaster's impartiality had been compromised.

Just a month earlier, Doordarshan sacked one of its news anchors following an on-air cock-up in which she called Chinese president Xi Jinping "Eleven" Jinping midway through a state visit. That second episode seemed to confirm the channel's amateurish reputation. Even so, Doordarshan is viewed with fondness by many who grew up relying on its basic programming, and now think of it nostalgically. "When I was a kid, I remember the excitement when we finally got a black-and-white TV. The only available channel at the time was Doordarshan," recalls economist Eswar Prasad, who was born in 1965. "I thought Doordarshan had been wiped out by the competition," Prasad adds. "I wonder who watches it still?"

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