

BBC | Trust



**THE BBC TRUST REPORT:  
ON-SCREEN AND ON-AIR TALENT**  
INCLUDING AN INDEPENDENT ASSESSMENT AND REPORT BY  
OLIVER & OHLBAUM ASSOCIATES

MAY 2008





# BBC TRUST CONCLUSIONS

## The issue of talent costs

The BBC Trust operates to protect the interests of licence fee payers who pay for and own the BBC. As part of this we seek to ensure quality and value for money for licence fee payers and to challenge BBC management to use everything at their disposal to deliver both. An area where this is particularly complex is the salaries paid to on-screen and on-air talent.

During the course of 2006, press reports about presenters' salaries aroused industry and public concern and led some people to question the BBC's approach to the talent it employs. This debate was still live when the Trust was established as the BBC's governing body in January 2007. It was and has remained a topic raised by the public with Trustees during our appearances on radio phone-ins and at public meetings in all parts of the UK.

Against this background the Trust commissioned an independent review, conducted by Oliver and Ohlbaum Associates Ltd (O&O), to provide an in depth examination of the BBC's use of on air and on screen talent. We posed O&O three specific questions:

- How do the size and structure of the BBC's reward packages for talent compare with the rest of the market?
- What has been the impact of the BBC's policy on the talent market, particularly in relation to cost inflation?
- To what extent do the BBC's policy and processes in relation to investment in, and reward of, talent support value for money?

We are publishing O&O's report which seeks to answer these questions, the BBC management's response to the points it raises and our own judgements informed by this evidence.

## The main evidence from the O&O review

The BBC Trust welcomes and is reassured by O&O's findings that overall the BBC is not paying more for talent than the market and that it is not systematically inflating prices for talent. The O&O report concludes:

- There is no evidence that the BBC is paying more than the “market price” for leading TV talent when it finds itself directly competing with rivals to secure their services. In some cases, it may well be paying less than the market price for that talent.
- There is no evidence that the BBC is systematically pushing up prices in the talent market. Where high rates of inflation do currently seem to exist in the BBC this is largely due to market forces at work in the rapidly changing UK TV and radio markets.
- The BBC has a number of systems in place to ensure that it achieves value for money in its negotiation of talent fees, and has strengthened these processes in recent years.

However, the work by O&O suggests there is room for improvement in the BBC’s practices which could achieve better value for licence fee payers in some of its deals with talent.

In reaching its conclusions the BBC Trust has also considered the BBC Executive’s response to O&O’s report, which is published alongside this document.

## The Trust’s conclusions

### 1. On-air and on-screen talent is valuable to audiences as well as broadcasters

**Talented people are rare and valued highly by their audiences.** Good on-screen and on-air talent, even if not loved by everyone, are special people doing special jobs. The Trust’s separate research amongst the public in 2007 about the distinctiveness of programmes showed that the audience recognises that talent makes a significant – and in some cases the most important – contribution to the quality and distinctiveness of a programme. That said, talent can sometimes polarise opinion and even the most popular performers will sometimes face antipathy from some sections of the audience. Indeed for some this tension forms part of their act. But programme makers and performers must recognise that the BBC is funded by a compulsory licence fee levied from all audiences, not just those watching or listening to that particular programme.

**Competition for top talent has increased in recent years.** The popularity of top talent and their ability to attract large audiences – particularly audiences to whom advertisers attach a high commercial value – leads to intense competition between broadcasters for these individuals which can sometimes lead to offers of very high financial rewards. Increasingly, this competition includes the global media market and opportunities for top UK talent to promote British creativity internationally. The commercial pressures facing UK broadcasters in recent years have led to a greater

reliance on bankable stars and proven formats, hence a greater demand for a small supply of top talent.

**The licence fee places responsibility on the BBC to take creative risks, cultivate new talent and new programme formats.** The licence fee provides the BBC with financial security and a responsibility to cultivate new talent and new formats so it is not overly reliant on the small pool of established names that others rightly compete for. Ultimately, the BBC has to be prepared to walk away from deals that do not offer good value to the audience and should build on its abilities to do so. Succession planning is important, but for the BBC to justify its unique funding it must contribute to a vibrant and creative market and help develop the talent pool for the industry as a whole.

**The Trust is clear that the BBC should not put at risk its ability to attract the best talent to be enjoyed and valued by licence fee payers.** They can command high salaries and the BBC should not be placed in an overly constrained position. A BBC without big name talent, top sports or other rights could exist, but it would be a very different BBC to the one the audience knows and values for the programmes they love.

## 2. We are reassured that overall the BBC is not negatively distorting this complex market

**In most cases, the BBC is already achieving deals which represent value for money and there are systems in place to control spending.** The available evidence shows that overall the BBC pays no more than the rest of the industry and in some cases on television the BBC pays less.

**There is no evidence that the BBC is systematically pushing up prices in the talent market.** The Trust is pleased to note O&O's conclusion that, where high rates of inflation do exist in the BBC, this is largely due to market forces at work in the rapidly changing TV and radio markets.

**Network radio is a particularly complex area because there are fewer direct commercial comparisons.** The fees paid by the BBC to a small number of top talent working in network radio are much higher than those offered on commercial radio. However, conclusions are not always simple to reach and the issues are complex, for example taking account of alternatives that may be open to talent in television paying higher rates. The BBC management will take account of O&O's findings as part of their strategic talent reviews already underway in all content divisions. The Trust's review of progress to be carried out in 12 months' time will specifically include radio.

### 3. The overall picture is good, but the BBC can do more to achieve value

**On the whole, the Trust accepts that decisions on talent deals are being made well.** It is also encouraging to note the real steps taken by the BBC to control talent costs in recent years and the resulting lowering of overall inflation levels.

**However, a more consistent approach and some improvement to processes could ensure improved value overall for licence fee payers.** Some of the challenges the Executive face get quite close to individual editorial decisions. It is not the job of the Trust to intervene in such decisions, but to ensure that the right strategic frameworks are in place to ensure such decisions are driven by a need to consider value for money. The changes and improvements we have asked BBC management to make are summarised below. The Trust welcomes the BBC Executive's positive response and indeed we acknowledge that many of these are already being implemented:

- The systems used by the BBC to challenge deals could be improved with greater independent information. It is particularly important that high value talent deals and decisions are based on the best possible data.
- The BBC possesses a degree of bargaining power in respect of levels of exposure that talent can receive and the ability to work across genres. Whilst this should not be overstated, especially in the most popular genres that can draw large audiences to either the BBC or commercial broadcasters, the Trust believes the BBC should take a more systematic approach to considering this factor in future negotiations.
- The BBC should ensure it has a wider range of appropriate measures to assist it in considering talent policy and specific deals, rather than a heavy reliance on comparing relative cost per viewer hour. Cost per viewer or listener hour can be a useful measure, but can skew decision making when talent can attract large audiences. The nature of the radio market can make such comparisons particularly difficult. The Trust expects the Executive to pay closer attention to the relative value to BBC audiences of particular talent, their "incremental value" above alternatives and how far a particular talent can contribute to fulfilling the BBC's strategic purpose plans.
- The BBC must find ways to demonstrate its efforts to achieve the best deals more openly to the public in order to generate greater confidence amongst licence fee payers that value for money is being achieved.

### **Next steps**

Given the undertakings from BBC management to strive for further improvements in the area of talent negotiations and bringing on new talent, the Trust intends to undertake a short review of progress 12 months from this report which we will publish. The review will focus on ensuring that improvements in value for money on overall talent costs continue to be made, and that the BBC's systems and processes for assessing the market are thorough and based on up-to-date information. The Trust will also focus its review on assessing how a pool of the best new talent is successfully being encouraged and utilised, and how the BBC's wider talent strategy will develop and strengthen the BBC's commitment to licence fee payers to deliver distinctive content through the best use of big name talent and fresh new names across TV, Radio and Online.

The Trust commissioned this report principally to answer the question of whether the BBC exercises undue influence on the market for talent. The evidence here is that it does not.

It is also clear from the evidence presented to the Trust that the Executive has to balance a range of difficult and competing pressures when considering what talent to use in programmes and more widely. These conclusions can never seek to provide a simple answer to that complex balancing act.

There will always be individuals who are loved by their audience and attract high salaries because of their popularity and their commercial value, whilst at the same time attracting criticism because some individual licence fee payers believe they do not represent value for money. We must all keep in mind that the BBC is paid for by everyone, everyone must receive something of value in return, but rarely will everyone receive something of value at the same time.

Overall the Trust is satisfied that the BBC is working hard to deliver quality programmes that stand out from the crowd and represent value for money to all licence fee payers. But the issues raised are of continuing interest to the Trust. We will keep the pressure up so the best deals are reached on behalf of all licence fee payers and report again on the results of our review which will take place a year from now.

**BBC Trust**  
**May 2008**

## PUBLICATION NOTE

*In bringing the report into the public domain, the BBC Trust has had to make a limited number of redactions which have been made with careful consideration of the interests of privacy for individuals, and details of specific deals and strategies which are confidential and commercially sensitive and may impact the wider market. Data which may have a detrimental effect on the BBC's ability to negotiate value for money deals in the future has also been redacted.*

## **BBC EXECUTIVE RESPONSE TO OLIVER & OHLBAUM'S REPORT**

### **Introduction & Overall Summary**

This summary sets out BBC Management's response to Oliver and Ohlbaum's study on on-screen and on-air talent commissioned by the BBC Trust.

Talent is the lifeblood of the BBC – it underpins our public purposes, it is central to our creativity and in many respects defines the essence of the BBC. From the extra in the crowd scene to the top entertainment presenter, from the rank and file musician in the BBC Symphony Orchestra to Madonna on Radio 1 it is a key part of what we are all about and what are audiences look to us for.

Against this background, we are passionate about talent – we are incredibly proud of the investment we make in talent, of our track record in bringing the very best talent to UK audiences and of developing a huge range of new talent over many decades. The contribution that the BBC has made to the UK talent pool is unmatched.

Equally we take our responsibilities towards managing talent on behalf of licence fee payers very seriously. It is vital for the BBC to be a place that talent want to work and that we get value for money from the deals that we do – particularly in view of the competitive nature of some parts of the market, and the high value we place on our audiences in supporting talent through the licence fee.

We are continually striving for improvement in every aspect of how we deal with talent. This ranges from ensuring that we have strong processes in place for controlling costs, that we are paying fair but competitive fees, that we are acquiring the rights we need, bringing on new talent and having plans for succession in place.

We are pleased that O&O's report recognises all of the above factors. In particular we welcome O&O's observations on the BBC's successful talent strategy which refer to our recent strategic initiatives in the talent area, our more systematic approach to succession planning, our approach to ensuring we have the rights we need in a digital age, the recent success we have had in controlling inflation and the benefits we have achieved in individual negotiations through taking a systematic and strategic approach. Most importantly we welcome O&O's overall conclusions to the key questions the Trust asked.

The BBC also welcomes the suggestions and recommendations that O&O has made and will want to take full account of them as we continue to develop our approach to the management of talent. A number of them are already recognised as issues in the ongoing talent strategy work the BBC is conducting in each content group.

## **Comments on O&O's Observations**

The O&O report provides a very detailed account of the market in which the BBC operates and how we are positioned within it. In particular we would draw attention to the following observations made by O&O and our response to them.

The report highlights the increasing intensity of competition between broadcasters and, in particular, that the competition for entertainment formats and talent has never been greater. It goes on to describe how competition for talent may not be as great in other areas particularly those where others are reducing their output.

O&O notes the historic high levels of inflation in the TV and radio industry – how the BBC has done well in controlling talent inflation in the past three years - and identifies the current trends in talent spend over recent years in different genres.

The report refers to the huge volume, wide range and mix of talent used by the BBC each year and recognises that it is often hard to make year on year comparisons given the complexities involved.

Finally the report stresses the importance of the BBC having objective measures of the performance and volume of talent (including consumer analysis and bench-making). It describes the analysis it has undertaken, the results it found and the difficulties associated with.

The BBC welcomes all of this analysis and agrees with the large part of it, and has the following comments it wishes to make:-

### **1. Market Context**

O&O have recognised that competitive pressures are intensifying as a result of a number of factors including: Channel 4's market approach, the change in independent producers' terms of trade and the proliferation of digital platforms, stations and channels. Competition for the best entertainment formats and the talent that leads them has never been greater – and that competition comes not only from the BBC's direct competitors, but from across the many markets that our talent operate in. Also, while the UK has seen significant increases in talent rates over the last 20 years, it has largely avoided the hyper-inflation found in the US.

However there are two other markets where the BBC believes there are significant competitive pressures which are mentioned in the report but which the BBC believes warrant drawing attention to in its response:

- We believe that competition for BBC News from other TV broadcasters is very significant. In addition the definition of the market for BBC journalism talent is much wider than just other TV broadcast news organisations. There are numerous examples of the two-way flow of specialist journalists (e.g. political, social affairs, business/economics correspondents) between BBC News and newspapers & policy development/PR/think tank sectors. Additionally, top news talent increasingly work across multiple genres such as Radio, Specialist Factual, Current Affairs or Entertainment.
- In radio, competition for talent is frequently not just between the BBC and commercial radio, but across the entire entertainment industry. Many key BBC radio performers have careers in TV and film, print journalism and the wider music business, both pop and classical. In many cases the BBC is in competition for talent's time and therefore the opportunity costs of that time, we believe that this is a point that has to be emphasised.

Whilst O&O's study recognises the difficulties of making comparisons in this area, it says that in all but one case the commercial value for BBC radio talent evaluated was greater than the payment made by the BBC.

- Also there are a number of examples where BBC radio performers and Television talent have stayed at the BBC despite receiving more lucrative offers elsewhere because of the range of creative opportunities we can offer and the unique nature of BBC output.

Additionally, we would want to stress the contribution the BBC makes to talent development, a finding that is backed up by O&O's Talent Tracking analysis. The BBC nurtures and gives opportunities to new presenters, performers, musicians etc that are not available from other broadcasters. Its digital channels and stations are important training slopes for new talent, while new factual programming such as the One Show and Coast offer opportunities for prime time exposure.

## 2. Analytical Context

The BBC has worked closely with O&O over a number of months analysing in detail a large volume of data covering BBC talent spend over several years.

This has been a complex process, given the over 240,000 contracts issued by the BBC each year (excluding staff), and the many variables which underpin change in talent spend: the number of individuals engaged, hours of contribution, volume of output, mix of genre, specialist expertise and the rights acquired.

In this analysis it is important to differentiate between an increase in overall spend on talent which reflects the BBC's editorial strategy or commissioning

patterns which lead to more use of talent, and an increase due to inflation on individual fees. This distinction is made in a number of places in the body of the report very clearly.

## **Observations on O&O's Recommendations**

The BBC welcomes the thoughtful recommendations that O&O has made and will take full account of them as we continue to develop our approach to the management of talent. Many of them are already recognised and will be included in the talent strategy work the BBC is conducting in each group. We believe it is appropriate to consider each recommendation individually and the most appropriate way to address them.

In considering the recommendations, it is also important to recognise the significant talent approval and review processes the BBC already has in place, which O&O concluded were effective in achieving value for money.

Additionally, all talent decisions are made within an environment of stretching Value for Money targets which provide a powerful counterweight to any inflationary pressures.

### **1. Improvement of Information Systems and Evaluation Procedures**

O&O correctly identifies the critical importance of information in managing talent and monitoring inflation, and notes the wide range of analysis carried out by the BBC. The metrics used by the BBC when assessing talent deals include a range of value measures, competitive intelligence and information on talent's alternatives and motivations. As a result, we agree that cost per viewer/listener hour are not the only metrics that should be used. We are also looking to develop our metrics as part of our talent strategies in each group and take the point that these should be applied more systematically (the new Finance Committee referral guidelines make this clear). On the question of market intelligence, the BBC accepts that its approach could be more systematic, although it notes the difficulty both it and O&O experienced in persuading other broadcasters to engage in talent benchmarking. Looking forward, the BBC will do more to ensure that appropriate information is regularly shared with managers to enable them to more effectively monitor their talent spend.

### **2. Process and Pre-Planning Improvements**

The BBC is pleased that O&O endorses the recommendation set out in the BBC's strategy work that succession planning should play a key part in managing both talent inflation and development. The report recognises the work already done in this area. In particular, Audio & Music and News are leading the BBC in actively planning and managing their talent portfolios going forward and we believe there will be an opportunity to apply best practice in highly competitive

areas. Vision and Journalism are also preparing talent strategies which will include identifying further opportunities in developing talent and succession planning.

The BBC recognises the importance of rigorous challenge in delivering value and resisting inflation. It believes that the current system of approval processes, including reference of significant deals to senior divisional committees (chaired by divisional Finance heads) and ultimately to the BBC's finance committee (chaired by the DG with the BBC Finance Director) provide the right framework within which to interrogate and approve or reject proposed deals.

The BBC also recognises that these committees should be provided with more independent, regular and formal reporting on the different talent markets the BBC operates within to set individual deals in context. This would improve decision making by these committees and would meet O&O's point that the process would benefit from more analytical information to support deal making.

### 3. Specific Issues for the BBC's Strategic Reviews

As O&O notes, the BBC is currently delivering strategic reviews of its approach to talent across all content divisions. These reviews will consider the very wide market context of the markets in which our talent operate and the process by which the BBC sets prices across them.

Although, as O&O recognises, the BBC's editorial positioning in the entertainment and comedy genre is not directly in the scope of this report, the BBC's talent strategy work will be looking closely at the way it works with talent in these genre, the value delivered to audiences and how this might develop in the future.

**BBC Executive  
May 2008**





**ON-SCREEN AND ON-AIR TALENT**  
**AN ASSESSMENT OF THE BBC'S APPROACH AND IMPACT**  
**A REPORT FOR THE BBC TRUST**  
**BY OLIVER & OHLBAUM ASSOCIATES**  
**APRIL 2008**

# SUMMARY AND MAIN FINDINGS

## Four Key Issues Covered

- The BBC Trust posed three specific questions in commissioning this review.
  - How do the size and structure of the BBC's reward packages for talent compare with the rest of the market? (Value for Money)
  - What has been the impact of the BBC's policy on the talent market, particularly in relation to cost inflation? (Market Impact)
  - To what extent do the BBC's policy and processes in relation to investment in, and reward of, talent support value for money? (Value for Money Processes)
- The Trust also required the review to provide them with an understanding of how the BBC approaches the issue of talent and how it relates to the market place (the BBC's Talent strategy).

## Achieving Value for Money

- O&O's review of the likely commercial value of leading BBC TV talent in programme areas where the BBC is competing most directly with rivals, suggests that there is no evidence that the BBC is paying more than the "market price" for such leading TV talent. In some cases, it may well be paying less than the market price for that talent.
- Value for money in areas where there is less head to head (or comprehensive) competition is more difficult to judge. BBC top talent fees in network radio for instance, often offer good value for money in terms of cost per listener hour when compared to alternative forms of programming for reaching those licence payers, but some of these fees are much higher than could be reasonably offered by a commercial radio sector that currently lacks broadly based UK wide outlets. (Fee rates in these case may reflect the talent's alternatives, such as working more in TV, rather than offers from rival commercial radio groups).
- Similar issues arise in areas of TV programming where the BBC either competes less directly with the market place or on a scale that is not replicated by the market. For instance, in news and current affairs TV programming, while ITN and Sky might be interested in poaching some BBC presenters and correspondents, they are not in a position to compete for them all, and might have very little interest in those covering less popular areas of the news agenda. For many TV reporters, the national press or research organizations are likely to be the nearest competing employers to the BBC.
- BBC fee levels in these areas can still be justified by the cost of close alternatives for the BBC, and/or the opportunity costs and motivation of the talent involved (e.g. the need to offer leading TV entertainment talent high fees to come and work in network radio instead of taking more TV work), but they do also raise questions about the lack of available close alternatives, the level of succession planning and the proper probing of talent's real alternatives and motivations as opposed to those claimed in any negotiation process.

- Furthermore, if commercial TV broadcasters such as ITV continue retreating from less cost effective areas of public service broadcasting in the run up to digital switch over, there may be more areas where commercial rivals no longer compete, or no longer compete on the same scale and level as the BBC for on-screen talent.
- A large number of O&O external non BBC interviewees – some involved in supplying talent and programming to the BBC – suggested that the BBC does not always realise the strength of its own bargaining position in terms of the talent’s real alternatives and the extra benefits the talent can derive from exposure on the BBC. This is likely to be more of an issue in less contested programming and talent areas than more contested ones.

### The Market Impact of the BBC

- There is no evidence that the BBC is systematically pushing up prices in the talent market. Where high rates of inflation do currently seem to exist in the BBC this is largely due to market forces at work in the rapidly changing UK TV and radio markets.
- The BBC makes a sizeable direct annual investment in on-screen and on-air talent each year - £204m in 2006/07. Total talent spending across all new BBC output (including likely spending through independent commissions) has been increasing by approximately 6 per cent a year over the last 3 years. Internal BBC spend (excluding the impact of more commissioning going to independents) has risen by 3.6 per cent year.
- Talent spending on the top 50 named talent in the BBC seems to be growing significantly faster than the recent 6 per cent annual rate for total talent spending (direct and indirect), although much of this higher level of growth is associated with an increased level of output hours from the top 50 presenters/performers which grew by 15 per cent from 2004/05 to 2006/07.
- More detailed, longer term analysis of the inflation in talent fees per hour among the top 100 named talent in TV (in-house and independent) on returning strands only suggests an inflation rate per hour of 6 per cent a year, having come down from levels of 10 per cent a year between 2000/2001 and 2003/04. (But this trend does not take account of the increasing output use of top talent or of talent spending on new strands)
- Total talent spending growth seems to be highest in TV entertainment and comedy, network radio, and news (although a significant amount of this growth in news spending has been associated with increased output hours and more on-screen and on-air journalists employed rather than increased fees per journalist).
- Above inflation increases of payments to top and leading on-screen and on-air talent names across the BBC are being driven primarily by market forces that are putting a premium on the presenters/performers that can be relied upon to attract and retain audiences – especially the most commercially valuable audiences.

- These market forces have generally intensified recently driven by a number of factors (such as a move by Channel 4 into more mainstream entertainment programming, revised terms of trade with independent producers, and rapidly rising multichannel TV penetration). But these competitive pressures have not increased at the same rate across genres and media, and in some areas of programming – especially the most public service form of programming - the level of competition to the BBC has probably reduced in recent years.
- O&O did not have access to sufficiently detailed data over enough of a time period for the BBC or its rivals with which to assess whether the BBC has made a significant and separate contribution to talent fee inflation over the last 5 to 8 years. But some observations are worth making.
- The BBC's own longer term inflation figures suggests that it experienced its highest rates of inflation in top TV talent fees per hour for returning strands from 2001/02 to 2003/04, a period when the commercial TV sector was going through a significant recession. It is possible that the BBC did not react quickly enough to these significant changes in circumstances among its closest rivals and thus sustained market inflation through this period. However, it is also possible that despite declining revenues, commercial TV was still funding inflation in top talent fees at the expense of other areas of programming spend in order to deal with rising levels of competition and risk.
- Comparisons made between talent fee rates per hour across commercial radio and BBC network radio suggest that the BBC had up until recently been increasing rates on average while commercial radio had been cutting rates to reflect a depressed radio advertising market and increased audience fragmentation.
- Talent tracking analysis of the current leading talent roster on the BBC and commercial TV across a number of genres suggests that caution in utilising new entertainment talent across all network TV channels – commercial and the BBC- may have made a significant contribution to high levels of BBC talent inflation in this area.
- The BBC has been taking clear actions in the last 12 months to address these issues through the development on new presenter/performer talent across its digital TV and radio channels and main networks.
- However, some external interviewees still expressed a concern to O&O that the BBC's new digital channels were either being used to develop specialist projects for existing lead talent (as a way of helping to keep them with the BBC) or using new talent that clearly was not destined to break through to the main networks as it was more comfortable with specialist and idiosyncratic material.

### Appropriate Value for Money Processes

- The BBC has a number of systems in place to ensure that it achieves value for money in its negotiation of talent fees, and has strengthened these processes in recent years.

However, some of these processes could be strengthened in their provision of data, rigour of benchmarking analysis and internal challenge.

- Business affairs staff work closely with programme makers and commissioners in setting fees and lead negotiations. Most of the largest deals end up being considered at divisional or board level, and all existing talent deals involving more than 3 per cent inflation have to go through a specific divisional approvals process. These processes have probably played an important role in more or less halving the annual inflation in returning strand talent fees for top talent across BBC TV since 2002/03.
- However there are number of areas where the BBC should consider improving their processes. Some of these are in the ways it uses and shares information and value for money benchmarks, others are in the scope and scale of its negotiation and approval processes.
- The approval processes already in place for larger deals and above normal inflation might benefit from more internal challenge, especially the largest deals, and ones that involve the assessment of BBC alternatives and the talent's own alternatives and motivation. While the support information for each case is interrogated (often by senior finance staff), those doing the interrogation tend to have to rely only on the facts and benchmarks gathered by those proposing the case.
- The control procedures could also be applied more systematically in setting fees for new talent not necessarily currently captured fully by the process.
- In terms of information gathering, use and sharing, O&O would make a number of observations. First, information on actual talent fee inflation performance needs to be measured more comprehensively and shared more widely, so as to better influence producer/commissioner behaviour.
- Similarly, systematic information on the BBC's sourcing of talent, performance against targets for developing new talent and talent turnover all need to be provided and shared widely with relevant management.
- Cost per viewer hour and cost per listener hour benchmarks used extensively by the BBC for fee setting and assessment are useful but must be handled with care. The appropriate benchmark sub-genre and slot must be used, and must only form one part of an assessment of fee rates. If not used judiciously the measure can be used to justify very large increases in fees to talent who are involved in programming in leading slots or on programmes where the rest of the programme budget is quite low (due to volume or editorial reasons unrelated to the talent involved).
- For larger levels of payments the BBC should consider doing more systematic research designed to isolate the named talent's contribution to audience levels, audience demographics and audience value, and the relative contribution of potential replacements (programme AIs being only a very general and imperfect proxy for this). The BBC should consider doing this on a regular basis across genre, rather than only when a major negotiation is coming up.
- In areas of significant commercial competition, the BBC should also consider conducting a full commercial bidder evaluation (as has been conducted for this report and as the BBC has done for leading sports rights and acquisitions auctions). In areas of more limited competition, a thorough assessment of the talent's own

alternatives and motivation should be conducted (including the impact on their non TV and radio earnings of losing BBC exposure).

## Observations On The BBC's Talent Strategy

- The BBC's reliance on talent as a way of attracting audiences and delivering public value, and its use of proven talent versus new talent, is essentially an editorial issue beyond the scope of this review. But a few observations are worth making on the BBC's Talent Strategy in so far as it affects value for money and market impact issues.
- Evidence gathered for this report does suggest that programming built around talent, and in particular, top talent, has been making up an increasingly large proportion of the BBC's schedules – especially in its entertainment and lifestyle programming. (In this, the BBC may simply be reflecting a general market trend towards using proven talent which is itself a reaction to increased competition and risk aversion in the commercial sector).
- The BBC may need to consider the financial and editorial consequences of any tendency to follow market trends in talent use and payments, especially in very competitive programming areas, and to set a more deliberate and focused strategy to counter these trends within its overall strategy and public value ambitions.
- To this end, the BBC has taken some strategic initiatives recently in the talent area. It has made specific attempts to use new digital TV and radio channels and new main network magazine shows (e.g. *The One Show*) to introduce new or less familiar performers/presenters to audiences.
- It has taken steps to introduce a more systematic approach to succession planning within its leading strands and services. It is also aiming to acquire as many new media re-use rights from talent as possible, to give it the flexibility it needs to operate in the digital on demand age.
- The BBC is also taking a generally harder line on talent fee increases– as part of its overall programme budget efficiency initiatives introduced in 2004/05 – which has contributed to some high profile exits from the BBC.
- The negotiation and approval process has generally benefited when operated within a broader strategic framework. O&O's BBC interviews suggested that where genre and group heads have been asked to take a proactive cross genre view on the use and importance of talent, the need to do succession planning and to bring in new talent – such as in TV drama over the last 3 to 5 years, and more recently following Audio and Music's strategic review – the negotiation and approvals process is likely to be more successful in holding down inflation.
- As part of the BBC's on-going strategic review of talent, O&O would recommend a specific immediate focus on the BBC's positioning in the entertainment presenter/performer market, and of appropriate price setting in both the radio and news and current affairs markets given the BBC's unique positioning and the rapidly changing market context.

## RECOMMENDATIONS

The review has three main areas of recommendation:

- improvement of information systems and evaluation procedures;
- process and pre-planning improvements; and,
- specific priority areas for on-going strategic reviews of talent across the BBC

Each of these is covered in turn below.

### 1. Improvement of Information Systems and Evaluation Procedures

#### a. Systematic Outturn Inflation Monitoring and Feedback

- While the BBC does measure inflation there seems to be very little knowledge as to performance by genre and sub genre across the BBC among relevant management.
- The BBC needs to monitor key trends in a more systematic way and ensure its systems produce relevant and timely data.

#### b. Strategic Level Rival Broadcaster and Talent Alternatives Intelligence

- BBC intelligence about rivals needs to go beyond specific deals and needs to include commercial valuations for the largest and most important deals. The BBC also needs to do more work on the real alternatives facing the talent asking for higher fees, especially in genres where there is no rival of significant scale.

#### c. Use of Cost per Viewer/Listener Hour Versus Incremental/Unique Value

- The BBC needs to reduce its dependence on cost per viewer and listener hour benchmarks as justification for fee rates and needs instead to focus on the incremental and unique value the talent brings.
- Where cost per viewer or per listener hour benchmarks are used they need to be used in a systematic way, not selectively to support a specific case.

#### d. Continuous Presenter/Performer Value Research

- In some genre areas where competition is very intense or payments reach high levels, the BBC should engage in systematic and continuous consumer value research to support its succession planning programme so as to identify unique pulling power, commercial value and potential replacements.

## 2. Process and Pre-Planning Improvements

### a. Better Succession Planning

- The recent BBC rights and talent strategy initiative had highlighted a need for succession planning, this review endorses this and would suggest it made an ongoing requirement in areas of most intense competition and/or highest current fee rates.

### b. More Internal Challenge

- While we understand business affairs staff do question fee rate increases and challenge BBC producers and commissioners (and that there are mechanisms for BBC finance staff to further interrogate decisions), there is probably not enough independent challenge when decisions are finally made.
- In particular, we would recommend the commissioning of new independent research and analysis outside of the normal review processes as part of decisions on significant levels of fee payments. This independent analysis should be charged with taking a broader view of fee trends and fee setting criteria across a relevant sub-genre than the current case by case approval/evidence process.
- This might include a genre wide consumer talent value survey like the one conducted for this review.

## 3. Specific Issues for the BBC's Strategic Reviews

- Some specific areas have emerged from this review that if not already addressed by on-going strategic reviews should be covered as soon as possible.

### a. Role and Positioning Review in Entertainment and Comedy

- The BBC might benefit from a specific review of its market positioning in the entertainment and comedy talent area, its success or otherwise in developing new talent and its current reliance, along with the rest of the TV market – on a limited number of lead presenters.
- It should also review the role of presenter/lead panelist driven entertainment versus other approaches to entertainment.

### b. Price Setting Reviews in Radio, and News and Current Affairs

- These are areas where the BBC is often setting rates without a leading competitor of scale for the kind of talent the BBC uses (i.e, rivals may be interested in one or two of the BBC roster but not much beyond that).
- The BBC should both specifically monitor the changing market context in these areas and assess whether there might be scope for resetting rates across the board given a thorough assessment of the real alternatives available to talent and the BBC's long term objectives.

# CONTENTS

<b>A. INTRODUCTION AND SCENE SETTING</b>	<b>11</b>
1. The Remit from the BBC Trust	11
2. The Key Questions and The Main Challenges	12
3. Some Important General Context	17
4. O&O's Approach and Methodologies	24
<b>B. THE ECONOMICS OF ON SCREEN AND ON AIR TALENT</b>	<b>35</b>
1. The Role of On-Screen and On-Air Talent	35
2. Demand for Talent	44
3. Supply of Talent	47
4. A Market Model for TV and Radio Talent	52
5. A Complete Model of TV and Radio Talent	56
6. Likely Drivers of Change Over Time	58
<b>C. THE UK MARKET FOR ON-SCREEN AND ON-AIR TALENT</b>	<b>60</b>
1. The UK On-Screen and On-Air Talent Market	60
2. Competition for Broadcasting Revenue and Audiences and the Impact on Talent	67
3. Competition for Programme Commissions and the Impact on Talent	87
4. How Does the Commercial Market Value Talent and Set Prices?	89
<b>D. THE ROLE, POSITIONING AND PERFORMANCE OF THE BBC</b>	<b>92</b>
1. The BBC's Purposes, Positioning and Role	92

2. BBC Talent Spending and Inflation Trends	101
3. The Interface with BBC Worldwide	116
4. The BBC’s Talent Negotiation and Approval Processes	118
<b>E. ASSESSMENT OF EVIDENCE ON VALUE FOR MONEY AND MARKET IMPACT</b>	<b>124</b>
1. Is the BBC Getting Value for Money?	124
2. Does the BBC Have the Right control and evaluation processes?	133
3. What Impact is the BBC Having on the UK Talent Market?	136
<b>F. RECOMMENDATIONS</b>	<b>138</b>
1. Improving Information Systems and Evaluation Procedures	138
2. Process and Pre-Planning Improvements	139
3. Specific Issues for the BBC’s Strategic Reviews	139
<b>APPENDICES</b>	
I THE O&O TALENT VALUE SURVEY METHODOLOGY AND OBJECTIVES	
II TALENT TRACKING	
III BBC TRENDS ANALYSIS	
IV RADIO SECTOR BENCHMARKING	
V LIST OF INTERVIEWEES	
VI BBC PROCESS MAPPING CHARTS	
VII COMMERCIAL VALUATION METHODOLOGY AND FINDINGS (partially redacted)	
VIII THE REGRESSION ANALYSIS	
IX UK TALENT IN THE USA	
X GLOBAL CONTEXT TRENDS	
XI MAJOR TALENT MOVES – 2000 to 2008	
XII ALL CHARTS FOR THE REPORT (partially redacted)	

## **A. INTRODUCTION AND SCENE SETTING**

### **1. The Remit from the BBC Trust**

The BBC Trust commissioned Oliver & Ohlbaum Associates (O&O) to examine the interaction of the BBC with the market for on-screen and on-air talent. The overall goal of the study is to ensure that the Trust has a proper understanding of how the BBC operates in the talent market so that it can satisfy itself that the greatest value is being created for audiences.

#### **a. Main Questions**

The Trust wished the study to consider the full range of BBC on-screen and on-air talent in all divisions including both top talent and those employed on standard BBC terms. The main questions to be addressed by the study were to be:

- How do the size and structure of the BBC's reward packages for talent compare with the rest of the market?
- What has been the impact of the BBC's policy on the talent market, particularly in relation to cost inflation?
- To what extent do the BBC's policy and processes in relation to investment in, and reward of, talent support value for money?

#### **b. The Scope**

The Trust wished the study to cover on-screen and on-air talent in all divisions of the BBC. In particular, it wanted the study to focus on business processes and not the editorial strategy for individual commissions. Editorial decisions were not to be within the scope of this review.

#### **c. The Study**

Where practicable, the study should try to compare the size and structure of the BBC's reward packages with those offered by other broadcasters. It should also examine whether there have been any significant changes in the BBC's policy towards the reward of talent in recent years in response to market changes such as the development of new platforms and the proliferation of channels.

The Trust wanted to gain an understanding of the impact of the BBC's current policy towards investment in, and reward of, talent on the overall talent market. The Trust expected the study to address a number of questions:

- What is the recent pattern of cost inflation across different segments of the overall talent market?
- Is there any evidence that the BBC's talent investment and reward policy has led to inflation in any segments of the market, and if so, was it consistent with value for money?

- How should the Trust measure the impact of the BBC's talent investment and reward policy on the market?

The Trust expected the study to address the following questions in relation to the value for money achieved by the BBC's talent investment and reward policy:

- How does the BBC's current system for negotiation and approval of reward packages for talent operate?
- What processes and performance indicators are used to evaluate whether value for money is supported by these packages?
- In what areas could value for money be improved, and how?
- What performance indicators should the Trust examine to monitor the value for money achieved in this area?
- How far does the BBC drive value for money in its decisions to develop new talent and use existing talent?

## **2. The Key Questions and The Main Challenges**

### **a. The Key Questions for This Report**

The Trust's remit set out a very broad task, covering a potentially very wide range of potential issues, types of talent and market segments. O&O sub-divided the issues into four key questions to help focus the work. These are:

(i) What has been the BBC's strategic approach to the use of talent – across all activities and within services or genres - and how does this differ, or should this differ, from a commercial market approach? (The BBC Talent Strategy)

(ii) Is the BBC paying talent just what is necessary to attract that talent to work on BBC output or is there systematic evidence that it might be paying more than is necessary? (Value for Money)

(iii) How does the BBC actually go about assessing what it should pay talent and ensuring it is not paying more than is necessary? (Value for Money Processes)

(iv) Has a combination of the BBC's strategic approach to the use of talent and its price setting either damaged the rest of the TV market - by forcing up prices paid or denying rivals access to talent – or benefited the rest of the market – by helping to reduce prices and/or increasing the range and quality of talent available? (Market Impact Assessment).

### **b. A Specific Interest in the Top Level of Talent ?**

While the BBC Trust has commissioned a review of all levels of talent payment across all BBC activities, there is clearly a specific policy concern (within the BBC and outside the BBC) as to the BBC's strategy and payments to top level talent – whether the absolute

payment levels are appropriate, and whether the differentials between top, middle and lower level talent are appropriate for a public service organisation.<sup>1</sup>

While this report has tried to cover all levels of talent payment across as many activities as possible, there has been a specific focus on the BBC's payments to top talent (both because it is a clear issue within and outside the BBC and because focused analysis is in some senses easier when covering the top 200 talent names on the BBC, rather than the 200,000 or more individual talent contract payments made by the BBC every year most of which are for less than £1,000).

### **c. The Specific Challenges in Answering the Four Questions**

Each of the four main questions posed its own specific challenges in terms of the information and analysis needed in order to get to a reasonable answer.

#### **i. The Appropriate Talent Strategy**

The BBC's use of talent, like all its management decisions, is linked to the achievement of its core public service purposes and the creation of public value through reach, quality/distinctiveness, impact and value for money/cost as set out in the BBC's Charter and the Trust's overall framework for assessing all BBC activities.

But the BBC's use of talent is both a means to a number of these different ends (reaching an audience, delivering public purposes, achieving overall value for money etc) and to some extent an end in itself – a source of uniqueness and diversity.

The way the BBC uses its talent strategy to achieve these ends – directly and indirectly - is not of direct concern to this review. In some genres and services, the BBC may use talent primarily to achieve audience reach, in others it may use its talent to achieve uniqueness and diversity at the expense of some reach.

The main concern of this review is how far the BBC delivers value for money in achieving each of these aims once chosen, what processes it goes through to ensure value for money, and what impact these decisions have on the market – positive or negative.

However, this review does need to have some insight into the likely objectives of the BBC's approach to talent in each activity and genre in order to apply the appropriate value for money assessment.

For instance, if the BBC's use of talent in one genre is focused on reaching a specific hard to reach target audience in a competitive area of the UK TV or radio market, the appropriate value for money assessment is likely to be different from, say, another area where the main focus of talent use is to achieve a large amount of distinctiveness from anything else available on TV or radio in the UK.

This report therefore needs to take into account the BBC's overall market positioning and its talent strategy within that in order to assess value for money and market impact.

---

<sup>1</sup> Throughout the external and internal interview process O&O conducted the issue of top talent payments was clearly a focus of people's comments. The recent public debate surrounding the new contract for Jonathan Ross and the leaked details of supposed payments to leading on-screen BBC names have clearly set an agenda that this report needs to address in addition to the Trust's desire to have a review of the entire range of payments across the BBC.

Section C in particular reviews the UK TV and radio competitive landscape, and Section D begins by assessing the BBC's overall market positioning within these markets.

## **ii. The Achievement of Value for Money**

The assessment of value for money from any given talent contract depends on the relevant BBC objective and the supply and demand characteristics of the relevant talent and/or programming market.

For instance, where reach is the primary motive and there is a high level of competition between broadcasters, assessment of value for money is likely to focus on evidence on the commercial value for such talent and/or the cost per viewer when compared with other ways of the BBC reaching the same audience. Such value for money criteria may, for example, be applied to leading entertainment presenters.

In other areas, where the BBC is attempting to achieve something particularly distinctive and/or where there may be very little direct broadcasting competition, an assessment of value for money may focus more upon the opportunity costs of the talent involved, the costs per viewer hour of alternative ways of achieving similar levels of distinctiveness, and the long run impact on talent supply in the specific area of different chosen payment levels. Such criteria might be most appropriate to, say, a specialist factual presenter.

The existence of different mixes of BBC purposes and different market circumstances across BBC activities implies that value for money assessments need to be tailored to suit each activity. It may also imply that assessing value for money in some areas – where a calculation of competitive value is most relevant – may be more straight forward than in others, where BBC alternatives, talent motivation and long run impact on supply are more relevant.

This review assesses how different demand and supply conditions can influence likely rewards to talent and the implications for any assessment of value for money in Section B. It then reviews actual supply and demand conditions in the UK TV and radio markets in Section C. Actual BBC payment trends and the impact of BBC objectives are assessed in Section D. An assessment of BBC value for money using various measurement criteria is conducted in Section E.

The ability of O&O to provide definitive answers in this area was restricted by the amount of BBC information available and the right level of detail and the fact that only the commercial radio sector agreed to enter into a formal benchmarking exercise providing evidence on prices paid by competitors.

## **iii. The Effectiveness of Value for Money Processes**

Over and above any assessment of the achievement of value for money against various appropriate criteria, there is the separate but related issue as to how the BBC goes about setting its own payments, and whether it adopts best practice in terms of:

- (i) the value for money criteria it uses,
- (ii) the way it negotiates,
- (iii) the way it prepares for negotiations, and,

(iv) the way in which it monitors and feeds back key trends.

The first of these goes beyond simply assessing whether the right criteria are being used and also addresses whether they are being used at the right time by the right people, in the right way. The rest of the areas relate to how proactive the BBC is in setting and determining payment levels over time so as to achieve value for money – no matter how measured. This issue is addressed in Section D.4, comparisons to the commercial sector practice are covered in Section C.5, and recommendations for improvement are covered in Section F.

#### **iv. The Net Market Impact**

At a very broad level the existence of the BBC, the additionality of licence fee funding to commercial revenue streams, the BBC's lead role in creating new programming and its inevitable extensive use of on-screen and on-air talent at all levels is bound to have a market impact.

If the BBC did not exist, the level of new programming making and the overall level of demand for – and payment levels to - talent would inevitably be a lot less in the UK. The supply of experienced UK on-screen and on-air talent – given the likely lower level of new programming opportunities in the UK – would also be significantly lower.

Given this general impact the focus of this study is in three areas:

- (i) has the market impact of the BBC changed significantly in recent years – positively or negatively (in terms of prices and/or availability)?;
- (ii) are there areas of the TV and radio market where the BBC may be having disproportionately negative market impact (in terms of prices or availability)?; and,
- (iii) are there areas of the TV and radio market where the BBC should be having a greater positive market impact (in terms of prices or availability)?

In order to address these questions, the review needs to assess:

- (i) trends in market revenue, demand for audiences and programming ;
- (ii) trends in market use of, and payments to, talent;
- (iii) how far these trends have been independent of the BBC's strategy or driven by them; and,
- (iv) if the BBC's strategy has had an impact on the market, how large an impact and how damaging or beneficial.

The first two of these areas are addressed in Section C, the last two are addressed in Section E.

The ability of O&O to assess the market impact of the BBC fully was restricted by the relative lack of BBC data going back before 2004/05, and the lack of data on the talent spending trends of TV rivals to the BBC even over that short period.

### **c. More General Challenges of Conducting This Review**

Many of the general challenges faced in conducting this review are covered in detail in the summary of techniques and methodologies in the next section, but it is worth drawing attention to them under four broad headings.

#### **a. Lack of Data**

O&O's observations and conclusions have had to be based on a fairly small range of data. Specific data gaps and issues have been:

limited data prior to 2004/05 except at a very aggregated level;

no direct benchmarking data from other leading TV broadcasters;

no systematic analysis of payments beyond the top few hundred talent names within the BBC;

limited ability to link named talent payments with output hours systematically;  
and,

general concerns over contract confidentiality.

While some of these issues were partially resolved towards the end of the project with a significant degree of bespoke analysis, the time and energy involved in constructing even basic data sets absorbed resources and meant that much of O&O's analysis had to be conducted in the final stages of this review.

#### **b. A Moving Target**

Recent events involving high profile talent deals, the launch of new cost efficiency initiatives in 2005, plus the recent lower than expected BBC licence fee increase have all led to new initiatives in the areas of talent costs and succession planning which may well be dealing with many previous problems within the BBC.

Issues of market impact and value for money may well have been more marked in the 2000/01 to 2003/04 period where the limited evidence we do have suggests the BBC was funding rapid internal key talent and lead talent inflation but where we lack the detail to interrogate further.

#### **c. Ranges and Complexity of Market Segments, Talent Types and Contract Types**

The remit requires O&O to investigate everything from payments to minor contributors in radio talks shows and night time DJs in English local radio, to payments to household name actors, national news presenters and leading entertainment show hosts.

Each of these talent areas exists to some extent in its own market segment with its own characteristics and competitive dynamics. This makes general conclusions difficult and has led O&O to focus its more in depth analytical attention – somewhat inevitably – on areas of lead talent in some of the most competitive and commercially valuable market segments.

Added to this complexity, is the range of contract types entered into:

many for specific programmes, but some centrally for a given amount of output;

many non exclusive but some exclusive;

many for individual media, but some multimedia; and,

many just for BBC licence fee services but some involving BBC Worldwide investment and bespoke back end commercial revenue share deals.

#### **d. The Timescales Involved**

Although four months may seem quite a long period for a review of this type – the effort and time needed to extract key information, the need to run a 45 session interview programme either side of the Christmas period, the extended discussions with rival broadcasters on the possibilities of a benchmarking exercise and the need to design, test and conduct a consumer value survey, all meant that much of our in depth analysis was conducted in a fairly short period over February/March 2008.

### **3. Some Important General Context**

#### **a. A Recurrent and General Entertainment Sector Issue**

*Talent inflation – and how to control it – has been a significant issue at the BBC for at least the last 20 years*

The issue of talent costs, and in particular, of talent cost inflation is not new to the BBC. The Gavin Davis Report on the future funding of the BBC published in July 1999 highlighted the likely rising talent cost inflation of a more competitive TV market as one reason for considering the need for a licence fee increase. The report quoted BBC management figures suggesting top talent inflation of 15 per cent a year in the late 1990s.

The more recent licence fee submissions by the BBC to DCMS and HM Treasury suggested that the inflation rate for lead and top talent had been running at 6 per cent a year from 2003/04 to 2005/06 and was expected to continue at least at this rate in the next 5 years.

Back in the early 1990s when sports rights inflation began to take off at the BBC in a very public way, the corporation also had to deal with rising inflation in US acquisitions, film rights and lead talent as the existing broadcasting duopoly began to become a much more competitive market with the introduction of satellite television, the independence of Channel 4 and the entry of FIVE into the UK market.

The BBC has had several initiatives to try to attract new talent to the BBC, so as to both broaden the range of its offering and to reduce dependence on existing, highly paid performers. The most high profile in recent years was led by Matthew Bannister – then Director of Production – in 1999, where the BBC campaigned to encourage new people across the nation, to audition for the BBC.

The BBC also appointed a talent “tsar” at the time specifically to address this issue.

***The so-called “economics of superstars” phenomenon has been a growing feature of the global entertainment markets over the last 80 years.***

High levels of pay to top talent have been a feature of entertainment markets in the UK and USA ever since the introduction of mass entertainment through cinema, radio, vinyl records and then video.

The introduction of mass produced records and radio made millionaires of artists previously restricted to making a living through live appearances in music halls and theatres. More recent examples include movie star deals with the likes of Tom Cruise, Jack Nicholson and Julia Roberts not only enjoying \$20m to \$30m fees per movie but also an extra share of the gross revenue of a film. TV and radio have not been immune to these trends, Bill Cosby earned so much from *The Cosby Show* in the 1980s (where he was executive producer as well as the main star) that he almost launched a successful bid for the network that commissioned the show – NBC. More recently, the cast of *Friends* were earning an average of \$1 million per episode (\$20m per series, each) by the time the series was in its 10<sup>th</sup> and final season.

Within radio, Howard Stern earned over \$100m in his first year on subscription radio (\$83 million in stock options). Closer to home, Chris Evans was able to buy and then resell Virgin Radio at a large profit, thanks to his perceived ability to gain and sustain audience share in the UK market.

The phenomenon was dubbed the “economics of superstars” by Sherwin Rosen of the University of Chicago in 1981.<sup>2</sup> It related the very high rewards of certain superstars to three specific economic features – limited substitutability of top performers, low duplication/replication costs (per LP or video cassette), and the non exclusivity of consumption (i.e. everyone could consume the same recording of the same song or movie). These three factors enabled a limited number of superior performers to claim large proportions of total global demand for music, film, sports etc.

***While rewards at the top grow rapidly those at the bottom end remain relatively depressed***

The capacity of superior or better known global stars to claim significant share of local markets for film, music etc takes value and revenue away from more mediocre local stars. At the same time, the promise of vast fortunes at the top of any given area of performance attracts thousands of ambitious new recruits into these areas, many of whom do not have the ability to reach the top but who depress the earnings of all those nearer the bottom of the hierarchy.

While those at the bottom end of the talent scale may benefit from some general growth in total demand within their sector – the gap between top and bottom widens.

***The entertainment industry has attempted to control these inflationary trends in the past but with limited success***

---

<sup>2</sup> Rosen, Sherwin “The Economics of Superstars”, The American Economic Review, December 1981

In periods when entertainment markets have been particularly concentrated and entertainment providers have operated as quasi cartels they have been able to contain inflationary trends in top talent. The Hollywood studio system of the 1920s and 1930s, which tied actors to specific studios on long term, demanding contracts was maintained for a while by the complete isolation of any actor who tried to break out of the system. But greater competition between studios (in particular one formed by three of the most popular leading actors of the day), and then between TV and film, led to the breakdown of this system.

In more recent decades, studios have periodically tried to move away from movies that depend on big name Hollywood stars and moved more towards films and genres more reliant on script writers, directors, special effects and animation as a way of controlling the rising salaries of stars, although this is often followed by a resurgence in pay as at least one studio takes the opportunity to pick up stars more cheaply and so the spiral starts again.<sup>3</sup>

Sports league and teams in the USA and elsewhere have been more successful at containing the spiraling wages of their top players but only by agreeing either total salary bill caps or average pay caps across the league – something for which US sports are granted a special exemption from normal competition policy.

Where no such system exists, such as in the FA Premier League, average wage salary increases can run ahead of revenue growth rates effectively redistributing all the profits within the sport into the pay of its leading players.

#### **b. A More Pressing Problem Today ? – The Impact of a Rapidly Changing International Entertainment Market**

The electronic entertainment sector, and within this the TV and radio sectors, are undergoing the most rapid period of change since mass entertainment began in the early part of the 20<sup>th</sup> century. While many of these changes may reinforce the “economics of superstars” others might dampen the effect.

#### ***Many recent and emerging trends in the global entertainment industry are likely to increase returns to top talent***

Recent and emerging developments in the global entertainment sector are likely to fuel the factors driving the “economics of superstars.” Duplication, reproduction and storage costs are declining fast. The internet is creating a global market for certain types of entertainment and news which is increasing the exposure and accessibility of top stars and performers.

New windows of entertainment content exploitation – Web 2.0. and video on demand exploitation - and lower barriers to entry into existing windows – high reach linear TV, are creating greater levels of competition and uncertainty in media and entertainment markets, and more scope for disintermediation.

Top talent can now reach mass audiences directly through new media, once made famous by traditional media, while greater levels of competition between competing

---

<sup>3</sup> UK actors' recent popularity in Hollywood has been related to their relative cost effectiveness compared with big Hollywood names.

providers within and between windows of exploitation help to increase the fees paid to that talent with a proven appeal to audiences and consumers.

The greater levels of uncertainty and risk faced by broadcasters, studios and recording companies used to operating in traditionally more stable and concentrated markets put a particular premium on performers and actors who can reduce the risk of ever more expensive failure.

***But some recent TV trends could help dampen inflation in top talent fees***

New distribution platforms and lower barriers to entry can help grow overall revenue and demand and increase competition for scarce resources but it can also fragment revenue. Fragmenting revenues, even if overall revenue is increasing, can reduce the ability of any one outlet to fund new programming, effectively increasing the financial risk in funding new production and potentially putting downward pressure on the volume and value of new programme making.

The move to more formatted programming – where an idea that worked in one market is then made for another market as a local version with local performers or presenters, while a symptom of a more global TV market is also a sign that top talent is not the only way of managing the increased risks of TV in the digital age. Reality and talent contest based format shows (*Big Brother, X-Factor, America's Got Talent*) also help develop new sources of celebrity and performers even if the celebrity based versions of such shows are often ways of reinforcing the earnings and exposure of established performers.

***And there may be some significant deflationary effects at the bottom end of the talent market***

While on balance digitisation and globalisation could lead to increasing fees at the top end of the talent market they might also depress fees at the bottom end of the market.

Digitisation can widen the potential talent pool and improve the search for new talent from user generated content sites and internet based "A&R". The promise of high rewards and fame at the top end of the talent market can draw in new recruits by the thousand to the bottom end, reinforcing polarisation of earnings between the bottom, the middle and the top

***While increasing polarisation of fees is a strong likelihood, the impact on average fees and total spending is less clear***

Polarisation in talent fees – where top fees rise more rapidly than bottom level fees, is likely to be a feature of most entertainment markets going forward. But the implications for average fees and total talent spending are less clear. In sectors where total revenue is rising rapidly and talent is seen as an increasingly important route to reducing risk and/or increasing returns, then total talent spending is likely to rise (e.g. sport and possibly movies).

But in entertainment sectors where revenue growth is slow or declining, or where revenue is still growing but fragmenting rapidly (e.g. music and possibly linear TV), polarisation may not be accompanied by rising average fees or total talent spending – rising top

talent fees may be accompanied by declining bottom or mid level fees, with overall spending flat or even declining.

### **c. Potential Broad Implications for the UK TV and Radio Talent Market**

**Globalisation is likely to open up more of the UK's top talent market to a worldwide market for their services.**

The TV content has become more global in recent years with the traditional trend of non US TV channels buying ready made US programming being augmented by the increasing adoption of non domestic market non scripted programme formats in all TV markets -including the previously rather insular US market.

Producers outside the USA now account for about two thirds of the non-scripted programme formats (i.e. games shows, reality shows, makeover shows etc) on the main US networks, and in many cases these producers have chosen to use lead talent from the UK – Anne Robinson on *the Weakest Link*, Gordon Ramsay on *Hell's Kitchen USA*, Simon Cowell on *American Idol*, Piers Morgan in *America's Got Talent*, and Len Goodman on *Dancing with the Stars* (US version of *Strictly Come Dancing*).

UK stars also appear regularly in US scripted shows having often gained familiarity with a US audience through film work. (Appendix IX lists current UK talent working in the USA).

While UK based talent – and their agents – recognizes that the UK market can not pay anywhere near the fees supported by the much larger and more commercial US market, the fact that UK talent can find more lucrative work in the USA will impact the supply and availability of top talent in the UK market which can have a knock on effect on prices paid.

**But global trends could also potentially draw a larger talent pool from overseas into the UK market**

But just as UK based talent may be desirable in Hollywood (in part as a way for Hollywood to counter its own inflation in home grown talent fees), the same global forces may also be drawing English speaking talent into the UK from Europe and elsewhere to work in what is Europe's largest TV content market<sup>4</sup>. This may well help dampen down fee rates at the lower end of the talent market as it has done for cleaners, builders, and even classical musicians in the UK.

### **d. Broader Areas of Policy Concerns on Wealth Gaps and Public Service Values**

***Polarisation in pay and earnings is not limited to TV and the Hollywood led entertainment industries***

Concerns over polarisation of pay and rewards is not confined to the on-screen and on-air talent sectors. Recent years have seen top income earners in the UK gaining greater increases in pay than their immediate contemporaries. Leading company CEOs in the UK have seen their average total remuneration increase by 19 per cent a year from 2003 to

---

<sup>4</sup> The UK TV content sector totals about €5 billion which is slightly larger than the German content market and significantly larger than the French or Italian markets.

2006, well above the average earnings increase of about 3 per cent a year. (See Appendix X for some relevant Global Trends).

Many theories have been put forward to explain the high levels of inflation at the top of the economy including the emergence of global markets in top professional, financial and corporate appointments and the move towards more performance based incentives across the commercial world.

Some of these theories do not even justify these ever rising levels of earnings in terms of the value added provided by those who earn them, but rather see high levels of remuneration either as an incentive for those lower down the ladder to try harder, or what is necessary to encourage leaders to improve performance in a world where large elements of what drives company performance is out of their control.<sup>5</sup>

***The issues raised by the BBC's talent strategy and policy are not completely unrelated to the BBC's overall rewards strategy***

Several external interviewees for this process drew our attention to the issues surrounding BBC executive pay in recent years, and whether the BBC could and should be expected to match market trends in top level management pay and what signals it sent out to on-screen and on-air talent if top BBC management pay was seen to be set at or near market rates.

The BBC points out that in general it offers less to its senior management than those in comparable jobs in the commercial sector – and often has to appoint younger executives – still building their careers- to its senior management ranks in order to fill key jobs.

Of course, both these viewpoints can be true – the BBC can be offering less than the market rate for its senior posts – but the rising level of senior management remuneration in the commercial sector could still mean that polarisation within the BBC is taking place which may have an impact on attitudes to payment levels to leading on-screen and on-air talent.

***BBC issues are part of a general challenge to the public sector, especially that part of the public sector that engages the private sector***

The general issue of how public institutions interact with the market place, and whether the increasing adoption of private sector methods in the public sector may have undermined the rationale for the public sector pay discount (i.e. people work in the

---

<sup>5</sup> For an analysis of the recent widening gap in earnings and wealth within developed countries see R H Frank "Winner Takes All" 1996, and R H Frank "Falling Behind" July 2007. For some of the recent theories as to why markets now reward top executives higher levels of remuneration refer to Edward Lazear and Sherwin Rosen "Rank Order Tournaments as Optimum Labour Contracts" Journal of Political Economy 89, no 5 (1981), and Marianne Bertrand and Sendhil Mullainathan "Are CEOs rewarded for luck? The ones without principles are " Quarterly Journal of Economics 116 (August 2001).

public sector for honour and reputation not for money), have been addressed by the people such as Julian Le Grand.<sup>6</sup>

To the extent that the public sector utilizes the same talent pool as the private sector, but now expects its employees etc to act like private sector employees, the public sector may have lost its ability to pay less for equally talented people accepting it either needs to pay more or utilise less skilled and experienced employees.

#### **d. A Difficult Issue for Management to Control in the Creative Industries**

##### ***Corporate efficiency and effectiveness initiatives in this area can often be seen as micro management of editorial and creative choices***

Unlike the rising costs of sports rights or even film rights and US acquisitions, which are for the most part discrete forms of programming with their own role in the attracting audiences to any channel, the issue of talent spending and costs strikes directly at the heart of the individual producer's or commissioner's decision on the editorial values within a programme.

Attempts to control talent inflation from the centre of any creative organisation, therefore, raises issues of editorial micro-management. Producers and commissioners can legitimately claim that senior management control should operate through general restraints on spending, overall editorial direction and ambition and general audience reach targets and objectives and that the rest should be left to them. Attempts to directly control the proportion of spending on individual elements of programme budgets can take away most of the autonomy of producers and commissioners and can hint at commissioning to a template rather than to an editorial remit.

Senior management at the BBC interviewed – past and present – agreed that controlling talent costs from the centre would always prove difficult, and that any control should be by exception rather than comprehensive.

##### ***Talent working across genres and media can make it difficult to co-ordinate action***

Dealing with talent inflation not only raises issues of editorial micro-management but can prove difficult to co-ordinate across a diverse multimedia organisation like the BBC.

A large proportion of talent works across TV, radio and new media and within TV across a number of genres. This can make the whole issue of talent fees and inflation particularly difficult to manage across a large corporation that may have a large range of contracts with the same named talent for a number of different purposes.

##### ***The involvement of independent producers in TV complicates matters***

With an increasingly large and economically powerful independent producer sector, broadcasters such as the BBC, no longer have a direct relationship with the talent that appears on-screen, and in some cases may not even know what the talent is being paid.

---

<sup>6</sup> Motivation, Agency, and Public Policy – Of Knights & Knaves, Pawns & Queens – Julian Le Grand, Oxford 2003

The BBC can, therefore, lose control of rate setting even for named talent working on projects across the corporation. An independent producer, who keeps to their overall programme commission budget or who decides to spend more than budget to help drive long term value, can reset the expected rates for talent even across projects for the BBC.

Our BBC interviews suggested that agents would often cite fees paid in recent independent productions for the BBC as new benchmarks when negotiating fees on BBC in-house shows. While at an aggregated rather than specific level, it was not clear as to whether the growth of independents had itself helped boost overall talent inflation, it is clear that the BBC's lack of knowledge of payments made on a proportion of projects commissioned by the BBC could hamper negotiations and attempts to keep fees down.

## 4. O&O's Approach and Methodologies

### 1. Overview of Approach

O&O developed a four stage approach to the assignment in line with the four key questions outlined in Section A.2.a.

First, before determining what impact the BBC is having on the market for talent or whether the BBC is obtaining value for money, O&O set out to gain a thorough understanding of the economics of talent, the UK market for talent and the potential role of the BBC. In particular, O&O set out to review:

- the range and categories of on-screen and on-air talent used by broadcasters in the UK;
- the economics of on-screen and on-air talent (the role of talent as a factor of production within programming, the determinants of supply and demand (at an individual and aggregated level), the role of succession and career planning etc;
- the overall UK TV and radio market context - past, present and future, and the potential implications for the demand for, and pricing of, talent in the UK; and,
- the stated and observed role of the BBC in the talent market both as an investor in, and user, of talent.

Second, having developed a thorough understanding of the context, O&O then set out to examine:

- the trends in BBC talent spending – over time, across genre and within talent category;
- the BBC's talent development and succession planning policies; and
- the BBC's current processes for setting and controlling payment levels to talent (including its assessment of value).

Third, O&O then set out to determine whether the BBC was providing value for money in terms of the prices it paid and the way it set about determining those prices. Particular areas assessed included:

BBC payments versus the market (through benchmarking of BBC and commercial prices for similar talent categories and performance);

the likely commercial value of specific BBC talent versus actual prices paid by the BBC; and,

the audience performance of the talent versus the prices paid.

This section was particularly concerned with any evidence that the BBC was overpaying for talent – either across the whole sector, or within market segments or within certain categories of talent.

Fourth, O&O reviewed the likely market impact of the BBC over the last eight to ten years in terms of both the supply of talent and the demand for talent. In particular, whether there was any evidence that the BBC:

had forced up market prices in any areas through its buying behaviour; or

effectively prevented rivals from accessing key talent; or,

was not introducing, developing or promoting new talent in sufficient volumes to help contain overall inflation levels.

This section also specifically reviewed whether developments such as the introduction and development of BBC3 (with a specific remit to innovate in programming for the under 35s) was having a positive impact on the market for talent.

## **2. Methodologies Employed**

In order to address each of the four areas outlined above O&O employed 12 different data analysis techniques and research methodologies. Each of these is set out briefly in turn, with an explanation of how and why it was used. See Figure A.1.

**FIGURE A.1. – O&O METHODOLOGIES EMPLOYED**

PROCESS	DETAILS
BBC INTERVIEWS	<ul style="list-style-type: none"> <li>20 INTERVIEWS</li> <li>50 PEOPLE</li> </ul>
EXTERNAL INTERVIEWS	<ul style="list-style-type: none"> <li>27 INTERVIEWS</li> <li>35 PEOPLE</li> </ul>
MACRO ECONOMIC TRENDS	<ul style="list-style-type: none"> <li>INCOME POLARISATION TRENDS</li> <li>TOP TALENT IN OTHER ENTERTAINMENT INDUSTRIES</li> <li>IMPACT OF GLOBALISATION AND DIGITISATION</li> </ul>
VALUE SURVEY	<ul style="list-style-type: none"> <li>2,000 ADULTS</li> <li>136 STAR NAMES, 14 GENRES TESTED</li> </ul>
TALENT TRACKING	<ul style="list-style-type: none"> <li>TRACKING TV CAREER PATHS OF CURRENT ROSTER OVER 20 YEARS</li> <li>170 INDIVIDUALS ACROSS 6 SUB-GENRES</li> </ul>
BBC SPENDING TRENDS	<ul style="list-style-type: none"> <li>SPENDING BY MEDIA AND GENRE SINCE 2004/2005</li> <li>TALENT SPENDING FOR 400 STRANDS</li> <li>TALENT INFLATION RATES SINCE 2000/2001</li> </ul>
BBC PROCESSES AND STRATEGY DOCUMENTS	<ul style="list-style-type: none"> <li>ANALYSIS OF PAYMENTS APPROVAL DOCUMENTATION</li> <li>REVIEW OF PROPOSAL, REVIEW AND APPROVAL PROCEDURES</li> </ul>
MARKET PRICE AND INFLATION BENCHMARKING	<ul style="list-style-type: none"> <li>RADIO BENCHMARKING EXERCISE</li> <li>INTERVIEWS ON COMMERCIAL TV VALUATION METHODS</li> </ul>
COMMERCIAL VALUATION MODELLING	<ul style="list-style-type: none"> <li>DEVELOPMENT OF COMMERCIAL VALUATION MODEL FOR TOP TALENT</li> <li>BASED ON INCREMENTAL ADVERTISING REVENUE</li> </ul>
SPEND VERSUS AUDIENCE ANALYSIS	<ul style="list-style-type: none"> <li>ASSESSMENT OF GENRE, SLOT AND SUB-GENRE COST PER VIEWER AND LISTENER HOUR BENCHMARKS</li> </ul>
REGRESSION ANALYSIS	<ul style="list-style-type: none"> <li>ATTEMPT TO ISOLATE THE LINK BETWEEN TYPE AND LEVEL OF TALENT WITH AUDIENCES BASED ON RATINGS DATA</li> </ul>

### a. BBC Interviews

O&O conducted 20 separate interviews involving over 60 BBC senior managers across BBC Vision, BBC Audio and Music, BBC News and BBC Nations and Regions and BBC Business Affairs. It also interviewed the BBC Director General and the BBC Director of Production. (A full list of BBC interviewees is contained in Appendix V).

Within BBC Vision O&O interviewed all the main genre areas – entertainment, factual and knowledge, drama and children’s and within Audio and Music the controllers of Radio 1, Radio 2, Radio 4 and Radio 5 were interviewed. The Directors of BBC Vision, BBC Audio and Music, BBC Sport and BBC News were all interviewed.

Each BBC interview covered three main areas. First, the interviewees views of the market place for talent and what, if anything, had changed in recent years. Second, the BBC’s role and positioning in the market place – e.g. whether they thought the BBC should expect to pay less than rivals, whether a market price was always the correct comparator for the BBC etc. Third, what the relevant department’s recent talent inflation rate had been, how they went about controlling such talent inflation, how they handled talent careers, when they had decided to walk away from negotiations and let the talent leave etc.

The results of these interviews helped us sketch out the BBC’s own perceptions of its role in the market, its strengths and weaknesses, its processes and systems for assessing value and controlling prices.

## **b. External Interviews**

O&O was also keen to get outside perspectives on the talent market and the BBC's role and impact. We conducted a total of 25 external interviews covering over 50 interviewees. (A full list of interviewees who agreed to be named is contained in Appendix V). The interviewees fell into 5 categories:

Talent agents/representatives (7 different talent agents of differing scales, and Actors' Equity)

Independent producers (8 different independent producers covering a range of genres);

Rival broadcasters (ITV, Channel 4, FIVE, the Radiocentre (representing commercial radio groups) ITN, BSkyB)

Industry observers and ex BBC management (including two former Directors General)

These external interviews covered the same general market trends and BBC positioning questions as the BBC interviews, but most also addressed the specific issue of the BBC's market impact and pricing compared with the market as well as its perceived negotiating systems and approval procedures.

Interviews with rival broadcasters also probed the ways in which these broadcasters went about valuing talent – especially the ways in which they justified their offers and payments to top talent when competing with each other or the BBC.

While this report avoids quoting individuals directly (BBC or external interviewees), where a number of individuals expressed the same view this is reflected as are cases where there were clear differences of opinion among interviewees.

External interviews were particularly useful in assessing market trends and the BBC's role and positioning in the market place. The interviews with rival broadcasters also allowed us to develop a commercial valuation model with which to test specific prices paid by the BBC recently. (This is covered in more detail later in this section).

## **c. UK Broadcasting Market Trends Analysis**

O&O also undertook its own analysis of the key UK broadcasting market trends that might be expected to influence the market for talent and the payments made. Trends covered included:

TV and radio revenue trends – especially the revenue of the BBC's main rival broadcasters compared with BBC revenue;

Spending on new TV programming trends – especially the spending trends on the BBC's main rival broadcasters and main commissioners of new programming versus the BBC's spend;

Programme sourcing trends – in particular the growth of independent production and the decline of in-house production;

Demographic positioning trends of key channels and genres within channels so as to assess the level of head to head versus differentiated competition for audiences in the UK;

Genre mix trends across the main networks in order to assess changes in programming strategy in recent years that might explain changing levels of competition within genre for talent; and,

Audience trends – averages and variance – for channels and genres within channels and strands within genres – so as to gauge the level of competition and risk in the UK TV and radio markets.

#### **d. Macro Economic and Global Media Trends**

Along side UK broadcasting market specific trends O&O also conducted analysis of other broader relevant trends to the UK talent market:

Trends in income polarisation across in the UK;

Inflation in other traded broadcast rights/inputs – e.g. sports rights;

Broader media market trends – such as the globalisation of the TV formats market, the growth in secondary and ancillary income streams (DVD, merchandising, overseas programme sales etc) and the growth of digital on demand distribution etc; and,

Global entertainment talent trends – trends in film star payments, top footballer payments etc – the recent US interest in UK TV talent.

#### **e. Value Survey**

It was clear from the start of this report, that at some level perceived consumer/viewer value would be one of the main drivers of different levels of payments for different talent, and that it would be difficult to assess the relative fees paid to different named talent without some idea of their relative consumer/viewer value.

While we did gain access to some of the consumer research conducted by the BBC when assessing talent casting and fees etc, this was by its nature more concerned with recent specific BBC talent deals than a comprehensive survey of the differing levels of consumer value of a range of talent – BBC and non BBC individuals.

O&O, therefore, commissioned its own talent survey covering 14 different sub-genres and 140 named talent individuals, about 40 per cent current BBC talent, and 60 per cent on rival TV and radio channels. The survey covered 2,500 UK individuals 18 and over, and was conducted in January/February 2008. The survey was aimed at teasing out both the general importance of talent to viewing choices by sub-genre (both for the population as a whole and socio-demographic groups) and the relative viewer value of different named talent (both in terms of absolute levels of likeability but also, and more importantly, their degree of non-replaceability and uniqueness).

The full results of the survey remain confidential (as to reveal the consumer value of named artists could have an impact on their market price), but the detailed results allowed O&O to gain an understanding of the relative importance of named talent in different genre and to conduct its own commercial valuation of specific named BBC lead talent (as it gave an indication as to how much extra audience, and what type of extra audience given named talent might be expected to attract).

(A full description of the O&O Value Survey methodology used is can be found in Appendix I).

#### **f. Talent Tracking**

While the BBC, and other broadcasters, have information on their current roster of talent and their payments, and talent agents have CVs for their lead performers containing details of their careers and roles (often with an understandably positive spin) no analysis of the vintage and source of talent by channel and genre seems to exist either at the BBC or externally.<sup>7</sup>

O&O needed this analysis to assess the extent to which channels utilised completely new talent (i.e. no TV work before), talent from outside network TV (previously appearing on thematic and network spin off channels), poached talent from rival networks, or mostly reused their existing roster of talent.

Measuring talent “vintage” and talent “churn” by channel gives some insight into the level of innovation, succession planning and talent culling that takes place across channels and genre and, therefore, the overall talent management strategies of each channel.

O&O combined its own programme database for the main network channels (a comprehensive database of all new programming aired in the UK in the last 3 years) and sources such as IMDB and Spotlight, in order to track the career paths of the talent currently utilised by each channel to see if any clear patterns emerged. (Appendix II has details of O&O’s talent tracking analysis).

#### **g. BBC Spending Trends**

O&O was given access to existing BBC analysis of “key” and “lead” talent inflation costs per hour of output trends (largely based on a BBC Vision only annual survey of the top 400 talent names within returning strands/titles only) going back to 2000/2001. These are the inflation trends the BBC has previously quoted in support of licence fee submissions.

However, O&O needed additional data to the summary results of this regular survey, most notably O&O needed:

an analysis of overall talent spending across the corporation and its growth compared with BBC income and total programme spending (to assess the importance of talent spending to the corporation over time);

a review of the distribution of spending within genre and categories over time – (to assess differences in the spread of payments across talent levels over time);

---

<sup>7</sup> We are recommending that such analysis is regularly conducted by the BBC to evaluate talent roster refreshment rates, churn and vintage – both internally and versus competitors.

talent spending on specific named strands over time (so as to compare talent spending - and talent spending as a proportion of total spending - with audiences achieved so as to get a cost per viewer hour measurement); and,

actual payment data for key and lead talent per hour across all BBC output areas and covering new and returning strands, (so as to compare with either benchmark data received from rival broadcasters or any commercial valuation O&O conducted.) See later sections for an explanation of these processes.

O&O requested this data for as long a time period as the BBC could supply – ideally back to 2000/2001.

Four data issues emerged. First, accounting system changes in 2004/05 meant that any comprehensive spending or cost trends prior to 2004/05 would not necessarily be meaningful or comparable with 2004/05 to 2006/07 and would be very difficult to source (such information was archived and would take time and effort to retrieve).

Second, data for payments beyond the top tier of talent (leading 200 to 400 named contracts) were only really tracked through the BBC's contracts accounting system. This was based on contracts not people and could, therefore, contain multiple contract payments to specific individuals (for different performances in a year) or individual contract payments that covered more than one individual (e.g. payment to an entire orchestra or band). It would also be more or less impossible to match these contract payments with actual output hours or input hours of effort without large amounts of specific analytical effort.

Third, the BBC only had partial and selective access to independent producer budget data since new terms of trade had been introduced in 2003/04, so comprehensive analysis could only be provided for in-house programming which was a reducing proportion of total BBC output over time.

Fourth, that allowing third party access to details of payments to named individuals might prove problematic given the confidentiality clauses in talent contracts.

In the end, the last of these issues was overcome subject to reassurances from O&O on how individual data might be used and quoted in the O&O report. However, the other three issues remained and have, unfortunately, reduced O&O's ability to understand and interrogate fully the BBC's talent spending trends – especially prior to 2004/05.<sup>8</sup>

Nevertheless, O&O did receive spending information from the BBC covering:

overall talent spending by division and broad category from 2004/05 to 2006/07;

total talent spend and talent spend as a proportion of overall programme budget for 400 in-house TV, news and radio individual strands (new and returning) from 2004/05 to 2006/07;

---

<sup>8</sup> This is particularly problematic, as the one piece of trend information with which O&O has been provided for the period prior to 2004/05 – the annual BBC Vision Lead and Key Talent Inflation Survey – suggests that 2000/2001 to 2004/05 was a period of particularly high inflation in certain areas.

the distribution range of individual contract payments by genre category in 2004/05, 2005/06 and 2006/07; and,

payments to the top 150 talent individuals (ranked by total annual payments) in each of 2004/05 to 2006/07.

This enabled O&O to get some insight into the pattern of recent talent inflation and to gain the data necessary for the cost per viewer hour and benchmarking/commercial valuation analysis we wished to conduct on the most recent payment levels.<sup>9</sup> (Appendix III outlines the BBC's spending trends received by O&O).

#### **h. BBC Processes and Strategy Documentation**

In addition to a number of interviews and financial information, O&O also requested information on BBC processes and support documentation.

In particular, O&O was taken through the talent fee referral and control system operated within the BBC (which has existed in its current form since 2003/04); provided with analysis of the specific cases referred to the Talent Rights Group and the outcomes of these referrals over the last two years; and, supplied with example paperwork used to support cases to the Talent Rights Group, Business Investment Group (BIG) and the Director-General's Finance Committee (DGFC).

These last items gave us some insight into the market intelligence, consumer research and internal value for money benchmarks used to support and interrogate proposed above average talent inflation requests and/or the highest value contracts.

In addition, the BBC also provided us with details of their recent talent strategy initiative and some example negotiation case studies (the latter in confidence).

#### **i. Market Price and Inflation Benchmarking**

Given the confidentiality that surrounds payments to talent, and especially top talent, and the need to ensure that like for like comparisons are provided wherever possible, O&O approached rival broadcasters to see if they might be interested in a price benchmarking study.

Such studies had been conducted on a regular basis in the past with both ITV and Channel 4 (the last talent benchmarking review in TV had been in 2002<sup>10</sup> between BBC2 and Channel 4, after which, Channel 4 decided to withdraw from any future study). The main TV broadcasters had also conducted a total cost per hour benchmarking study in 2006/07 as part of an efficiency review by the BBC (which had been facilitated by O&O).

Unfortunately, both ITV and Channel 4 eventually decided not to take part in a proposed talent price and recent inflation benchmarking study. Their grounds for not taking part differed to some extent but were more or less for the following four reasons:

---

<sup>9</sup> The lack of readily accessible trend data from the BBC added to the fact that no genre team within BBC Vision was even able to estimate its historic talent cost inflation levels when questioned in the interview process, did raise more substantive issues of BBC processes and information sharing which are addressed in the value for money section of this review.

<sup>10</sup> O&O were given a copy of this benchmarking review undertaken in 2002.

(i) they had concerns over the release of very confidential information (they were uncertain whether their contract terms even allowed them to release such information even to a confidential survey);

(ii) they were unconvinced as to the benefits to them of such an exercise given the difficulty of like of like comparisons between strands or broadcasters over time (this was the main reason they had both withdrawn from the industry studies that existed up to 2002);

(iii) they had difficulties with the amount of effort that would have to be expended by their own accounts and business affairs departments in providing meaningful data in the time provided – initially a six week period but extended to ten weeks by O&O to try to persuade them to take part in the study; and,

(iv) they had concerns over maintaining levels of anonymity in genres where only one commercial broadcaster fully competed with the BBC or where there were only a limited number of strands (i.e. the BBC or a rival could back-calculate the price levels of the other from any proposed comparison of their own prices versus an industry average).

O&O did make two attempts to persuade both ITV and Channel 4 to join the survey. In the second attempt we reduced the number of genres and years covered and lengthened the deadline for providing the data, in order to address their third concern. We also changed the way the data would be shared – to address their fourth concern.

But their first concern remained, and what we had done to address the fourth concern heightened the issues faced in their second concern – namely, the usefulness to them of such an exercise.

While both ITV and Channel 4 did agree to have further interviews with O&O covering their methods for determining the commercial value of key and lead talent, they did eventually confirm their refusal to take part in a formal benchmarking exercise in late February 2008.

FIVE were still willing to take part in a joint BBC/FIVE survey but we chose not to pursue this with FIVE for the following reasons:

FIVE's new programming provides little overlap with the majority of programmes and talent on the BBC;

preserving broadcaster anonymity would be almost impossible with just two broadcasters;

FIVE's available information on talent payments – given its high volume of commissions from independents etc - would be very limited.

ITN also agreed in principle to take part in a benchmarking study with the BBC on payments to news related talent, and did provide some payment ranges for types of reporter/correspondent as part of their initial interview. But in the end, they were unable to provide the information needed by early March – the extended deadline proposed.

The Radiocentre (representing commercial radio groups) did, however, agree to take part in a benchmarking review and provided the data within the timetable allowed.

Payment levels and audience reach data for different types of shows (breakfast, drive time etc) for different types of station (national, London, metropolitan, large local etc) were provided on an unnamed basis allowing comparison with BBC information from BBC Audio and Music and BBC Nations and Regions. (Appendix IV gives details of the Radio Benchmarking exercise).

#### **j. Commercial Valuation Modelling**

Partly in response to the lack of progress on TV benchmarking and partly to deal with the problem of like for like comparison even if TV benchmarking had gone ahead (i.e. how does one differentiate between a legitimate and non legitimate difference between payments to artists of similar types in similar genres gaining similar audience shares for their programmes), O&O conducted a commercial valuation exercise.

This exercise used data from the O&O Value Survey and audience data for specific programmes and how they compared with genre and slot averages, to assess the likely level of attributable audience uplift that might accrue from retaining specific named talent.

This uplift in audience was then valued in terms of commercial advertising revenue by applying a station advertising price (cost per thousand) to the extra audience, albeit adjusted for the specific demographic likely to be attracted (higher prices for attracting audiences under 35 or ABC1 audiences).

By applying different likely target commercial channel gross profit margins to the gross advertising value created we determined a likely price range that the commercial channels would offer for various BBC and commercial TV names. We then compared these prices with the actual prices paid by the BBC per hour.<sup>11</sup>

Both ITV and Channel 4 confirmed that this is how they assess target payments to top level talent and is similar in format to the way in which commercial broadcasters value sports rights and major US acquisitions.<sup>12</sup>

(Appendix VII gives details of the commercial valuation methodology)

#### **k. Spend Versus Audience Analysis (i.e. cost per viewer hour)**

While the commercial sector tends to determine what it might pay lead talent with reference to the likely incremental advertising value earned, they also utilise general cost per viewer/listener hour comparisons (for relevant genres and relevant schedule slots) for guidance.

Often the comparison is the potential cost per viewer hour of a strand (not just the talent cost per viewer hour) if a requested talent fee is paid versus an alternative programme in that genre or slot. As long as the talent fee requested still leaves the relevant strand with a competitive expected cost per viewer hour, the fee could be acceptable.

---

<sup>11</sup> The commercial valuation was undertaken by an O&O team which was separate from the team conducting the analysis of BBC fees per hour. Those conducting the commercial valuation were unaware of the prices paid by the BBC.

<sup>12</sup> O&O has extensive experience of these types of valuations having helped sports bodies and broadcasters value over 100 different sports rights across 15 different, national markets and 20 different sports since 1995.

O&O analysed the cost per viewer hour of different BBC strands – ones with high talent costs per hour and others with lower talent costs – in order to provide an assessment of value for money and a different way of assessing likely commercial prices.<sup>13</sup> (Appendix III gives details of the BBC cost per viewer and listener hour data O&O collated).

### **I. Regression Analysis of Talent Fees/Type Versus Audiences.**

Finally, O&O attempted some statistical regression analysis to try to link the level of talent employed on a programme – top talent, lead talent etc – and/or the level of fee paid to talent, to the audience of that programme.

This is simply an alternative method to the value survey approach when attempting to link the fees paid to talent with the incremental impact on audiences. If an overall statistical relationship is established between talent fees/talent levels and audiences (other things being equal), then programmes can be assessed against the measured relationship.

Programmes where the increase in audience is less than should be expected from the observed increase in fees could be said to be poor value for money and vice versa.

However, it proved very difficult to get a reliable statistical relationship between talent fees/talent level and audiences. First and foremost because there are a large number of non talent related factors driving the audiences of specific programme strands making it difficult to isolate reliably the impact of talent.

Second, the measure of differences in talent cost/talent level by strand was either partial (only having actual costs for BBC programmes) or subjective (allocating talent level scores for BBC and rival programmes is both subjective and potentially self-fulfilling – highest scores allocated to stars in the highest audience shows).

However, statistical regressions were run for some programme genres and the results are contained in Appendix VIII.

Overall, there was no significant statistical relationship between actual BBC talent spending per hour on programming and its audience level (after factoring out channel, sub-genre and time slot). However, across BBC1, BBC2, ITV1, Channel 4 and FIVE there was a statistical relationship between the level of talent (subjectively ranked in four levels of Unknown, Known, Lead and Top by O&O) and the audience to a programme.

However, such a relationship still leaves the issue of causality unresolved – is top talent used on best performing programmes of type and slot, or does the talent help drive the audience?

The results of the regression analysis are reviewed in Section C.

---

<sup>13</sup> The differences between an average sub-genre total cost per viewer hour assessment of value for money of talent fees, and a “nearest competitive price” view are assessed at length in this report as they can often yield very different results with significant implications for the setting of talent fees. The problem with the total cost per viewer hour approach is that it does nothing to isolate the specific contribution of the named talent to the programme’s audience, and allows that talent to claim any potential difference between the cost per viewer hour of the strand in question and the average for the sub-genre or slot as a whole for itself.

## B. THE ECONOMICS OF ON-SCREEN AND ON-AIR TALENT

### 1. The Role of On-Screen and On-Air Talent

#### a. Types of Talent and Contracting

On-screen and on-air talent contracting and payments are probably the most difficult area of the TV and radio sectors to analyse with a huge range of talent types, payment schemes, forms of contract and broadcaster-talent relationships.

*There is a huge range of talent types and payment levels*

On-screen and on-air talent covers everything from walk on parts in a TV drama or a local radio nighttime DJ, through rank and file news correspondents and quiz show panelists, to household names, comedians, entertainers, celebrity chiefs and sports personalities.

Payments to talent in the UK TV and radio markets vary from £29 to £122 for a contributor/guest fee on a national radio magazine programme and the £104 minimum equity rate per session for walk on part actors to contracts of over a £1 million a year for household name presenters and hosts.

At a very aggregated level, payments reflect the contribution of specific talent to a programme and their attribution within that programme, the general role talent plays within a specific genre, and the channel and slot the programme appears in any given media.

*Contracting terms, payment schemes and the employment relationship of the talent to broadcaster and/or production company vary considerably.*

Contracting terms also vary from one-off appearance fees, to contracts covering a number of input days/sessions, to contracts for a certain number of named shows, to contracts for projects yet to be confirmed and contracts with broadcaster exclusivity payments included.

Contracts often include options on further commitments should programming be recommissioned, sometimes these options are at a preset price, sometimes the price is to be negotiated.

Fees paid include monies up front for the initial performance/contribution, "residual" payments when the programme is repeated on the commissioning broadcaster's channels and back end revenue shares when the programme is sold to another broadcast outlet in the UK or overseas or exploited on DVD. Some contracts, especially in the commercial sector, link bonus payments to the "incremental" audience achieved by the programme on first transmission (incremental to what would normally be expected in the relevant slot).

While the industry as a whole does work within broad minimum level talent agreements in a number of areas – such as Equity and Musician' Union agreements, these minimums are not really relevant to all but the most basic level of performer. While large segments of the talent industry are freelance/self employed, some are full time employees of

broadcasters/producers while others own or part-own their own TV and radio production companies.

While most on-screen and on-air talent are paid for their contributions to programmes as performers some of the most high profile talent is also paid for their contributions as writers and executive producers. While most talent is contracted on a programme strand by strand basis by producers and individual programme commissioners, some performers are contracted centrally by a broadcaster or media organisation.

**FIGURE B.1. – EXAMPLE PROGRAMME CHARACTERISTICS BY GENRE**

	DESIGN/ NARRATIVE	RELEVANCE	RELATIONSHIPS/ CHARACTERISATION	ACCESS TO KEY EVENT/ MATERIAL	EXECUTION	PARTICIPATION	LEAD TALENT/ SUPPORT TALENT
DRAMA	• SCRIPT	• LOCATION • SITUATION	• SYMPATHETIC • BELIEVABLE		• PACE • SET DESIGN • EDITING • LIGHTING		• LEAD ACTORS • SUPPORT ACTORS
SPORTS EVENT			• TEAMS INCLUDED • CONTESTANTS INVOLVED	• KEY LIVE EVENT	• NUMBER OF CAMERAS • ANALYSIS • DIRECTION		• HOST • PUNDIT
CHAT SHOW	• HUMOUR • LEVEL OF INSIGHT/ REVELATION	• ISSUES DEALT WITH	• GUEST INTERPLAY	• QUALITY OF ACCESS	• SUPPORT MUSIC • SET DESIGN		• HOST
QUIZ SHOW	• FORMAT • UNCERTAINTY OF OUTCOME	• SUBJECT MATTER • LEVEL OF DIFFICULTY	• EMPATHY WITH CONTESTANTS	• PRIZE MONEY	• SET DESIGN • ACCURACY • TEMPO	• LEVEL OF DIFFICULTY • VOTING AND POLLING	• HOST
TV COMEDY	• SCRIPT	• SITUATION	• EMPATHY • INTERPLAY		• DIRECTION • PACE AND TIMING		• ACTORS • SUPPORT ACTORS
RADIO CHART SHOW		• MUSIC POLICY					• DJ
LANDMARK FACTUAL	• SCRIPT • NARRATIVE POSITION/ POLEMIC	• FAMILIARITY • CONTEMPORARY AREA OF INTEREST		• UNIQUE FOOTAGE • UNIQUE INFORMATION			• PRESENTER

## b. Talent's Contribution to TV and Radio Programming

On-screen and on-air talent is just one factor of production when producers are putting programmes together, and programmes are often just one element of the general appeal of the broadcast schedule watched by viewers.

*The relative contribution of talent to programme performance compared with other programme characteristics and scheduling factors will vary widely*

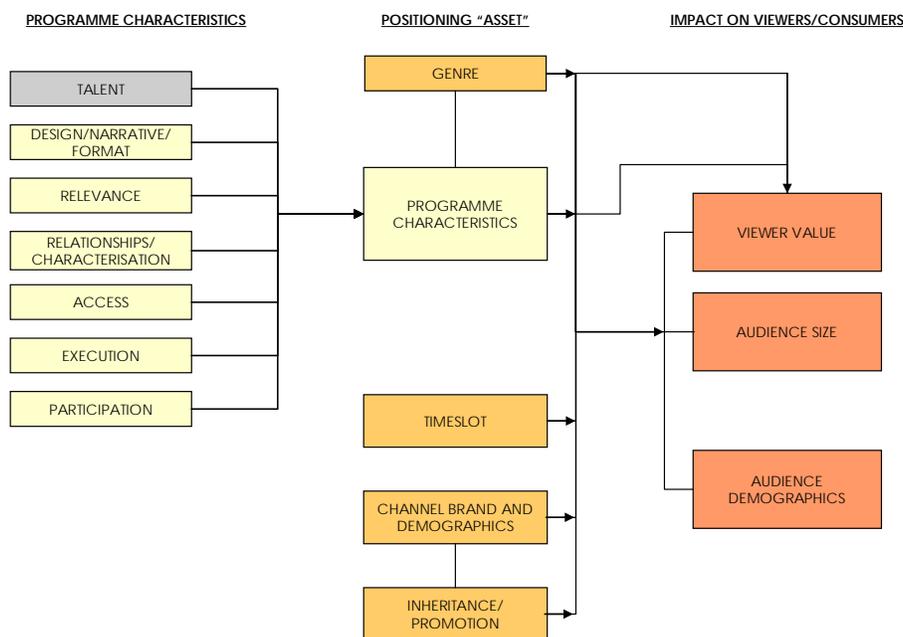
The contribution of talent to the value or popularity of a programme can sometimes be very large - where the main reason for a viewer watching and enjoying a programme is the appeal of the lead talent – or very small – where viewers' main reason for watching a programme is related more to the quality of the writing, the structure of the story, the

level of access to archive footage, the chosen music policy (in the case of radio) or the unique access to a news or sports event.<sup>14</sup>

Each programme can be said to have a unique set of characteristics all of which help generate viewing and/or value. These range from the design/narrative/format of a programme, through to its execution/direction/visual appeal to the relevance of its subject/location/story and the lead and supporting performing talent used – both the appeal of the talent generally and the quality of their programme specific performances. See Figure B.1.

Over and above a programme’s unique characteristics, audience levels and value are also determined by a series of broadcasting related “assets”. For instance, the genre itself (some genres simply appeal to more people than others), the schedule slot the programme is given, the channel on which a programme is scheduled (its TV platform reach and its brand/demographic appeal) and the knock-on benefits of programme promotion and audience inheritance (i.e. the quality of the programme prior to it, in the schedule). See Figure B.2.

**FIGURE B.2. – TALENT AS AN AUDIENCE AND VALUE DRIVER**



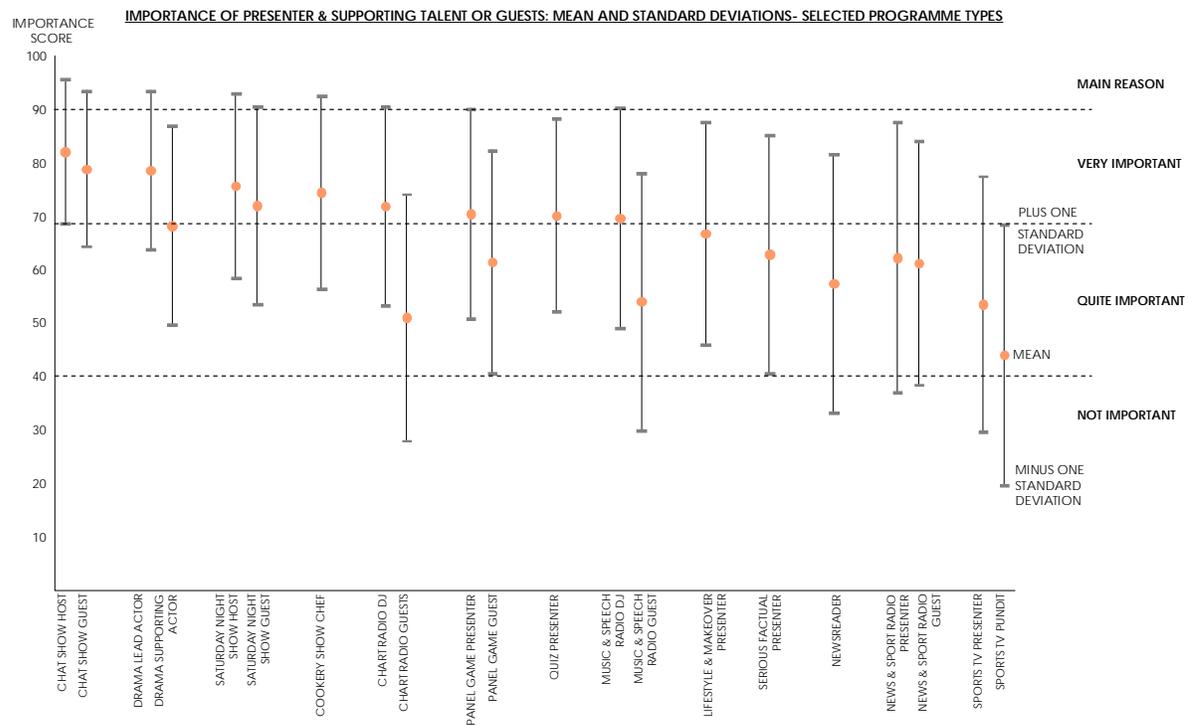
<sup>14</sup> A number of studies have been conducted in the film industry which try to relate characteristics of feature films to box office performance (both average performance and variance). Litman, Barry R - 1983-"Predicting the Success of Theatrical Movies – An Empirical Study" : Journal of Popular Culture, 17: Litman and Kohl -1989 - "Predicting the Financial Success of Motion Pictures – the 80s Experience": Journal of Media Economics, 2: Simonoff and Sparrow -2000 – "Predicting Movie Grosses: Winners and Losers, Blockbusters and Sleepers" Chance, 13. Most find that talent fees are more related to reducing variance than increasing profitability. Companies such as TAPE + (Television Audience Panel Evaluation) have developed systems for trying to predict TV audiences from programme characteristics.

*Lead and support talent clearly play a more important role in viewer choice in some types of programme than in others.*

The differing characteristics of programming types will mean that certain programme types are more likely to depend on the appeal of lead and support talent than others.

The O&O value survey suggests that the identity of the lead performer/presenter is generally more important to viewers in chat shows, dramas, Saturday night family entertainment, chart music based radio shows and cookery shows than it is in lifestyle/makeover shows, mixed speech and music radio shows, news or sports programmes – where the programme format, programme style or the unique access provided by the programme is more important than the on-screen or on-air talent used. See Figures B.3. and B.4.

**FIGURE B.3. – IMPORTANCE OF TALENT BY PROGRAMME TYPE**



SOURCE: O&O VALUE SURVEY, JANUARY 2008

*Some named talent is clearly much more of an audience pull within a programme type than other named talent*

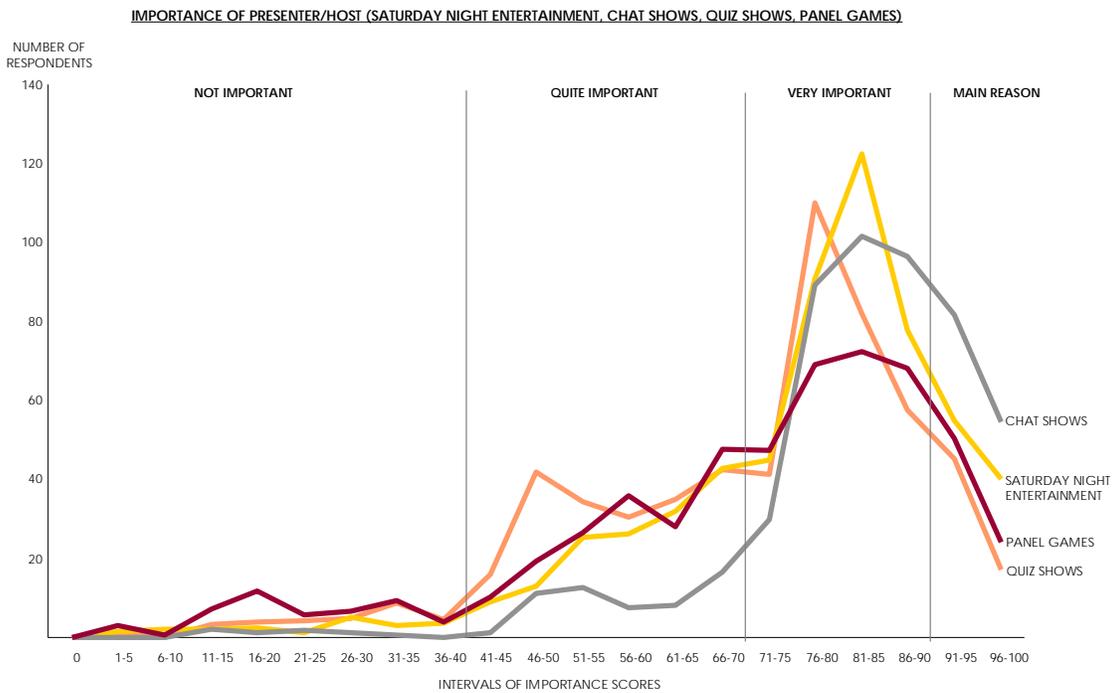
The O&O value survey and analysis of TV strand audience trends also suggests that within any programme type certain named individuals are more likely to encourage people to watch than others, and, perhaps as importantly, certain individuals are more likely to attract specific demographics than others.

For instance, when respondents to the O&O value survey were asked to rank a series of named presenters within entertainment programme types (panel shows, quiz shows, chat shows and Saturday night family entertainment shows) in terms of likeability – the leading

name within each programme type usually achieved twice as many high scores (75 or above) as the fifth ranked name. See Figure B.5.

When the same survey measured whether viewers were likely to watch more or less of, for example, a chat show if the presenter was replaced with a series of alternatives the most irreplaceable presenter scored twice as highly (in terms of those who would watch less if the named presenter was replaced versus those who would watch more) as the fifth most irreplaceable presenter.

**FIGURE B.4. – IMPORTANCE OF LEAD TALENT WITHIN ENTERTAINMENT GENRE**



***But isolating the specific contribution of talent to viewing or viewer value - over and above other programme and schedule characteristics - can be difficult***

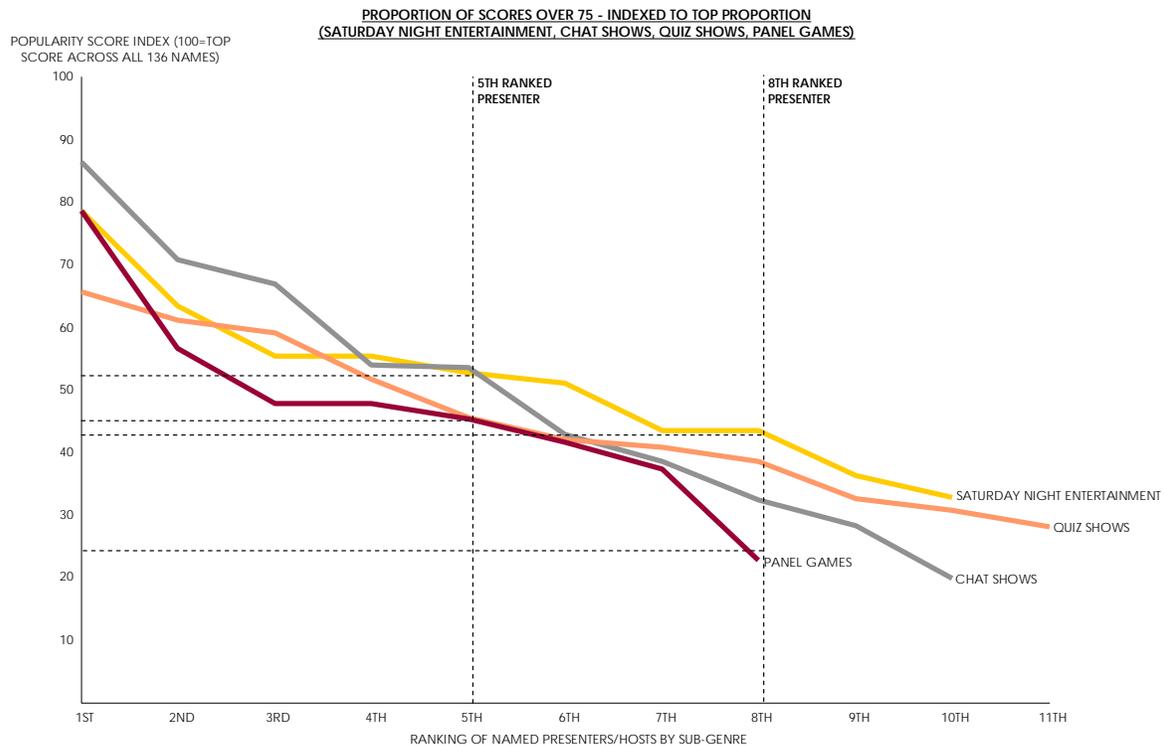
Given that an individual programme’s performance depends upon not only a range of programme specific characteristics (often hard to quantify precisely) but also a range of more general broadcasting factors (channel, slot, inheritance/promotion, genre etc), it is likely to prove difficult to isolate the precise impact of talent on programme performance.<sup>15</sup>

The specific and complex impact of broadcast factors in addition to programme specific factors probably makes the relationship of talent and audience appeal in TV and radio more difficult to discern than with movies, music, theatre etc, where the “retailing” of

<sup>15</sup> O&O tried to isolate this effect both through a regression analysis of programmes, slots, channels and use of talent and through a specific consumer survey (O&O Value Survey) on the impact of talent on the decision to watch. This research is referred to throughout this report.

these types of entertainment is less complex and less bundled than with broadcast channels (i.e. people pay to see specific films and hear specific pieces of music).

**FIGURE B.5. – PROPORTION OF RESPONDENTS GIVING HIGH POPULARITY/LIKEABILITY SCORINGS TO NAMED TALENT**



Even where it is possible to isolate broadcasting and programme characteristics to some degree the attribution of value can still be difficult. For instance, if, other things being equal, a named performer was shown to increase the audience to a type of show by 10 per cent compared with the next best replacement, this 10 per cent would be a greater absolute number on BBC1 or ITV1 – channels which tend to draw higher audiences for any specific programme – than Channel 4 or BBC2. The value of talent in terms of driving audience is a joint product of both the channel schedule its programme is placed within and its own intrinsic appeal.<sup>16</sup>

***The role of talent can be as much about risk minimisation than about audience maximisation***

Given the intrinsic risks involved in developing any new programme, the value attributable to talent may not only be linked to the expected impact on audience levels and/or value but also the likely distribution of outcomes. Named and known talent’s main role and value may not be to drive higher audiences per se but rather to avoid really low audiences. This is precisely what some studies of the drivers of high payments to Hollywood movie stars and pop stars have shown.

<sup>16</sup> This raises the issues as to whether the same talent should be paid more for doing a show on BBC1 than BBC 2, and more for a show on BBC2 than BBC3 or BBC4.

In a number of statistical studies of box office and DVD performance, increased spending on named acting talent was shown to reduce movie box office variance helping to avoid complete box office failure. Similar phenomena have been observed in the music industry.

This “insurance” premium paid for top actors in movies actually outweighed the average increase in profits obtained by the movies they appeared in, which suggested that employing top actors reduced movie profitability. The rationale for paying high prices for leading stars was not for improved average returns but rather to reduce uncertainty and risk.<sup>17</sup>

***The value of some talent goes beyond the specific programmes they work within and contributes to the success and image of a channel and/or broadcaster***

Some exceptional talent can add value beyond the appeal of a particular programme and instead help shape the image and appeal of a broadcast channel.

Channel/network commissioners often use selected individuals as the “face” or “voice” of the channel, utilising them across different types of output and extensively on channel and broadcaster promotional material. This can imply that their value is greater than any specific uplift to a programme they might feature.

***Specific talent can add value to a range of activities across genres, sub-genres, media and even different creative/intellectual endeavours***

While the provision of talent is a particular programme characteristic and talent is one of many “factors of production”, any given source of talent can often make a contribution to a wide variety of sub-genres, genres, media and creative intellectual endeavours.

Many BBC factual programme presenters are leading writers of non-fiction books and articles, some are even active intellectuals making contributions to academic research or government think tanks. Many comedians transform into fine dramatic actors (less make the opposite transition). Many former BBC journalists become factual programme presenters.

Some on-screen talent is equally adept at comedy, drama, factual programming, panel shows etc (e.g. Stephen Fry), and maybe as importantly, some talent can turn its hand from public service motivated output to more populist programming (Anne Robinson on *Points of View* and then *The Weakest Link*). Other talent can succeed across a range of slots and media - peak time TV and breakfast/ weekend radio (Chris Tarrant, Jonathan Ross, Chris Evans).

***The value of specific talent can vary markedly across activities, and these activities are not mutually exclusive***

Individual talent can, therefore, make very different contributions, with almost certainly different levels of added value to a range of programming types and endeavours. Up to

---

<sup>17</sup> Ravid S Abraham. 2004 “ Are they all Crazy, or Just Risk Averse? Some Movie Puzzles and Possible Solutions *The Economics of Art and Culture*. Hamlen William A 1991 “ Superstardom in popular music: Empirical evidence” *Review of Economics and Statistics* De Vany, Arthur 2004 “ Hollywood Economics: How Extreme Uncertainty Shapes the Film Industry” *New York, Routledge*

a point these endeavours are not mutually exclusive – within the constraints of a long working week individual talent could appear in a TV show, a radio show, publish a book and act in a film.

**c. Three Broad Tiers of Talent Exist**

***At an aggregated level three broad tiers of talent (and payment levels) exist***

There tend to be three broad tiers of talent and payments. First, a top tier of lead actors, presenters and DJs who may have a significant impact on the potential programme audience/appeal and who tend to appear on programmes in important slots and leading channels. This might cover the top 300 to 400 on-screen and on-air names in the UK who tend to be tied into extensive contracts with one broadcaster or a handful of programme strands.

Second, a mid ranking tier of support presenters, additional important cast members, lead panelists or specialist pundits etc within important slots and lead channels, plus some lead actors/presenters in less important slots and minor channels and services. This could cover about 2,000 to 3,000 individuals in the UK TV and radio market who could be making contributions to, and being contracted by, several programmes in any given year on different contracts, often on programmes with different broadcasters.

Third, a large number of drama cast members, musicians, walk on part actors, local radio reporters and DJs working largely on a freelance and day rate or weekly rate basis. This covers about 5,000 to 8,000 people in the UK who will be employed short term, on a large number of projects, in any one year – typically 30 to 40 projects – generating 300,000 or more contracts/payments in a year. This third tier tends to be covered by general industry agreements on minimum rates (Equity, Musicians' Union) or general pay scales comparable to non on-screen or on-air staff involved in TV and radio production.

***But variation by genre, slot, channel and media can lead to large variation within these tiers and overlaps between them.***

However, this general three tier ranking can imply very little about specific payments across genres or media (i.e. a walk on part actor in a drama series programme will be paid much less than a lead actor in that same drama series, but it would be much harder to generalise on differences between a lead presenter in a landmark factual series versus a lead actor in a drama series). Even within the drama sub-genre, support actors in an established series for BBC1 might be paid less than a lead actor in a new series on BBC4 for instance. <sup>18</sup> See B.6.

***The top tier of talent breaks down into two sub-tiers – with the leading stars in the UK in a different market to the rest***

Within the top tier of 300 to 400 named talent in the UK there are likely to be 30 to 60 names that individually can bring a significant audience to a new series or strand. This top talent grouping is likely to achieve a significant premium to the rest within their genre and across all genres. [X<..... [X<

---

<sup>18</sup> Clearly, the exact drivers of differences in talent payment – legitimate versus non legitimate – is one of the key subjects of this review. However, it is worth pointing out here the general tiering effect that occurs within individual programmes or sometimes sub-genres and that this relationship between tiers soon breaks down once sub-genre, genre, channel or medium boundaries are crossed.

**FIGURE B.6. – TIERS OF TALENT WITHIN GENRE AND SUB-GENRE**

	GENRE	EXAMPLE SUB-GENRE	TIERS WITHIN SUB-GENRE					
			TIER 1	TIER 2	TIER 3			
TV	DRAMA/COMEDY	DRAMA SERIES	<ul style="list-style-type: none"> <li>• LEAD ACTORS IN DRAMA SERIES AND SERIALS</li> <li>• LEAD COMIC PERFORMERS</li> </ul>	<ul style="list-style-type: none"> <li>• SUPPORTING ACTORS IN SERIES AND SERIALS</li> <li>• LEAD ACTORS IN 'SOAPS'</li> <li>• SUPPORT COMIC PERFORMERS</li> </ul>	<ul style="list-style-type: none"> <li>• WALK ON PARTS</li> <li>• MINOR PARTS</li> <li>• NEW COMIC PERFORMERS</li> </ul>			
		SOAPS						
		SITCOMS						
		OTHER COMEDY						
	ENTERTAINMENT	QUIZ	<ul style="list-style-type: none"> <li>• HOSTS/PRESENTERS ON MAJOR NETWORKS</li> </ul>	<ul style="list-style-type: none"> <li>• LEAD PANELISTS</li> <li>• CELEBRITY PARTICIPANT</li> <li>• LEAD MUSIC GUESTS</li> <li>• HOSTS/PRESENTERS ON MINOR CHANNELS</li> </ul>	<ul style="list-style-type: none"> <li>• OTHER PANELISTS</li> <li>• MINOR CONTRIBUTORS</li> </ul>			
		PANEL						
		CHAT						
FACTUAL/ KNOWLEDGE	ENT SHOWS	<ul style="list-style-type: none"> <li>• SERIES 'AUTHORS'</li> <li>• HOUSEHOLD NAME PRESENTERS</li> </ul>	<ul style="list-style-type: none"> <li>• SUPPORT PRESENTERS</li> <li>• LEAD PRESENTERS ON MINOR SERIES/DIGITAL CHANNELS</li> <li>• NARRATORS/ VOICE OVERS</li> </ul>	<ul style="list-style-type: none"> <li>• EXPERT CONTRIBUTORS</li> <li>• INTERVIEWEES</li> </ul>				
	LANDMARK FACTUAL							
	FACTUAL ENT							
CHILDREN'S	LIFESTYLE/MAKEOVER	<ul style="list-style-type: none"> <li>• LEAD PRESENTERS IN MAIN MAGAZINE STRANDS</li> </ul>	<ul style="list-style-type: none"> <li>• SUPPORT PRESENTERS ON MAIN STRANDS</li> </ul>	<ul style="list-style-type: none"> <li>• OTHER CONTRIBUTORS</li> </ul>				
	COOKERY							
SPORT	DRAMA	<ul style="list-style-type: none"> <li>• HOSTS/PRESENTERS FOR MAJOR SPORTS</li> <li>• LEAD REGULAR PUNDITS FOR MAJOR SPORTS</li> </ul>	<ul style="list-style-type: none"> <li>• OCCASIONAL PUNDITS, MAJOR SPORTS</li> <li>• PRESENTERS AND PUNDITS, MINOR SPORTS</li> </ul>	<ul style="list-style-type: none"> <li>• MINOR PRESENTERS/PUNDITS ON MINOR SPORTS</li> </ul>				
	FACTUAL/ MAGAZINE							
	MAGAZINE							
	HIGHLIGHTS							
NEWS	MAJOR LIVE EVENT	<ul style="list-style-type: none"> <li>• LEAD NEWS PRESENTERS</li> <li>• LEAD ON-SCREEN EDITORS</li> </ul>	<ul style="list-style-type: none"> <li>• CORRESPONDENTS</li> <li>• MINOR EDITORS</li> </ul>	<ul style="list-style-type: none"> <li>• JUNIOR CORRESPONDENTS</li> </ul>				
	MINOR LIVE EVENT							
	MAIN BULLETIN							
RADIO	CONTINUOUS NEWS	<ul style="list-style-type: none"> <li>• BREAKFAST DJs</li> <li>• DRIVE TIME DJs ON MAIN NETWORKS</li> </ul>	<ul style="list-style-type: none"> <li>• OTHER DAYTIME DJs ON MAIN NETWORKS</li> </ul>	<ul style="list-style-type: none"> <li>• NIGHTTIME DJs ON MAIN NETWORKS</li> <li>• MUSIC LED DJs ON LOCAL RADIO</li> </ul>				
	CURRENT AFFAIRS							
	RADIO 1							
	RADIO 2							
	RADIO 3							
	RADIO 1				<ul style="list-style-type: none"> <li>• LEAD NAMES IN REGULAR WEEKLY STRANDS</li> </ul>	<ul style="list-style-type: none"> <li>• SUPPORT PRESENTER</li> </ul>	<ul style="list-style-type: none"> <li>• LOCAL RADIO DJs</li> <li>• NETWORK CONTRIBUTORS</li> </ul>	
	RADIO 2							
	RADIO 3							
	DRAMA/COMEDY				DRAMA	<ul style="list-style-type: none"> <li>• LEAD COMEDIANS IN PANEL GAMES</li> </ul>	<ul style="list-style-type: none"> <li>• LEAD ACTORS IN DRAMA OR COMEDY RADIO</li> <li>• SUPPORT COMEDIANS IN PANEL GAMES</li> </ul>	<ul style="list-style-type: none"> <li>• SUPPORT ACTORS</li> </ul>
					COMEDY			
SPEECH/MAGAZINE	PANEL GAME	<ul style="list-style-type: none"> <li>• LEAD PRESENTERS ON NETWORK DAILY/WEEKLY STRANDS</li> </ul>	<ul style="list-style-type: none"> <li>• PRESENTERS ON SPECIALIST WEEKEND OR EVENING SHOWS</li> <li>• LEAD PRESENTERS ON REGIONAL LOCAL RADIO</li> </ul>	<ul style="list-style-type: none"> <li>• OTHER CONTRIBUTORS</li> </ul>				
	REGULAR DAILY/ WEEKLY							
	SPECIALIST/ EVENING							

*The challenges raised across each tier of the talent market in the UK are likely to vary*

Top tier talent will tend to exist in a competitive market where prices and payments are often set with reference to estimates of the specific value added of the named talent, to programmes and channels as a whole. This will be the case particularly with the top 30 to 60 talent names in the UK whose fees form a significant part of any programme or even channel budget.

Lowest tier talent rates are set with reference to industry agreements, where there are still issues around how people are contracted – whether by day, week, per show, and what these minimum rates should be, but where little specific person by person decision making has to be done.

The middle tier may well pose some of the greatest challenges and issues for broadcasting/production management. Each fee may not represent a large part of any programme budget, and any link to programme audience or value added may be difficult to pin down. In addition, the large number of contracts involved may mean that in practical terms individual payments are best left to programme producers to decide within overall programme budgets.

However, despite these difficulties specific procedures may still need to be adopted to prevent inflationary pressures in one area spilling into another area or to prevent any efficiency savings in non talent based programming items ( such as improvements in

working practices, lower cost post production equipment etc) simply being recycled into higher talent inflation within any given programme budget.

## 2. Demand for Talent

### a. Overall Demand for Talent

*The overall demand for talent from commercial broadcasting is likely to depend on seven factors.*

The preceding analysis of the value and role of talent within the TV and radio sectors suggests that at an aggregated level the demand for talent at a commercial broadcaster is likely to depend upon:

the editorial/creative requirements of programming (e.g. is a lead presenter needed?);

the optimal programming mix – genres and sources (are they heavily reliant on talent or not?);

the perceived incremental impact on audiences and net revenue of talent;

the perceived comparative impact on audiences derived from talent versus other programming characteristics;

the perceived comparative impact on audiences of programming characteristic versus broadcasting assets (slot, channel, promotion etc):

the level of variance in programme performance expected and talent's role in reducing that variance; and,

the going market rate for types of talent.

*Overall demand for TV and radio talent is driven to a large extent by macro trends in market revenue growth, viewer/listener preferences and the competitive dynamics of the broadcasting market*

Over time the more buoyant the TV advertising market the greater the demand is likely to be for any given roster of talent (the perceived incremental impact on audiences may remain the same but the advertising value of that extra audience increases). So in some respects one might expect the overall demand for talent from the commercial sector to follow the advertising cycle, or at least the expected advertising cycle, with recessions causing lulls in demand and booms causing acceleration in demand.

Similarly, the much commented upon rise of the celebrity and celebrity culture in the UK over the last 10 to 15 years (marked by the growth of celebrity magazines, the increased number of pages devoted to celebrity issues in national tabloid newspapers and the increased number of celebrity versions of popular reality show formats) is likely to have an impact across the board on the value of using known talent and names in programmes and programme titles.

Lastly, if there were to be a new network market entrant, competing in areas of programming previously largely the preserve of only one incumbent broadcaster, this can cause a sudden uplift in the demand for talent across a range of genres and sub genres. This could be similar to any uplift in the demand for acquisitions and sports rights (e.g. the bidding wars for *The Simpsons* and *Neighbours* has in part been sparked by the arrival of a third advertiser funded network – Five).

***Genre trend and creative fashions will also influence the relative demand for different types of talent***

If viewer preferences shift into a particular genre, or programme type within genre, that makes heavy use of talent (such as entertainment formats, chat shows and panel games), again the demand for talent will increase.

Similarly, if there is an emerging creative/editorial fashion within a sub-genre this can also drive talent demand in specific genres. Some industry observers and BBC genre teams have expressed the view to O&O that there has been a marked trend within landmark factual programming for what they term “talent emersion” or the use of a main author to introduce and tell their own story or provide their own interpretation about an historical event, or natural phenomenon or aspect of society (for example, *Simon Shama’s History of Britain*, *David Starkey’s Monarchy*, *David Dimbleby’s Pictures of Britain*, *Ian Stewart’s Volcano*, *Michael Portillo and the Single Mother*).

***Talent’s role in reducing programme specific risk is probably a key current driver of demand for talent overall, and top talent in particular.***

The UK TV sector “launches” a large number of new programme strands each year (up to 40 per cent of non one-off network programme strands in any year are new to TV), probably more than any other TV market in the world.

In the days of 3 or 4 channel choice there was limited downside risk in getting these commissions wrong – if it was on ITV1 it was almost guaranteed to get a reasonable audience, if it was on Channel 4 it would get a reasonable audience among Channel 4’s key demographic etc. Today, if ITV1 gets a drama wrong it can be looking at claiming only a 10 per cent share in peak time, if it gets a factual programme wrong it can even have a 5 per cent share in peak time.

Channels and programme commissioners have a number of ways of reducing this increasing risk in the schedule. They can extend existing successful strands (more episodes per week of a leading soap opera, turning a 7 part series into a regular 20 episode serial) and reduce strand “churn” to around 20 per cent of the schedule rather than the current 40 per cent. They can also introduce a programme pilot season, as the US networks do, to trial programmes before commissioning a full series.

Alternatively, they can commission local versions of already proven global formats (this risk reduction trend has helped the value of the global formats related programming market to grow to €2.8 billion worldwide). They can also acquire programming with an almost guaranteed audience by buying key sports rights or poaching a programme acquisition from a rival broadcaster but this soon proves rather expensive given these assets have a specific and known value.

Lastly, and certainly not least, channel commissioners can contract household name popular talent, either home grown or poached from a rival channel, who bring an

attractive demographic and attempt to develop vehicles that suit them. In addition, they can try to increase the output volumes and number of strands in the schedule that rely on a limited portfolio of top contracted talent replacing more risky, less talent reliant programming types and formats in the process.

#### **b. Demand for Specific Talent**

*The demand for a specific named presenter/performer is determined by general demand factors, the degree of competition and substitutability within a specific genre or slot and also the degree of substitutability by rival presenters/performers.*

When assessing the demand for any specific performer/presenter there are likely to be three levels of demand drivers at work. First, the macro level drivers of demand, such as the overall market buoyancy, the trends towards interest in celebrity and the overall level of competition in the market.

Second, is the genre, sub-genre and slot level competition: how many broadcasters are interested in a particular type of performer within a specific type of genre or schedule slot? Can a programme using a named presenter be replaced with one less reliant on presenters in the same slot etc?

Third, is the availability of substitute performers who could do a similar job or fill a similar slot. If a presenter is needed for a given sub-genre in a given slot (e.g. Saturday Night family entertainment genre/slot) are there a large number of people who can fulfill this need or only a handful?

*Demand values can differ markedly depending on the strength of demand at the three levels identified.*

Overall, the highest values for specific talent are likely to be in competitive sub-genres, which rely heavily on lead talent, where there are few alternative forms of programming which can gain audiences as cost effectively in the specific slot and where there are few individuals who can effectively present the programme.

Much lower demand value will be attributable in less competitive genres, which rely less on talent and more on other programme characteristics, where there are several different sub-genre types of programme that could effectively be deployed in a given slot, and where several people could do an adequate presenting job.

At this stage, in the absence of the detailed analysis of the UK market that follows, one might expect weekend night chat shows and Saturday night family entertainment to fit into the higher talent value category, and daytime quiz shows, format heavy lifestyle shows and chart based DJ led radio shows outside of peak time slots to fit into the lower value category.

### **3. Supply of Talent**

Drivers of demand value are only half the explanation for how prices might be set in a talent market. Supply side factors, both at a general aggregated level, and at a specific individual level, will also play a very important role. In this case, it may be more instructive to start with the individuals decision to supply talent and then build up to the implications for market supply at an aggregated level.

### **a. The Individual's Supply of Talent**

***The individual performer's decision to supply effort and time is similar to any decision to work***

The supply of talent, or more specifically the supply of time and effort by individual talent, is in one sense much like any other labour market individual supply decision. Standard labour economics sets out the individual supply decision as a trade off between earning money, and the goods and services (or lifestyle) that can then be bought, and the value of leisure time, i.e. the time not worked (often used to enjoy the lifestyle).

For most people as they supply more time, and earn more, the extra money earned is subject to diminishing value, while the leisure time foregone increases in value. But individual's trade-offs are different. Some people choose to work more for more money and others work less for the same money when faced with a potential wage rise.

In fact, there are two processes taking place when there is any change in proposed earning levels per day, week or month. First, there is a straight substitution effect. As the value of working increases the opportunity cost of leisure time increases and people decide to work a bit more.

But at the same time, increasing earnings per day, week or month will mean that for any given amount of effort the recipient will be better off. As individuals become better off, there may be diminishing returns to extra income, and so the individual might decide to work less. The combination of the two effects (the "substitution effect" and the "income effect") determines whether people supply more effort when earnings per day increase or simply work less and earn the same, or somewhere in between.

Again, while individuals will differ, in general as people get richer, larger increases in earnings per day are needed to make them work more.

This simple model needs to be adapted somewhat to deal with people's lifetime earnings, or expected lifetime earnings. To some extent people might be trying to optimise their mix of income and leisure time over their lifetimes, and so are willing to work more and have less leisure time when they are young, in return for working less and having more leisure time when they are older.

Much will depend on the perceived relative value of leisure time when younger and older the expected profile of lifetime earning capacity, i.e. is one in a profession where the highest potential earnings are at 50 (e.g. a lawyer) or 28 (a footballer or city trader).

***Some performers may value the non pecuniary rewards as much as the pecuniary ones, in particular putting a particularly high value on creative freedom and image/reputation.***

To some extent all labour supply decisions also take into account non-pecuniary aspects of the position being offered, but with performers and presenters the non-pecuniary elements may be particularly important. For example, actors refusing roles as not to be

type cast, or choosing other roles because it allows them to move away from previous stereotypes.

Similarly, comedians may want to turn their hand to acting to develop themselves and prove they are capable of deeper more emotional roles. Entertainers and comedians may want to be the face of a social issue documentary, former sportsmen may want to prove they can handle programmes that are not just sport related etc.

Of course, such decisions are not always for non-pecuniary reasons. Sometimes they are just recognition of the need to diversify to optimise lifetime earnings, but often, in the creative professions, they are not only about money.

***Some TV performers and presenters may have substitute and, perhaps more uniquely, complementary work opportunities that heavily influence their decision to supply time and effort to a TV project***

Some factors influencing presenters' and performers' decisions to devote time and effort to a TV project which may appear non-pecuniary at first, might actually just be part of a broader financial decision.

An actor may decide to turn down the offer of TV work because they have been offered higher paid or more high profile film work, or because they want to do a lesser paid theatre role to broaden their repertoire and acting experience.

A comedian might turn down a role in new situation comedy they are really interested in as the filming schedule conflicts with their lucrative stand-up tour and associated video sales, or they might just as easily accept a new role they are less keen on as they want the extra public profile to help promote their upcoming tour and lucrative video.

While such factors do come into all labour supply decisions, especially with freelance labour able to take on a number of assignments, the degree to which performers will engage in lower paid work for image and publicity reasons (which may actually drive additional income streams or overall professional fulfillment) or, alternatively, refuse to engage in highly paid work (that typecasts them or conflicts with another pet project) is probably greater than most professions or activities.<sup>19</sup>

***Exposure can be valued as much as immediate direct financial rewards - for both non pecuniary reasons and to maximise lifetime income.***

Over and above the specifics of creative freedom and image, talent may also value pure exposure such as the size of audience reach or the specific demographic reached. This can be for general ego reasons ("I want to be very famous") and all the lifestyle implications involved. Exposure can also be a useful way of building a career and earnings in the future.

---

<sup>19</sup> A greater proportion of the UK population probably now face these "portfolio career" issues than in the past with many senior professionals/managers combining these roles with non executive director roles and involvement with public bodies/civic duties. Some of this portfolio development is done for long term income maximization, to widen networks and alter perceptions of capabilities, but some for non-pecuniary motives such as giving something back to the community and to improve image and provide a feeling of self worth.

Of course, there is such a thing as over exposure, which can eventually damage lifetime earnings. All leading talent must judge how much exposure they need at which times during their careers, for both egotistical and monetary reasons.<sup>20</sup>

***The need for large increments to keep on working hard may be particularly the case with performers who have risen to the top of their profession***

Diminishing marginal returns from extra income plus a greater pre-occupation with image and creative fulfillment may combine for stars who have already earned upwards of £20m in their career and who have invested it wisely. Broadcasters wanting to entice these stars may need to offer quite large sums and significant creative freedom in order to persuade them to take on an assignment.

***The time dimension to supply decisions can be particularly complex when it comes to on-screen and on-air talent, given the tendency of performer careers to go through perhaps greater peaks and troughs than the average worker or professional.***

Decisions about when to take on certain assignments and when to refuse them are likely to be more complex in the talent sector than in other areas of professional activity, given the tendency for all creative careers to peak (both in terms of ability and popularity) and then decline (again in both terms). Talent may end up refusing very lucrative deals if they feel it will over expose them or exclude a future alternative, and similarly take on a poorly rewarded opportunity if they think it is time to step out of the limelight for a while or go in a different direction and prolong their career. This behavior is likely to be much more common and extreme in the case of talent, especially top talent, than say with a lawyer or board director (where careers tend to build over time) or even footballer (where the short duration of a playing career is a certainty).

See Figure B.7. for an outline of a typical career path of a successful performer and the likely balance of value created and fees earned.

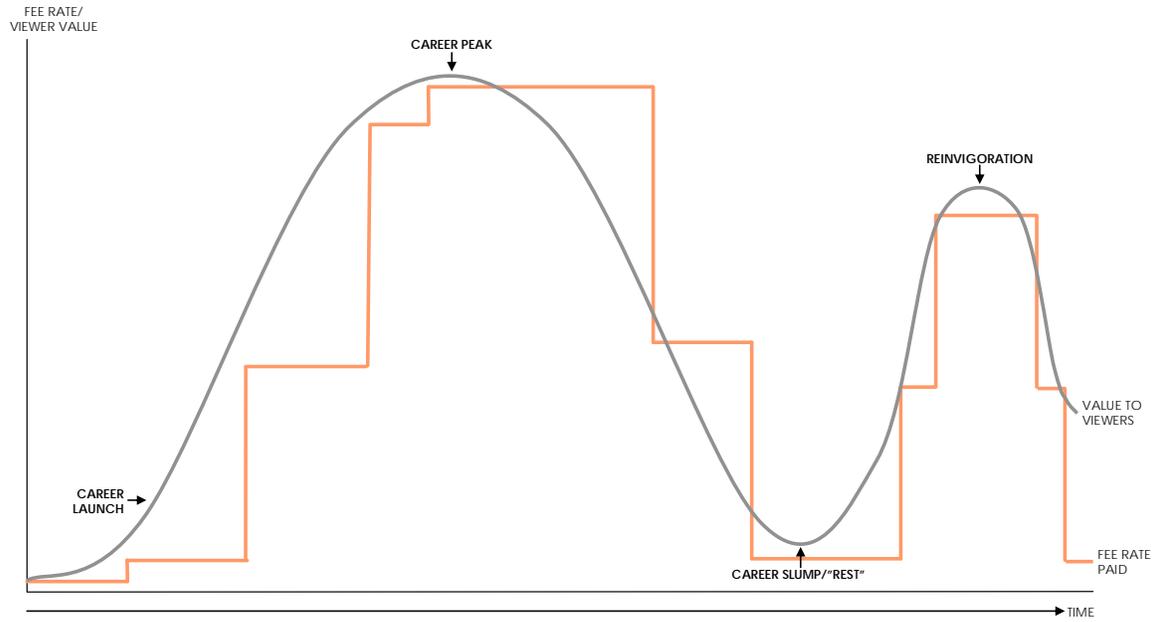
***High degrees of uncertainty over career direction and motivation can both enhance and undermine the negotiating leverage of talent.***

The professional insecurity engendered by career peaks and troughs can undermine individual talent's negotiating leverage (which is why many employ agents). But the multiple potential criteria for accepting and rejecting work (many not about immediate rewards) can help negotiating leverage even when a direct competitor channel is not necessarily interested in competing with an incumbent broadcaster for given talent name.

---

<sup>20</sup> This is often the agent's role, although conflicts can exist where an agent's reward structure may be skewed towards getting certain income immediately rather than building income for the future. This could be why many stars change agents around the time their career prospects change significantly.

**FIGURE B.7. – TALENT LIFECYCLE PERFORMANCE AND FEES**



SOURCE: O&O INTERVIEWS

**b. The Macro Supply of Talent**

*The overall supply conditions for Talent differs by tier of talent*

The supply of the people in the lowest tier of talent (freelance musicians, walk on part actors, local station DJs) is likely to be fairly abundant. Feeder activities such as club DJs, music and drama school graduates, repertory theatre, comedy clubs, community radio and live music performance all help provide a continuous supply of new talent to compensate for those retiring and/or giving up careers.<sup>21</sup>

The supply of top tier talent, those performers able to attract and sustain audience loyalty, is likely to be in much shorter supply, almost by definition.

The need in most cases for both previous broadcasting experience and high level exposure, in order to enjoy the kind of audience recognition and loyalty enjoyed by lead and top talent, will in itself limit supply to those who have managed to emerge successfully from the middle tier.

A virtuous circle of initial innate abilities (to tell a joke in front of an audience, to hold the attention of a large group of people, being attractive or eccentric) as well as pre-

<sup>21</sup> Changes to the labour market in the European community are likely to create an even greater source of supply in some areas as people who can speak English are attracted into Europe’s largest and most lucrative TV production market.

existing exposure and recognition, all builds up to create a top tier of talent. Individuals experience their own “network” effect whereby more exposure brings more recognition and loyalty which, in turn, brings more demand and exposure.

If this “network” effect is added to the diminishing marginal returns of money at the top tier at an individual level, plus the tendency for this talent to be signed on an exclusive basis, then it is likely that supply shortages can build up fairly rapidly at this level.<sup>22</sup>

Supply in the middle tier depends, to a large extent, on how many individuals emerge from the lowest tier as having some unique talent or appeal/recognition. This in turn is a function of the number of programme and/or channel exposure opportunities that occur across the TV or radio industry, and the skills and attributes of every new wave of “graduates” from drama schools, music schools, comedy clubs, community radio etc.<sup>23</sup>

***But supply in each tier is linked and is partly within broadcasters’ control***

Supply in the middle tier depends, to a large extent, on who emerges from the bottom tier (although some types of talent such as experts and pundits can enter directly into the middle tier via other non TV activities – being a footballer, a famous academic etc). Supply in the top tier depends in part on who emerges from the middle tier.

Clearly, broadcasters can manage the progress of talent from one tier to the next through talent development and “A&R” type activities, and through the risks they are prepared to take on screen with talent that is trying to pass from one level to the next.

***There may be a “free rider” market failure issue in moving talent up each tier and effectively increasing supply***

One of the main catalysts that changes the tier within which talent operate is the willingness of broadcasters or producers to give talent at each level their next “break”. But for each broadcaster/producer, while there may be some direct gains to finding and nurturing new talent in the middle and then top tier, in terms of the initial audience benefits versus the initial fee paid, these are quickly eroded as other channels wait for talent to emerge and then poach them.

Each commercial channel might find it rational, on an individual basis, to wait for another channel to develop talent and then to poach that talent. In this situation, no channel therefore develops enough new talent through the tiers, especially from the middle to the top tier where most poaching is likely to take place, leading to a market shortage.

This problem may be reinforced by the limited ability to hold talent to long term exclusive contracts that could guarantee quality effort for the channel or producer that took the initial risk on giving the talent a break. Unhappy talent which is being held to an existing contract agreed before they were successful, despite much higher offers from a rival, is unlikely to perform well.

---

<sup>22</sup> Broadcasters can and do deal with this potential shortage by bringing on and exposing new talent rapidly, although this involves a certain amount of risk. This issue will be dealt with further in later sections on the current market for UK talent and the BBC’s role and approach to the talent market.

<sup>23</sup> While channel proliferation may have given more people the opportunity to get a chance for initial TV and radio exposure in the middle tier of talent, and thus a chance to progress to the top tier, audience fragmentation may reduce the number of people with true mass recognition and loyalty.

## **4. A Market Model for TV and Radio Talent**

### **a. A Simple Market Model**

The elements of demand and supply outlined above, both at an aggregated level and a specific level, can be used to set out a fairly simply model of how a commercial market for talent might operate.

The overall level of demand for talent at different levels and tiers is determined by the overall value of the broadcasting market, the level of competition in the market, talent's importance in delivering audience as a "factor of production". This is in comparison with other programme characteristics and broadcasting schedule assets and talent's role in reducing the risks of failure when introducing new programming strands.

The overall level of supply of talent at different levels is set by the flow of new talent into the lowest tier of the market, and their progress up the tiers to the top talent tier, a progression which is in turn largely determined by the previous talent "buying" decisions of broadcasters.

Supply and demand will differ by genre as the number of competitors, the role and contribution of talent and the availability of talent varies by genre. However, bottlenecks in the supply of talent within any one genre can be ameliorated, to some extent, by the fact that many talented individuals can work across genres.

A range of market segments would be likely to appear, characterised by genre or sub-genre (or clusters of genres that use similar talent) and talent tiers, with top talent in areas of close competition for audiences, where talent was relatively important to audience size and risk reduction, gaining high prices. Conversely, mid tier talent in areas where only one broadcaster has an interest, and where talent itself played a minor role, might command a much lower price.

### **b. Complications In The Market For Talent**

#### **i. non-pecuniary motives, alternative activities and career management**

The preceding analysis of the drivers of the demand for talent and the supply of talent has suggested that the market model may not be as simple to predict as the preceding section has suggested.

Talent may want to maximise creative freedom or artistic prowess, increase exposure in order to maximise long term income, or to help promote a complementary activity (writing a book in their area of expertise, producing a stand up comedy video etc). Conversely, they may be more interested in substitute activities such as a political career, writing a book or editing a newspaper.

Individual supply decisions and trade-offs can imply that even in markets where there is not much broadcasting competition, talent can still command a relatively high price as long as it has a significant contribution to audience value. For instance, talent that only has demand from a single broadcaster could still command a high price if it has

alternative lucrative careers to pursue, is afraid of being type cast or wants to pursue another creative avenue.

Similarly, in markets where there is a great deal of competition and talent is vital to audiences, low fees might still be observed if the talent is keen on gaining the particular type of exposure for long-term career development or has a complementary activity that might benefit from such involvement.

## **ii. unique value**

The simple market model is based on individual talent, even if there is a limited pool of potential performers/presenters, to some extent being interchangeable for each other.

For some programming, individual talent is synonymous with the appeal of that programme so no other talent even comes close to being a substitute. In these cases, the named talent can command very high prices, up to a point where their fee starts to make the programme itself very expensive when compared with a programme that could command a similar audience.

A high price paid for unique talent will not necessarily be related to the existence of a competitor broadcaster. If that talent possesses non-pecuniary motivation (avoiding type casting, pursuing other creative ambitions etc) then the incumbent broadcaster may be willing to pay a high price to persuade the unique talent to repeat their role even if there is no competing broadcaster.<sup>24</sup>

## **iii. Independent Producers and Talent Agents**

Thus far the economic framework for talent markets has been based on demand for talent derived from broadcasters, or producers working on behalf of broadcasters, while supply comes from individuals entering into contracts with broadcasters.

There are two other players in the supply chain who can complicate matters somewhat. Independent producers (who now account for over 40 per cent of all programming commissioned in the UK) compete with each other and in-house production divisions for commissions from broadcasters.

The competition between producers is primarily based on programme concept or script and proposed execution (backed up by a track record) but producers can also help their chances of winning a commission through other programme characteristics such as unique access (to footage, an interesting person or an event) or their relationship with key talent.

Where talent is important to the winning of a commission it is possible that producers will compete to supply talent to the commissioning broadcaster which may have the effect of bidding up the price of the talent even if only one broadcaster is really interested in

---

<sup>24</sup> Perhaps the best example of this given in an interview for this report was Helen Mirren as DI Tennyson in Prime Suspect, where she is synonymous with the part, and where few other programmes could generate the audience of Prime Suspect at the same cost for ITV1 and where she really does not want to play the part again and would rather work in film and theatre (having already made a large amount of money from her career). It is not the BBC or Channel 4 pursuing her for an equally lucrative part that means ITV has to pay her a high fee to do one more episode of Prime Suspect, but her unique value to the programme combined with her high opportunity costs involved in doing the part in terms of her creative ambitions.

the show and/or the talent in question. Competition for the market to supply broadcasters can become as important as competition between broadcasters.

Price inflation from competition for supply to the market can be even more intense if the producer is able to simply pass on the extra cost to the broadcaster once it has bid up the price.

This relationship can become even more complex when talent set up their own independent production companies, effectively earning the production fee in addition to their own talent fee, or talent agents representing a roster of talent, set up a production company.

But beyond setting up production companies, talent agents can impact the market in four main ways. First, if they represent a roster of talent who are quite close substitutes, they can effectively control broadcasters' access to the nearest substitute talent and both keep prices high and operate a system of revenue maximising price discrimination across their clients.

Second, it is in their interest to create a biased view of payment levels in the market both to unsettle talent currently with rival agencies (the best way to attract new clients is to make them feel unhappy at their existing agency) and to confuse any attempts by broadcasters to obtain proper payment benchmarks.

Third, they replace the insecurity of the individual artist with a more detached, independent and often amoral stance allowing for tougher negotiation and a certain amount of half truths about the artist's objectives and alternatives.

Fourth, agents tend to favour certain income for which they can earn immediate commission on, above and beyond shares of future revenues etc. This can bias the market towards up front performance fees rather than shares of secondary and ancillary revenues.

#### **iv. Incomplete information and disinformation.**

The simple market model assumes that broadcasters are aware of the motives and trade offs of individual talent, and that they can accurately predict the impact talent will have on a programme performance.

Neither of these is in fact the case. The true motives of talent can be hidden from broadcasters, often deliberately by the agent. It can be easy for an agent to suggest his client needs to be persuaded to do the work with a large cheque when in fact his client is desperate to do the work.

Equally, the commercial returns to using any given talent is always uncertain, it simply may not be quite as uncertain as other elements of the programme.

#### **v. Public service broadcasting obligations and motivations**

An important modification of the market model above is the influence of public service obligations and motivations. The public service obligations of broadcasters include the need to innovate and encourage the development of new creative talent. This can modify a pure market led revenue maximisation approach to broadcasting.

Similarly, the presence of public service motivation in the talent itself can persuade them to do work that is neither revenue maximising nor fully satisfies their own creative needs. Talent may do another series of a programme even if they think they would develop more if they changed direction because the programme is fulfilling some public purpose.

#### **vi. Risk taking, risk sharing and market failures**

The preceding analysis already outlines the main market failure: an underinvestment in new talent due to the risk of poaching by a rival broadcaster and the difficulty of holding creative talent to binding but restrictive contracts.

In these circumstances, all broadcasters develop less talent than is optimal and instead end up paying high prices for poaching existing talent. Only when the prices become prohibitively high do broadcasters eventually invest in new talent despite the poaching risk.

In addition to market failure issues, a more complex model of the talent market also has to deal with the risk of success or failure within given programmes and the extent to which talent is able and also willing to share that risk financially. Prices for pilots and first series can be kept very low, if talent is able to secure a significant uplift in fees should the programme be successful. But such sharing of risks comes with its own problems if the talent becomes too concerned with the success of the show, much of which is not within their control, and too little concerned with their own performance.

Such risk sharing models can be particularly problematic with public service broadcasting where audience maximisation is often not the predominant goal. In these circumstances, rewarding talent on the basis of audience performance alone would be problematic, while rewarding them on the basis of public service criteria achieved could prove complex and difficult to define.

#### **vii. The need for an inter temporal, long term, dynamic investment model**

Supply of attractive talent in any one period, is a function of the use of talent in the previous period. In particular, decisions to give general talent its "break" into the next level of opportunities within a programme area in one period, determines the number of people available for a given type of programming in the next period.

As a result, the use of leading support actors in one year influences the potential number of lead actors in the next year while the use of entertainment presenters on daytime shows and digital channels in one year influences the supply of potential peak time entertainment presenters in the next period.

More broadly, the use and exposure of performers 10 or 20 years ago can influence the supply of household names today.

This implies that any lack of investment in and development of talent in one period can have significant implications for the supply of talent and the price of talent in a subsequent period, and that these effects can be relatively long lived. It also may imply that talent that rose to fame in a period of three to four channel TV with large audiences may enjoy a price premium in an era of many channels and more fragmented audiences.

Effectively, TV of the 1970s, 1980s and early 1990s created a stock of talent with more mass market resonance than the more recent roster of talent. This effect will, of course, lessen as the audience who grew up with these performers in the 1970s and 1980s age.<sup>25</sup>

Just as supply 10 to 20 years ago influences the market today, so terms of engagement today will influence supply in the future. The rewards on offer to news readers, factual programming presenters, chat show hosts and leading comedians today will have an impact on the number of new comedians, entertainers and TV journalists entering the market today and the likelihood that leading talents will emerge in 5 or 10 years time.

## **5. A Complete Model of TV and Radio Talent and the Implications for Talent Market Prices and Trends**

A complete model of TV and radio talent takes all these factors into account: risk, uniqueness, the role of agents, inter-period effects, non-pecuniary incentives, career income maximisation etc, in addition to the specific supply and demand characteristics of each genre and activity.

It implies that any assessment of market price differences between different levels of talent, the same type of talent within different genre, between different channels and broadcasters and trends exhibited by the same broadcaster over time need to take full account of a range of complicating factors.

### **a. The Need to Apply Individual Price Setting and Bargaining Models**

In some instances, market prices may be set by the simple model, with each broadcaster calculating the value of the marginal incremental audience attracted by named talent and the talent accepting the highest price bid by a broadcaster (which comes from the broadcaster with the highest incremental value who pays a bit more than the second highest bidder's value).

However, in many circumstances, the calculation will not only be more complex than this but may also have no one obvious price signal. For instance, where a broadcaster is the only buyer, or only buyer of scale, for a given area of talent, the buyer may be able to secure a very low price if named talent has few career alternatives, has few unique programme specific features and needs the money or exposure.

Alternatively, the dominant buyer may still have to pay a very high price, if named talent in this area has unique pulling power, has plenty of alternative career paths and is already quite wealthy. Even where this is not the case, a dominant buyer might even legitimately decide to pay the named talent more than they actually desire for a particular role, in order to provide incentives for new people to enter the market and pursue the relevant career.

In these cases, the actual price paid by the buyer will reflect either the unique pulling power of the named talent as part of the broadcaster's specific programme or the fee needed to encourage continued entry of new talent to this area of programming. In neither case does the price paid necessarily reflect the next best offer from a rival broadcaster plus a small percentage.

---

<sup>25</sup> It may be no accident that so many stars that first came to fame in the 1970s and 1980s are now among the highest paid in the country (Jonathan Ross, Noel Edmonds, Bruce Forsyth etc).

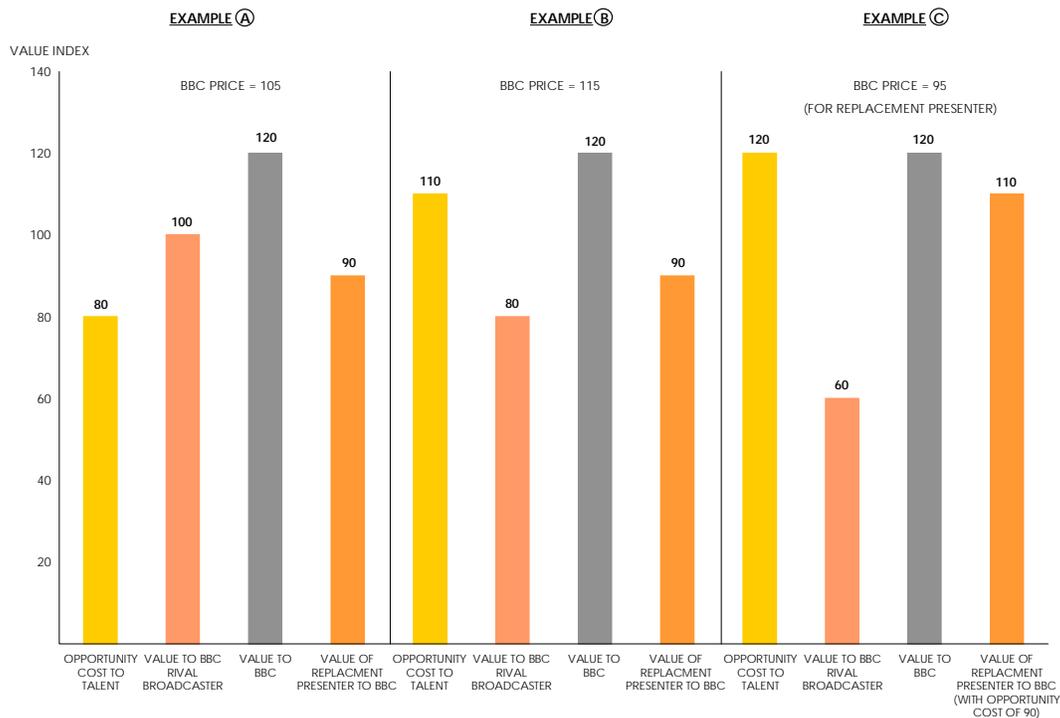
The upper limit for the price offered, where the talent has unique pulling power within a specific programme, is likely to be set by the costs and likely audiences to an alternative programme rather than by the fee that needs to be paid by an alternative presenter/performer or to keep them away from a rival broadcaster.

Figure B.8. outlines three examples of different likely outturn prices paid by the BBC for three artists/presenters with identical incremental value to the BBC and where in all cases the value to the BBC is at least slightly higher than its nearest broadcast rival.

In example A, the BBC pays a price of 105 to beat a rival broadcaster even though the talent may have been prepared to do the job for 80. In example B, the BBC pays a price of 115, even though a rival broadcaster is only willing to pay a maximum of 80, as this is what is required to get the talent to do the job, and the nearest replacement for the BBC would bring significantly less value.

In the final example, the BBC pays 95, but uses a rival – less valuable artist – to the target presenter, as the target presenter’s opportunity cost for doing the job is very high relative to their value. Again, the price paid is much higher than a rival broadcaster might be willing to pay.

**FIGURE B.8. - BBC VALUE AND PRICE SETTING – 3 examples**



**b. The Need to Link Demand and Supply Over Time and to Reflect Risk**

The hiring of talent is an “investment” decision as well as a “consumption” decision. Commissioners and producers will employ lesser known talent with no specific likelihood

of pulling in an initial audience in the hope that the talent once introduced to the audience will become popular.

To some extent this risk can be reflected in the initial price for the talent where the performer/presenter is expected to take a lower fee for the first couple of series and is rewarded with an uplift should the series be successful. But in many cases the development of talent is over a number of series and different types of outlet in the effort to make them a household name. In these cases, fees paid relate to an expected value created over a period of time.

In such circumstances broadcasters might be expected to occasionally pay higher fees to retain talent than their immediate pay back might suggest, as to see talent poached just at a time when they are likely to break through would be to have to write off the investment already made.

Alternatively, it might be worthwhile paying some talent in the latter part of their careers more than their immediate worth, not to realize future investment but rather as an incentive mechanism to attract new talent into the genre.<sup>26</sup>

## **6. Likely Drivers of Change Over Time**

### **a. Digitisation and Globalisation**

Digitisation – by allowing for greater market entry and consumer choice – will tend to break down the power of distribution systems and channels to the benefit of compelling content and within that content – talent with pulling power.

Furthermore, by reducing the costs of incremental duplication and distribution and potentially opening up global markets to named talent, it is likely to help increase the rewards of those at the top of the market.

But digitisation and globalisation are also likely to cause audience and revenue fragmentation, putting some downward pressure on the general level of content spend and talent fees.

### **b. Competition and Risk**

A likely trend towards polarisation driven by the impact of digitisation are likely to be reinforced by the impact of risk on commissioner and producer behaviour.

More competitive broadcast markets are likely to involve more intrinsic risk of failure. The “network” effects within broadcasting are likely to create a more “fractal” or asymmetric risk profile for programmes – with some outstanding successes and a lot of below average performers – rather than a more “normal” risk profile with some successes and failures and a large number of average performers.

This in turn puts a premium on those factors of production that can reduce risk – a proven format, a proven writer or a proven lead performer/presenter. TV might to some extent

---

<sup>26</sup> This refers back to the “tournament” theory of highly paid jobs referred to in Section A.2.

follow Hollywood and pay lead performers much more money, not just because they bring in larger audiences but more importantly, because they help avoid complete failure.

Such effects are likely to be most pronounced in the most competitive areas of programming. In genres where the importance of talent and high degrees of channel competition are found in combination, fees to top talent are likely to grow at a much faster rate than industry averages.

## C. THE UK MARKET FOR ON SCREEN AND ON AIR TALENT

### 1. The UK On-Screen and On-Air Talent Market

#### a. Current Market Size and Flow of Funds

*UK on screen and on air talent is estimated to receive about £750m a year in income from initial appearance/participation fees plus residual and royalty payments for those appearances.*

Initial appearance/contribution fees to on screen and on air talent (which typically cover a limited number of programme uses on the broadcaster's channels and catch up TV services) currently stand at approximately £580m a year in the UK, about 18 per cent of all spending on new TV and radio programming in the UK.

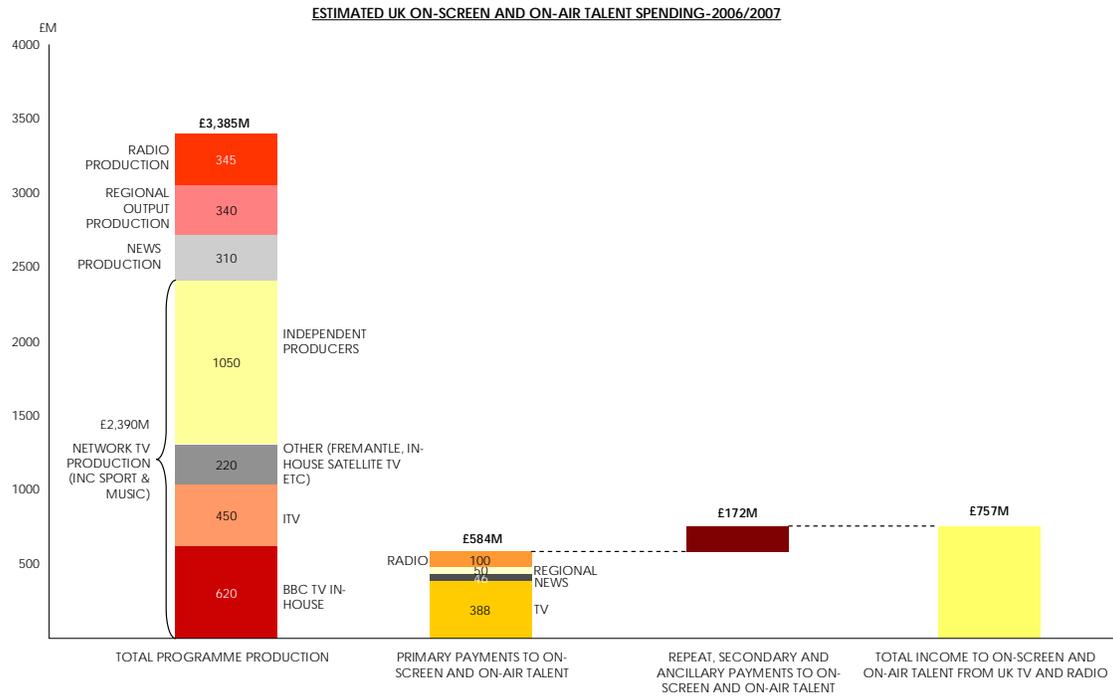
This varies considerably across genre and media. Talent fees can be less than 10 per cent of programme budgets in TV genres such as sport (excluding sports rights fees), children's and documentaries, to 15 per cent in news programming, to 20 per cent or more in TV drama, comedy and panel shows and more than 25 per cent in music radio.

Talent also receive additional payments in the UK when the programme is repeated more than once or twice by the original broadcaster (the so called "residual" payments)<sup>27</sup>, when the programme is sold to another UK broadcaster, when it is exploited on DVD or when it is sold to overseas broadcasters. Total additional payments to on-screen and on-air talent from residual and royalty payments in the UK is estimated to be approximately £170m. See Figure C.1.

---

<sup>27</sup> Although in many cases these initial repeat fees are "bought out" as part of the initial engagement fee – and such repeat fees only tend to apply to actors and performers not to presenters

FIGURE C.1. – THE UK ON SCREEN AND ON AIR TALENT MARKET – estimated value 2006/2007



SOURCE: BBC, COMPANY ACCOUNTS, O&O ANALYSIS

*Very top talent in the UK market can earn more than £1m a year from initial appearance and contribution fees, and some can earn as much again from repeats and commercial spin off revenues. These tend to be the talent names who are signed exclusively by channels or at least within genre.*

The top thirty to forty or so stars across network TV and radio earn over £1m a year in appearance and contribution fees and many of these, especially comedians, top dramatic actors and leading lifestyle and cookery presenters, can earn as much again from repeats, tie-in publishing deals, sales to UK and overseas broadcasters and DVD royalties.

Even within this top thirty to forty stars, the very top 10 or so stars can expect to earn well in excess of £2m a year from appearance fees. Similarly, the top 10 comedians and lifestyle/cookery presenters can expect to earn well in excess of £1m a year in spin off revenue royalties.

Many of these top performers/presenters earn significant amounts of revenue beyond their TV work, from non-TV tie-in books, journalism, advertising work, live performances and appearances etc. Top UK actors and comedians earn significant revenues from live stand up tours and the associated DVDs, film parts in the UK and USA, and TV parts in the USA.<sup>28</sup>

<sup>28</sup> An increasing number of UK stars now work on TV in the USA – See Appendix IX.

These talent names tend to be the ones that broadcasters will seek to sign exclusively to either their channels or within a certain sub-genre.

***Beyond the very top level, there are another 200 to 300 or so named lead talent stars that can expect to earn £100K to £500K a year in appearance fees***

Just below the very top stars is a larger group of 200 to 300 presenter performers who can expect to make £100,000 to £500,000 a year in TV and radio appearance/performance fees. Again these named talent will also earn royalties from programme spin offs and will engage in non TV and radio work across advertising, journalism etc

Such named talent tends not to be engaged exclusively by channels or with genre and can often end up working for different broadcasters across any given year.

***Beyond the to 250 to 350 names, on-screen and on-air talent payments tend to decline quite rapidly, with a tier of 1,000 to 2,000 mid range contributors and 3,000 to 5,000 minor contributors***

Beyond the top and lead talent names there are a large number of occasional programme contributors, regular cast actors, more junior on-air screen and on-air news correspondents, leading local radio DJs and musicians etc who earn between £20,000 and £100,000 a year from TV and radio fees.

Beyond this level there are a large number of walk on part actors, musicians, minor local radio DJs and freelance news reporters who can earn between £2,000 to £20,000 from their appearances on TV and radio.

Little of this on-screen or on-air talent in the UK works in TV or radio full time. Actors will work across film, TV and theatre, comedians across TV and stand-up, musicians across TV, radio and live performance and DJs across local radio and club and event appearances.

Only local news reporters in local TV and radio, and network on-screen and on-air news correspondents and editors in TV and radio are likely to be more-or-less full time with the broadcast organisations they work for.

***Many performers in the bottom tier are paid through standard agreed industry terms with the talent unions***

Actor's equity and the musicians union have agreed minimum terms with the main broadcasters and/or independent producer body – PACT. These fees are often specified in terms of payments for an "engagement", with an engagement being defined by an amount of days input to an assignment.

***While top actors, comedians and comic actors tend to get paid the most per broadcast hour, lead entertainment, sports and news presenters plus radio DJs tend to do more on-screen or on-air hours and therefore earn similar fees per year***

The highest fees per broadcast hour tend to be paid to top actors in major drama series and comedians when involved in situation and sketch comedies. But each broadcast hour usually involves several days of rehearsing and/or shooting, so fees per input hour/day are much lower. Total on-screen output hours per year for lead actors can often be less than 10 hours.

Lead entertainment, news and sports presenters tend to be paid lower fees per output hour than top drama actors and comedians, but they can be involved in 100 or more output hours a year (in the case of leading sports, news and quiz presenters), although each hour on air rarely involves more than a days preparation and shooting, and in some cases might be little more than the broadcast itself.

## **b. Current market structure**

### ***Most talent in the UK is contracted as part of a commission by the leading network broadcasters***

Most TV and radio talent is contracted as part of specific programme commissions where the producers, often in consultation with the relevant channel commissioners, make the key talent contracting decisions.

But within radio and news activities a number of key talent contracts tend to be decided at a channel or even divisional level.<sup>29</sup>

Even within TV, some talent, especially those that work across genre and are considered to confer benefits across a broadcaster's output, are contracted centrally with either a number of named programmes against their name, or in some cases a combination of known commissions and commissions yet to be decided.<sup>30</sup>

Overall, the trend to directly contract talent to channels, beyond the leading handful of names, is thought to be in decline, especially for contracts without specific named commissions against them.<sup>31</sup> However, each leading TV channel in the UK does have a number of directly contracted talent. Channel 4 tends to directly contract lifestyle/cookery hosts, while ITV tends to contract leading entertainment and drama talent. The BBC tends to directly contract entertainment and lifestyle show hosts, taking more of a strand-by-strand approach to drama.

### ***The main network TV groups still account for over 90 per cent of all new programme commissioning in the UK***

The four network broadcasters, the BBC, ITV, Channel 4 and FIVE still account for about 90 per cent of the total £3.0 billion worth of commissioned TV programming in the UK, mostly through their main network channels but also increasingly through their digital spin off channels.

Within this overall pattern, the BBC is responsible for about 45 per cent of all commissioned output spending (including News and Sport), ITV about 30 per cent, Channel 4 about 15 per cent, and FIVE about 4 per cent.

---

<sup>29</sup> Payments decisions relating to leading radio hosts and DJs are taken by Audio and Music divisional management at the BBC (and sometimes referred to the Director General's Finance Committee) and in the case of commercial radio the board of the commercial radio group as the performance of a key London-based breakfast time DJ can impact the value of the whole company.

<sup>30</sup> Central contracting is often associated with channel/broadcaster exclusivity where in return for exclusivity a broadcaster will make commitments to output across channels, genres and sometimes media, necessitating the need for a central contract.

<sup>31</sup> All channel interviews, BBC and external, suggested that the use of central contracts is in decline.

The pattern of spending varies by genre, with the BBC being a larger proportionate commissioner of news and factual programming than the average 45 per cent across the whole TV market, and accounting for a lower proportion across entertainment genres.

### ***The supply of TV commissions is more fragmented***

The existence of the sizeable and growing UK independent production sector means that the supply of commissioned programming is more fragmented than demand for it. Independent producers account for about 43 per cent of all UK commissioned output by value and are together the single largest source of programming in the UK.

However, despite a large amount of consolidation recently, the independent sector itself is still fairly fragmented with the largest 10 production groups accounting for about half the independent sector, the next 20 about one quarter of the sector, and the remaining quarter being shared among 100 or so active companies in any one year.

### ***Radio commissioning is still dominated by in-house production in commercial and BBC radio***

Although the BBC has a commitment to commissioning at least 10 per cent of its non-news output from independent radio producers, the commercial sector has no such commitment. The nature of commercial radio output, mostly DJ or presenter led music shows, means that most commercial radio output, beyond the occasional syndicated show such as the IRN news programmes or the two commercial network chart shows, is made in-house by the relevant radio station.

### ***The presence of significant independent producers in TV plus new terms of trade can make contracting talent more complex***

Terms of trade introduced to TV in 2003/04 meant broadcasters can no longer insist on line-by-line budgets for programmes they commission. Instead, programmes are often commissioned on the basis of a "tariff" price and an editorial specification. This means that broadcasters often do not know the exact talent payments involved in programmes they commission and only get to know if talent fees become an issue and the producer is asking for an enhanced programme tariff to cover fees.<sup>32</sup>

In addition, the involvement of an independent producer can complicate any negotiation with the talent once talent costs become an issue. If matters are not coordinated properly the talent can end up negotiating with two parties, exploiting any inconsistencies in the stance of both buyers to their own advantage.<sup>33</sup>

At a broader level, increasingly free competition between in-house production and independent producers on the one hand (within the BBC's WOCC framework) and between more commercially aggressive independent producers on the other hand, can, if not handled properly, create competitive pressure on talent fees in order to

---

<sup>32</sup> The impact of this on broadcaster control of talent costs is considered later in this section.

<sup>33</sup> In our interviews we were given both examples by independent producers of where their strong stance in resisting a talent fee increase had been undermined by a broadcaster keen to do the deal even at a higher level and by broadcasters of where an independent had yielded to higher fee demands (despite the broadcaster standing firm) taking money out of other elements of the budget to fund it.

secure a commission even if only one broadcaster is actually interested in that commission.

### c. Contract Types and Structure

***In general, the UK market operates on a fixed appearance fee basis based on output hours-although some audience related payments do exist in the commercial sector***

Low end and mid-tier on-screen and on-air talent can be paid by input day, input weeks or input sessions (minor actors, musicians etc) and news reporters are often on full time employment contracts, but most of the top-tier talent and a fair amount of mid-tier talent is paid on a fee per output hour basis. Clearly, these fees are entered into with some knowledge of the input needed for every hour of output, and some notion of the quality of output expected.

For the most part, whether fees are input or output related, they tend to be fixed and not directly related to audience performance. However, several leading commercial radio contracts and a few commercial TV contracts do involve extra rewards for higher audience achievement, either incremental audiences to the existing programme average, or audiences achieved above the slot average.<sup>34</sup>

***Risk sharing with the talent tends to be more tied to "back-end" royalty payments and series renewal options and/or escalators***

Most risk sharing with talent comes through either the royalty basis of "back-end" payments, which given the linkage to future revenues, do to some extent reflect the success of the programme, or the terms of any second or third series renewal.

Often at the start of a new series, talent is only signed up for the first one or two series at an initial fee, and the fee needs to be renegotiated should the programme be successful and be renewed.<sup>35</sup>

In some cases, producers/broadcasters set a pre-determined fee uplift ratchet for the second or third series before the series is commissioned. In other cases there is no preset ratchet and it has to be negotiated after a programme's success is known.

Clearly, the later approach runs the risk for the producer/broadcaster that they will have to pay significantly increased fees to retain vital talent in a successful series, the former approach protects against this outcome but can often only be secured from key talent if the initial fee is set higher. And with the preset uplift ratchet there is always the issue of how far key talent can be held to this commitment and still devote their full creative efforts to the project if they feel they are being rewarded inadequately for success.

Overall, O&O's interviews suggested that the commercial sector is moving towards more optioning on future series at a fixed uplift to the initial fee, especially for programmes where recasting and replacement might prove difficult.

---

<sup>34</sup> ITV suggested that there were more of this type of contract now than previously.

<sup>35</sup> For reference, only about 50 per cent of new drama commissions, for instance, make it to a second series, and only 25 per cent to a 4<sup>th</sup> series.

#### **d. Talent as a Value and Audience Driver**

***The O&O Value Survey has identified talent as an important driver of audience in several genre, but it is by no means the only driver***

The O&O Value Survey, referred to more extensively in Section B and E of this report, suggests that lead and support name talent can play a significant – but not the only – role in attracting audiences. Across TV lead talent in entertainment, comedy and drama tended to have more pulling power than such talent in news, sport and current affairs programming. Across radio presenters of chart music led shows tended to have greater relative impact on audience choice than presenters involved in more specific mixed music and speech services and/or sports and news networks.

***The O&O Value Survey also suggested that a limited number of named talent have significant pulling power with either all viewers/listeners or specific demographics***

The O&O Value Survey also suggested that the relative pulling power of individual names within genre varied greatly, with the fifth ranked name often only having half the pulling power of the top name within each genre, but about 50 per cent more pulling power than the 8<sup>th</sup> ranked name.

***O&O multivariate regression analysis does suggest that the use of top talent and lead talent is correlated with higher audiences (other things being equal) although the direction of causality is less clear***

O&O's multivariate regression analysis comparing programme genres, channels, slots and use of talent with TV audiences also suggested a link between levels of talent employed and the audience achieved. (Appendix VIII has details of the regression methodology and results).

However, this analysis is unable to establish causality – i.e. is top talent driving audiences or do commissioners and schedulers use top talent in the best strands within slot or genre? The analysis is also by its nature quite subjective – judgments as to what constituted top, lead and normal talent had to be made by O&O. <sup>36</sup>

---

<sup>36</sup> A separate regression comparing BBC talent spending by strand with audiences came up with no significant relationship. This was not surprising given the limited number of data points on strand by strand BBC spending available to O&O, and the various non audience maximising factors taken into account by the BBC in setting fees discussed elsewhere in this report.

## 2. Competition for Broadcasting Revenue and Audiences and the Impact on Talent

The previous section outlined that the key determinants of the overall demand for talent would be market growth, the level of competition between broadcasters - at a broad and genre by genre level - and the perceived importance of talent within the input mix, both to maximising audiences and minimising risk.

The next sections look at the key recent trends in the level of demand and intensity of competition in the UK TV and radio markets over the last 5 to 10 years and the implications of this for the talent market.

### a. UK TV Market Competition

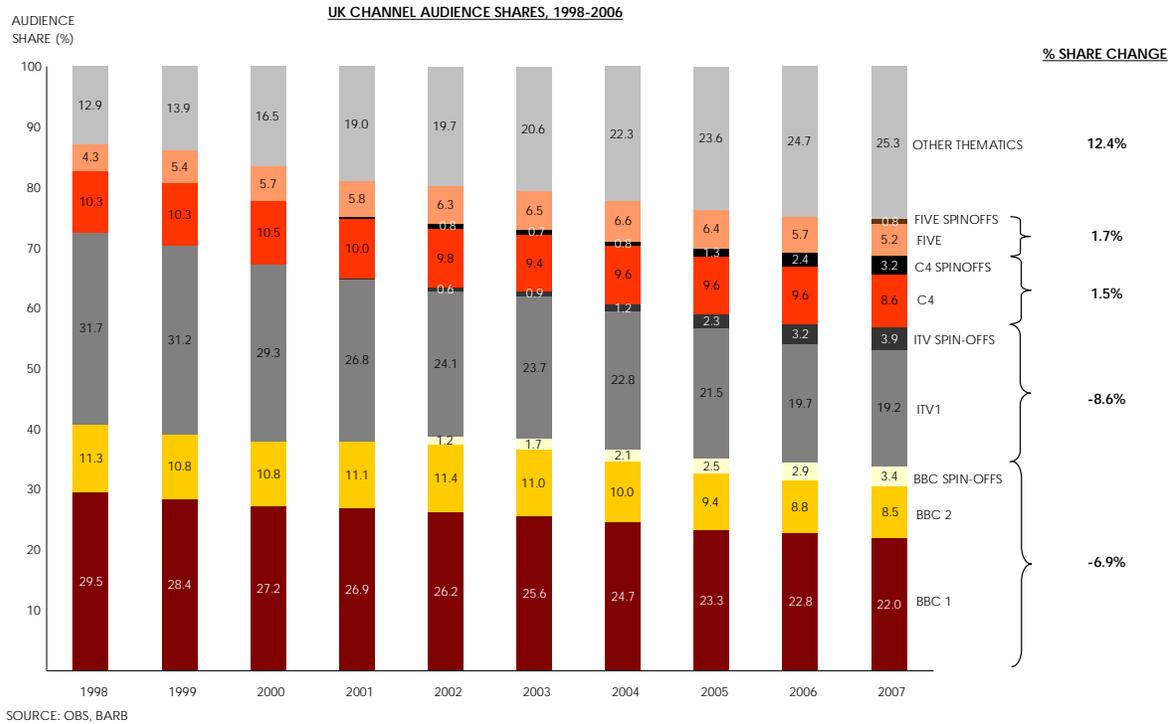
*Competition for audiences in the UK market has increased markedly over the last 10 years*

The introduction of cable and satellite TV at the end of the 1980s ended the ITV/C4, BBC duopoly in the late 1980s and the introduction of digital TV across satellite, cable and terrestrial platforms in the late 1990s allowed a wave of new TV channels into the UK market.

In early 2008, 90 per cent of UK households had access to digital TV and the five main networks now only account for 65 per cent of all viewing. The next five years is likely to see the roll-out of video on-demand services to the mass market through the TV and PC and a further fragmentation of audiences and commercial revenue.

ITV1 and BBC1 have suffered the most audience share loss with BBC1 losing 7 percentage points of share from 1998 to 2006, and ITV1 losing 12 percentage points of share over the same period. See Figure C.2.

**FIGURE C.2. – COMPETITION FOR AUDIENCES OVER TIME – audience share by main channel**



***But overall revenue fragmentation has been less severe***

The impact of audience fragmentation by new entrants on revenue fragmentation has been minimised by the BBC’s non audience share linked licence fee funding and the willingness of advertisers to allocate the majority of their spending to the leading networks by paying higher prices for their falling audiences.

Large scale access to digital terrestrial capacity for the BBC digital channels and commercial network spin off channels such as BBC3, ITV2 and E4 have also helped the main TV network owners in the UK maintain an overall audience share of 75 per cent of viewing and about 70 per cent of all TV advertising spending.

***The main source of competition to each TV network is still the rival network providers***

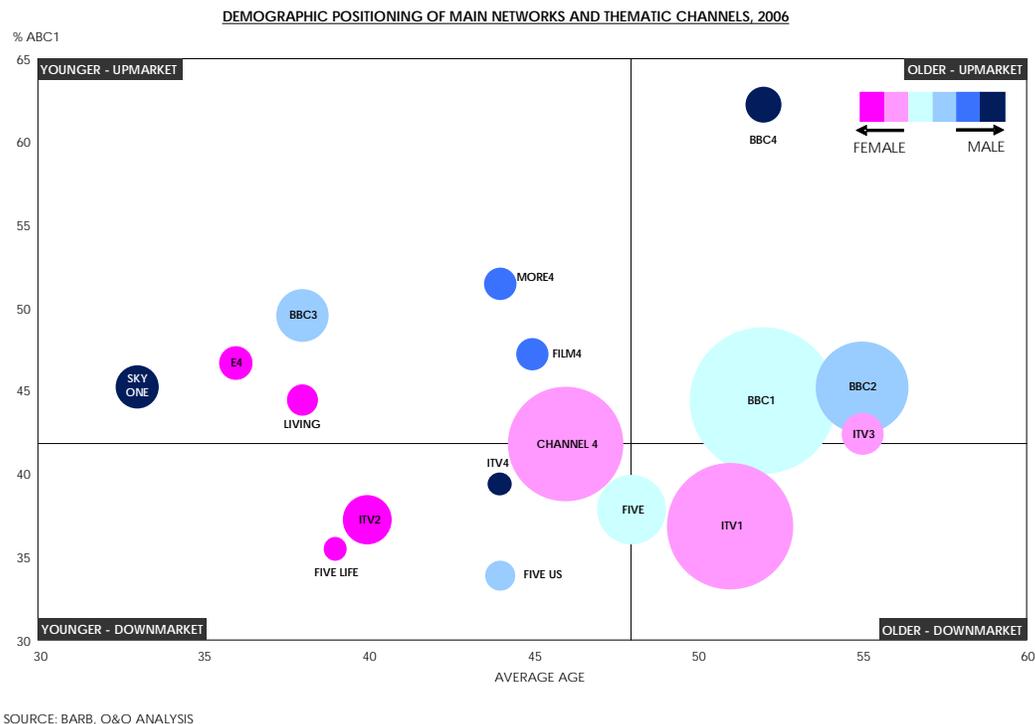
While the provision of channels by Sky, UKTV, MTV Networks, Disney and Discovery etc does pose a mounting threat to the main networks, the main source of competition to each main network is still the nearest rival network and its increasingly successful spin off channels.

BBC1’s main rival for audiences is still ITV1, while Channel 4’s is still BBC2 and FIVE. ITV2 poses a medium term threat to FIVE while E4, BBC3 and ITV2 all compete for the under 35 audience.

***Traditionally, channel differentiation has limited the number of competitive head-to-head battles within network TV, but this is changing especially within the commercial sector.***

Traditionally, all five of the main networks occupied different socio-demographic positions, with Channel 4 the main channel serving the under 40 ABC1 market, BBC1 catering for the more up-market segment of the older mass audience, ITV the older and more down market segment of the mass audience and FIVE trying to make the use of opportunistic scheduling and underutilised film, sport and US acquisition rights. BBC2 for the most part catered for a more up-market and older audience, occasionally trying to attract a younger audience with its comedy and key acquisitions. See Figure C.3.

**FIGURE C.3. – COMPETITION FOR AUDIENCES – demographic differentiation**



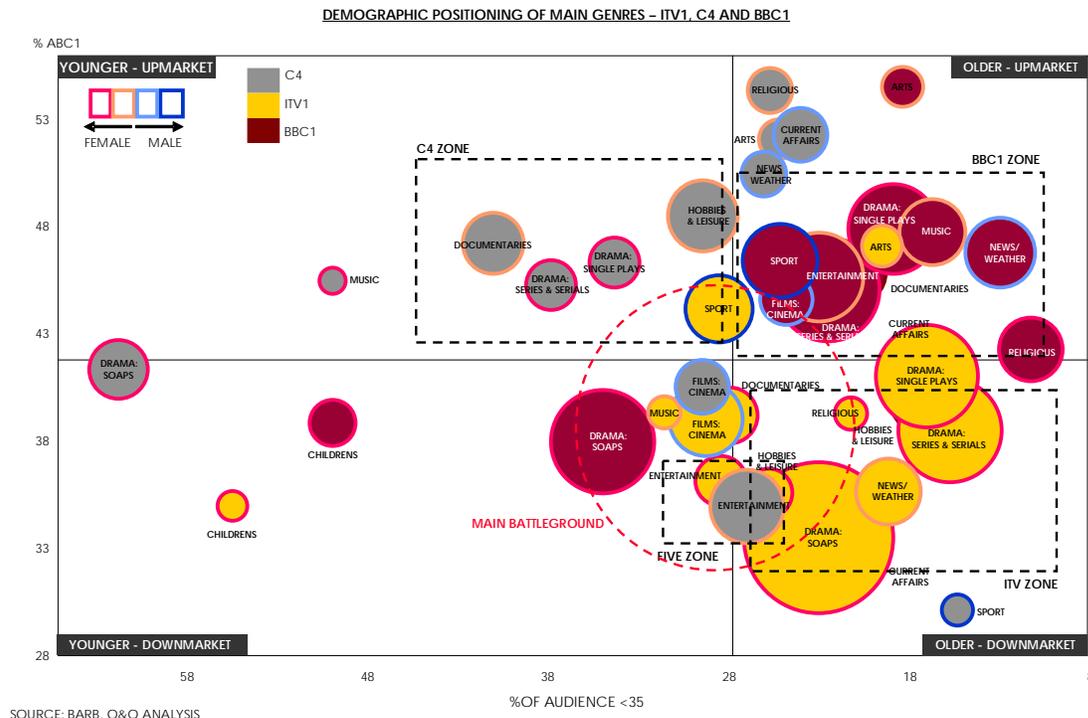
However, the level of differentiation is now changing, especially within the commercial networks. The introduction and development of the older more up market More4 and the younger E4 has allowed the main Channel 4 network to focus on a slightly more mainstream audience, especially in pre-peak and early peak schedules, bringing it more into competition with ITV1. ITV's development of ITV2, ITV3 and ITV4 has increased direct pressure on FIVE and opened up the potential move of the main network into BBC1's heartland audience.

The changing pattern of inter-network group competition and the development of spin off channels has brought more head-to-head competitive battles within teatime TV (Deal No Deal, Goldenballs, Weakest Link), for major TV acquisitions (the Simpsons, Neighbours, Damages), sports rights (FAPL highlights, UEFA Cup matches, the UEFA Champions League, FA Cup), and leading entertainment and lifestyle show presenters (Jonathan Ross, Paul O'Grady, Trinny and Suzannah).

Head-to-head battles between all four main broadcast groups have also been common place in daytime TV since the late 1990s where Channel 4 and FIVE can compete more directly with ITV and BBC: ITV has lost both Home and Away and Trisha to FIVE.<sup>37</sup>

Across the peak time schedule the traditional socio-demographic zones occupied by Channel 4, ITV, the BBC and FIVE are increasingly being invaded by rival network channels or their spin off services looking to gain share and reach. See Figure C.4.

FIGURE C.4. – COMPETITION FOR AUDIENCES – demographic positioning by genre



*At the same time, commercial networks are gradually withdrawing from a number of traditional public service television programming areas*

While some areas are becoming more competitive three or four way battles between the rival broadcasters, others are already becoming less competitive. ITV has more or less withdrawn entirely from its children’s TV origination, while also trying to scale back its regional news, arts and current affairs provision. Where neither Channel 4 nor FIVE have a current commitment to these areas this is leaving the BBC in a near monopoly commissioning position.

*This is likely to mean competition between broadcasters for key talent is likely to be more intense overall, but will also vary more considerably between slots and genres*

<sup>37</sup> BBC talent inflation figures suggest a particularly high inflation in daytime fees in 2001/02 when this daytime battle was at its height, a battle the BBC largely won.

These trends suggests a further polarisation of talent fees across genre and to some extent within genres as some areas of the schedule or genre become three or four way battles and others become single buyer markets.

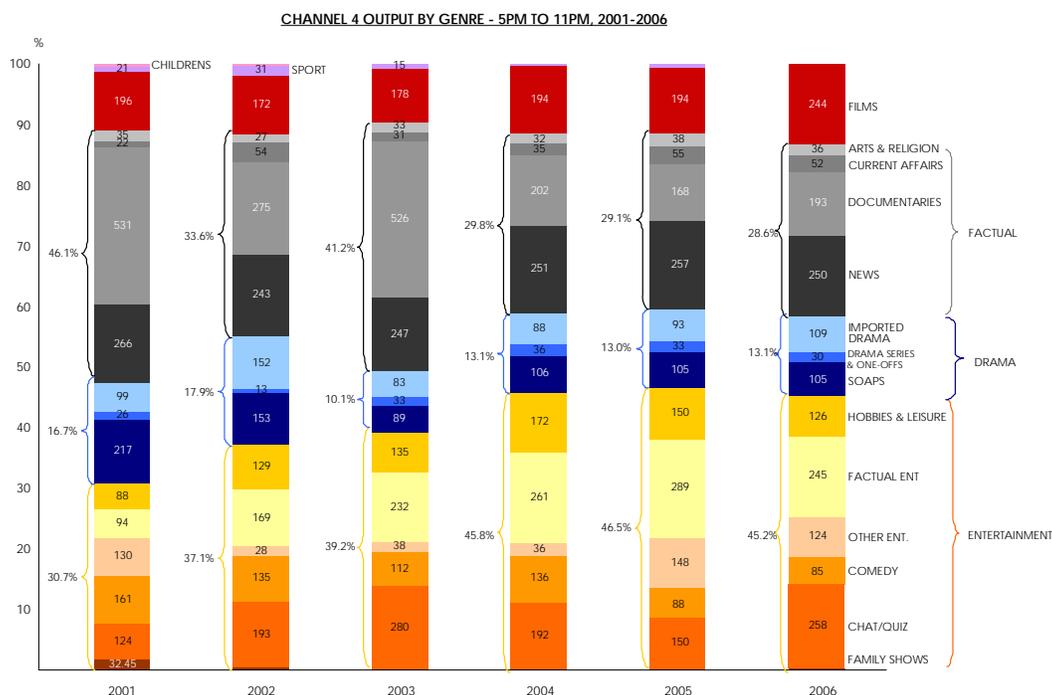
**FIGURE C.5. – OVERALL LEVEL AND SCALE OF COMPETITION TO THE BBC FOR TALENT**

	LEVEL AND SCALE OF DIRECT COMPETITION TO BBC				OVERALL
	ITV	C4	FIVE	OTHER	
TV DRAMA					
ENTERTAINMENT					
COMEDY					
LANDMARK FACTUAL					
SPECIALIST FACTUAL					
LIFESTYLE/MAKEOVER					
CURRENT AFFAIRS					
CHILDREN					
SPORTS JOURNALISM					
DAYTIME/TEATIME TV					

Breakfast TV, daytime TV and pre-peak TV have been three to four way battles for the last few years, and additional areas appear to be going the same way. Figure C.5. reviews 10 genres/sub-genres of TV programming assessing the overall level of competition to the BBC from rival broadcasters (both in terms of whether broadcasters are competing for similar audiences with a similar style of programming, and the scale of that competition).

It suggests that while the BBC faces a large degree of competition from ITV, Channel 4 and FIVE for entertainment and lifestyle/makeover programmes, there is much less competition for current affairs programming (where ITV and Channel 4 have one or two lead strands but do not come anywhere close to the BBC in terms of the breadth of their coverage).

FIGURE C.6. – COMPETITION FOR AUDIENCES – channel 4 changing programme mix



SOURCE: BARB, O&O ANALYSIS

*Entertainment led TV genres are increasingly a three way battleground between the BBC, ITV and Channel 4, with FIVE becoming involved at the margins.*

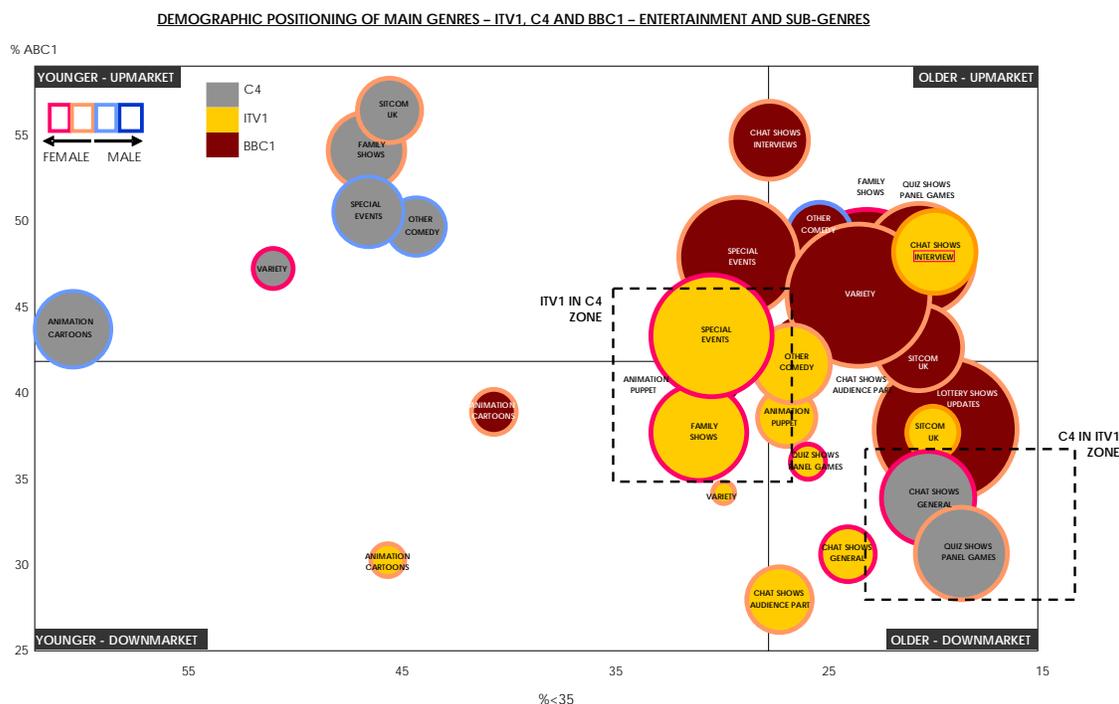
Entertainment genre (family entertainment, chat shows, panel/quiz games, sketch comedy, clips shows etc) across the schedule seem to be becoming at the very least a three way battle between the BBC, ITV and Channel 4.

Channel 4's desire to reach new audiences before 7pm and after 10pm (i.e. outside ITV's strongest schedule hours) combined with ITV's desire to attract a young family audience, especially at weekends, with its entertainment strands, and the BBC's aim of continuing to reach out beyond the BBC's TV heartland audience, has meant that the competition for entertainment formats and the talent to lead them has probably never been greater.

From 2001 to 2006 Channel 4 increased the proportion of its 5pm to 11pm schedule accounted for by entertainment genres from 31 per cent to 45 per cent of all output hours shifting away slightly from imported drama and documentaries. See Figure C.6.

The overall demographic skew of Channel 4's quiz and panel shows and chat shows now tends to be in ITV1's traditional audience zone, while ITV1's main family shows and special event entertainment programming are becoming younger and slightly more up market and are within Channel 4's zone. See Figure C.7.

FIGURE C.7. – COMPETITION FOR AUDIENCES – key demographic battlegrounds - entertainment



SOURCE: BARB, O&O ANALYSIS

*Talent with appeal to a younger audience can also find itself in a three or four way battle between channels*

Across all genres, programmes that appeal to a slightly younger, mid-market demographic are becoming a four way battle zone between the major broadcast networks. This battle is reinforced by the need to reuse or share this material on the younger spin off networks owned by each of the network groups (E4, ITV2 and BBC3). See Figure C.4.

*Increased levels of competition in some areas also bring with it less room for risk taking, pushing up the comparative value of sources of programming that have proven audience appeal: sports, formats, acquisitions, long running UK drama franchises and lead talent vehicles*

The more competitive UK TV market has not just brought the networks into more direct competition in some key programme areas and demographic groups, it has also put a premium on commissioning or acquiring programming that has a higher than average chance of bringing in a guaranteed high audience. This is in part what has fuelled the inflation in free to air sports rights in the UK over the last 15 years, and it is also what has pushed up the price of blockbuster film rights and leading imported programming.

The trend to try to reduce the inherent risks in putting together a TV schedule has also encouraged UK broadcasters to expand and develop regular weekly drama formats (*Coronation Street, Emmerdale, Hollyoaks, Casualty, Holby City, The Bill, Shameless, Skins,*

*Waterloo Road*) and broadcasters around the world, including the US networks for the first time, to embrace already tried and tested factual and entertainment format shows.

Using existing talent with a proven track record in attracting large or high value audiences is just another way of reducing the risk in commissioning new programming, which helps to drive up the price of key talent in the most competitive areas of programming.

***The trend has been helped by general audience demand for celebrity and an editorial shift towards “authorship” across a number of genres***

Several interviewees suggested that the trend for using lead named talent across more programme titles and genres was also reinforced by the rising interest in celebrity (as evidenced by the growth in news and magazine column inches devoted to the subject) and an editorial fashion, especially in factual programming, to focus on individual authorship and personality when presenting subjects, rather than just voiceover, research, footage and interviews.

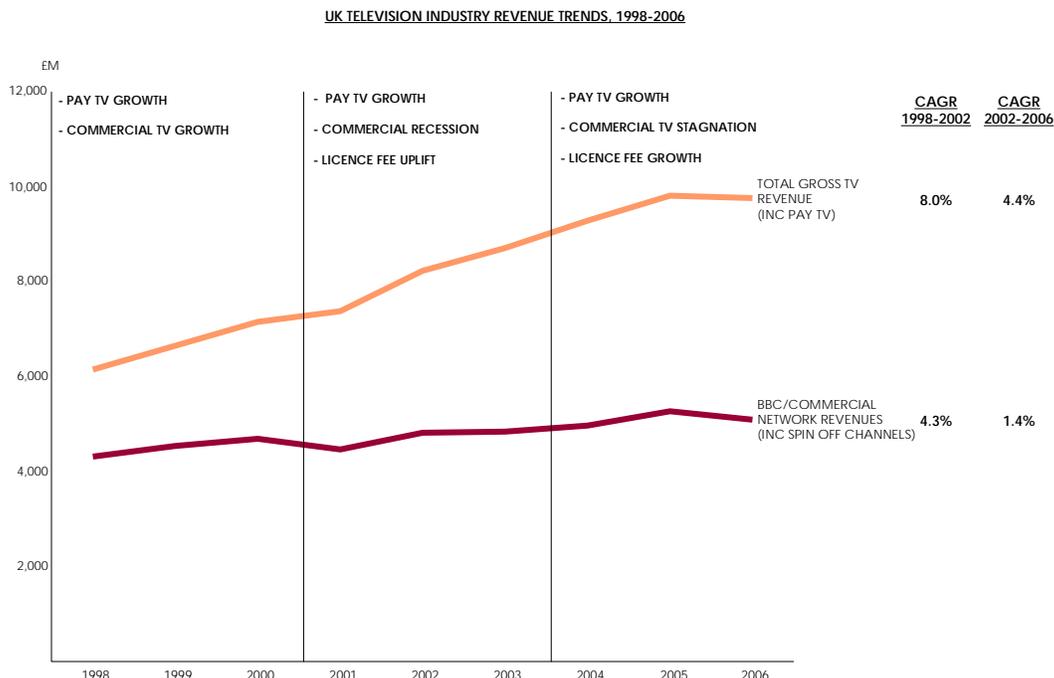
#### **b. UK TV Market Growth**

***While the overall TV market has been growing by 4.4 per cent a year since 2002, the revenue of the five main networks and their spin off channels has been growing by just 1.4 per cent a year.***

The UK TV market has been growing consistently for the last 10 years. But the main source of growth has been pay TV, not the advertising revenue of the main commercial networks or the licence fee of the BBC.

The TV related revenue of the five main networks and their spin off channels began to slow at the turn of the century, with 2002 to 2006 annual growth of 1.4 per cent a year compared with 4.3 per cent a year from 1998 to 2002. See Figure C.8.

FIGURE C.8. – UK TV REVENUE GROWTH RATES – all TV versus main network players



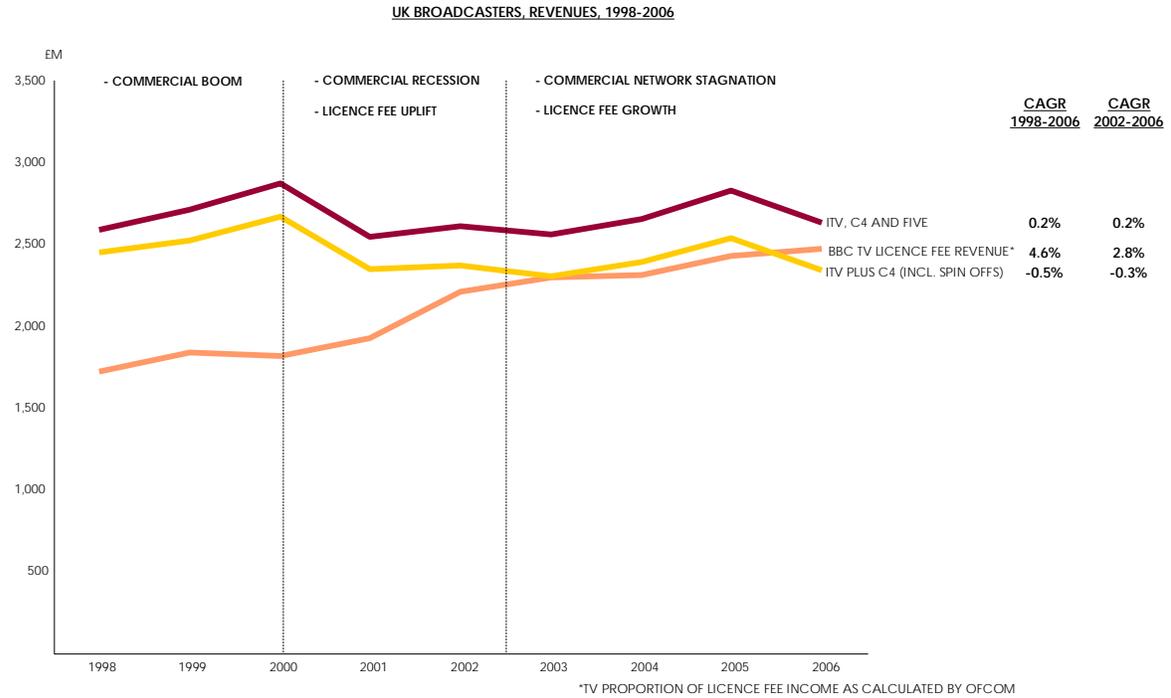
SOURCE: OFCOM, BBC ANNUAL REPORT, O&O ANALYSIS

***The BBC has had consistent revenue growth since 1998, while commercial TV has been through recession and then stagnation since 2001***

A closer look at the revenue trends within network TV since 1998 shows three distinct periods. First the period up to 2000 when the dotcom boom and consumer spending growth associated with low interest rates and high house prices help commercial networks grow their advertising rapidly. During this period, the BBC was still enjoying only modest rises in revenue based on its RPI related licence fee settlement of 1995/6.

From 2000 to 2003 the relative position of the commercial networks and the BBC reversed, with a licence fee uplift for the BBC from 2000 to 2003 following the Davis Report of July 1999, and an advertising recession that hit commercial TV hard from May 2001 to September 2003.

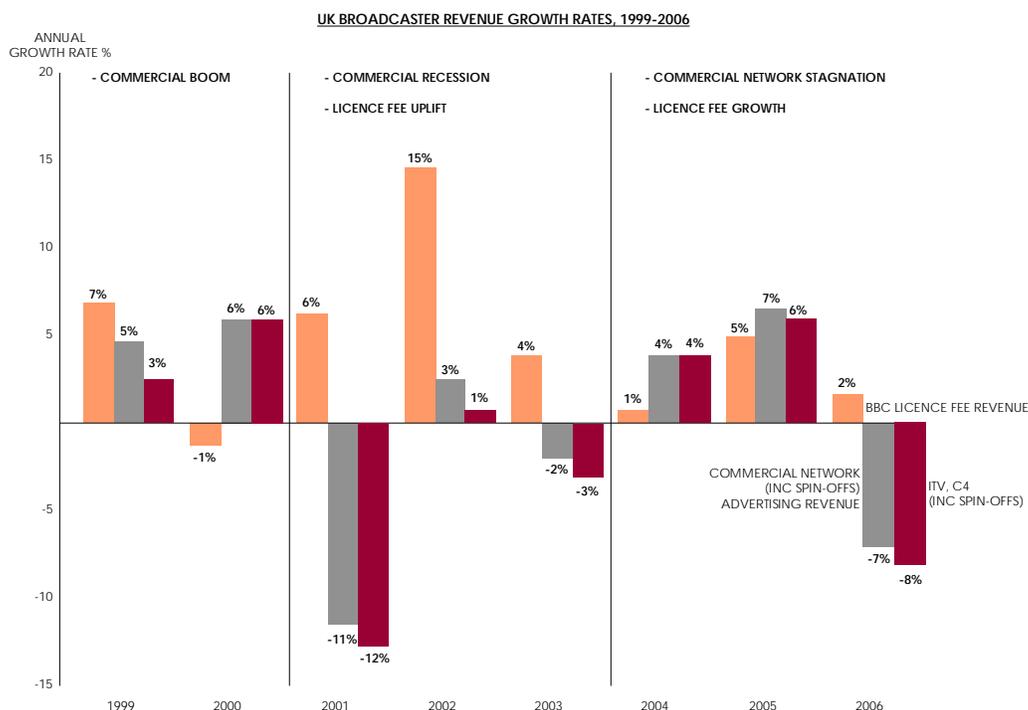
FIGURE C.9. – UK TV REVENUE GROWTH RATES – BBC versus commercial networks



Since 2003, network TV advertising growth has been erratic under the combined pressures of the internet, CRR (the price control mechanism on ITV’s airtime) and thematic TV channel growth. Over this period the BBC’s licence fee revenue allocated to TV services continued to grow steadily up to the most recent lower licence fee settlement which came into effect in 2007/08. See Figures C.9 and C.10.

A closer look at year on year revenue growth shows that the greatest divergence in the revenue fortunes of BBC television and the commercial TV networks that commission most of the non BBC programming in the UK, was from 2000 to 2003. During this period all the main commercial broadcasters held their programme budgets down, cut back their new ventures and either dropped key sports rights or renewed them at reduced or flat levels.

FIGURE C.10. – YEAR ON YEAR REVENUE GROWTH RATES – BBC versus commercial TV

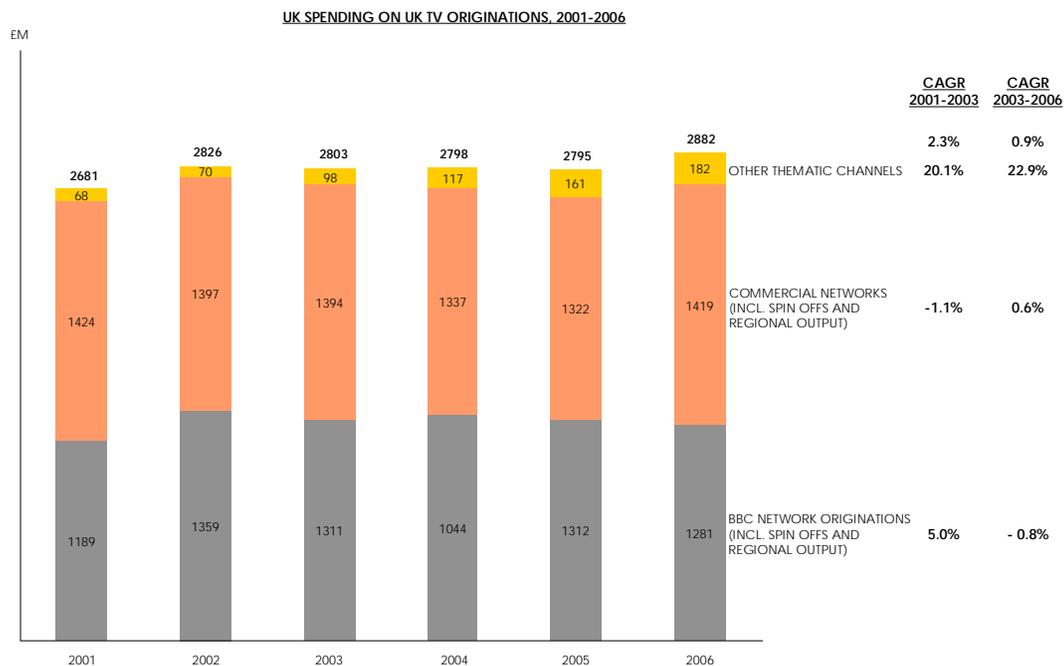


*New programme spending grew fairly quickly up to 2003 but has been largely flat over the last four years*

In line with the general fortunes of the network TV market as a whole, combined spending on new programming in the UK grew fairly quickly up to 2003, with the increased BBC spending in 2002 countering cut backs in commercial network spending in that year. Much of the increase in BBC spending in 2002/03 was on its new networks (BBC3, BBC4, CBeebies and CBBC) and so was about increasing output rather than increasing spend per hour.

Since 2003, overall spending growth has been just under 1 per cent a year as the commercial networks have been cautious about increasing their spend and the BBC has started to institute its efficiency regime in preparation for its new licence fee settlement. See Figure C.11.

FIGURE C.11. – UK NEW PROGRAMMING SPEND TRENDS – by commissioning outlet



SOURCE: OFCOM, O&O ANALYSIS

### c. Conclusions and Implications for TV Talent Spending and Inflation

*Talent fee inflation should tend to follow the growth pattern in commercial income over a period of years*

With competitive pressures growing steadily over the last 10 years but with commercial revenue going through a recession from 2000 to 2003, it might be expected that talent fee per hour inflation, especially top talent fee inflation, would slow a little over the 2001 to 2004 period, with the BBC building up its new digital networks and commercial networks cutting back on spending.<sup>38</sup>

This does not imply that talent inflation should have been low or negative during the commercial recession as the forces tending to encourage networks to spend more on top talent have been present over the last 10 years, but rather that one would expect the rate of increase to slow as the revenue of the commercial networks went into reverse.

*Less new talent development and more poaching by the commercial sector due to increased risk of failure*

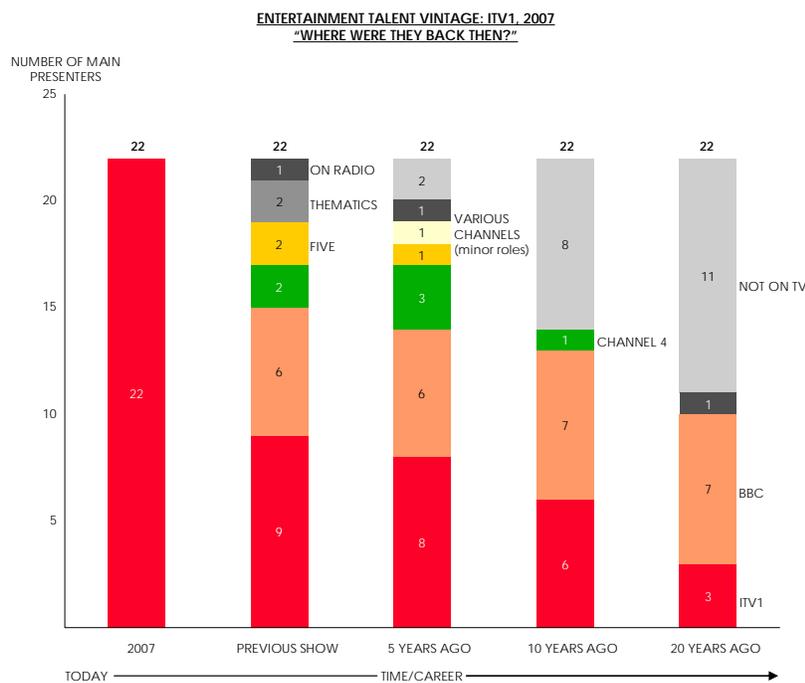
<sup>38</sup> The next section on BBC trends actually shows the opposite trend, with inflation in fees per hour of the top talent in the BBC growing at 10 per cent a year from 2001/2002 to 2003/04, and slowing down from 2004/05 when commercial network growth was starting to return.

Market trends might also suggest commercial broadcasters would move away from new talent development, especially in their main channels and instead move to either utilising their own proven talent more or poaching talent from rival networks.

O&O analysis of the vintage and career paths of current presenters on ITV1 and Channel 4 provides some evidence that these expected trends are occurring. Of the 22 entertainment programme presenters on ITV1 in 2007, only 9 had their previous show on ITV1, while only one was new to UK TV. Of the 12 that had previously worked on other channels half came from the BBC, and two each from Channel 4, FIVE and thematic channels.

Perhaps more importantly, a review of where the current roster of ITV entertainment presenters were 5 years ago shows only 8 new to TV, with 7 working at the BBC back in 2002. See Figure C.12.

**FIGURE C.12. – ITV ENTERTAINMENT TALENT TRACKING – current talent roster**



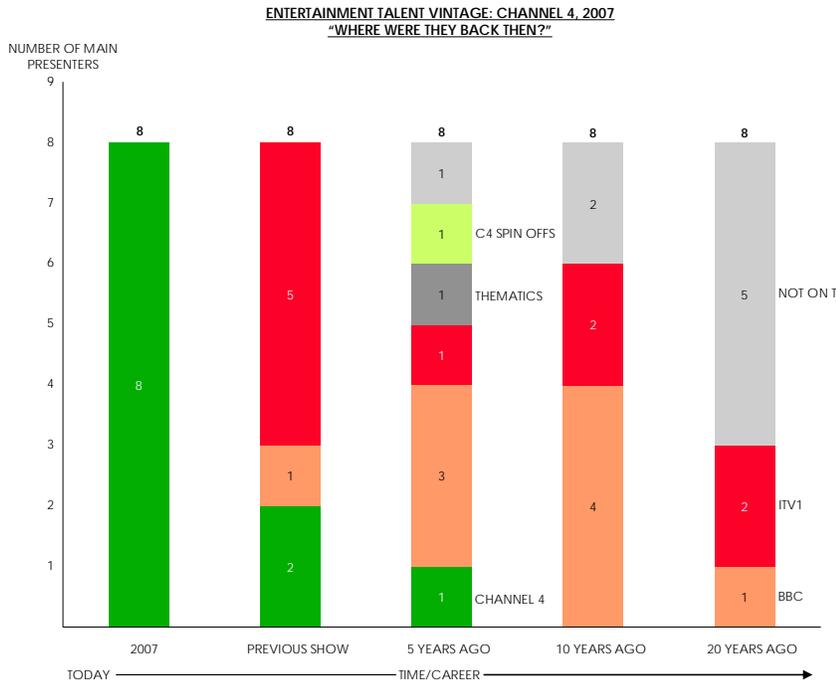
SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

Of Channel 4's current roster of 8 entertainment presenters, only one was not on TV five years ago, and only 2 were not on TV 10 years ago. In general, Channel 4 has been using tried and tested entertainment presenters/hosts rather than trying out new talent. Perhaps somewhat surprisingly, 5 out of the 8 of the current roster worked on ITV shows prior to working on Channel 4. See Figure C.13.

The sourcing of actor/performer talent on Channel 4's comedy talent roster is rather different. Of the 16 currently working across Channel 4 shows, over half did not do their previous show for Channel 4, but most of them came from other networks.

Looking back 5 years, about one quarter of Channel 4's comedy roster was not on TV at all, and three more were working on thematic channels while 3 were on the BBC. Interestingly, none of Channel 4's roster of comedy or entertainment talent has been sourced from Channel 4's spin off channels. See Figure C.14.

**FIGURE C.13. – CHANNEL 4 ENTERTAINMENT TALENT TRACKING – current talent roster**



SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

***An interest in older talent that established itself before the more competitive digital age***

The use of fairly vintage entertainment talent by both ITV and Channel 4 (3 out of 8 Channel 4 presenters were working in TV 20 years ago and 10 out of 22 on ITV1), might imply specifically high values placed on talent who developed their appeal and recognition in the TV market prior to the more fragmented digital age, when peak time audiences of 10 million or more were not uncommon and where a major peak time host/presenter would be recognisable to all ages and socio-economic groups.

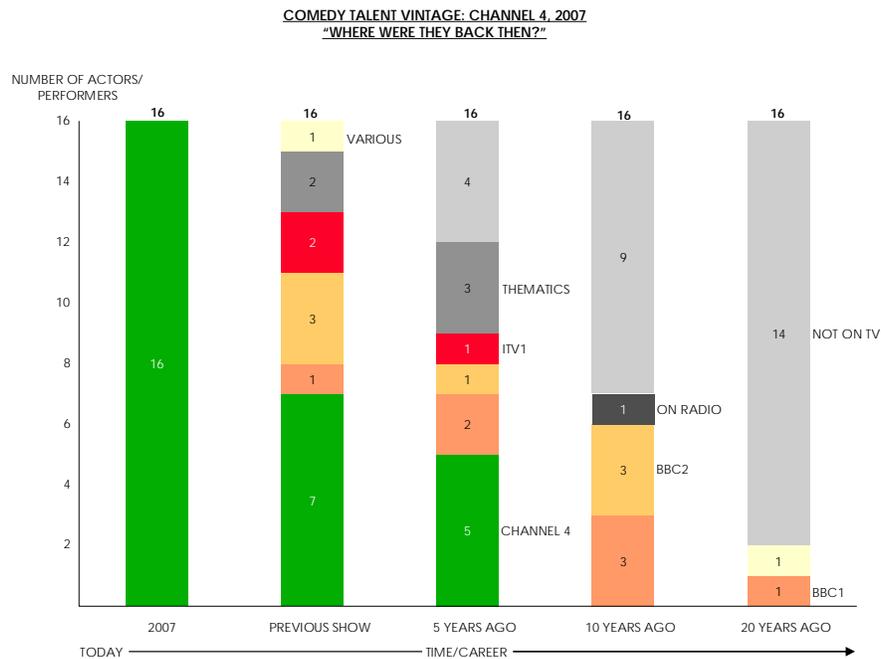
***There has been a shift into talent spending, especially top talent spending, at the expense of other types of programme input. However, competitive pressures and the tendency to poach new talent varied between genres and applied only to a limited number of named talent on rival channels at any one time.***

Although rival broadcasters were not prepared to give detailed analysis of historic spending trends on talent, they did all confirm that they believed spending on talent, especially top talent, was rising faster than overall programming spending. This

strengthens the likelihood that the risk reduction features of using lead named talent are recognised and rewarded in the more competitive UK TV market.

O&O external interviews also suggested that talent inflation was certainly not uniform across TV genres and that entertainment and some lifestyle areas were perceived to be the key battleground. However, despite fairly intense competition for talent in these areas, commercial rivals to the BBC suggested that for each of them there were only a limited number of key names on rival channels that they would be interested in poaching.<sup>39</sup>

**FIGURE C.14. – CHANNEL 4 COMEDY TALENT TRACKING – Current talent roster**

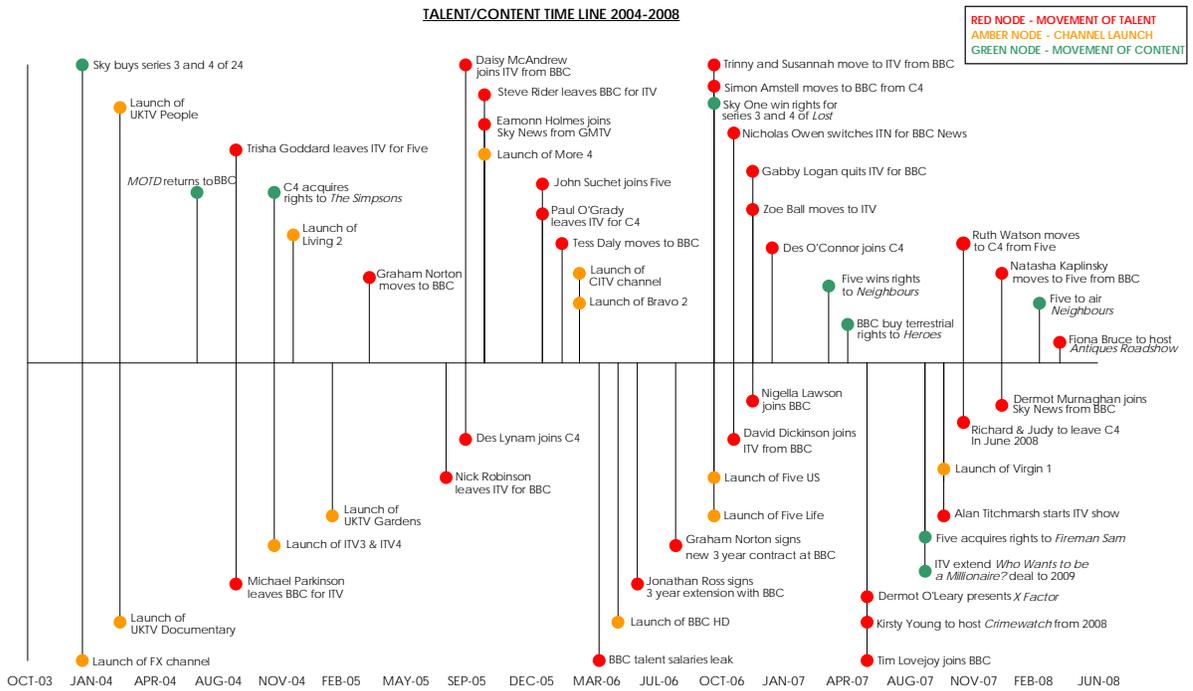


SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

Figure C.15 shows the main talent signing and poaching events across UK TV over the last 4 years and some of the other programming battles that have taken place over the same period. Although, there are regular examples of BBC talent leaving to join other channels (Trinny and Susannah to ITV1, David Dickinson going to ITV1, Natasha Kaplinsky to FIVE, Heston Blumenthal to Channel 4) there are also examples of the BBC attracting talent from rivals (Gabby Logan from ITV1, Nicholas Owen from ITN and Nigella Lawson from Channel 4),

<sup>39</sup> It was generally acknowledged that ITV's strategy of using lead drama talent to bring in audiences had not necessarily worked – with some notable exceptions – and that ITV had reversed its previous strategy in this area.

FIGURE C.15. – TV BATTLES AND TALENT POACHING – 2004 to 2008



**d. UK Radio Market Competition**

*Direct competition between the BBC and the commercial sector in radio is more limited than in TV*

Competition between the BBC and commercial radio is to some extent less direct than that between commercial TV and the BBC.

At a national aggregated level the BBC tends to dominate over 40, ABC1 listening while commercial radio dominates the under 40 C1C2DE listening market. The main battleground tends to be 30 to 50 year old C1 listening where Radio 2 and Radio 5 Live do compete with leading commercial radio stations for similar audiences. Radio 1 and BBC 1Xtra (the digital service) do also compete the under 30 music audience.

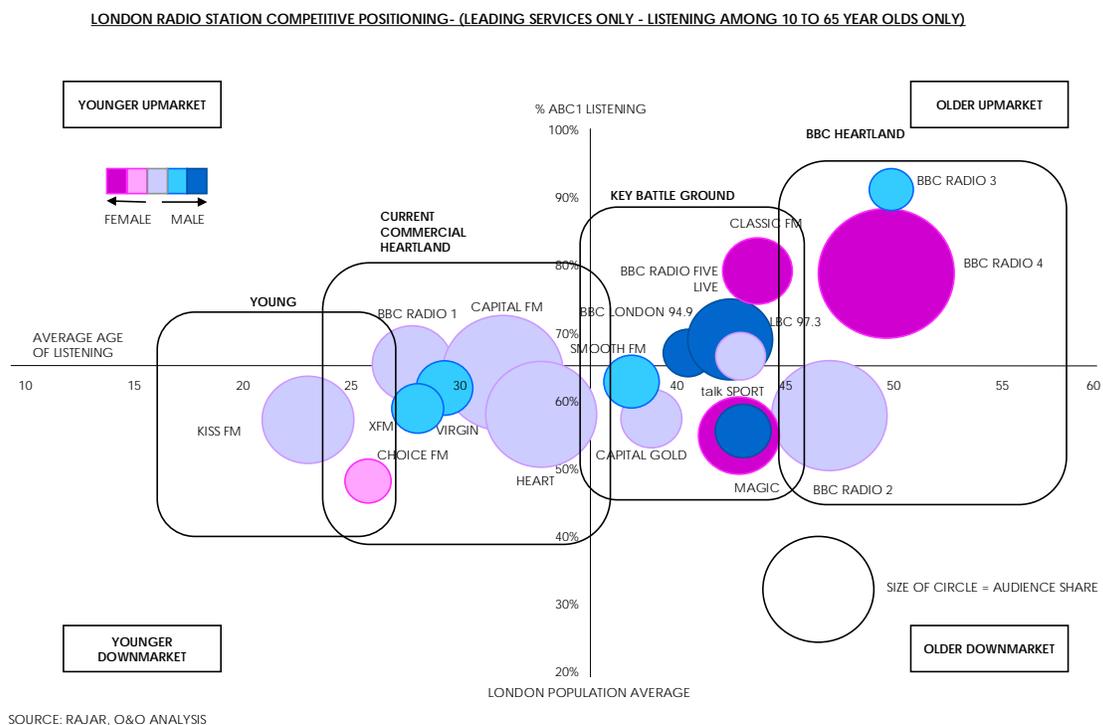
But even these areas of direct competition are reduced by the largely regional/local nature of commercial radio versus the largely national network nature of BBC radio. There are only three national analogue commercial stations of which two are on the less popular AM frequency, one of which – Virgin- has a particularly weak AM national frequency. By and large national commercial radio has focused on more niche audiences leaving local and regional commercial radio with the bulk of the commercial audience in any given region.

The level of radio competition in the UK also varies by region, with London having the most analogue station (FM and AM) choice of over 24 services (6 BBC and 18

commercial) with other metropolitan markets having a choice of about 12 and 15 (6 BBC and 6 to 9 commercial services), and smaller market towns and rural areas perhaps having a choice of just 9 or 10 services (6 BBC and 3 to 4 commercial services).

The net effect of this pattern of commercial radio is that even where BBC services such as Radio 2, Radio 1 and Radio 5 Live compete for similar audiences to commercial radio they do so only tangentially to commercial radio. Figure C.16, shows the demographic map of radio competition in London. While two national commercial radio services do compete for the BBC's heartland audience (Classic FM and Talksport), the major commercial stations with similar share and reach within their geographic markets to the leading BBC stations (e.g. Capital, Heart and Magic in London) tend to attract a very different audience to the main BBC networks.

**FIGURE C.16. – RADIO MARKET DIFFERENTIATION – market positioning in London – 2006/07**



***For DJ and presenting talent wishing to reach a large UK wide audience, the BBC's mainstream services are often the best option***

Even though digital radio is growing in reach and importance – through DAB, the internet and digital TV distribution – and the number of national commercial services available through digital distribution is much greater than in analogue radio, there are as yet no national commercial stations – analogue or digital – with the national audience reach and scale of the BBC's main music orientated services – Radio 1 and Radio 2, and to a lesser extent Radio 5 Live. (Although, commercial radio is now moving towards more networked shows across its high reach local and regional stations).

This means that for any presenter/DJ wishing to reach a wide national audience through radio, the BBC is the only current realistic option.

#### e. UK Radio Market Growth

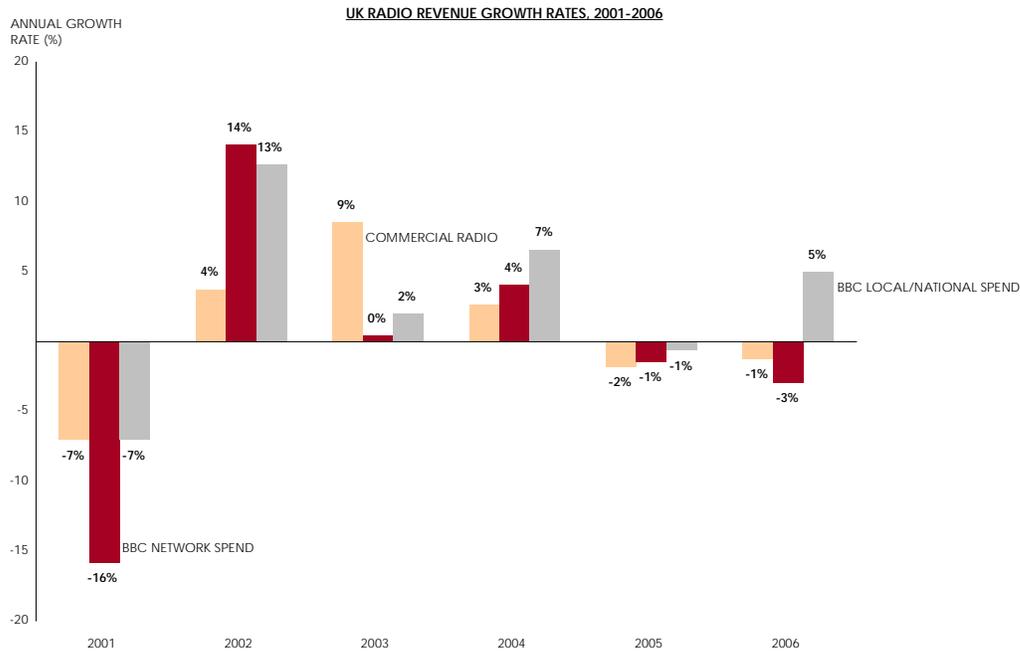
*The commercial radio sector was a boom segment of UK media from 1992 to 2000, but has since seen stagnant or declining revenue growth. The sector has been hit quite hard by the internet and digital fragmentation.*

The commercial radio sector was the boom advertising medium from 1992 to 2000 growing by an average of 10 per cent a year as the share and reach of commercial radio grew as more local FM stations were licensed throughout the UK and it emerged as a leading advertising medium.

But the growth story of radio turned in 2001, when the sector was hit by the general recession across all display media in 2001/2002. While the sector recovered in 2003 it was then hit by a combination of a stagnating share of all listening, competition for advertisers from the internet and audience fragmentation from both overlapping commercial FM station competition and the introduction of digital radio.

Leading local and regional commercial stations lost audience share and reach and advertising pricing power while digital stations had insufficient reach and scale to attract advertisers. Although revenue recovered slightly in 2007, over the last 4 years commercial radio has by and large been a stagnant sector seeking profit growth through cost cutting and consolidation (first the mergers of GWR with Capital, EMAP with SRH and the Wireless Group with Ulster TV Radio assets – and then the merger of GCap with Global Radio). Figure C.17, compares the trend in commercial radio revenue with BBC network and nations/local radio spending growth since 1999.

FIGURE C.17. – COMMERCIAL RADIO REVENUE GROWTH VERSUS BBC RADIO SPENDING GROWTH – 2001 to 2006



SOURCE: BBC ANNUAL REPORTS, OFCOM, O&O ANALYSIS

***Most talent poaching/transfers in radio in recent years has been between commercial radio stations not between BBC radio and commercial radio***

Figure C.18. shows the main talent transfers in London and national network radio from 1999 to 2008, and reveals that there is little talent transfer between commercial radios largest stations and the BBC’s national networks (although there are plenty of examples of transfers between local commercial radio and local BBC radio outside London).

***Leading commercial DJs have proven audience pulling abilities and often have their rewards tied to their share of slot audience***

O&O’s Value Survey suggests that some leading commercial station DJs do have the ability to attract audiences, and O&O interviews suggested that their rewards are often directly linked to slot success either through a direct link to RAJAR share improvement or incremental sponsorship revenue.

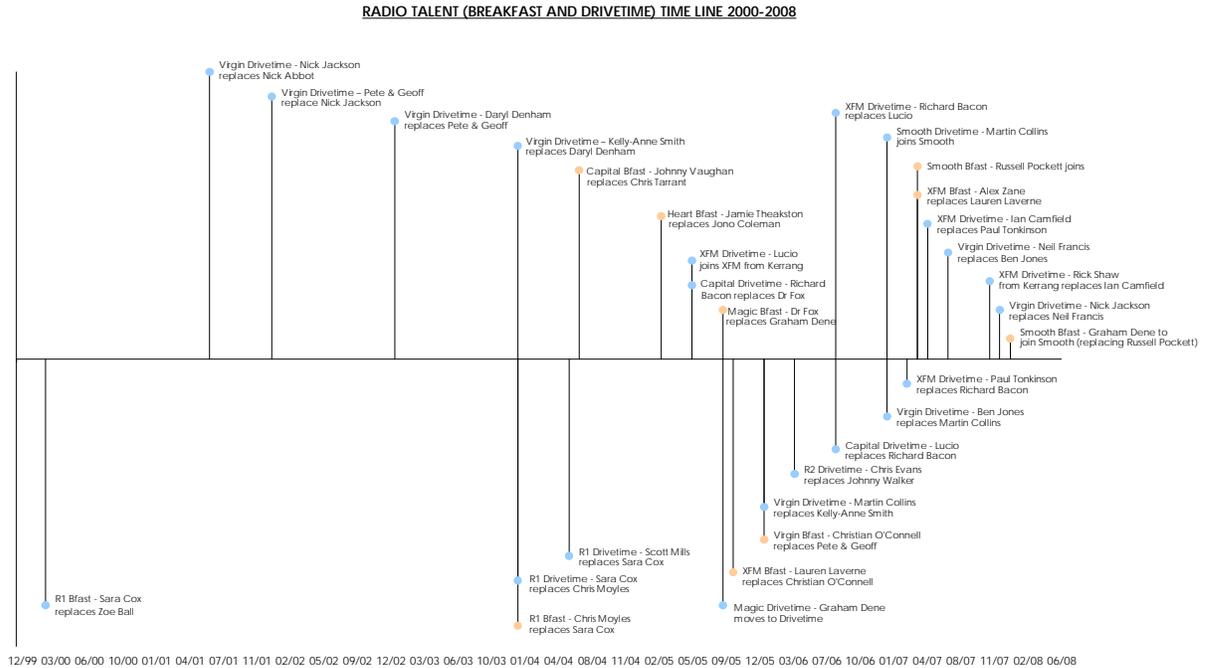
**f. Conclusions and the Implications for Radio Talent Spending**

***Limited talent competition between BBC network radio and commercial radio***

The structure of the radio market would suggest less overall competition between the BBC national network services and commercial radio for talent, but a competitive market within commercial radio for lead DJ talent within regional/local markets, especially where there exist a number of competing commercial stations with

overlapping target audiences – as in London. However audience fragmentation and general low revenue growth is likely to mean that actual talent inflation over the last few years may have been relatively low in commercial radio.

**FIGURE C.18. – TV BATTLES AND TALENT POACHING – 2000 to 2008**



**BBC talent fees in network radio likely to be driven by factors other than competitor valuations**

Spending trends in network BBC radio are likely to be determined by factors other than commercial competition such as network radio spending growth, the relative audience priorities of the BBC and the opportunity costs of the lead DJs/presenters in terms of their willingness to work in radio when many of them also have TV careers.<sup>40</sup>

<sup>40</sup> The BBC has maintained throughout this review that the payments it makes to top talent in network radio are driven more by that talent’s opportunity costs – and in particular their potential to work more in TV – than by competing bids from rival commercial radio broadcasters.

### **3. Competition for Programme Commissions and the Impact on Talent**

Increased levels of competition between broadcasters are not the only dynamic of the UK TV market likely to have influenced talent spending. The rising power and influence of independent producers, and in particular the changes in the sector since new terms of trade were introduced back in 2003/2004 have probably had an influence on the market for on-screen talent.

#### **a. The Rise of Independent Production**

*Despite being introduced and encouraged since the introduction of Channel 4 in 1982, independent production did not really impact the whole UK TV market ecology until 2002*

Channel 4 was launched in 1982 as the first real outlet for independent production in the UK. With in-house production prohibited as part of the channel's remit it could only get programmes made by ITV production departments or independent producers – largely ex BBC producers striking out on their own.

The 1990 Broadcasting Act brought with it the requirement for ITV and the BBC to take 25 per cent of their programming from independents by 1993/94. But even this requirement failed to create a fully independent economic activity as the three main commissioning broadcasters still had significant market power and could secure most the rights in any programme in return for a cost-plus commission contract.

By 2001, the independent sector still only accounted for 29 per cent of all TV output in the UK, with both ITV and the BBC taking only marginally more than the 25 per cent required by law. By and large the sector made low profit margins, had few rights to exploit and very little capital investment. The sector was also very fragmented with few indies enjoying sales of more than £20m.

*Regulatory intervention since 2002/2003 has created an economically powerful sector responsible for 42 per cent of all commissioned UK programming*

Regulatory intervention in 2002/2003 handed the independents most rights in their programming which along with a concurrent expansion in the global market for programme formats helped attract outside capital investment and set in motion a period of consolidation which has yielded a number of large independent producers increasingly well capitalized and with significant international operations.

Faced with an increasingly robust independent sector and pressure from regulators to open up the schedules to outside producers, the BBC has made a further 25 per cent of its output (over and above the 25 per cent independent quota) available to open competition between its in-house departments and independents (the so called Window of Creative Competition – or “WOCC”).

The independent sector now accounts for 42 per cent of all programming commissioned in the UK – and significantly higher in genres such as factual entertainment.

#### **b. Competition For Commissions**

*Head to head competition between rival independents and between independents and in-house production is now common place across all the UK's leading channels*

Competition for commissioning slots both between leading independents and between in-house production at the BBC and ITV and leading independents is now fierce across most genres.

This has introduced a new dynamic into the competition for lead talent, leading in some cases to competition between producers to sign up the talent that might help gain a commission even in areas of programming where competition between broadcasters is limited.

***Opinions differed as to the exact contribution of a growing independent sector to talent inflation. Overall, the impression given was that when independent producers are involved this might give some talent increased ability to play-off producer against broadcaster to their own benefit.***

In O&O interviews, opinions differed as to whether this was an important inflationary factor in some isolated cases or was a major inflationary pressure across all types of programming and broadcasters. Most interviewees put it down as a contributory factor to overall talent inflation rather than a major driver.

Overall, independent production was seen as playing a role in loosening broadcaster control over talent fees somewhat, and as a means for some top talent to secure extra rewards by owning or co-owning their own tied-in production company, rather than a direct driver of price rises.

While some instances of independent producers helping to drive up talent fees were given to O&O in broadcaster interviews, other examples of broadcasters going direct to talent and putting upward pressure on the talent fees paid by the independent producer were given in interviews with independent producers.

Evidence suggests that the increasing power of some independents has probably been a contributory factor where inflationary pressures already exist rather than a direct cause of inflation itself.

Overall, the impression given was that the increasing existence of independent producers in the supply decision gave some talent increasing scope to play off producer and broadcaster to their own benefit.

#### 4. How Does the Commercial Market Value Talent and Set Prices?

O&O interviews with ITV, Channel 4 and the Radio Centre gave some insight into the processes the commercial sector goes through in valuing talent and deciding on the prices that it is willing to pay.

Although ITV and Channel 4 differed slightly in their approaches, the similarities were much greater than the differences. Both made the following points.

For a large number of programmes, they paid little attention to the talent budget. As far as they were concerned if the programme was within the overall programme price "tariff" range for its sub-genre and slot, and was a strong concept with a good audience, they would not be interested in the talent budget specifically.

They would only become specifically interested in the talent fees paid on a particular programme if:

- a new series made a specific request for a higher talent fee and therefore a higher overall programme budget than the tariff allowed for (ITV refers to these as cast breakage clauses); or,

- a returning series was requesting a large increase on the basis of higher talent fees; or,

- the editorial specification of the series led to concerns that too little time and attention was being paid to non-talent items (on the suspicion that the talent was earning most of the tariff price); or,

- the projected cost per viewer hour was likely to be high compared with other programmes in its slot or genre.

Once talent cost became an issue on a strand for one or several of the four reasons, they would subject the programme to more detailed analysis which would include:

- more thorough investigation of cost per viewer hour comparisons and talent payment comparisons;

- a review of the demographic appeal of the talent and the programme and its contribution to overall channel branding and appeal; and,

- a cost-benefit analysis comparing expected incremental advertising revenue from using the talent to the costs of the proposed fee.

The last of these might involve audience research on the appeal of the star and their likely contribution to the programme and channel audience and an estimate from the ad sales team on the likely incremental revenue that might accrue from any increase in audience or improved demographics. A rate of return calculation would then be applied to the programme and the talent fee proposed. In some cases, the cost and benefits of using alternative presenters would also be assessed.

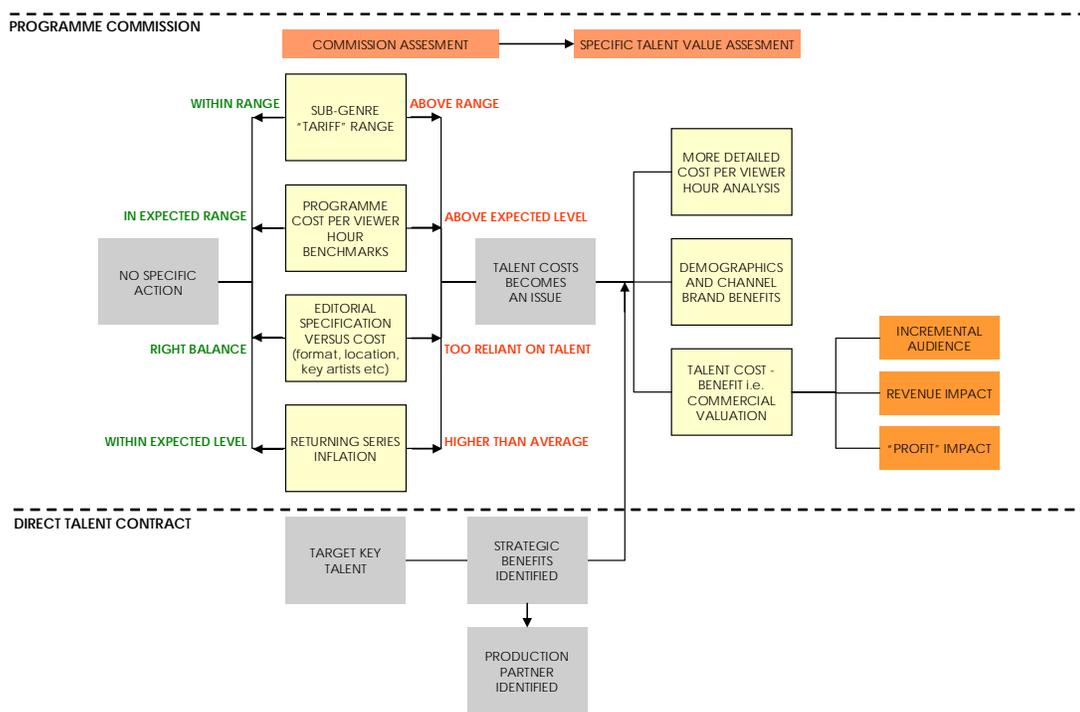
In addition, to this strand-by-strand approach, both ITV and Channel 4 would sometimes make a strategic decision to try to attract specific talent from a rival channel. In these

circumstances, they would initiate a cost benefit analysis immediately to assess the likely price they could afford to pay.

Often these strategic moves were made for talent they felt offered something to the channel as a whole and not just a specific strand, so they would need to factor this in on top of the strand specific rate of return analysis.

Figure C.19 sets out the commercial TV talent assessment process schematically.

**FIGURE C.19. – HOW COMMERCIAL TV SETS TALENT FEES – by exception**



Our interviews suggest that commercial radio take a similar approach to commercial TV using general commercial sector pay benchmarks and cost per listener hour for most their DJs and presenters but doing bottom up rate of return analysis for lead breakfast ( and sometimes drive time) presenters in large markets and on national services.

These rate of return calculations are based on expected audience uplift (from consumer research) and airtime prices. Unlike commercial TV, however, commercial radio often makes some of its fee contingent on audience uplift and/or incremental revenue rather than paying up front on the basis of an expected uplift.

Commercial radio’s assessment of likely audience uplift and the advertising value of such an uplift is done with reference to the relevant target audience and geographic markets within which commercial radio operates. Given the niche nature of their national networks and the limited geographic coverage of their leading broadly based music services (even London stations only cover 25 per cent of the UK population), the levels of

incremental revenue uplift calculated are likely to be much lower than would be the case when, and if, commercial radio develops its own high reach and share national or quasi-national networks.<sup>41</sup>

---

<sup>41</sup> The growth of DAB national or quasi-national networks and the acceptance by Ofcom that local stations can take more networked programming outside peak audience hours may be the first moves by commercial radio to develop broadly based national services and/or programming. The move by Channel 4 into national radio also raises the spectre of more TV based talent moving into radio in the future. But over the period covered by this review – up to the end of March 2007, and even up to the publication of this report – Spring 2008 – commercial radio has not yet achieved its goal of broadly based, high reach and share national programming in peak breakfast and drive time periods – a development that might allow them to compete more directly for talent with the BBC.

## **D. THE ROLE, POSITIONING AND PERFORMANCE OF THE BBC**

### **1. BBC's Purposes, Positioning and Role**

#### **a. BBC Core Purposes, Public Value and the Role of Talent**

The BBC's core purposes have been set out in its charter and by the BBC Trust. Within a general remit to inform, educate and entertain, the BBC remit focuses on delivering public value through its core purposes (increasing understanding of the world around us, reflecting different cultures of the UK etc). Public value is itself a function of four factors – reach, quality/diversity, impact and value for money/cost (the RQIV framework). Impact is defined as both the provision of consumer value and citizen value, the latter being created by the core public service purposes.

The aim of the BBC is to maximise the sum of these four public value components across output that informs, educates and entertains, while having regard to its market impact – both negative crowding out effects and positive multiplier effects.

The BBC's approach to talent is simultaneously a means to these public value ends – it can help reach audiences, it creates consumer value, it can be the most cost effective way of delivering core purposes etc – and an end in itself – it can be a part of the creative diversity and innovation required of the BBC. More specifically, part of the BBC's purpose is to nurture new talent and to give opportunities not available through other broadcasters as well as offering talent the "next step up" –allowing emerging talent to build their profile through association with the BBC.

The BBC's approach to talent can also potentially have positive and negative market impact effects – it can create and develop new talent, or it can bid up and prevent access to new and established talent suitable for the commercial market.

As in all areas the BBC's approach to talent is all about achieving the mix of public value factors – reach, quality, impact and value – while trying to create the most positive net market impact.

#### **b. The BBC's Role in the UK Talent Market**

The role of talent in the BBC will be to achieve a mix of public value factors while ensuring market impact is as positive as possible. But within this framework the BBC still has to determine how far it uses talent to help achieve either reach, or create consumer/citizen impact, or increase quality and diversity while providing value for money. It also has to decide how far its decisions create a positive or negative market impact.

Perhaps the most stark choice facing the BBC in the area of talent is the right balance between being a developer of new and diverse range of talent and using established talent to help achieve overall reach and impact, especially in hard to reach demographic groups – a choice between being a "nursery" or "grocery".

### ***The BBC is both “nursery” and “grocery”***

One prominent commercial TV executive interviewed for this report, said the BBC needs to decide (with reference to its talent strategy) whether it’s a “nursery” or a “grocery”?

Of course, matters are not as simple as this. Since it began broadcasting the BBC has operated as both – bringing established household names to the screens and airwaves for the benefit and appreciation of its audiences, while giving many presenters and performers their first break in TV or radio.

The BBC has obligations both to innovate and broaden the range of its programming and creative resources, while also reaching all of its licence payers with output of interest and appeal to them.

In the pre-digital TV and radio age achieving both was fairly easy. With so few channels, and with the main commercial broadcasters having their own heavy public service obligations, it was perfectly possible to try out new talent and presenters while also reaching all types of audiences each week.

Channel proliferation and new platform take up reduces the BBC’s ability to achieve both goals, especially with a small range of channels and networks. Some of the greatest challenges for the BBC in the digital age come in trying to reach 16 to 34 year olds - who watch less TV overall, are particularly valuable to commercial TV and radio groups and who are busy migrating their media consumption over to the internet and video games. Young families in the C1C2 socio-economic groups are also proving hard to reach given their higher propensity to take 200 channel cable and satellite TV rather than 40 channel digital terrestrial TV.

### ***New digital channels and Web 2.0. services give the BBC new “nurseries” for talent. But this talent still needs to migrate to the lead networks***

Part of the BBC’s answer to these issues has been to launch new TV and radio channels (BBC3, BBC4, CBBC, 1Xtra) targeting more specific demographics and to expand its internet activities (both generally and to reach specific audiences – such as BBC Switch for the youth audience – 12 to 17 year olds).

But if the development of new talent on digital services is to impact the BBC’s overall cost of top talent then the presenters and performers on these new channels need to make the transition to the main networks and to broader audience appeal.

### ***The role of talent is likely to vary by genre and activity***

Given the different objectives of the BBC, and the traditional choice between “nursery” and “grocery” that faces the BBC in areas such as talent, it would not be surprising if the BBC made different decisions in different genres, sub-genres and services. Some sub-genres and services might use talent primarily to reach audiences, others might use it to deliver high quality and diversity, or to effectively deliver core purposes.

Talent can be used to attract a large audience, deliver a public service message effectively, reach an audience of any size cost effectively, or simply as a way of bringing different voices and opinions to the screens and airwaves. The balance of these achievements can vary between and within genre as well as across genre.

***Talent is only one means of achieving the BBC's objectives***

As a factor of production and programme characteristic, talent is just one part of the BBC's proposition to audiences. The BBC can easily decide to use other factors of production – such as writing, quality of execution, programme positioning and promotion – to deliver its objectives in any genre, rather than talent.

***O&O interviews suggest that different genres and different activities across the BBC do have different approaches to talent and its role in achieving BBC objectives***

It became very clear from the BBC interview process, and comments in the external interviews that the BBC's approach to talent and the exact mix of public service objectives it achieves through its use of talent differs across the corporation.

At a broad level, areas such as drama, landmark factual programming and Radio 4 tend to use talent to reinforce public service core purpose impact and quality/diversity, while areas such as entertainment, Radio 2, and lifestyle programming tend to use on screen talent as a way of reaching audiences cost effectively - often the hard to reach audiences.

And even this is not as sophisticated a view as it should be, as there are large differences within any given area – entertainment and comedy TV programming areas use talent both to reach large audiences and to deliver core purposes, even if to quite small audiences.

***These differences may make setting a BBC wide strategy on talent difficult, but there is still probably a need for each genre and activity to decide on its approach to talent across its sub-genres and services***

Given the likely differences in the way talent is used to deliver the BBC's objectives across the corporation, a single BBC approach is unlikely to work. But each area of the BBC probably needs to make it clear to its programme makers and commissioners (and the independents who make programmes for the BBC), what their approach is and how it might differ by sub-genre and channel.

In the course of our interviews with BBC genre heads and network heads, we left some meetings with a clear view of what the specific area's approach to talent was, in others it was less clear what the mix of objectives were and whether all those involved shared the same view.

The BBC Vision Drama area was one part of the BBC that seemed to have a very definite view on the role of talent across its sub-genres, it's positioning versus its main rivals and how far other factors of production, such as writing, could be used to prevent talent inflation. It was also quite clear that independents making drama programmes for the BBC were fully aware of this approach as well.

***There is also a need for a coordinated approach across the BBC, especially where talent works across different areas***

Since individual talent works across different areas of the BBC, and talent agents will always use fees in one part of the BBC as a starting point for fees in another part of the corporation, there is a need for BBC wide co-ordination of talent negotiation and fee

setting, even if different areas of the BBC have different approaches to the use of talent and its role in achieving BBC objectives.

### **c. The BBC's Competitive Positioning**

#### **i. Competitive Markets Versus Less Competitive Markets**

The BBC's competitive positioning in the market for audiences and the market for talent is likely to differ by genre and media.

Section C outlined the competitive landscape in TV and radio in the UK suggesting that in some programme genres in TV there is likely to be a three or four way competition for audiences between the main networks, in others the BBC may be competing with only one commercial network, while in some others the BBC may be almost the only provider, or at least the only provider of scale (e.g. new children's programming).

In radio, while there may be some overlap in the demographic positioning of leading commercial services and the BBC's, the BBC's more UK wide network approach to these audiences is in contrast to commercial radio's largely local and regional structure (although this will change with DAB), which means that competition is often tangential rather than direct.

The BBC will also differ in its approach to talent within any given area. In some quite competitive areas for audience, it might decide that lead talent is not the main means by which to gain an audience, (e.g. BBC1 drama series), while in less competitive areas – e.g. specialist documentaries – the BBC may still feel that lead talent is the best way to engage audiences in the subject matter.

Clearly, the BBC's competitive positioning within both the market for audiences and the market for talent could differ markedly by sub-genre and service. The BBC would be likely to face the most challenging talent cost issues in markets where it is both competing for audiences and puts a priority on lead talent, and the least challenge in areas where it has less competition for audiences and where talent is not seen as the main way of attracting audiences.

#### **ii. Areas of Competitive Advantage**

Over and above the BBC's competitive positioning in any market or genre, the BBC enjoys certain competitive advantages (and disadvantages) from its scale, scope, role and history.

##### ***Range of outlets and creative endeavour***

The BBC still has a far greater range of creative activities than any of its rivals for talent. In operating across TV, radio, and new media, and within each media across a wide range of genres and sub-genres aimed at different audiences and demographics, the BBC is unrivalled in the UK.

This gives it certain advantages when it comes to attracting talent, especially talent that wants to test its creative range and ambition.

##### ***Multimedia working and high national reach and recognition***

Despite platform proliferation and audience fragmentation, the BBC still enjoys 90 per cent reach of the UK population each week, while analogue TV and radio channels may be losing audiences, digital services, BBC internet and interactive services and recently launched on demand services are increasing their reach and are often the leading services in their new market segments.

It is possible that in a fragmenting media environment the BBC's relative attraction as a way for talent to reach large audiences, through a number of services and media, might actually increase. This has probably been the case in radio over the last 5 years.

### ***Resourcing support to lead talent***

External and internal interviews left a clear impression that the BBC provides more support to lead talent than the commercial sector – in terms of administrative assistance, writers, logistics etc. While lead talent might go to a rival for more money or specific opportunities they often found less support and help than when working for the BBC.

Agents and producers made it clear that many named talent appreciated and valued the support the BBC gave.

### ***The ability to take risks and innovate***

When compared to more mainstream commercial broadcasters, such as ITV and FIVE, the BBC's remit, funding and range of services gives it a greater ability to innovate and take risks. This can attract both new original talent but also more established talent aiming to broaden their careers and stretch their range.

### ***Unrivalled reputation in the creative community and the global entertainment industry***

As made clear in Section C, talent can be driven as much by reputation as by immediate reward – both for long term monetary and non monetary reasons. Working for the BBC has been at the core of the UK creative community for over 70 years and its influence goes beyond TV and radio.

Doing work for the BBC still creates the reputation that individual talent has “made it” in a way that other assignments might not. This goes beyond the UK where in many cases the BBC is the one UK TV and radio brand the rest of the world has heard of, and where it can act as a gateway to other opportunities.

This has probably increased in recent years – especially in the USA - where the BBC's traditional reputation for costume drama and “odd ball” comedy has been broadened to encompass mainstream entertainment and lifestyle programming (largely through the growing overseas activities of BBC Worldwide which now makes shows for leading US commercial networks).

### ***Significant Promotional and Profile Value***

UK reach, creative community reputation and global resonance can all combine with association with the BBC's core values of trustworthiness, quality and impartiality to enhance significantly the reputation of talent who work for the BBC. These associated benefits can then be exploited by talent for monetary gain or future creative challenge and profile.

### **iii. Areas of Competitive Disadvantage**

While the BBC enjoys considerable advantages in the talent market, it has some disadvantages.

#### ***Ability to reward audience ratings success***

While across commercial TV ratings success often leads to higher subsequent fee rates - and in some cases to specific audience related payment ratchets, the link between audience success and pay is less clear in the BBC. Talent whose main skill is to attract large and/or commercially valuable audiences, and who are driven primarily by monetary objectives might favour working for a commercial channel over the BBC. (O&O interviews suggested that it is still ITV1 that offers and pays the highest rates per hour to the top talent which they believe really drive audiences).

#### ***Scale and scope of the BBC***

While the scale and scope of the BBC can attract people due to the reach and diversity of opportunity it brings, it can also mean that individual talent gets lost within the large range of star names employed by the BBC.

Talent looking for more profile over and above the rest of the talent roster across a channel might prefer to work for a smaller and more focused outlet. In particular, the BBC tends not to promote itself on the basis of its stars and talent alone whereas ITV, Channel 4 and FIVE are more likely to emphasise the channel's key talent in promotion and cross promotion. Being the "face" or "voice" of a rival channel might be attractive to some lead talent.

#### ***Restrictions on commercial endorsements and journalistic activities***

A specific area of competitive disadvantage (which is the reverse side of the BBC's reputation for honesty etc) is the restrictions the BBC puts on outside activities of certain named talent – in particular product endorsement (especially for lifestyle and makeover presenters) and articles for newspapers (especially for news editors and correspondents).

In so far as the BBC's restrictions are greater than its commercial rivals (which they tend to be) this can mean working for the BBC involves significant opportunity costs as well as benefits.

The BBC's tighter restrictions on commercial endorsements was claimed to have been a factor (in O&O interviews) in both the move of Jamie Oliver to Channel 4 and Trinny and Susannah to ITV1.

#### ***Low reach of younger audiences***

While the BBC offers broad reach it has certain weak spots in its overall audience appeal. Reaching the 16 to 24 year old age group, and more broadly the 16 to 34 age group, has been a particular problem for the BBC in recent years as this age group moves to rival media and where their remaining TV and radio consumption is competed for fiercely by commercial rivals.

When it comes to younger audiences it is often the BBC that needs the relevant star names to attract the audience rather than the star names coming to the BBC to access its existing audience.

***Lack of “edginess” and “coolness”***

One reason for the BBC’s issues with younger audiences may be its perceived lack of “coolness” or “edginess” as a media organization. Its very size, stature and history makes it part of the establishment, and this can lead younger and more challenging performers to go elsewhere – most notably Channel 4, thematic channels and non BBC internet portals and social media sites.

While in the past the BBC has managed to counter this problem – the early days of BBC2, the comedy zones on BBC2, elements of BBC3 – there is always a sense that the BBC may be trying to hard to be “cool” and is uncomfortable with the “edgy” material that other broadcasters – especially more niche broadcasters – might welcome.

***Declining public service ethos in the wider creative community***

Section A drew attention to a general global challenge to public values and the public service ethos in the developed world since the early 1980s. While it may be the case that the creative community is still more susceptible to appeals to greater public purpose than other elements of society, many of them also want to be rich (as they see many of their contemporaries getting rich from film and TV work, or working for hedge funds).

Furthermore, when they do decide to be more public spirited they may chose to engage in public purposes through charity activities and high profile global poverty and environmental campaigns rather than working for the BBC for less money than they might get elsewhere.

**d. The BBC’s Current Talent and Talent Rights Strategy Initiatives**

During the course of this review, O&O was made aware of recent strategic initiatives regarding talent, and in particular talent rights, which may well have an influence on value for money and market impact issues.

**i. Securing Rights and Better Management of Rights Windows**

Like all media organizations the BBC is facing platform proliferation, audience fragmentation and the emergence of new exploitation windows – both for licence fee services and spin off commercial activities.

To meet the challenges of the on demand, multimedia digital age the BBC set out a series of objectives for the further development of its rights framework and deal structures. More specifically:

to secure all platform and window rights wherever possible for its commissioned programmes and output for licence fee funded services;

to review payments for re-use/residual fees by window – [X.....  
.....X]

to put in place new deals and framework agreements to facilitate the clearance of archive programmes where the new technologies and platforms present opportunities to provide significantly increased access to broadcaster archives; and,

to take a holistic approach to major talent deals, recognizing the way many of these talent work across a range of BBC services and platforms.

**ii. Creative Futures ,“Fewer, Bigger and Better” and Programme Budget Efficiency Targets**

The need for these rights initiatives is reinforced by the BBC’s general strategic programming shift into creating fewer strands, but ensuring that these strands are better and have longer full life value (known as the “Fewer, Bigger, Better” strategy).

Along side this, the BBC is intending to fund this shift in strategy within a lower than expected licence fee settlement by achieving across the board 15 per cent reductions in baseline costs per hour of new programming over three years – 2006/07 to 2008/09 (i.e. all programmes have to be made/commissioned for 15 per cent less, and these savings will then go into enhancing the budgets of those programmes deemed to have longer full life value.

[X.....  
.....  
.....  
.....  
.....X]

**iii. Controlling Talent Inflation and Group Level Six Year Plans**

In the spring/summer of 2007, the BBC Board asked all service heads to develop specific talent strategies combining the initiatives on rights set out previously with specific measures to address fee inflation and future talent development, as part of their overall six year planning process.

All group heads have been asked to address issues such as succession planning, the introduction and development of new talent (the use of a range of new and second tier presenters in *The One Show* along side more experienced lead presenters being a high profile example of this), and the control of overall talent inflation as part of their overall strategic plans.

Within this process, some Groups have committed to specific talent targets as part of their six year plans. Audio and Music, for example, has conducted extensive succession planning exercises across its services while also committing to an annual talent fee savings target.

**e. Implications for Spending and Value for Money**

The BBC’s overall strategy, its role in the talent market, its competitive positioning, its competitive advantages and disadvantages, and its recent strategic initiatives all have implications for any value for money and market impact review.

*Price pressures will differ markedly across and within genres and are a result of both market dynamics and BBC choices and priorities*

It is quite clear that talent price pressures on the BBC will differ markedly across the BBC's activities, and that these differences are in part due to different market dynamics but also due to the BBC's devolved decisions about its role and its use of talent in achieving its objectives.

***Value for money assessments and measurements can not be made in isolation of the BBC's chosen priorities***

Value for money assessments need to reflect both different levels of market forces and differing BBC objectives across its activities. In short, where the BBC's main objective is reaching a large or certain profile of audience, costs per viewer or listener hour may be a good way to measure value for money. Alternatively, where range and diversity are stronger objectives the BBC's talent spending might be best judged against alternative ways of achieving the same level of range and diversity.

Similarly, where the BBC is in a very competitive market, value for money may be more about not paying more than the competitors, but where the BBC is in a less competitive market, value for money may be more about the cost effectiveness of the chosen BBC talent choice versus alternative sources of talent or alternative programmes that achieve the same outcomes.

***The need to secure more rights might add to costs in the short run, and hamper comparisons with rival broadcasters who take a different approach***

[X.....  
.....  
.....X]

[X.....  
.....  
.....X]

***The BBC's competitive advantages and different market circumstances should lead to a wide variation of prices even within genre and sometimes in the payments made across the BBC to the same named talent***

Overall, the preceding market analysis in Section C combined with the analysis of the BBC's position in this section, suggests a wide range of prices even for similar levels of talent across the BBC and even within genre. It might also suggest that named talent that works across the BBC should experience very different rates per hour.<sup>42</sup>

***The new more restrained financial environment for the BBC licence fee services going forward is likely to lead to specific talent market initiatives and in some cases a markedly different approach to that which applied to end March 2007 (the end of the analysis period for this review)***

The BBC has already been addressing the issue of talent inflation, new talent development and succession planning as part of its six year business planning over the

---

<sup>42</sup> Named talent do receive different levels of pay if, for example, they work in entertainment and factual programming in TV

summer of 2007. It is highly likely, therefore, that the BBC's approach to talent is in the process of change and that past trends make be of little guidance to current and future behaviour and trends.

## 2. BBC Talent Spending and Inflation Trends

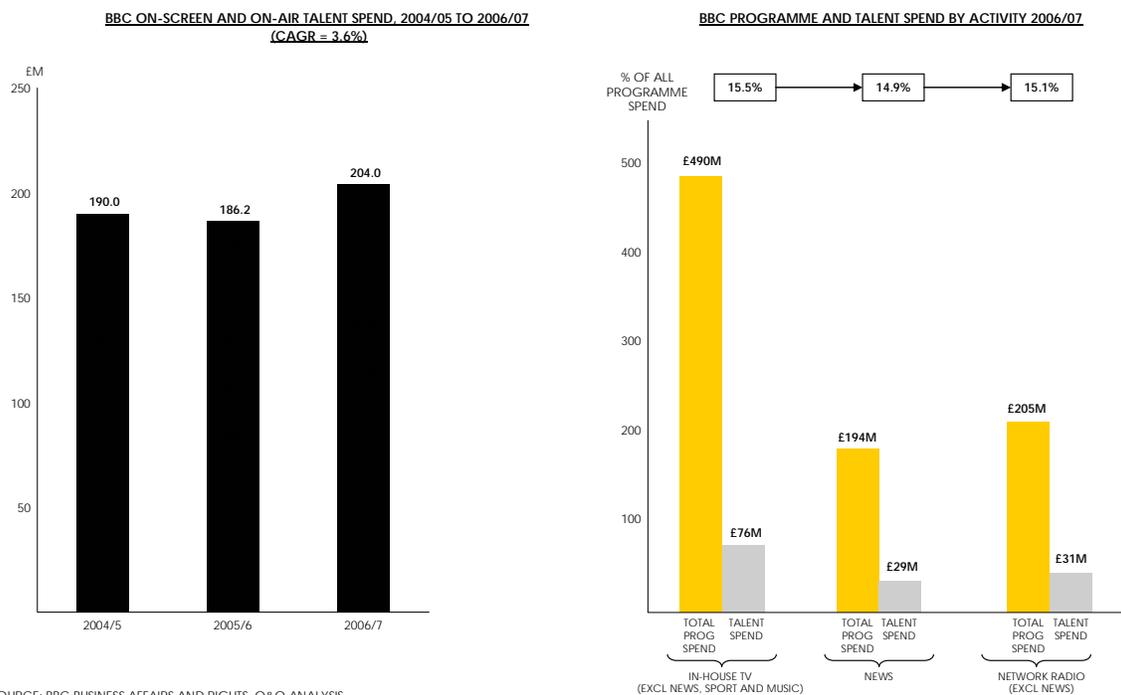
### a. Current BBC Spending

*Total BBC primary spending (excluding commercial and residual payments) on on-screen and on-air talent in 2006/07 (direct and indirect) was £242m.*

The BBC spent £204m directly on on-screen and on-air talent in 2006/07, the largest amount, £75.9m, on network TV drama, entertainment, comedy, factual and children's programming. The next largest amounts were £33.2m within network radio (excluding news), £31.3m in Nations and Regions, £29.3m in News and Journalism and £16.8m within BBC sport. See Figure D.1.

[The left half of Fig D1 has been partially redacted]

FIGURE D.1. – BBC'S RECENT TALENT SPENDING TRENDS – total spending (in-house production)



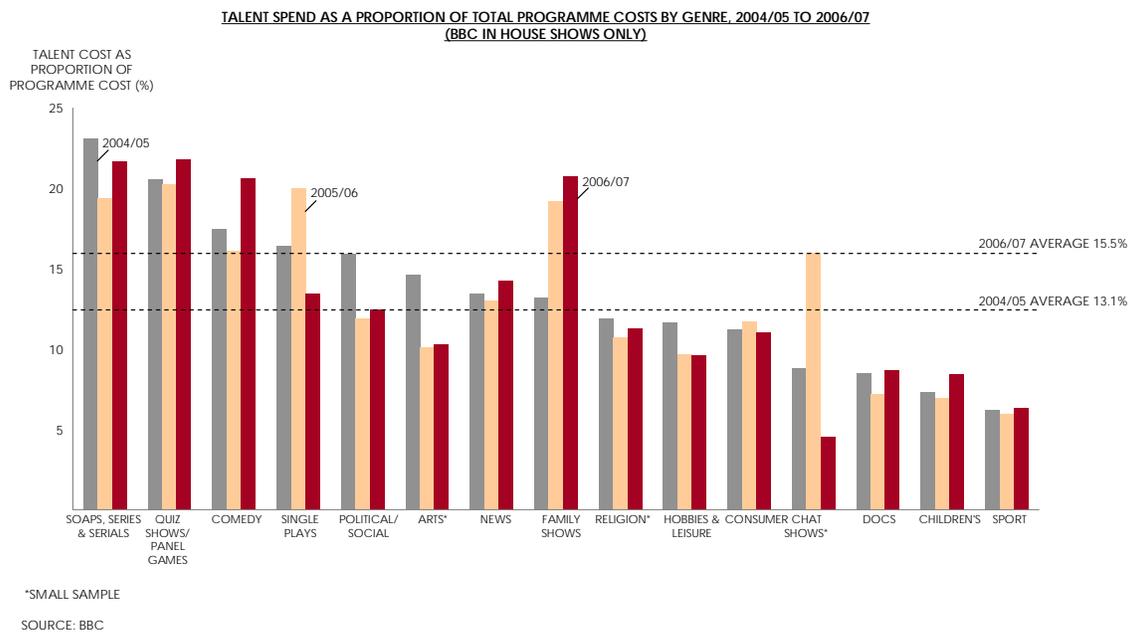
SOURCE: BBC BUSINESS AFFAIRS AND RIGHTS, O&O ANALYSIS

In addition to its direct spending on talent, the BBC also pays for talent through its independent commissions. On the basis that talent spending as a proportion of total independent commissions is broadly similar to that for in-house programming, this would represent another £38m of spending. There would also be some spending on talent through radio and regional output related independents but this would be unlikely to amount to much more than £2m a year. This implies a total estimated direct and indirect spend of £242m a year on on-screen and on-air talent in 2006/07.

*Talent spending represents about 15 per cent of total programming spend in TV, radio and news but there are wide variations between genre and networks within these averages*

Talent spend as proportion of total programming spending is broadly similar in radio, TV and news at about 15 per cent, although it varies considerable between TV genres and radio networks etc. BBC data suggests that within TV, talent spending can be over 20 per cent of programme budget on average for dramas, comedies, quiz shows/panel games and family entertainment shows, and between 10 and 15 per cent for lifestyle and consumer affairs shows, but just 5 to 10 per cent for documentaries, children’s and sports strands. See Figure D.2.

**FIGURE D.2. – TALENT SPENDING – importance by genre**



Across BBC radio networks, talent spend varies considerably around the average of [30] per cent, from [20] per cent of total programming budget in Radio 2, to [30] per cent in Radio 1 and [20] per cent in Radio 3 (excluding orchestras).

*Of the £204m direct spending on talent contracts by the BBC about [30] per cent is spent on the top 150 contracts, and approximately [30] per cent on mid range contracts between £5,000 and £100,000 a year, and [30] per cent on small contracts worth up to £5,000.*

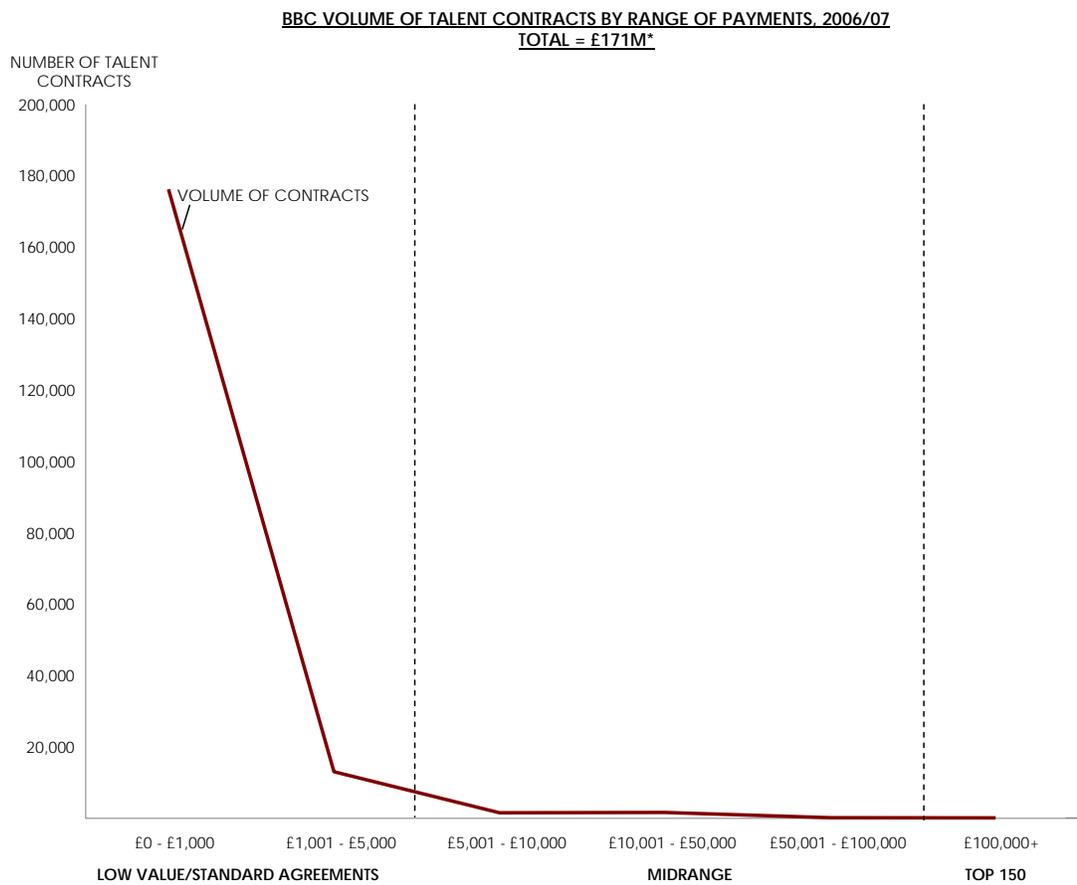
Comprehensive payment distribution figures were only available through the BBC’s contracts accounting system which can include multiple contracts to named individuals and contracts covering a number of people in a band/orchestra etc. This does not cover staff contracts (in news, sport and nations and regions), or central contracts or short talks contracts.

The total spending on these contracts adds to £[X]m in 2006/07 of which £[X]m was on the top 150 to 200 contracts of over £[X], £[X]m was on the [X] contracts ranging from £[X] to £[X], and a further £[X]m was on the [X] contracts of less than £5,000 a year from the BBC ([X] at a value of less than £[X]). See Figure D.3.

The £[X]m difference between the £171m of contracts covered in Figure D.3. being explained by £[X]m in top centrally held contracts and £[X]m in staff on-screen and on air talent contracts- mostly in news, sport and nations and regions - plus short talk contracts.

[Fig D3 has been partially redacted]

FIGURE D.3. – BBC TV NUMBER OF CONTRACTS BY SIZE OF CONTRACT - 2007



\* DOES NOT INCLUDE ALL TOP CONTRACTS (E.G. CENTRAL CONTRACTS)  
EXCLUDES TALENT ON STAFF CONTRACTS AND SHORT TALKS

SOURCE: BBC CONTENT DATABASE

***With news and journalism staff contracts most are for less than £70K a year***

Most news and journalism on-screen and on-air staff earn less than £70K a year, with a cluster of staff paid above this level. Overall the pattern of pay in news has remained fairly constant over the three years of the review although there has been a general shift upwards as shown by Figure D.4.

*Standard BBC agreements with talent unions like Actor's Equity are similar to those offered by ITV and PACT*

[Fig D4 has been redacted]

O&O reviewed the BBC's standard industry agreements, and although there are small differences between those of the BBC, ITV and PACT, they make only marginal differences to the prices paid and generally reflect slightly different approaches to definitions of engagement etc. The O&O interviews with the BBC, ITV, PACT and Equity suggested that while the BBC agreements appeared slightly more generous than PACT or ITV, in terms of actual custom and practice and interpretation in some cases the BBC was less generous (e.g. getting more episodes (output) out of any given engagement (input))

***The top 150 talent contracts are skewed heavily both towards the top 50 and towards entertainment, sport, drama and radio.***

Within the top 150 contracts, the top 50 account for £[X]m out of the total £[X]m – [X] per cent of spending. The average person in the top 50 receives £[X]K a year in fees from the BBC, the average in the next 50 is £[X]K, and in the next 50 is £[X]. [X].....  
.....X]

Entertainment and sport account for the largest amounts of the top 150 talent spending at £[X]m and £[X]m respectively. The top four categories – entertainment, sport, drama and music/radio together account for more than 75 per cent of all top 150 talent payments. See Figure D.5.

[Fig D5 Redacted]

#### b. Recent BBC Spending Trends

*Direct spending on on-screen and on-air talent by the BBC grew by 3.6 per cent a year from 2004/05 to 2006/07. Total spending – including estimated spending through the rising number of independent commissions in BBC Vision – probably increased by 6.1 per cent a year*

BBC direct spending on all on-screen and on-air talent grew by 3.6 per cent a year from 2004/05 to 2006/07 from £190m to £204m. Total talent spend increased more rapidly in radio and news and journalism whilst increases in sport, music and in the Nations and Regions were lower.

Direct on-screen talent spending in network TV (excluding sport and news) also grew at a lower rate but this was on a declining overall in-house programming spend as more commissions went to independents over this period.

To calculate what the increase in talent spend in TV would have been, had there been no decline in in-house production at the expense of independent production, O&O used the BBC's own figures on the fall in in-house production from 2004/05 to 2006/07 – which was £73m – and assumed that about 13.8 per cent of that would have been talent spend (half way between the average talent spend as a proportion of in-house production in 2004/05 of 13.1 per cent, and the proportion of in-house production spend in 2006/07 of 15.5 per cent).

13.8 per cent of the £73m decline in in-house spend is £10.1m. This implies that had in-house production spend remained constant from 2004/05 to £2006/07 then total in-house TV spending on talent would have grown from £73.7m to £86m – rather than the £76m of actual in-house spend - and total BBC spending would have grown from £190m to £214.1m. This yields an overall growth rate in BBC in-house and independent related talent spend of 6.1 per cent a year from 2004/05 to 2006/07.

**[Fig D6 Redacted]**

*Within in-house TV talent spend the main growth area has been within entertainment and comedy which has grown by [3<] per cent a year.*

Breakdown of in-house TV spending by genre suggests that entertainment and comedy has grown while most other genres have remained fairly flat or declined slightly. See Figure D.6.

Some of this pattern could clearly be explained by different levels of lost production to independent producers across the genres over the period (for instance in-house drama production could have declined faster than in-house entertainment production).

However, the strand based figures in Figure D.2, that show talent costs as a proportion of total programme costs for 400 in-house strands seem to confirm that in-house entertainment sub-genres (such as comedy and family shows) have seen a significant increase in talent cost proportions suggesting the growth in entertainment spend is not due to disproportionately large levels of in-house production.

Similarly, the in-house talent costs as a proportion of programme costs for drama strands seems to have fallen slightly over the period, suggesting again that the overall spending trend reflects lower levels of inflation in drama talent costs per hour.

An separate confidential analysis of in-house versus independent output hours by genre between 2004/05 and 2006/07 shared with us by the BBC also confirmed that the relative growth in entertainment and comedy spend is not explained by a significant move to in-house programming (indeed over the period the movement was somewhat the other way).

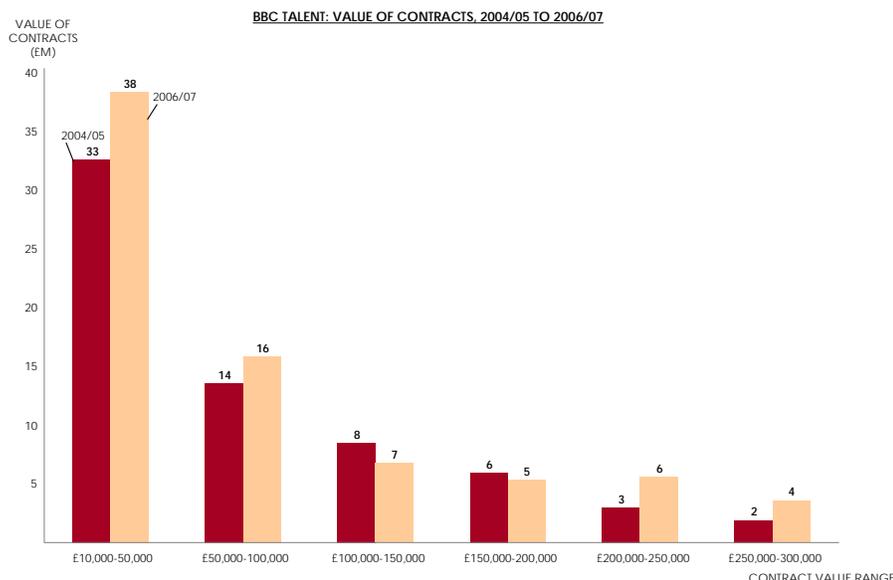
***Within the top 150 talent spend across the BBC the main growth area has been in the top 50 where spending has grown by [x] per cent a year.***

Total spending across the top 150 talent tier has been [x] per cent a year, but this is entirely due to a [x] per cent a year increase in top 50 talent spend. While this does not suggest individuals received [x] per cent a year increases in fees – as the names in the top 50 would have changed over the period, it does suggest the BBC is paying its leading talent in any given year – whoever they might be – [x] more a year than in 2004/05.

***The BBC's contracts database also suggests that the top of the mid range talent contracts – contracts worth £10,000 to £100,000 by the BBC has seen [x] per cent a year growth in spending***

Figure D.7. shows the spending by size of contract for different £40,000 to £50,000 payment ranges going from £10,000 up to £300,000. It shows increases at the top end, which includes those in the top 100, but in contrast it shows declines in spending just below this level among the next 200 or so contracts, and increases in the £10,000 to £100,000 range. Data on the number of contracts suggests that increases at levels below £100,000 have been driven by an increased number of contracts rather than a rise in the average level of contract payment.

FIGURE D.7. – BBC TV TALENT PAYMENTS – distribution of spending by range band



SOURCE: BBC BUSINESS AFFAIRS AND FINANCE, O&O ANALYSIS

### c. Recent BBC Spending Trends Per Hour and Per Person

*Analysis by the BBC suggests that while spending on the top 50 talent has risen by [X] per cent a year, output hours from those top 50 have increased by 15 per cent across the two years – suggesting a cost per hour increase across programming using the top 50 talent of [X] per cent a year*

The BBC conducted its own assessment of the output hours of the top 50 talent in 2004/05 and 2006/07 which suggests that output has increased by 15 per cent over the period. This implies a spend per output hour increase of [X] per cent compared with the [X] per cent headline figure in spend.

However, it is not clear what the mix of this output hour increase has been. In particular, it is unclear as to whether the change is due to a higher proportion of top talent being in the higher volume areas – such as sport presenters, quiz shows hosts and DJs, than the lower volume areas of drama actors and comedy performers.

*Additional analysis by the BBC suggests that the comparatively large increases in talent spending in news is due in part to a larger number of on-screen and on air staff performers*

The BBC has also provided analysis to suggest that the [X] per cent a year increase in news and journalism talent spend has been due in part to increased number of on-screen and on-air presenters servicing more output hours. Average payments per head have increased by [X] per cent a year from 2004/05 to 2006/07. Pay for staff earning less than £150,000 a year has increased by [X] per cent a year.

*While these output and people number adjusted figures might suggest a lower level of inflation in hourly or per person fees, they do raise other issues of talent concentration and immersion*

The significant increase in output hours from the top 50 talent in the BBC may help amortise the higher costs across more hours, but it also implies a greater domination of the airwaves and screens by a few top well known names.

The increase in news on screen presenter numbers might suggest individual presenters are not receiving large increases, but it does suggest that overall talent spending per programme hour is still increasing and that programme airtime is filled up with more faces and voices at the expense of other programme characteristics.

#### **d. Longer Term Top Talent Fee Inflation**

*Longer term talent inflation trends are available through the BBC's annual survey of talent costs per hour for the top 400 TV named talent on returning strands only. This suggests inflation in fees per hour has been declining recently.*

The BBC's own TV talent inflation survey based on talent fees per hour of output for the top 400 named talent within returning strands only, suggests inflation over the last 2 years of 6 per cent a year, having fallen from inflation rates of 10 per cent a year from 2001/02 to 2003/04. See Figure D.8.

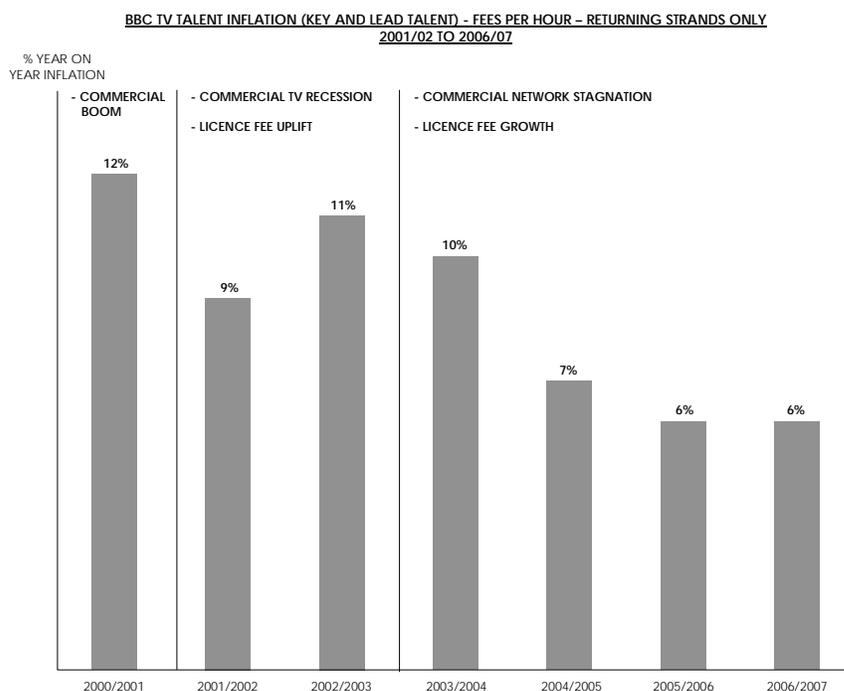
*But these numbers need to be viewed with caution*

This analysis does not cover new strands or talent beyond the top 400 and it is restricted to TV fees only. In addition, by being based on talent fees per hour rather than total talent spending it can fail to reveal the full extent of any increased spending on talent, if that talent is being used across more of the schedule.

Perhaps most importantly, the analysis is based on a twice yearly sample of programme information provided by individual TV departments, and is not weighted to ensure a balance of 2<sup>nd</sup>, 3<sup>rd</sup>, 4<sup>th</sup> returning series etc. There is also no guaranteed consistency in the sample from year to year.

So while overall long term trends can be relied upon as a reasonably accurate reflection of what is happening to costs per hour in returning strands in TV, year to year trends should be treated with more caution.

FIGURE D.8. – BBC TV HISTORIC TOP TALENT FEES PER HOUR INFLATION



SOURCE: BBC TALENT INFLATION SURVEY 2006/2007, O&O ANALYSIS

The absence of new strands from the data when in each year 30 per cent of BBC1’s originated output and 55 per cent of BBC2’s originated output is new to that year is also a significant limitation.

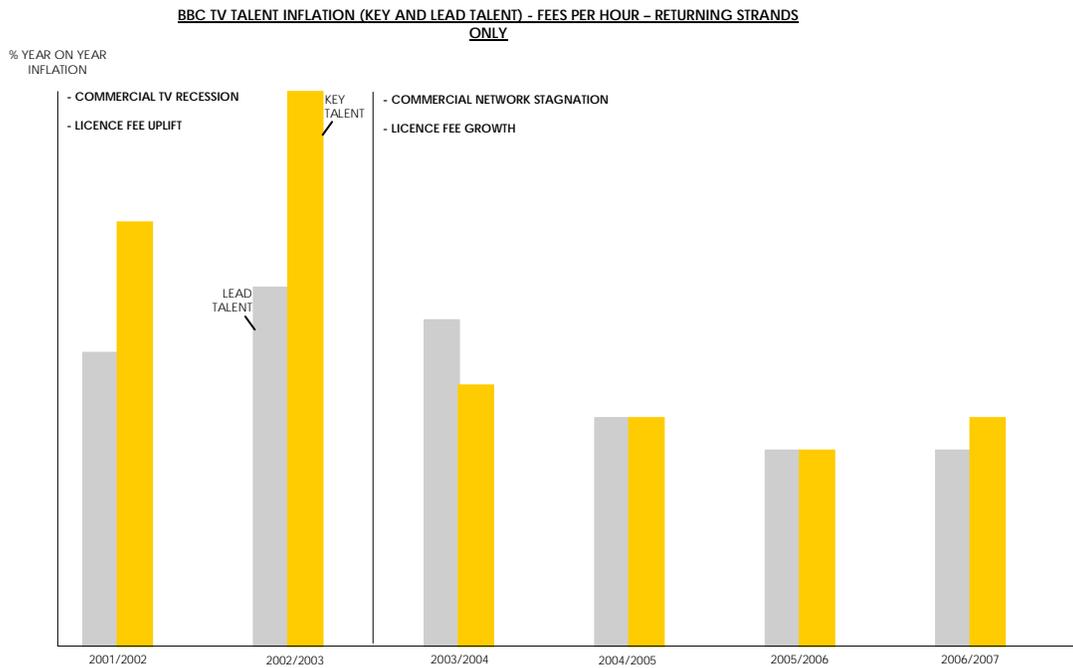
***A more detailed analysis of these inflation figures suggests that the inflation in hourly fees for the key talent in TV – top 100 – was higher than the rest, but has since come into line***

Since 2001/02 the annual inflation survey has reviewed inflation rates in fees per hour to the top 100 talent names in the database – in terms of fees per hour - separately from the next 300 or so names. In 2001/02 the hourly inflation in the top 100 names was far higher than the next 300, but this has not been the case since 2003/04. See Figure D.9.

However, this trend could be due to the BBC continuing to increase the pay of the top 50 to 100 names more rapidly than the rest but ensuring that more hours of output are generated by these higher fees. Such a trend is confirmed by other BBC data suggesting that the output hours of the top 50 talent names across the corporation increased by 15 per cent between 2004/05 and 2006/07.

[Fig D9 Partially Redacted]

FIGURE D.9. – BBC TV KEY VERSUS LEAD TALENT FEES PER HOUR INFLATION



SOURCE: BBC TALENT INFLATION SURVEY, O&O ANALYSIS

*Inflation in 2001/02 to 2003/04 was highest in entertainment and factual programming - sub genre trends over the period suggest that leisure, current affairs, sitcoms and other comedy shows have all experienced rapid inflation at some point over the last 7 years.*

Year on year trends by genre in the BBC’s annual inflation survey suggest that the period of high inflation from 2001/02 to 2003/04 was led by rising prices in entertainment and factual programme talent. Annual returning strand inflation in these two genres is still higher than average but has fallen in line with the general trend. See Figure D.10.

The largest falls in inflation rates have, however, come in daytime programming. But this could be due to increases in average strand hours in daytime as the BBC filled its schedule with more originated output and less acquired hours, rather than an actual reduction in total fees paid.

[Fig D10 has been redacted]

Sub-genre trends suggest that the highest individual year inflations over the 2001/2002 to 2006/07 period have been in leisure and current affairs programmes, while highest recent inflation has been in specialist factual. See Figure D.11.

Figures for entertainment sub-genres suggest highest individual year inflation over the period in sitcoms, but highest recent inflation in comedy entertainment (sketch shows) and music entertainment. Figures for drama show much lower rates of inflation [X.....  
.....X]

[Fig D11 has been redacted]

### c. BBC Sourcing of Talent Trends and Talent Vintage

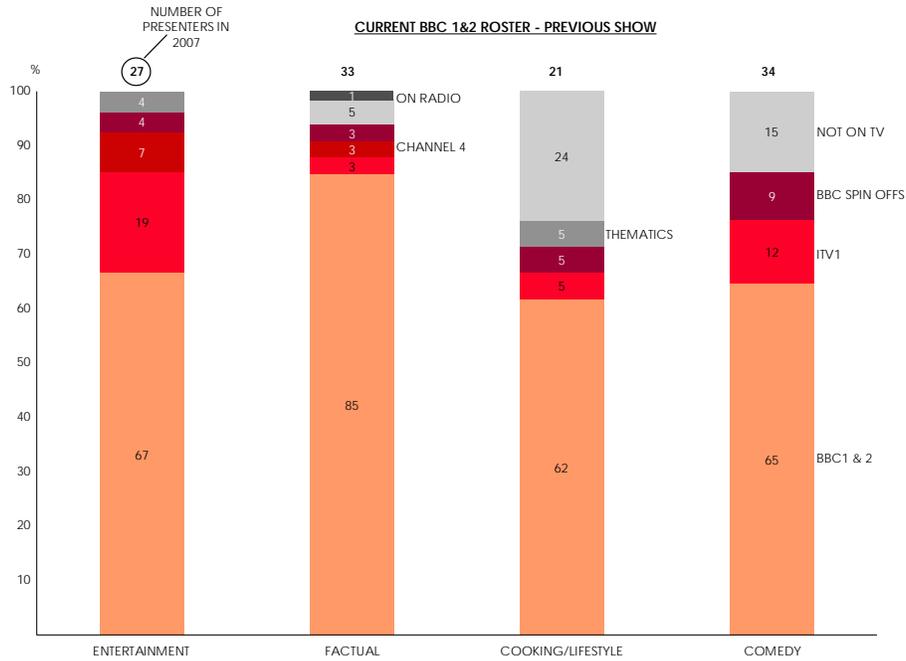
*O&O talent tracking analysis suggests the BBC has its greatest tendency to source lead talent from rival channels in the entertainment genre*

Of the 27 lead talent presenters on BBC entertainment programmes in 2007, about 30 per cent were previously (in their last programme strand before the current BBC one) at rival channels, with ITV1 the single largest source. See Figure D.12.

The lowest levels of sourcing talent previously at rival channels was in factual where most were on BBC1 and BBC2 in their previous assignment. Across the four genre analyzed BBC spin off channels are only really playing a role in providing new main BBC network talent within comedy, and even here they are providing less talent than either comedy talent previously on ITV1, or people not on TV at all.

Cooking and lifestyle programming is currently bringing in the most talent from outside TV.

FIGURE D.12. – BBC MAIN NETWORKS CURRENT ROSTER OF TALENT BY VENUE – channel with previous show



SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

***An assessment of where current BBC talent were five years ago shows a similar general pattern with entertainment making even greater use of talent from rival networks***

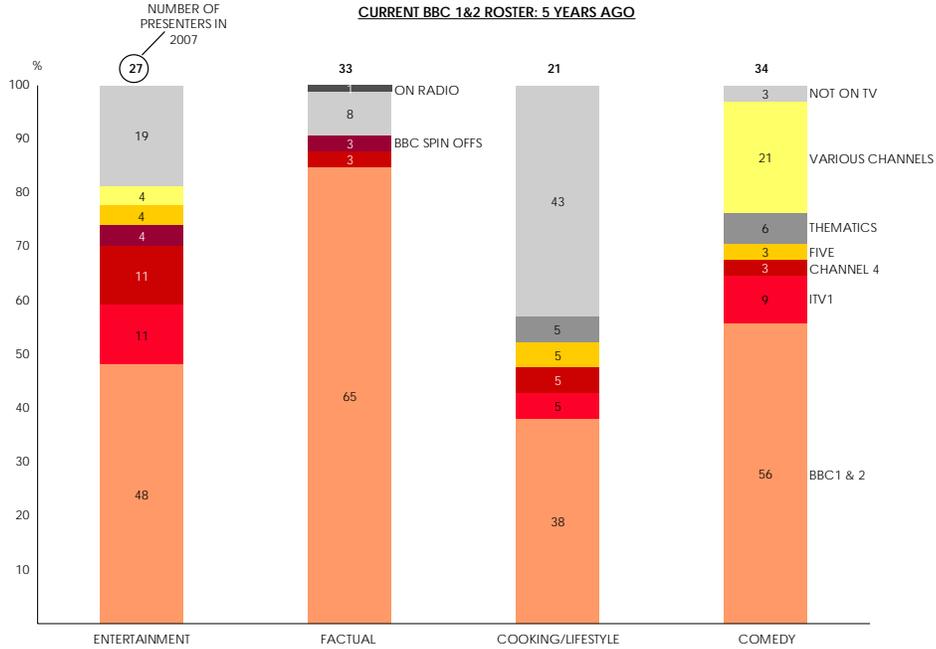
Figure D.13. shows where the current roster of 115 lead talent names across entertainment, factual, cooking/lifestyle and comedy on BBC 1 and BBC 2 were five years ago.

Half the entertainment presenters were not on BBC main network TV five years ago, of those about 40 per cent are new to TV, and 30 per cent from rival channels, with ITV and Channel 4 being of equal importance.

85 per cent of current factual presenters were working on the BBC networks five years ago, while almost half of the cookery/lifestyle presenters were not on TV at all.

Across comedy, over half were on BBC1 and BBC 2 five years ago, with a fifth having had bit parts across a number of different channels.

**FIGURE D.13. – BBC MAIN NETWORKS CURRENT ROSTER OF TALENT BY GENRE – where they were five years ago?**



SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

***Nearly all of today's BBC presenters in entertainment, factual and comedy were working in TV ten years ago***

Overall, BBC network TV is not introducing a large number of new faces to TV, although it is doing a better job of developing people from thematic TV and bit parts across TV into regular presenters. The one exception to this is in cookery and lifestyle programming where of the BBC1 and BBC 2's 21 presenters, three quarters were not working in TV 10 years ago.

Many of the BBC's presenters in this area have moved on to other channels across UK TV. See Figure D.14.

***This analysis may understate the role of the BBC spin off channels in developing talent and in providing presenters/performer outside the four genres assessed***

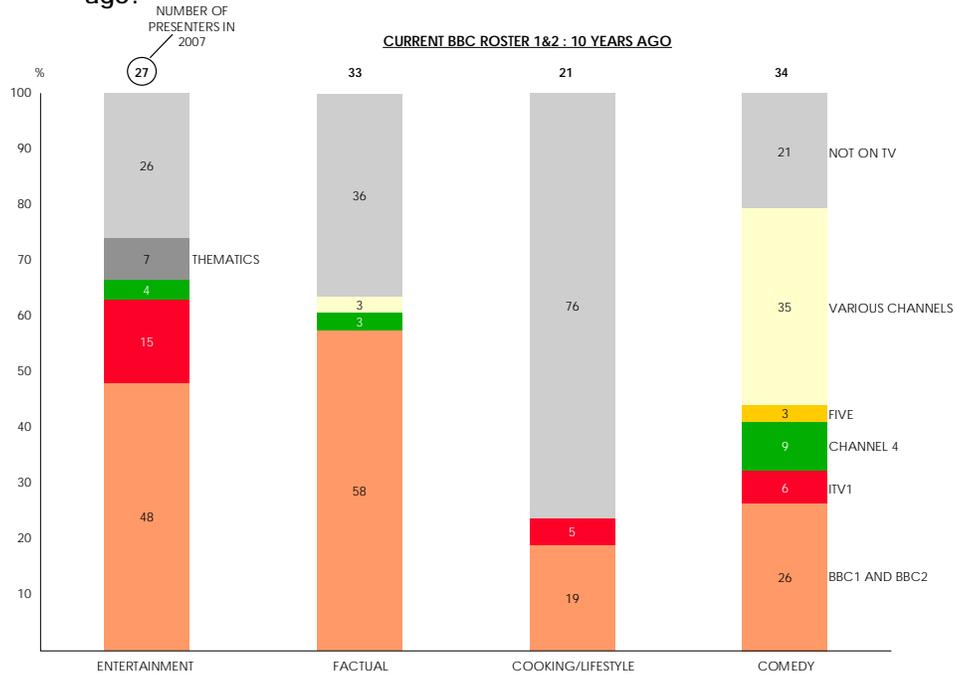
While the BBC's spin off channels are not necessarily the source of large numbers of new top presenters/performers, they have nevertheless been the source of important lead presenters/performers. The BBC cites Ruth Jones, James Corden, Peter Capaldi, George Lamb, Chris Addison and Sinead Moynihan as presenter/performers who have moved from BBC3/BBC4 roles to the main networks.

The analysis also does not measure the role the channels might have in giving existing presenters from the BBC main networks or rival channels, the chance to move into new areas or progress their careers.

*The analysis may not capture all those presenters source from BBC network radio and nations and regions TV and radio*

Although the analysis tried to capture whether named talent had previously been on BBC network radio it was more difficult to do this than with TV, and it was not always able to capture whether a presenter/performer had previously been working in BBC regional or local TV and radio.

**FIGURE D.14. – BBC MAIN NETWORK CURRENT ROSTER OF TALENT BY GENRE – where they were 10 years ago?**



SOURCE: IMDB, SPOTLIGHT, O&O ANALYSIS

### 3. The Interface with BBC Worldwide

#### a. The Commercial Spin Off Value and Exploitation of BBC Actors and Musicians

*Programming can be exploited in secondary and ancillary markets in the UK and overseas*

BBC programming can be resold to commercial thematic TV channels in the UK, sold to overseas channels and exploited on DVD in the UK and overseas. Increasingly programming or clips within the programmes can be exploited through the internet and on demand TV platforms commercially.

Some programme brands and characters can be exploited as licensed merchandise – children’s and sci fi, or tied-in magazine and book titles (lifestyle and cookery).

Total gross secondary and ancillary revenues directly related to UK TV programming titles are estimated to be approximately £1 billion, but much of this is taken by retailers, wholesalers and distributors. TV programme makers end up with about £350m of this total £1 billion.<sup>43</sup>

***Comedy, some factual and drama tend to have the greater secondary and ancillary values***

Of the main TV genre comedy tends to generate the most DVD sales (especially in the UK), drama the most overseas TV sales and factual programming – especially landmark factual, lifestyle/makeover and cookery – tends to make the most tied in publishing revenue. Children’s and sci-fi drama earn the most from merchandising.

***There are standard minimum royalty terms agreed with actors and musicians unions, but leading actors and musicians negotiate their own terms***

Minimum standard industry agreements give actors and musicians in the programme 15 to 20 per cent of net sales (normally defined as the income to the distributor rather than the retailer), with the revenue being shared out among actors and musicians usually in line with the relative size of their original appearance fees.<sup>44</sup>

Leading actors and musicians will be on their own negotiated arrangements, giving them much higher percentages than this, and sometimes based on gross rather than net revenue.

***Some named BBC actors and musicians can earn more in royalties in a given year than in fees, and therefore the full value of involvement in certain BBC programming is much greater than the initial fee would suggest***

O&O analysis of some BBC returns suggests that in any given year even current leading actors and musicians on the BBC’s TV screens can earn more from their on-going royalty payments than their current fees.

**b. The Involvement of BBC Worldwide**

BBC Worldwide is a wholly-owned subsidiary of the BBC with the primary objective of acquiring and exploiting the intellectual property created by the BBC’s Public Service activities. BBC Worldwide has the first option to invest in secondary rights generated by the BBC’s Public Service activities. While there are opportunities for BBC productions to partner with other commercial exploiters, most BBC in-house output is exploited by Worldwide.

BBC Worldwide or other distributor also bid to exploit independent producer programming on the BBC and other channels. BBC Worldwide has made exploitation deals for specific rights windows – DVDs, UK secondary sales, with a number of leading independents, for both programming made in the BBC and other channels. It is by far the largest distributor of programming related intellectual property in the UK, and in generally

---

<sup>43</sup> Based on a previous report by O&O for PACT – TV Content in the On Demand Age - 2006

<sup>44</sup> This can be subject to a minimum fee level no matter who the talent is, which can make programmes with large casts expensive to clear.

regarded as the only UK distributor with the scale and scope to rival the large US studio based distribution houses such as Disney and Warner (who benefit from the combined pull of their TV and movie portfolios).

The distributor sometimes makes up front investments in programmes in return for the exploitation rights in the form of a guarantee, or as a co-producer, and in some cases this investment can be tied to named talent (e.g. where a famous TV or film actor might help international sales).

[X.....  
.....  
.....X]

[X.....  
.....  
.....  
.....X]

#### 4. The BBC's Talent Negotiation and Approvals Processes

##### a. The Talent Spending Control Processes

*The BBC's talent spending control system operates at four levels*

Over the last 3 to 4 years the BBC has put in place more specific talent spending control mechanisms to help manage down the high inflation experienced from 2001/02 to 2003/04.

First, control of overall programming "tariffs" with a targeted 15 per cent reduction in average prices/costs per hour over the 2006/07 to 2008/09 period is helping to control spending on all programming areas.

Second, business affairs teams now advise programme makers and commissioners on the appropriate fees to pay and then lead negotiations on their behalf utilizing their knowledge of benchmark payments and drawing upon cross BBC experience.

Third, the largest deals are always referred to BBC investment/finance committees for further scrutiny and approval within an overall BBC strategy. Deals of £1m up to £3m in total, over the term of the contract, are referred automatically to the Business Investment Group (BIG) within BBC Vision for example, while deals of £3m or more (£2m in Audio and Music) go to the Director General's Finance Committee (DGFC).

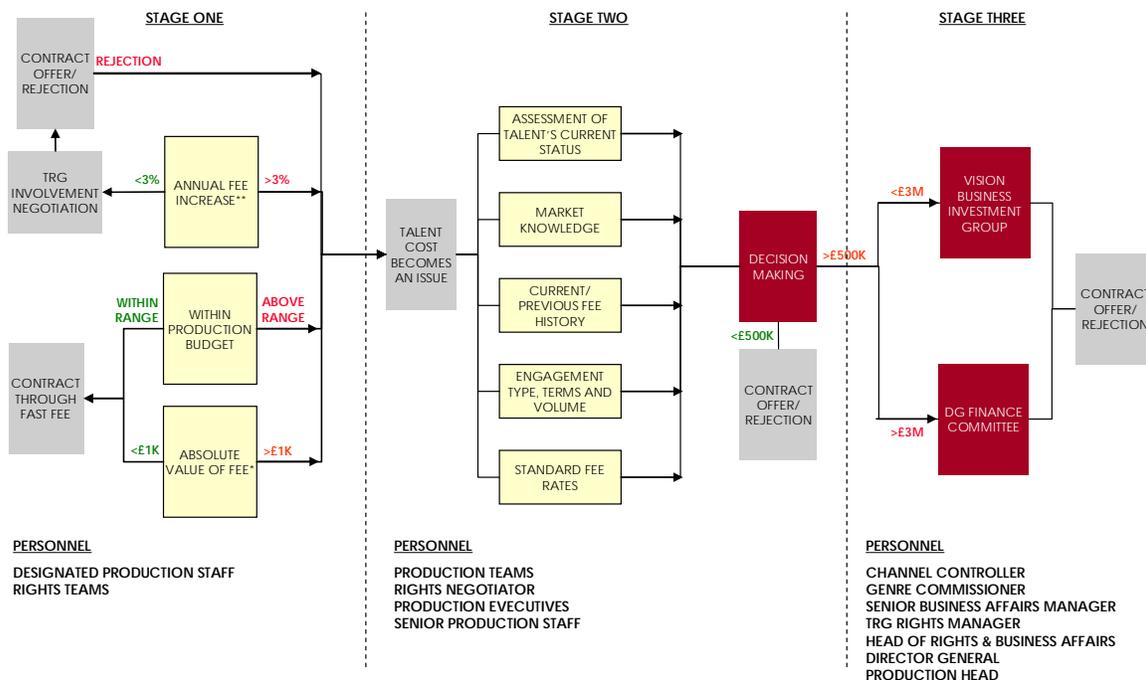
Fourth, all deals for returning strands – or existing talent in new strands - that involve a potential inflation in talent fees of more than 3 per cent are referred to the Head of Talent Rights Group for further scrutiny and approval/rejection.

Submissions to the Talent Rights Group, BIG and DGFC are required to assess the case for an increase with a review of the importance of the talent to the programme and the BBC (often using AI data, and sometimes specifically commissioned research), cost per viewer hour comparisons with programmes of a similar sub-genre scheduled in a similar slot, any market intelligence on the likelihood of a competitive bid for that talent etc.

Business affairs personnel work with the relevant producers and commissioners to compile these assessment forms.

Figure D.15. outlines the BBC's processes for talent fee review within BBC Vision. There are similar processes in BBC Audio and Music and BBC News which are outlined in Appendix VI.

FIGURE D.15. – BBC TALENT FEE REFERRALS PROCESS



\* THESE ARE TYPICALLY STANDARDISED PAYMENTS TO PANEILLISTS, MUSICIANS OR PRESENTERS. ANYTHING BELOW £1K IS DEALT WITH BY PRODUCTION TEAMS USING THE 'FAST FEE SERVICE'

\*\* TYPICALLY THIS PROCESS FOLLOWED FOR RENEWING MID RANGE, HIGH LEVEL & LONG TERM CONTRACTS

NOTE: FOR BBC SPORT THE THRESHOLD IS A 2% INCREASE AND PERSONNEL WILL VARY I.E. EARLIER DIRECTOR/CONTROLLER INVOLVEMENT

*The vast majority of BBC talent fee payments are for less than £1,000 across over 200,000 individual contracts*

Given the large number of small contracts involved, it is not surprising that the BBC operates a system of exception assessment like the one outlined in the chart. It also seems to mirror the way the commercial broadcasters handle a similar task.

### b. The Outcomes of Talent Rights Group Referrals – Beginning September 2005 to End March 2007

*A total of 86 cases were referred to the Talent Rights Group in the 18 month period up to the end of March 2007*

O&O asked to review all the cases that came through the talent rights group over the last 18 months (most cases were referred on the basis of the talent seeking more than 3 per cent increase) so that we could review the actual outcomes, the reasons put forward for the increase, the benchmark data used to assess value for money etc, and the main genres and activities pitching for more than the 3 per cent increases.

There were 86 cases over the 18 month period.

**[Fig D16 Redacted]**

*The majority of cases were for presenters rather than actors/performers and covered entertainment, factual programming and radio*

About [%] per cent of the cases were for presenters rather than actors/performers and the largest source of claims were from entertainment, then factual followed by radio and comedy. See Figure D.16.

*The outturn simple average inflation on those deals approved by the Talent Rights Group was [%] per cent.*

Analysis of the actual fees agreed on these 86 cases suggested that in only [%] per cent of cases was the case either rejected or settled at [%] per cent. In well over half the cases the settlement was over [%] per cent.

The simple average of all cases (O&O knows the percentage increase agreed but not the actual value of the deal, so we could not weight the average), was [X] per cent. Even allowing for the fact that some of the larger percentage increases may have been for low absolute fee deals, it suggests that agreed increases were [X] per cent.

***The main reasons cited for the increases were “growth in status”, “relativity” and “key talent vital to the programme”. Returning successful series inflation and potential competitive poaching were cited much less often.***

Perhaps most interestingly, the main reasons put forward for increases (most cases had at least two reasons) were based on internal relativities in the BBC, or an increase in status of the talent (both factors somewhat in the control of the BBC), competitor interest and 2<sup>nd</sup> and 3<sup>rd</sup> series inflation (the usual practice of offering a higher fee once the programme has proven itself) were a far lower proportion of the reasons cited.

This information conflicted slightly with BBC interviews which tended to suggest [X... ..X] were the main forces behind lead talent inflation.

***This kind of ex post analysis of TRG cases is not standard practice***

O&O specifically requested this analysis from TRG, and it took some time to pull together, as it is not routinely conducted. TRG decisions give the appropriate business affairs executive the remit to go up to an agreed level of offer, but data on the actual offer concluded is not routinely collected.

### **c. How Does the BBC Assess Value for Money from Talent Deals?**

***O&O has seen several sample cases that went to either to the Talent Rights Group (TRG) or the Director General's Finance Committee (DGFC)***

In addition to the information on the outcome of the 86 cases, O&O also reviewed in detail how the TRG, BIG and DGFC approval processes worked. This gave us an insight into the information provided to support a case (the BBC has standard forms requiring support information to be provided).

***The issue of value for money benchmarks was also covered in each of the BBC Interviews***

O&O also covered the type of information used to assess a fee rate increase in each of our BBC interviews. These interviews combined with access to the specific material which we had sight of, gave us a good feel for the benchmark information provided.

***While the BBC uses a number of criteria, it places heavy emphasis on cost per viewer hour and cost per listener hour comparisons – especially for the largest deals***

The BBC tends to use information on:

- similar rates paid to similar talent in the BBC, (and sometimes rates paid by the BBC to other clients of the talent agent across different categories);

- market intelligence on whether there is any interest from rivals and on the types of fees paid by rivals for similar talent in similar types of programming;

cost per listener or viewer hour comparisons with the sub-genre and genre average and/or slot average and given sample strands (total programme costs per viewer hour and/or talent costs per viewer hour); and,

sometimes AI information (the Appreciation Index survey information asks a question about the presenter's contribution to the level of viewer enjoyment of the programme).

Of all the measures, cost per viewer or listener hour benchmarks seem to be the most widely used, especially in the larger deals where there are few if any relevant other benchmarks.

***Some O&O observations on the information provided***

Cost per viewer hour and listener hour benchmark comparisons cited in the examples shown to O&O are seldom exhaustive or comprehensive and the benchmarks selected are not always consistent. Sometimes the slot average benchmark is used, sometimes the sub-genre average, sometimes the channel average across a broader time slot.

Cost per viewer and listener hour data is often related to the total costs of the programme, which can clearly be influenced by spending on other programme characteristics. In short, one can pay a lot for talent on a cheap programme format and still look cost effective on this basis.

Estimates of competitor offers are based on specific intelligence, BBC executives' previous career experience and sometimes talent agent's claims, not on full commercial valuations (See Section E for our methodology on commercial value).

[X.....  
.....  
.....X]

[X.....  
.....X]

***Does the BBC regularly assess the market impact of its talent strategy?***

The BBC does not tend to assess the market impact of its talent policies and payments in any formal or systematic way.

In terms of its contribution as a talent supplier or developer, it does occasionally produce reports on the development of new talent, but it does not, for example, formally assess its introduction of new talent by channel and genre, nor where its talent goes to, or comes from. (O&O conducted its own analysis quoted earlier in this section).

In terms of the impact of any given fee – especially higher end fees – on general market pricing and the re-setting of industry benchmarks, we could find no systematic assessment of this. While there was analysis of the market's impact on the BBC, there was no specific analysis of the BBC's impact on the market.

## E. ASSESSMENT OF VALUE FOR MONEY AND MARKET IMPACT

### 1. Is the BBC Getting Value for Money ?

#### a. The Quantitative Assessments

The BBC carried out two main quantitative assessments of value for money. The first was through a radio sector benchmarking study conducted jointly by the BBC and the Radio Centre (representing commercial radio). An outline of the Radio Benchmarking methodology is in Appendix IV.

The second was a commercial valuation exercise where we combined what ITV and Channel 4 had told us about the way they assess the prices to be offered to top talent with the results of our Value Survey to provide an estimated incremental gross profit from named talent and likely commercial price. This assessment was applied to 13 top TV talent names in the BBC where O&O knew current BBC fee rates per hour and this rate was then compared with the likely commercial "auction" value.

This technique was also applied to top radio names, but with less success, as no commercial network can currently yield the national exposure and audience reach of the leading BBC networks even if that talent left the BBC and came to the commercial sector. A summary of indexed commercial valuations and the ratio of BBC payments to expected commercial value are contained in Appendix VII.

The results of these quantitative assessments are set out below.

#### i. Formal Benchmarking Review – radio

The main focus of the review was to compare fee rates per hour across BBC and commercial national, London, regional and local services (mostly within drive time and breakfast shows) and to then compare these to audience reach to obtain some measure of cost per listener hour. The study also looked at increases in rates paid over the 3 years up to 2006/07 at the BBC and commercial radio.<sup>45</sup>

#### *There are clearly two quite separate markets*

The distribution pattern of payments summarised in Figure.E.1. suggests two separate market levels in terms of talent fees per hour. National and leading London station breakfast show fee rates are well above those of the rest of the market [X].....  
.....  
.....X]

Even within national stations, however, there is a higher level of variation with index rates per hour (where the market average is 100), ranging from 60 to over 400.

In general, breakfast time presenters get paid more than drive time within any given type of radio (although this effect is less marked at the BBC than in commercial radio) which correlates with radio listening levels at these times of day.

---

<sup>45</sup> These trends are prior to the recent Audio and Music talent strategy that is targeting significant reductions in annual talent spending.

[Fig E1 Redacted]

*Higher payments to national stations are generally correlated with high audience reach*

As Figure E.2. suggests, breakfast or drive time strands with an index of talent cost per hour of well over 100, were also the stations with weekly audience reach of over 5 million which tends to yield low relative cost per listener hour. [X.....  
.....  
.....X]

[Fig E2 Redacted]

*BBC average rates across its breakfast shows at its national stations have been increasing over the last three years while those in the same slots in national and London commercial radio have been declining*

Figure E.3. shows quite a large decline in the fee rates per hour (indexed to 2004/05) in national and London commercial radio breakfast time shows – with a fall of almost [X] per cent - while at the same time the BBC’s average rates on its national stations have increased by [X] per cent. <sup>46</sup>

---

<sup>46</sup> Commercial radio fees are inclusive of any audience related bonus payments so in part this decline in fees paid across London commercial radio is probably reflecting the fragmentation of the London audience across its main commercial stations.

[Fig E3 Redacted]

## ii. Commercial Valuation of Lead Talent

*O&O carried out its own commercial valuations of some key BBC TV talent based on the cost-benefit methodology outlined by ITV and Channel 4 executives, the O&O Value Survey and market information on appropriate advertising rates and gross profit margins*

The O&O value survey was used to isolate the likely increase in audience attributable to named talent in the survey (in terms of the net number of people who would be likely to switch away from the programme if the presenter/performer were replaced).

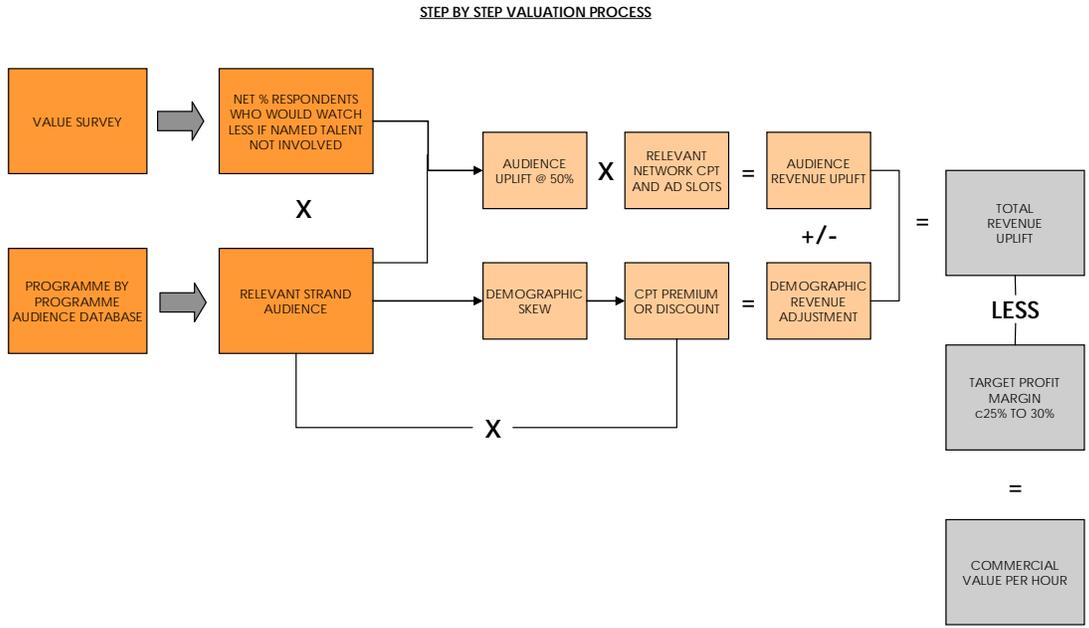
A commercial value was then placed on this audience by using relevant commercial network advertising prices (costs per thousands) and making adjustments based on the demographic appeal of the named talent.

A target profit margin of 25 to 30 per cent was then placed on the incremental revenue, and the resulting net revenue was used as a proxy for the commercial value of the named talent. Figure E.4. outlines the process described in more detail in Appendix VII.

Commercial values were obtained for most of the 115 named TV presenters in the O&O Value Survey (an index of each comparative commercial value to the top valued named star is contained in Appendix VI).

We then compared the commercial values with the actual prices paid for 13 of the 55 BBC lead talent names in the survey where we had details of their actual payment per hour in given strands.

FIGURE E.4. – COMMERCIAL VALUATION METHODOLOGY



*These valuations suggested that taken as a whole there was no evidence that the BBC was paying above market prices for leading talent where commercial TV might be competing, and in fact, in some cases the BBC was paying significantly less*

As Figure E.5. shows, taken as a whole the results suggest that the BBC is not systematically overpaying for its lead talent, with a spread of results showing higher BBC payments than the commercial value, lower payments than the commercial value and some about the same.

[Fig E5 Redacted]

*Overall it was the talent working in more heavily public service genres at the BBC who might be paid more than their commercial market value, while those in more potentially commercially orientated entertainment programming who were paid less.*

Of the [X] BBC payments that seem to be above commercial value, [X].....  
.....X]. All [X] of these areas could be ones where market price is not the only factor in setting fees to the named talent.

[X].....  
.....  
.....]

Interestingly in this valuation process, it is talent from the entertainment sub-genre which is likely to be paid less than market rate, perhaps suggesting this talent believes it is better for their careers and image to stay with the BBC rather than to switch to the commercial sector.

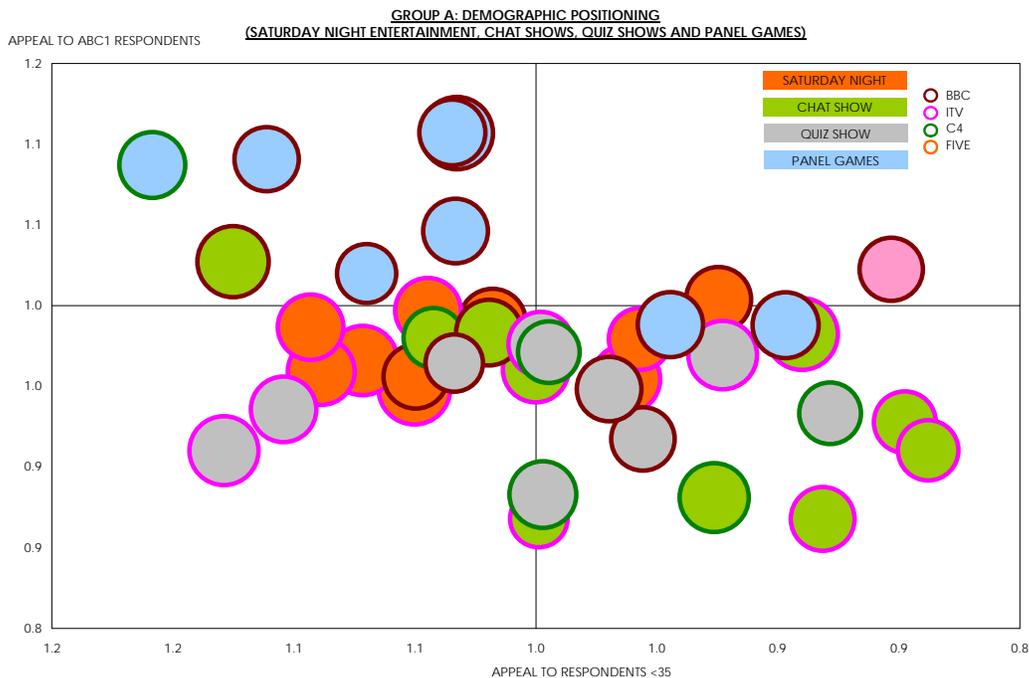
*The O&O Value Survey results confirmed large potential variation in audience pulling abilities even among top presenters*

[X].....  
.....  
.....X]



[Fig E7 has been partially redacted]

FIGURE E.7. – DEMOGRAPHIC APPEAL OF NAMED TALENT – value survey – entertainment sub-genres



SOURCE: O&O VALUE SURVEY AND ANALYSIS

*The commercial valuation approach was applied to radio but certain adjustments have to be made to get sensible results*

Appendix VII has some commercial valuation results for BBC radio talent. While many of the BBC's leading names clearly have a lot of listener pulling power, determining a commercial value from the uplift in their national radio shows and applying a commercial advertising value to it may be unrealistic at the moment as commercial radio lacks the national outlets with which to pull in such large audiences.<sup>47</sup>

Conversely, applying the uplift to a London level of station audience might undervalue their commercial value. Over and above this any commercial values applied to commercial radio talent has to deal with the fact that they often lack a national radio profile and recognition and so might score artificially badly in the O&O Value Survey results.

However, the results are included in the Appendix for interest. The payment by BBC national radio was divided by five (representing the proportion of the population covered by London stations), and then compared with the commercial value of named BBC talent as if it worked on a leading London stations (by applying the surveyed audience uplift to typical leading commercial station audience ratings in London). In all but one cases, the commercial value was greater than the BBC payment when divided by five (and indeed would have been higher even if the BBC payment were divided

<sup>47</sup> The BBC has maintained that in the future commercial radio will network more shows across their local stations. If this happens, clearly this commercial valuation methodology will become much more relevant.

by just three – on the basis that the London radio market might account for approaching a third of all commercial radio revenue).

### **c. Comments from External Interviewees**

The main messages from the external interviews on the BBC and value for money were:

TV rivals and suppliers did not think the BBC systematically overpaid for TV talent; but;

in areas of significant commercial competition they thought there were issues as to whether the BBC should be competing, and perhaps instead it should be focusing on developing new talent;

some did feel that the increasing influence and power of independents may have added an extra amount of uplift to the market in some areas (although opinions were divided);

most felt there was an issue as to how the BBC set prices in areas where it was clearly the leading, if not the only, buyer;

they also felt the BBC might not be rigorous enough in churning out established BBC names who were past their best (as did some BBC executives);

and many suppliers of programming and talent felt that the BBC did not always leverage its bargaining position fully, especially in areas where it is the main buyer; and specifically,

the radio sector feels that the BBC is overpaying for its main talent as it is paying prices the commercial sector can not currently hope to match.

### **d. Implications of the Analysis and Interviews**

#### ***There are some areas that need further investigation in radio***

The radio benchmarking results confirm that BBC presenter rates at the very top end, while justified in part by their low cost per listener hour, are higher than those currently paid by national or local/regional commercial radio.

With commercial radio currently not paying the rates the BBC pays at the very top end, a question as to why the BBC is paying these rates arises. While analysis in Section C and Section D certainly suggests that the BBC can justify paying higher rates than the nearest commercial radio price for a number of reasons, the rationale for current payments by the BBC network needs more probing and this is indeed one of the recommendations of this review. The BBC believes that for these top talent, it is competing in a market wider than just radio.

The time trends in radio also suggest that while commercial radio has been reacting to low and negative income growth and reducing fees, the BBC still increased its fees per hour, although these trends are prior to the recent Audio and Music talent strategy that is targeting significant reductions in annual talent spending.

Even if the BBC has solid grounds to justify its payment differential with the commercial radio sector, it may be that the BBC was slow to adjust to the changing revenue fortunes of a commercial sector under significant pressure from the internet.

***The TV commercial valuation exercise confirms that there is an issue as to how the BBC sets rates in less competitive areas of programming***

While the overall conclusions of the commercial valuation is that there is no systematic evidence that the BBC is overpaying for talent, it confirms the analysis in Section C and D that suggested what the BBC pays in less commercially competitive areas may be an issue worth more investigation which is a recommendation of this review initially in the areas of radio and news.

***The quantitative analysis suggests pricing in more competitive programming areas may be less of an issue, the real issue in this area is a strategic/editorial one – is it the BBC's role to compete for top talent in this area?***

The BBC does not seem to be overpaying for talent in the most commercially competitive areas, but the prices that need to be paid to secure their services are very high and rising. The issue here is one of the role of the BBC in these areas. Again this needs more probing by the BBC and is a recommendation of this review initially in the area of entertainment.

***There may be some additional areas of concern which we were unable to probe***

With no benchmarking survey in national or regional journalism, it was not possible to assess if current BBC rates for on-screen and on-air talent represent value for money. However, we note recent fee increases in national news journalism at the BBC at a time when journalists working in rival national TV news organizations do not appear (through our interviews) to be getting across the board pay increases.

## **2. Does the BBC Have the Right Control and Evaluation Processes?**

### **a. Observations on Spending Control and Evaluation Processes**

It is quite clear that the BBC has tightened up its procedures for assessing and controlling talent spend and this probably has helped bring down the general rate of inflation in fees in the last two to three years.

But this review has highlighted a number of issues to be addressed:

- current control procedures focus on existing talent rather than new talent;

- analysis of the causes of talent fee rate inflation is less systematic than one might expect (as is general knowledge as to the BBC's own recent performance among relevant management and genre heads);

- value for money benchmarks are not used in a systematic or consistent enough way;

- there may be insufficient internal challenge within the BBC review process;

control procedures can be reinforced significantly where a genre or activity head has a clear view of the role talent plays in their overall strategy and their appropriate response to market pressures; and,

more effort may be needed in active succession planning and in active monitoring of the BBC's talent nurturing and development performance.

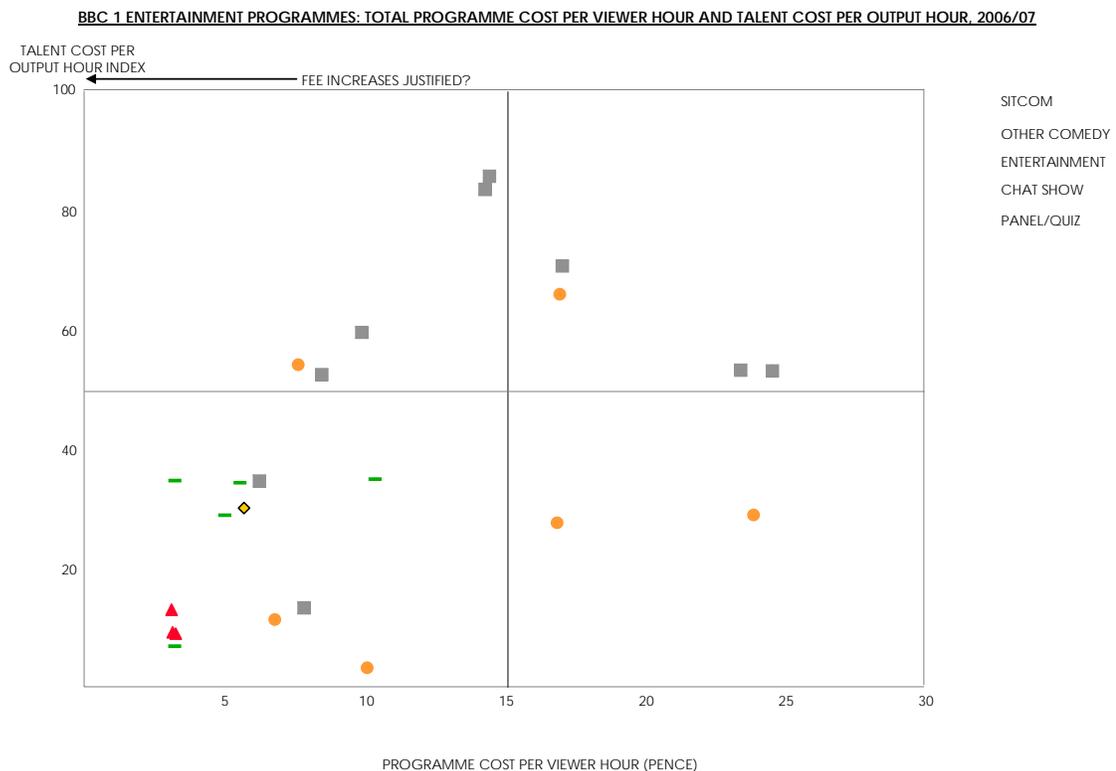
**b. Some Issues With the Use of Cost Per Viewer Hour Benchmarks**

A particular issue of concern highlighted by this review is the way in which cost per viewer hour and listener hour tend to be used, and the dangers of not using such benchmarks in a systematic way.

Figures E.8. and E.9. may serve to demonstrate the potential problem. Figure E.8. shows the cost per viewer hour of a number of BBC 1 in-house entertainment strands and an index of their talent costs per hour.

[Fig E8 has been partially redacted]

**FIGURE E.8. – COST PER VIEWER HOUR VERSUS TALENTS COSTS PER HOUR INDEX – BBC1 entertainment**



It also shows the average cost per viewer hours of the main entertainment sub-genres in peak time on BBC 1. A simplistic approach to cost per viewer hour benchmarking can lead to high talent fee inflation in all strands that are to the left of the average for their sub-genre on the basis that they would still represent good value for money compared to the average.

As each strand is awarded an uplift the average moves to the right justifying increases across more strands. A succession of individual case benchmarking – each justified against an existing cost per viewer (or listener hour) leads to a succession of fee rate increases.

Figure E.9. reviews the total programme cost per viewer hour and talent cost per hour figures (indexed to the genre average in each case) across 156 TV strands in BBC TV in 2006/07 (the strands for which we obtained detailed breakdowns of cost). It shows that about 25 per cent of the strands fall into a category of relatively high talent costs per hour for their genre, but also relatively low total cost per viewer hour for their genre. Further increases in talent fees for these strands could be justified by a cost per viewer hour benchmark analysis.

A further 78 strands, or half the total sample, have low talent costs and low total costs per viewer hour for their genre. Again inflation in fee rates could be justified by appeal to cost per viewer hour benchmarks.

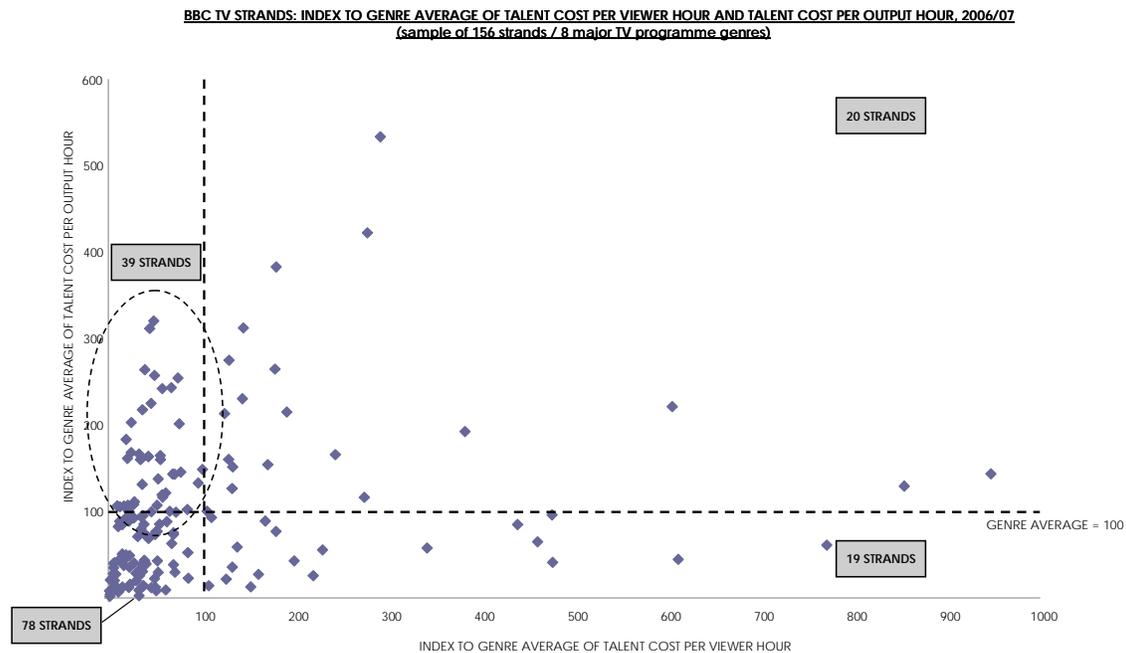
Clearly, the BBC does not only use the cost per viewer or listener hour benchmark to assess talent fee increases, and it often deploys a range of benchmarks, but there are dangers in an over reliance on cost per viewer hour and listener hour benchmarks, and the BBC needs to complement this analysis with other systematic analysis.

Most specifically, for larger fees and areas of intense competition the BBC should consider conducting a commercial valuation exercise (like that conducted by O&O for this review) in addition to the other benchmarks it uses.

For larger fees where there is little or no direct competition, the BBC may need to do a more thorough investigation of any unique value brought to the programme by the named talent versus replacements and a critical examination of the talent's alternatives and opportunity costs.

[Fig E9 has been partially redacted]

FIGURE E.9. – BBC TV STRANDS – index of talent cost hour and total cost per viewer hour



### 3. What Impact is the BBC Having on the UK Talent Market ?

#### a. Relative Revenue Growth and Inflation Rates

This review did not have sufficient data with which to track through when, and if, the BBC might have pushed up prices in the market. We can only make the observation that the BBC's highest recent inflation rates were at a time when the commercial sector went into recession. This might suggest that at the very least the BBC may have not reacted quickly enough to these changing market circumstances (in both commercial TV and commercial radio).

This period of high talent fee inflation in TV in recent years was also coincidental with the BBC's highest growth in licence fee revenue.

#### b. Specific Genre Issues – Entertainment

Much of the market analysis suggests that securing lead entertainment talent is now a three or four way competition in the UK TV market which is pushing up prices across all channels, not just the BBC.

But analysis of BBC talent sourcing in entertainment might suggest that the BBC may not have been helping its own position in this market place in recent years by relying too readily on established talent and not bringing new talent through to the main channels rapidly enough (something current talent strategy reviews are now addressing). This may have had a knock on effect on the whole market as the BBC was supplying less new

talent into the market while joining auctions for established talent, helping to exacerbate an inflationary trend.

### **c. Comments From External Interviewees**

The external interviewees confirmed that much of what is happening with TV talent inflation at the top level in the BBC is being driven by the market and is being experienced by the market (although TV broadcasters did not take part in inflation benchmarking, they did verbally confirm that fees at the top level were running significantly ahead of inflation).

But external interviewees in radio and TV did have a concern that the BBC might be allowing these pressures spill into areas of programming where the BBC was the leading buyer and that the BBC might not be playing as big a role as it should be in helping to bring down overall inflation levels at the top, by developing new talent and giving it access to the peak time schedules on BBC 1 and BBC 2.

In this regard, the impact of BBC 3 and BBC 4 was yet to prove itself and there was a concern felt by some external interviewees that the channels might become niche areas of experimentation, rather than areas contributing the next generation of peak time presenters and performers on the main networks.

## **F. RECOMMENDATIONS**

The review has three main areas of recommendation:

- improvement of information systems and evaluation procedures;
- process and pre-planning improvements; and,
- specific priority areas for on-going strategic reviews of talent across the BBC

Each of these is covered in turn below.

### **1. Improvement of Information Systems and Evaluation Procedures**

#### **Systematic Outturn Inflation Monitoring and Feedback**

While the BBC does measure inflation there seems to be very little knowledge as to performance by genre and sub genre across the BBC among relevant management.

The BBC needs to monitor both key trends in a more systematic way (it took 4 months to get all the information needed for this review, much of which needed to be built up specifically for the review).

#### **Strategic Level Rival Broadcaster and Talent Alternatives Intelligence**

BBC intelligence about rivals needs to go beyond specific deals and needs to include commercial valuations for the largest and most important deals. The BBC also needs to do more work on the real alternatives facing the talent asking for higher fees, especially in genres where there is no rival of significant scale.

#### **Use of Cost per Viewer/Listener Hour Versus Incremental/Unique Value**

The BBC needs to reduce its dependence on cost per viewer and listener hour benchmarks as justification for fee rates and needs instead to focus on the incremental and unique value the talent brings.

Where cost per viewer or per listener hour benchmarks are used they need to be used in a systematic way, not selectively to support a specific case.

#### **Continuous Presenter/Performer Value Research**

In some genre areas where competition is very intense or payments reach high levels, the BBC should engage in systematic and continuous consumer value research to support its succession planning programme so as to identify unique pulling power, commercial value and potential replacements.

## **2. Process and Pre-Planning Improvements**

### **a. Better Succession Planning**

The recent BBC rights and talent strategy initiative had highlighted a need for succession planning, this review endorses this and would suggest it made an ongoing requirement in areas of most intense competition and/or highest current fee rates.

### **b. More Internal Challenge**

While we understand business affairs staff do question fee rate increases and challenge BBC producers and commissioners (and that there are mechanisms for BBC finance staff to further interrogate decisions), there is probably not enough independent challenge when decisions are finally made.

In particular, we would recommend the commissioning of new independent research and analysis outside of the normal review processes as part of decisions on significant levels of fee payments. This independent analysis should be charged with taking a broader view of fee trends and fee setting criteria across a relevant sub-genre than the current case by case approval/evidence process.

This might include a genre wide consumer talent value survey like the one conducted for this review.

## **3. Specific Issues for the BBC's Strategic Reviews**

Some specific areas have emerged from this review that if not already addressed by ongoing strategic reviews should be covered as soon as possible.

### **a. Role and Positioning Review in Entertainment and Comedy**

The BBC might benefit from a specific review of its market positioning in the entertainment and comedy talent area, its success or otherwise in developing new talent and its current reliance, along with the rest of the TV market – on a limited number of lead presenters.

It should also review the role of presenter/lead panelist driven entertainment versus other approaches to entertainment.

### **b. Price Setting Reviews in Radio, and News and Current Affairs**

These are areas where the BBC is often setting rates without a leading competitor of scale for the kind of talent the BBC uses (i.e. rivals may be interested in one or two of the BBC roster but not much beyond that).

The BBC should both specifically monitor the changing market context in these areas and assess whether there might be scope for resetting rates across the board given a thorough assessment of the real alternatives available to talent and the BBC's long term objectives.



## **APPENDICES**

**I THE O&O VALUE SURVEY METHODOLOGY AND OBJECTIVES**

**II TALENT TRACKING**

**III BBC TRENDS ANALYSIS**

**IV RADIO SECTOR BENCHMARKING**

**V LIST OF INTERVIEWEES**

**VI BBC PROCESS MAPPING CHARTS**

**VII COMMERCIAL VALUATION METHODOLOGY AND FINDINGS (Partially Redacted)**

**VIII THE REGRESSION ANALYSIS**

**IX UK TALENT IN THE USA**

**X GLOBAL CONTEXT TRENDS**

**XI MAJOR TALENT MOVES – 2000 to 2008**

**XII ALL CHARTS FOR THE REPORT (IN LARGE FORMAT, POWERPOINT) (Partially Redacted)**