

Updated costs: Project Canvas

In November 2008 the BBC Executive submitted details of proposals to form a joint venture partnership to deliver internet protocol television (IPTV), which included information on costs. This note provides revised estimates of the cost of BBC participation based on revised assumptions as following:

1. Planned launch delayed to late 2010 (from 2009) – this means Canvas does not benefit from marketing synergies with the launch of Freeview HD in 2009.
2. More detailed costs information being available - drawing on additional data made available by new partners; information gathered through industry benchmarking exercises and the benefits of greater planning certainty.
3. The likely increase in the number of partners – this would enable the BBC to seek to maintain the previously committed level of costs, despite an increase in total costs.

In the original application, the BBC also modelled the potential further efficiency of including Freesat within the Canvas JV, subject to further regulatory approval. For clarity, this efficiency is not reflected within these revised numbers.

Revised estimates for the total costs of Canvas are set out below for the period to launch and for four years after. With the anticipated number of partners likely to increase from four to at least six, the total cost to the BBC over this period is projected at £16.4m, compared with £16.6m in the previous model¹.

These figures remain subject to further review in light of the approval timetable, any changes arising from conditions attached to the approval and ongoing modelling work by all parties, including any new venture participants.

£m	Period to launch	Year 1	Year 2	Year 3	Year 4	Total
Overheads	2.1	2.6	2.4	2.4	2.5	11.9
Marketing	3.2	15.5	11.2	9.4	9.2	48.4
Technology	12.6	6.1	3.4	4.0	4.2	30.3
Operations	1.9	3.9	4.3	4.0	3.6	17.6
Product Management	1.0	0.5	0.5	0.5	0.5	3.1
UX Design	1.3	0.8	0.7	0.7	0.7	4.2
Total Cost	22.0	29.4	22.5	21.0	20.7	115.6
Cost recovery	0	-2.8	-4.0	-4.9	-5.3	-17.0
Balance	22.0	26.6	18.5	16.1	15.5	98.6
BBC cost with 6 partners	3.7	4.4	3.1	2.7	2.6	16.4
BBC cost with 4 partners	5.5	6.7	4.6	4.0	3.9	24.7

¹ At the point of the application, the BBC was one of three publically committed partners (BBC, BT, ITV) and modelled costs in the expectations of four partners at launch. The BBC is now one of four publically committed partners (adding commercial PSB Five) and anticipates that it will be one of at least six by launch, subject to approval. See also revised governance proposals published by the BBC Trust.

A note on cost categories:

- Overheads include accommodation and staff costs.
- Marketing includes brand development, production of advertising and marketing materials and media spend.
- Technology costs include specification development, any licensing costs and back-end (platform) build.
- Operation costs include customer support and platform operation costs.
- Product management includes cost of product definition and commercial requirements.
- UX design includes up front user interface design.

The table also includes a modest cost recovery line which comprises anticipated income from listings and or the integration of services (following the model for linear channels for Freesat) and licensing of the Canvas brand, for example to ISPs that wish to publicise the tariffs that meet the Canvas minimum quality standard.

In addition to these costs the BBC has already invested £715,140 in work to develop the application in the period July 2008 to August 2009. This is in addition to investment as part of the BBC's ongoing research and development work to inform specification development, which is now being shared with the industry as part of the Digital TV Group's work on 'Connected TV.'