



ICM

MARCH 2017

CONTEMPORARY STRATEGIC MANAGEMENT – PRE-ISSUED CASE STUDY & GUIDELINES

The following provides details on a case study involving **SKY UK Limited**. Candidates should read this case study carefully in preparation for the examination.

Note: A copy of this case study will be available in the examination. Therefore, you will NOT be allowed to take this case study into the examination room. Candidates are allowed to take into the examination a maximum of two pages/four sides A4 of draft working notes which should be handed in and attached to the answer script.

DRAFT WORKING NOTES GUIDANCE [15 marks] – to be handed in with answer script.

Researching, preparing and understanding the case study and compiling these notes provides the essential case preparation necessary for all candidates to be successful.

The draft working notes (maximum of two pages/four sides A4) should be handed in and attached to the answer script. They should be word-processed (min. word size 12 pt) and contain key headings and areas relating to the strategic analysis of **Sky UK Limited** and should provide the analysis underpinning required to answer the examination questions.

The notes will be assessed as follows:

- Evidence of a good level of secondary research and understanding of the case [5 marks]
- Outline of FOUR strategic models relevant to the case analysis [5 marks]
- Report structure, readability and legibility [5 marks]

N.B. Whilst it is hoped that all, or most, information required to analyse and evaluate this case study is contained in the case, it is recognised that this might not always be the situation as information relating to most companies is sometimes changing on a daily basis. It is suggested that secondary information (facts, figures, etc.) contained in this case should be utilised first. If the student still considers there is an absence of information in a particular area then it is quite reasonable for material external to the case to be gathered and utilised. External sources mentioned in the report should, of course, be referenced.



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CASE STUDY – SKY UK LIMITED

INTRODUCTION

Sky UK Limited (formerly British Sky Broadcasting and BSkyB) is a telecommunications company which serves the United Kingdom. Sky provides television and broadband internet services and fixed line telephone services to consumers and businesses in the United Kingdom. It is the UK's largest pay-TV broadcaster with 11 million customers as of 2016. It was the UK's most popular digital TV service until it was overtaken by Freeview in April 2007. Its corporate headquarters are based in Isleworth.

Formed in November 1990 by the equal merger of Sky Television and British Satellite Broadcasting, BSkyB became the UK's largest digital subscription television company. Following BSkyB's 2014 acquisition of Sky Italia and a majority 90.04% interest in Sky Deutschland in November 2014, its holding company British Sky Broadcasting Group plc changed its name to Sky plc. The United Kingdom operations also changed the company name from British Sky Broadcasting Limited to Sky UK Limited. Sky UK Limited is a wholly owned subsidiary of Sky plc, with its current company directors being Andrew Griffith and Christopher Taylor. Griffith acts as the Chief Financial Officer (CFO) and the Managing Director for the commercial businesses division.

HISTORY AND BACKGROUND

The present service can trace its heritage back to 1989, when BSkyB's predecessors Sky Television plc and British Satellite Broadcasting encrypted their respective film channels – Sky Movies and The Movie Channel which required viewers to get decoding equipment and a subscription to watch the channels. After the two companies merged, subscribers could get access to both channels, and later the sports channel Sky Sports also became encrypted. It was its joint venture with the football industry which led to the almost logarithmic growth of both Sky and Premier League football. Business analysts argue that neither would have been anything like as successful without the other.

Premier League football: In the autumn of 1991, talks were held for the broadcast rights for the Premier League for a five-year period, from the 1992 season ITV were the current rights holders, and fought hard to retain the new rights. ITV had increased its offer from £18m to £34m per year to keep control of the rights. BSkyB joined forces with the BBC to make a counter bid. The BBC was given the highlights of most of the matches while BSkyB paying £304m for the Premier League rights gave them a monopoly of all live matches of up to 60 per year from the 1992 season. Murdoch described sport as a “battering ram” for pay-television, providing a strong customer base. A few weeks after the deal, ITV went to the High Court to get an injunction as it believed their bid details had been leaked before the decision was taken. ITV also asked the Office of Fair Trading to investigate since it believed Rupert Murdoch's media empire via its newspapers had influenced the deal. A few days later neither action took effect, ITV believed BSkyB was telephoned and informed of its £262m bid, and the Premier League advised BSkyB to increase its counter bid. BSkyB retained the rights paying £670m 1997–2001 deal, but was challenged by On Digital for the rights from 2001-2004, thus were forced to £1.1 billion which gave them 66 live games a year.

Following a lengthy legal battle with the European Commission, which deemed the exclusivity of the rights to be against the interests of competition and the consumer, BSkyB's monopoly came to an end from the 2007–2008 season. In May 2006, the Irish broadcaster Setanta Sports was awarded two of the six Premier League packages that the English FA offered to broadcasters. Sky picked up the remaining four for £1.3bn. In February 2015, Sky bid £4.2bn for a package of 120 Premier League games across the three seasons from 2016. This represented an increase of 70% on the previous contract and was said to be £1bn more than the company had expected to pay. The move has been followed by staff cuts, increased subscription prices (including 9% in Sky's family package) and the dropping of the 3D channel.

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Sky Multi-channels: In September 1993, BSkyB launched Sky Multi-channels which was the present digital platform's analogue predecessor. Sky Multi-channels was a subscription package that gave access not only to Sky's own channels but also those of third party broadcasters. Within two months of the launch, BSkyB gained 400,000 new subscribers, with the majority taking at least one premium channel as well, which helped BSkyB reach 3.5 million households by mid-1994. Michael Grade criticised the operations in front of the Select Committee on National Heritage, mainly for the lack of original programming on many of the new channels.

Launch of Sky Digital: BSkyB's digital service was officially launched in October 1998 under the name Sky Digital, although small-scale tests were carried out before then. At this time the use of the Sky Digital brand made an important distinction between the new service and Sky's analogue services. Key selling points were the improvement in picture and sound quality, increased number of channels and an interactive service branded Open... now called Sky Active. Within 30 days, over 100,000 digiboxes had been sold, which helped bolster BSkyB's decision to give away free digiboxes and mini-dishes from May 1999. In addition to most channels from the Sky Multi-channels package, Sky Digital launched with several new channels that were exclusive to the digital offer.

The switch-over from analogue to digital proceeded relatively quickly. In 1998, there were 6 million 'multi-channel' TV homes in the UK (i.e. homes that watch television other than the traditional analogue terrestrial), and over half of these homes watched television using BSkyB's analogue service. BSkyB's digital service surpassed the analogue service in terms of subscribers in late 1999. By June 2000 the service had 3.6 million subscribers, which gave BSkyB 9 million subscribers across all platforms. This substantial growth reflected BSkyB's 34% share of viewers in multi-channel homes (up from 13.4% from 1999). BSkyB's analogue service ended in October 2001, and the digital service would eventually be marketed as just 'Sky'. By June 2005, the number of digital subscribers increased to 7.8m, while it produced 38,375 hours of sport in 2005.

BSkyB's direct-to-home satellite service became available in 10 million homes in 2010, Europe's first pay-TV platform to achieve that milestone. Confirming it had reached its target, the broadcaster said its reach into 36% of households in the UK represented an audience of more than 25m people. The target was first announced in August 2004, since then an additional 2.4m customers had subscribed to BSkyB's direct-to-home service. Media commentators had debated whether the figure could be reached as the growth in subscriber numbers elsewhere in Europe flattened. The *Daily Mail* newspaper reported in 2012 that the UK government's benefits agency was checking claimants' "Sky TV bills to establish if a woman in receipt of benefits as a single mother is wrongly claiming to be living alone" – as, it claimed, subscription to sports channels would betray a man's presence in the household.

OPERATIONS AND SERVICES

Digital terrestrial television: BSkyB initially faced competition from the ONdigital digital terrestrial television service (later renamed ITV Digital). ITV Digital failed for numerous reasons, including, but not limited to numerous administrative and technical failures, nervous investors after a large down-turn in the advertising market and the dot com crash, and BSkyB's aggressive marketing and domination of premium sporting rights. In February 2007, BSkyB announced its intention to replace its three free-to-air digital terrestrial channels with four subscription channels. It was proposed that these channels would offer a range of content from the BSkyB portfolio including sport (including English Premier League Football), films, entertainment and news. The announcement came a day after Setanta Sports confirmed that it would launch in March as a subscription service on the digital terrestrial platform, and on the same day that NTL's services re-branded as Virgin Media.

Video on demand: BSkyB is facing increased competition from telecommunications providers delivering pay television services over existing telephone lines using ADSL. Such providers are potentially able to offer "triple-play" or "quad-play" packages combining land-line telephone, broadband Internet, mobile telephone and pay television services. In early 2012, BSkyB released an update to its Sky Anytime service. This update offers customers the chance to buy and rent films from the Sky Store. September 2012 saw BSkyB relaunch its "Anytime+" on-demand-via-broadband service as "On Demand" as the BBC's iPlayer joined the line-up of channels offering catch-up TV on the company's Sky+HD box – linked to a router, the signal from which was recorded before viewing. The BBC was making the preceding week's programmes available alongside ITV, Channel 4's All 4, Channel 5 and the partly BBC Worldwide-owned UKTV, as well as BSkyB's own channels.

Broadband: BSkyB announced plans in March 2013 to buy O2's and Be's broadband services from Telefónica for £180 million up front plus another £20 million once customers have been transferred. Telefónica said the deal would allow it to concentrate on providing better mobile services, including rolling out 4G. BSkyB offers superfast broadband using ADSL2+ technology and fibre-optic, which are provided by BT Openreach.

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PRODUCTS

Digibox: The first photos of a prototype Sky HD receiver began appearing in magazines in August 2005. BSkyB launched HDTV services in May 2006. All Sky+ HD receivers incorporate a version of Sky+ using a 300GB, 500GB, or 1TB hard drive (of which 160GB, 250GB or 500GB are available to the user) to accommodate the necessary extra data. Originally Sky launched with a set top box known as the Sky digibox, using the Slogans “*What do you want to watch?*”, “*Entertainment your way*” and the current slogan “*Believe in Better*”. In more recent years the Sky+ and Sky+ HD boxes have launched alongside the original box. Sky+ is a digital video recorder with an internal hard drive which allows viewers to ‘pause live television’ (by switching from a live feed to a paused real-time recording that can be restarted at any point) and schedule programs to record in the future.

Personal video recorder: BSkyB initially charged additional subscription fees for using a Sky+ PVR with their service; waiving the charge for subscribers whose package included two or more premium channels. This changed as from 1 July 2007, and now customers that have Sky+ and subscribe to any BSkyB subscription package get Sky+ included at no extra charge. Customers that do not subscribe to BSkyB’s channels can still pay a monthly fee to enable Sky+ functions. In January 2010 BSkyB discontinued the Sky+ Box, limited the standard Sky Box to Multi-room upgrade only and started to issue the Sky+HD Box as standard, thus giving all new subscribers the functions of Sky+. In February 2011 BSkyB discontinued the non-HD variant of its Multi-room box, offering a smaller version of the SkyHD box without Sky+ functionality. In September 2007, Sky launched a new TV advertising campaign targeting Sky+ at women. As of 31 March 2008, Sky had 3,393,000 Sky+ users.

High definition and 3D: BSkyB launched its HDTV service, Sky+ HD, on 22 May 2006. Prior to its launch, BSkyB claimed that 40,000 people had registered to receive the HD service. In the week before the launch, rumours started to surface that BSkyB was having supply issues with its set top box (STB) from manufacturer Thomson. On Thursday 18 May 2006, and continuing through the weekend before launch, people were reporting that BSkyB had either cancelled or rescheduled its installation. Finally, the BBC reported that 17,000 customers had yet to receive the service due to failed deliveries. On 31 March 2012, Sky announced the total number of homes with Sky+HD was 4,222,000. BSkyB began to broadcast programmes in 3D in April 2010. This included new 3D channels, including a Sky Sports 3D and Sky Movies 3D.

Television Channels: There are numerous Sky channels under the segments of Entertainment, News, Sports, Movies, Documentaries, Kids, and Adult and extra segments come on stream at regular intervals providing customers armchair viewing over a diverse range of areas.

MARKETING

Sky (formerly marketed as Sky Digital) is the brand name for Sky plc’s United Kingdom digital satellite television and radio service, which is operated by British Sky Broadcasting Limited. Slogans Sky have used for marketing include “*What do you want to watch?*”, “*Entertainment your way*” and the current slogan “*Believe in Better*”. Sky has also aired several advertisements featuring characters from Minions, Inside Out and The Secret Life of Pets.

BROADCASTING

Transmission: When Sky Digital was launched in 1998 the new service used the Astra 2A satellite which was located at the 28.2°E orbital position, unlike the analogue service which was broadcast from 19.2°E. This was subsequently followed by more Astra satellites as well as Eutelsat’s Eurobird 1 (now Eutelsat 33C) at 28.5°E, enabling the company to launch a new all-digital service, Sky, with the potential to carry hundreds of television and radio channels. The old position was shared with broadcasters from several European countries, while the new position at 28.5°E came to be used almost exclusively for channels that broadcast to the United Kingdom. New Astra satellites joined the position in 2000 and 2001, and the number of channels available to customers increased accordingly. This trend continued with the launch of Eurobird 1 (now Eutelsat 33C) in 2001. Additionally, some channels occasionally received new numbering. However, in early 2006, the majority of channels received new numbering, with some receiving single digit changes, whilst others received new numbers entirely. It was the country’s most popular digital TV service until it was overtaken by Freeview in April 2007.

Digital satellite receivers: BSkyB utilises the VideoGuard pay-TV scrambling system owned by NDS, a Cisco Systems company. There are tight controls over use of VideoGuard decoders; they are not available as stand-alone DVB CAMs (conditional-access modules). BSkyB has design authority over all digital satellite receivers capable of receiving their service. The receivers, though designed and built by different manufacturers, must conform to the same user interface look-and-feel as all the others. This extends to the Personal video recorder (PVR) offering (branded Sky+).

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Electronic programme guide: BSkyB maintains an electronic programme guide (EPG) which provides information about upcoming programmes and a list of channels. Channels available on Sky are assigned a three digit logical channel number which can be entered on a remote control to access the channel and determines in what order channels are listed. The EPG differs depending on the viewer's location due to limited regional availability of certain channels or conditions relating to their must-carry status. For example, this ensures that viewers get access to the correct BBC or ITV region or that S4C gets a prominent listing in Wales.

CRITICISM AND CONTROVERSIES

Political corruption: On 12 July 2011, former British Prime Minister, Gordon Brown claimed that BSkyB's majority owner – News Corporation attempted to affect government policy with regards to the BBC in pursuit of their own commercial interests (i.e. BSkyB). He went further, in a speech in Parliament on 13 July 2011, stating: "Mr James Murdoch, which included his cold assertion that profit not standards was what mattered in the media, underpinned an ever more aggressive News International and BSkyB agenda under his and Mrs Brooks' leadership that was brutal in its simplicity. Their aim was to cut the BBC licence fee, to force BBC online to charge for its content, for the BBC to sell off its commercial activities, to open up more national sporting events to bids from BSkyB and move them away from the BBC, to open up the cable and satellite infrastructure market, and to reduce the power of their regulator, Ofcom. I rejected those policies." As a result of the furore over phone hacking – including all main parties in the UK Parliament agreeing on a motion to block the bid and the deal being referred to the Competition Commission – the News Corporation takeover proposal for BSkyB was dropped on 13 July 2011. In light of the phone hacking revelations, the UK media regulator Ofcom took the decision on Friday 8 July to be kept informed of the phone hacking investigation and to launch a "fit and proper" test, as a result of BSkyB's majority News Corp ownership (part of its obligations under the UK Broadcasting Act), in order to remain "satisfied that any person (which will include controlling directors and shareholders) holding a broadcasting licence remains fit and proper to hold those licences."

On 20 September 2012, BSkyB was found "fit and proper" to retain a licence to broadcast by the British Office of Communications (Ofcom). Ofcom stated in its report that "Ofcom's duty to be satisfied that a licensee is fit and proper is ongoing. Should further relevant evidence become available in the future, Ofcom would need to consider that evidence in order to fulfil its duty."

Virgin Media dispute: Virgin Media (re-branded in 2007 from *NTL:Telewest*) started to offer a high-definition television (HDTV) capable set top box, although from 30 November 2006 until 30 July 2009 it only carried one linear HD channel, BBC HD, after the conclusion of the ITV HD trial. Virgin Media has claimed that other HD channels were "locked up" or otherwise withheld from their platform, although Virgin Media did in fact have an option to carry Channel 4 HD in the future. Nonetheless, the linear channels were not offered, Virgin Media instead concentrating on its Video On-Demand service to carry a modest selection of HD content. Virgin Media has nevertheless made a number of statements over the years, suggesting that more linear HD channels are on the way.

In 2007, BSkyB and Virgin Media became involved in a dispute over the carriage of Sky channels on cable TV. The failure to renew the existing carriage agreements negotiated with NTL and Telewest resulted in Virgin Media removing the basic channels from the network on 1 March 2007. Virgin Media claimed that BSkyB had substantially increased the asking price for the channels, a claim which BSkyB denied, on the basis that their new deal offered "substantially more value" by including HD channels and Video On Demand content which was not previously carried by cable. In response, BSkyB ran a number of TV, radio and print advertisements claiming that Virgin Media 'doubted the value' of the channels concerned, at first urging Virgin Media customers to call their cable operator to show their support for Sky, and later urging Virgin Media customers to migrate to Sky to continue receiving the channels. The broadcasting regulator Ofcom subsequently found these commercials in breach of their code.

The availability (at an extra charge) of BSkyB's premium sport and movie services was not affected by the dispute, and Sky Sports 3 was offered as a replacement to Sky 1 on many Virgin Media packages. This impasse continued for twenty-one months, with both companies initiating High Court proceedings. Amongst Virgin Media's claims to the court (denied by BSkyB) were that BSkyB had unfairly reduced the amount which it paid to VMTV for the carriage of Virgin Media's own channels on satellite.

News Corporation takeover bid 2010: As part of News Corporation – which has a large ownership of the UK newspaper market – BSkyB was highlighted as part of media ownership concerns in September 2010 by Claire Enders – founder of media consultancy Enders Analysis – when she wrote to Vince Cable, UK Business Secretary, in a 20-page letter stating that News Corporation’s bid for the 60.9% of BSkyB they don’t own would dilute media plurality and exercise “too much political influence”. She also stated any such shareholder arrangement would represent a “Berlusconi moment” for the UK”, referring to Italy’s concentration of media ownership.

This was followed by the same argument from the *Financial Times* in an editorial, who stated “a merger would give Mr Murdoch unfettered power to direct its management and cash flows” and that, consequently, this would “lock out challengers and stifle the diversity of debate.” In October 2010, a group of media companies – accounting for a third of Fleet Street and the BBC – jointly wrote to Vince Cable, the Business Secretary, to lay out their reasons for the BSkyB share bid being a breach of media plurality. The BBC’s contribution to the letter was subsequently attacked in a (News International owned) *Times* editorial.

COMPETITION AND VERTICAL INTEGRATION

Ofcom complained that Sky’s plan to operate pay TV services on Freeview was “generating serious consumer detriment” and the National Consumer Council call Sky’s plan “bad news for consumers”, combined with representations from BT, Setanta, Top Up TV, and Virgin Media has caused Ofcom to launch an investigation into the “features of the [UK pay TV] market, including control over content, ownership of distribution platforms, retail subscriber bases and vertical integration.”

On 13 July 2011, MP Chris Bryant stated to the House of Commons, in the Parliamentary Debate on the Rupert Murdoch and News Corporation Bid for BSkyB that the company was anti-competitive:

“The company has lots of technological innovation that only a robust entrepreneur could bring to British society, but it has also often been profoundly anti-competitive. I believe that the bundling of channels so as to increase the profit and make it impossible for others to participate in the market is anti-competitive. I believe that the way in which the application programming interface – the operating system – has been used has been anti-competitive and that Sky has deliberately set about selling set-top boxes elsewhere, outside areas where they have proper rights. If one visits a flat in Spain where a British person lives, one finds that they mysteriously manage to have a Sky box there even though it is registered to a house in the United Kingdom.”

THE FUTURE OF THE COMPANY

The future of this high profile media corporation and its key players remains a little uncertain to say. As a result the Sky boardroom will need to fully consider all of the major players and other stakeholders involved to continually monitor the ever-changing external environment whilst building future strategy around the core competences, experience, innovation and technological skills that the company has built up over the two decades of success. It will not be easy as the adverse publicity attracted by the company, and Rupert Murdoch in particular, has not done them any favours in an industry where technological advances change the landscape and competition every day. Consumer tastes and brand loyalty are ever changing and fickle in a fast moving era of social media frenzy. Adverse publicity can be good and bad but needs to be harnessed in a positive and creative manner. History is littered with companies which courted the headlines for the wrong reasons and failed as a result. The future of Sky UK Ltd will almost certainly depend on senior management continuing to implement effective innovation strategies and so the strategic team at Sky must prepare a wide range of strategies for various future scenarios.

Reference Source: Wikipedia