

"Within an arm's reach of desire" Jeremy Darroch, Chief Executive, Sky Media Guardian Changing Media Summit 2012 21 March 2012

Introduction

Thank you Rory and good morning everyone.

I'm delighted to be here today and to have the opportunity to open this year's Changing Media summit.

It has become something of a truism in every industry to say that the pace of change is accelerating. Today, I want to talk not just about change, but more importantly about renewal.

Why the distinction? Well, it's clear to me that the most durable businesses stand out for their commitment to continuous improvement. They are the companies that constantly seek to adapt and change themselves so that they stay relevant tomorrow and into the future. And it is therefore renewal that is the positive outcome of effective change.

I would argue that Sky's story is a good example of constant renewal. It's certainly a story that began with a big, new idea. That was the simple, enduring premise that people would be willing to pay for a better quality TV experience.

But ever since then, it's been more of a story of continuous evolution. And that's because we've always known that to remain successful, we can't just stand still. To satisfy our existing customers and to attract more people to Sky, we need to keep moving forward and we need to keep improving what we offer.

The fundamentals

That means constantly doing two things:

- First of all, we have to carry on getting better on-screen, providing great content that's worth paying for;
- And then, we need to make it easy for our customers to access Sky content, easy to watch it when it suits them, and easy to get more value from their subscription.

That approach is what has driven our growth from a start-up to become the company that Sky is today:

- We are the UK's biggest investor in television content, supporting scores of independent producers, facilities providers and channel operators;
- We provide support and investment for British sport at all levels from the grassroots through to the elite;
- We employ more than 17,000 people directly and we support thousands more jobs indirectly;
- And we're the choice of around 40% of households, increasingly for home communications as well as for TV.

And just in case there's any doubt, I want to make it clear today that Sky is not about to start settling for the status quo. The world around us continues to change. And we understand that the greatest risk to our business is that we lose our own appetite for change.

We know that if we can combine a clear, consistent purpose with a commitment to perpetual improvement, we'll win with customers. If we win with customers, we'll succeed as a business. And if we succeed as a business, that will bring wider benefits well beyond.

So what I want to do today is to give you some examples of what we're going to be doing to keep improving.

Content worth paying for

Now, I said at the outset that one of the things we need to do is to provide great content that's worth paying for.

If you're a customer, the main reason why you join Sky is for a better choice of television.

As a business, we never forget that.

But we also know that to ensure customers stay with us, we have to keep getting better and to differentiate what we offer from what's available for free on TV and, increasingly, on the internet.

Building on our traditional strengths

When we started, it made sense for us to focus on the areas which were then relatively under-served – namely sport, movies and 24-hour news.

We talk about them as being our traditional strengths. And we are as committed to getting better in these areas today as we were 20 years ago.

Take sport for example.

Over the past 20 years, Sky Sports has set new standards in sports coverage and provided vital funding and support for a wide range of sports.

We now broadcast a total of 47,000 hours of sport every year, that's an increase of around a sixth since 2007. Over half of that coverage is in HD and a growing amount in 3D. And we continue to broaden the range of sports that we offer.

So while Sky Sports is highly renowned for the quality of its football coverage, we've developed a very strong position in other sports like cricket, golf, tennis, rugby union and rugby league.

And we know that most sports fans tend to be interested in a variety of different sports. The idea that a Sky Sports viewer is only interested in football, for example, is just plain wrong. To explain why, an average Premier League viewer watches around 50 hours of live Premier League coverage a year, but also watches more than 300 hours of other sports too. And by broadening our coverage, we're super serving our sports subscribers with the full range of sports that they love.

But very rarely do you get the opportunity to add an entirely new sport that appeals to a distinct audience. Well, Formula 1 does just that, which was why when we had the opportunity to bid for the rights, we jumped at it.

And what makes F1 special is that many of its fans aren't as passionate about other sports. Almost half have no real interest in football for example, while around one in six are so dedicated to F1 that it's the only sport that they follow.

The challenge for us is to encourage some of those fans to take a look at what we're doing with our F1 coverage and to take pay TV for the first time over the coming months and years.

To fuel their passion, we've launched a dedicated new channel – Sky Sports F1 HD – which allows us to cover the sport in greater depth than it's ever had before. We believe it's a big step forward for F1 fans – and we're looking forward to the rest of the season, following Jenson Button's win in Melbourne last weekend.

Entertainment as our fourth leg

Alongside our three traditional strengths, we're setting out to develop a new fourth leg of our content offering.

Our ambition here is very clear. We want to make our entertainment channels just as strong and appealing to people as our sports and movies channels are today. Of course, Sky 1, our flagship entertainment channel, has always been popular with viewers, largely as a result of big US hits like 24, Lost and the Simpsons. And Sky Arts has attracted lots of attention in recent years by filling a gap vacated by the public service broadcasters.

But we want take our entertainment offering to the next level so that we can bring even more value to our existing customers and create even more reasons for new customers to join Sky. And there are three ways that we're making that happen.

First, we've added strength and breadth to our channel line-up with the launch of Sky Living and Sky Atlantic, two new channels which complement our existing portfolio well.

In Sky Living, we have, for the first time, a channel brand which speaks directly to female viewers, and we see huge potential for development in the years ahead. Sky Atlantic has already established itself as the home of smart, high-quality entertainment. True to that promise, it's the only place to watch acclaimed shows like Boardwalk Empire and Game of Thrones. And we're particularly looking forward to the premiere of Mad Men season five exclusively on Sky Atlantic next week, just two days after it screens in the US.

After re-shaping the portfolio, we now have a much stronger and more cohesive line-up of channels. Each has got a distinct and complementary proposition, and together they offer something for everyone in the household.

Second, we're moving Sky Arts into the mainstream and we're making it bigger and better. Already, more than two million viewers tune in every month to see the very best of the arts from right across the spectrum. Now we are going to triple the Sky Arts programme budget so the channel can offer an even richer and more diverse range of programming. On screen, there's more outstanding talent working with us, like Sir Michael Parkinson, Lily Cole and Ronnie Wood. And off screen, through our Sky Arts Ignition series, we're supporting the creation of brand new arts projects – the first with Tate Liverpool – and we're offering bursaries to help kick-start the careers of young artists.

And third, right across our entertainment portfolio, we're increasing our commitment to high quality, home-grown content. Now, we know British programming resonates strongly with our customers so we've set about building our capability and credibility in this area over the last couple of years. In addition to strengthening our commissioning teams, this

has meant developing relationships with leading independent producers like Andy Harries and Ash Atalla, as well as working with some of the best British acting and writing talent – Ricky Gervais, James Corden and Ruth Jones, to name just a few.

I'm very encouraged by what our work in these three areas has achieved so far. We've seen an increase of 20% year on year in viewing to our entertainment channels. Sky 1 was named channel of the year for the first time at the recent Broadcast awards. And we are developing a growing roster of returning series, including A League of Their Own, Mad Dogs and Got to Dance.

I believe that we've already made a significant step forward with our entertainment offering. But we're only at the start and we're determined to keep raising our ambitions and to keep improving. So we'll be bringing more original programming, particularly in drama and comedy, to all of our entertainment channels over the next year.

Another area where we see real opportunity is in films. We've already invested millions in three feature-length productions with Sir David Attenborough. Now we intend to offer more of the best documentary makers the opportunity to make the films they want to make. At the same time, we will soon be green-lighting more feature-length films for Sky customers. And there will be more news on how we're going to do that very soon.

By 2014, we will be spending at least £600 million each and every year on UK commissioning and production. Just to put that figure into some perspective, our spend on British content will have increased by more than 50% over three years.

This is a significant undertaking for us and a demonstration of our commitment to the UK. If we can get it right, the results won't just be good for our business, but for our customers and for our creative industries as well.

Within an arm's reach of desire

Now, if the first part of our mission is to create content worth paying for, the second is to make it as easy as possible for people to access and enjoy that content.

There are parallels here with businesses that have achieved great longevity in other sectors. Coca-Cola is a particularly good example. In the early 1920s, its chairman, Robert Woodruff, set an objective to ensure Coke was always, as he put it, "within an arm's reach of desire". Well, that phrase continues to shape Coca-Cola's thinking today, and it's something that we can learn from too.

Our job is to make sure that our customers can watch what they want, when they want, where they want. The rapid growth of broadband connected devices means that there are now more ways than ever to do so. As well as a traditional TV set in the living room where the vast majority of viewing still happens, our customers can also watch on their PC, on their laptop, via their games console or on their tablet or smartphone. For us, this is a powerful way to enhance our service for customers.

What we're finding is that the more they watch, the more value they get from their Sky subscription. And of course, the more value they get, the more loyal they are.

A great example of this is with Sky Movies, which has never been easier to access. So as well as on our linear channels, you can watch on-demand on Sky Anytime+, where hundreds of the latest movies are available at the touch of a button. And movies subscribers can also watch on other devices through Sky Go, which is already being used over 10 million times each week. We expect to see habit and usage of these services continue to grow as more content is added and they're taken up by more customers.

Other platforms

By continuing to get better on-screen and to offer more value, we've been able to attract more new customers to Sky and persuade existing customers to take more from us.

To put that in context, five years ago, we had a base of just over 10 million subscription products. Today, that figure has increased by almost three-fold, across TV, HD and home communications. That's a step change in the scale of our business.

Alongside that growth, broadening our distribution through other platforms is an opportunity to reach even more people.

The positive response to the launch of Sky Go underlined the growing appetite for greater flexibility in how people watch TV. As the quality of the TV experience over broadband has improved, people have become more willing to consume content in different ways.

Now, this presents a great opportunity to distribute our programmes that wasn't there even a year or two ago. With the long-awaited explosion of connected devices now upon us, this opportunity is only going to grow. And it's something we believe is highly complementary to our existing service.

Today, we know that around 13 million homes don't yet take pay TV from any provider. So we can reach out to them and offer them another way to access and watch our content. And that's why later this year, we will launch a distinctive new, over-the-top internet TV service.

It will be available on a wide range of devices and offer instant access to a range of high quality Sky content, with no install and no contract. Starting with movies, it will soon expand to sport and entertainment as well. And customers will be able to pay monthly or rent a movie on a simple, pay as you go basis.

Importantly, we are today announcing that this new service will have an entirely new brand – NOW TV – to differentiate it from our existing Sky TV service.

The launch of a second brand is an exciting opportunity for us. And the rationale is very simple. Having two brands will allow us to meet the needs and preferences of different customer segments more effectively.

We'll offer two distinct ways to watch:

- the full, market-leading Sky service for the whole family, complete with the widest range of channels, high quality products like Sky+, HD and Sky Go, as well as the peace of mind of a monthly bill;
- or the flexible, more spontaneous, pay as you go service of NOW TV.

And because NOW TV will also be 'powered by Sky', customers will still know that it will give them the best, exclusive content and a high quality experience, all from a provider they can trust.

Either way, we believe we can offer even more customers a product that's just right for them.

Conclusion

So, any notion that Sky is still just a satellite broadcaster should well and truly have gone out of the window by now.

We've always been in the business of providing more choice, and constant renewal has always been at the heart of how we do it.

Today, we're getting better on-screen by developing our traditional strengths and building a new fourth leg of entertainment content.

And we're making it easier for our customers to consume our programmes with products like Anytime+ and Sky Go, as well as appealing to a new audience through NOW TV.

That will ensure that we offer great content worth paying for and make it easier for customers to access and watch that content in the way that suits them, all at a fantastic price.

And, in turn, that will allow us to build a bigger, more successful, more durable business.

This marks the next chapter in the Sky story.

And it's one we're very excited about.

Thank you.

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