



THE INSTITUTE OF DIRECTORS ANNUAL CONVENTION 2011

Jeremy Darroch, Chief Executive, BSkyB

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INNOVATION IS A MINDSET

INTRODUCTION

Good morning everyone and thank you Miles. It's great to be here with the IoD in its 108th year and particularly as the Annual Convention begins a new era in this new venue.

Across those 100 plus years, the IoD's membership has been at the centre of value creation in the UK. And the sustained success that your companies have achieved in every sector has, in turn, created real social benefit.

Employment for millions. Products and services that improve lives. Billions of pounds of tax revenue, funding the infrastructure on which our country depends.

And in today's challenging economic times, the positive role for business as the engine of future prosperity and growth has never been more important. That engine will be fuelled by the one thing I believe to be behind all sustained business success: innovation, my theme for today.

There are few words that are more widely used in business. And as with many well-worn words, it means many things to many people. So let me be clear upfront about what I mean by innovation.

I don't use the word as a synonym for advances in technology or exciting new products, although I hope we at Sky - with the likes of Sky+ and 3D TV - have been responsible for our fair share of those.

Ultimately, however, those are really just outputs. At its core, innovation is something much more fundamental.

Innovation is about change and renewal in the broadest sense. And, because the world around us doesn't stop changing, it is a prerequisite for durable, long-term success.

The most sustainable businesses aren't the ones that seek to preserve an existing advantage. They are those that constantly seek to adapt and renew themselves to stay relevant tomorrow and into the future.

When I look at the best, the most successful companies in the UK and beyond, it strikes me that a strong commitment to continuous change and improvement is one of the things that sets them apart. And of course the benefits of innovation by businesses are far-reaching and profound, delivering real progress for consumers, for our economy and for society as whole.

So over the next few minutes, I'd like to:

- talk some more about the way we think about innovation at Sky
- give a few examples of how that has worked in practice
- and discuss some ways to keep innovation at the top of the agenda – whether at Sky or anywhere else.

BELIEVE IN BETTER

At Sky, we've found that the most useful way of thinking about innovation is not as a process or as a department. It's as a mindset: an approach to business that starts with ideas and puts them into practice through an appetite for change and a willingness to embrace risk.

Looking through that lens, innovation really is as broad as the way we think. Those ideas, and that attitude, can come from anywhere in an organisation. And as a consequence, you can apply innovation to anything.

We try to apply that mindset right across our business, from what we put on screen to how we serve our customers. To help us foster that culture, there's a phrase that resonates powerfully inside our business and also features in our advertising: *Believe in Better*.

It's not some grand strategy or complicated ideology; it's shorthand for the approach that we aspire to. And actually, it's a very simple concept. It expresses how we look to improve what we do every day.

Importantly, *Believe in Better* is a phrase that every individual can apply to their own work and their own development, whatever they do. It gives everybody in the organisation, whatever their level, the right to say, "This isn't good enough; how can we improve it".

INNOVATION IN PRACTICE

That kind of attitude – one where the status quo is never good enough – has been critical to the story of our business. In fact, it's what Sky was founded on.

When we arrived on the scene back in 1989, satellite TV was in its infancy. But the really significant thing that Sky introduced to British television wasn't a new way of broadcasting to a metal dish on your roof.

It was something much more revolutionary: the idea of the paying customer. Today, in our consumer-led world, that doesn't sound particularly ground-breaking. But, at the time, it was quite unheard of.

Before 1989, TV was free, supported by advertising revenue or public funding, just as the terrestrial channels still are today. Now, that sounds pretty good, right? 'Free' is normally fairly attractive. But it was in exchange for a pretty limited offering. It's easy to forget these days, when you can watch whatever you like at the drop of a hat on your iPad, but back then there were just four channels.

In fact, so limited was space available for programming, that on one occasion only the first half of an England international football match was shown live, with the other half substituted for *Neighbours of all things!*

Sky's innovation turned the established model on its head. Suddenly, there was oxygen for new investment. And the idea of the paying customer put consumers at the front of the decision-making process, not at the back. Not exactly revolutionary, you might say. After all, this is surely what trade has been built on since time began.

Well, it was a big change for our sector. No-one here had ever tried to build a TV business on a subscription model, where success or failure depended on your ability to keep giving customers something they believed was really worth paying for.

So confident were the established broadcasters that it wouldn't work, that one of them took out a full page advert in the FT just to say so. And, in those early days, things often didn't look too good. At one point, the business was losing over £14 million a week. In fact, we nearly took our biggest shareholder, News Corporation, to the wall in the process.

But the team got their heads down and got on with the job. Their willingness to think beyond the existing boundaries of TV built the foundations of the business we see today. In the process they opened up a whole industry to more choice and competition – from which all consumers have benefited.

Since then, we've always tried to keep hold of that mindset – embracing change, taking risks and challenging the established way of doing things.

And we've taken some big steps to make sure we stay relevant: being first to move from analogue to fully digital broadcasts; giving customers more control with Sky+; and leading the way with high definition and now 3D TV.

The reason for all that activity was really quite simple. We knew we had to keep getting better for our customers. As a company whose success depends on the free choices exercised by consumers, we've always had a powerful incentive to keep improving.

We're acutely aware that customers have a choice and we are only a phone call away from a cancelled subscription. Believe me, that is one hell of a motivator.

Along the way, we've found that continuous change doesn't only help to keep existing customers satisfied. It also helps to unlock new pockets of demand from people who hadn't previously been persuaded to join us.

Let me give you a couple of recent examples of how we've tried to keep improving.

Firstly, on screen. A few years back, we noticed that huge numbers of people were spending time enjoying the arts in the UK, visiting museums, going to galleries and the like. We also saw that this cultural renaissance wasn't being matched on television, with arts programmes few and far between, and often shown in the dead of night.

At that time, our own arts credentials were limited to say the least. Definitely more Old Trafford than the Old Vic, you might say. But we saw that as an opportunity to broaden the range of television that we offer.

Today, we have four Sky Arts channels showing everything from Chekhov to Chuck Berry. Along the way, we've worked with Melvyn Bragg to resurrect the South Bank Awards. We've brought live theatre back to British television. And we've gone on the road to some of the country's best book festivals. Over 2 million viewers tune in to Sky Arts each month, and more and more customers are telling us they see the channels as a 'must-have'.

But, it's not just about great programmes. We also want to make the whole experience of television better.

One example of that is High Definition. We got into HD early because we saw that its pin-sharp pictures had the potential to become the new standard for quality. Three years after launch, we'd signed up around three quarters of a million customers. Not bad, but we wanted to go a lot faster and get our best product to many, many more people.

The problem was that, while customers told us they loved HD pictures and were prepared to pay an additional subscription, too many were put off by the idea of paying £200 for a new box as well. For HD to realise its potential, we needed to find a solution.

Innovation was the key to unlock that opportunity – a radical rethink of the way we worked.

The idea was to make our HD boxes much more affordable than we'd ever thought possible. That meant bringing in-house complete responsibility for box design, an entirely new capability for us. It meant driving manufacturing efficiency and improving reliability in order to reduce the total lifetime cost. And as a consequence we were able to offer the box to customers for free.

The response has been fantastic. Today more than 3.5 million customers enjoy our HD service and growth continues to be strong. That's brought real benefits to our business – more satisfied customers plus a profitable new revenue stream.

And there have been broader benefits too. We've created more than a thousand new jobs in our customer service and installation teams to meet that demand. And there are new opportunities for other companies in our sector as HD moves into the mainstream.

NURTURING THE INNOVATION MINDSET

These are two examples of how innovation has changed our business. But the real challenge is how to embed this approach throughout the organisation.

As we've grown, one of my greatest fears has been that we might start to think and behave like the incumbent rather than the challenger.

So we need to work out how to keep nurturing the mindset which has got us this far. It's of course work in progress – and we certainly don't have all the answers – but here are four things we've chosen to focus on and which work for us.

First, everything we do needs to start with the customer. It's easy, especially in big organisations, for people to become one step removed from the customer and start to prioritise other measures of success. A single-minded focus on customers helps to unite us around a common value-creating goal.

Second, make sure the team is always tuned into the external environment. Any business succeeds, not by operating in a bubble, but in the context of the environment it operates in.

We work in a fast-moving, highly competitive, increasingly globalised sector. In this world, complacency kills. So we never forget that we need to make our own products obsolete before someone else does. In short, it's not about the game in the office, it's about the game outside.

Third, make failure an acceptable part of the business. It may sound strange, but I'd go as far to say that if you're not failing sometimes, you're doing something wrong. After all, failure is often proof positive that that a company is pushing its boundaries hard and reaching into new areas.

It's also a crucial part of what allows us to make progress – whether as an organisation or as individuals. One of the best pieces of advice I ever received was that while success breeds confidence, failure breeds learning. You need to embrace both.

And I have to admit we've had our fair share of failures at Sky. For example, amongst our many innovations in sport was the bright idea of putting a camera in the head of a golf club. Unfortunately we found it induced motion sickness in viewers, that is if it didn't smash on impact, as they usually did.

Fourth and finally, get the whole organisation involved. A truly innovative organisation is making improvements, big and small, in how they do things everywhere in their business, every day of the week. And as part of our approach we're always trying to learn from others.

For example, over the last few years, we've been partners with British Cycling, who for me really epitomise this way of thinking. They call it 'the aggregation of marginal gains'. The bike-design people work to make tyres slightly thinner. The kit people make jerseys that retain slightly less sweat. They even take the riders' own pillows out to events, so they sleep better. Together, these kinds of small improvements added to up to eight Olympic golds in Beijing, with high hopes for more in London next year. It shows what you can do when you have an innovative organisation with people in every corner with antennae tuned to spotting improvements, and ready to share their ideas with others.

CONCLUSION

So those are four of the things that underpin the innovative mindset we're trying to foster at Sky:

- Making sure everything starts with the customer
- Staying tuned into the external environment
- Accepting failure as the necessary corollary to success, and
- Looking for small changes right across the organisation

I certainly don't claim that we've got it all right. We're still learning every day. But it's something we're committed to, because innovation is a crucial factor in future success for all businesses.

And it's never been more so. I'm sure that for everyone in this room competition gets fiercer every day, from home and abroad; the pace of change is ever increasing; and customers have more choice and are less loyal than ever before – you have to win their business anew every day.

And, as I said at the start, it's not just our individual businesses at stake – it's the huge benefit which the entire business community brings to our economy and society, through job creation, tax revenue and, of course, the provision of new and better products and services to consumers.

In short, a continuous process of change and renewal is the only way to create sustainable success for all of us.

Thank you.