

**FT DIGITAL MEDIA & BROADCASTING CONFERENCE**  
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**The Marriage of Content & Innovation**

**INTRODUCTION**

Thank you Richard and good morning.

My subject today is 'the marriage of content and innovation' - something at the heart of our business.

It is 'marriage' that is the key word here.

Individually, great content and great innovation are highly attractive to customers. But put them together and you have something that is greater even than the sum of the parts.

This combination has been a driving force behind Sky's growth over the last few years: keeping existing customers loyal; attracting new customers; and driving take-up of new products. It was fundamental to us passing the milestone of 10 million homes last year. And it will remain fundamental to our growth in the future.

**OUR MISSION**

Our mission is to provide the best possible entertainment experience. That means not just a better choice of television. It means constantly improving the whole experience of watching TV - both at home and, increasingly, on the move.

Of course delivering that experience means making choices and judgements every day. No business can do everything. Nor can any business necessarily be best at everything all the time. As a consequence, there are some principles that guide us and run consistently through our approach.

First, we never forget that we are a consumer business and that customers have a choice. So we walk to the drumbeat of our customers. Our motivation isn't about winning awards or having the best technology or seeking approval. It is about serving customers with a set of products and services which meet their needs better than anyone else.

Second, with nearly 40% of homes already choosing Sky, ours is a brand in the mainstream of UK life. That means our entertainment experience needs to anticipate and react to the needs of tens of millions of people. For us, products are most effective when they are simple and easy to use for everyone, not just a small minority. The runaway success of Sky+ is, I think, a great example of this.

And third, we are at our best when we execute at scale. Our customer reach and financial strength mean we can invest with real impact. It is difficult to imagine, for example, that high definition would have got established so quickly in the UK had we not made an early decision to push hard in that area and commit our organisation and capital to making it happen.

This is the approach we take to future priorities. And, applying those principles, we will continue to invest significantly in both content and innovation. Because bringing those two things together is how we best serve our customers.

So what does that mean in practice?

## **CONTENT WORTH PAYING FOR**

Let me start by putting our approach to programme investment in a long-term context.

As a company, we believe in the value of content. Our business was founded on the belief that viewers would respond to increased choice and would be prepared to pay for it. That still holds true today.

It's why we expect to spend more than £2 billion on-screen this year, two-thirds of which will be spent in the UK. In the last three financial years, that figure has grown by £300 million and we expect it to grow by at least another £300 million by June 2013.

Putting that in context, over that period we'll have grown our on-screen investment by more than Channel 4's annual programme budget. And, again, most of that extra money will flow to the UK.

We know people won't pay for what they can get for free elsewhere. So there's no point simply attempting to replicate the most popular parts of the terrestrial broadcasters' schedules. We need to offer something different, something customers really care about.

It can be content that the terrestrials don't offer, or that we can do better, or that people simply want more of. But it must be worth paying for.

That is what drove us to focus initially on sport, movies and news, all of which had been neglected by the free-to-air broadcasters. Those areas of content remain important and we will develop all of them even further, adding more sports coverage and taking Sky News onto more mobile devices for example.

We're unapologetic about investing heavily in these genres, despite the occasional criticism it attracts. Quite simply, they matter to customers and therefore they matter to us. And what we do here makes a broad and positive contribution, not just by expanding choice for customers but, for example, by helping fund investment in sport at all levels. It is good for life in the UK.

## **THE ENTERTAINMENT OPPORTUNITY**

To complement these strengths, we now intend to accelerate the development of our entertainment offering. While this is something that we've always offered, we plan to move it to an entirely different scale. That will take a combination of investment, focus and creative ambition.

The motivation is straightforward. We can bring more value to existing customers and reach out to more people who don't have Sky. Right now, those people may think they're well served by free-to-air TV, so we need to show them how much better TV can be. Just as we have always done with sport, news and movies.

To support our ambitions in entertainment, we have been developing our channel portfolio, including the launch of Sky Atlantic and the acquisition of Living. So as well as the opportunity and the motivation, we now have the tools to deliver a step change.

I have absolutely no doubt that 2011 will be our best year yet on-screen. Our intention is to show people that, whatever their passion, Sky has something new and surprising for them.

## **CELEBRATING THE ARTS**

Let me illustrate this with three examples of what we're doing in the arts, acquired content and UK production.

Sky Arts now reaches about 2 million viewers each month and does something unique in British television. In recent weeks, we've broadcast live opera from ENO, gone on the road at the Bath Literature Festival and brought back the South Bank Awards with Melvyn Bragg.

You could say the arts are a tailor-made opportunity for the subscription model. There's a hugely passionate audience who have been under-served because many of the programmes they like are deemed too niche for more mainstream channels.

That's not how it works for us. Because customer satisfaction is more important than daily ratings, we're not pushed to the safe centre ground of mass appeal.

And so Sky Arts offers dedicated programming every hour of the day: everything from Handel to Hendrix and Dante to Dan Brown. It's a great illustration of how we can fill gaps left by others and give customers something they really value.

## **A BENCHMARK FOR QUALITY**

Alongside the arts, perhaps our most high profile recent initiative has been the launch of Sky Atlantic - an entirely new channel in the UK. Sky Atlantic is underpinned by our partnership with HBO, which is justifiably celebrated for some of the best television ever made, such as *The Sopranos* and *The Wire*.

This type of uncompromising, intelligent content is highly valued by customers, but can find itself pushed to the margins of the schedules. Now, for the first time, there will be a dedicated home for those classics and for outstanding new HBO shows such as *Boardwalk Empire* and *Treme*, as well as *Mad Men* and others. All will be shown in prime time, and all in HD.

We think Sky Atlantic will be a real benchmark for quality. And I'm pleased to say that it's off to a great start, with more than 5 million viewers in its first week.

## **HOME-GROWN ENTERTAINMENT**

We're also making a significant push to bring more original UK programmes to Sky. We know that home-grown content resonates strongly with customers. And while there's plenty of great drama, for example, on terrestrial TV, you can never have enough of a good thing.

We've been developing our original drama for a few years now, starting with adaptations of well-known works from authors like Terry Pratchett and Martina Cole. And now we are stepping up that commitment, working with writers like Paul Abbott, the creator of *State of Play*, and actors

like Eddie Izzard, who is currently filming a new version of *Treasure Island* for us.

As well as Sky Atlantic, our relationship with HBO now extends into original production. I'm delighted that HBO has joined us in co-producing the second series of our action drama *Strikeback*. It will be bigger and better as a result and will reach audiences in the US as well as the UK.

Alongside all that, we will also launch a major UK comedy strand. This will begin to come through in 2011, with new series from the writers of *Gavin and Stacey* and *Shameless*. And there will be much more to follow in 2012.

Across the board, I don't think there has ever been a more exciting time for Sky content.

## **A BETTER WAY OF VIEWING**

But, on its own, that's not enough. Our mission is that the whole experience of television should be better with Sky. It's what customers have come to expect.

A large part of that has been about adding control and convenience to TV. Sky+, for example, makes your favourite programmes fit around your life, so you don't have to plan your life around TV. Best of all, it is blindingly simple to use, the hallmark of the precious few technology products which make the leap from gadget fans to mass market.

Our new on-demand service, Anytime+, builds on this by offering access to around 1,500 hours of content at no extra charge. For Sky Movies subscribers, this includes a constantly updated library of movies to enjoy whenever they want. All with the same simplicity and ease of use.

Beyond control and convenience, Sky has championed the introduction of HD to the UK. At a time when some in the industry were sceptical, we saw the opportunity and invested early.

Four years on, HD is seen as the new standard and has become our fastest-selling new TV product, far outstripping early demand for Sky+. It's already in over three and a half million homes and generates annualised revenue of around £350 million.

This experience reminds us that customers want a higher-quality viewing experience and are prepared to pay for it.

## **THE 3D JOURNEY**

Now, with the launch of our 3D TV channel, we're taking this approach a step further. It's important to stress these are very early days. We are right at the leading edge and learning fast, but 3D will inevitably take time to really take root.

There is something that makes 3D stand out from previous advances like Sky+ or HD. While they used technology to make things better, they didn't fundamentally change the content itself.

3D is different. It is a genuine fusion of content and technological innovation; one that requires us to create content in an entirely new way.

No one in the world is ahead of Sky in 3D. So it is a journey that means working with new partners and acquiring new skills, learning how to shoot sport, for example, in an entirely different way.

We're finding that 3D opens up new possibilities in the content we can offer. Sir David Attenborough had never worked with us before, but chose to come to Sky to make *Flying Monsters* because he felt that 3D would bring to life creatures that lived more than 70 million years ago. And I'm delighted that he'll be making a second 3D documentary for us later this year.

Sky is better placed than anyone to make 3D an important part of the future of television. We have the scale to invest in infrastructure, people and skills. But our greatest advantage is the capability to bring together both content production and technological innovation. That's what really puts us out in front.

## **BEYOND THE TV SET**

So far, I've talked only about the screen in your living room. But we see a great opportunity to connect customers to our content way beyond the main TV set.

Sky is already the UK's leading media provider on mobile devices, with five of our apps in Apple's all-time top 100. We stream our channels to 3G phones and offer on-demand content and linear channels through our online TV service, Sky Player.

We see access to content across multiple devices becoming increasingly important to consumers. Almost three million people watched video content on their mobile phone in December - up by 57% year on year. With the explosion in sales of smartphones and tablets, this trend is only going to accelerate.

As always, we're guided by customer needs - current or emerging - and we want them to get the TV they love wherever they happen to be. So later this year, we'll launch Sky Anywhere, a new service allowing customers to access our content on multiple devices inside and outside the home. You could use it to download the latest hit shows to watch on holiday or keep the kids entertained while you're stuck in traffic.

To further position Sky for the trend towards mobility, we've acquired the UK's leading public Wi Fi operator, The Cloud. So customers will have reliable and high-quality access to our content at thousands of locations around the country.

All of this will be simple to use and a great way to add value for customers.

Much of this activity is about adding mobility to what we do already. But here too we can bring together content and innovation to create something entirely new. Let's take Sky News as an example.

Currently, you can watch Sky News on the iPad. But essentially it lets you simply carry around the existing channel, without making the most of the iPad's functionality. So we've gone back to the drawing board to create something that fully exploits the opportunities offered by tablets.

The new Sky News app for iPad will be the first interactive live video news service. We see it as the third platform alongside TV and online, with a brand new content management system and a dedicated editorial team.

Unlike most other news apps, it will be constantly updated, giving access to the latest news when it happens. Users will be able to take control of the service and explore the stories they're interested in through a combination of interactive video and graphics. And, just like Sky+, it can even rewind if you miss the start of a live report or interview.

The new app launches later this month and we think it will offer an exciting new experience for customers.

## **CONCLUSION**

So, in conclusion, our mission to provide the best possible entertainment experience is not just about creating compelling programmes.

We are a consumer business, led by the needs of customers.

And our experience shows they respond most strongly to the marriage between content and innovation. A fusion which creates something that is better, more personal or more portable.

The approach that we're taking at Sky - investing in both content and innovation - is distinctive in the marketplace. And it is delivering results.

By constantly improving the whole experience of TV, we are adding more customers and selling more products.

Others may have strengths in programming or technology. But customers consider the whole experience and choose the brand they trust to bring it all together.

That is the basis of our success. And staying focused on customers is the best route to continued success in the future.

Thank you.