

ALVAREZ & MARSAL

THE BUSINESS OF MEDIA: NATIONAL IN AN INTERNATIONAL WORLD

"In a battle for scale, national broadcasters are often cast as collateral damage in a war between digital giants. But, with national broadcasters still dominating video viewing as well adopting the best of digital innovation, is a national model a keystone, rather than a millstone, for tomorrow's television winners?"

In November 2018, as part of Alvarez & Marsal's Business of Media series, Kate Bulkley led a panel discussion that asked how traditionally national broadcasters are changing to win in a digital age characterised by global, not national, business models.

The panellists, who all spoke 'behind closed doors' and in a personal capacity, were:

- **Anna Mallett**, COO of BBC Studios and Managing Director of BBC Studios Productions
- **Jane Millichip**, Managing Director of Sky Vision, Sky's production and distribution arm
- **Sarah Rose**, Chief Consumer and Strategy Officer, Channel 4
- **Will Lock**, international media executive, ex-SVP Eurosport Digital (Discovery)

For those who could not make it on the day, the event's host, Paul Naha-Biswas, and media commentator and journalist, Kate Bulkley, share some of the edited highlights below.

NATIONAL IN AN INTERNATIONAL WORLD: THRIVING IN THE DIGITAL AGE

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There is no question that national broadcasters are having to adapt to a changed media landscape. Escalating content creation costs, new competition for audiences from digital platform giants, and the need to innovate business models are all adding pressure. Globally, these factors are coming to a head in a battle between digital giants such as Netflix, Amazon and Apple and rapidly consolidating legacy players led by AT&T, Disney and Comcast.

But is this purely a game of superpowers slugging it out or, for our national broadcasters at least, a game of David and Goliath? According to our panel, the keys to success are not simply about getting bigger but about understanding your USPs, leveraging your relationship with audiences and figuring out how to innovate in a fast-changing world.

In the panel discussion several themes surfaced:

- **Distinctiveness** cuts through the global noise
- Scale and brand **balances risk**
- **Core** business models are **evolving** – not being replaced
- Everyone is **partnering**
- **You need new skills and ways of thinking**



Distinctiveness cuts through the global noises

To compete for both viewers and sales, national broadcasters have sought to increase access to capital, talent and authentic stories to create programmes that 'cut through the global noise'. In 2018, the BBC commercialised its production business and merged it with its distribution arm to create BBC Studios while Channel 4 decided to open a national HQ in Leeds and add two new creative hubs in UK cities outside London. Both are examples of **leaning into their Britishness**, an important USP in an increasingly competitive landscape.

"There is an existential shift in the marketplace," says Sarah Rose, Chief Consumer and Strategy Officer at Channel 4. "How we adapt to that is not just about scale, which we arguably have in the UK market, but it's about knowing who you are and what you are there for. For C4 it's all about our purpose and that is both representing British identity and reflecting ourselves back at ourselves. It's about innovation in how we communicate with and get out content to audiences, how we trade and how we form partnerships. If we don't innovate, we don't stand a chance."

Anna Mallett, COO of BBC Studios and Managing Director of BBC Studios Productions says the business that came out of the merger of BBC Production and BBC Worldwide is a "big small" player. "We are big enough to compete globally. But in the grand scheme of things with global, vertically integrated companies, we're not that big, so it's important to be distinctive. For us, that's about bold, British creativity." Following the merger of production with distribution, the new Studios is focused on a wider mix of content because it has clients beyond the BBC channels. "We've moved from one customer to many customers, from being a maker of predominantly returning programmes to now seeking a balanced portfolio, including new intellectual properties that we can exploit," said Mallett.

Scale and brand balances risk

For Sky, innovation has always been a part of its DNA and its new owner, Comcast, has so far made no indication that it will change how Sky does its business. Jane Millichip, MD of Sky Vision, said that the scale of being part of the company that own NBCUniversal could help Sky's programming in terms of ability to raise more funding. "Today we need to sell to three quarters of the world's TV markets to recover our deficit in our programmes," said Millichip. "So, you absolutely need to produce a hit every time. My main job is **managing creative and financial risk**."

For Channel 4, the fact that its government charter does not allow it to own IP means that the exploitation windows that it controls on the programming it commissions or acquires and the brand equity that it earns from these windows is even more important. "It's **fundamental that people associate the content on Channel 4 with us**," said Sarah Rose. "It's about having a relationship with our audience. Many companies that work with us like that because the content we create has a credibility and a packaging a sort of overall tone that they find valuable," explained Rose. However, she admits that some platforms don't see it that way. For example, when Netflix acquired the Charlie Brooker series Black Mirror which had been commissioned and grown on Channel 4, they labelled it a 'Netflix Original'.

Core business models are evolving – not being replaced?

"There is absolute scale which is only obtainable by a few very big companies and there is relative scale around a particular audience or genre or fan base," said Will Lock, former SVP at Eurosport Digital. "For many international media companies who have global reach, the focus has been on identifying **opportunities for relative scale plays** where there is head room and investing there."



Discovery paid a reported \$2bn for the rights outside of the USA to 2030 for the PGA Tour and are creating a direct-to-consumer service called Golf TV. "DTC is incredibly expensive especially if you are going after a general audience," said Lock. "I think that the next evolution in DTC is targeting a niche so you can build relative scale." But it's not simply about selling subscriptions to a digital video service, instead it's about all the things around the golf matches as well, like golf playing tips, golf travel programmes, learning to play golf, golf apparel and merchandise, too. "You want to get involved in the **whole share of wallet** that these fans spend," said Lock.

For Channel 4, the **digital monetization of non-linear on demand programming is more valuable per eyeball** because C4 is able to guarantee that "every eyeball is 100 per cent viewable, 100 per cent addressable," explained Sarah Rose. "This is contrary to the digital giants who clearly are growing digital revenues fast - and I bow before their CAGR - but we are putting advertising against premium content in a safe space that is brand checked. There is a distinct sell here that we share with ITV and Channel 5 and Sky and that is an important distinction in the VoD market."

Everyone is partnering

While there are partnerships developing among the commercial broadcasters in the UK around content sharing and data use, working with all the PSBs in the UK on a shared, single-sign-on subscription VoD platform to counter Netflix and other streaming players is proving more of a challenge particularly because the BBC has charted a solo course for its iPlayer. "**The market is always evolving,**" countered Anna Mallett. "It's Netflix and Amazon now and they are very important but who will it be in five years? Maybe one of the big Chinese players like Tencent who BBC Studios is working with now. So, I think there are other opportunities for growth."

Jane Millichip is **actively producing with Facebook and YouTube and it is also funding startups like Diagonal View, a producer of social media content.** "We are partnering with Diagonal to create lower cost television," said Millichip. "We are co-producing

a clip show that we are selling into traditional television as well. This kind of partnership is happening more and more even though it may not be seen in the headlines."

You need new skills and ways of thinking

BBC Studios has essentially moved from public service to a company that runs a P&L and has to deliver commercial efficiency and that has **changed the mindset of people** at both the top level down to the producers," says Anna Mallett. BBC Studios is also looking at enhancing how it does account management now that it is supplying broadcasters and platforms beyond the BBC. "Best in class account management and how to work with talent at all levels from new talent to established talent are things we are looking at very closely," she said.

At Channel 4, **hiring a data science team** that has a very different perspective on audiences and how to solve problems has been a game-changer, because they don't assess the problem in a traditional broadcaster mindset or in terms of BARB demographics. Using first-party data that is collected from C4's 18 million registered VOD users, they look at patterns and "build models to help us capitalize on the data," said Sarah Rose. "On a daily basis we see genuine consumption being driven not by a further investment in content or marketing but by a really clever use of algorithms."

The direct to consumer (DTC) business model is a completely new business, said Will Lock. It was a "big change" and **you have to hire new people because you need entirely new skills.** "Sky and others have built businesses that are DTC and this is in their DNA but most channel businesses are B2B, meaning this is all new," said Lock.

