ALL RESULTS DATA FOR JUDGES' EYES ONLY

Fortune Favours The Brave

How BT made the move from broadband provider to broadcaster

This paper explores a paradox of how a very expensive asset was made more valuable to a business because it was given away to the customer base for free.

It's a story set within the world of telco's and it starts in 2012. The four main brands battling it out for supremacy were (and still are) Sky, Virgin, BT and Talk Talk.

Without wanting to oversimplify things too much, the best way to win customer favour within the category is to provide a really good TV service. People are loyal to brands that provide good TV, are prepared to pay a premium for those brands and despite that price premium, believe those brands to provide better overall value for money. Customers also bestow emotional value on those brands who provide this.

ALL RESULTS DATA FOR JUDGES' EYES ONLY

Sky provide the best TV service of all and the Gfk table below from January 2013 shows how their customer advocacy, satisfaction, value for money and customer effort scores were far better than BT who languished in 3rd place. BT was seen as a slightly old-fashioned company with a heritage in cables (the dull stuff) , where-as Sky were contemporary and modern, with all the cool and excitement of TV.

		Advocacy	Satisfaction	Dissatisfaction	Value for Money	Customer Effort
1	sky	51%	60%	6%	47%	40%
2	Virgin media	40%	54%	8%	50%	36%
3	BT	32%	54%	7%	44%	24%
	TalkTalk	29%	49%	10%	53%	20%

Source: GfK CAT Feb-12-Jan-13 (BT Customers 6544-8224; Sky Customers 6862-8303; Virgin Customers 5390-6420; TalkTalk Customers 2740-3340)

Why was this a problem?

Well, the big customer dynamic within the phone/broadband/TV market is towards what's called 'Triple Play'. This means customers bundling all three services into one supplier.

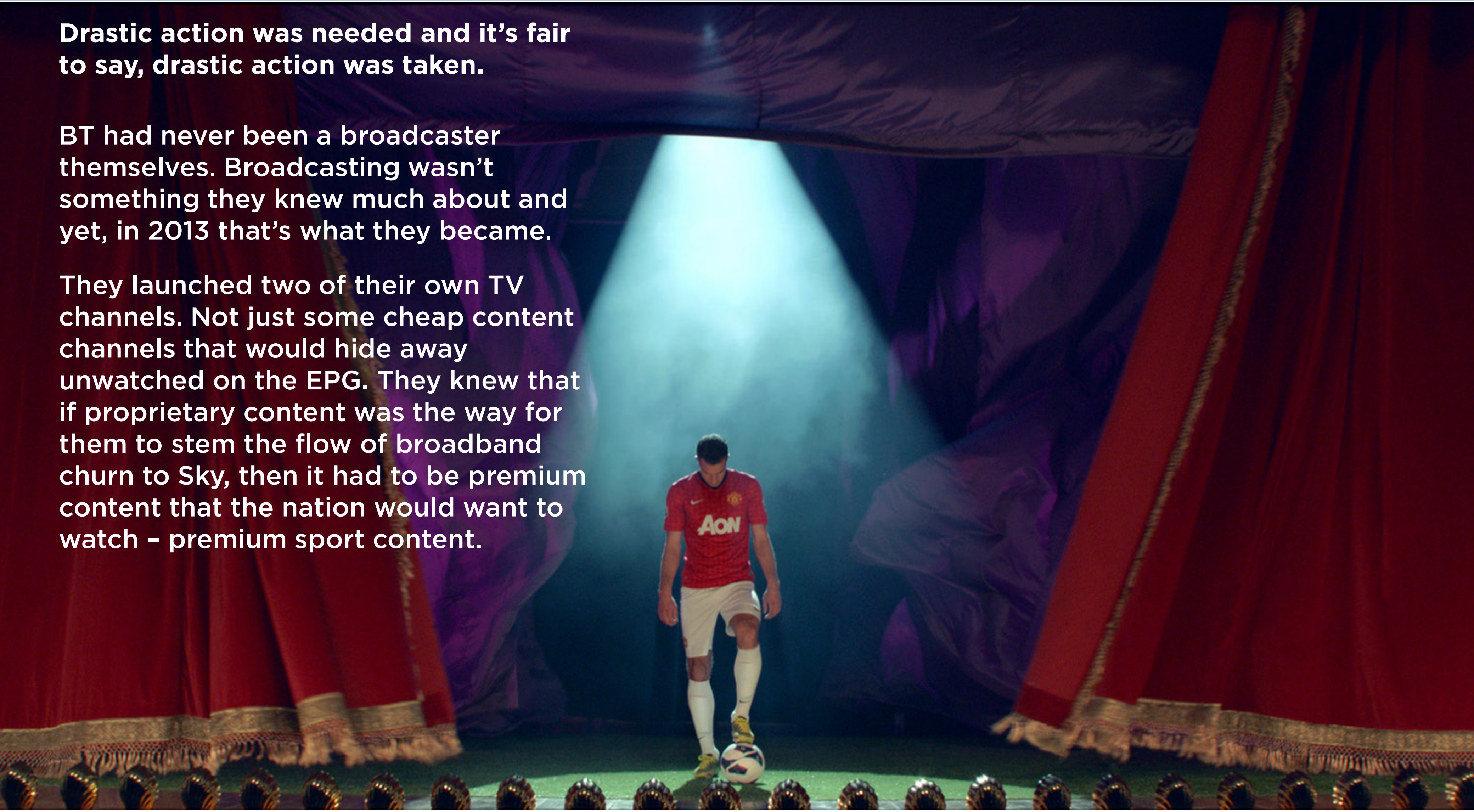
Because people were particularly loyal to Sky because they had all the cool TV, people were bundling their broadband and phone services into their TV with Sky. Subsequently Sky were stealing a march within the broadband acquisitions market.

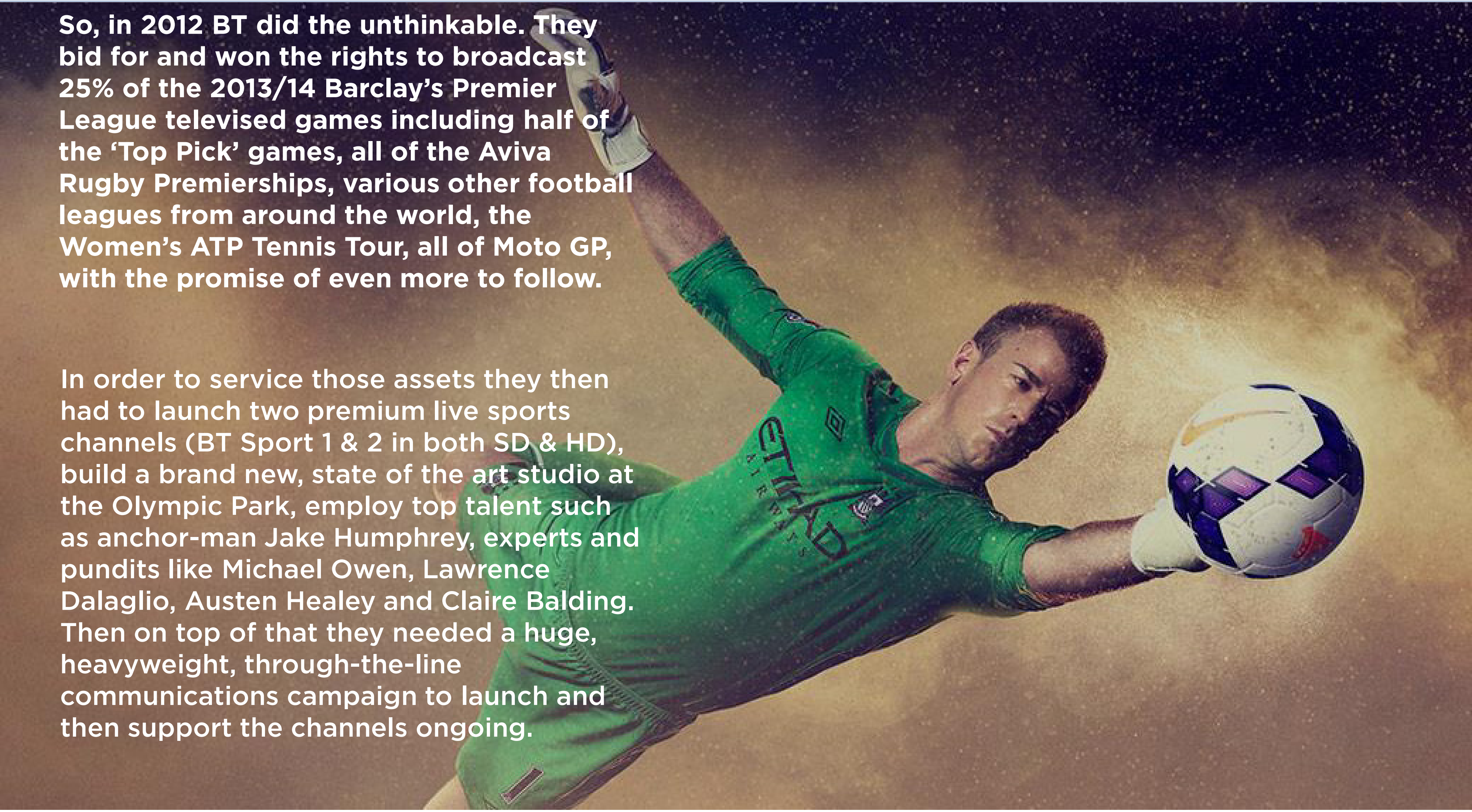
BT on the other hand are first and foremost a broadband company. They own the pipes in the ground and they make money by selling them to consumers. So the scenario described above of Sky using the power and magnetism of their TV service to steal share of the broadband market was something BT had to stem.

Drastic action was needed and it's fair to say, drastic action was taken.

BT had never been a broadcaster themselves. Broadcasting wasn't something they knew much about and yet, in 2013 that's what they became.

They launched two of their own TV channels. Not just some cheap content channels that would hide away unwatched on the EPG. They knew that if proprietary content was the way for them to stem the flow of broadband churn to Sky, then it had to be premium content that the nation would want to watch – premium sport content.





So, in 2012 BT did the unthinkable. They bid for and won the rights to broadcast 25% of the 2013/14 Barclay's Premier League televised games including half of the 'Top Pick' games, all of the Aviva Rugby Premierships, various other football leagues from around the world, the Women's ATP Tennis Tour, all of Moto GP, with the promise of even more to follow.

In order to service those assets they then had to launch two premium live sports channels (BT Sport 1 & 2 in both SD & HD), build a brand new, state of the art studio at the Olympic Park, employ top talent such as anchor-man Jake Humphrey, experts and pundits like Michael Owen, Lawrence Dalaglio, Austen Healey and Claire Balding. Then on top of that they needed a huge, heavyweight, through-the-line communications campaign to launch and then support the channels ongoing.

This was a move that struck right at the heart of Sky and all that they stand for. Since 1992 when Sky had bought and transformed the old First Division into the Premiership, they had become synonymous with almost all televised sport in the UK, and especially football.

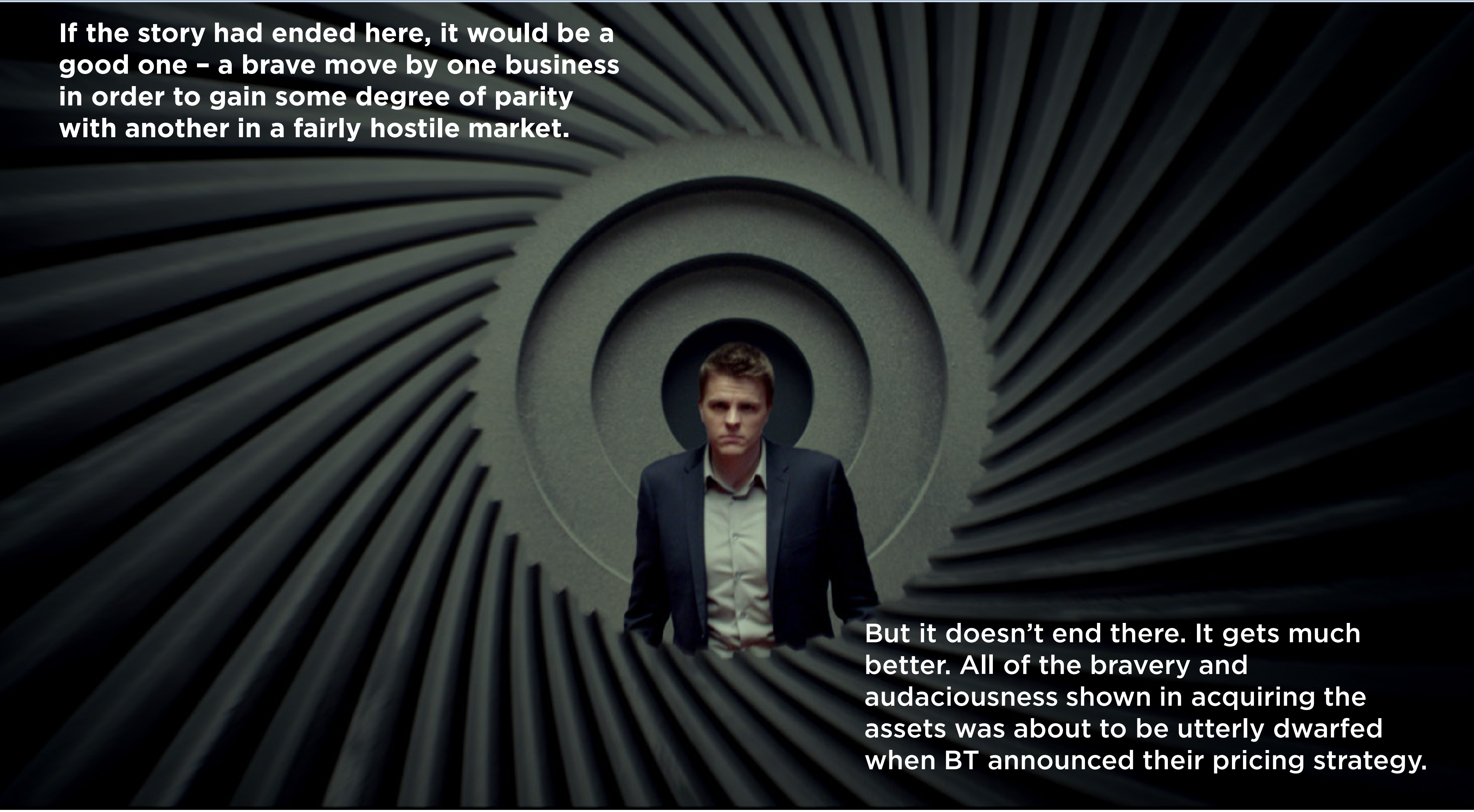
The total BT investment is too sensitive to reveal, but a quick Google search reveals that we're talking £billions not £millions here in terms of investment. The enormity of the initiative and the subsequent risk to the overall business should the venture fail to pay back cannot therefore be underestimated. To say BT bet the family farm on sport being a success would be something of an understatement.

Indeed, CityAM stated at the time:

"if this high-risk strategy leads to the high rewards, boss Ian Livingston is promising their loyalty will be rewarded. But at the moment this is looking like a very expensive kamikaze mission".

BT had stolen a sizeable chunk of Sky's most prize assets – televised premium live sport. It was undoubtedly a bold, brave and audacious move. But what to do now?

If the story had ended here, it would be a good one – a brave move by one business in order to gain some degree of parity with another in a fairly hostile market.



But it doesn't end there. It gets much better. All of the bravery and audaciousness shown in acquiring the assets was about to be utterly dwarfed when BT announced their pricing strategy.

On 9th May 2013 BT announced to the city that they would be giving BT Sport – this investment of herculean proportions, that they knew people would happily pay a premium for, that the business depended on making money from – to their entire broadband customer base (then around 4.5 million UK households) for free.

Unbelievably, BT had decided the best way to ensure payback on an investment that could potentially break the bank was to give it away for nothing.

How could they possibly have reached this conclusion?

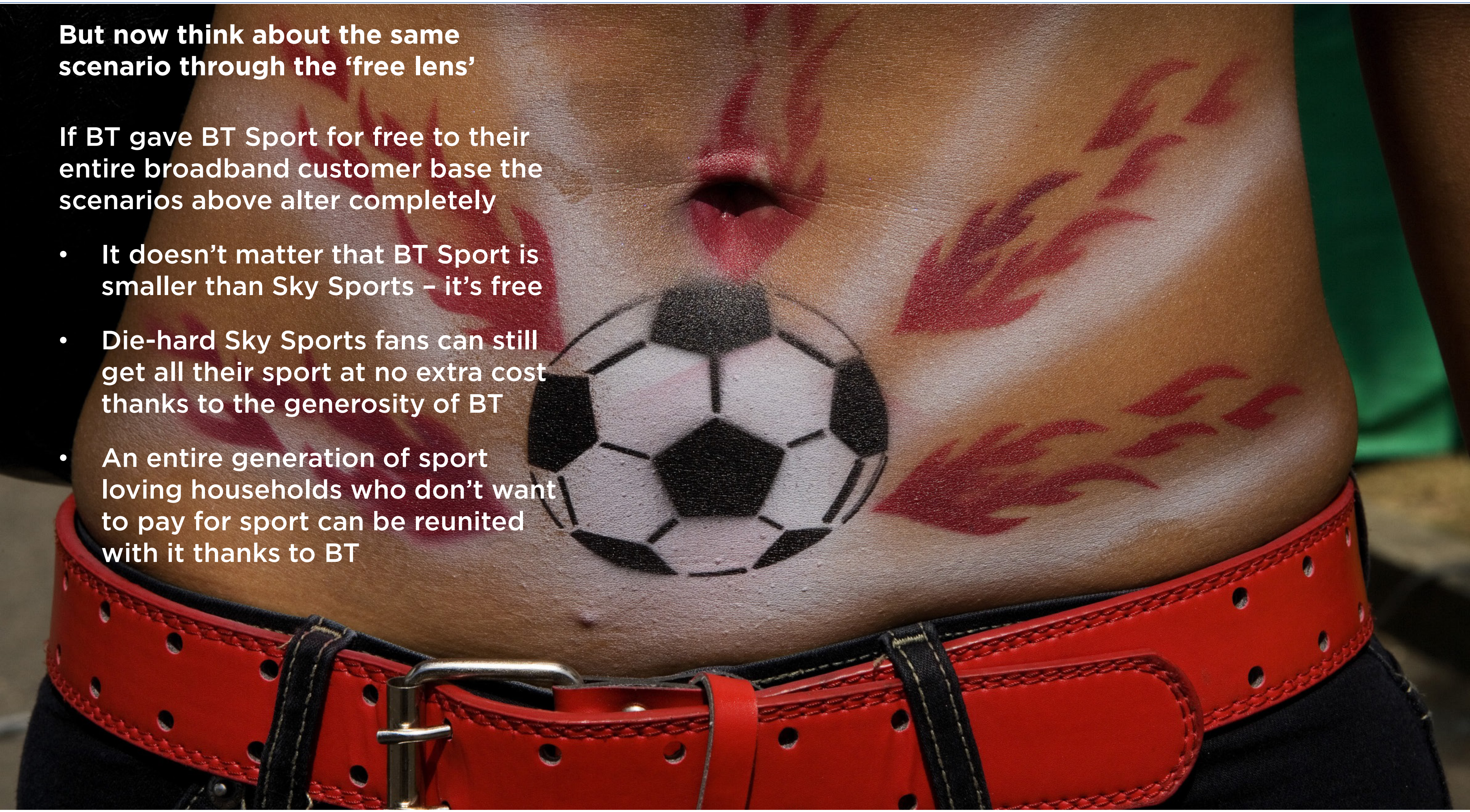
Well, if you cast your mind back to the beginning of this paper you'll remember that people like and are loyal to Sky because of all the great TV and especially sport they have. BT on the other hand are an old-fashioned, pipes in the ground company that people don't notice when things are going right and love to moan about when things are going wrong.

So if BT had simply sold their sport to anyone in the way Sky sell theirs, as an attempt to win favour, they would have had very limited results for the following reasons...

- The amount of sport/content BT had in relation to Sky was still very small, so the amount of favour to be gained was much lower.
- There are a whole bunch of die-hard sports fans who have to have access to every televised game. They would therefore have bought BT Sport on top of their Sky Sports package but would have resented BT for it as they were now having to pay twice.
- There's another group of customers who like sport but don't have Sky Sports because it's too expensive. They may have bought BT Sport if they thought it looked good enough (i.e. much better than the likes of Setanta and ESPN who had gone before BT as the alternative provider to Sky) and was significantly less expensive. Therefore BT would have ended up with a core audience of customers expecting a lot for not very much.
- There are then millions of UK households who like sport but would never pay for it because they don't believe they should have to. For them BT Sport would be just another brand charging for something they believe they should be able to access for free.

When looked at this way you have to think 'have they bought anything of any real value at all?'

ALL RESULTS DATA FOR JUDGES' EYES ONLY



But now think about the same scenario through the 'free lens'

If BT gave BT Sport for free to their entire broadband customer base the scenarios above alter completely

- It doesn't matter that BT Sport is smaller than Sky Sports – it's free
- Die-hard Sky Sports fans can still get all their sport at no extra cost thanks to the generosity of BT
- An entire generation of sport loving households who don't want to pay for sport can be reunited with it thanks to BT

All good, but how does this equate to business revenue gain?

Well, in the following ways...

Giving BT Sport for free to existing BT Broadband customers makes them feel valued and rewarded, thus reducing churn

Giving BT Sport for free to new BT Broadband customers gives them a reason to choose BT over other broadband providers that don't come with free sport (i.e. all of them), thus driving customer acquisition

Giving BT Sport for free to BT Broadband customers provides an opportunity to charge it (at £12 a month) to non-BT Broadband customers which in turn creates a new revenue stream for the business that is beyond their existing customer base (subscription only customers)

The channel will also generate more advertising revenue because its free, as the viewing figures will be higher.

When looked at in this way, one can see how giving BT Sport away for free actually increased the value of it to the business vs selling it direct to consumers as a subscription model. What at first looks paradoxical in fact makes very good business sense.

The following 'results' section will substantiate this point.

ALL RESULTS DATA FOR JUDGES’ EYES ONLY

The results

Firstly the soft measures

Remember, the problem BT needed to solve was their lack of brand advocacy and image Vs Sky.

The Gfk chart below shows how the Net Brand Advocacy score Vs Sky closed by a massive [redacted] post the launch of BT Sport.

Given the total amount of content BT provide Vs Sky is still very small, one has to assume that the act of giving it away has contributed hugely to this reduction in Brand Advocacy scores.

Net Advocacy Score - BT's Gap to Sky

[redacted]

Source: GFK BT Consumer Tracker Questionnaire 2014

In terms of Brand Warmth, the chart below shows that every one of BT's brand warmth metrics increased significantly post Vs pre the launch of BT Sport. Again, the content alone is not enough to have contributed to these shifts. The act of giving it away must have been a contributing factor.

Brand Warmth Metrics

Dec-12 Dec-13

[redacted]

Source: GFK BT Consumer Tracker Questionnaire 2014

And, now for the hard measures...

There are fundamentally three ways BT Sport pays back:

Commercial
The lifetime value of customer acquisitions and retentions created by BT Sport

Subscription
The lifetime value of non BT Broadband customers who pay a subscription for the channel

Advertising
The advertising revenue generated by the channel

The following figures have been provided by BT's own Business Modelling Unit. The actual figures are far too sensitive to reveal, so what we have done is to index the returns against an initial investment @ 100.

Against an initial investment @ 100, the subscription payback indexes at 290, the commercial payback at 170 and the advertising payback at 20. (Source : BT)

[redacted]

It needs to be stressed one last time that this ROI is a figure for a product that is free to all BT Broadband customers and is therefore a truly amazing result.

And as if that weren't enough, a [redacted]% increase in BT share value, which almost mirrors Sky's share decline for the same period (as outlined in the chart opposite) is largely attributed to the launch of BT Sport.

As a consequence of BT Sport launch city analysts have begun to question the stability of a business like Sky that relies solely on winning broadcasting rights as a business, Vs BT who own tangible assets (those good old pipes in the ground) and can now monetise those assets to raise funds to outbid Sky for sports broadcasting rights.

Channel Activity impact on share price

[redacted]