Book Review

Sky High: The Inside Story of BSkyB

Matthew Horsman, Orion Business Books, 1997. Recommended retail price $45.00. ISBN number 0-75281-196-7

This is a frank, behind-the-scenes account of the rise of pioneering pay television broadcaster BSkyB. It is an intensely readable story chronicling the fortunes of the U.K.'s inaugural pay service and the first eight years of its life from launch in February 1989 to October 1997 when it was left without a chief executive and deputy managing director.

The book is split into three parts and covers only 230 pages so it is a fast-moving lively tale, centred around some of the main characters in News Corporation at that time: Rupert Murdoch, his trusted lieutenant BSkyB chief executive Sam Chisholm, Murdoch's daughter Elisabeth, and Chisholm's righthand man, BSkyB deputy managing director David Chance.

The first and largest section of the book, "Murdoch's Billion-Pound Bet", covers the media baron's entry into British pay television through his purchase of a majority stake in the struggling Sky Television in 1983. By 1987, accumulated losses stood at £20 million, the company was earning less than £3 million a year in advertising revenue, and Holland and Germany were its key markets, though ratings were abysmal.

In the meantime, British Satellite Broadcasting (BSB), a company backed at first by Pearson, Granada and Virgin, was awarded a direct broadcast satellite licence (see also CU 77, May 1992, "Dished - The Rise and Fall of British Satellite Broadcasting", Peter Chippindale and Suzanne Franks, reviewed by Jock Given). Murdoch responded by striking a carriage deal in the spring of 1988 with French satellite operator Astra, and Sky Television officially launched on February 5, 1989.

BSB appeared in April 1990. But both operators were stymied by dish shortages and slow take-up. Even Murdoch's attempts to direct sell satellite dishes, codenamed Project X, failed to stem the losses.

Meanwhile, BSB was shooting itself in the foot. It had what everyone conceded was better technology based on the D-MAC broadcasting standard and delivered by a purpose-built, wholly owned satellite, but it was a high-rent company. Its expenditure led Gary Davey, a former Sky joint managing director, to comment: "BSB was the Concorde, we were the jumbo jet. Ask yourself which one makes money."

The two rivals continued to battle but by the year ending June 30, 1990, Murdoch had had enough. Sky had lost £95 million at the operating level, after £120 million in start-up costs. He decided to get fresh management blood. Cue Sam Chisholm.

From September 1990 when Chisholm took up his post at Sky, things changed. Horsman says that Chisholm took to cost-cutting with "unexpected glee". He alone signed all cheques over £10,000 and there was a draconian approach to expenditure. "You couldn't get a paperclip in the company", according to one insider.

But cost-cutting was never going to save Sky. A merger with BSB - effectively a takeover - had been touted in the trade press for some months and the inevitable happened on November 2, 1990. The new company would be called BSkyB, and the chief executive would be Sam Chisholm. No one, not regulators nor government stood in the way. Prime Minister Thatcher, just clinging onto power at that time, was on Murdoch's side.

Chisholm called in management consultants Arthur Andersen to look through the books of the combined entity. The companies were together losing £14 million a week, unsustainable losses. Cost-cutting started all over again. Virtually all BSB's 580 staff were fired and some of Sky's employees were let go.

What BSkyB needed now was a shot in the arm, a "killer application", programming that would launch it into orbit. This turned out to be football. By the spring of 1992, Murdoch had agreed to put in a bid for the rights to Premier League football, rights held primarily by terrestrial television. In a joint bid with the BBC, BSkyB bid £304 million, and won. Football was the start of a strategy toward multi-channel television, which saw BSkyB sign a deal with TCI-Flextech to create a multi-channel package which launched in the autumn of 1993.

The second part of Sky High, "Into Orbit", is less riveting. Personnel come and go at BSkyB. Infamous Sun tabloid editor Kelvin MacKenzie joined as managing director in January 1994, immediately clashed with Chisholm, and eight months later left. BSkyB floated on the London Stock Exchange in December 1994 and began turning a profit, making £5 million a week.

A chapter deals with the Premier League rematch which saw BSkyB get the rights in June 1996 to top football until 2001 but at a cost of £650 million. In the meantime, BSkyB had faced an Office of Fair Trading Inquiry which lasted six months and ended in July 1996 with just two changes (one to the 100 per cent carriage rule, and a new but only marginally changed ratecard).

The last third of the book, "Storm Clouds Gathering" highlights preparations for a 200-channel digital service, British Digital Broadcasting,

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prefaced by the financial manoeuvre in 1996 which saw Murdoch raise US$1 billion through a convertible share issue, putting up 10 per cent of BSkyB as collateral in order to raise money to feed his ventures in the U.S. and Asia.

Perhaps the most underplayed part of the tale is the appointment of Murdoch's daughter Elisabeth to a position at BSkyB in 1996. Brief mentions of her ascendancy to senior management at BSkyB in the final chapters explain little. But then this book isn't really about Elisabeth. It's about the ironclad rule of Sam Chisholm and his relationship with Rupert Murdoch, and how in June 1997, after an incredible rollercoaster ride to success, the chief executive lost his position as a favoured son.

Karen Winton

From The Archives

The Pay TV Report: A Sampler

The report "Future Directions for Pay Television in Australia" was the result of the departmental review of policy options for the introduction of pay TV initiated in April 1988 by then minister Gareth Evans. Follow some of the proposals identified in the report.

If pay TV were to be introduced, the principal objective for its introduction should be to increase diversity of choice in television services in response to viewer demand.

The impact of pay TV on broadcasters' advertising revenue would not be substantial for some years. Factors which could mitigate the impact could include equity participation by commercial broadcasters in pay TV.

Single-channel UHF could be available almost immediately, DBS not until 1992 and cable could probably not serve significant areas of the population until well into the 1990s.

Pay TV would provide installation, marketing, manufacturing and service opportunities for Australian industry.

"Conduct" regulation accepts that monopoly in supply of carriage and content for pay TV is unavoidable but seeks to restrain monopolistic behaviour by regulation of conduct. This option implies that there would be no substantial barriers to entry and the existence of a powerful regulatory body. The alternative is "structural" regulation, which separates programming services from the inherently monopolistic area of distribution and delivery. This would require that the national telecommunications carriers would provide distribution and delivery systems but would not be allowed to compete in the provision of content. It would avoid barriers to entry while encouraging flexible responses to the market.

Licences could be allocated through a variety of means including auction, tenders, lotteries or "over the counter" sales. Auctions or tenders generally produce the most desirable economic result in a situation where there is some restriction on the supply of licences.

Several options exist for regulating pay TV, including the ABT, the Minister for Transport and Communications, and AUSTEL.

To some extent, a combination of existing regulatory bodies such as the Trade Practices Commission, the Foreign Investment Review Board and the Prices Surveillance Authority could also be used.

A key question is whether pay TV operators should be permitted or forced to carry free-to-air signals or other services like community access channels.

Another key question is whether pay TV should be treated as a broadcasting type industry or as a publishing industry.

One approach to "siphoning" would be to define a list of programs which may not be siphoned; another would require that pay operators do not acquire exclusive rights to programming.

Decisions on the type and number of service may be better left to the market to determine.

A different and less restrictive approach to Australian content could be taken - for example, more flexible means of stimulating production could be considered, such as a commitment to spend a proportion of revenue on Australian production.

Communications Update, March 1989