



National  
Qualifications  
2016

**X710/77/11**

## **Business Management Case Study**

FRIDAY, 27 MAY

9:00 AM – 11:45 AM

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The questions can be found in the question paper X710/77/21.

It is recommended that you spend 15 minutes reading over the information provided before responding to the questions.



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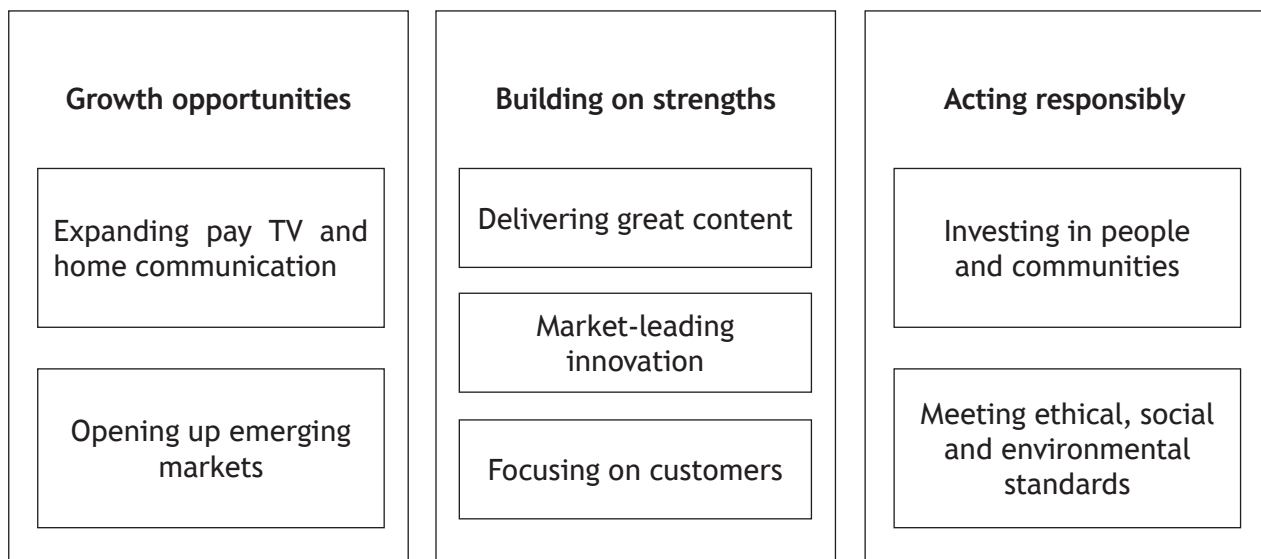
## SKY PLC

### **Background**

Sky plc is a British-based broadcasting, on-demand media streaming, broadband and telephone services company with its headquarters in London. Sky is Europe's leading entertainment company, serving 21 million customers across 5 countries: Austria, Germany, Italy, Ireland and the UK.

### **Vision**

Sky aims to make life better for its customers by offering high-quality, affordable entertainment. Sky is committed to providing exceptional customer service and behaving responsibly to build a sustainable, profitable business.



Sky believes that high ethical, social and environmental standards are essential to maintaining customer trust and therefore it is committed to operating responsibly. Sky uses its position as a leading communications company to raise awareness and drive positive change by taking action to better its services, improve communities and minimise its impact on the environment.

(Exhibit 1 gives an extract of Sky's corporate social responsibility.)

### **Growth in Europe**

Sky has secured its position as Europe's leading home entertainment company after completing the acquisition of Sky Italia for £2.45 billion and purchasing a 57.4% stake in Sky Deutschland, its sister operation in Germany, for £4.44 billion in 2015. These investments will provide Sky with a platform to unlock further growth opportunities in the European media market.

With Sky's UK customer base now at 11.5 million, room for growth in its home market is limited compared to the potential for growth in Europe. Although pay television is culturally less popular in Italy and Germany, the expanded business will operate in this new market of 97 million households, over 60 million of which have yet to subscribe to any form of pay TV.

Despite the risk of exchange rate uncertainty between Europe and the UK, Sky expects £200 million in annual savings by its second year from jointly buying programmes, combining IT systems and sharing its suppliers with Sky Italia and Sky Deutschland. Due to language differences, some content will not be transferable across the enlarged firm.

The enlarged company will have a combined budget of £4.6 billion for programme development. Sky also faces the challenge of complying with the separate Government communication and media regulators for each country; the equivalent of Ofcom in the UK.

### ***Launch of NOW TV***

Sky is investing heavily in its online entertainment services by launching the NOW TV box which allows customers to stream the best of Sky's content from the Internet directly to their TV. Sky hopes this will provide a growth opportunity into the 13 million homes that don't yet subscribe to a pay TV service in the UK.

Despite Sky's strong brand name in the UK and expertise in the entertainment market, it is threatened by the availability of significantly cheaper online TV services. Companies such as Netflix and Amazon Prime Instant Video have gained a considerable number of subscribers in recent years despite the increasing prevalence of piracy online. As a result, the number of "cord cutters" for Sky (people who cancel their subscription) is increasing.

Most of Sky's customers have a long tenure with the firm and are on renewable contracts for a period of 12 to 18 months. The NOW TV box however, like companies such as Netflix, offers users a lower cost monthly subscription, without a minimum-term contract. With continued pressure on UK household budgets, Sky runs the risk of losing existing customers as they cancel their long-term contract and switch to a cheaper contract-free option.

Over the years Sky has expanded its broadband network, becoming second only to BT as an Internet provider in the UK. Continued investment into network development is essential for Sky as the NOW TV box relies on a stable Internet connection. Some areas with poor bandwidth can suffer from limited streaming of online content, especially in high-definition format.

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### ***Sky's diverse UK business portfolio***

Sky divides its UK operations into 3 categories: consumer business, content business and corporate business.

- **Sky's consumer business** operates a multi-product strategy, offering TV packages, broadband, telephony and digital content. This is aimed at individual households to equip them with a range of devices and services. This has enabled the company to sell more products to customers using bundle deals, with an average of 3 paid-for products per customer in 2014.
- **Sky's content business** focuses on researching and developing the best programming shows for its different channels. It operates the UK's largest content portfolio of pay TV channels across entertainment, sports, movies and 24-hour news providing services to over 40% of homes.
- **Sky's corporate business** targets other businesses by selling Internet services and TV packages as well as advertising space.

(Exhibit 2 gives a summary of Sky's UK business portfolio.)

### ***Virtual learning environment (VLE)***

Sky believes that technology plays a critical role in advancing its increasing training needs. In 2014 Sky delivered over 100,000 training days and, on average, each employee completed 4 days of online learning. This amounted to more than 75,000 hours of e-learning across the business.

Sky's VLE provides access to a huge choice of learning resources and courses which can be tailored to the requirements of the employee and their job role. Employees can apply for courses online at any time should they wish to develop their skillset in different areas. This gives employees an online portfolio, tracking their development.

As part of Sky's focus on simplifying the customer experience, the e-learning environment was revised to streamline training programmes across the firm in 2014. This equips staff with the ability to deal with queries across all products and allows more customers to have their issues resolved in one call.

With the increase in Sky's employees who are working remotely, virtual training technology makes learning more accessible for non-office based employees. Reducing face-to-face training time by approximately 25%, the VLE is saving Sky around £2.7 million annually.

(Exhibit 3 gives some additional statistical information.)

**Exhibit 1: Extract of Sky's corporate social responsibility (CSR)**

|  |   |
|--|---|
| <b>Sky Academy</b>                         | Sky Academy offers scholarships for further education and paid graduate programmes to work at Sky. Sky “mentors” also go into schools and use sports skills to help build young people’s confidence. At the heart of the programme is a team of over 90 world-class athlete mentors as well as Sky Academy Ambassador, David Beckham. The initiative saw 105,000 young people take part in 2014.  |
| <b>Viewing for all</b>                     | Sky has achieved 82% subtitling and 22% audio description across 24 Sky channels, making its entertainment accessible for all.  |
| <b>Sky Rainforest Rescue</b>               | Sky Rainforest Rescue, in partnership with The World Wide Fund for Nature (WWF), helps to protect one billion trees in the Amazon rainforest. In 2014 it raised over £4 million, which Sky matched pound for pound to a total of £8 million, and increased awareness amongst UK audiences about the importance of preventing deforestation by 27%.  |
| <b>Greener travel</b>                      | Sky continues to make significant investments in alternatives to travel for its employees. It has increased the use of its video-conferencing suites to minimise transport emissions. In addition, Sky promotes a cycle to work scheme.   |
| <b>Employee charity and volunteering</b>   | On average in 2014, 5% of staff agreed to give donations directly from their salary to charity. Sky matches donations that employees make to charity up to £300. In addition, Sky provides a number of volunteering days per year which has seen 10% of the workforce participate in community projects.  |
| <b>Reducing impacts on the environment</b> | <p>Since 2008 Sky has reduced its emissions by 40%. In 2013 Sky featured in the Carbon Performance Leadership Index as one of the companies most effectively reducing and reporting on carbon emissions.</p> <p>In 2014 Sky added 2 biomass boilers at its Scotland offices. This led to an overall reduction in electricity usage by almost a third and decreased the gas usage by 70%.</p> <p>Sky switched 70% of its van fleet for efficient models and introduced speed reporting, which led to an improvement in efficient driving.</p> <p>Sky offers customers rewards, such as vouchers redeemable in over 130 UK high street stores, for returning Sky devices that are no longer in use. The company reuses or recycles 100% of all products returned.</p> |

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## Exhibit 2: Summary of Sky's diverse UK business portfolio

| <i>Consumer business – targeting households with different products and services</i> |   |
|--|---|
| <b>Sky TV</b>  | Sky gives millions of families a better choice of TV to enjoy at home or on-the-go, watching live or on demand.   |
| <b>Sky Broadband</b>   | Sky is the UK's fastest-growing home communications provider, connecting more than 5 million customers with broadband and telephony services.   |
| <b>NOW TV</b>  | NOW TV is a streaming online service, providing low-cost, low-commitment access to the best of Sky's content.   |
| <i>Content business – developing a range of shows and programming</i>                |   |
| <b>Sky Sports</b>  | Seven sports channels broadcast a wide range of live and exclusive sport, news and analysis.  |
| <b>Sky Entertainment</b>   | Sky has 4 main entertainment channels: Sky 1, Sky Living, Sky Atlantic and Sky Arts. These showcase its own UK-commissioned content, alongside many shows from the United States.               |
| <b>Sky Movies</b>  | Sky Movies is Europe's largest in-home movie service, with over 800 film titles from the major Hollywood studios and independent distributors.  |
| <b>Sky News</b>  | Sky News reaches over 100 million homes on multiple platforms across 118 countries with its combination of breaking news and analysis.  |
| <i>Corporate business – targeting other businesses to wholesale its services</i>     |   |
| <b>Sky Media</b>   | Sky Media is an advertising sales house, offering advertisers access to 125 TV channels. Sky Media's portfolio is watched by over 90% of the population each week on TV, online, and on-the-go. |
| <b>Sky Business</b>  | Sky Business provides Sky's TV and WiFi services to a range of commercial businesses, including: offices, retail outlets, hotels, and licensed premises.  |
| <b>Sky Vision</b>  | Sky sells its channels to third-party pay TV platforms. It also sells a wide range of individual programmes internationally.  |

**Exhibit 3: Additional statistical information****Consolidated income statement: Sky's UK and Ireland operations**

|                                     | 2014<br>£ m  | 2013<br>£ m  | 2012<br>£ m  | 2011<br>£ m  |
|-------------------------------------|--------------|--------------|--------------|--------------|
| <b>Revenue</b>                      |              |              |              |              |
| Retail and wholesale subscriptions  | 6,677        | 6,347        | 5,944        | 5,794        |
| Advertising                         | 472          | 440          | 440          | 458          |
| Installation, hardware and services | 85           | 87           | 98           | 112          |
| Other                               | 398          | 361          | 309          | 233          |
| <b>Total revenue</b>                | <b>7,632</b> | <b>7,235</b> | <b>6,791</b> | <b>6,597</b> |
| <b>Total expenditure</b>            | <b>6,471</b> | <b>5,944</b> | <b>5,548</b> | <b>5,524</b> |
| <b>Profit for the year</b>          | <b>865</b>   | <b>979</b>   | <b>906</b>   | <b>810</b>   |
| Dividends per share (in pence)      | 32.0p        | 30.0p        | 24.4p        | 23.3p        |

**Other information: Sky's UK and Ireland operations**

|  | 2014   | 2013   | 2012   | 2011   |
|--|--------|--------|--------|--------|
| Average number of (full-time) staff    | 20,841 | 19,413 | 17,937 | 16,006 |
| Number of compulsory redundancies      | 430    | 186    | 219    | n/a    |
| Employee engagement score <sup>1</sup> | 88%    | 94%    | 87%    | 86%    |

<sup>1</sup> To measure employee engagement Sky commissions an external and independent survey of its employees.

[END OF CASE STUDY]

## ACKNOWLEDGEMENT

Case Study – Information is adapted from Sky plc Annual Reports 2013-14; Sky Bigger Picture Reports 2013-14; and corporate.sky.com. Reproduced by kind permission of British Sky Broadcasting Group plc.