



FILM, TV & GAMES CONFERENCE 2015

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Session 2: Stuart Murphy, Director, Sky Entertainment Channels *with* Lucy Pilkington, Creative Director, Sugar Films

This report summarises a session that took place at the BSAC Film, TV & Games Conference 2015.

Stuart Murphy provided an overview of Sky's current focus and investment in new British content.

This was followed by a conversation with Lucy Pilkington, in which they discussed Sky's corporate culture and business strategy. Topics included Sky's activities towards improving diversity in the industry, the successes of *Game of Thrones* and *Fortitude*, co-production deals with American content producers and the future of the industry.

*Summaries of other sessions from the day and a complete report
of the Conference are available from www.bsac.uk.com*

CONTENTS

<i>About BSAC</i>	3
<i>Opening Keynote</i> Stuart Murphy, Director, Sky Entertainment Channels with Lucy Pilkington, Creative Director, Sugar Films	4

ABOUT BSAC

The British Screen Advisory Council (BSAC) is an independent, industry funded membership body for the audiovisual sector.

We uniquely bring together the widest possible range of interests, knowledge and contacts to exchange ideas and information about business and policy issues. Our Members are invited to join on the basis of their personal qualities, experience and expertise, and are drawn from the major TV broadcasters, independent film and TV producers, distributors, exhibitors, US studios with major operations in the UK, trade associations, trades unions, training providers and new media companies, such as Google and Spotify.

Many of our activities take place privately, which enables business leaders to freely discuss the fast changing nature of the industry.

On policy, we provide opportunities for industry and policy makers to hear a breadth of viewpoints and, wherever possible, for the sector to speak with a single and authoritative voice. Over the years we have worked closely with the Treasury, HMRC, DCMS, BIS, IPO, the European Commission, WTO, and WIPO.

We also enjoy the support of Associate Members, which are businesses with a particular interest in the sector. These include legal firms, accountancy practices and investment management firms, and are an important port of call for obtaining views and expertise.

We commission and generate research and reports to underpin our work.

We host a series of events that are open to a broader invited audience. These include an annual Film, TV and Games Conference, an Interview Series and occasional seminars. These provide high quality debates and networking opportunities.

More information can be found at www.bsac.uk.com

OPENING KEYNOTE

STUART MURPHY, DIRECTOR, SKY ENTERTAINMENT CHANNELS WITH LUCY PILKINGTON, CREATIVE DIRECTOR, SUGAR FILMS

Lucy Pilkington introduced Stuart Murphy, Director of Sky Entertainment channels since 2013. He had joined Sky in 2009 and had quickly made the very big decision to spend much more money on making programs and, two years later, Sky1 had been voted Channel of the Year for the first time ever. He was well known for making bold decisions and for persuading people to do the unthinkable. He had convinced Sky to make a move into making high-end home grown drama, reversing the perception that multi-channel TV only acquired and scheduled other people's content.



Stuart Murphy provided an overview of his recent career. He had responsibility for entertainment channels, including Sky1, Sky Arts, Sky Atlantic and Sky Living, as well as the Freeview channels Challenge and Pick. In addition, the British originating departments of comedy, drama and non-scripted reported to him.

Over his six years at Sky there had been three main themes. Firstly, and most fundamentally from his perspective, creative freedom: he worked really hard to try to create the best environment for the best people to do their best work. This was about being clear, fast, supporting risk and encouraging and giving confidence to those who were nervous – because creativity was not a science – but most importantly, to actually support failure.

When he had first arrived, Jeremy Darroch, the Chief Executive, had explained that they fundamentally saw themselves as a technology and R&D company and were happy for people to make some mistakes as long as they also generated some hits. Stuart had found this perspective, of not fetishizing mistakes and instead just focussing on what worked, to be completely different from the practices which he had been taught at the BBC, where mistakes had always been analysed in depth. It had been something that he had encouraged and progressed over his time at Sky.

The second theme had been a focus on relentless growth and a massive investment in content. When he had started at Sky, they had been investing £180m a year in new British content; by last year, this had grown to over £600m. Having recently bought Sky Deutschland and Sky Italia, Sky had overtaken RTL and CanalPlus and was now the biggest investor in content in Europe. This did not just include their spend on fully funded content, but also their work with international partners, such as FoxTel or Sky New Zealand, or with other companies, such as NBC, CanalPlus, Showtime and the infamously perfectionist HBO.



Sky's third theme was their sense of social responsibility and their commitment to acting as a role model for society. For example, this year they would be taking 12,000 school children on a tour of their facilities and giving them an opportunity to edit films, meet executives and get a sense of what working in the media industries was like.

within their company to 20% of on- and off-screen talent – this target was intentionally 7% higher than the non-white proportion of the UK population to compensate for the years of negligence in the past. They anticipated achieving this goal by the end of 2015.

Sky had also made an unprecedented commitment to increase BAME diversity

These three themes were behaviours that were not widely associated with Sky, who were frequently presented as being a muscular and aggressive company.

He concluded by presenting a sizzle reel of Sky's recent high end drama output, the quality of which had been the main reason for their success in attracting over 12 million subscribers in the UK.

Lucy Pilkington noted that Sky had recently spent £4.2 billion on football rights, and asked how much that had left for other content, particularly their investment in drama and origination.

Stuart Murphy agreed that premium sports carried a hefty cost. However, Sky's financial rigor was amazing and, while this purchasing decision had not been made lightly, Sky had fully budgeted for its sports right spend and was comfortable with this financial commitment, and this would not have an adverse impact upon their content budgets. He further observed that Sky had subsequently bought Sky Deutschland and Sky Italia, so the cost of Premier League rights had clearly not broken their bank.

Sky had been built on sport and their ability to sell content that previously had been free but inadequately served. Before Sky, football matches had used to take breaks for the news or had not been broadcast live, and typically only three matches had been made available every weekend. Today, and thanks to Sky, such a situation seemed archaic and absurd.

His analogy for Sky's place in the wider content ecosystem was that most of the free to air channels were the equivalent to Nestle chocolate – pretty good, but with better quality alternatives available at a higher price. Sky were seeking to deliver a superior offering that viewers would be prepared to pay £20 a month for; they had successfully achieved this for sports and movies, and were now starting to do the same for entertainment. This would be tricky to achieve as the BBC and ITV, as well as a number of international broadcasters, were already well established behemoths in this space, but Sky had been successful so far.

Lucy Pilkington noted that Sky Atlantic had recently committed to work with HBO and provide upfront investment into a number of very expensive productions. She asked why Stuart had decided to operate this through Sky Atlantic, how it had worked so far and whether he anticipated it continuing to work in the future.

Stuart Murphy explained that Sky generated about 90% of their income from subscriptions and only about 10% from advertising. Consequently, they had to provide a fundamentally different product to their customers from that offered by broadcasters that relied on advertising for their funds. For example, ITV's business model required them to offer a viewing experience that encouraged people to love much of their schedule and to watch lots of shows, including the adverts, for several hours a day.

Sky was quite different. Ultimately and in extremis, they only needed to offer their customers one show a year that they desired enough to keep renewing their subscription. Consequently, their drama commissioning was geared towards producing just 12 killer shows a year – one a month.

Interestingly, although BBC One spent over a billion pounds a year on content, when people were asked to define the channel the most commonly named shows were *BBC News at Ten*, *Eastenders* and *Strictly Come Dancing*. Similarly, viewers identified *Coronation Street*, *X Factor* and *Britain's Got Talent* for ITV.

Consequently, if viewers were subconsciously defining channels by just a few products, it was in Sky's interest not to seek to imitate the public service advertiser funded model of making lots of shows, and instead to focus their resources on fewer, bigger and better shows that people would crawl over broken glass to watch... or at least to pay a subscription for. Accordingly, they had developed a system, termed a 'passion score,' under which they quantified their shows according to how appealing they were to their customers.

HBO had a similar business model, based around attracting subscribers by producing the very highest quality cinematic TV that, while not always beloved by advertisers, had allowed them to successfully cultivate a die-hard fan base. Sky had recognised the potential synergies and had approached HBO to try to form a partnership about ten years ago; however, at that time this had not worked out, probably because the two companies had different operating cultures at that time, due to Sky's offering still primarily being focussed upon sports and movies.



He explained that, shortly after he had joined Sky, these conversations had been reopened by Sophie Turner Laing, then Managing Director of Content; things had bubbled long for a while but then suddenly, over a two week period and to everybody's surprise, something had clicked and a huge deal had been signed. With hindsight, this probably should not have been quite such a shock as Sky had a long track record of forming successful relationships with American broadcasters – for

example, the acquisition of rights for *The Simpsons* or *Modern Family* – and, given their mutual philosophies of striving towards ‘world class content,’ the deal with HBO now seems like quite a natural progression to have made.

Lucy Pilkington asked if HBO saw Sky as a creative partner or as a platform?

Stuart Murphy said that there were a lot of elements to Sky’s business: they were not only a platform, but also a content creator. When he had first started working with HBO he had gone into a meeting with Mike Lombardo, HBO’s President of Programming and had managed to develop an instant rapport. As with many creative relationships, its success was based on trust and seeing the world with a similar eye.

This had been an amazingly successful partnership for Sky – HBO were preeminent in their space and had world class talent queuing around the block for the chance just to knock on their door. Their approach, of taking a pre-existing genre, taking it a different direction and making it so definitive that nobody else wanted to try to compete in this space, was masterful. While Sky similarly strived towards unattainable perfection, he felt that their relationship ultimately rested upon the fact that their respective people just really liked working with one another.

Lucy Pilkington asked how *Game of Thrones* had come about, and how much of Sky’s success depended upon that one show.

Stuart Murphy said that *Game of Thrones* had originally been driven by Sue Naegle, formerly President of Entertainment at HBO. She had felt that their previous hits, such as *The Sopranos* or *The Wire*, had been full-on dramas, and had wanted to do something in a totally different genre. Having read the books and loved their scale, HBO had spent \$35m on a pilot, which they had then almost entirely scrapped and reshot until they had managed to get something that appropriately fitted their vision.

Game of Thrones had been an undeniable success for Sky. This season, instead of just simulcasting it at 2am, Sky had arranged to have episodes screened in cinemas live at the point of broadcast. *Game of Thrones* had become an incredible mainstream success and 2.75 million people had watched the premier of the latest season, making this the biggest show in pay TV history – more than any sporting event.

Lucy Pilkington observed that in addition to their co-production deals, Sky also commissioned drama themselves. She asked what the difference was in terms of spend, and also if they approached these differently from their co-production deals.

Stuart Murphy had just renewed the HBO deal until the end of 2020 – Sky had committed a huge chunk of money into a co-production deal to make a series that would be on a par with *Band of Brothers*, *The Pacific* or *Game of Thrones* – although the precise details were still to be concluded. However, this was operating separately from any of their other commitments.

In terms of commissioning, while Sky did not provide a detailed breakdown of their content spend, they were now commissioning more drama than Channel 4 and their comedy spend was on a par with the BBC. However, Sky approached commissioning

from the starting point of seeking to create content that reflected their viewers' life experiences. For example, 50% of the UK population no longer lived in the same place where they had been raised, which clearly had implications for community cohesion, childcare and people's ability to reinvent themselves. Sky would take data such as this and use it to try to form a programme that tapped into people's passions: their commissioning teams would speak to indies, bounce ideas across all the channels – literally, as the Sky offices were all open plan – and try to work out what would be the best content to make and what they should do with it.



He always approached this process with a preference for failing spectacularly rather than living life in a mediocre way, so consciously avoided trying to play for the safety of the middle ground. Ultimately, his belief was that the direction of travel was such that television was going to diverge into hugely expensive cinematic epics, such as *Fortitude* or *Game of Thrones*, and into very intimate and unmediated content, such as that currently made by YouTubers – some of whom would be speaking later at this

event. He predicted that the demand for 6-12 part middle-ground content would fall apart in the next couple of years.

Lucy Pilkington asked how successful *Fortitude* had been and whether it had achieved everything that he had set out to do.

Stuart Murphy had been very happy with *Fortitude*, which had taken over a year and a half to get into production and, at £40m, had been Sky's most expensive commissioned series to date. The thing that had most attracted him to the series had been that, beneath the surface and the heebie-jeebies voodoo stuff, it had told a fundamental story about the nature of community, which was exactly the sort of content that he had wanted Sky Atlantic to carry.

Sky had initially sought to produce *Fortitude* through a co-production deal with Starz, but the relationship had not worked out: on the very first day of meetings, Chris Albrecht, the CEO of Starz, had started going through the script line by line, and Stuart had very quickly realised that they had different and incompatible working approaches. Instead Stuart had decided that Sky would fully fund the series itself; Jeremy Darroch, CEO, Sky, had been fully supportive, and this had turned out to have been a brilliantly successful decision.

Lucy Pilkington asked Stuart how much influence he had had over the creative process, and to what extent had he shaped *Fortitude*.

Stuart Murphy had not really wanted to directly shape anything – his job required him to understand what the audience wanted and the direction that things were going in, and to make sure that he could get the best people that he could to make content. It was important that the company gave their talent the freedom to make

content, and not to try to interfere with or otherwise second guess the stories that they were telling.

This approach, of seeking to deliver the very highest quality content, whilst not being distracted by ratings, was something that only a subscription provider had the freedom to do. He had been particularly proud of was *Critical*, Jed Mercurio's intensely visceral hospital drama; although this had not initially achieved high ratings, he was proud that he had managed to get the story to the customer in as unmediated a way as possible.

Lucy Pilkington turned to the issue of diversity. Sky's moves in this area had been incredibly bold, and she asked Stuart whether he felt that this was a commercial or a moral imperative, or both?



Stuart Murphy recalled his childhood: he had been to a comprehensive school, his father had sprayed cars and his mother had been a secretary, and for two Christmases they hadn't had any presents. However, he had never felt poor – or, for that matter, realised that he was Northern – until he had gone to Cambridge and met people who weren't. Nevertheless, he had been a little shocked to find that, even there, rather than respecting knowledge, intelligence and diversity of thought, people had still pretended not to be

revising and the culture had been dominated by an upper middle class white male view of the world, replete with questions about which school people had been to and affectations such as talking about skiing holidays.

After leaving he had started at the BBC as a tea boy, which, although the media often tried to portray it as a bastion of elitism, really wasn't. However, the comedy department had still been dominated by the sort of Oxbridge 'Monty Python-esque' humour, which was very different from the range of things that he had grown up with – such as *Airplane*, *Man with Two Brains* or *The Pink Panther*.

Twenty-odd years later he was now in a position at Sky – which now had revenues of around double those of the BBC and that played across Europe – where he could make a real and significant difference to the sort of television that was made. His starting point was that, while 13% of the UK population was non-white, this was not reflected on screen.

He did not want to retell stories about the Windrush, which had been done to death. Instead, he wanted to tell everyday stories about British Black, Asian, Chinese, gay or divorced people, who were often overlooked. This was not a question of minority groups speaking about their 'issues', which was often quite patronising; rather of giving different groups the freedom to tell their own stories without being defined by their characteristics.

Over the last year alone, the appeal of non-standard stories had become much more of a part of mainstream culture so that, rather than being accused of 'woolly liberalism,' they were now seen as the hallmark of a sophisticated and mature

worldview. There was also a business case, in that by appealing to a new market there was a huge and untapped potential for attracting new customers.



Lucy Pilkington invited questions from the audience.

Kate Bulkley, Broadcast noted that Sky had taken *Fortitude* back from Starz because they had not liked the way that they had approached the co-production partnership. However, HBO also worked through scripts line-by-line, and definitely shaped output to reflect their point of view – the fact that 90% of the original *Game of*

Thrones pilot episode had been dumped showed that HBO clearly imposed their vision upon their productions.

She asked whether Sky's deal with HBO had been influenced by a desire to access their money and expertise.

Stuart Murphy said that co-production negotiations were always a negotiation, and there was always a judgement call over how much to concede or where the red lines were. For example, Sky had made *Dracula* with NBC, who had been very hands on – Sky had brought one Executive Producer while NBC had eight – but he had a frank conversation with Bob Greenblatt, the Chairman of NBC Entertainment, where they had collectively agreed exactly where they were each going to step back. And this had worked.

He felt that the failing of the initial relationship with Starz had been as much his mistake as Mike Lombardo's; he had assumed that creative freedom had meant the same to each of them, only to discover that it clearly hadn't. Sky was still developing projects with Starz, and he had a very good working relationship with Chris Albrecht, the CEO of Starz.

With regards to HBO, he conceded that there were sometimes difficult conversations, but so far the relationship had worked.

Richard Hooper, Copyright Hub observed that the BBC's Charter Agreement was due to end at the end of 2016. He asked what Sky's attitude was towards the BBC.

Stuart Murphy said that this subject was worthy of a lecture of itself. He noted that Sky's relationship with other broadcasters was less blunt than it had once been and they now amicably worked together in a broad range of areas, such as broadcasting Wimbledon in HD or working with iPlayer on Sky Go.

Secondly, and although there was a debate over how big it needed to be, he felt that all parts of the sector, including Sky, wanted and benefitted from a strong BBC. He had been trained by the BBC and had spent eight years working for them in a senior role. He also felt that the BBC should use its position to focus on creating things that commercial broadcasters could not do. They had the opportunity to move into financially uncertain territories and carve out new markets, but once opened up he

felt that they should then step away and let the economy and other companies make money from these areas.

He observed that the biggest problem that he had found with both the BBC and Channel 4 had been that they were both beholden to a ratings target: if they surpassed this then they were condemned for populism, but if they undershot them then they were also criticised for not being popular enough. When he had launched BBC 3 he had suggested negotiating a ratings window with the Government, so that it would be clear exactly how many viewers the channel needed to get in order to avoid either being accused of trampling on the market or underserving the licence fee paying audience; however, the Government had not agreed with his idea.

Lavinia Carey, British Video Association asked how Sky's business model would be impacted by the imposition of a Digital Single Market model, where all content would have to be licenced everywhere across Europe at the same price and terms, regardless of the audience in different territories.

Stuart Murphy explained that Sky was underpinned by the powerhouse of the UK market, but were looking at the possibilities of delivering OTT content internationally at the same time as they wanted to get in tune with an audience that was increasingly boundary agnostic. They had launched *Fortitude* and their recent Sky Italia drama, *1992*, simultaneously across all territories.

This was an area where Sky was still developing their policy. In part, this was because they wanted to preserve the 'event' appeal and the shared experience that could only be achieved by broadcast TV. However, they were also looking at how this might be enhanced, such as releasing the next two upcoming episodes of a show onto their VOD platform immediately after an episode was broadcast live, as well as making the preceding episodes available, so as to complement, rather than replace, the broadcast release schedule.

He disliked binge viewing, which undermined the shared experience and wider conversations that could take around broadcast television. As a curator and as the person in control of the story, he felt that it was his duty to make the story as thrilling as possible for the audience. If a better audience experience could be delivered by teasing viewers and leaving them wanting more, then this is what he would do.

Lucy Pilkington thanked Stuart Murphy.

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