THE ECONOMIC IMPACT OF SKY ON THE UK

A REPORT PREPARED FOR SKY
JULY 2012

OXFORD ECONOMICS

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About Oxford Economics

Oxford Economics – formerly Oxford Economic Forecasting – was founded in 1981 to provide independent forecasting and analysis tailored to the needs of economists and planners in government and business. It is now one of the world's leading providers of economic analysis, advice and models, with over 300 clients.

The author Andrew Logan, is a Senior Economist in Oxford Economics' Consultancy Team. He has undertaken a range of economic analyses projects in the television and film area. These include: the economic impact of Channel 4, the economic impact of UK film and the economic impact of various tax reliefs on the UK film industry. Prior to joining Oxford Economics he spent 15 years working as an economist at the Bank of England in various roles.

Approach

This report investigates Sky's contribution to the UK economy. It undertakes a standard economic impact analysis looking at the impact of the company on the economy through its own activities (direct effects), the impact of its procurement (indirect) and staff spending their wages on consumer goods and services (induced). Impact is measured in terms of the contribution to GDP, employment and tax revenues generated. The report then looks at the additional economic activity the company enables (termed the 'catalytic' effects), quantifying these where possible.

FOREWORD

Sky is a relatively young company with a significant and growing footprint in the UK. We provide a range of entertainment and communications services to nearly 40% of homes, we broadcast television channels that are watched by more than half the population each week, we employ thousands of people across the country and we are responsible for the jobs of tens of thousands more.

We have grown rapidly since our business was established just over 20 years ago. Along the way we have taken risks, invested billions of pounds and been a driving force for innovation and change in our sector. As a result we have transformed UK consumers' experience of television and home communications, while generating significant returns for our shareholders and contributing positively to the UK economy as a whole.

We commissioned this report from Oxford Economics in order to measure and explain the scale of our economic impact. It sets out the overall contribution we make to GDP, the number of people who rely on Sky for their employment and the amount of tax revenue that we generate. It also explains how Sky's activity supports other areas of the economy through our investment and innovation.

We hope that Sky's story provides a good example of the important contribution that a successful British company can make, particularly at a time when economic growth is harder to come by. As we look ahead, our appetite to invest remains strong and we hope to contribute even more in the future.

Jeremy Darroch
Chief Executive, Sky

EXECUTIVE SUMMARY

Between the first quarter of 2008 and the second quarter of 2009, the UK economy contracted in size by 7%. It recovered just under half of that lost output, but has been at a standstill for the last year and a half. Forecasts of future growth suggest the recovery will be slow and uncertain. Companies that are able to grow in hard times (as well as good) make a significant difference to peoples' lives, through boosting output, employing people and contributing to tax revenues. One such company is Sky. Over the past ten years the growth in its turnover and the number of people it employs have exceeded the growth in nominal GDP and total employment in the UK by factors of 4 and 10 times, respectively.

Sky makes a significant impact on the economy in terms of GDP, jobs and taxes paid. It also stimulates economic activity in a wide range of associated companies and industries. Sky's footprint is UK wide and its contribution is felt in almost every part of the country.

Sky's contribution to GDP

- In total, Sky is estimated to support a £5.4 billion contribution to UK GDP in calendar year 2011[1]. This is a conservative estimate, in that many of Sky's wider economic impacts (for example, its effect on competition in the television, broadband and telephony markets) are explained here but not quantified.
  - In 2011, Sky generated sales of £6,405 million and over 75% of this revenue was retained in the UK. Allowing for Sky's spending on inputs from other firms, it made a direct contribution to UK GDP of £2.2 billion in 2011. This is equivalent to around 40% of the contribution made by the entire TV and radio creative sector in the UK.[2]
  - Sky has an extensive impact on the UK economy. For every £1 billion it contributes to GDP itself, it generates another £1.4 billion in the rest of the UK economy through its purchase of inputs of goods and services and staff spending their wages at retail and leisure outlets.
  - Sky's UK supply base is widely spread across the UK, involving purchasing from 4,000 different companies. The major category of expenditure is on sports rights and externally-made content. In 2011, Sky used 645 independent suppliers in the production of its sports content and used 110 independent producers for its entertainment content.

Sky's contribution to jobs

- At end 2011, Sky employed 22,800 people (direct and full-time contract) in the UK. To gauge how significant this is it makes it similar in size to Rolls-Royce's[3] and IBM's[4] UK operations and to Google's global employment at the end of 2010[5]. To give an alternative sense of scale, it means that Sky employs more than twice as many people as the entire software publishing[6] industry in the UK and more than half as many people as the entire pharmaceuticals[7] industry in the UK.
  - Sky's staff are spread across the UK economy. Some 9,400 (or 41% of total Sky employment) work in London, 6,430 (or 28%) in Scotland, and 1,560 (or 7%) in Yorkshire and the Humber.
  - Of Sky's total employment, 2,600 people (or 11%) are employed in producing and commissioning content. This will increase in the future given Sky's June 2011 commitment[8] to increase its UK content spend from £380 million, as it was then, to £600 million by 2014. At end 2011, it had already reached around £450 million.
  - Sky employs 800 engineers undertaking software development and testing. This is 1% of all the people in Great Britain employed in the business and domestic software development industry.[9]
  - Sky has hired 3,800 young people (16 to 24 years old) in the past three years, including nearly 300 graduate trainees and apprentices. These staff are making a valuable contribution to Sky's business, but are also gaining valuable skills and enhancing their prospects in the labour market.
  - In addition to the employment at Sky, it also supports jobs in the rest of the economy through its procurement and the consumer spending out of wage income of its staff and those employed in its UK supply chain. In total Sky is estimated to support 118,600 jobs in the UK.[10]
  - Sky's impact on employment is felt in every part of the country, with significant concentrations in certain regions. It supports 1.2% of all employment in London, 0.6% of all jobs in Scotland and 0.5% of those in the South East.

One of Sky's field engineers

Sky Studios, Europe's most sustainable broadcasting facility, opened in Summer 2011 at Sky's London campus

Sky's tax contribution

- Sky's activities generate considerable tax revenue for the Exchequer. In 2010/2011, Sky directly contributed a total of £941 million. Of this, £337 million were receipts it paid itself through corporation taxes, business rates, etc. It also collected a total of £604 million in taxes on behalf of HM Treasury through customers' VAT payments and staff's labour taxes.
  - Sky's tax contribution is large relative to other similarly sized corporates operating in the UK. In 2010/2011, it paid 1.4% of all the taxes paid by 100 largest FTSE companies.
  - Sky's procurement of inputs and direct and indirect staff spending also generated tax revenue. In total, Sky is estimated to support a £2.3 billion contribution to tax revenues. This is 0.4% of the Budget's forecast for tax receipts in 2011/12 and equivalent to £36 for every person in the UK.

COMPANIES THAT ARE ABLE TO GROW IN HARD TIMES (AS WELL AS GOOD) MAKE A SIGNIFICANT DIFFERENCE TO PEOPLES' LIVES, THROUGH BOOSTING OUTPUT, EMPLOYING PEOPLE AND CONTRIBUTING TO TAX REVENUES. ONE SUCH COMPANY IS SKY.

Sky's wider economic contribution

Sky also contributes to the economy through the activity it enables. These effects are sometimes known as the 'catalytic' impacts and some of the most significant include:

Sky's infrastructure allows other broadcasters to reach their audience

- Sky has invested £3.2 billion in its digital television platform (the set top boxes and related equipment such as satellite dishes). As Sky provides an open access platform, other broadcasters (such as, Discovery Networks, Turner Broadcasting and UKTV) are able to supply and retail their content to Sky's customer base. The economic activity, employment and tax receipts these broadcasters generate benefits the UK economy. Non-terrestrial commercial broadcasters (excluding Sky) employ around 12,000[11] people in the UK.

Sky undertakes product and process innovation which benefits other companies in the UK

- Sky is one of the UK's most innovative companies. Since 2005 it has launched a number of significant new products:
  - A mobile and internet TV service used by over 3 million Sky customers;
  - The UK's first nationwide HD TV service, now with over 60 HD channels and 4 million customers;
  - Europe's first in-home dedicated 3D channel;
  - A range of mobile apps, over 20 million of which have been downloaded in under three years;
  - A broadband delivered video-on-demand (VoD) service to all connected Sky HD boxes;
  - And Sky is shortly to launch NOW TV, a standalone internet TV service available to multiple connected devices.
- Sky's innovation brings knowledge 'spillovers' and other competitive benefits to the other parties. For example, in two of its most recent major pieces of product innovation (HD and 3D), Sky has had to directly co-operate with its suppliers and broadcast partners to introduce the new products. This delivers to them technical expertise other companies around the world do not have. Illustrative of this is the fact that over 50 UK companies have gained expertise in 3D off the back of Sky's investment.
- Sky regularly engages with the UK economy's research base to develop new products and services. This helps hone the commercial viability of the research bases' technological efforts. In 2011, Sky's product research group engaged with 15 universities, 5 research or technological development centres, and over 50 suppliers about new product development.

Sky's impact on competition and supply in the television market

- The innovation undertaken by Sky has provoked a competitive response from other broadcasters and platforms: Sky+ has prompted many rival products on other TV platforms. Those platforms have also enhanced their offer with Sky content: over 90% of all pay TV customers on rival platforms to Sky have access to Sky's channels.

Sky's impact on competition in the broadband and telephony market

- Sky began supplying broadband and telephony services in the summer of 2006. It entered the market competitively, charging a much lower price than the incumbent suppliers. Sky's offering caused a very significant disruption in the market, and saved hundreds of millions of pounds for consumers. Since launch Sky has accounted for around a third of the growth of the broadband market. At the same time broadband take up rates have increased from 41% in the first quarter of 2006 to 74% in the first quarter of 2011.[12]

Enhancing retail premises offers via Sky television and Wi-Fi

- Sky's television programming and public Wi-Fi service improves the attractiveness of the offers of its business customers, including retail establishments, pubs, clubs, and bars. In 2011, nearly 40,000 commercial premises subscribed to Sky's television programming and 6 million people a week watch football on Sky in pubs, generating spending as they do so.

Sky's impact on the sustainability of sports and arts

- Sky's channels generate exposure for the sports and arts sectors. This is particularly important for minority sports and arts: nearly half of the approximately 35,000 hours Sky Sports broadcasts are devoted to non-core sports. Sky Arts shows 750 hours of new programming each year, a significant proportion of which is devoted to arts events which would not otherwise be able to reach a TV audience.

Sky currently provides over 10,000 Wi-Fi hotspots in commercial premises across the UK

Sky is investing in original UK comedy with series such as Mount Pleasant, written by Sarah Hooper

Sky stimulates expenditure on UK produced content

- As well as its own content production and content that it commissions, Sky's presence in the UK increases the production of UK television content. This is partly through global broadcasters (for example, Viacom and Discovery) locating their European HQ or their non US HQ in the UK as the pay television market is more advanced than many other countries (of which Sky was the catalyst). In response to UK customer demand, these global broadcasters are increasingly looking to localise their content. Some of this content has been so successful that it has subsequently been distributed around the world. Amongst this was the activity created in the creative sector from the other non-terrestrial commercial broadcasters spending £254 million on UK content in 2009.[13]
- In addition, a number of the global broadcasters (including Discovery, SBS Broadcasting and Disney) have chosen to locate their European headquarters in West London within easy reach of major customers (like Sky and the BBC). This has created a television production cluster, which enhances the competitiveness of the individual firms within it.[14]

Sky stimulates purchases of HD/3D TVs and other electronic equipment

- Sky's customers are likely to purchase electronic equipment to access its content. These purchases generate GDP, create employment and raise tax revenues in retailers and their supply chains. Assuming all Sky's 3D and HD subscribers at end-2011 had bought the appropriate television, this would generate an over £600 million contribution to UK GDP by increasing electronics retailers' sales and profits.

Summary of Sky's Economic Impact on the UK in 2011

- Sky has grown four times faster than the UK economy over the last decade
- Sky is in over 10.5 million homes
- Nearly 40,000 commercial premises subscribe to Sky TV

22,800
Sky employs people across the UK with 41% based in London, 28% in Scotland and 7% in Yorkshire

- Sky has hired 3,800 young people aged 16-24 in the past three years
- 800 Sky engineers undertake software development and testing
- 2,600 people are employed in producing and commissioning content
- Sky's employees are twice as productive as the UK average

56,600
Estimated jobs supported by Sky's supply chain

£1,830m
Estimated GDP generated through Sky's procurement activities

£755m
Tax payments resulting from jobs supported by Sky's supply chain

- Sky purchases from 4,000 different UK companies
- Sky works with 110 independent production companies for its entertainment content
- 50 UK companies have gained expertise in 3D off the back of Sky's investment

39,300
Jobs supported through Sky staff wages spent in retail and leisure outlets

£1,330m
Estimated GDP generated through Sky's staff spending wages in retail and leisure outlets

£590m
Estimated tax generated through Sky's staff spending wages in retail and leisure outlets

- More than 75% of Sky's £6,405m revenue was retained in the UK in 2011

£2,200m
Sky's direct contribution to UK GDP in 2011

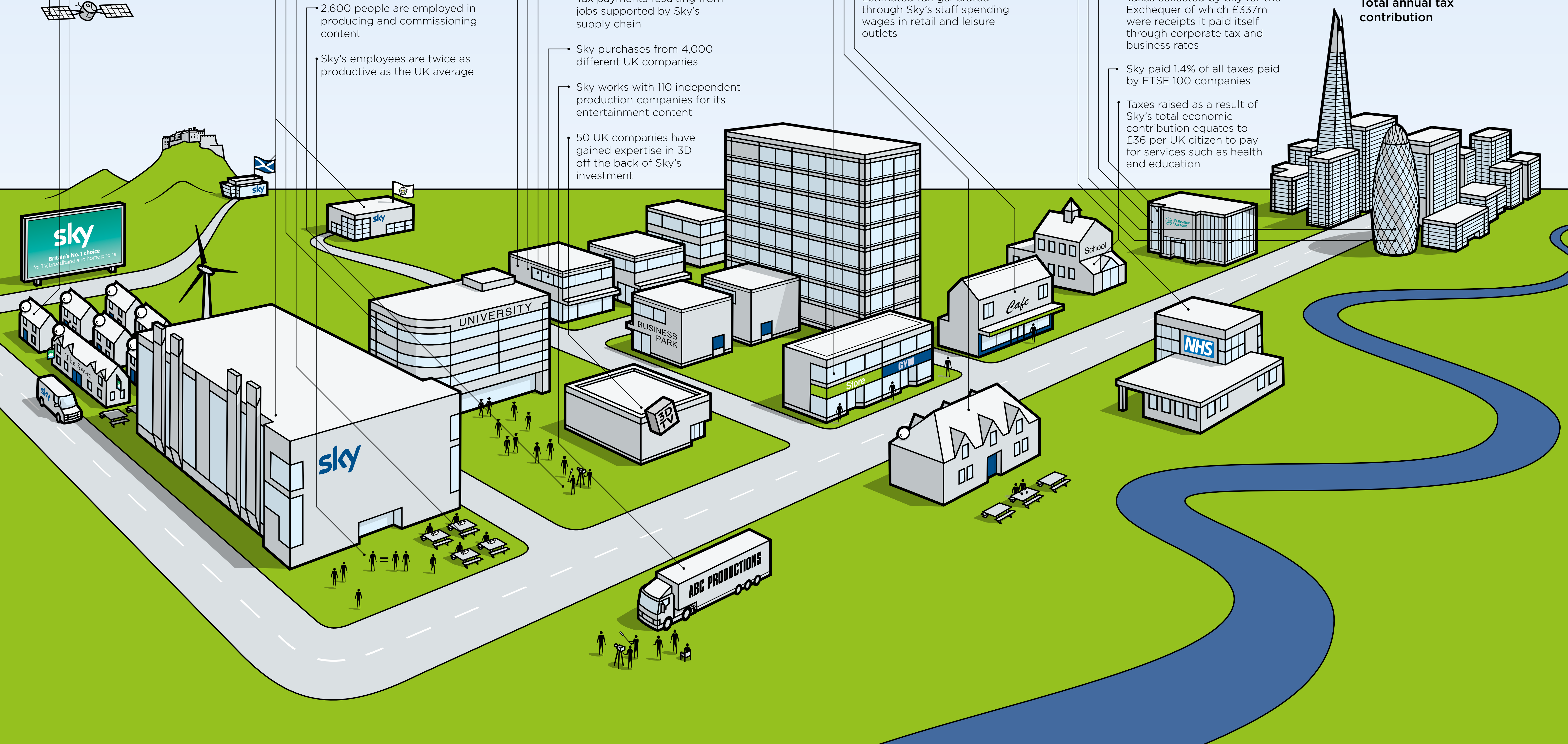
£941m
Taxes collected by Sky for the Exchequer of which £337m were receipts it paid itself through corporate tax and business rates

- Sky paid 1.4% of all taxes paid by FTSE 100 companies
- Taxes raised as a result of Sky's total economic contribution equates to £36 per UK citizen to pay for services such as health and education

118,600
Total jobs dependent on Sky

£5,360m
Total annual GDP contribution

£2,286m
Total annual tax contribution

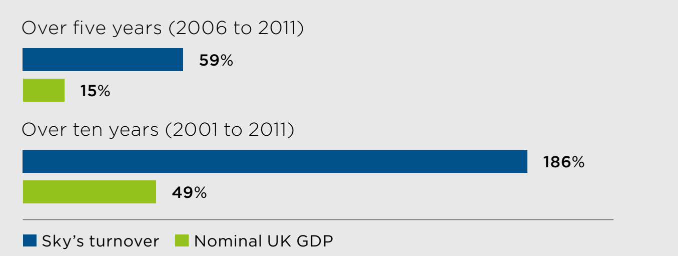


1.0 INTRODUCTION

Between the first quarter of 2008 and the second quarter of 2009 the UK economy contracted in size by 7%. It recovered just under half of that lost output in the second half of 2009 and 2010, but has not grown over the last year and a half. Moreover, forecasts of future growth suggest the recovery will be slow and uncertain, weighed down by concerns about balance sheets, especially in the financial sector with its exposure to the euro area.

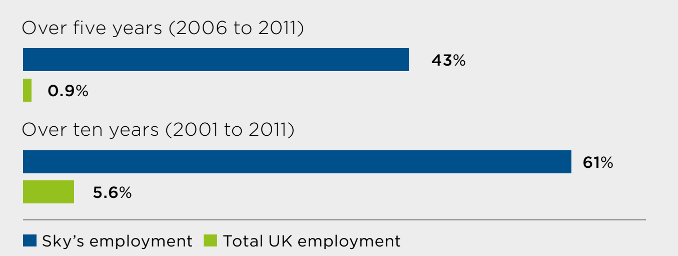
Companies that are able to grow in these hard times (as well as good) make a significant difference to people's lives, through boosting output, employing people and contributing to tax revenues. This study looks at one such company – Sky – and its impact on the UK economy. Over the past five and ten years its turnover has grown considerably faster than the UK economy (Chart 1.1), as has its employment (Chart 1.2).

Chart 1.1: Change in Sky's turnover over the last five and ten years versus the UK economy (%)



Source: Oxford Economics/Sky/ONS

Chart 1.2: Change in Sky's employment over the last five and ten years versus the UK economy (%)



Source: Oxford Economics/Sky/ONS

Sky's growth has not happened overnight or by chance. Since Sky was established in 1989, it has demonstrated an appetite for investment across all areas of its business that underpins its growth today. Areas of significant investment that Sky's shareholders have funded include:

- over £3 billion in building a digital satellite infrastructure (including dishes and set top boxes);
- around £1 billion in a high definition TV platform;
- over £12 billion acquiring sports rights across 100 different sports;
- over £1 billion in rolling out a broadband network;
- almost £250 million in a state of the art digital broadcasting and studio complex at its headquarters in West London.

Sky's appetite for investment continues. In 2011, it invested £2.2 billion in television content alone – two thirds of which was spent in the UK and which is set to increase year on year.

1.1 Introduction to impact analysis

To assess the economic contribution of Sky to the UK economy, this study focuses on three channels of economic impact:

- Direct impacts – this is the gross value added contribution to GDP, employment and tax revenues generated by Sky itself. The impact is created at Sky's operations across the UK.
- Indirect impacts – these are impacts which occur in Sky's supply chain, predominately as a result of its procurement of goods and services. Sky's suppliers are located across the UK. These impacts are quantified in terms of the value added it creates at suppliers, the number of jobs supported and tax receipts generated.
- Induced impacts – these are the impacts which arise from Sky's employees and those employed in its direct supply chain spending their wage income on consumer goods and services. The impacts are first felt at the retail and leisure outlets close to where Sky and its suppliers' staff live, but will also ripple through these firms' supply chains.

1.1.1 Metrics used in economic impact studies

The economic impacts measured in this study are quantified using three metrics. These are:

- Gross value added contribution to GDP – measures the contribution to the economy of each individual producer, industry or sector in the United Kingdom. It is a measure of net output. It is aggregated to form the basis of Gross Domestic Product (GDP) which is the main measure of the total level of economic activity in the UK economy.[15]
- Employment – this is measured on a headcount rather than a full-time equivalent basis. This is to facilitate comparison with employment data for other corporates and industry sectors sourced from the Office of National Statistics (ONS).
- Tax revenues – this is the amount of tax revenue flowing to the Exchequer in £ million.

The economic impacts detailed below are calculated on a gross basis. They therefore do not take account of what the people and other resources would have been used for if Sky did not exist.[16]

The study then looks at the economic activity Sky enables, sometimes known as the 'catalytic' impacts. They are typically split into two types. Supply-side catalytic effects boost the productive potential of the economy in some way, for example, through increasing innovation or competition. Demand-side catalytic effects alter consumer or investment behaviour, leading typically to the purchase of a different product or the same product by a different means.

Catalytic impacts are typically very difficult to quantify, as they accrue to sectors other than the focus of the study. Also, some of the effects are intangible, such as the impact on productive potential. As a result, this study articulates the catalytic impacts of Sky, quantifying them where possible. The catalytic impacts are not added into the £5.4 billion estimate of Sky's contribution to GDP as the coverage can only ever be partial.

SKY'S APPETITE FOR INVESTMENT CONTINUES. IN 2011, IT INVESTED £2.2 BILLION IN TELEVISION CONTENT ALONE – TWO THIRDS OF WHICH WAS SPENT IN THE UK AND WHICH IS SET TO INCREASE YEAR ON YEAR.

Over the past three years, Sky has hired 3,800 young people

1.2 Report structure

This report is structured as follows:

Chapter 2 evaluates Sky's contribution to the UK economy in 2011 through its direct, indirect and induced impacts on GDP, employment and tax receipts.

Chapter 3 looks at how Sky has contributed to the supply-side of the UK economy through enabling other broadcasters to reach their audience, enhancing the offer of other parts of the creative sector through its innovation, and introducing greater competition in the television, broadband and telephony market.

Chapter 4 investigates how Sky has impacted the demand side of the economy, through increasing expenditure on UK-produced television content and increasing the spend on HD/3D televisions and other electronic equipment.

2.0 DIRECT, INDIRECT AND INDUCED ECONOMIC IMPACTS

Main points

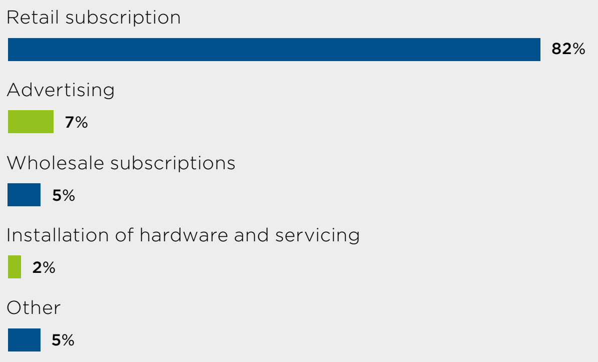
- In total, Sky is estimated to support a £5.4 billion contribution to UK GDP in 2011 and 118,600 people in employment.
- In 2011 Sky generated sales of £6,405 million. On this revenue it made a direct value added contribution to UK GDP of £2.2 billion. This is equivalent to around 40% of the contribution made by the entire TV and radio creative sector in the UK.[17]
- At the end of 2011, Sky employed 22,800 people (direct and full-time contract) in the UK. This makes it similar in size to Rolls-Royce's and IBM's UK operations and to Google's global employment at the end of 2010.
- Sky's staff are very productive. On average, they each produce a £96,400 contribution to GDP in 2011. This is over twice the national average of £48,000.
- In 2010/11, Sky directly contributed a total of £941 million to HM Treasury. Sky's tax contribution is large relative to similarly sized corporates. It paid 1.4% of all the taxes paid by the 100 largest FTSE companies in 2010/11. Taking supply chain and consumer spending impacts into account, Sky helped support £2.3 billion in tax revenues for HM Treasury.
- In 2011 Sky spent £2,165 million on inputs of goods and services from UK firms. This procurement is estimated to support a £1,830 million contribution to UK GDP and 56,600 people in employment.
- The consumer spending out of wage income by the direct and indirect employees is estimated to support a £1,330 million contribution to UK GDP and a further 39,300 people in employment.

2.1 Direct contribution of Sky to the UK economy

2.1.2 Sky's contribution to UK GDP

In 2011, Sky generated sales of £6,405 million in the UK. Subscriptions (both retail and wholesale) for its broadband, telephony and television services provide 87% of this revenue, with 7% coming from advertising and 2% from the installation of hardware and servicing (Chart 2.1).

Chart 2.1: Share of Sky's revenue in the UK by type in 2011 (%)

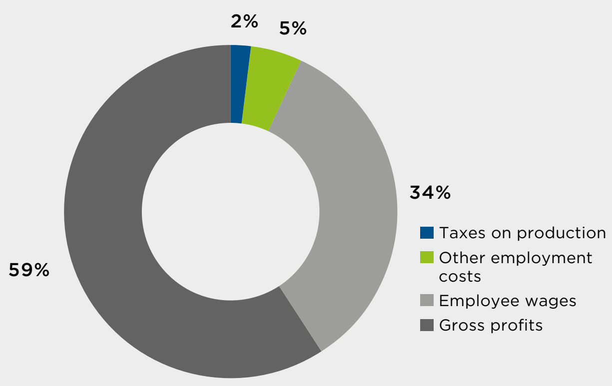


Source: Sky

On these earnings, Sky is estimated to have made a £2.2 billion contribution to UK GDP.[18] This mainly comprised gross profits at 59% and employment costs at 39% (Chart 2.2).

To give a sense of scale, Sky's contribution to UK GDP is equivalent to around 40% of the contribution made by the entire TV and radio sector in the latest DCMS (2011) estimates of the impact of the creative industries.

Chart 2.2: Sky's contribution to UK GDP in 2011 (%)



Source: Oxford Economics/Sky

2.1.3 Employment at Sky

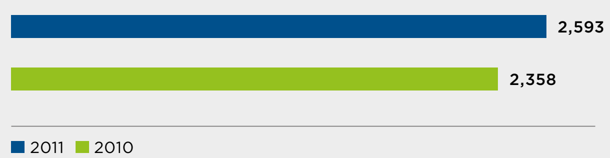
At end 2011, Sky employed 22,800 people (direct and full-time contract) in the UK. This makes it similar in size to Rolls-Royce's and IBM's UK operations and to Google's global employment at the end of 2010. To give an alternative sense of scale, it means that Sky employs more than twice as many people as the entire software publishing or manufacturers of computers and peripheral equipment in the UK. Alternatively, it employs more than half as many as the entire pharmaceuticals industry in the UK.

Of its staff, 2,600 were directly employed in producing and commissioning television content in 2011. These were spread across entertainment, movies, news and sports. The staff employed in news and sport mostly work on production, as all of Sky's news coverage and 92% of its sport coverage is produced in house. These figures do not include the many temporary contractors that work on Sky's programme production.

During a busy weekend of sport, the number of people working on production for Sky Sports can more than double to 1,500 across the whole of the weekend. During a major outside broadcast, such as the Ryder Cup, upwards of 300 staff might be involved in producing the three days of coverage for a single event.

Between 2010 and 2011 the numbers of Sky staff employed in producing and commissioning content increased by 10% (Chart 2.3). They are likely to increase further in the next couple of years, given Sky's June 2011 commitment to increase its UK content spend from £380 million, as it was then, to £600 million by 2014. At the end of 2011, it had already reached almost £450 million.

Chart 2.3: Sky's staff employed in producing and commissioning content in 2010 and 2011 ('000s)



Source: Oxford Economics/Sky

Sky also employs 3,300 people within its technology division. Of these people, 800 are software engineers, who develop and test new software. This is 1% of all the people in Great Britain employed in the business and domestic software development industry.[24] Between 550 and 650 people work on the technical development of Sky's products. It is from these people and their interaction with the UK research base that much of the product and process innovation occurs (positively impacting the wider economy as discussed in Section 3.3).

Sky's staff dealing directly with customers comprise another 8,200 employed in 10 contact centres around the UK, and in Sky's installation workforce in the field. Almost the same numbers again are outsourced to other firms (and therefore counted in the indirect effects in Section 2.2).

Of its 22,800 staff, 2,000 are within the age range 16 to 24 years old.[25] These staff are making a valuable contribution to Sky's business, but are also gaining valuable skills and enhancing their prospects in the labour market. Over the past three years, Sky has hired 3,800 young people, including nearly 300 graduate trainees and apprentices. Sky has ambitious plans to increase the number of younger people it offers opportunities to.

Over the next five years it expects to offer a total of 8,500 youth opportunities, including work placements, across its business. As befits a company operating in a fast moving, customer-focused industry, Sky invests heavily in its workforce. Last year it delivered over 110,000 training days for its employees and enabled them to take almost a quarter of a million e-learning courses.

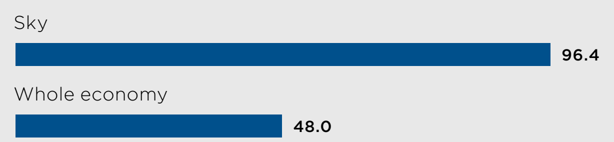
92% of Sky's Sports coverage is produced in house

2.1.3 Employment at Sky (continued)

Sky's workforce is located across the UK's countries and regions (Map 2.1). It employs 9,400 (or 41%) in London (with its studio production facilities and head-office located at Osterley). Another 6,430 (or 28%) are employed in Scotland, notably, in Dunfermline and Livingston. Yorkshire and the Humber is the third most important location, with 1,560 (or 7%) of staff mostly in Leeds.

Sky's staff are very productive. On average, they each produce a £96,400 contribution to GDP in 2011. If comparison is drawn with all workers in the UK, their productivity is just over twice the national average at £48,000. If Sky were a sector on its own its productivity would place it in the top quartile compared to all other UK sectors (Chart 2.4).[26]

Chart 2.4: GDP per head of Sky's staff versus the whole economy in 2011 (£000's)

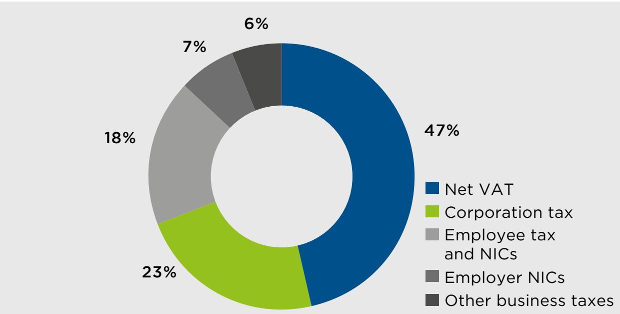


Source: Oxford Economics/Sky

2.1.4 Sky's direct tax contribution

In 2010/11, Sky contributed a total of £941 million to HM Treasury in tax receipts (Chart 2.5) of this, £337 million were receipts it paid itself through corporation taxes, business taxes, etc. It also collected a total of £604 million in taxes on behalf of HM Treasury through customers' VAT payments and staff labour taxes. This gave the other government departments (such as health and education) the equivalent of £15 to spend on each UK citizen.

Chart 2.5: Sky's total tax contribution by type in 2010/11



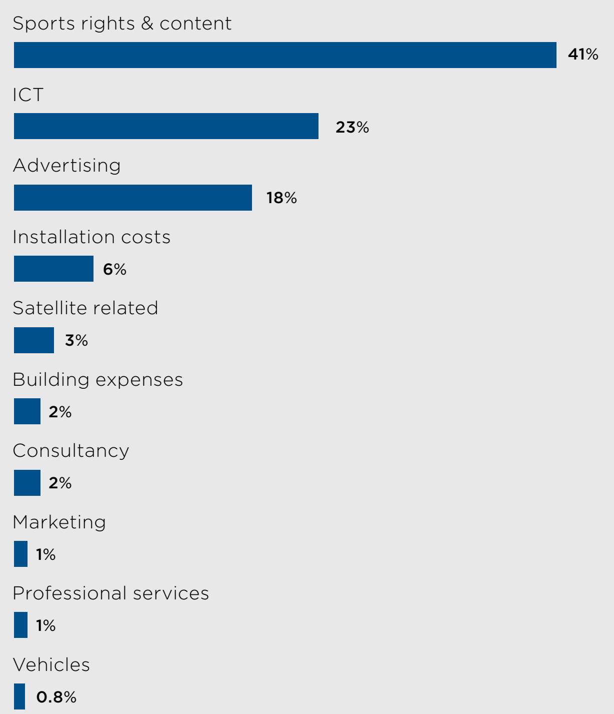
Source: Oxford Economics/Sky

Sky's tax contribution is large relative to other similarly sized corporates. In 2010/2011, it paid 1.4% of all the taxes paid by the 100 largest FTSE companies.[27]

2.2 Sky's indirect contribution to the UK economy

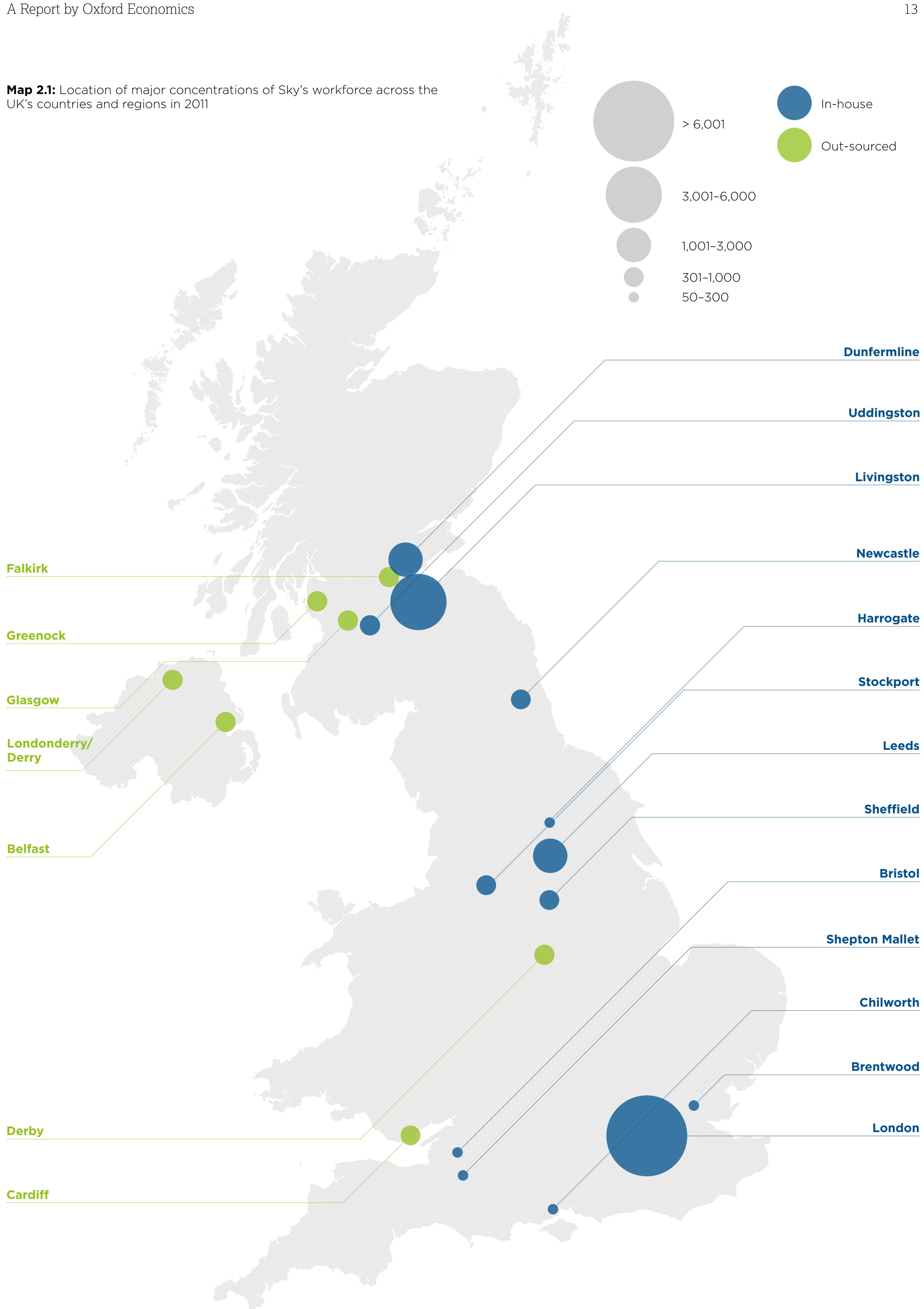
In 2011, Sky spent £2,165 million on inputs of goods and services sourced from UK firms. Major expenditure categories were sports rights and externally-made content (41% of total), ICT (23%), advertising (18%) and installation costs (6%). The remainder of the expenditure was spread over a wide variety of categories (Chart 2.6).

Chart 2.6: Sky's ten largest purchase of inputs from UK suppliers by type in 2011



Source: Oxford Economics/Sky

Map 2.1: Location of major concentrations of Sky's workforce across the UK's countries and regions in 2011



2.2 Sky's indirect contribution to the UK economy (continued)

Sky's UK supply base is widely spread across the UK's countries and regions (Map 2.2), purchasing from 4,000 different companies. It spent at least £10 million on orders for inputs of goods and services from suppliers in 34 of the 434 local authorities in the UK. It spent more than a £1 million but less than £10 million on suppliers from another 83 local authorities.

The major category of expenditure was on sports rights and content from independent producers. In 2011, Sky used 645 independent suppliers in the production of its sports content. Sky sourced entertainment content and films from 110 and 34 independent producers, respectively. This comprises around a quarter of the total number of independent producers operating in the UK in 2012.[28]

As a result of Sky's purchases from its suppliers, those suppliers' purchases from their suppliers, and so on[29] it is estimated that Sky's procurement supports a £1,830 million contribution to GDP. Using labour productivity estimates in each of the industries affected, this is likely to support 56,600 people in employment in Sky's supply chain. Assuming those people and firms earned average wages and profits for their sector, it is possible to estimate Sky's purchases of inputs generated tax payment of £755 million in 2011.[30]

2.3 Sky's induced economic impact

In 2011, Sky paid its 22,800 UK staff £834 million in wages. Moreover, it is estimated to have supported a further 56,600 people in employment in its supply chain. These people are estimated to have earned £1.4 billion in wages.[31]

Using consumption multipliers[32] generated from ONS (2011), it is possible to estimate that their spending out of wage income supported a further £1,330 million contribution to UK GDP at retail and leisure outlets and in their supply chain. The creation of this output would have supported 39,300 people in a job in the UK. Using data on average earnings and profitability for each sector affected, it is estimated this activity would have supported a further £590 million in tax revenues.[33]

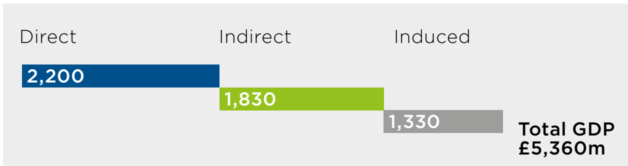
IN TOTAL, SKY IS ESTIMATED TO SUPPORT A £5.4 BILLION CONTRIBUTION TO UK GDP IN 2011. THIS IS 0.4% OF THE UK'S TOTAL OUTPUT.

2.4 Sky's total economic impact

In total, Sky is estimated to support a £5.4 billion contribution to UK GDP in 2011. This is 0.4% of the UK's total output.

Sky has an extensive impact on the UK economy. For every £1 billion it contributes to GDP itself, it generates another £1.4 billion in the rest of the UK economy through its procurement of inputs of goods and services and staff spending their wages at retail and leisure outlets (Chart 2.8). Sky's output 'multiplier' of 2.4[34] is above the average of 2.3 across all sectors of the UK.[35]

Chart 2.8: Sky's contribution to UK GDP in 2011 (millions)



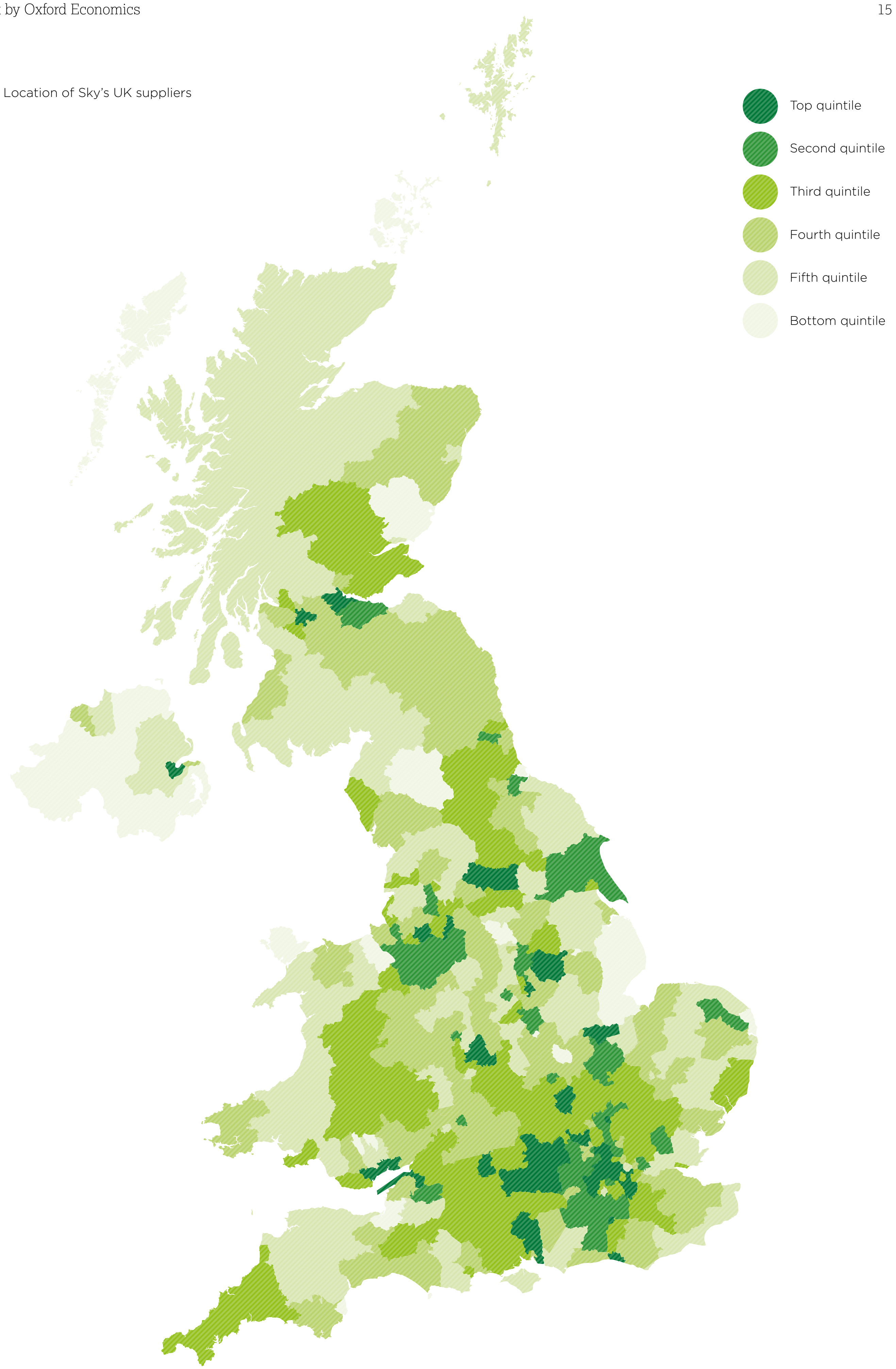
Source: Oxford Economics/Sky

Based on its spending on suppliers and wages, in total Sky is estimated to support 118,600 jobs in the UK.[36] Of these, it employs 22,800 itself, and supports 56,600 in its supply chain and 39,300 due to wage consumption effects. Sky's employment multiplier is therefore 5.2. The multiplier's size reflecting the productivity of Sky's workforce relative to the average across the UK.

In 2011, Sky is estimated to have supported a £2.3 billion tax contribution to the UK Exchequer. This is 0.4% of the Budget forecast for current receipts in the fiscal year 2011/12[37] and equivalent to £36 for every man, woman, and child in the UK.

Hit and Miss, Sky Atlantic's first original drama, co-produced with AbbotVision and Red Production Company

Map 2.2: Location of Sky's UK suppliers



3.0 SUPPLY-SIDE CATALYTIC IMPACTS

Main points

- Around 12,000 people are employed at non-terrestrial broadcasters in the UK. These broadcasters rely on Sky's platform to reach their audience.
- Sky is one of the UK's most innovative companies. Its innovation brings 'spillover' benefits to other parts of the creative sector and wider economy. This enhances other UK firms' competitiveness.
- Rival broadcasters and platforms have been forced to respond to Sky's investment and innovation, and Sky's channels have been used by other pay TV platforms to enhance their offer.
- Sky's entry into broadband and telephony in 2006 acted as a disruptive force, lowering prices and improving services across the market.
- The availability of Sky television and Wi-Fi in retail and other commercial establishments increases sales. Over 6 million people a week watch Sky in pubs, clubs, and bars.
- Sky generates exposure for sports and arts events that would not otherwise find a TV audience, which helps them to generate membership and increase participation. Over half of Sky Sports 35,000 hours are devoted to non-mainstream sports.

Sky's existence enhances the supply-side of the UK economy in a number of ways. This includes facilitating other sectors' ability to get their product to market, enhancing their offering and ability to earn income from other sources. Sky has also positively impacted the competitiveness of the television, broadband and telephony markets, provoking a response from other participants.

3.1 Sky's infrastructure allows other broadcasters to reach their audience

Sky has invested £3.2 billion in its digital satellite platform. The revenues it derives from its retailing of television content are included in the direct economic impacts. But other broadcasters are able to transmit their content to households with Sky's set top boxes if they purchase satellite capacity and uplink facilities. Some broadcasters charge households with Sky's set top boxes for their content (or use Sky as the retailer), others opt to transmit it free to air.

Sky's platform provides the broadcasters of the over 200 channels that charge for their content the opportunities to retail to its 10.3 million TV customer households. The economic activity, employment and tax receipts the other non-terrestrial commercial broadcasters generate are therefore supported by Sky's infrastructure. Non-terrestrial commercial broadcasters (excluding Sky) employ around 12,000[38] people in the UK.

3.2 Benefits of Sky's innovation to the rest of the economy

Sky is one of the UK's most innovative companies. Some indication of this can be given by listing the number of significant new products it has launched since 2005:

- A mobile and internet TV service (Sky Go is used by over a third of Sky's subscribers);
- The UK's first nationwide HD TV service (now offering over 60 HD channels and used by over 4 million Sky subscribers);
- The World's first live sports 3D broadcast to the public followed by Europe's first in-home dedicated 3D channel;
- A series of mobile TV Apps for Apple and Android devices (over 20 million Sky App downloads since launch in November 2009 meaning on average over 20,000 have been downloaded each day);
- A broadband delivered video-on-demand (VoD) service available to all broadband enabled Sky+HD boxes;
- Sky is shortly to launch NOW TV, a standalone internet TV service available to multiple connected devices including PCs, Macs, laptops, tablets, mobile phones, games consoles and connected TVs.

An alternative way of demonstrating this is to use some of the input[39] or output[40] indicators of innovation suggested by the OECD and Eurostat.[41] One of the better indicators is the proportion of customers taking new products. For example, under a year after launch over 3 million of Sky's customers have used Sky Go to access content through PCs, laptops, X-boxes, smartphones and tablets.

Colossus Productions' Kingdom of Plants 3D, a Sky partnership with Atlantic Productions

Sky's innovation brings knowledge 'spillovers' and other competitive benefits to the other parties. For example, in two of its most recent major pieces of product innovation (HD and 3D), Sky has had to directly co-operate with its suppliers and broadcast partners to introduce the new products. This delivers to them technical expertise other companies around the world do not have. Illustrative of this is the more than 50 UK companies which have gained expertise in 3D off the back of Sky's investment in these sorts of projects. Similarly, Sky is enabling Eurosport to broadcast more than 100 hours of coverage of the London 2012 Olympic Games in 3D on its own in house 3D channel (Sky 3D). In addition, Sky has created a market for HD by enabling its monetisation; this encourages investment in the production of HD content for UK viewers.

For an innovation to deliver benefits to Sky and its customers it has to be widely adopted by the producers of television channels, individual programmes and their suppliers.[42] Sky therefore works with the industry to facilitate the spread of the technology. This helps to maximise the spillover benefits. Illustrative of this is Sky's joint venture with Atlantic Productions to form a new 3D content production company called Colossus Productions. It aims to produce original 3D programming for both the UK and international audiences.

One of the indicators of innovation the OECD (2005) proposes is engagement with the economy's research base (including universities and research institutes). This helps hone the commercial viability of the research bases' technological efforts. In 2011, Sky product research group engaged with 15 universities, 5 research or technological development centres, and over 50 suppliers about new product development.

3.3 Sky's impact on the competition and supply in the television market

The innovation undertaken by Sky has stimulated further investment from other broadcasters (especially the free to air) and platforms (especially cable). As a result, the quality and value of their offer and the use of new technologies is much higher. Illustrative of this is on the content side is that many of the innovations, including on-screen graphics, super slow motion and 3D, that Sky has introduced in its sports coverage, have been adopted by its rivals. Similarly, Sky's introduction of the Sky+ box with its capacity to record and play back, has prompted many rival products on different TV platforms. Furthermore, other pay TV platforms, such as cable, are also able to sell Sky's content to their customers, as a result of Sky offering its channels on a wholesale basis. The provision of this content enhances the attractiveness of the other platforms' offering, increasing the viability of their business. Over 90% of all pay TV customers on rival platforms to Sky have access to Sky's channels.

3.4 Sky's impact on competition and supply in the broadband and telephony markets

Sky began supplying broadband and telephony services in the summer of 2006 and over this period has invested over £1 billion in broadband and telephony. It entered the market competitively. The product offer included a free broadband package for all TV customers with up to 2 gigabytes of data per month and free router and anti-virus software to all customers, as well as large savings on telephony bills. Depending on the bundle of services chosen the Sky package offered savings of between £135 and £299 on the costs of equivalent services from incumbent suppliers. This helped drive a reduction in costs to consumers. Between 2006 and 2010 average household spend on fixed voice and broadband services had fallen by almost a quarter in real terms.[43] New entrants into this market – the largest of which was Sky – played a key role in reducing prices and driving take up of broadband services across the UK.

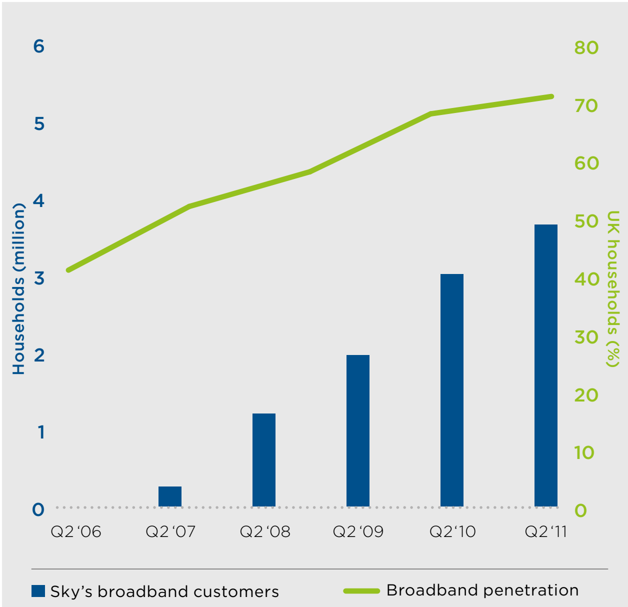
Due to strategic investment, Sky can now deploy a very high capacity fibre-optic core network to the advantage of its customers. This country-wide network allows Sky to offer customers a product with no usage caps and consistency of access speed without the constraints that can occur on other networks at busy times. This capacity, and the demand it engenders from a large pool of subscribers, plays a role in accelerating the development of new internet-based services that require both bandwidth and speed.

From the standing start in 2006, Sky now has 17% of the UK broadband market and continues to offer a highly competitive broadband and talk package to TV-subscribers. Sky has accounted for around a third of the total growth of the broadband market since 2006 which has seen broadband take up rates increase from 41% in the first quarter of 2006 to 74% in the first quarter of 2011.[44]

As well as increasing the proportion of households with broadband internet access, the availability of low cost home-based internet services can play an important role in helping poor, often workless families. Gardner and Oswald (2001)[45] have shown that those who have greater access to the internet in the UK tend to also earn higher incomes, have higher levels of educational attainment, and join voluntary organisations at a higher rate. For similar reasons, the Cabinet Office and the Department for Business have noted the importance of closing the digital divide among UK households, particularly since many government services, including information and assistance in applying for employment, for example, are increasingly being delivered online.[46]

SKY HAS ACCOUNTED FOR AROUND A THIRD OF THE TOTAL GROWTH OF THE BROADBAND MARKET SINCE 2006.

Chart 3.1: UK broadband penetration and Sky broadband customers



Source: BSkyB/OFCOM (2011)

3.5 Enhancing retail, pubs, clubs and other firms' offers via Sky television and Wi-Fi

Sky's television programming and its public Wi-Fi service improves the attractiveness of the offers of their business customers, including retail establishments, pubs, clubs, and bars. In 2011, nearly 40,000 commercial premises subscribed to Sky's television programming, an increasing number of which are making use of Sky's free public Wi-Fi services, allowing customers to access the internet on their premises. In addition, Sky's home broadband subscribers have free Wi-Fi access in over 10,000 hotspots including major retail outlets.

The availability of Sky television and public Wi-Fi in retail and other commercial establishments is likely to increase these outlets sales. For example, 6 million people watch live football in pubs in the UK each week either on Sky or ESPN. They would be responsible for the consumption of part of the £27 billion[47] spent on alcoholic beverages in pubs, bars and restaurants each year.

Sky's public Wi-Fi offering which is available free for Sky's commercial customers as well as retailed to other premises also give retailers and other commercial establishments the option to introduce their own product innovations and to make customer offers and pricing more dynamic. Innovations in the hospitality industry are important as the Hotel and Catering industry's productivity growth has for many years lagged behind that of the rest of the economy.[48]

3.6 Impact on the sustainability of sports and arts

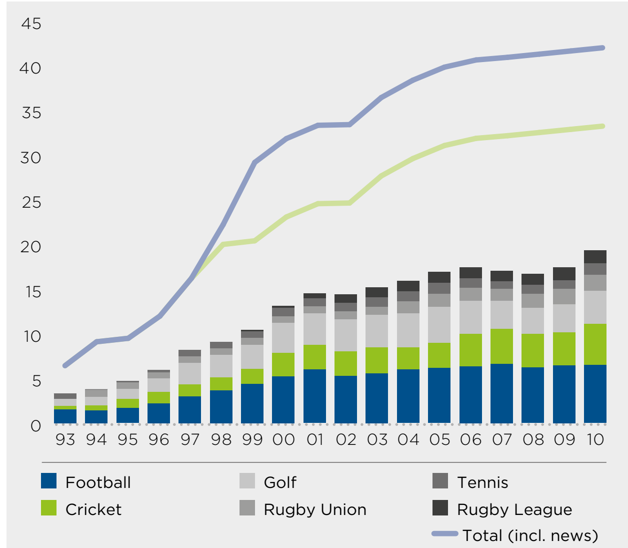
Sky helps sustain the sports and arts sector in two main ways. It acquires rights to broadcast both sports and arts content. The GDP and employment this spend generates at both the elite and grassroots level is included in the estimates of the indirect economic impacts in Section 2.2. However, Sky's broadcasts also generate exposure for the sports and arts sectors. This is particularly important for minority sports and arts.

Nearly half of the approximately 35,000 hours Sky Sports (excluding Sky Sports News) broadcasts are devoted to non-core sports (including angling, yachting, darts, netball, speedway and badminton). From this exposure, sporting bodies have been able to generate additional interest and membership which supports them financially.

Sky Sports covers the English Netball Superleague and other events as part of a broadcast arrangement.[49] Since that arrangement England Netball reported an increase in membership of 15% and, according to Sport England, netball is one of four sports that has seen a statistically significant increase in membership since 2007.[50]

Sky's two arts channels are watched by over 5 million viewers each month and show 750 hours of new programming each year, a significant proportion of which is devoted to arts events such as opera, ballet, exhibitions, festivals and regional arts events which would not otherwise be able to reach a TV audience. For example, since 2007 Sky Arts has been the broadcast sponsor of the Hay Festival of Literature and the Arts, broadcasting its own book programmes as well as sessions and events to bring the best of the festival to a wider audience. Sky Arts also covers other UK book festivals including Cheltenham, Bath and Brighton.

Chart 3.2: Broadcast hours devoted to different sports on Sky Sports (000's hours per year)



Source: Oxford Economics/BSkyB

Emma Thompson stars in Walking the Dogs, part of the Sky Arts Playhouse Presents series, which champions innovative productions and original writing

4.0 DEMAND-SIDE CATALYTIC IMPACTS

Sky's 3D channel is an opportunity for UK programme producers to create content for the UK and international markets

Main points

- Sky has been the catalyst for many global broadcasters to locate their European or non-US headquarters in the UK. Due to consumer demand these broadcasters are increasingly producing local content. In 2009, the other non-terrestrial broadcasters spent £254 million on UK content.
- Assuming all of Sky's 3D customers have purchased a 3D TV and all of its 4.1 million HD TV subscribers have purchased a new HD TV, Sky would have enabled a £600 million contribution to GDP from the increased trade enjoyed by TV retailers.

Sky's existence enables some expenditure in the UK economy by other businesses or people that would not have taken place otherwise.

4.1 Sky's attraction of global broadcasters to the UK stimulates expenditure on domestically produced content

As well as its own content production and that it commissions (worth £1,316 million combined in 2011), Sky's presence in the UK increases the production of UK television content. This is partly through global broadcasters (for example, Viacom and Discovery) locating their European or non-US headquarters in the UK. These companies choose to locate in the UK as the pay television market is more advanced than many other countries (of which Sky was the catalyst).

In response to UK customer demand, these global broadcasters are increasingly looking to localise their content. In 2009, the other non-terrestrial commercial broadcasters (excluding Sky) spent £254 million on UK content.[51] For example, Discovery is boosting its spend in the UK market by 50%[52] and UKTV's Gold is to inject millions into original content as part of its wider 20% spending boost for 2012.[53] All expenditure on content production in the UK helps to generate jobs and output in the creative sector.

A number of the global broadcasters have chosen to locate in close proximity to each other in West London; including Discovery Networks, SBS Broadcasting Networks Ltd and The Walt Disney Company. Co-location (or clustering as it is known) is argued to enhance the competitiveness of constituent firms. Porter and Ketels (2003)[54] argue clustering increases the productivity of constituent firms (through for example, building a pool of skilled labour from which they can draw); increasing the capacity for innovation and productivity growth (for example, through increasing the speed at which new ideas or technology are disseminated); and facilitating new business formation.

4.2 Retailers' margins on increased sales of HD and 3D televisions

The availability of HD and more recently 3D formats to Sky customers is a boost to retailers of these new TVs and to their supply chain. These purchases generate GDP, support employment and contribute tax revenues. In quantifying this effect it is reasonable to assume all of Sky's 3D and HD subscribers will have purchased the appropriate television. On this basis there is a contribution of over £600 million to UK GDP from the increased sales and profits enjoyed by TV retailers.

The penetration of 3D TVs globally is forecast to grow rapidly and some commentators expect that they will account for a quarter of TV sales by the end of 2012.[55] A major impediment to sales is lack of content. This offers an opportunity to UK-based TV programme producers to build on their global position and their existing links with Sky to create 3D content for both the UK and international markets.

Sky itself is pioneering 3D coverage of globally important sporting events that are better viewed in 3D, such as the golf majors and the Premier League football, building the latter's worldwide following that brings considerable economic benefits to the UK. Other steps to increase 3D TV uptake include allowing Eurosport to use Sky's 3D channel for 100 hours of coverage of the London Olympics and offering all HD TV subscribers free 3D TV for the duration of the Games.

Discovery is boosting its spend in the UK market by 50% with original commissions such as World's Toughest Expeditions with James Cracknell

IN 2009, THE OTHER NON-TERRESTRIAL COMMERCIAL BROADCASTERS (EXCLUDING SKY) SPENT £254 MILLION ON UK CONTENT.[5]

FOOTNOTES

1. Unless otherwise stated, all values in this report are for calendar year 2011.
2. Source: DCMS, Creative Industries Economic Estimates (December 2011, data refers to 2009)
3. Source: Rolls-Royce Annual Report (2010)
4. Source: http://www.ibm.com/ibm/uk/en/
5. Source: Google Annual Report
6. Source: ONS, Annual Business Survey (2010 data)
7. Source: ONS, Annual Business Survey (2010 data)
8. Darroch, J, (2011), 'Investment, growth and policy for the creative industries', 8 June speech.
9. ONS data from the Business Register and Employment Survey for SIC code 62012: business and domestic software development.
10. Derived from total GVA per sector / productivity per employee (ONS Annual Business Survey 2010 data)
11. The Satellite and Cable Broadcasters Economic Impact (excluding Sky) (Deloitte 2008)
12. Source is OFCOM, (2011), 'The communications market 2011: Internet and web based content', 4 August.
13. Figures from Deloitte's (2011) study entitled 'The Commercial Broadcasters' Association content investment' minus Sky's contribution.
14. Clustering is perceived to improve the competitiveness of member firms through increasing the level of productivity, increasing the capacity for innovation and enabling new business formation.
15. References to the rate of economic growth or when the economy enters recession are made using GDP.
16. This is a standard procedure in the analysis of the economic impact of individual industries or businesses.
17. Source: DCMS, Creative Industries Economic Estimates (December 2011, data refers to 2009)
18. The estimate is made using the income approach. This measures the income generated by Sky's delivery of broadband, telephony and television services, so for example the wages paid to its employees and profits to the shareholders.
19. Source: Rolls-Royce Annual Report (2010)
20. Source: http://www.ibm.com/ibm/uk/en/
21. Source: Google Annual Report
22. Source: ONS, Annual Business Survey (2010 data)
23. Darroch, J, (2011), 'Investment, growth and policy for the creative industries', 8 June speech.
24. ONS data from the Business Register and Employment Survey for SIC code 62012: business and domestic software development.
25. In the last three months of 2011, the unemployment rate for 16 to 24 year olds was 22%. This compares to an average of 14% in 2007, the year before the recession began.
26. Based on the latest data for productivity of all sectors with a 3 digit ONS Standard Industrial Classification.(SIC) Source: ONS, ABS
27. Uses data on the FTSE 100 companies tax contribution from PwC (2012), 'Total tax contribution: Surveying the Hundred Group'.
28. Source is PACT membership.
29. Sky's suppliers' purchases from other sectors of the UK economy are estimated based on the pattern of supplier purchases in the National Accounts Input-Output Tables, ONS (2005).
30. It is worth noting that the 'indirect' calculation excludes the impact of spending by Sky on fixed capital – £455 million in 2011 – as opposed to 'current' goods and services. This spending is treated as being made out of profits rather than as reducing profits, and so is already reflected in full in Sky's own direct contribution to GDP
31. Calculation assumes people are paid the mean wage for the industry which they work in using ONS ASHE data for 2010.

32. A consumption (also known as a Type II) multiplier shows the impacts of the local expenditure by those who derive their incomes from the direct and supply linkage impacts of Sky.
33. This calculation of the 'induced' impact excludes any effect of spending funded by profits rather than wages (whether capital spending by supplier firms or consumer spending by individual investors and creditors), as those linkages are typically less important and less certain than the link from wage income to consumer spending.
34. (Direct + Indirect + Induced GDP contribution)/Direct GDP contribution)
35. Source: Oxford Economics' calculations based on the latest ONS – Domestic Use Input-Output Tables (unweighted average of all 123 sectors published)
36. GVA in each sector generated by Sky's spending is estimated based on ratios of GVA to total output implicit in ONS input output tables. Total employment = GVA / productivity per employee (2010 ONS Annual Business Survey)
37. Page 106 of HM Treasury, (2012), 'Budget 2012'.
38. The Satellite and Cable Broadcasters Economic Impact (excluding Sky) (Deloitte 2008)
39. For example, spend on R&D, existence of an R&D department, participation in joint projects with a country's educational research base
40. For example, percentage of sales from new or improved products.
41. OECD, (2005), 'Oslo Manual: Guidelines for interpreting and collecting innovation data'.
42. These are known as network spillovers in the academic literature.
43. Source: OFCOM, "The Communications Market 2011" and Oxford Economics calculation.
44. Source is OFCOM, (2011), 'The communications market 2011: Internet and web based content', 4 August.
45. Gardner, J. and Oswald, A., (2001), 'Internet use: the digital divide', British Social Attitudes: The 18th Report, Sage.
46. Cabinet Office and Department of Trade and Industry, (2005), 'Connecting the UK: the Digital Strategy', March.
47. ONS, (2012), 'Consumer Trends'. Data for 2010.
48. Over the last decade labour productivity has grown at an annual average rate of 0.6 percent compared to 1 percent for the economy as a whole.
49. In the past three years, Sky Sports has broadcast 85 programmes showcasing 178 hours of netball to 3 million viewers.
50. Portas & Company, for BSkyB (2012).
51. Figures from Deloitte's (2011) study entitled 'The Commercial Broadcasters' Association content investment' minus Sky's contribution.
52. Source: Broadcast, November 2011
53. Source: Broadcast, February 2012
54. Porter, E and Ketels, C, (2003), 'UK competitiveness: Moving to the next stage', DTI Economics Paper No. 3, May.
55. "3D LCD TV panels achieved 10% penetration in 2011", Solid State Technology, March 8, 2012

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