

## ERICSSON/CREATIVE MERGER INQUIRY

### Summary of hearing with Discovery Networks International held on Thursday 14 November 2013

#### Background

1. In the UK, Discovery Networks International (Discovery) operated 13 brands, using the UK as a hub for its European or EMEA business, as far east as Russia and as far south as Africa. In the London facility Discovery operated 82 channels.
2. The scale and volume of facilities was probably the most complex component along with broadcasting in 30 languages. Complexity was also evident in the volume of channels it ran and the ratio of channels to operator; at ten channels to one operator, this was considered above average for the industry.
3. There were three components to producing playout in 30 languages—language dubbing, subtitles, or a combination of the two—which were applied based on market-specific preferences. It further explained that international diversity came with the requirement to playout in 30 languages.
4. Discovery used technological solutions to deal with the complexity resulting from the diverse language requirements. It had pioneered a software system that ‘virtually’ attached language information such as audio files and subtitles to its video files. This meant that it needed to ingest only a single video asset, which was automatically combined with the relevant audio asset at the point of transmission.

#### Outsourcing/insourcing playout operations

5. Discovery had outsourced the linear playout provision for its channels in the UK since they were launched. At that point the provider was Pearson, whose facilities were taken over by Ascent, which itself was subsequently acquired by Encompass.
6. The decision to bring Discovery’s playout operations back in-house was based on its core values of control, predictability and flexibility. Since 2009/10 Discovery had experienced rapid growth and had launched a large number of feeds across Europe. It noticed that in an outsourcing environment it was difficult and time consuming to shift around resources, take risks, or launch a new channel, as anything that was not covered by the existing contract and SLAs had to be renegotiated.
7. There were three reasons to outsource a service:
  - (a) a business could not or was reluctant to invest the required capital, for example because it was at an early stage of its development;
  - (b) a business did not have the expertise to do the work in-house; and
  - (c) there were opportunities for economies of scale in the provision of the service.
8. In 2010 Discovery considered that, as it had the scale and the expertise required, it would insource its playout operations.

## **Main issues with insourcing playout operations**

9. The process of bringing the playout operation back in-house from Encompass was not difficult. Discovery's main consideration in the transition was the employees. For the operational staff a TUPE transfer applied, and the vast majority of staff decided to transfer. Encompass's non-operational staff, who were not dedicated to Discovery's work, did not transfer. However, Discovery had the necessary expertise to fill these non-operational roles within its own business, mostly coming from other facilities that it had in the USA and Latin America.
10. The remaining practicalities around the transition were related to the valuation of assets. In the period from 2005 to 2010 various investments had been made in Discovery's playout operations, some by Encompass, and some by Discovery itself. Discovery had undertaken these investments because it had the financial resources to do so and did not want to pay a margin to Encompass on these investments. Therefore, Discovery needed to go through a separation of assets between it and Encompass and ensure a clear valuation for the assets it did not already own.

## **Operational handover**

11. In the end, there were no issues regarding the operational handover. In the beginning the operational set-up was completely left in place, but over time the company started to use the resources in a more flexible manner. What used to be two separate work streams, the external playout team and Discovery's own media operations, became more integrated. This helped the organization to generate better value from its resources.

## **Future outsourcing**

12. If it made sense operationally, Discovery could still outsource part of its playout in the future. As an example, Discovery highlighted its Italian business, which acquired the rights to Six Nations rugby. As a result, the requirements were a bit more local and internal economies of scale would not be achieved. Discovery's existing operations were not accustomed to dealing with the high volumes of change in the schedule due to the live content. Therefore it tendered the playout services and awarded the contract to Telecom Italia.
13. Encompass was still Discovery's provider in Asia, and had been for a long time.
14. Discovery would have to take a number of decisions regarding playout over the coming two to three years. It had acquired other businesses, and as a result needed to rationalize some of its infrastructure over the coming year. The current view was that it would build its own new infrastructure. It considered that it was up to date with regard to the newest technology, and that it had the necessary scale.

## **Playout services to other broadcasters**

15. Discovery also provided playout services to other broadcasters. In the USA it provided playout to BBC America, the Hub (a joint venture with Hasbro) and the Oprah Winfrey Network (a joint venture with Oprah Winfrey). However, Discovery only did this for parties with which it had well-established ongoing relationships. Discovery would not go out and bid for additional playout contracts, as that was not its core business.

16. Discovery did not provide its own disaster recovery, but worked with Arqiva to do so. Arqiva backed up all of Discovery's assets, but could not take over its playout. It recorded data feeds for two weeks and then moved them. If anything went wrong with the main transmission, Discovery could put a data feed to a satellite and be on air with the last two weeks of its assets in tact.

### **Video on demand**

17. Discovery provided video on demand content to multiple providers around the world, and it felt that this was the area where innovation was happening. It operated its non-linear playout in-house, but had developed the necessary technology in partnership with Accenture. Its objective was for the linear and non-linear playout to use the same media assets, and then distribute them to the correct platform. It outsourced software development because it was a lot more efficient than hiring a team to do this in-house.