

ERICSSON/CREATIVE MERGER INQUIRY

Summary of hearing with Turner Broadcasting System Europe Limited held on Friday 29 November 2013

Background

1. Turner Broadcasting System Europe Limited (Turner) was a global broadcaster, with 130 branded channels in 27 languages in more than 200 countries.
2. Turner's presence in the EMEA comprised CNN International, which was edited in Atlanta, and Turner Broadcasting System Europe Limited ('Turner Entertainment'), which delivered 39 purely entertainment channels across the EMEA region, such as the Cartoon Network, TNT and TGN. CNN playout was conducted in-house, whereas Turner Entertainment playout was outsourced. The hearing focused on Turner Entertainment only.

Outsourcing

3. The decision to outsource playout for Turner Entertainment channels was the result of a strategic review that considered market and technology developments, and concluded that linear playout was a commoditized service that should be outsourced. Outsourcing had a similar operational cost to in-house, though it had significant advantages in avoiding capital expenditure that could then be used for other objectives. Another advantage was that management focus could move from operations to programme development and business growth.

Requirements/complexity

4. Turner was a multi-territory, multilingual, multi-subtitle broadcaster for linear and non-linear platforms. It was different from and more complex than UK-only and public service broadcasters in one respect as it broadcast in up to 16 audio and 13 subtitled languages. It considered itself comparable to Discovery.
5. Turner Entertainment broadcast 39 channels across several regions and split its outsourcing locations into five regional clusters. For example, the German cluster, broadcasting German channels, and the UK cluster, which broadcast from London.

The tender process

6. Turner used a tender process that included the following stages: prequalification of certain companies; a formal Request for Proposal (RFP); a beauty parade; short list; due diligence; and final tender selected.
7. For the UK cluster (16 channels), Turner had pre-qualification discussions with [redacted].
8. The remaining four providers all submitted proposals. Turner first evaluated and scored the technical solution and the commercial proposition. All four companies were then invited to a beauty parade, which spanned a whole day and comprised presentations of the company, the technical solution and the commercial proposition. Turner had a team of technical, procurement and legal experts to review the bids.

9. Arqiva won the tender, [REDACTED].
10. Although Turner ran the process on a confidential basis with non-disclosure agreements, it considered that the bidders all knew of their competition for the tender as it was a small industry.
11. Even though Turner had taken the strategic decision to outsource its playout, [REDACTED].
12. [REDACTED]
13. The contract was for [REDACTED] years, with an option to break at [REDACTED] years. The media market and technology in particular were changing rapidly and this break might be necessary if something happened that affected one of the platforms on which it was broadcast (eg DTH satellite). There were only three main platforms across the industry. Turner's contract length had been driven by technology change and consequent reduction in costs over time as playout became more commoditized.
14. [REDACTED]
15. [REDACTED]
16. [REDACTED]

The playout market

17. [REDACTED]
18. If Turner was considering a new tender, it would look at the market afresh, to gauge the viable candidates at the time, including visiting trade shows. Turner was relatively open minded to considering options such as an IT provider looking to move downstream or a foreign playout provider.
19. If Turner had to run its current tender again, it would invite the same companies to the RFP process. [REDACTED].

Views on the merger

20. Turner was aware that Technicolor had been taken over by Ericsson, [REDACTED]. It understood that every playout provider made errors, adding that totally error-free playout would be too expensive for any operation. [REDACTED].
21. [REDACTED]. However, Turner did not know whether the market would change as a result.
22. [REDACTED]. Each broadcaster knew the costs of playout, and a larger organization might actually suffer with higher overheads, such as a proportionally larger number of managers.
23. Pre-merger, only RBM and Technicolor could supply BBC and ITV due to their national broadcaster requirements. There were few options for the BBC pre-merger, [REDACTED]. It would be challenging for Arqiva to take on BBC or ITV without the PSB experience and scale. Encompass had downsized, which would make scale an issue. Deluxe was focusing on cloud-based solutions that would not be appropriate for BBC or ITV.