

section three

the outsiders

Advertising has had it
Sir Alan Sugar



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Sir Alan Sugar | Chairman,
 Amstrad

I'm a great believer in sticking to what you know: I know about business and the electronics industry. I appear on television, my company makes equipment which enables people to watch television, and of course I watch it myself. But I don't claim to be a broadcasting guru. I wouldn't presume to tell those who have been in television for many years how to dream up The Next Big Thing, just as I hope they wouldn't have the nerve to start lecturing me on to how to run my business. If you haven't worked out by now what the viewers want, you need help from someone other than me.

But as an outsider with a little bit of inside knowledge, I can make some observations about the kind of changes I see in the industry, particularly in the way technology is beginning to impact on the way television is organised and funded.

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What is interesting is how satellite and cable have hardly managed to weaken the grip of the Big Five terrestrial broadcasters: BBC One and Two, ITV, Channel 4 and Five. This is in spite of the fact that - in theory at least - there is far more choice out there for the viewer. Over the last couple of decades the major change in television has been the creation of extra channels through satellite and cable. With the advent of digital TV, we should see an ever-expanding range of choice, as more and more new channels come on air. It gets easier every day to set up as a broadcaster. Today you can buy a transponder and start up a television channel for a miniscule amount of money, and a satellite operator like BSkyB is obliged by law to open its platform to you.

Given all that, increased competition should mean it becomes tougher for the individual broadcaster. But the Big Five don't seem to be seriously challenged. They're not even breathing heavily yet.

You might argue back by pointing to BSkyB as the obvious success story of the last ten years. The truth is that their success is almost entirely down to the rights they own for sport. If they hadn't spent big money on rights to broadcast football, I can't help wondering whether

they would have progressed as far as they have. Would we still see an EPG - Electronic Programme Guide - with a thousand channels on it? And when it comes down to it, could any of those channels survive in their own right? Frankly, I doubt it. Even Sky One is not that popular, in spite of the amount of money that has been thrown at it to make it the complete light entertainment channel. Indeed it could never become as popular as the Big Five, for the simple reason it is not available to everyone: the pool in which it can fish for viewers is necessarily limited to seven or eight million Sky subscribers. In terms of its appeal to those people, it does well, but we should really be considering the whole audience in this country: 20 million homes, the majority of whom have not yet signed up for subscription TV.

The point of entry to those homes could be digital terrestrial, as Freeview becomes increasingly popular. Yet there again it is the Big Five channels that attract most of the viewers. None of the ten or so 'secondary' channels, as I consider them, is especially popular or could survive in its own right. So I believe in the short term - by which I mean the next ten years - the Big Five have little to fear from the new kids on the block. Their major concern will be fighting amongst themselves.

But, even if the dominance of the terrestrials will remain unchallenged for the foreseeable future, they cannot remain *unchanged* by the existence of alternative channels. None of the Big Five can afford to buy the sports rights that BSkyB own and will continue to own. These rights are hardly likely to fall in cost, so Sky will continue to dominate in this area, picking up a core audience of sports fans. This will be the template for multi-channel broadcasting. What the channels want are their own individual customers, their own little niches in the market, and they will only be able to achieve that by coming out with more and more different configurations of specialised programming or programmes.

But I don't want to give the impression that the Big Five can sit back smugly and assume that everything will carry on for them just as it has for the last 20 years. If I headed any of the commercial channels, what would worry me right now is the kind of device my own company makes, which is beginning to revolutionise the way we watch television in this country: the PVR, Personal Video Recorder, essentially a set-top box incorporating a hard disc drive. The people who are buying these so far are what I call the techno-clique, and right now *you* might not know why you would want one: but as soon as the cost begins to drop, you'll find out. Within ten years PVRs will be as ubiquitous and as cheap as the DVD player is today.

Sky Plus were leaders in the field, but the concept of a personalised recording device that understands your viewing preferences is not

restricted to satellite. You can buy PVRs for digital terrestrial that work in exactly the same way. The precise technology doesn't matter: PVR, VoD - Video on Demand - or DVD recorders. Once you have tried one, you are never going to go back because you can pre-programme what you want to watch; you can store programmes, advance them, and even make up your own television channel if you like. We are close to the tipping point where they will become mass-market. In the second half of 2004 my business benefited from an exceptional rise in turnover, reflecting significant sales of PVR set-top boxes, we saw a strong demand for Sky Plus PVR boxes in the run up to Christmas of that year.

'Kat in *EastEnders* will open a packet declaring, "Mmm, delicious, my favourite crisps." Instead of a character in *Coronation Street* saying "I have to collect my car from the garage," he will announce: "I'm just off to pick up my new Toyota Yaris from its service."

But why are they so revolutionary? One of the main reasons I own a PVR is so I can skip adverts. I haven't watched an ad spot for over a year now - of course, apart from my own Premium Bonds one. Everybody is going to be doing the same soon. Digital devices make it easier than ever to programme out the ads, and what kind of brain-dead viewer is going to sit there solemnly watching them go through if they have the option of jumping? So in my view, advertising has had it, on television.

It is going to be a huge problem for broadcasters. How can you fund commercial television without advertising? My warning, if you work at a commercial television channel, is to get another job, because at the moment it is advertising that pays your wages. In eight or nine years' time, the advertisers will not want to pay you because no one will be watching the adverts. It is as simple as that. Defect to the BBC now.

The BBC will come out of it smiling: they have the licence fee. But increasingly commercial broadcasters must look to new ways of raising money from advertisers. They need to lobby government and Ofcom to allow product placement for example. The fact that the whole viewing public will be skipping adverts as a normal course of events, means we will need to become used to seeing programmes where people openly talk about products. Perhaps camcorder manufacturers will fund new technology shows that discuss their own latest model. Cat in *EastEnders* will open a packet declaring, 'Mmm, delicious, my favourite crisps.' Instead of a character in *Coronation Street* saying

'I have to collect my car from the garage,' he will announce: 'I'm just off to pick up my new Toyota Yaris from its service.' Perhaps he'll even tell us he found this car to be much more reliable than his last - never had a problem with it. If it is done well, it will sound perfectly natural: just the kind of everyday comment we've all made at some time. Someone else will be kitted out in the new Marks and Spencer summer range, and brandishing the carrier bag to let you know where it came from. Part of the creativity of the programme-making process will become the inventive ways people discover of embedding commercial content into the programmes themselves.

Will viewers watch programmes with advertising content? Of course, if the programmes are good enough. Programme-makers know that better than anyone else. What gets people to watch is word of mouth. *The Office, 24*; when a brilliant new programme hits the screen, it gets talked about and people tell their friends to watch. *The Apprentice* built its audience by word of mouth. It doesn't matter how much promotion a programme gets or how much product placement it contains, the way to attract viewers is if the content is good.

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Advertisers and broadcasters are going to have to learn to be cleverer, and to persuade the regulators that sponsorship and product placement are in the long run essential for the survival of television as we know it. The only alternative is cross-media ownership. Broadcasters could buy themselves a newspaper title or a magazine empire because it is a means of getting revenue from advertising. Then television becomes a bolt-on activity subsidised by your other media interests. Your newspapers will promote your programmes and vice versa. Whatever the solution, my personal opinion is that the days of adverts on TV are numbered.

You can't put the bunny back into the hat; you might not like it, but you cannot stop manufacturers producing high technology devices to record programmes in a digital format. I have been trading in electrical goods since 1968, and the one thing it has taught me is that it is vital to stay one step ahead of the technology and the market. You must be prepared to evolve or die. In the 1980s Amstrad launched the first mass-market computer package, then the first mass-market dedicated word processor, and we altered the face of the home computer market throughout Europe. But we would look pretty stupid if we were still

making dedicated word processors today. Instead we diversified into telecommunications and by the next decade had moved smoothly into place as the European number one supplier of mass-market satellite receiver dishes. We made sure we were ahead of the game and ready to supply interactive digital set top boxes to BSkyB in 1987. By 2004 we were in production with Sky Plus PVRs.

But it doesn't stop there. The treasures of our business are advanced telephony and digital gateways into the home, and there are equally exciting mobile technologies which could have as far-reaching an impact. In September 2004 we launched the E3, a new generation e-mailer, but also a multi-purpose device supporting sms, Internet access, and boasting a colour screen and video phone functionality. At the end of 2004, the average revenue generated from the installed base of our previous generation of e-mailers was £22,000 per day: roughly £8 million per year. Most of the revenue is derived from e-mail, surf usage and the downloading of ring tones. But we also have a list of advertisers including HSBC, Jungle.com and Direct Line Financial Services. If television cannot supply advertisers with the means to promote their products, they will spend their money elsewhere.

There are endless opportunities for the development of similar multi-function mobile devices. Before long, people will be watching television, downloaded or live streamed, on their mobiles. A different kind of television, perhaps, tailored for the viewer on the move, and offering another kind of direct marketing opportunity.

So my advice to those who make or broadcast programmes is to wake up to what is going on around you. Otherwise commercial television as we know it will close down. If the advertisers spend their money elsewhere, what is the point of talking about how to make the next series of *Big Brother*, *Celebrity Love Island*, *Wife Swap* or whatever becomes The Next Big Thing?

I wouldn't dream of telling programme-makers what kind of programmes they should be making. But I think there is one lesson that can be drawn from my own experience of appearing in front of the cameras. *The Apprentice* showed that you can put business on television and attract a big audience. In the past, business programmes have been stuffy and highbrow, only understood, not surprisingly, by those in the business community. The BBC took the lead in trying to make business on screen more exciting. The more programme-makers build on that, the more it will instil an enterprise culture. Too many people complain about lack of opportunity; you have to make your own opportunity. I believe programmes like *The Apprentice* or *Dragon's Den* can stimulate initiative and show people how to drive themselves forward, rather than waiting to be offered the free lunch that never comes.