



READY FOR PRIME TIME?

After 18 months at the helm, Bertrand Méheut had managed to re-engineer Canal+ into a lean and profitable TV group. But there were still several strategic issues to confront.

It was September 2003 and Bertrand Méheut had reason to be happy. After 18 months as chief executive of Canal+, he had rescued the French TV group from near-bankruptcy and he was now about to announce positive news to the press.

With a new management team, Méheut had successfully restructured and re-organised Canal+ so it was once again ready to expand. Subscriber numbers were up. Debt, which had peaked at €5.1 billion, was down significantly. Canal+, which had lost €325 million the previous year, was now operating in the black. The disastrous era of Jean-Marie Messier, the former chief executive of Canal+'s parent Vivendi Universal, was a distant memory.

Nonetheless, despite the good results, there were rumours that Vivendi might want to sell Canal+ and there were several question marks over how the management team might improve margins and prepare for a digital future.

A French standard-bearer

Canal+ started life in November 1984 broadcasting a mixture of unencrypted programmes, premium movies and sports. In 1989, it

started setting up pay-TV projects outside France. Then in 1992, it launched a full-scale satellite pay-TV operation (CanalSatellite), a mixture of its own and third-party channels.

In April 1996, Canal+ became the first European satellite pay-TV operator to venture into digital, when it launched services in France. That in turn prompted rival TV and cable groups, including TF1 and M6, to bring out their own Télévision Par Satellite service in October the same year. Other digital launches followed.

Bertrand Méheut became CEO of Canal+ in February 2002. At the time, Canal+ was a sprawling pay-TV empire with operations stretching across nine European countries and parts of Africa. In his analysis, Méheut identified Canal+'s main deficiencies as inadequate management, a lack of strategy, woeful cost control, and financial dependence on Vivendi Universal.

Almost his first act was to put in a new management team, which Méheut tasked with debt reduction, cost cutting, introducing new editorial disciplines and guidelines, and developing a new and innovative corporate culture.

The immediate priority was debt reduction. The new man-

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agement team investigated the possibility of listing Canal on the stock market, but decided the financial situation was too critical to convince potential investors. The only option was to implement a thorough restructuring program.

This entailed selling-off underperforming pay-TV assets outside France. By mid 2003, Canal+ had divested itself almost entirely of its pay-TV assets in Scandinavia, Italy, Belgium, Netherlands and Spain, leaving Poland as the only EU country, outside France, where it retained a majority shareholding interest. In addition, it sold off its technology subsidiary Canal+ Technologies, a sports-rights marketing firm and a TV production agency.

The asset sales brought in about €1.5 billion. With the further recapitalisation of Canal+ at the end of 2003, the new team had reduced debt by €3 billion.

The next step was cost reduction. CFO Eric Pradon and Christian Sanchez, who was vice president for HR, worked together closely on a target of €200 million in the first year. Some of the easiest and quickest decisions involved the sale of exotic assets, such as two submarines that Canal+ had acquired for shooting documentaries in the Mediterranean Sea. Otherwise, Pradon and Sanchez focused on two main areas, paying roughly equal attention to cutting programme costs and overheads.

The programme cuts included ditching contracts for Formula 1 coverage (which was yielding annual revenues of only €1 million against about €20 million in costs) and scaling back spending on European club football. Instead, they focused on Canal+ premium's programmes, and on supporting unencrypted prime time movies, sports, news, documentaries and entertainment programming.

As well as recalibrating its programme portfolio, Canal+ management also changed the focus of Studio Canal, its movie production arm. They decided it too risky to produce films in-house, opting instead for a co-production model. It also sold off its film catalogue, the world's third largest.

Lastly there was also a change of culture around programme commissioning. Previously Canal+ had produced many of its programmes internally with its own anchormen and producers. This had led to a closed and uncompetitive system favouring friends and acquaint-

ances. After restructuring and outsourcing, Canal+ managed to establish a more professional model, where every contact was evaluated on the basis of quality and the bottom-line.

Turning their attention to overheads, Pradon and Sanchez identified cost control over purchases, HR, and sales administration as the three main areas most in need of pruning and reorganization.

In the case of cost control, they implemented new rules requiring tenders for any purchases above €10,000, and they outsourced IT and some G&A functions.

It was hard to shift ingrained processes, says Sanchez. "The previous management had realized they had lost control of costs, and they had seen two solutions: try to change people and their habits, or implement a 'Stalinist process'. Seeing that the first approach was impossible, they tried the second. But in fact habits were stronger than the new system. It did not succeed and it consumed a lot of time and money."

HR and sales administration was another tricky issue. "We found there were too many administrative people and not enough resources in sales and marketing," Sanchez says. "In HR, when I arrived in May 2002, the number of new recruitments since January was around 200. Most of them were administrative people. When the Group was at its worst, HR had decided to recruit two new people in charge of this recruitment plan."

Sanchez sought to right-size Canal+, laying-off 330 staff and outsourcing another 138 positions. He created a new HR manual to ensure that staff, including managers, behaved appropriately at all time. And he devised new payroll policies - for instance cutting annual collective wage rises from 7 to 2 per cent - and putting in place a more meritocratic and structured system of bonuses.

The last measure proved controversial with many personnel saying their jobs were too specialised to be compared across Canal+. "If you want to run a consistent HR strategy you need to establish a system which permits job comparisons in the group," Sanchez says.

Along with selling assets, cutting costs and resizing, Canal+ management also attempted something less tangible: renewing the company culture. Specific measures included the introduction of



TABLE 1: CANAL+ BY THE NUMBERS

	2002	2003	2004	2004	2005
Pay-TV France (€m)	2,663	2,813	2,861	2,663	2,765
Other (including Studio Canal)	2,170	1,345	719	897	687
Total revenues	4,833	4,158	3,580	3,560	3,452
Earnings from operations	-325	247	198	188	203
Operating margin (Earnings/Revenues)	na	6%	6%	5%	6%
Total subscriptions in France (000s)	7,945	8,081	8,380	7,944	8,253
Total Canal+ premium channel	5,018	4,907	4,955	4,955	5,061
CanalSat	2,520	2,751	2,989	2,989	3,192

Source: Company data

shared management principles centred on results and clients, along with an editorial review process to maintain consistency of output and stimulate innovation.

“Every division within Canal+ was acting independently without any co-ordination,” says Sanchez.

“The Group was spread over more than 25 sites, with more than 70 leases. The top management had no idea of the decisions in these offices. The PR department, for example, felt that a lack of common objectives decreased the effectiveness of communication.”

Moving Canal+'s Paris headquarters from an old building in the centre of Paris to large brand new offices in the Boulogne-Billancourt area on the South Bank made it possible to accommodate the group in two instead of more than 25 sites.

“We needed a new image of a vibrant group and a major step in this direction was the change of headquarters,” says Eric Pradon. “During the final years of the previous management, the group was no longer run and led effectively. Today employees know that the company has a leader. In the past, we had no procedures in many fields. Many decisions were ad hoc and there was a lack of management control. Another thing we did was to create one department for press relations, PR, editing and publishing, festivals, fairs, partnerships and so on.”

Several strategic questions

As a result of these measures, in September 2003 Méheut was able to announce the group's first set of positive results since 1996 (see table). Not only was the group now operating comfortably in the black, but management had also succeeded in reducing debt from €5.1 billion in mid-2002 to less than €800 million. The group was lean and well defined with 80 per cent of its revenues coming from French pay-TV and distribution interests, with Studio Canal accounting for half the remainder. The question was: what to do next?

Rumours of a takeover bid by Rupert Murdoch were rife, and Vodafone was said to be considering a bid for mobile group SFR, another Vivendi asset. There were also a host of thorny technology-related issues, and there was the underlying question of whether the managers had really renewed the group, or simply downsized its ambitions. Although they had successfully engineered a turnaround, the managers still had a number of tough decisions to make.

After 2003, expanding the group proved far from easy, and operating margins stagnated at about 6 per cent over the next three years. The lack of margin growth partly

reflected tough pay-TV competition from rival TPS.

In 2006, Canal+ agreed to a merger with TPS to take effect from the beginning of 2007, as the two groups look to fend off new competition from the launch of digital terrestrial television in March 2005, and the expansion of TV-over-DSL.

The digital age poses other challenges too, including new products and services like mobile TV, the personal video recorder and high definition TV. So far, Canal+ has done little to exploit the potential of these new revenue streams. Despite launching its PVR in early 2003, less than 5 per cent of its subscribers had taken the service by the end of 2005.

The merger with TPS should add about 1.3 million subscribers, however. And Canal+ believes the merged operation will attract more: perhaps a million new subscribers over five years. Management predicts total annual revenues of more than €5 billion by 2011, along with margins of at least 20 per cent.

However, in view of the recent struggles to raise margins and the competitive threats Canal+ now faces, we may ask whether this is a realistic expectation. Although the managers were successful in producing a turnaround through selling off loss-making subsidiaries, cutting costs and fostering a new corporate culture, were there additional things they might have done to develop Canal+'s pay-TV business in France? Did they have a clear growth strategy? What now of their strategy to adapt to TV-over-DSL?

Ultimately, the new digital age poses deep questions about the future of pay-TV, as Christian Sanchez explains: “The speed of new technologies outpaces the speed of industrial capacity. It changes the game constantly. Does our business model based on pay-TV stay profitable? Will we be able to cope with the current trends such as movie piracy, new technology, or telecom operators which offer free-to-view channels? The multiplication of channels and development new technologies will affect our customer bases. Does our model have enough strength to overcome these new realities?”

Ashok Som is associate professor and co-chair of the management department at ESSEC Business School, Paris. The case was written with the help of Frédéric Vaulpre, sales director at Canal+. It was reviewed and adapted by Dr Toby Syfret, media analyst at Enders Analysis.