

Pay-per-voom TV

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Virgin Media's CEO Neil Berkett is a straight-talking Kiwi convinced that he can completely re-focus one of the most under-performing companies in British media. He has no trouble admitting that before becoming chief operating officer of NTL – one of the two precursor companies to Virgin Media – in late 2005 he knew “nothing” about the cable business. “I am a turnaround guy,” he says, acknowledging that Virgin Media is still in turnaround mode two and a half years after the merger of NTL and Telewest created the cable giant after years of bad management and financial disarray.

But for all his present confidence it has been an interesting ride for Berkett, who only lost the “acting” part of his CEO title seven months after the former CEO, Steve Burch, suddenly decided last summer that he needed to spend more time with his family.

Burch had been parachuted in from the US to be CEO of NTL a few months after Berkett joined in 2005. Berkett's 25 years management experience have been largely with banks and insurance companies, most recently as managing director of distribution for Lloyds TSB.

Berkett may have had a rather protracted climb to the top job at Virgin Media but he says that the company is starting to perform as it should and, crucially, he believes he knows what customers want. “The world of Veruca Salt is here,”

says Berkett, referring to the terminally spoilt brat from the *Charlie and the Chocolate Factory* story.

“I want it and I want it now,” is what Veruca exclaimed to Willy Wonka when she was shown yet another of the chocolate factory owner's improbable goodies.

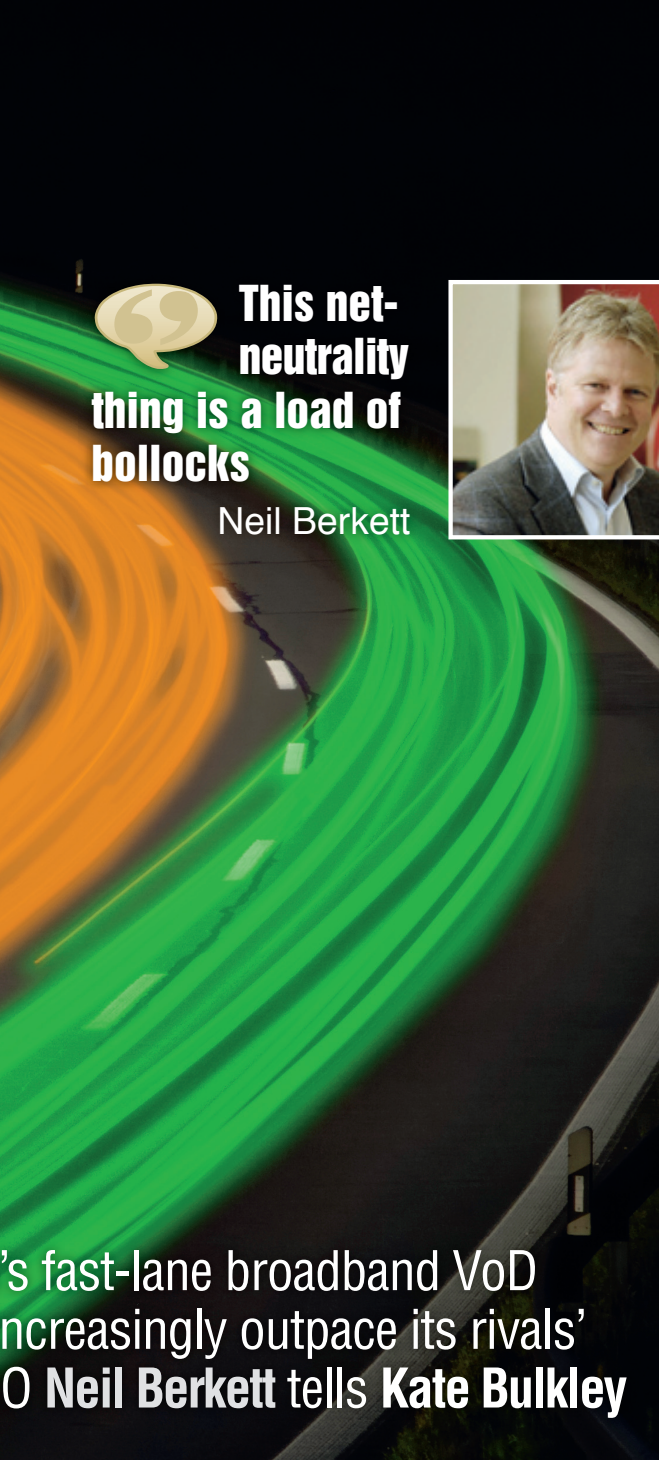
Premium service in the Olympics lane...

Berkett is convinced that Virgin Media is set to capitalise on an emerging customer appetite for more speed and more bandwidth – and, like Veruca, they won't take “no” for an answer.

It's speed, capacity and more video-on-demand capability that will be the new defining factors that make Virgin Media attractive to customers and, eventually, to the stock market, where the company's price has fallen by a third in the past six months.

“There is Virgin Media broadband and then there is the other stuff,” declares Berkett, dismissing broadband offers from the likes of BT, Carphone Warehouse, Tiscali, Sky and anyone else you can name. “We have fibre closer to the home than anyone,” he adds.

“We are seeing an increasing value placed on both speed and quality and I can't over-emphasise the quality piece,” Berkett told analysts during a conference call announcing Virgin Media's fourth-quarter results in late February. “We are building a network where we can double the quality of



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Neil Berkett



Virgin Media/VirginMedia



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's fast-lane broadband VoD increasingly outpace its rivals'
O Neil Berkett tells Kate Bulkley

service that a DSL [copper telephone network] can provide. We are definitely seeing a substantive market for broadband that gives our customers not just speed but also access to content and applications that they would otherwise not be able to get."

Berkett thinks that the company can avoid becoming a "commoditised pipe" by making sure its network remains at the cutting edge; Virgin Media expects to spend £600m this year on network upgrades. He predicts that by the end of 2008 some 70% of customers will have access to 50Mb/s of broadband speed.

Virgin Media is also looking at offering different speeds of service to content and application providers who are willing to pay for faster delivery. Berkett believes that the UK Government is open to business models like "fast lane" and "slow lane" broadband.

Talk of slow and fast lanes on the internet has proved very controversial in the US where a strong lobby for so-called "network neutrality" is pushing the Government to put legislation in place that will require ISPs to deliver all content on an equal basis to all users. The net neutrality advocates worry about a "two-speed internet" that allows those who can afford it superior access to services.

But according to Berkett "this net-neutrality thing is a load of bollocks." He says that Virgin Media is already talk-

ing to content suppliers and application makers, including gaming companies, about how they might access the Virgin Media subscriber base more effectively. He admits that public service broadcasters such as the BBC, which are unwilling to pay for access, might end up in slower "bus lanes".

Berkett has labelled broadband as the "hero" product for Virgin Media. This is a world away from where the company was less than two years ago. Then, it contemplated bidding against BSkyB for Premier League football rights and, led by its newest shareholder Richard Branson, even attempted to take over ITV. And we all know what happened there.

Berkett is sanguine about the shift away from "premium" content, an area where he says that – until the rules are changed – Sky has the upper hand. He says: "Listen, you put your money where you have an advantage and where you can differentiate yourselves. We can do that on broadband speed and we can clearly differentiate ourselves with what is going to become a major viewing habit, which is on-demand television."

... And public service in the bus lane

If broadband is the new hero product then VoD is the new hero service and one that Berkett is banking on. So far, so good: in the fourth quarter of 2007 Virgin Media clocked up 33 million VoD viewings. Nearly half (47%) of the 1.6 million VoD customers access it 22 times a month. Berkett claims this translates into these subscribers spending more time viewing VoD than watching Five.

"Our VoD has an amazing advantage over Sky," he maintains. "VoD is a major enticement to our subscribers to move up to our larger packages of services and it's a major driver for churn reduction."

The Berkett plan has a long way to go before it translates to a positive bottom-line picture for the company. The fourth-quarter numbers looked better in the context of the past 12 months but although average revenue per user was up for the first time in four quarters to £42.24, it was down on a year earlier when it stood at £42.82.

The company added 61,000 TV customers in the fourth quarter, the best result for a number of years and up from 39,000 in the same quarter in 2006. And half of its customers are triple-play customers, a major contributor to lowering customer defection.

Virgin Media added 106,000 broadband customers in the latest quarter, bringing the company to 3.41 million broadband subscribers. But to put that in context, since late 2006 Sky's quarterly broadband additions have outpaced Virgin Media's new broadband subscribers. In its most recent quarter Sky added 260,000 new broadband customers, more than double Virgin's.

Competing with Sky aside, there are other threats that could derail the new CEO. Even as Berkett was finally given the job there were reports of a private equity bid being put together to take the company private. Next month both the chairman of Virgin Media, Jim Mooney, and large investor Bill Huff (the hedge fund manager who was instrumental in bringing NTL and Telewest together) are up for re-election to the board of directors.

Berkett's window of opportunity to make his hero product work may be smaller than he thinks. ■