

## English Soccer: Sky's Tall Dwarf?

### Key Points

*Plenty of ink*<sup>2</sup> this week about Sky's big share price drop and the turning of the corner away from Sky's dominance after the EPL and related rights were awarded to others.

But, if Sky is running a "Tall Dwarf" strategy, like other providers with strong market power have done so well in this past, such as telcos, these reactions may be playing beautifully to Sky's objectives.

So, here's a contrarian perspective. Might be right. Might be wrong. If right, Sky's share price should go up as its great management and strategic skills are being demonstrated.

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Yesterday, the Herald reported Sky as saying that EPL only made up 1.5 per cent of sports package viewing. It's a nice sacrificial lamb candidate. Its loss won't make a big dent, yet it's a sport with high enough profile to attract attention.

Sky faces major political and regulatory risk.

The Commerce Commission is doing a Commerce Act review. Even if Sky comes out of that OK, the risk doesn't go away; for example, its UK sister, having weathered and pushed off sustained regulatory attacks for some time, now faces new regulatory complaints. Politically, there are a number of reasons why Government may intervene at some point in these markets: all credit to Sky's management that they've staved this off so long, unlike what's happened in many other countries.

The longer that Sky can hold back these interventions, the better for it.

Enter the Tall Dwarf, a strategy that may help buy a year or four.

Ensure there are minnow competitors in the market that give the appearance of competition, with little risk of growing bigger. Maybe even support them or ring fence them, but only select providers that will remain minnows. Welcome a Quikflix: be tough about a Netflix.

So, as to EPL rights, let the ball go to the keeper.

Allow the consortium to win.

Sit back and watch the share price drop, and pundits coming out saying this is the start of the end for Sky's cosy position.

Then take that to the media, regulators and politicians, over the coming months and years, citing the solid evidence of competition, negative capital markets impact, etc.

The standard strategy is to cite the share market's immediate reaction to the "bad" news (a drop of several points), not where the share price levels off at (generally much closer to the original price).

That sophistry has worked nicely in the past for other suppliers.

And it's a sophistry that plays beautifully from the irrationality of the market and some analysts. Why on earth does this one small play – losing EPL rights – justify such a turning point in share price and analyst's views when the way things are going has been there for all to see for some time? This is nonsense. Anyway, might as well leverage it, and trot out that immediate reaction ("*capital markets jittery*", etc) to justify no regulation. The share price drop over one to three days will sort itself out over time as rationality returns.

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The Tall Dwarf is a harder strategy to run with regulators these days: they've heard it all before.

But it can win public hearts and minds. And it can work for politicians too.

A recent and related example is Government's rapid press release welcoming the competition from Quikflix when it launched. But Quikflix was a minnow, and now struggles to survive even as a minnow. Quikflix is like a corner diary compared to Netflix's supermarket, as one Telco CEO observed. Quikflix is a great Tall Dwarf for Sky, showing that these dwarfs come in different guises too.

Even if the Tall Dwarf is not the primary objective, the EPL scenario still provides great flip-side wins for Sky.

So, should the Sky price now increase to reflect Sky's fine management skills? I for one strongly admire what they have achieved over the years in warding off competition and regulation – with the free-to-air Prime TV acquisition as a strategy of beauty at the pinnacle - whatever one might think of the overall impact on NZ Inc.

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1. <http://www.nbr.co.nz/opinion/end-tv-we-know-it-CK#comment-623748>

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