

Marketing

Convergence Redeemers

Critics can no longer discount Pierre Karl Péladeau's ability to orchestrate Quebecor's media properties into a financially successful model of convergence. That's why Quebecor Media is Marketing's 2003 Media Player of the Year

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The great year Pierre Karl Péladeau had in 2003 can easily be seen in the contrasting business headlines published exactly one year apart:

- "The perils of Pierre Karl" (*Report on Business* magazine, December 2002).

- "Peladeau: A year of redemption" (*Financial Post*, Dec. 23, 2003).

It was that kind of year for Péladeau, president and CEO of Quebecor Media and Quebecor Inc. In 2002, he was one of the most vilified CEOs in Canada. The next year, he and his giant media empire are almost hailed as princes.

And-who'da thunk it-it's due in large part to the success of a reality TV show that demonstrated convergence, the much bandied-about term that has become an 11-letter word in recent years, can actually work. The singing talent show *Star Académie*, the undisputed ratings hit of the 2003 television season in Quebec, has been cited as a crown jewel of convergence, and with good reason. It consistently garnered ratings in the 2.3 million range on Quebecor's TVA network, with the finale topping three million viewers-numbers that would leave television execs in English Canada willing to sell their first-born and all subsequent children.

The show was promoted shamelessly in Quebecor Media's tabloid newspapers and celebrity magazines, with sales of all publications-printed by the Quebecor World printing division-increasing as a result. Subscribers to the company's high-speed Internet service, Videotron, could tap into real-time exploits of the "Star Academiens"-*Star Académie* contestants-another move that boosted clientele. Music buffs could buy the book or best-selling CD and DVD co-produced by the company at its Archambault music store chain. Sponsors like Maybelline and Toyota were overjoyed with the fruits of their involvement. And on and on it went. By September 2003, Quebecor was noting in financial results that *Star Académie*-produced by the production company headed by Péladeau 's significant other, Julie Snyder-was proof that convergence can boost its print, broadcast, Internet and retail revenues. During the third quarter of 2003, Quebecor Media's net income was \$35 million compared with a net loss of \$40.2 million for the comparable period, ending Sept. 30, 2002.

Because it defied its critics and orchestrated its media properties into a financially successful model of convergence, Quebecor Media is Marketing's 2003 Media Player of the Year.

The picture was much different in 2001 and 2002. Everything seemed to have gone wrong with Quebecor's 2000 joint purchase with the province's pension fund, Caisse de dépôt et placement du Québec, of cable company Groupe Vidéotron for \$5.4 billion-a controversial and hostile takeover that shut out suitor Rogers (publisher of *Marketing*) and kept company ownership in Quebec. The move

plunged Quebecor Media into debt. What's worse, a bitter, 10-month, vandalism-plagued strike ensued soon after at Vidéotron, which bled subscribers in its wake.

Reports citing Péladeau's mercurial temper surfaced regularly in the press, with disgruntled executives in the media and printing divisions jumping ship regularly and analysts blaming the CEO for the company's poor stock performance. The term "PKP discount" entered the lexicon.

But in the wake of other convergence debacles like AOL-Time Warner and Vivendi Universal-and to a lesser degree Bell's retreat from its vaunted media convergence strategy with Bell Globemedia-the high-priced purchase of Videotron almost comes up smelling like roses in retrospect, a relaxed and good-humoured Péladeau noted in an early-January interview with *Marketing* at his Old Montreal office.

In those years, "media was not a nice place to be," notes Peladeau. Convergence-related transactions were based on "unrealistic expectations," he says. "It became sour because a lot of people lost lots of money. We were living in a speculative environment and we just came back to reality which was not able to sustain the high level of smoke that existed at that time. It was the Internet bubble."

Aside from the Vidéotron strike, Quebecor Media was restructuring its Internet operations, from Netgraphe to Nurun, slashing jobs and properties. These were "not nice jobs" to do, Péladeau says, but they were actions Quebecor considered necessary to ensure its divisions were managed more efficiently. "In business, nothing happens in a New York minute," he says. "2003 was the year for us to harvest all of the efforts that were done previously in 2002 and 2001."

As a bonus in 2003, Star Académie greatly surpassed expectations and "was the ultimate success because of the ratings and because of our ability to package most of our components throughout this event." Péladeau says it's an ongoing process to ensure Quebecor Media's myriad properties continue to work together to reap the benefits of the harvest.

Hopes are high for Star Académie 2, which makes its debut Feb. 15, with ad rates up about 50%. "There's a high probability that number 2 will be as good as or even better," Péladeau says, noting that in France the second Star Academy (as it's spelled there) performed better than the first edition in the ratings. "It should start strong and finish strong," unlike the first Star Académie, which grew and grew. "Will it be stronger? This we don't know."

Still, all is not well in Star Académie-land. Critics and employees alike blast the reverential and almost gynecological coverage the show receives in Quebecor's properties. The union representing journalists at Quebecor's leading Quebec newspaper, the tabloid *Le Journal de Montréal*, has filed grievances saying the non-stop coverage should be pegged as advertorial in nature.

Columnist Richard Martineau in the cultural weekly *Voir* says *Le Journal de Montréal* "has ceased being a tabloid loved and respected by the public, to become a catalogue of the different products of the Quebecor Empire." Gaétan L. Charlebois, who covers Quebec television in *The Gazette*, says only a few people, including Péladeau, "decide, through the wheeling and dealing for which they are...geniuses," what Quebecers see and watch. "Reality TV, how it is covered and who is doing the covering has become a debate about Quebec's entire culture and who, among very few players, will dominate it."

Péladeau fires back his defence: "What can you seriously say about things like that? I mean seriously!"

Concerning the union, "You know how many grievances we have a year? So why is this one public and the others not?" Articles about the grievances appeared in competitors *La Presse* and in *Le Devoir*, he says, one of which was written by a reporter who is president of his newspaper union. "So you can see there are conflicts of interest." (Or, as Luc Lavoie, executive vice-president, corporate affairs at Quebecor Inc., pipes in, "convergence of interests.")

Péladeau adds: "I don't take very seriously Richard Martineau," adding as an aside the wedding of the columnist to Quebec personality Sophie Durocher was just covered in Quebecor gossip magazine *Echo-Vedettes*. "And we're publishers of their books," Lavoie says.

Competitors will always complain, and if they weren't complaining, there's a problem," Péladeau chuckles. Besides, the debate seems to be of little interest to Quebecor's readers, since sales of its newspapers and magazines are up.

He then grabs a copy of that day's *Le Journal de Montréal*, which features a full-page ad ("I had nothing to do with that ad!") trumpeting the fall 2003 BBM survey that found nine of the most-watched shows in Quebec were TVA shows. The ad contains the apt play-on-words headline "La realite sur la tele" (Reality on TV).

"Nine out of 10. Not bad. This is what business is all about."

Analysts who had been demanding Péladeau 's head on a block are beginning to concur. A report last December by National Bank Financial analyst Adam Shine confirms "it's hard to find much fault in what has been accomplished." Adds Shine: "We believe the perceived 'PKP discount' is somewhat exaggerated and in many instances, unjustified."

Still, while the picture at Quebecor Media is vastly improved, profits at Quebecor's biggest subsidiary, Quebecor World, fell 89% in the first nine months of 2003 with the printing industry wracked by overcapacity, low demand and low prices.

But the brighter situation at Quebecor Media is allowing Péladeau to shift his focus to Quebecor World. Besides, he says, "I've got good boys taking care of the business. We've got a very strong team of managers in Quebecor Media."

Speculation is high in financial circles that Quebecor Media will go public in 2004, in a move that would cut interest costs (Quebecor Media's consolidated debt as of Sept. 30, 2003 was \$2.8 billion). "There's nothing on the agenda right now," is all Péladeau will say of the rumoured IPO.

What is certain, however, is that Quebecor Media's Groupe Archambault music division is launching a legal music download service, the first in Quebec. Although it will specialize in Quebec artists, it will have a wide gamut of English-language music and its 99 cents pricing puts it in direct competition with the only other major Canadian service to date, Puretracks.

Since 2000, CD sales have plunged 28% in Canada, but only 2.6% in Quebec, due in part to the success of music from Star Académie. "I think the impact (of piracy) was minimal in our business," says Péladeau, adding that legal actions on piracy south of the border have led to a dramatic drop in illegal downloading of music. "We should not be surprised about this, because if you can steal without being caught, then why should you stop stealing?"

Péladeau also notes the company still plans to launch its CRTC-approved francophone digital business channel-although a name and a date have not been finalized. And he says the company "absolutely" intends to expand in English Canada, beyond such holdings as Sun Media newspapers, the Internet site Canoe, and digital company Nurun. "Quebecor was built on acquisitions. There's no reason why we'll change in the future."

Péladeau notes there is no equivalent to Quebecor Media in Canada's English-language market-"we offer products for advertisers which are uncommon"-but that media buyers in Toronto may not be aware of all it has to offer. "We have some work to do. I believe it's our own mistake, not being able to offer a better knowledge of our capacity to deliver audience."

He maintains the future is promising because the company already has strong products and is adding features like video on demand and original content to Vidéotron Internet subscribers.

And, oh yes, there's that convergence thing. "Piggybacking on your colleagues' components is something great," Péladeau says, and it's now well established in managers' mindsets that what's good for Quebecor Media as a whole is also good for individual divisions. "We were obliged to push a little bit before... But now everybody's found out that there are tremendous benefits to working together."

FIXING CUSTOMER SERVICE:

It seems customer service has improved markedly at Quebecor Media's cable company Vidéotron, but is it enough to satisfy a *Marketing* reporter who is a subscriber? What follows is part of an amusing, and frank exchange between Montreal correspondent Danny Kucharsky, Quebecor boss Pierre Karl Péladeau (whose sense of humour is usually not reflected in business articles), Videotron president and CEO Robert Dépatie and Quebecor's head of communications Luc Lavoie, when the topic of Vidéotron comes up during an interview:

"We still have to live with the lingering effects of the past," says Lavoie, describing Vidéotron customer service. "People would say, 'Ah, Videotron-you could never get an answer.' Phone. You'll see how fast you get an answer. See for yourself... It works."

Péladeau leaves the office momentarily to grab Dépatie who's lurking outside. "We bring the horse to the stable. He's 'Mr. Customer Service,' " says Péladeau of Dépatie who, before joining Quebecor, was executive vice-president of sales at Heinz Canada in Toronto.

Lavoie notes he was just describing Vidéotron customer service... "saying it's a piece of shit," Péladeau interjects.

"I was saying it was improving steadily," Lavoie continues.

Dépatie then describes how Vidéotron has invested to ensure it answers 98% of all phone calls, 80% of them within 20 seconds or less. "If you had gone back two years ago, this would have been totally the opposite. One of our biggest strategies is to focus on outstanding service."

Money that was invested inappropriately-such as in repair trucks that sat unused in parking lots-was shifted to customer service, Péladeau explains. Until satellite providers came along, Videotron used to be a monopoly "so we were able to shovel our inefficiencies to customers through rate increases. You can't do this anymore...you need to be better than the competition, which didn't exist."

Dépatie mentions an early December survey by Bellevue, Wash.-based Customer Respect Group-its first such survey in Canada-which found that only Vidéotron and Rogers among Canadian telecommunication companies scored a perfect 10 in getting back to customers.

As a subscriber to Videotron's digital service illico, Kucharsky can't resist noting that he had trouble the day before. After calling customer service and getting nowhere after about 20 minutes, "I was put on hold and then the line went dead."

"Yeah, we had a problem with a connection and we weren't able to answer the calls... Purely technological," Dépatie explains, noting two of four switches went down. "That was really bad timing."

Péladeau pipes in, laughing: "Hey, he (Dépatie) didn't tell that to me. Beat him! Beat him," he tells Kucharsky. "You can beat the boss!"

"That's why I am here today, to meet (with) you," Dépatie tells Péladeau. "Unfortunately, I didn't have a chance to talk."

"Take care of this, Robert," Péladeau tells Dépatie, who takes Kucharsky's business card. And true to the survey results, a Vidéotron customer service supervisor (not a mere rep) called the following day.