

IPTV: so far so good

Is IPTV living up to its promise? Looking at the current state of affairs it's clear that IPTV already does the job in **several critical areas**, like subscriber acquisition, reducing churn and opening up for new revenue streams.

► **INTEREST IN IPTV** has increased significantly over the past year. Look at France, the Baltic states and Hong Kong for inspiration.

Today, there are almost 600 IPTV commercial launches worldwide. The total number of IPTV subscribers grew by 117 percent in 2007, reaching 12.34 million, up from 5.71 million at the end of 2006. (Source: EBC analysis, vnunet.com, March 2008)

Growth estimates vary, but it could be realistic to expect the IPTV market to grow four or five times, reaching over 50 million subscribers by 2010. (Source: Heavy Reading, July 2008)

At the end of 2007, there were over 6.9 million IPTV subscribers in Western Europe, which accounts for 57 percent of global subscribers. France is the clear leader with nearly 75 percent of all Western European IPTV subscribers. France has almost 10 times as many IPTV subscribers as second-placed Spain.

Taking a closer look at the French market, we can find a number of reasons why this market is ahead of the others (see graph 1). France was not first to introduce IPTV, but at the time of launch, telcom operators benefited from advanced network infrastructure and low cable TV penetration. These factors made IPTV offerings attractive to consumers.

Competition played a key role when creating the market. Initially, the French market was driven by an aggressive player: 'Free', which developed innovative pricing strategies and forced other players to move forward. (Source: Ofcom 2007)

STRATEGIC DRIVERS FOR OPERATORS

A majority of IPTV players are currently focusing their efforts on gaining scale and building subscriber base. Critical mass is vital to IPTV success. Once customers are onboard, there are opportunities to sell premium content packages and innovative service offerings.

Scale is crucial to IPTV, not just on the network side. Larger subscriber bases create scale benefits such as better negotiation power towards content partners and advertising companies.

Operators, such as Swedish-Finnish

TeliaSonera, see IPTV as a strategically important service, which will create new revenue opportunities in the future. IPTV over ADSL is their fastest growing segment. At the beginning of 2008, TeliaSonera passed 300,000 IPTV subscribers, which means approximately 90 percent increase in subscriber base in a period of six months time.

TeliaSonera believes that TV services will drive migration from fixed telephony to IP creating new revenue opportunities in the future (see graph 2).

Hong Kong has an IPTV penetration of 59 percent – the highest in the world and the operator PCCW ended 2007 with 882,000 IPTV subscribers up from 758,000 at the end of 2006. PCCW's IPTV ARPU grew from USD 18 at the end of 2006 to USD 26 at the end of 2007.

PCCW has shown how to develop a viable business model that includes a basic free service. On top of that, the operator has found that premium sports and HD offerings are important reasons for subscriber and ARPU increase. Also advertising revenues are starting to gather momentum.

For convergent operators, service bundling has been the mainstream trend, where IPTV is offered as a part of the x-play bundle to create customer 'stickiness' and reduce broadband churn.

Churn (see graph 3) in the broadband sector is high, in certain markets as much as 36 percent annually. By bundling IPTV with triple play offerings, churn could be reduced to half.

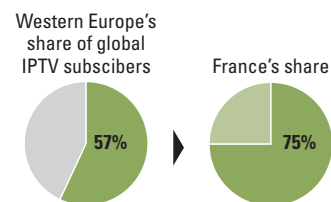
NEW SERVICES WILL KEEP BUSINESS GROWING

IPTV is obviously much more than 'TV'. New revenue streams and opportunities have been created through the service innovation.

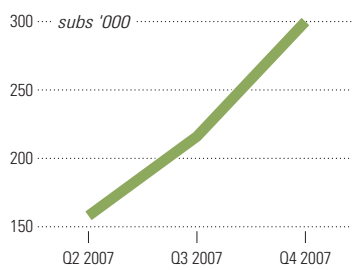
Consumer expectations on entertainment and media are expanding fast. The era when all focus was on the classic 'coach-potato' is being left behind. The audience demands interactive, entertaining and personal experiences, where users themselves are in charge. With IPTV, this is possible.

Innovative IPTV service offerings include communication services, information, ►

[GRAPH 1] Western Europe and France lead out

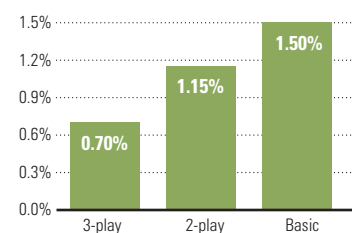


[GRAPH 2] TeliaSonera's IPTV subscribers



Source: TeliaSonera webpage March 2008, Telco IPTV View Jan 2008

[GRAPH 3] Churn per month



Source: Cox Communications



▶ entertainment, transactions as well as personal and home management. These include blending services with multi-view applications, interactive on-demand and interactive advertising. We can also see potential in convergent service offerings.

User generated content has been the key driver in the internet; we can see similar interest in IPTV. Free's "TV Perso" demonstrates the potential of user-generated content services offered via TV. "TV Perso" was launched on 28 June 2007. In less than six months 168 million videos had been viewed over the service. By November 2007, 102 million videos had been broadcast since launch.

With 'TV Perso' the users can share their videos through private and public domains. The service is offered through a dedicated channel, No99, where Free's subscribers share and view video content uploaded by other subscribers.

Social networking features are believed to attract internet users, who are addicted to chatting. There are number of examples showing how to enrich a TV experience with social networking and communication features:

- ▶ Viewers can find a fellow viewer watching the same program and start chatting
- ▶ During the commercial break, the viewer can open the second application window to read and write e-mails.
- ▶ Viewers can have the calling line identity displayed in the TV screen while receiving an incoming call.
- ▶ Blended social networking services available via TV, PC and mobile.

By combining IPTV with social networking features, viewing times are expected to increase and services to become more relevant for the users, which create new advertising and revenue opportunities for the IPTV providers.

BIGGER AND SHARPER PICTURES

High-definition TVs with big screens take online shopping to a completely new level, IPTV provides clear value for onlineshoppers. With big screens and high resolution, a majority of the e-commerce services will become more attractive and easier to use.

One example is an online tailor, where you can order fully custom made shirts, suits and slacks in the exact style and fabric of your choice and pay via credit cards.

People are more willing to adopt home security services as a part of multi-play services due to the simplicity and cost savings. According to the statistics, one in

every four houses is susceptible to property crimes. On the other hand, the risk of burglary is reduced by one-third in a home with a monitored security system.

France Telecom's Livezoom and télésurveillance are interesting examples showing the potential of home security services. With Livezoom the user can remotely monitor his home through a PC or WAP-enabled mobile phone. The camera can be controlled remotely to adjust viewing angle through the user account. The service is provided through Livebox.

Advertising is moving beyond the TV slots and creating new user experiences where advertising is an integral part of the service.

Advertising revenue has accounted for the largest proportion of the television industry's revenues. Now the share is shifting to other media such as the internet.

For IPTV providers this creates new business opportunities such as:

- ▶ Targeted advertising by displaying the banners and tickets across the screen during the programs.
- ▶ Associated advertising, where the viewer will find more information about the products through the interactive area on the screen.
- ▶ Interactive advertising, where the viewer can interact with the service through competitions, voting and special offers that are displayed during the commercial breaks or TV shows.
- ▶ Advertising associated to specific services such as social networking, which will induce longer viewing times, increasing the chances of broadcasting more advertisements. These features could also induce viral marketing – a viewer invites a friend to watch the same program so that they can chat at the same time.

SPEED IS OF THE ESSENCE

Competition is the biggest barrier for adoption, early time to market is a critical success factor. Winning a new subscriber is 3 to 5 times easier, if the customer has not already subscribed to a competitor's similar service offering and possibly committed to a binding period.

Therefore, telcom operators need to speed up penetrating the IPTV market as other players are picking up and providing new TV services directly to the end-customers. These include:

- ▶ Cable TV operators who are increasingly competing with telco's triple play offerings.
- ▶ Device players who develop their own

content partnerships and offer services directly to the end-customers, for instance, Apple TV.

- ▶ A number of content providers and media companies who target web-TV offerings directly to the end-customer through the public internet.
- ▶ Online video services such as YouTube. These are among the most popular content services.

To attract the customers IPTV, providers have to come up with more attractive offerings compared to the other players in the market. Still, many IPTV providers are offering the same services as satellite and cable have done for years.

From a consumer's point of view, pricing will remain as a key selection criteria, and to great extend define, if the potential customer gets interested in the offering. However, price alone does not guarantee the success, if the overall offerings, such as choice of channels, quality of service and premium services, do not meet the customers' expectations.

NO LONGER A FAMILY BUSINESS

Transformation from family-centric offering to personalized user experience requires radical change on all fronts.

Traditionally, TV has been the center of the home entertainment, collecting friends and family to spend time together. However, consumer expectations on media and entertainment are evolving fast. Depending on the user or family member, there are a number of individual preferences such as personalized electronic programing guides, user-specific payment methods and balance limits when ordering video-on-demand and shopping online, authentication and access rights management, personal choice of services, etc.

Rethinking is also required throughout the overall operating environment including:

- ▶ **Service management:** development of convergent services, where the challenge remains, how does one match mobile 'personal media' and TV 'family media' together?
- ▶ **Customer management:** where one subscription (e.g. IPTV or broadband access) becomes several users (e.g. family members). How does one manage individual profiles and services in the CRM system and product catalogue, which have originally been designed to manage services on a subscription level?
- ▶ **Revenue management:** How does one manage account hierarchies for residen-

tial customers in the billing system? Is the billing system able to handle different payment methods, credit limits, etc. on a user level? Which transactions (for example, video-on-demand, online-shopping) should be rated and charged in a real time?

- ▶ **Sales & distribution:** How does one sell and provide services through new and existing distribution channels to individual users?

When translating these business requirements into the system requirements, it is highly likely that a "traditional" fixed system infrastructure is no longer capable of handling these changes. As a result, a number of systems might need to be replaced. Thus, transformation from the IPTV business strategy to operations and system support requires commitment at all levels of the organization. ●

Sources:

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