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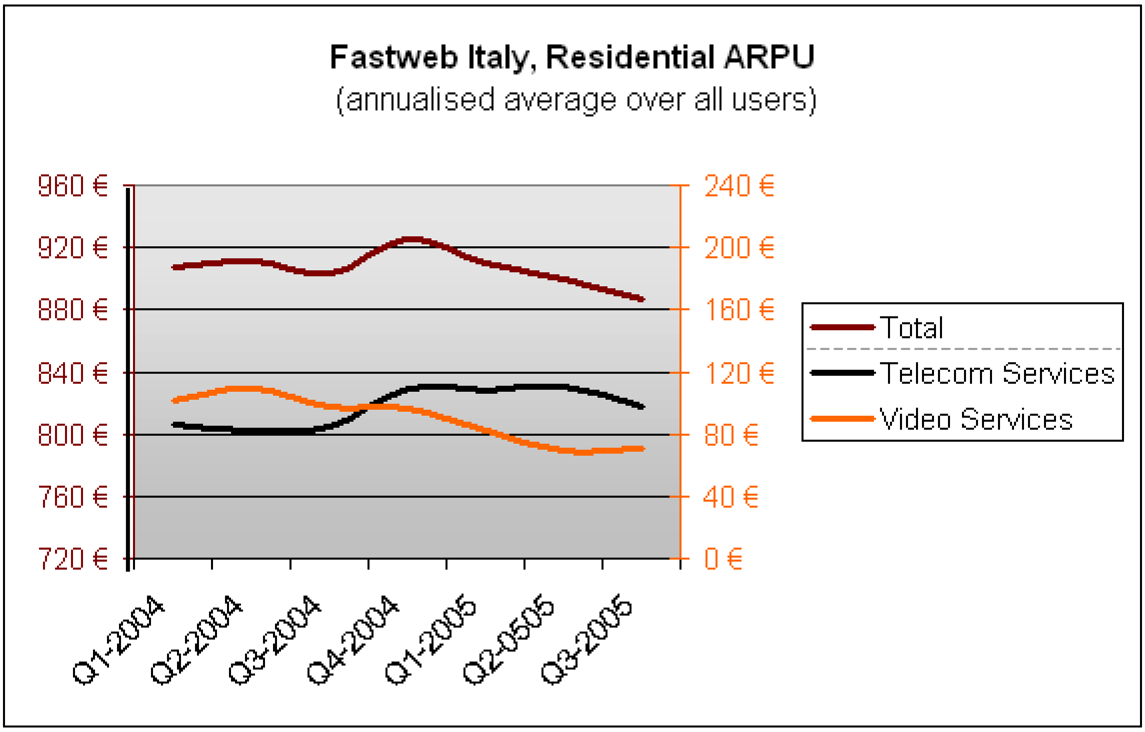
Broadband markets heading for IPTV

The broadband framework

Fixed line operator voice revenues are on a steady decline, partly as a result of fixed-mobile convergence.[1] Accordingly broadband revenues gain even more importance to balance this reduction. Currently broadband markets are growth markets.[2] Yet the competitive pressure on operators and service providers to acquire customers in the remaining few years of extensive growth is strong. The differentiation of broadband services focused mainly on price level (including supply of complementary networking gear), tariff structure, speed and bundling with voice (VoIP) services. These elements have limits and therefore operators analyze IPTV services in order to reinforce their positioning, to prevent churn, to lock-in customers and (where appropriate) to defend against cable operators.

The current IPTV offers and activities

Turning to pioneer Fastweb in Italy, Fastweb realized a residential ARPU of about 74€ per month or 887€ per year[3]. A key driver for them is constant addition of new services to retain revenues. The ARPU fluctuation has indeed been relatively mild with a maximum deviation of 40€ between highest and lowest total ARPU and a reduction of merely 2% (21€) over the last 21 months.



1 Telefonica expects voice revenues share to fall from 49% in 2004 to 35% in 2008 within wireline services
2 Growth of 50% from January 2005 to January 2006 (Source : European Commission Information Society and Media)
3 Fastweb Q3 2005 report

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In the first six months of 2005 the number of subscribers to European IPTV services has increased by 66%.[4] France, Italy and Spain are by now the most active European IPTV markets but operators across Europe (and the world) are revising their strategy.

Operator	Country	IPTV Subscribers[5]
FastWeb	Italy	165,000
Free	France	159,000
France Télécom	France	142,000[6]
Telefonica	Spain	123,000

Drivers and barriers

Today it looks like video services will become part of the broadband portfolio, it is only a question of time to market and different implementation in alternating domestic frameworks. The following issues are among the key impact factors:

- The availability level of Free-TV: In countries such as Germany where viewers are accustomed to 30+ freely available channels there are additional barriers for migrating broadband users to IPTV. In this case the willingness to pay for an alternative delivery of TV services is reduced.
- The broadband market strength of cable: In countries such as Switzerland where the cable platform has a strong position in the broadband market, the incumbent (and challengers) are under more pressure to include TV in order to match the triple play bundle of cable operators.
- Broadband penetration: Widespread broadband availability is required to deliver triple play bundles to national mass-markets.
- Legal framework: Prohibition of satellite dish installation works in favour of IPTV triple play models, prohibition against bundling of triple play may deny operators the marketing element of reduced bundle pricing.

Critical issues

- Business Model: Initially IPTV services might be introduced as flat fee access to broadcast and on-demand services. Yet some domestic frameworks may require higher emphasis on on-demand services in an early stage of commercialisation, especially if Free-TV availability is high. Furthermore operators need to consider upselling options fast to generate additional revenues.

[4] Screendigest 2005
[5] e-Media Institute 2005
[6] By January 2006 France Telecom has acquired 200,000 subscribers (Source: France Telecom)

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- Content partners: Operators need to strike a variety of cooperation agreements to reach a successful positioning, among them content partners. Quite probably this might be the most crucial element as the majority of operators have low or no experience of the dynamics of the content industry.
- End-to-end delivery platform:
    - Middleware to manage software, applications, billing… and the IPTV platform with servers, head-ends, storage, encoding…: A critical issues at this stage of market development remains the lack of standards, meaning that operators either rely on one of the end-to-end suppliers of (proprietary) equipment or need to integrate solutions from many (proprietary) vendors in a "best-of-breed" approach.
    - Transport and backhaul networks: Concurrent video usage will increase the average bandwidth per subscriber from current 20-30kbps. Accordingly backhaul capacity to the central offices needs to be increased.
    - Last Mile access through xDSL or alternative access (see our past Market Reviews on Wireless, Fiber or PLC on www.bmp-tc.com). IPTV may be a further driver towards facility-based operators using e.g. unbundling of the local loop rather than other wholesale access alternatives.
    - In-home connectivity: distributing broadband and IPTV to set-top boxes, etc.; additional Home-Sphere services

Conclusion

Fixed line operators need to acquire skills to implement new technology, form new strategic partnerships and adapt to the market for delivering contents. Many issues remain on the business model side such as the mix of content types (e.g. community programming and the impact of targeted, local advertisement opportunities; timely offset reruns of TV series…). In addition regional operators without the scale of incumbents and national challengers need to identify avenues to compete with triple play portfolios.

By developing clear strategies on each of the critical issues above providers may leverage IPTV to increase ARPU, reduce churn and strengthen their competitive positioning. Yet it would be too early to point at any of the existing operations as reference business model. In fact, domestic framework conditions will quite likely require different approaches to supplying data, voice and video…

About bmp Telecommunications Consultants:

bmp TC is a strategic consultancy group in the field of telecommunications with a focus on central issues related to business models based on broadband platforms such as DSL, Wireless, Fiber or Powerline Communications. IPTV is one element of the value-added services portfolio that broadband operators need to tackle. In addition bmp TC works on strategy related to the Digital Home as part of future bundles with broadband.

bmp TC provides support for market entry, strategy development, business model definition, positioning, forming of strategic partnerships, technology assessment and trial and other related strategic issues. Its clients are international telecom players including

- Network operators / Service Providers / Utilities
- Equipment suppliers / System Integrators / Enablers
- Institutions / Governmental Authorities and others

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