

## Telco TV tops pay-TV platform growth

According to ABI Research, riding on the emerging wave of high-speed broadband connectivity and the evolution of business and user requirements, television is no longer what it used to be. Trends are showing that interactive bi-directional television is increasing at the expense of legacy formats.

Accordingly, the research firm forecasts that IPTV will grow by an estimated 32% annually over the next six years to nearly 79 million subscribers globally by the end of 2014.

Satellite and cable TV are among the oldest and most important pay-TV platforms in many countries, and they are likely to retain their footholds in those markets for some time. However, their growth rates will slow as IPTV gets up to speed.

According to ABI analyst Serene Fong, some telecom operators that are faced with thinning margins are deploying high-speed access networking technologies to challenge incumbent satellite and cable operators. They do so by offering compelling alternatives via existing broadband infrastructure, thereby making service subscription easier and more convenient compared to the traditionally more cumbersome and costlier legacy television alternatives.

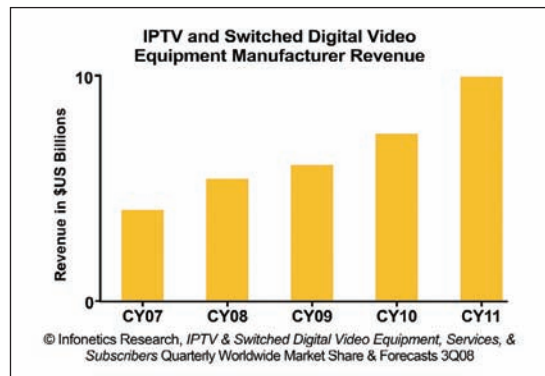
IPTV usage will be robust as prices of high-speed broadband fall and more users start adopting multimedia services. "Usage will initially be concentrated in countries with established high speed Internet technologies such as France, the Netherlands, South Korea and Hong Kong," notes Fong in the report, *Pay-TV Subscriptions*. "But as technology progresses and matures, developing countries such as China will rapidly catch up in subscription numbers."

Operators will continue rolling out IPTV as part of their

multi-play strategies, and the right set of technology deployment and consumer-friendly price plans will become increasingly vital. However, Fong cautions that, "While we expect to see greater momentum in the telco TV segment in the years to come, this new television alternative is unlikely to completely replace legacy pay television services immediately."

## Growth forecasts lowered

The IPTV and switched digital video (SDV) equipment market increased 6% sequentially in 3Q08 to \$1.4 billion, according to market research firm Infonetics. In its latest report, *IPTV and Switched Digital Video Equipment, Services, and Subscribers*, Infonetics lowered its long-term IPTV and SDV forecast



ascribing it to an expected slowdown in IPTV subscriber growth and a decrease in cable operators moving to switched digital video. Annual overall growth will continue in the worldwide market through the downturn, but will grow in double-digit percentages rather than high triple-digit percentages, as it has in previous years.

"We still see growth coming from the telco IPTV sector because IPTV is one of the key ways telcos can hold on to their broadband subscribers and increase revenue per user, so providers will continue to roll out new networks or expand their existing networks," said Jeff Heynen, directing analyst for broadband and video at Infonetics Research. "Meanwhile, the cable switched digital video segment

took a hit in the third quarter when Comcast slowed its SDV rollout and shifted its capex focus to DOCSIS 3.0 rollouts. Still, cable MSOs will continue to introduce switched video capabilities into their digital TV networks, just at a slower pace than we expected prior to the economic downturn, which is forcing families to rethink their budgets."

Other findings indicate: In 3Q08, IP set-top boxes (STBs) account for 70% of the total IPTV and SDV equipment revenue; IPTV middleware (content delivery platform) sales are up 21% in 3Q08, and video content protection software sales are up 14%. In 3Q08, Motorola continues to lead the lucrative IP STB market, although Cisco increased its market share six points, putting it in a very close second. In Asia Pacific, the IP STB market is hotly contested by Samsung, Motorola, Sumitomo, Cisco, and UTStarcom. Harmonic

maintains a strong lead in the worldwide IP video encoder market, leading all segments, including MPEG-2, and standard definition (SD) and high definition (HD) MPEG-4 encoders.

## Meltdown not impacting IPTV

Not even a global financial meltdown can stop IPTV. Despite the worldwide economic crisis, subscribers to telco TV will grow more than three-fold by the end of 2012, reports In-Stat. In several key markets, such as Brazil, Korea, and India, recent regulatory changes have given telco TV a real boost.

"A number of new countries, including places as varied as Montenegro, Jordan, and Ghana, saw the launch of their first commercial IPTV offerings in

2008," reported Michelle Abraham, In-Stat analyst. "Only a few markets, like Japan and Argentina, remain hamstrung by restrictions that hinder incumbent operators."

Other research findings in *Worldwide Telco TV Services 2008: Explosive Growth Continues* indicate that telco TV subscribers will grow to 71.6m, worldwide, by 2012. In the same period, worldwide subscriber revenues will increase to \$26.6 billion.

## Middle East telcos hot for IPTV

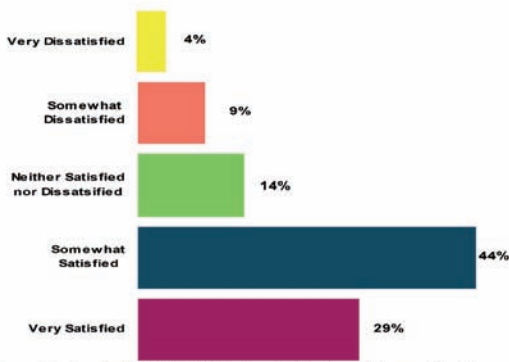
Delta Partners consultants says IPTV, mobile TV and multiplay will increasingly form the new battleground for Middle East telecom firms as they see lower fixed line revenues, fixed-mobile substitution and strong mobile competition going into the future.

Research Director Mohsen Malaki observed that broadband sharing and cheap broadband alternatives are becoming a feature of the market with more regulatory pressure and entry of fixed line competition. He added that Gulf telecom firms were increasingly turning their investment horizons to the African continent.

"Increasingly market penetration is being focused on multiplay and IPTV," said Malaki. "The foundation for this is broadband and in Africa the markets are at differing stages in the development of bandwidth."

"The package of mobile with fixed line, and IPTV with mobile and fixed voice, or triple-play is still some time away because of the regulatory hurdles of bundling," suggested Malaki. He noted this regulatory obstacle is especially strong in the Gulf, even if technically the markets are very developed, since most mobile operators don't also have a fixed line licence. But for mobile TV as a standalone service there are no regulatory obstacles, "hence we have seen Qtel in Qatar with its service and with Zain Bahrain

Overall Satisfaction with Current Digital TV Provider (N=842)



Source: Strategy Analytics, Digital TV Customer Satisfaction and Propensity to Churn: US Survey Results 2H08

Smart TV and other examples coming soon in Saudi Arabia.”

## OTT on TV will reach one billion

Although today's consumer is most likely to watch online video on the PC screen, over time more and more consumers will watch over-the-top video delivered to the living room, according to findings from ABI Research. This continued trend towards TV-viewed online video will help drive overall adoption, as the number of online video viewers grows from 563m at the end of 2008 to 941m by 2013.

“All stakeholders in the online video ecosystem are eyeing the living room,” suggested research director Michael Wolf. “With the continued adoption of network-connected video game consoles, the porting of popular online video services such as

Hulu and Netflix onto third party consumer electronics devices, and network operators’ growing interest in over-the-top video,

we see this market for TV-displayed online video continuing to grow.”

The growth in viewing on both the PC and TV screen is due to the growth in all forms of content. While much of the content many consumers watch continues to be YouTube-based user-generated content, there is rapid growth in the number of consumers watching premium content such as prime-time dramas and comedies, sport, and movies.

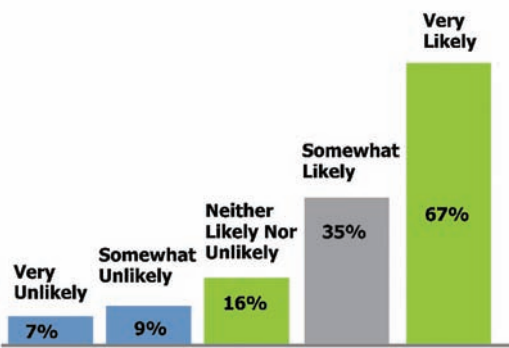
Wolf observed “a continued maturation in the various advertising models for online video,” and suggested that at the same time, hybrid models such as those offered by Netflix’s instant viewing service or pay models such as Apple TV will also grow in importance.

“While the economic environment will have some negative near-term impact on online video advertising CPMs, ABI Research

sees overall viewing of online video growing over the next few years as it is a fairly resilient and somewhat counter-cyclical form of low-priced entertainment.”

Overall Willingness to Switch Providers for a 20% Price Discount

(N=842)



## FiOS, U-Verse satisfy

Despite their relatively short market history, telco IPTV providers are well-positioned, and lead in customer satisfaction and brand loyalty, according to a survey by Strategy Analytics. Over 80% of Verizon FiOS and AT&T U-Verse television customers reported they were “very” or “extremely” satisfied with their provider. Cable customers, on the other hand, had the lowest satisfaction levels, with Time Warner Cable subscribers the most likely to churn if offered a compelling price discount.

The report, *Digital TV Customer Satisfaction and Propensity to Churn* polled 842 US Digital Television subscribers on the ‘three pillars’ of customer churn: customer satisfaction levels, propensity to churn, and perceived obstacles to defecting. In today’s competitive climate, customer retention must be a top priority, according to the report.

“In the context of the Triple Play, the Digital Television component leads the bundle,” noted John Lee, analyst in the Strategy Analytics. “It is the area with the highest potential for service differentiation and the one with the lowest fault tolerance. To mitigate churn, service providers need to pay close attention to it.”

Telco IPTV providers have established themselves in the TV market with, most noticeably, an exceptional level of customer service, the report found. “While content and service quality metrics are certainly important to customers, they are among the most difficult to improve substantively in the short-run,” according to Ben Piper, author of the report and director of the Strategy Analytics multiplay market dynamics service. “Instead, service providers should concentrate first on improving customer satisfaction in the areas of Customer and Technical support.”

The survey, fielded in late 2008, includes data from the top US DTV providers, including Comcast, AT&T, Verizon, Time Warner Cable, Cox, DirecTV and Dish.

## Telco TV drives upgrades

The telco broadband market experienced a downturn in new subscriber additions during 2008, according to iSuppli. “New telco broadband subscriber growth saw a 9.1 per cent decline in 2008 following double-digit gains during the prior five years,” said Steve Rago, principal analyst, broadband and digital home for iSuppli.

Driven by the need to upgrade the broadband access network, new Fibre-To-The-Home (FTTH) connections grew by 90% and new VDSL connections grew by 54% percent compared to 2007 reports iSuppli. In the cable world, many European and American operators introduced DOCSIS 3.0, significantly increasing broadband access data rates.

iSuppli believes 2008 was a milestone in the growth of very high speed access networks and has forecast growth in this segment of the broadband market will continue to accelerate for several years. According to iSuppli, telco TV was a major driver of high-speed access upgrades during 2008. Virtually every telephone company and competitive access supplier deployed or made plans to deploy television services during 2008. Overall telco TV subscribers grew by 8.8m to end 2008 at a total of 18.5m.

Telco TV during 2008 transitioned from the early-adopter stage to the growth stage. Global revenues for equipment supporting telco TV ended 2008 at \$5.8 billion. Over the next five years, revenue in this segment will grow at a Compound Annual Growth Rate (CAGR) of 20 percent, iSuppli forecasts.

The research firm considers that IPTV in particular will change the way the world views entertainment both inside and outside the home, suggesting that it represents one of the most significant paradigm shifts in the communications world since the rise

of the cell-phone market.

For iSuppli, 2008 was a year of change in the broadband and telco TV markets. Broadband was no longer driven by new subscriber growth but rather by the need to upgrade the access plant to very high-speed connections.

Telco TV in 2008 transitioned from the early adopter stage to the growth phase of its life cycle. Together, both of these markets experienced increased spending even as service providers curtailed overall expenditures on communications equipment. ISuppli suggests that 2009 will be similar to 2008, with increasing investment on very high-speed broadband, DOCSIS 3.0, VDSL and FTTH and continued growth in telco TV, while spending in other segments will decrease.

## Growth potential for multiplatform

**Multiplatform and interoperable DRM will represent over eight per cent of worldwide pay-TV subscribers with multiplatform offers by 2012 says MultiMedia Intelligence. It says this seems an ambitious target, however, time and the natural progression of these services on multiplatforms will start to solidify into an ecosystem capable of supporting a multifaceted but cohesive offer. For the immediate future smaller scale multiplatform initiatives will remain fragmented with third parties providing the platform, DRM or both.**

**Unified multiplatform services is best seen as an evolutionary step – one with a growth rate contingent upon other services like mobile video and online video distribution systems. More features trickling down to less expensive devices, along with growth in broadband penetration will further foster the capital expenditures necessary to launch a unified multiplatform solution.**

**DRM is a different story. According to Rick Sizemore, president of MultiMedia Intelligence,**

**while interoperable DRM seeks to rectify these issues, the same problems could occur if there is not good cooperation between companies. Sizemore said: “Case in point, we have several Interoperable platforms and within each respective standard exists the potential for numerous smaller disconnected ecosystems; how does this help? In effect we could very well recreate the same issues facing the market today. This has to stop, especially in a challenging economic environment like we are in.”**

**Sizemore suggests that the success of these initiatives is dependent upon the coordination and cooperation of each member within the value chain.**

## 100m Euro digital TV

In what was a record year for digital television subscriber growth, Western European digital television subscriptions broke through the 100 million household mark in 2008, according to a new report by analyst firm Strategy Analytics. The report, Western Europe Digital Television Forecast, estimates that Western Europe added 17 million net new digital households in 2008, with IPTV expected to make great strides.

On a platform level, Digital Satellite led in terms of overall subscriptions; however, Digital Terrestrial Television (DTT) will fuel the growth of digital television over the next four years. Fifty-seven million homes will use DTT as their primary viewing platform in 2012, according to Strategy Analytics.

“As European countries undergo their respective Digital

Switchovers (DSO), and analogue signals are shut off, DTT will emerge as the dominant primary digital viewing platform,” noted John Lee, analyst in the Strategy Analytics multiplay market dynamics service. “DTT service is becoming competitive with lower-tier pay television offerings-both in terms of channel selection and quality.”

Strategy Analytics forecasts that Western European digital households will surpass the 150 million mark in 2012, implying a four-year CAGR of nearly 10%.

Digital cable and IPTV are likewise expected to make strides in the digital television market, each forecasted to have double-digit growth in the upcoming years. Of the four digital platforms covered, Strategy Analytics estimates that digital satellite will grow the slowest.

## HK nears 1m subs

**Communications market research firm Research and Markets has revealed findings from its Hong Kong - Telecoms Mobile and Broadband report, which highlight the success of IPTV services in the Special Administrative Region (SAR) of China.**

**Hong Kong has moved quickly in providing over 75% of all households with access to broadband connectivity. This has been accompanied by rapid growth in the Internet market. Broadband Internet subscriptions had well and truly surpassed dial-up subscriptions by end-2005. There were in excess of 5.2m Internet users in the territory, gaining either dial-up or broadband access going into 2009.**

**In a densely packed market, with**

**2008 with around 890,000 video subscribers. Besides losing its historic market share edge, i-Cable may start shedding subscribers during 2009.**

**Fibre deployments continue to expand while DSL subscriptions started to drop off at end-2008. The extensive fibre infrastructure in Hong Kong has allowed IPTV services to reach over 40% of households.**

## W Europe telcos set for stormy 2009

Fixed-line telecoms services are facing a bleak 2009 and beyond, according to a new report - *Western European fixed telecoms: market sizings and forecasts 2008-2014* - published by Analysys Mason.

“Rapidly saturating broadband means we are entering a new phase for fixed telecoms,” argues lead author and principal analyst Rupert Wood. “The structural problems it faces are only exacerbated by the current economic downturn.”

The Analysys Mason report indicates that all three of the main retail lines of business of fixed telcos face problems.

Broadband service revenue is slowing to low single-digit growth, and at the same time as the sector faces the need to invest to differentiate itself from an increasingly mobile Internet, funding will be harder to justify. New services may stabilise the average revenue per line, but this is unlikely to grow.

Legacy voice has been in trouble for years, but the effect of an economic downturn will be to make revenue decline even faster relative to mobile. Unemployment and income squeeze will accelerate households’ decisions to give up fixed voice services for good.

Enterprise telecoms revenues will decline as the economic downturn continues, although the report anticipates that, unlike in the main consumer areas, this will pick up again with an economic upturn.

### Western Europe: Digital Television Households by Primary Access Platform (millions)

	2008	2009
Digital Satellite	40.0	48.2
Digital Cable	17.1	28.7
Digital Terrestrial	36.1	57.6
Telco IPTV	10.0	16.9
<b>Total Digital TV Subs</b>	<b>103.2</b>	<b>151.4</b>

Source: Strategy Analytics, Western Europe Digital Television Forecast: 1H'09

**over 2m TV households, IPTV provider PCCW ended 2008 with nearly 930,000 video subscribers in Hong Kong with a paying base of 670,000. That passed i-Cable, which closed**