Telco TV in the US was the 'new kid on the block' in terms of multi-channel distribution, competing with cable and satellite for subscribers, often as part of a triple-play package. It now faces additional threats from OTT providers and Connected TVs. According to industry experts, it is nevertheless well placed to benefit from the opportunities presented. Colin Mann reports.

WINNING CONNECTIONS

After years of lobbying, the US telco industry eventually won the right to offer pay-TV services to its subscribers, with AT&T's U-verse and Verizon's FiOS TV being joined by a host of smaller operations, largely supported through industry co-operatives. As rollouts and deployments spread, subscriber numbers grew, with ever-more attractive content offerings assisting the fight against cable and satellite incumbents.

Now much of that content is also available without the need to commit to a monthly subscription via OTT providers or Connected TVs, with 'Cord Cutting' entering the industry vernacular, with viewers opting to access premium content other than via managed cable, satellite or Telco TV services. As the least-established player in the sector, what are the challenges facing Telco TV providers, and how can they differentiate their offerings from competitive providers?

SPRINGBOARD. According to Richard Bullwinkle, chief evangelist, Rovi, telcos have a unique opportunity, because in most cases, their content is already delivered over IP, and most often their equipment already has two-way IP communication. "This platform provides an excellent springboard for delivering new services such as programming recordings from any device, interacting with programmes and advertising from any device, and even taking the content to new devices, such as tablets and connected TVs in the home." He recommends that telcos could reduce their hardware costs, and keep technology-savvy customers very happy by utilising the connected devices the customer already has in the home.

"Most providers will aim to deliver more content to more screens inside and outside of the home."
RICHARD BULLWINKLE, ROVI

Tom Fuerst, senior director, multimedia solutions marketing, Alcatel-Lucent, suggests that if you look across the spectrum of pay-TV providers – Telco, cable, satellite and OTT if you want to include that sector – the main differentiator that telcos can exploit is their ability to offer a more consistent and personalised service across all services and screens of a given subscriber. "Unlike satellite and OTT providers and, for the most part, cable providers too, most telcos that are in the pay-TV business also have a wireless business as well. This gives them unprecedented ability to leverage their knowledge of the subscriber across all the different service touch points – pay-TV, broadband, and wireless – to offer a much more compelling and integrated content experience."

In terms of OTT competitors, Fuerst suggests that telcos have two distinct additional advantages: firstly, they own the last mile broadband connection to the subscriber, giving them the ability to guarantee quality and security in a way that an OTT provider cannot. Secondly, telcos, especially the larger ones, are in a much better position to offer a rich menu of live, linear programming than an OTT provider.

LOCAL BRANDS. Dan Carufel, director of sales, telco accounts, US and Canada, Amino, also considers that telcos have a great opportunity to differentiate and innovate, capitalising on their strong local brands, existing high levels of service and developing their core TV content offerings with a new layer of content from the open Internet. "OTT is simply enhanced TV – just like DVR, HD and 3D – and many operators we are speaking to are very interested in seeing how they can integrate it into their overall offering. The main interest is in Video-on-Demand (VoD) – Hulu and Vudu are strong competitive plays – and the ability to bring this powerful branded presence on board is compelling. But there's also interest in YouTube and other social media and how this can be packaged in a new 'walled garden' of content," he advises.

For Carufel, the good news is that the IPTV ecosystem is already responding with middleware companies now offering OTT capability. "From Amino's perspective, we've seen a great response to our new enhanced IPTV/OTT set-top boxes and are now both deploying and trialling these with both existing and new customers. We think this is a positive sign that operators are, at the very least, exploring the OTT opportunity. They see evidence of 'Cord Cutting' and 'Cord Trimming' and want to find ways of building entertainment packages that retain the 'early adopters' of new technology whilst at the same time creating new services

that can attract new customers."

Michelle Abraham, research director at In-Stat, points out that telcos often have a mobile offering for a quad play. "As compared to satellite providers, they control the broadband channel to enable on-demand offerings and an interactive experience. The control over the whole network also enables more control over the quality of experience of the subscriber as compared to an OTT offering. If a subscriber is having a problem, there is only one place to call to sort it out," she notes.

WIDGET ALIGNMENT. Yann Courqueux, chief marketing officer, Netgem, argues that telcos offer customers a better user experience overall as they provide a superior service experience and better customer care. "The OTT service experience on the other hand is fragmented as each service provider has its own widget which operates within its own silo, meaning they are disconnected from each other, resulting in an inconsistent service. The UI is also typically slower because it uses older technologies and less optimisation. Telcos make navigation through channels fluid and fast, ensuring consistency between different features and apps, and providing an enhanced user experience. Moreover, telcos provide better customer service as they establish relationships with their customers through their support centres; a service which OTT and Connected TV providers do not offer," he says.

Compared with satellite, he suggests that telcos can better provide QoS on non-linear devices and more connected services as well as integration with new generation services such as cloud gaming and video conferencing, which are increasingly becoming must-have services. "Telcos can also provide convergence services like follow-me TV, establishing greater continuity of service. Additionally, telco users, unlike satellite users, have the option of multi-screen connected services in quad play," he advises. As for cable, he sees less differentiation, as many cable operators can provide equivalent services to those provided by telcos, the main difference coming in the cost of maintaining their legacy systems and networks.

Jaime Fink, senior vice president of technology, Pace, notes that for decades, TV viewers have had their very own recommendation engine in the form of channels, networks and linear TV. "Thanks to this, audiences have adjusted to television as a lean-back medium. As OTT and IP video grow, viewers' expectation of their access to content is growing. We've seen, however, that they don't want to enable this with 'search only' systems; the medium is complicated and slow," he suggests. According to Fink, the key differentiator for telcos is the ability to deliver multi-content TV environments as simply and intuitively as possible through their converged gateway. Successful telcos will be the ones that create the greatest level of continuity in accessing content as viewers move from linear TV to the new age of multi-source viewing, whilst delivering the greatest range of content.

CABLE BOXES. John Kendall, market analyst at IMS Research, notes that the question of differentiation is one he encounters quite often, typically answering with another question: 'Why do telcos need to differentiate?' According to Kendall, most consumers have very little idea and very low interest in how content finds its way onto their TV screens. "As a matter of fact, many refer to their set-top boxes simply as 'cable boxes' regardless of the method of video delivery. As long as there is a competitive pricing scheme and content package, telcos are uniquely positioned to leverage their network infrastructure to deliver video. This is their primary differentiation, and it is primarily invisible to the consumer. Of course, providing video over IP infrastructure gives telcos certain advantages, especially when considering the delivery of OTT services; however, cable operators are quickly learning how to leverage their networks to provide the same services. Telcos can differentiate by incorporating connectivity very easily, especially if they are also the broadband provider into the household. Double and triple-play services are more uniquely positioned to incorporate OTT services into a TV experience for their customers."

Arnaud Perrier, VP of solutions at Envivio, suggests that AT&T was the first telco to truly differentiate with its Mobile U-verse service. "The launch of that Catch-Up TV service for smartphones was a first last year, and is still unique in the industry. Telcos now have a unique opportunity to take advantage of the untethered nature and sheer bandwidth of 4G/LTE to offer higher quality. With intelligent roaming and 'follow-me' features, one can offer wireless access to content on any device, inside or outside the home."

"Telcos should leverage OTT delivery technologies such as adaptive streaming and 'on-net' CDNs to offer a higher quality, but secure content experience on any screen."

TOM FUERST, ALCATEL-LUCENT

Steve Christian, VP marketing at Verimatrix, considers content as critical to Telco TV's success. "In addition, telcos need to push forward the parallel use of managed network technology and unmanaged network technology to help target their multiscreen subscriber base and differentiate their offering, and make it particularly compelling. Technologies such as HTTP Live Streaming (HLS) can enable this effort and offer attractive QoE advantages such as a smooth, continuous video presentation even when conditions deteriorate sharply or if sharing of bandwidth occurs," he advises.

SURVEY SAYS. Ben Piper, director, multi-play market dynamics, digital consumer practice at Strategy Analytics, suggests that beyond content, interactivity is the main lever telcos have to differentiate their offering against Cable and Satellite. "Strategy Analytics has long said that North American Telco TV providers have done an inadequate job of coherently and effectively messaging this differentiator. For too long, Telco TV was framed to the consumer as a simple replication of Cable or Satellite environment."

"Sure, there were a few weather and traffic widgets thrown in for good measure, but no coherent positioning or convincing argument for choosing one over the other. While Telcos have made strides in this area, we think there is a lot of opportunity for a more refined marketing message. Survey research we've just fielded shows that, on virtually every

"On-Net multi-screen services are a must for telcos to bridge the gap and effectively compete with Cable operators."
ARNAUD PERRIER, ENVIVIO

metric, customer satisfaction levels among Telco TV subscribers are significantly higher than those of Cable and Satellite customers. Metrics where Telco TV particularly stood out, *vis-à-vis* the competition were ease-of-use, customer service/tech support, and innovation. Clearly, these are areas where telcos should focus the message," he recommends.

Paul Connolly, office of the CTO, service provider business, Cisco, notes that telcos in the US have built fully featured, highly competitive video services as part of triple or quad play offerings with switched architecture, which, while competitive for broadcast services, is ideally suited for personalised video, which is the increasingly clear consumer choice. "Both cable and satellite architectures are being evolved to provide this capability, but the telcos are already there. Secondly, telcos have a dominant position in mobile networks, so as video shifts from the TV only, to multi-screen offerings, including PC, tablets and smart phones, the telcos are in a strong position to leverage their back office and wireless assets, as well as brand, to develop effective multi-screen offerings," he says.

CORD CUTTING. With Cord Cutting a recognised phenomenon, are telcos at any greater risk than cable or satellite providers? According to Rovi's Bullwinkle, telcos are at equal or maybe even less risk of cord cutting. "At the core of their service is a strong Internet connection, and while customers might use that connection to explore more Internet content, they will rely on the connection more and more. However, the telco has more opportunity to deliver their content in unique ways that appeal to a potential cord-cutter. The telco might offer their VoD library in a format that streams to a set-top box as well as a tablet or connected TV. The freedom of already having their content ready for IP delivery allows them to package content in ways that might appeal to a potential cord-cutter."

Alcatel-Lucent's Fuerst reiterates the point that telcos generally have the wireless ace up their sleeve, which can enable an interesting and personalised service across all the screens. "This makes their service bundle stickier than one from a cable or satellite provider who doesn't offer a multiscreen video service. Telcos are also newer to the pay-TV business and, in general, have built their service delivery networks on IP technologies. IP not only enables a more cost effective and flexible service, it simplifies the ability to leverage the application developer community to launch innovative new services at 'Internet speed'." He suggests that these two factors, combined with premium content, mean that telcos are at less risk of cord cutting than cable or satellite providers.

Amino's Carufel argues that telcos deploying IPTV are probably in a stronger position - with a unique platform that covers all services offered by cable and DTH service providers plus the ability to introduce OTT seamlessly as part of their offering. "They also have a head start in the IP world with a clear understanding of broadband and how to manage content across networks. OTT therefore becomes a natural extension, particularly where operators are rolling out high-speed fibre to the home," he advises.

CORD TRIMMING. "What we are hearing is that customers are 'cord trimming' – changing packages and going for cheaper options rather than cutting the service altogether. The ability to quickly deploy OTT – now possible through innovation in the IPTV ecosystem – can only strengthen both service offerings and the telcos' market position in retaining and attracting customers."

In-Stat's Abraham sees satellite at greater risk as players often do not have as much control over the bundled offering. Netgem's Courqueux suggests that telcos and cable operators are able to provision triple or quad play bundles that create stickiness, so they are at lower risk than satellite operators who only provide content. "If this content is irrelevant or non-exclusive, users may choose to churn out. Furthermore, users are increasingly demanding ubiquity and simplicity of service on all screens. If operators can provide this, users are likely to stay with them."

"We've seen a generation of Over The Top devices fail to gain a foothold against established providers, but the medium is still in its infancy and innovative services will continue to evolve and learn," suggests Pace's Fink. "For the moment, however, OTT cannot provide the quality of experience or secure the content available to telcos. Cable and satellite providers, on the other hand, can deliver the same level of both quality of experience and content as telco providers. This doesn't mean telcos will be overrun by cable and satellite, but that the strongest of each will thrive. Those operators from both sides of the fence who can connect subscribers with the broadest range of content in the simplest and most intuitive environment will prosper."

DELIVERY AGNOSTIC. IMS Research's Kendall notes that consumers, for the most part, are agnostic as to content delivery. "As such, we believe that there is no special threat to telcos on the cord-cutting front. If a customer is driven to cut the cord, they are going to do so on a price-point versus content availability basis. Any triple play operator will be threatened, to a very minor degree, by cord cutting, but IMS Research views the threat of cord cutting to be a very overblown possibility," he states.

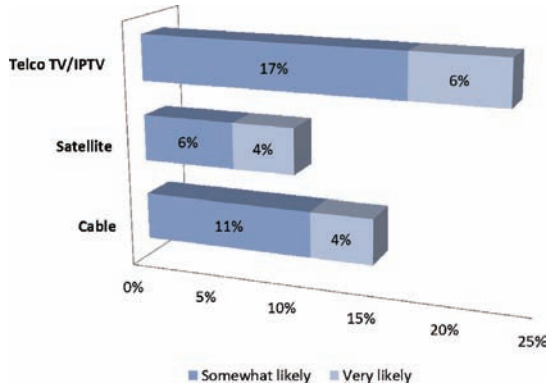
Envivio's Perrier contends that at the moment, telcos are at greater risk because they do not yet offer comprehensive multi-screen offerings to counter NetFlix and other OTT providers. "On the hand, major cable and satellite competitors have aggressively rolled out support for new viewing devices. For instance, Time Warner Cable and Cablevision now offer several hundred live channels on iPad, in addition to VOD. Something NetFlix does not offer. Another weakness of telcos is access to unique, premium content. Large cable competitors such as Comcast and Time Warner own some of their content. This makes it easier to rollout multi-screen while negotiating rights with other content providers," he advises.

Verimatrix's Christian describes cord cutting as "a much debated statistic" but notes that it still should be regarded as a new form of competitive threat to traditional pay-TV services, particularly with younger generations. "This threat grows with the quality of services that can be delivered over unmanaged networks and the variety of devices that can be used to display high quality video services. Telco TV providers are just as vulnerable as more traditional service providers to cord cutting, however, they have the advantage of a standards-based, IP-centric network infrastructure. The transition to a broad based service offering combining managed network (IPTV) service delivery with integrated OTT offerings is a clearer path for telcos in general."

BIG PIPE. Strategy Analytics' Piper reveals that a somewhat surprising finding from its recent survey, given the high reported customer satisfaction metrics, was that Telco TV subscribers were significantly more prone to cut the cord than were satellite or cable subs. "Much of this probably has to do with the availability of a 'big pipe' to the home, offering a high speed (and uncapped broad-

"The key differentiator for telcos is the ability to deliver multi-content TV environments as simply and intuitively as possible through their converged gateway."
JAIME FINK, PACE

Percentage of US Pay TV Subscribers "Somewhat Likely" or "Very Likely" to Cord Cut (2011) n=1,777



Source: Strategy Analytics, Multiplay Market Dynamics

band connection) which makes the prospect of an 'OTT only' environment a potentially less painless endeavour," he suggests.

Cisco's Connolly notes that from a technical point of view, cord cutting requires a broadband connection. "All of the telco video footprint includes a broadband capability. To the extent the some subset of the cable and satellite footprint does not have this capability, that subset is not vulnerable to loss. From a business point of view, the more personalised the offering is made, the less likely consumers will be to cut the cord, assuming the 'value/price' issue is effectively addressed. This means telcos are currently in the best position, based on their architecture, followed by cable, followed by satellite." he says.

PREMIUM CONTENT. With content identified as a key component in a service offering, can telcos continue to compete for premium content, or will powerful OTT players increasingly secure exclusive deals? Bullwinkle agues that very few content owners want to give any provider exclusive access to their content. "While we may see windows of exclusivity, the real money comes from making the content available on as many platforms as possible, and reaching as many viewers as possible. The OTT providers might be able to secure a few exclusive deals, but their earnings and profits aren't nearly enough to secure all the exclusive deals. We will see competing exclusivity windows from all providers: telcos, cable, satellite and OTT providers. More than ever, consumers will find it challenging to understand why they have access to content that their neighbours don't, and vice-versa," he notes.

Fuerst notes while some OTT players are pursuing exclusivity for particular content as a strategy to lock in customers, this largely remains a rather 'vertical' offer. "For instance, just this week it was reported that NetFlix and Hulu are locked in a bidding war over exclusive access to a new season of *Arrested Development*. While this might be very interesting to fans of the show, it's largely background noise for the mass market viewing audience. Telcos and other traditional pay-TV providers will be able to offer a much wider or 'horizontal' offer of premium content than any individual OTT player."

He also points out that cable, satellite and Telco pay-TV providers today pay more than $32 billion annually in affiliate fees, which in turn fuel the TV content business. "As long as pay-TV providers are in a financial position to pay these fees, which are typically levied on a cost per subscriber per month basis, they will not have an issue securing 'premium content'. As a back of the envelope calculation, at $4 per subscriber per month, NetFlix would need to be prepared to pay nearly a billion dollars in annual affiliate fees just to get ESPN for their 20 million subscribers," he advises. "Another factor to consider is that 'premium' content is somewhat of a relative term. As I talk to you from my office in Texas, I can tell you that local high school football is very much considered 'premium content' and this is something a large OTT provider will likely never carry. As long as I care about local high school football or other hyper local content, I'm very unlikely to cut the cord and go to an OTT-only approach to content delivery."

CORE OFFERING. Carufel suggests that telcos will have to continue to offer premium content, as it remains the core of their entertainment service offering. "Sport, top movies and original quality programming will remain in the broadcast domain, we believe, as this remains the premium route to mass-market viewing. IPTV service providers will continue to deliver this consistent broadcast and quality on-demand content, complemented by OTT to deliver niche content, applications, gaming and communications," he predicts. "We are seeing interesting developments in Latin America, where the arrival of powerful OTT players is catalysing the incumbent service providers to consider how best to deploy content over the open Internet. For example, Netflix launched in Chile a month ago – sparking interest in cable companies in video-on-demand and other services to ensure they continue to compete in this new environment."

Abraham agrees that telcos can compete for exclusive content where it is available but suggests that the issue is how many subscribers can the costs be spread across. "Oftentimes, telcos are not the largest pay-TV providers in their territories. For OTT players,

FACTS AND FIGURES

Simon Murray, managing director at Digital TV Research, summarises the key market metrics

North America IPTV

The number of North American homes paying for IPTV will double between 2010 and 2016 to reach 14m – or just over 10% of TV households. IPTV revenues will more than double to US$4.4 billion by 2016.

Verizon's FiOS TV and AT&T's U-Verse served 3.66m and 3.21m IPTV subscribers respectively by March 2011. Gaining 1.6m subs combined in 2010, both companies now appear in the top 10 pay TV operators. Verizon had 8.49m broadband subs by March 2011.

Three-quarters of the U-Verse subs were either triple-play or quad-play by March 2011, and more than 90% took TV and broadband. Triple-play ARPU was US$170 in 1Q11, up from US$150 a year earlier. AT&T is pushing its three-screen strategy, delivering content to the TV, PC and mobile. Subscribers can record up to four shows at the same time. AT&T had 16.49m broadband subs at March 2011.

Latin America IPTV

The number of homes in Latin America, paying for IPTV will take off from a very low base to reach 5.5m by 2016 – or 4.2% of TV households. IPTV penetration will be highest in Chile and Colombia by 2016, at 6% each. IPTV revenues will reach US$752m by 2016, up from only US$45m in 2010.

Online TV and video/OTT

The US will remain the dominant territory for online TV and video revenues. However, its share of total revenues will drop from 54% in 2010 (when the US recorded revenues of US$1.868 billion) to 36% in 2016 (US$7.722 billion).

The US contributed 55% of the US$2.181billion global online TV and video net advertising revenues in 2010. Despite US ad revenues growing by 234% to US$3.998 billion, this proportion will fall to 40% in 2016.

The US generated online TV and video subscription (OTT) revenues of US$361m in 2010, or 58% of the global total. Although its revenues will climb by a multiple of six, the US will only account for 34% of the 2016 total.

the cost of the exclusivity is an issue as well, since they tend to charge less per month than the pay-TV providers," she advises.

For Courqueux, the main risk with regard to content deals is that OTT players can reach customers on a global scale, whereas telcos will always focus on their domestic market. Echoing Alcatel-Lucent's Fuerst, he notes that in many countries around the world, local operators (including telcos) will be at an advantage as they will be able to offer premium local content that global OTT players (whether Internet sites or consumer electronics manufacturers) are unable to offer. "Collaborations between satellite providers and telcos may become more prevalent as these partnerships offer more opportunities in the market. Through collaboration, satellite providers and telcos can provide customers with a combined bundle consisting of both premium local content (often proposed by satellite) and high quality non-linear and multi-screen services," he says.

BUYING POWER. According to Fink, telcos can continue to compete for content as they have the subscriber base, high quality of service and, increasingly, the tailored experience to secure, and continue to secure, content. "In addition the buying power that most telcos command will not be rivalled by OTT providers for the foreseeable future," he predicts. "Content creators want their programming to be delivered in the best quality experience possible. OTT systems have previously struggled with bandwidth issues and despite the increase in delivery quality, experience will continue to be an issue for some time yet. This will continue to prove an issue when attempting to secure content; Pace has seen several customers win content deals based on the experience they could deliver around the programming. This advantage extends to the telco's ownership of the living room TV."

Paul Erickson, senior analyst at IMS Research, suggests that telcos can continue to compete as they have been, on a par with other pay-TV operators, and OTT players at this time do not have the same footprint, clout, or capital to compete on even footing when it comes to securing exclusive content. "Some amount of time in the market would have to elapse, and quite a bit more OTT adoption would need to take place, for OTT players to be able to outbid an IPTV operator or any other pay-TV operator for exclusive content."

Perrier predicts that telcos will continue to secure premium content, as long as they enable new ways of consuming it. "Quad-play means more potential eyeballs or more time consuming content, hence more leverage with content owners."

DEFENCE STRATEGY. Christian argues that alternate Internet video services don't yet seem to be a very formidable threat to existing digital TV subscriber bases, especially when you consider the rate at which IPTV service offerings are growing. "However, we advise our customers that the best form of defence is attack. We work with our IPTV and hybrid network operator customers to ensure that they are taking advantage of advanced Internet TV technologies and representing their service and brand on all screens. That is the best way to reduce churn or dilution of their brand or service value by niche players on tablet, PC or other devices," he recommends.

Piper suggests that although OTT players will continue to pose a threat to 'traditional' providers because they offer premium content, a key weapon that remains in the telco (and Cable/Sat) arsenal is premium sports content. "It remains in question whether or not OTT providers will have a compelling enough story to offer sports rights holders (in terms of market research and quality) any time soon?"

Connolly points out that telcos are not the biggest video players, based on their wireline offerings, but have enough critical mass currently to reach competitive agreements with the content owners. "As video shifts more and more to multi-screen, however, the telcos can increasingly leverage their wireless base, delivering twenty or thirty times more eyeballs, and hence being in a much stronger position to negotiate for exclusive content," he suggests.

PARTNERSHIPS. So, if the competitive threat is being faced with confidence, are there opportunities for telcos to embrace OTT and Connected TV as part of their own service offerings? Bullwinkle suggests that telcos might have an opportunity to partner with an OTT provider to offer more rich content and maintain brand and experience. "We might see more partnerships like the Dish/Blockbuster deal. In fact most providers will aim to deliver more content to more screens inside and outside of the home. It is important to help the customer stay loyal by both remembering who their provider is, and being pleased with the number of services the customer has access to. Building walls to keep the customer away from OTT content will only alienate the customer. Embracing the OTT content in special branding, pricing and packaging offers might be an excellent way to please customers," he suggests.

Fuerst considers it critical to distinguish OTT delivery from OTT providers. "We very much believe that telcos should leverage OTT delivery technologies such as adaptive streaming and 'on-net' CDNs to offer a higher quality, but secure content experience on any screen. An on-net CDN can help telcos monetise video content delivery and optimise it in terms of quality, cost and reliability. By using an on-net CDN, telcos can balance content storage and transport to minimise overall service delivery cost and gain greater control over the end-user quality of experience," he says.

Noting that as more and more content becomes available OTT, Fuerst says that it is not clear what this will mean to the OTT viewing experience. "Telcos have the opportunity, through technologies such as on-net CDNs, to not only optimise their network for OTT content delivery, but do so in a way where they provide better quality and security, and possibly create a role for themselves in the OTT value chain," he suggests.

"Telco users, unlike satellite users, have the option of multi-screen connected services in quad play."
YANN COURQUEUX, NETGEM

CONNECTED TV. In terms of Connected TVs, he identifies an opportunity for Telcos to eliminate the set-top box and stream content directly to Connected TVs. "What is more interesting, however, is streaming to the tablet, especially the iPad. I think anyone who has used it will agree that the iPad has revolutionised the personal viewing experience, providing the right mix of form factor, ease of use and content availability. Some cable operators in the US, for instance, are streaming their full linear channel line-up to the iPad with the same quality and security as delivered to the TV today," he notes.

Carufel suggests that while there is the opportunity and the technical capability to

deploy OTT services, operators are still in two minds. "Some believe that OTT is a 'must have' and are talking to the ecosystem to make it happen – particularly the addition of VoD content if it means they don't have to invest in additional servers at the headend. Even if the business model isn't clear to them at this stage, they believe the threat is too big to ignore and that OTT will be a great service enhancement and a useful way of retaining customers – for example by delivering very localised content such as news and the local school football game," he suggests, reinforcing Fuerst's observation.

He points out that in Latin America, OTT is becoming a mandatory requirement for almost all new projects. "Content providers see the possibilities to deliver services beyond their own networks – taking the fight for customers and revenues onto competitor networks. As often happens in new markets that are opening up, there's a more aggressive approach to marketing and customer capture and this region will be really interesting to watch in the future. In Argentina, for example, where there is a strong regulatory block preventing telcos from offering IPTV services, there is strong interest in adopting OTT technologies as a means of entering the market and capturing new revenues ahead of possible licence changes that would allow them to offer a full IPTV/OTT package," he advises. Abraham suggests that all pay-TV providers are moving

"For too long, Telco TV was framed to the consumer as a simple replication of the Cable or Satellite environment."
BEN PIPER, STRATEGY ANALYTICS

to offer OTT and multiscreen video viewing. "Telcos need to do so in order to stay competitive in the pay-TV market," she notes.

EMBRACE. Courqueux says that in many cases, telcos are successfully embracing OTT technologies to extend their reach beyond their current network and beyond the main TV screen. "It is important for telcos to embrace OTT services as they have become must-haves for many users. If telcos regard OTT operators purely as competitors, and overlook collaboration opportunities, their customer reach will be severely limited. The value operators can create around these services come firstly from simplicity of access and usage, and secondly from the integration of these applications with each other and with their own services."

Fink sees OTT and Connected TV as a major opportunity for telcos to expand their services and provide greater value than ever to their subscribers. "OTT functionality has already begun to be built into pay-TV services, with features such as on-demand content libraries becoming increasingly prevalent. In turn, pay-TV has expanded the capabilities of OTT, by extending it to TV Anywhere packages and, more recently, with media gateway and smart-box devices integrating OTT capabilities into connected home networks, to make OTT content moveable and accessible throughout the home. The connected home also enables pay-TV to embrace Connected TV by integrating it into the home network."

Erikson suggests that telcos should look at OTT as similar to their peers in the pay-TV business – it can be complementary to a degree. "Clearly, services like Hulu and NetFlix can be viewed as directly cannibalistic, and might best be omitted, but other OTT video sources along with other connected functionality (e.g. social networking, streaming music, and others) only help enhance stickiness if they are embraced. Essentially, you are not going to stop consumers from using YouTube, Pandora, Flickr, and so on," he admits.

OPPORTUNITY KNOCKS. "Connected TVs offer a unique opportunity. The industry is already attempting to embrace connected TVs as a viable client device within a multi-screened household. There is no reason telco TV operators cannot pursue the same path as Comcast, Time Warner, and others who are working with CE manufacturers to ensure that DLNA-equipped connected TVs can eventually take the place of client set-top boxes. IMS Research estimates that over 180m connected TVs will ship in 2016, and that connected TVs will soon outnumber all other OTT-capable devices. Pay-TV operators have the opportunity to have a visible presence as an app on those TVs alongside Netflix, LOVEFiLM, and other OTT services, that consumers can choose from. Telcos should look at Connected TVs as a tremendous opportunity in the long-term."

"On-Net multi-screen services are absolutely a must for telcos to bridge the gap and effectively compete with Cable operators," asserts Perrier. "The skyrocketing popularity of tablets and video player apps in Connected

"Double and triple-play services are more uniquely positioned to incorporate OTT services into a TV experience for their customers."
JOHN KENDALL, IMS RESEARCH

TVs is changing the way people consume content. They want it here and now. Being agnostic to a wide variety of video devices is key to success in this new world," he advises.

CAUTIONARY TALES. Christian suggests that of all the new Internet TV delivery options, the Connected TV is especially interesting to telcos. "It's already front and centre in the living room, there is no expensive STB required, it features an already integrated remote control and has the potential for high quality presentation without distortions or noise from connecting cables. On the other hand, today's Connected TVs are fundamentally hobbled by proprietary interfaces, wholly proprietary aggregation portals and simplistic navigational schemes," he notes.

"Frankly, I don't think Telcos have much choice," states Piper. "I often refer to two cautionary tales from the not-so-distant past of industries either ignoring or fighting the new distribution channels afforded by the public Internet—print journalism and recorded music. Neither offers a particularly enticing blueprint for pay-TV. Pay-TV customers have made it clear that they want control over how, what, where, and on what device they consume content. In fact, our survey research continues to show that economics is not the key motivation behind cord cutting—it's control of content. Forty per cent of Cord Cutters (compared to twenty per cent of Traditional Churners) would be willing to pay more than they currently do for pay-TV if it meant they could pick and choose content on an *à la carte* basis."

Connolly considers it very much in the telcos interest to actively embrace OTT and Connected TV as part of their offering, as some have already started to do. "By embracing these players as partners, the telcos can shift the business model from the current B-to-C to a B-to-B-to-C model, acting as an aggregator of these types of new services. Consumers are finding it difficult to navigate through the various separate logins, authentications, etc to access OTT. As content choice proliferates, the telco has the opportunity, as the incumbent supplier, to provide a holistic search and discovery, via metadata normalisation, and embrace social networks, friend recommendations, real-time chat, *et cetera* to enhance their offerings."