



The Industry's Perfect Storm

Triple Play's Voice, Video And Data

By Don Kent ■ *eCablevision Consulting*

Digital video and broadband have provided cable television and Private Cable Operators (PCOs) new revenue streams and new customers. However, the technological bar continues to be raised and within the next few years, offering telephony will be as important a service as offering broadband is today. Operators who do not have access to the necessary capital, lack the sophistication to bill for a converged set of services and maintain them, or do not possess the necessary foresight will find competitive pressures driving them out of business.

A perfect storm is brewing which will result in operators that offer a triple play of services engulfing those whom only offer a double play of services. Voice is only emerging as an arrow in the quiver of cable operators' arsenal. While most cable operators have postponed telephony deployment until Voice over Internet Protocol (VoIP) technology is further developed, cable operators including Cox, Comcast, and Insight provide millions of customers a triple play of services using switched circuit rather than VoIP technology. Since VoIP development is progressing quickly as evidenced by companies such as Vonage that are adding 25,000 new VoIP customers each month, this technology is almost ready for massive and large scale deployment. The future will be arriving shortly.

Cable operators may have learned from the mistakes that several PCOs experienced in the 1990s, when these PCOs promised a triple play of services, entered into contracts with property owners promising these converged services, and subsequently disappeared from the planet when they were unable



to deliver voice due to cost and technological problems. The resulting turmoil cost the PCO industry credibility among several large property owners, as they decided to choose franchised cable operators or negotiate more onerous right-of-entry agreements after their contracts were breached. It was especially frustrating to a number of incumbent PCOs that warned property owners against entering into these right of entry agreements, but were unable to be persuasive against the rich overrides that were promised based upon deploying a triple play of services.

At a competing camp, the Regional Bell Operating companies (RBOCs) and smaller incumbent local exchange carriers (LECs) are preparing themselves for their own triple play future. As an interim strategy, the Bells have allied with DBS providers to bundle video in their offering. Some companies, such as Verizon, believe that laying

fiber to the consumers' premises is the best long-term strategy to offer video and other advanced services. In a May 14th article, *Business Week* reported that Verizon is in the process of applying for cable television franchises in nine of the states in its footprint, and plans to offer digital television and movies-on-demand this year to 1 million homes. Says Paul Lacouture who oversees Verizon's network project, "The battle is going to get a lot more intense." Within the next four years, Verizon plans to offer video service to 12 million homes! In addition to providing video services, Verizon's new infrastructure will enable it to offer broadband in excess of 30 megabits per second over the fiber. Without a converged video product, predicts analyst John Hodulik of UBS, the Bells likely will lose 30% of the telephone market to cable companies. He predicts that a converged package of services will cut their losses

in half. Other LECs are using DSL via their existing twisted pair infrastructure to extend video to their customers. In May, Nortel's Chief Technology Officer Greg Mumford predicted that telcos will protect themselves by increasing DSL speeds to 20 megabits per second, stating, "wire-line providers who don't have a video component to their network are working really hard to bring video to the table."

Why will a triple play of service create a perfect storm for operators that offer less than a full bundle of converged products? Consumers, and especially those who purchase pay television and broadband, find compelling a company that offers discounts when they purchase multiple products. They appreciate paying one, rather than up to four different bills each month. Resolving customer service issues can be less problematic when working with one company to correct technical issues that can occasionally be interrelated.

And a customer who generates \$150 rather than the \$50-\$100 generated by one or two services enables the provider to be able to focus more resources to keep the customer at least satisfied and perhaps even delighted. For those operators who don't offer a triple play of products, many of their most valuable consumers who subscribe to multiple services will find other providers who offer a full line up of converged products—available at a discount.

A perfect storm of convergence is brewing, and cable operators, the Bells, LECs, and PCOs that possess the vision, the financial wherewithal, and are strategic players will invest in the infrastructure necessary to meet their customers' requirements in the twenty-first century. Those that choose not to will see their best customers who generate the highest average revenue churn away to other providers that better meet their customers' requirements. Fortunately, VoIP does not require a rebuild for PCOs

that have already upgraded to a 750 MHz plant. But it will require some technological investment, an enhanced billing system, additional customer service training, and technicians that understand how to provide excellent telephone service.

Those operators who anticipate this perfect storm will be able to take advantage to those who do not or cannot. So now is the time to begin the planning process to ensure your company offers a converged package of services—and remains in the competitive forefront. ■

About the Author

Don Kent has spent over 25 years working with video operators, broadband service providers, and with early phase companies specializing in the delivery of broadband and digital content services. Please address questions or topics that you'd like to see discussed in subsequent columns to Dkent@HTINC.com.

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