

Starting a Telco-Based Video Service

Everything independent telcos need to know about offering video services

Masha Zager ■ *Contributing Editor*

Launching a cable TV enterprise is a major departure for any company that has operated only voice and data services. The regulatory, technical, and marketing hurdles along the road to video service are all formidable.

Nevertheless, in the past few years many telcos have also become video providers. Sometimes the driving force is FTTH technology, which rarely makes financial sense without selling a full bundle of voice, data, and video. Other services are also possible – security, online games, and even telemedicine are emerging.

“It’s going to take twice as long to launch as you think it will,” warns Lynn Pike, CEO of Bixby Telephone Company in Bixby, Oklahoma. The business risks are also significant. Fortunately, there are many sources of assistance for the telco contemplating this step. More often, telcos are seeking a revenue base to replace customers lost to wireless and VoIP, and FTTH is the solution rather than the starting point. In addition to FTTH, many telcos are providing video over DSL or coaxial cable.

Here are the key barriers and ways to overcome them.

Franchising

In most states, video service providers require a local government franchise and approval from the state utility commission. Getting the franchise awarded and approved takes anywhere from a few weeks to 18 months. Pike, who has obtained franchises in several states, advises allowing six to nine months for the franchising process.

Time isn’t the only issue in franchis-

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ing. Municipalities may request expensive or impractical concessions, such as building studios for broadcasting local government meetings or providing video service outside the telephone service area. Telcos may have to educate authorities about how the technology works and which solutions make economic sense, Pike says.

Established cable providers may (in fact, almost certainly will) also throw roadblocks into the franchising process. In a recent, well-publicized incident, when Verizon was awarded a cable TV franchise in Massapequa Park, New York, Cablevision protested the action to the Public Service Commission, and a cable-provider trade association distributed flyers criticizing the mayor, who had supported it. The Public Service Commission ruled in favor of Verizon anyway.

Texas enacted a state franchise process in September (Broadband Properties, Sept. 2005) that allows video providers to enable service in multiple localities at the same time. The first recipient of a state-issued franchise was Guadalupe Valley Telecommunications Cooperative (GVTC) of New Braunfels, Texas. Mike Gross, the company’s CATV product manager, says the state franchising board ruled on its franchise application in less than two weeks, and was not authorized to request concessions beyond the standard franchising fee. Gross comments,

“This allows competition into different communities, and allows entities to get into the video business in a more cost-effective manner.”

The idea of removing municipalities from the franchising process appears to be gaining ground. Indiana is considering legislation similar to Texas, the Federal Communications Commission has issued a notice of proposed rule-making to allow a national franchise, and Congressional action on a national video franchise is also pending (see Stan Fendley’s article, in this issue).

Technical Decisions

Before they can begin offering video services, telcos must invest in appropriate hardware and software. Each investment requires a decision among competing technologies. Among the most important investments are network infrastructure, delivery platform, headend, and middleware.

In network infrastructure, the choice usually comes down to fiber or copper – or, more likely, to fiber versus fiber-and-copper. Delivering video over copper requires very short local loops, because bandwidth deteriorates rapidly over distance. This may necessitate pushing fiber farther out into the neighborhoods. The costs of upgrading the phone network to accommodate video over copper or FTTH depends on the condition of the existing network, the density of popula-

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tion, and other factors such as local geography.

Over the last two years, an increasing number of telcos have chosen to use FTTH because its relative costs are declining, because it appears to be the more "future-proof" investment, and because short local loops are not always feasible in low-density areas. In such areas, keeping copper circuits short tends to require too many devices to convert between the optical and electrical pulses that carry the signal.

While providing video over copper

currently requires an Internet Protocol, or IP, platform, FTTH operators have a choice of using IP or RF (radiofrequency) protocols. IPTV is more expensive, in part because it always requires set-top boxes, and is still somewhat unproven. "You're running technical risks in terms of performance efficiency," says consultant Lawrence K. Vanston, president of Technology Futures in Austin, Texas. "They are risks, even if big, important companies are taking them." Verizon is using RF to start its FiOS video service, with IPTV for the video on demand por-

tion and for the programming guide.

On the other hand, IPTV can carry more bandwidth and is better suited to the interactive applications of the near future. Geoff Burke, director of IPTV marketing at Calix, calls the RF protocol a "dead end" and says that the majority of new telco deployments now seem to be using IP. (Calix's platform supports both protocols.)

One bonus: Requiring a set-top box allows the telco to handle many consumer products from a central location, rather than sending out a technician on an expensive service call.

Another major decision is whether to invest in a headend, the equipment that receives video signals from satellite and reformats them for the network. Telcos have three basic choices: Purchasing their own headend, joining in a headend consortium with neighboring providers, or subscribing to a service that transmits video preformatted for the network (sometimes called a "headend in the

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Telcos do have one advantage in entering the cable TV market, Hold points out: since nearly everyone has a phone line, the telco knows all of its potential customers and can easily communicate with them.

sky,” which when capitalized is also a trademarked “long name” for Comcast’s HITS service).

Buying its own headend gives the telco the most control over content, but it is the most expensive option. According to Burke, local consortia are becoming popular as more small telcos enter the video arena. A small telco without many neighboring telcos might find the “head-end in the sky” option most appealing, at least to start. In addition to the commercial services, a new headend service will be available in 2006 from the National Rural Telecommunications Cooperative, in partnership with the National Telecommunications Cooperative Association.

Finally, a telco must invest in middleware, the software that provides the on-screen channel guide and gets the signal to the viewer’s screen. Middleware providers offer different features, and telcos must decide which of these features are more appealing to its customers. For example, Pike selected a middleware product for Bixby Telephone Company because it provided innovative features such as network chat.

Before investing in any of this equipment, telcos should consider the long-term future of video distribution. The advent of higher broadband capacity, digital rights management software, and PCs that connect to TV monitors make it feasible to distribute and sell video over the Internet. New services like Google Video and Brightcove will let viewers subscribe directly to video channels, including many channels that are not available through CATV providers (see Lawrence Kingsley’s article on IPTV in this issue).

According to Vanston, most video content will eventually come through

the Internet – which means that infrastructure providers won’t sell content, but only access. Vanston advises telcos to assume significant inroads from Internet delivery when they project video revenues, and to focus on maintaining Internet quality of service.

Obtaining Content

In today’s world, video content is still distributed through cable providers. Telcos must decide on a channel lineup and negotiate agreements with content providers. Usually, independent telcos will get a better rate through a consortium. Consortia, or buying cooperatives, such as the National Cable Television Cooperative, have more negotiating power than a local provider because they can offer programmers more “eyeballs.” Pike said joining the NCTC required a review process lasting several months.

Usually, the consortium will not provide all desired channels, and the telco will have to negotiate individually for some of them. Some programmers’ contract boilerplates haven’t caught up with fast-moving technology changes. Aaryn Slafky, director of marketing for Randolph Telephone in Liberty, North Carolina, advises telcos to examine contracts carefully to make sure they don’t prohibit certain delivery methods, such as IPTV.

According to Gross, a contract-negotiation issue that has become important in the last year is retransmission consent, or the right to deliver local on-air stations over cable. Traditionally, broad-

casters did not charge for these rights, and they still don’t charge large cable companies that deliver large numbers of viewers. But smaller providers, who are captive customers – many of their viewers can’t pick up broadcast stations – are now being charged fees that they had not budgeted for.

Marketing and Customer Service

The telephone company’s biggest hurdle may be entering the competitive marketplace. “Telcos have been monopolies,” says David Hold, senior analyst at Current Analysis in Sterling, VA. “If they’re getting competitive for the first time, they’re not adept at marketing.”

It isn’t just that phone companies must learn to build market share instead of taking orders. They’re also selling a product line that is more complex than telephony. Providers must decide whether to offer video on demand, pay-per-view, or other services, and how to configure standard and premium options and bundles.

“Do your research in the communities,” advises Gross, “then keep things simple for the customers.” He explains that telcos must survey their customers ahead of time to find out what video services and content they are willing to pay for. For example, retirees and vacationers are less likely to want video on demand; foreign-language communities may want content in their own languages. The options that the provider ultimately decides to offer should be easy to understand; customers shouldn’t have to ask salespeople for explanations.

Video customers require a higher quality of service than telephony or even Internet customers. Customers want 24/7 technical support, and respond more fiercely to service outages. Consumer dissatisfaction with cable customer service is the stuff of consum-

One possibility – which doesn’t seem to have been tried – is to lease the infrastructure to an experienced cable operator.

Getting Help

Where can independent telcos find the human resources needed to launch video?

- Managers hired from cable or wireless providers in nearby markets can jump-start the company's cultural transformation and help navigate the franchising process.
- Equipment vendors offer training for technical and field service personnel. Their subject matter experts offer advice about strategic business decisions. Some vendors certify their equipment's interoperability with other vendors' equipment. Because any video solution will require equipment from multiple vendors, this certification helps mitigate risk. Finally, vendors may publish "best practices" based on their customers' experiences.
- Systems integrators provide "turnkey solutions," including selection and installation of equipment.
- Companies specializing in home installation provide teams of installers on a temporary basis. This allows telcos to sign up large numbers of customers without overwhelming their own personnel.
- User groups sponsored by equipment vendors provide forums for discussing issues of common interest, ranging from operational challenges to negotiations with programmers.
- Marketing consultants can help telcos develop channel lineups and reach potential customers.
- Attorneys can help negotiate contracts with programmers.

their competitors a chance to lock in customers through temporary discounts or long-term contracts. And an extended transition period can cause confusion among personnel that resonates with customers.

Getting Help

The stakes for entering the cable TV market are high. Some telcos have been so successful, according to Burke, that they have driven existing cable providers from the market. Others have had disappointing results, and failed to achieve the projected return on investment.

The challenge for telcos is to acquire the skills, expertise, and corporate culture that they need to start a new and competitive service. One possibility – which doesn't seem to have been tried – is to lease the infrastructure to an experienced cable operator. Outsourcing the video service should be given serious consideration, according to Vanston, who says that it avoids the need for a cultural transformation, allows the telco to concentrate on its core business, and puts the telco in a better position when traditional video distribution is replaced by Internet distribution.

Burke, on the other hand, argues that outsourcing is impractical. Since telcos aren't using traditional cable technology, a cable operator's experience might not be very relevant. More important, he expects IPTV to provide new revenue opportunities, such as e-commerce, and he thinks telcos should position themselves to take advantage of these opportunities.

Assuming that the telco will be running its own video service, where can it find the necessary expertise? See the box for some of the resources available to companies that intend to become video providers.

As Mike Gross of GVTC advises, "The business is different, the economics are different, and if you don't have someone with video knowledge, get help!" **BBP**

Masha Zager can be reached via email at Masha@broadbandproperties.com.

er legend, while telephone companies have historically been praised for reliability. Video levels the field.

Burke tells a story about a telco that was accustomed to doing troubleshooting and maintenance on Sunday afternoons. Shortly after the company started a video service, it brought down the system for maintenance during the local NFL team's playoff game. "It took them a long time to regain credibility," he says.

Customer service surveys are as important as marketing surveys, Gross notes. "Everyone wants to say they have good customer service, but you should measure your customers on how good *they* feel it is." In a competitive market, it's important to understand customers' complaints before they defect to a competitor.

Telcos do have one advantage in entering the cable TV market, Hold points out: since nearly everyone has a phone line, the telco knows all of its potential customers and can easily communicate with them. Pike recommends using bill inserts and direct mailings to notify customers about upcoming video service. His company, Bixby Telephone, is also planning a door-to-door campaign, where sales people will talk to customers personally and leave DVDs for those who aren't at home, followed by a telephone campaign.

Burke offers a final piece of marketing advice: "Jump in with both feet." Telcos may "want to get their feet wet" first, and may want to conserve capital. But companies that enter competitive markets gradually or hesitantly give