The Latest Thoughts on IPTV

An MPEG4 business model and observations from CTAM Boston

By Michael A. Kashmer ■ *Broadband Properties*

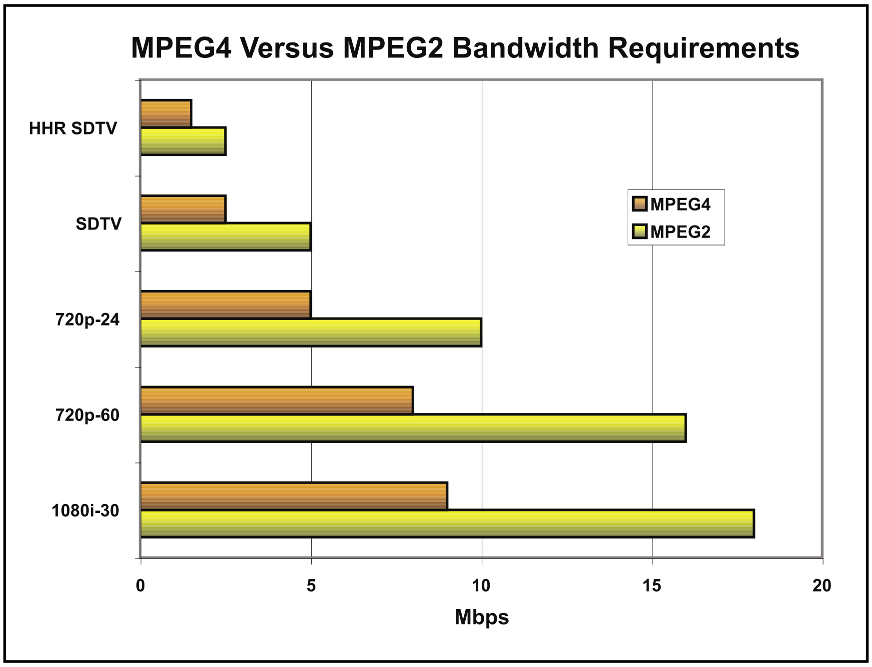
In North America the IPTV market is nascent but clearly dynamic – that is, providers are trying many different approaches to see what might stick. There are three distinct customer segments emerging as potential targets:

• **Telcos.** They need video programming to round out their "triple play" offerings. Keep in mind that the RBOCs lost 10 percent of their total switchboard access lines between 2002 and 2004 due to competition from cable (switched and VoIP), third-partyVoIP providers, and wireless. And that competition is just beginning to get a full head of steam.

• **Cable operators**. They are moving to MPEG-4 faster than anticipated. They can upgrade the entire plant to offer more channels or they can select a partial upgrade to offer more effective compression with MPEG4. It is a fairly cheap way to offer channels that customers want without an expensive system upgrade. There is also some dissatisfaction with the Comcast-controlled HITS satellite-delivered video content platform. This is especially true of local phone and utility companies that are overbuilding Comcast's systems.

• **Mobile operators** seeking content to differentiate services and increase average revenue per customer. Just take a look at the way Disney-ABC changed the game by signing a landmark deal with Apple to offer primetime shows online via iTunes. See www.ABC.com.

Business models continue to evolve and a number of satellite and non-satellite providers are aggressively positioning themselves in this fledgling market. SES Americom is moving ahead with its late 2005 deal with the NRTC (the National Rural Telecommunications Cooperative, not the National Radio and Television Council). The deal will enable NRTC members, small and medium sized mostly rural providers, to offer triple play. The first launches are scheduled for this quarter.



Tradeoffs: MPEG4 compression is necessary to serve IPTV over DSL. Uncompressed, the highest resolution HDTV (1080i-30) would require 62 Mbps. Among broadcasters, CBS, HBO, HDNet, NBC, and TNT all favor 1080i-30. Fox, ABC and ESPN, all of which would benefit from 1080i resolution, push 720p-60 because it is better at showing fast sports action.

Telesat has signed a deal with Auroras and Apple, Google, Yahoo and Comcast are all making moves into content

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and services. As these early entrants gain traction it will be more difficult for other media companies to enter the fray.

A worldwide satellite provider might have a plan that looks something like this: Using what might be called a Super Headend, a provider could develop a unique video neighborhood with compelling content. Content would be aggregated through agreements with content and service providers as well as first mile distributors. Barriers to entry would be reduced and choices would increase for smaller telcos and cable operators.

Content continues to be the king. The real story is about content agreements, not technology. There are surely enough providers out there with the right amount of cash and commitment to make this development very interesting to watch.

CTAM Boston Notes

Cable operators have never faced bigger marketing challenges. New services like VOD and digital telephone offerings require a different selling approach compared to cable's video fare. It was bad enough that the satellite companies were trespassing on cable's turf. Now the telcos are getting into the video business as well.

For the first time speakers at the Cable Telecommunications Association for Marketing annual meeting included chief marketing officers from MySpace and Yahoo, showing the importance of new media. A debate on research, "The Paradox of Choice," chaired by author Barry Schwartz discussed how consumers really don't want more choices and how extreme choices can actually erode satisfaction. Are marketing strategies unknowingly fostering discontent?

CTAM helps operators deal with these headaches. Marketing executives from the industry can get together once a year (about 3,000 attendees this time) and work on these challenges. Technology continues to provide opportunities and this conference talks about how best to exploit it. And, there is also the issue of how to hold on to the customers they have and to try to attract new ones.

New technology and new content providers jockey to put their best foot forward in an already crowded field. One new programmer, Reelz Channel, a multimedia brand, is dedicated to movies-movies-movies. Just like HBO and Showtime you say! Well, not really. Reelz produces shows **about** digital cable and VOD movies. It airs programs about films, including series focusing on news and information, movie trivia and directors. And it lets you know where and when to watch a particular digital movie using pop-up graphics. This is possible using its localization technology. Reelz executives say that the more you know about movies the more you will watch them. Check out www.reelzchannel.com for additional information about this service, launching in September.

One speaker that really stood out was MTV Networks CEO Judy McGrath. She has been in the business for some time yet manages to have a contagiously upbeat view of content and how it will work on various platforms. She summarized perfectly how technology has inspired new consumer behavior, unleashing pent-up demand. "You have to evolve or die. Those are the stakes," she said. McGrath spoke about social change and personal ecosystems as easily as the latest ultra-cool user-generated video on "YouTube.com." It was especially nice to hear a CEO talk about the big picture as well as how she and her staff keep their fingers on the pulse of their viewers by listening, asking and observing.

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