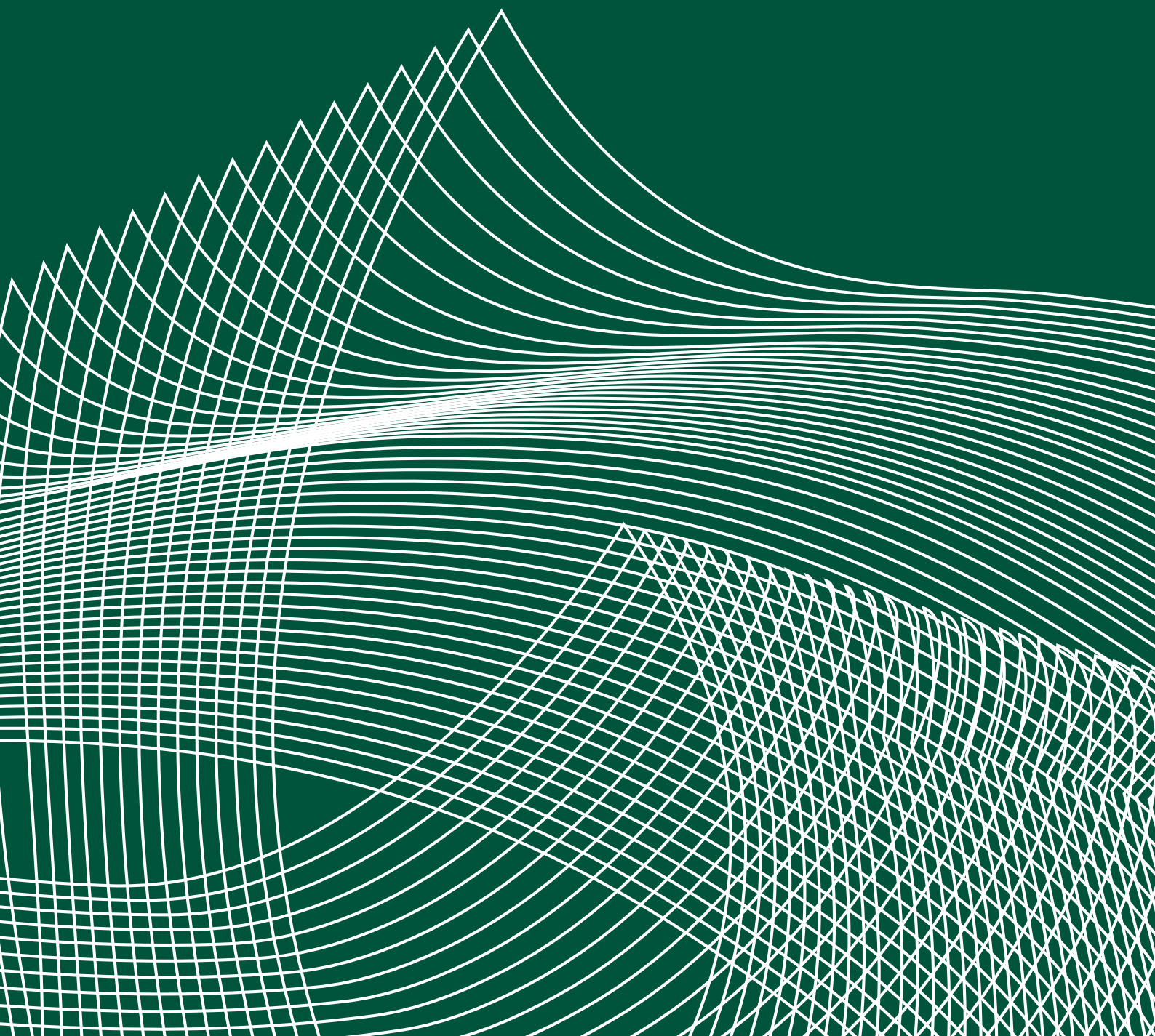


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Informa Telecoms & Media analysts regularly attend industry conferences, either to deliver presentations, chair a session or simply to research a specific topic. Below we list those events that our analysts are due to attend over the coming months.

Please e-mail the relevant analyst directly if you would like to set up a meeting at or around one of the conferences.

Event	City	Date	Web Site	Analyst
Cable Congress 2011	Lucerne, Switzerland	15-17 Feb	www.cablecongress.com	andrew.ladbrook@informa.com
Interconnection World Forum	London, UK	24-27 Feb	www.iir-telecoms.com/interconnection	rob.gallagher@informa.com
Telecoms Regulation Forum	London, UK	21-23 Mar	www.iir-telecoms.com/regulation	rob.gallagher@informa.com
IP&TV World Forum 2011	London, UK	22-23 Mar	www.ipTV-forum.com	rob.gallagher@informa.com giles.cottle@informa.com andrew.ladbrook@informa.com

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Contents

News Analysis

BSkyB changes multiscreen strategy and positions Sky Anywhere as brand for online and mobile services.....	1
Vendors search in vain for magic formula for tablet success.....	5
Telstra plots to win back lost subscribers under NBN system.....	9

Data

Digital-media-market roundup, 24-Jan to 4-Feb.....	15
--	----

Case Study

Case study: IP Vision seeks to innovate in hybrid OTT-DTT delivery.....	17
---	----

Comment

Media moguls should not bet the house on Apple, says Giles Cottle.....	22
--	----

BSkyB changes multiscreen strategy and positions Sky Anywhere as brand for online and mobile services

Ted Hall

- UK pay-TV market leader BSkyB last week announced a revamp of its multiscreen strategy: the Sky Player and Sky Mobile brands used for PC and mobile services will be replaced by the brand Sky Anywhere.
- The change is intended make the company's multiscreen proposition simpler and reposition it more clearly as a value-added service for existing customers to the Sky Digital satellite-television service.
- BSkyB's high-definition set-top box continues its advance and, following the move to phase out standard-definition receivers in January 2010, is now in about half of Sky Digital homes (although only a third subscribe to HD services).
- The new multiscreen strategy was unveiled as BSkyB announced another strong set of results. The operator comfortably achieved its long-standing target of 10 million subscribers by the end of 2010 and also increased its broadband and telephony subscriber bases.

BSkyB last week announced the most significant rebranding of its multiscreen services since the mobile and online platforms were launched in 2005 and 2006. Rather than making a clear distinction between the two services, as has been the case to date, the UK satellite-television broadcaster will launch a simpler, all-encompassing proposition under the new Sky Anywhere banner.

The simplicity of the Sky Anywhere service was something that was emphasized by BSkyB chief executive Jeremy Darroch during an analysts' conference call on the company's results for the second half of 2010. Noting the various free and paid-for mobile and broadband offerings the operator had pushed in recent years, Darroch said: "We see an opportunity now to reposition those services together by making them available as a single integrated proposition".

This integration will involve the dropping of the Sky Player and Sky Mobile TV brands in favor of Sky Anywhere. One of the benefits of the move will be to removal potential confusion about which additional services are included in a customer subscription and which are not – the existing Sky Player service is free to Sky Digital customers who also subscribe to Sky Broadband, but access to Sky Mobile TV requires the payment of an additional monthly fee.

New pricing and packaging for multiscreen

BSkyB's intention is to include access to Sky Anywhere in TV subscription packages, although the company has still to issue pricing details. Darroch said: "My experience is that incrementally keeping charging for a lot of these new distribution areas doesn't really scale to too much, so actually putting it together in the subscription is the right place to start and we can add a lot more value into the subscription."

Darroch's explanation of the packaging of the service is perhaps an indication that the revenue generated by Sky Mobile TV did not "scale to too much". The offering was positioned as a premium product, for which Sky Digital customers pay £5 per month on Apple devices (iPhone, iPod Touch and iPad) and £6 (US\$9.68) on other smartphones. BSkyB has not said how many paying subscribers the service has attracted – although the company recorded 11 million application downloads, it has run several promotional offers that have made such apps and access to content available for free.

The popularity of BSkyB's apps is not to be denied, though. According to the operator, five of the top 15 most-downloaded mobile apps in the UK in December 2010 were BSkyB apps. If the operator were to absorb the cost of these apps into the subscription price, their popularity could well be sustained.

Future pricing for Sky Anywhere remains unclear. Darroch said that the initial strategy would "either create a lot potential for pricing headroom in the future or, if we can be really good on

costs, perhaps we can absorb that". Bringing in additional charges once the service becomes popular could prove lucrative for the operator, which sees the predicted "explosion" in sales of smartphones and tablets as "a great opportunity".

By offering broadband- and mobile-delivered services under one banner, BSkyB aims to move towards its goal of a single content offering for both platforms. It might not be able to create a completely unified offering, though, because rights restrictions prevent the operator from distributing some popular US series and movies over mobile. As a result, there is a distinct lack of live or long-form programs – which BSkyB's own research shows is the most desirable format for mobile-television users – on Sky Mobile TV's entertainment pack.

Acquisition of The Cloud

BSkyB also revealed last week that, to complement the launch of Sky Anywhere, it had acquired Wi-Fi network operator The Cloud from venture capitalists DFJ Esprit, paying a figure that it described as "firmly" under DFJ Esprit's £50 million (US\$81 million) valuation. The deal gives BSkyB ownership of more than 5,000 public Wi-Fi "hotspots".

The acquisition will facilitate reliable, high-quality mobile access to BSkyB content out of the home. Sky Broadband customers will also benefit from being able access the Internet at the operator's new Wi-Fi locations as part of their subscriptions.

10 million subscribers and counting

BSkyB's unveiling of Sky Anywhere came as the operator announced its results for the first half of its current financial year, the six months to December 31, 2010. During the final quarter of the year it reached its long-standing target of 10 million subscribers by the end of 2010. The company ended the year with 10.096 million subscribers, having added a net 140,000 subscribers in the final three months of 2010, which compares with 172,000 during the equivalent period of 2009 (see fig. 1).

Fig. 1: UK, BSkyB customer metrics, 2H09-2H10

(000s)	Quarterly net additions		First-half net additions		Closing total
	4Q09	4Q10	2H09	2H10	4Q10
Net customer additions	172	140	266	236	10,096
Additional products					
Sky Plus HD	482	343	769	558	3,497
Multiroom	102	61	164	98	2,219
Broadband	101	204	201	382	3,006
Telephony	130	187	262	390	2,757
Line rental	178	269	387	529	2,215
Total net product additions	1,165	1,204	2,049	2,193	23,790
Gross customer additions	402	378	764	752	
Annualized churn (%)	9.6	9.5			
Annual ARPU (£)	492	541			
Note: £1=US\$1.59					
Source: BSkyB					

Additional product growth was another significant highlight for BSkyB, with a net 1.204 million subscriptions to broadband, telephony, multi-room and Sky Plus HD added in the fourth quarter of 2010. This took the total number of individual subscription products to 23.79 million. The operator reported that the proportion of new subscribers taking three or more additional products rose to 53% in 2010, compared with 17% in 2009 and 5% in 2008. The advance of additional products helped to boost annualized ARPU (average revenue per user) by £49 to £541 (US\$873).

Net broadband subscriber growth more than doubled year-on-year to 204,000 in the fourth quarter of 2010, taking total subscriptions to more than three million, while net telephony additions were up 44% to 187,000, taking the total to 2.76 million. "Triple-play" penetration increased to 24% from 18% at the end of 2009.

Focus on HD box

A recurring theme in BSkyB's results announcement was the importance of its high-definition (HD) set-top box. The operator began phasing out standard-definition boxes in January last year, providing all new and upgrading customers with an HD box regardless of whether they chose HD channel-package subscriptions. This has helped boost HD box penetration to around 50%, with 3.5 million customers taking the Sky Plus HD service, up by a net 343,000 in the

fourth quarter. The push to standardize the HD box has resulted in an increase in subscriber-acquisition costs, which rose by £34 in the second half of 2010 to £354 (US\$574) per customer.

Driving HD set-top box penetration is part of BSkyB's strategy of making its new additional services – such as Sky 3D and the “true” video-on-demand (VOD) product Sky Anytime Plus – available to as many subscribers as possible. Sky 3D has been adopted by 70,000 of the 140,000 UK homes that have a 3D television set, according to the operator. The number of Sky Anytime Plus homes has yet to be disclosed.

BSkyB sees the HD box as the focal point of its strategy for some time, announcing that it had completed a “total rewrite” of the middleware for the platform, which it described as the “first comprehensive tidy-up of the software since the digital platform launched in 1998”. The operator said that this would allow it to add new services without having to replace existing hardware.

As part of its middleware tidy-up, BSkyB completed an HD channel-swap this week, under which 40 of its 54 HD channels changed places with their standard-definition equivalents to increase their prominence on Sky HD customers' electronic program guide (see fig. 2).

Fig. 2: UK, Sky HD EPG, Feb-11



Source: BSkyB

The question of how BSkyB's HD set-top box matches up to new, advanced hardware that is being launched by its rivals – such as cable operator Virgin Media's new Tivo box, launched in December, and the planned BBC-led connected-TV project YouView – was put to Darroch in the analyst conference call.

He replied that demand for such boxes was not high. “Customer benefit doesn't always exist in the lab – it exists in simple products that work in the household that people get attached to that are reliable,” he said. “And I think history and technology tells you there's a long litany of things that are, from a technical point of view, so, so sophisticated but they don't land.”

Regarding BSkyB's own hardware, Darroch said: “We'll be able to do a lot with it and, importantly, we're going to be able to do it efficiently and cheaply, and we're going to be able to communicate it simply.”

Strong financial performance

Company revenues grew by 14.9% in second half of 2010 to £3.19 billion (US\$5.17 billion), while EBITDA (earnings before interest, taxation, depreciation and amortization) increased by 19.3% to £677 million (see fig. 3). Operating profit grew by 25.6% to £520 million and the operating margin increased by 1.4 percentage points to 16.3%.

Another notable figure was the amount BSkyB has spent so far on the News Corporation takeover proposal – £7 million (US\$11.3 million). BSkyB offered no update on the state of the bid by News Corp. to acquire the 61% of the company that it does not already own.

Fig. 3: UK, BSkyB financial results, 2H09-2H10

£ (mil.)	2H09	2H10	Change (%)
Revenue	2,773	3,186	14.9
Operating profit	414	520	25.6
Operating profit margin (%)	14.9	16.3	1.4pp
EBITDA	568	677	19.2
Earnings per share (£)	0.152	0.200	31.6
Free cash flow	308	443	43.8
Note: £1=US\$1.59			
<i>Source: BSkyB</i>			

Financial analyst Matthew Walker of investment bank Nomura commented in a note on BSkyB's results that Nomura expected New Corp. to "propose an independent Sky News board structure or some form of sale of Sky News". It sees the likelihood of a Competition Commission referral at 50%, down from the 90% which it had previously suggested.

Equity analyst Nick Bell of Jefferies International investment bank expects 800 pence (US \$12.97) per share to be the minimum price News Corp. would have to pay to complete the BSkyB acquisition.

Informa viewpoint

BSkyB's approach to multiscreen matters has changed significantly since [Informa Telecoms & Media examined the operator's strategy in detail in November](#) last year. While its twin-track approach of positioning Sky Player as a value-added service for existing customers and Sky Mobile TV as a premium, revenue-generating addition was functioning well, a move to a simpler proposition is a natural progression – particularly in a connected-TV era in which pay-television operators are seeking to provide a one-stop shop for access to content on all platforms.

Of course, in-home entertainment remains the focal point of BSkyB's strategy and, in its HD set-top box, it has a robust platform around which to base this. While it may not offer some of the advanced functionality of its rivals' hardware, its connectivity and "next-generation" capabilities will ensure that BSkyB subscribers are able to access new and innovative services.

Getting the box to as many homes as possible will be a top priority in the medium term. Increased penetration of the Sky Plus HD box is likely to sustain growth in additional products and help to increase ARPU. A home with an HD box is more likely to subscribe to multiple services from BSkyB – not only Sky HD and multiroom subscriptions but also broadband (only Sky Digital customers with a Sky Broadband subscription can take the Sky Anytime Plus VOD service). And a broadband subscription is a better-value proposition when packaged with telephony, a link that brings all BSkyB's additional products into the framework of the HD box.

Vendors search in vain for magic formula for tablet success

Richard Handford

- Leading US mobile operators have significantly cut the price of the Samsung Galaxy Tab, the leading rival to Apple's iPad.
- UK operators have held the line since last fall by maintaining their launch pricing for the Samsung tablet.
- The CES 2011 show seemed to confirm that the two most meaningful categories in the tablet market are the Apple iPad and then everyone else.

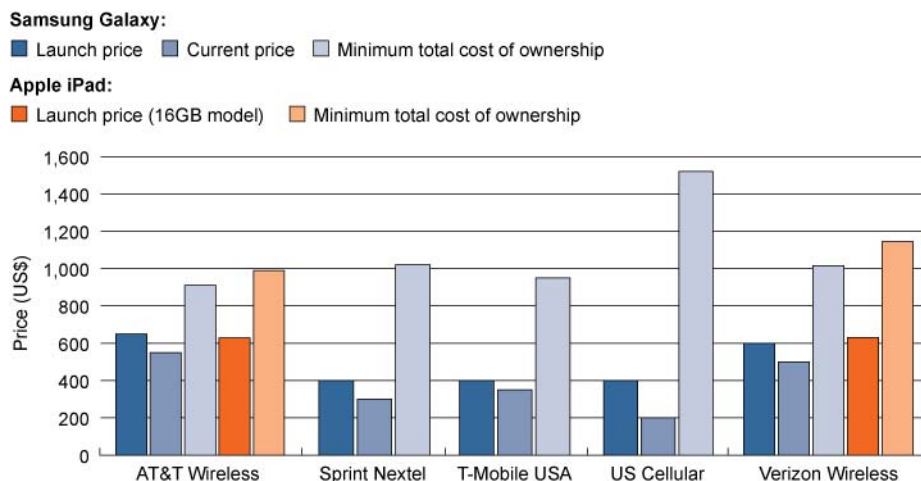
Vendors are still unsure about how to price their tablets relative to the Apple iPad. And mobile operators in the US appear no wiser in working out the conundrum either. Leading operators in the US have typically cut the price of the Samsung Galaxy Tab (see fig. 1), the leading rival to the iPad, 15-25% in the past month, in an effort to boost sales. The price cuts mean Samsung's tablet has become distinctly cheaper than the iPad (see figs. 2 and 3), whose price has not been reduced since its launch in April last year.

Fig. 1: Samsung Galaxy Tab



Source: Samsung

Fig. 2: US, pricing of the Samsung Galaxy Tab and Apple iPad



Source: Informa Telecoms & Media

Fig. 3: US, pricing of the Samsung Galaxy Tab and Apple iPad

Operator	Tablet	WWAN	Launch date	Launch price	Price reduction	Date of price reduction	Current price	Total cost of ownership including 3G subscription (over two years)
AT&T Wireless	Samsung Galaxy Tab	Yes, 3G	Nov-11	US\$650	US\$100	Jan-11	US\$550	Starting at US\$910
AT&T Wireless	Apple iPad W-Fi + 3G	Yes, 3G	Apr-11	16GB model for US\$629, 32GB model for US\$729, 64GB model for US\$829	No	No	Unchanged	Starting at US\$989. Maximum spending over same period is US\$1,429
Sprint Nextel	Samsung Galaxy Tab	Yes, 3G	Nov-11	US\$400	US\$100	Jan-11	US\$300	Starting at US\$1,020
T-Mobile	Samsung Galaxy Tab	Yes, 3G	Nov-11	US\$400 contract or US\$650 prepaid	US\$50	Dec-11	US\$350 contract or US\$600 prepaid	Starting at US\$950 (contract) and US\$1,320 (prepaid)
US Cellular	Samsung Galaxy Tab	Yes, 3G	Nov-11	US\$400	US\$200	Dec-11	US\$200 (only available with a two-year US\$55 a month subscription)	US\$1,520
Verizon Wireless	Samsung Galaxy Tab	Yes, 3G	Nov-11	US\$600	US\$100	Jan-11	US\$500	Starting at US\$1,015
Verizon Wireless	Apple iPad	Wi-Fi with Mi-Fi hot spot	Oct-11	16GB model for US\$630, 32GB model for US\$730, 64GB model for US\$830	No	No	Same as before	Starting at US\$1,145

Source: Informa Telecoms & Media

Many industry observers were surprised how close the Galaxy Tab's pricing was to the iPad's when it launched last fall. The Samsung tablet looked overpriced. Now there is a marked difference, as mobile operators have backtracked on their original pricing. A Samsung Galaxy Tab from Sprint Nextel, for instance, is now less than half the price of the lowest-priced iPad. And a Samsung tablet from US Cellular is only a third the cost of the low-end iPad. Still, it should be noted that the upfront savings on the Samsung tablet are most marked on contract deals, where subscription charges eventually eat into the savings, compared with the iPad's prepaid approach. Overall, however, the Galaxy Tab in the US now looks like a lower-priced product than the iPad.

In contrast, UK operators Vodafone, O2 and T-Mobile have left their Galaxy Tab pricing unaltered since the device's launch in the fall. All three operators offer the tablet on a prepaid basis, which means its retail price is relatively high. The lowest price for the tablet from any of the three operators is £479 (US\$765). Orange, which also offers the Samsung tablet, is the only operator with a lower-priced deal. It has two plans for the Galaxy Tab, both with two-year contracts that significantly lower the tablet's upfront price. The upfront cost of the tablet with the two plans is either £200 or £229.

Despite the lack of upfront price cuts, the Samsung tablet is being sold in the UK with a content voucher "worth £200," according to Samsung. Included in this package are 15 films, five e-books, seven games and up to 50 music downloads.

Meanwhile, in September one UK operator, 3, announced its intention to offer Samsung's tablet, but it has not followed up with an actual launch.

Separately, Orange, T-Mobile and 3 introduced contract deals on the iPad Wi-Fi + 3G (see fig. 4), which have lowered its upfront price. Rivals O2 and Vodafone have stuck by the prepaid plans they offered at launch for the iPad.

Fig. 4: Apple iPad



Source: Apple

It is unclear how successful the Samsung Galaxy Tab has been in terms of unit sales to end-users. The company did announce at CES 2011 in early January a shipment figure of 1.5 million, but that refers to the number of tablets delivered to mobile operators rather than how many units have been sold to users.

Samsung also announced a Wi-Fi-only version of the Galaxy Tab at CES 2011 that will be launched in 1Q11 (it's conceivable that some of the cost-cutting by US operators was about clearing stock before the Wi-Fi model's launch). Launching a non-3G tablet might also be seen as an admission by Samsung that it needs a lower-priced model that still provides good margins. Pricing for the Wi-Fi model has not been announced. Samsung also announced an LTE version of the tablet with Verizon Wireless, though the plan is to launch it by mid-2011.

Estimates vary about the number of tablets announced at CES 2011. It might number more than 100. Individual vendors with new tablets offered varied pricing depending on the OS they were using in an individual tablet. For instance, Asus announced three Android-based models with associated pricing ranges of US\$399-699, US\$499-699 and US\$499-799 (all presubsidy prices). In comparison, the company's one Windows-based tablet, the EP121 Slate (see fig. 5) was priced at US\$999-1,099 (also presubsidy prices). That is a significant premium for the Windows-based model. Although all the models were different, and therefore this is not a like-for-like comparison, the pricing seems to further reflect vendor uncertainty about how to position new tablets pricewise, as well as a problem for Microsoft in terms of how to be competitive with Android tablets and the iPad.

Fig. 5: Asus EP 121 Slate



Source: Asus

Microsoft-based tablets were attacked by Apple COO Tim Cook during the company's recent earnings call for being "fairly big and heavy and expensive." He went on to say that "they have weak battery life, they require a stylus, and from our point of view and what we've seen, customers are just not interested in them."

Informa viewpoint

The variation of pricing for the Samsung Galaxy Tab reflects operator uncertainty about how to position iPad rivals. That's not just a problem for Samsung. Increasingly, it seems there are two categories: Apple and everyone else. CES emphasized that distinction. Apple's nonattendance only highlighted how it stands apart from the crowd – and how it will have everyone's attention when the company announces the iPad 2.

Of course, it is not the only company to appreciate the wisdom of keeping clear of Las Vegas. HP too tried to put distance between itself and the event. Just before CES 2011, it announced a press event for Feb. 9. It is likely to unveil a number of tablets based on WebOS 2. Palm sent out invitations asking the media to "Think Big. Think Small. Think Beyond." Sounds very Apple-like. HP must crave some of the adulation Apple gets, but at the moment Apple is in a category of its own.

Telstra plots to win back lost subscribers under NBN system

Tony Brown

- Australian operator Telstra is still working toward finalizing an A\$11 billion (US \$11.1 billion) deal with the government to sell its fixed-line business to the National Broadband Network Co.
- Telstra is aiming to finalize the deal in time for a vote by company shareholders to be held at the end of June.
- Once the NBN is completed, Telstra will become a retail service provider on the network.
- Although the NBN creates a level playing field for network infrastructure, Telstra is confident that it can use its other advantages to remain a dominant market force.
- Telstra is eyeing content and consumer devices as two crucial areas where it can stay ahead of its rivals in the broadband market.

The arrival of the controversial National Broadband Network has been widely viewed as a massive setback for Australian incumbent Telstra, principally because the open-access network would bring to an end the company's control over the vast majority of the country's fixed-line infrastructure.

However, in an interview with Informa Telecoms & Media, senior Telstra executives argued that the arrival of the NBN will actually help tip the balance of the market back in Telstra's favor by removing rivals' ability to continually undercut its broadband pricing.

The NBN is due for completion by end-2021, by which time it will have connected 93% of homes to FTTH/B services offering access speeds up to 100Mbps. It will cover the rest of the country with wireless and satellite technology.

However, the NBN still needs one huge piece of the puzzle to be slotted into place: the finalization of the A\$11 billion (US\$11.1 billion) deal that will see the federal government buy the company's fixed-line assets and assign them to the National Broadband Network Co.

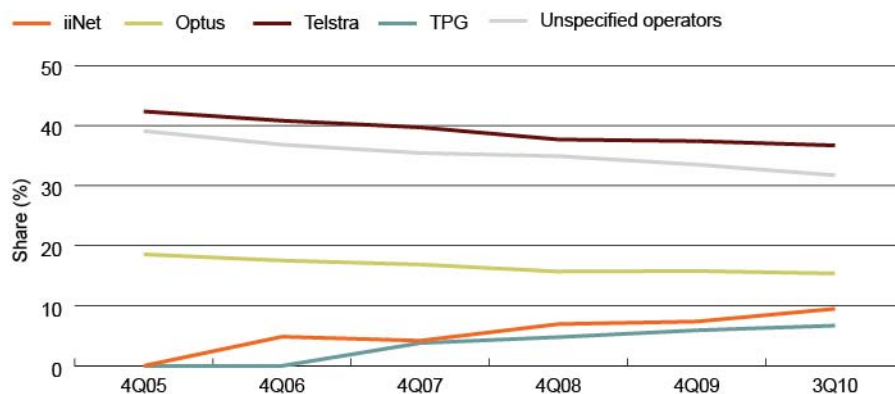
In June 2010, former Prime Minister Kevin Rudd, standing alongside Telstra chairwoman Catherine Livingstone, announced that the government had signed a heads-of-agreement deal with Telstra to acquire the company's fixed-line assets, but since then progress toward a final deal has been alarmingly slow. Some local press reports say that Telstra might even fail to finalize the deal in time for its scheduled end-June shareholder meeting, at which it had hoped to gain final approval from shareholders.

A level playing field?

Although some telecoms-industry analysts have claimed that the arrival of the NBN is a nightmare for Telstra because it will end its dominance as a fixed-line-network operator, Telstra strenuously opposes this line of thought and says the exact opposite is the case.

Telstra says the NBN will help it win back some of the fixed-line-broadband market share it has lost since market liberalization, which saw local-loop-unbundling (LLU) regulations come into force (see fig. 1).

Fig. 1: Australia, fixed-broadband market share by operator, 4Q05-3Q10

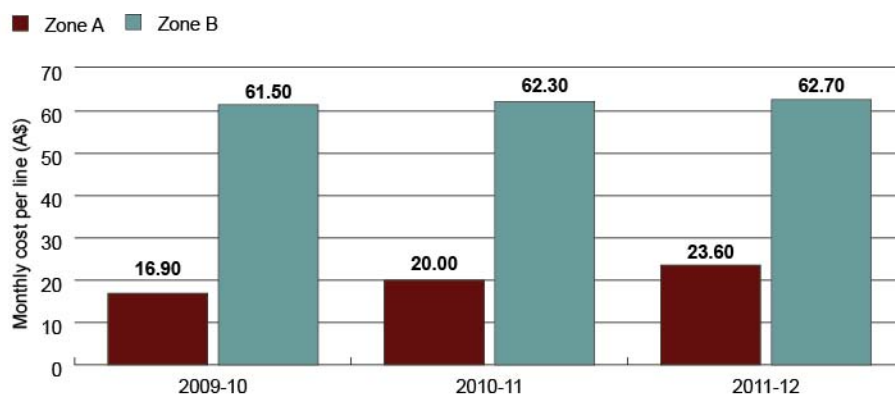


Source: Informa Telecoms & Media

This optimism is based on the fact that Telstra officials argue that rival ISPs, especially iiNet and TPG, that have been so successful in eroding Telstra's fixed-line-broadband market share since the arrival of LLU are about to lose their biggest advantage: their ability to undercut Telstra on pricing.

Under the current LLU system, Telstra says, rival ISPs get access to its networks at below the true market cost (see fig. 2) – a claim that Telstra has argued in numerous clashes with the Australian Competition and Consumer Commission (ACCC) – enabling them to undercut Telstra on broadband pricing and take market share away from the incumbent.

Fig. 2: Telstra, ULL pricing



Note: A\$1=US\$1

Source: ACCC

But under the NBN system, Telstra says, this inequity will end and all operators on the NBN will be subject to the same network-access charges (see fig. 3), making it much more difficult for them to undercut Telstra.

Fig. 3: National Broadband Network wholesale access charges

Package	Downlink speed (Mbps)	Uplink speed (Mbps)	Monthly price (A\$)
Fibre 12 Mbps	12	1	24
Fiber 25Mbps	25	5	27
Fiber 25Mbps +	25	10	30
Fiber 50Mbps	50	20	34
Fiber 100Mbps	100	40	38
Fiber 250Mbps	250	100	70
Fiber 500Mbps	500	200	100
Fiber 1Gbps	1000	400	150
Note: A\$1=US\$1			
Source: NBN Co.			

Telstra officials say that much of the commentary from local industry analysts has missed the key point about the company as it enters the NBN era: They say that although much attention has been focused on Telstra's strengths in terms of its network assets, not enough credit has been given to the company for the value of its customer relationships.

Telstra officials also say that these customer relationships are hugely valuable because they will give the company a firm foundation upon which it can enter the NBN era, enabling it to then look to win back market share.

Telstra's confidence is based on the fact that with the pricing playing field leveled, it will be able to make much better use of three key advantages it has over its smaller rivals (see fig. 4): its huge number of retail stores compared with its rivals, its superior customer service and its hold on exclusive video content.

Fig. 4: Telstra, key operational advantages in NBN era



Source: Informa Telecoms & Media

The content factor

With equal access pricing on the NBN, the expectation from most in the industry is that competition will swing away from the current model, which is largely focused on pricing, and move toward an environment that is more focused on how well operators can compete in terms of content – especially video content – as well as on offering devices and new applications.

This is where Telstra says it has significant advantages, most notably because it already offers its subscribers leading pay TV service Foxtel, of which Telstra owns 50%, as part of its bundled offering and has already made a strong start to offering its own broadband TV service via its T-Box device.

By year-end, Telstra had sold about 75,000 of the devices, which it launched in June, with Telstra officials saying the T-Box service offers subscribers a very different experience from that offered on Foxtel's cable/DTH platform, which had 1.7 million subscriptions at end-2010.

In essence, Telstra officials say the Foxtel platform offers viewers a traditional pay TV offering, while the T-Box service, though offering some linear TV channels, is based much more on being a broadband Internet-TV experience. Telstra officials say that pay TV is a useful add-on to T-Box but is only a small reason people buy the device.

Furthermore, Telstra officials say the T-Box, which at A\$299 is the cheapest DVR available in Australia, also represents an excellent device to help them negate rival ISPs' efforts to tap into the low end of the pay TV market with the launch of their own IPTV services.

The most obvious example of this has been the launch of the Fetch TV IPTV platform by iiNet and others. But Telstra officials say the T-Box and the availability of a huge range of packages on the Foxtel platform should make it hard for Fetch TV to gain much traction.

Telstra also says the T-Box is already bringing subscribers to its Big Pond broadband services, noting that 25% of all buyers of the T-Box bought the device as part of signing on as new Telstra Big Pond broadband customers.

The Foxtel factor

Given the long-time friction that has existed between the Foxtel shareholders – Telstra (50%), News Corp. and PBL (both 25%) – speculation abounds as to how Foxtel might respond to Telstra's increasing presence in the pay TV market.

So far, the Foxtel-Telstra relationship appears to be holding strong, with both sides realizing that there is nothing to be gained by restaging the bitter civil war that was fought in the Australian pay TV market in the mid-1990s. As a result, Telstra says it doesn't expect Foxtel to try to expand its range of services – something other pay TV operators around the world, most notably UK-based Sky, have done – by launching its own broadband access services on the NBN.

They say that Foxtel has shown no inclination to radically alter the shape of its business and is instead focused on making its video business work as well as it can and is therefore unlikely to pursue a multiproduct strategy.

The two companies are reportedly close to signing a deal under which up to 30 Foxtel pay TV channels will be screened on the T-Box platform, bringing to an end nearly seven months of negotiations.

Furthermore, Telstra officials deny some media reports that Foxtel will not be migrating its cable/DTH customers to the NBN anytime soon, pointing out that the architecture of the NBN will allow only full IP-based video services.

Telstra says that in terms of the kinds of new services Foxtel could deliver, an all-IP-delivered Foxtel platform might make sense from an operational point of view, but that from a financial point of view Foxtel would most likely be worse off. This is because with its cable/DTH offering, Foxtel has a relatively low-cost distribution platform, whereas any deal to launch IPTV services on the NBN would require Foxtel to pay access charges to NBN Co., which would result in far higher distribution costs.

The price is getting right

After long being criticized by subscribers for its Scrooge-like broadband offerings, Telstra finally loosened its belt on June 25, when it launched a range of packages with significantly enhanced data allowances (see fig. 5).

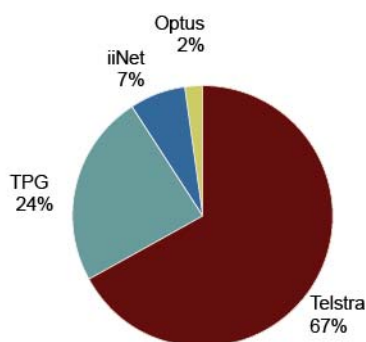
Fig. 5: Telstra, Big Pond plans, Jan-11

Plan	Technology	Downlink speed	Uplink speed	Data allowance	Monthly cost (A\$)	Contract length
BigPond Turbo 2GB Liberty	Cable modem	Up to 30Mbps	256Kbps	2GB	9.95	Two years
BigPond Elite 2GB Liberty	Cable modem	Up to 30Mbps	1Mbps	2GB	19.95	Two years
BigPond Elite 50GB Liberty	Cable modem	Up to 30Mbps	1Mbps	50GB	49.95	Two years
BigPond Elite 200GB Liberty	Cable modem	Up to 30Mbps	1Mbps	200GB	69.95	Two years
BigPond Turbo 2GB Liberty	ADSL	Up to 8Mbps	256Kbps	2GB	9.95	Two years
BigPond Elite 2GB Liberty	ADSL	Up to 20Mbps	1Mbps	2GB	19.95	Two years
BigPond Elite 50GB Liberty	ADSL	Up to 20Mbps	1Mbps	50GB	49.95	Two years
BigPond Elite 200GB Liberty	ADSL	Up to 20Mbps	1Mbps	200GB	69.95	Two years
Note: A\$1=US\$1						
Source: Telstra						

Even after it finally slashed its prices, Telstra was criticized by many industry analysts for taking too long to do so. The analysts said the firm had needlessly surrendered market share to rivals and would have to spend more just to win those subscribers back.

Regardless, Telstra says the revamped broadband plans, added to an increased focus on value-for-money bundled offerings, helped it massively increase its share of net additions in the fixed-line broadband market in 3Q10 (see fig. 6).

Fig. 6: Australia, fixed-broadband share of net additions by operator, 3Q10



Source: Credit Suisse

Telstra's new pricing system offers particularly attractive discounting for subs taking bundled services. But the operator concedes that in the NBN era, simply offering bundled plans will not be enough, mainly because all operators will get equal access terms on the network, making it harder for operators to offer heavily discounted bundles.

As a result, the company says it will look to continue its strategy of augmenting its bundled services with the rollout of new devices, such as the T-Box and the T-Hub home-gateway device, in order to stay ahead of its rivals, which are less equipped to offer such devices. Telstra officials say that products such as the T-Box and T-Hub – aside from any incremental revenues they might bring in – add a crucial point of differentiation between Telstra and its competitors.

Single-payment content plans

In addition to continuing its focus on offering its own access devices to its broadband subscribers, Telstra is also interested in further exploring the possibility of making its Big Pond TV video content available on several platforms.

Several barriers, most notably those surrounding content rights, have prevented Telstra from deploying a single-payment cross-platform content strategy. But the operator is convinced that in the NBN era, a single entry point for content access will be popular. The company says this will be especially important considering that it will no longer be able to compete on purely discounted bundled offerings in the NBN era and will instead have to focus on the quality of the bundled service being offered and provide a customer experience that is genuinely different from its rivals'.

Informa viewpoint

The old adage about being careful what you wish for could turn out to be true for Australia's independent ISPs, which for years have been calling for the government to reduce Telstra's market power.

Well, they finally got their way – albeit in a rather unexpected manner – with the arrival of the NBN. But it is possible that the network's arrival will actually work in Telstra's favor, for several reasons.

First, now that Telstra no longer has to play the role of network operator and service provider, it will be far freer to cut loose and be much more aggressive on pricing than it has been able to – not forgetting, of course, that its pockets are considerably deeper than any of its rivals'. Such pricing flexibility will remove what has traditionally been its Achilles' heel.

Second, an all-IP NBN offering speeds up to 1Gbps means that service providers cannot afford to be only in the broadband access business – anyone can now offer that – but must be in the content business as well.

You only have to look back at the farcical rollout of Optus TV in the mid-90s, which was crushed by Foxtel in hardly any time at all, to realize that when it comes to content acquisition and distribution, even Telstra's biggest rival does not have an especially proud history.

As for its other competitors, iiNet has launched Fetch TV and TPG has its own IPTV platform, but neither looks likely to have the clout to match Telstra's Big Pond TV, simply because Telstra has so much more money to buy content. As a result, the more the NBN becomes about delivering video content to subscribers the better for Telstra, and it looks likely that the T-Box will give it a great chance to access those value-seeking subscribers who have traditionally balked at subscribing to Foxtel.

Third, it is hard to escape the feeling that once the broadband market becomes less about offering cut-price deals and more about delivering new services and applications over the NBN – all of which are likely to require substantial R&D on behalf of operators – Telstra will be the winner of that game.

Although Optus might benefit from its relationship with its majority owner, SingTel, in developing new applications and services over high-speed broadband, none of Telstra's other competitors really have the scale to deploy these new services, which will generate additional revenues for operators.

Ultimately, it is fair to say that the more successful the NBN is in transforming the broadband market from one in which subscribers seek value in terms of data allowances to one in which subscribers seek high-quality content and applications, the better that will be for Telstra.

Digital-media-market roundup, 24-Jan to 4-Feb

Date	Participants	Announcement type	Activity	Detail
27-Jan	Skype (US)	IPO	VoIP	Skype announces that it is postponing its IPO until 2H11.
24-Jan	Mixi (Japan), VZ Netzwerke (Germany)	Deal	Social networks	Japanese social-networking company Mixi strikes a deal with its German counterpart VZ Netzwerke to standardize their platforms to enable third-party apps to run on both networks.
	Boxee (US), Diva (Switzerland)	Deal	Video	Media-streaming service Boxee strikes a deal with VOD company Diva for premium movie-on-demand supplier Viewster, a Diva subsidiary, to provide content to the Boxee platform.
	Orange, Dailymotion (both France)	Investment	Video	Orange buy 49% of online-video portal Dailymotion for just under €75 million (US\$103 million).
	Sina (China)	Launch	Online payments	Portal Sina.com launches an online-payment facility for its online group-shopping and supermarket services.
	UberMedia, Mixx (both US)	Acquisition	Portal	App maker UberMedia buys social-news portal Mixx for an undisclosed fee.
25-Jan	Google, SayNow (both US)	Acquisition	Applications	Google buys SayNow, a startup focusing on voice-usage optimization, for an undisclosed fee.
	Adobe, The Platform (both US)	Deal	Video	Online-video platform The Platform and Adobe strike a deal to securely publish premium online flash video.
	Simfy (Germany), EMI (UK)	Deal	Music	Music-streaming service Simfy signs a licensing deal with CELAS, record label EMI's licensing unit, to offer EMI's music to Simfy's German, Austrian and Swiss users until end-2011.
26-Jan	Comtelsat (Mexico), Tvinci (Israel), Grey Juice Lab (UK), IDPoint (US)	Partnership	Video	A consortium made up of Comtelsat Networks, Tvinci, IDPoint and Grey Juice Lab agree to work on the TV 360 project in an effort to bring the TV Everywhere concept to Latin America.
	Sony (Japan), Ipla (Poland)	Deal	Video	Sony connected TV set Bravia and Sony PS3 consoles offer Polish streaming interactive-media platform and video catch-up service Ipla.
	VimpelCom (Russia)	Launch	Games	Russian telecoms operator VimpelCom launches Simple Games, a gaming portal that is accessible to users of the operator's broadband network.
	Fortel Technology (China)	Launch	E-commerce	Digital-media company Fortel Technology plans to launch Pinju, a business-to-consumer e-commerce website, and Aiyou Tuangou, a group-shopping site.
27-Jan	Yandex, Loginza (both Russia)	Acquisition	Applications	Online-search company Yandex buys Loginza, an OpenID authentication provider, for an undisclosed fee.
	Google, Fflick, (both US)	Acquisition	Video	Google subsidiary YouTube buys Fflick, a website collating Twitter feedback on new movie releases, for about US\$10 million.
	Yahoo (US), League Managers Association (UK)	Deal	Video	Yahoo strikes a deal with the League Managers Association, a body of English soccer's Premiership and Football League managers, allowing soccer-management content to be published across Yahoo UK's online platforms.
	Level 3, Roku, WealthTV (both US)	Deal	Video	Lifestyle TV channel WealthTV chooses Level 3 as its content-delivery network for live streaming to online-video provider Roku's Web-enabled TV settop boxes.
	Google (US)	Trial	Advertising	Google begins testing picture advertisements in Gmail.
28-Jan	LinkedIn (US)	IPO	Social networks	Business social-networking site LinkedIn files for an IPO.
	Google, (US)	Announcement	Search	Google disables its "search as you type" prediction facility for searches related to peer-to-peer file-sharing websites BitTorrent, uTorrent, MegaUpload and RapidShare.
31-Jan	Magnet Networks (Ireland)	Launch	Video	Irish broadband operator Magnet Networks launches a free Web-based live-TV service that gives users the option of running their Twitter and Facebook feeds alongside the TV stream.
1-Feb	Music Master (UAE)	Launch	Music	Music-distribution company Music Master launches its premium-music-download website, featuring titles from record-label giants UMG, EMI, Sony and Warner.
	Roku (US)	Launch	Video	Online-video provider Roku begins supporting video playback via USB drives.
	Sky Network Television (New Zealand), The Platform (US)	Deal	Video	Pay-TV operator Sky TV strikes deal to have online-video platform The Platform provide it with back-end video management.
	AOL, Outbrain (both US)	Deal	Multiplatform	Portal AOL sells its content-recommendation engine, Surphace, to rival content aggregator Outbrain, for an undisclosed fee.
2-Feb	OnLive (US)	Launch	Games	Cloud-gaming service OnLive launches PlayPack, a flat-rate video-gamere rental plan for customers.
	Blinkx (US)	Launch	Video	Video-search engine Blinkx launches its TV API (application programming interface), which is designed to create partnerships in the connected-TV ecosystem – such as box makers, TV manufacturers, app developers and game-console manufacturers – by granting partners access to Blinkx's online-video catalog.
3-Feb	MTV (US)	Launch	Video	Music-TV channel MTV launches premium TV catch-up portal in the UK.
	SoftBank (Japan), Synacast (China)	Investment	Games	Venture-capital firm SoftBank invests US\$250 million for a 35% stake in video outfit Synacast, better known under the name of its P2P video platform, PPLive.

	AFCV Holdings, Answers.com (both US)	Acquisition	Search	AFCV Holdings is set to acquire social Q&A website Answers.com for US \$127 million in 2Q11.
	Financial Times (UK)	Launch	Portal	Business newspaper the Financial Times launches a subscription digital spin-off in Brazil called Brazil Confidential.
4-Feb	Yahoo (US)	Launch	Advertising	Yahoo launches AdLabs, a digital-advertising group that provides enhanced digital proximity-based advertising products.
	Grooveshark (US)	Launch	Music	Digital-music retailer Grooveshark allows users to embed full-length music tracks onto other websites.
	Belgacom (Belgium), Mubi (US)	Launch	Video	Belgacom expands its on-demand movie catalog with 500 titles from online-movie-rental service Mubi.
	Tivo (US)	Launch	Advertising	DVR company Tivo launches stopwatch.tivo.com, enabling users to check up on how well brands are advertising themselves and how frequently viewers skip their ads.
	Orange, Bouygues, SFR (all France), Atos Origin (UK)	Launch	Online payments	French mobile operators Orange, Bouygues and SFR team up with IT company Atos Origin to launch e-payments system Buyster.
	Cicso, Inlet Technologies (both US)	Acquisition	Video	Business-communications specialist Cisco buys video-streaming company Inlet Technologies for US\$95 million.
	Reader's Digest, OrganizedWisdom (both US)	Deal	Multiplatform	Family magazine Reader's Digest will provide readers with health news from health-content aggregator OrganizedWisdom, while OW will gain a platform for advertising on Reader's Digest publications.

Source: Informa Telecoms & Media

Case study: IP Vision seeks to innovate in hybrid OTT-DTT delivery

Ted Hall

- IP Vision has spent just over two years trying to carve out a market for a new kind of product: a hybrid device that combines Freeview with over-the-top (OTT) television and on-demand services.
- Sales of IP Vision's Fetch TV set-top boxes have been relatively low – in “five figures” according to the company – but could be boosted when a revamped electronic program guide (EPG) is launched later this year.
- While IP Vision still has the market for hybrid DTT-OTT devices to itself, it is set for stiff competition with the arrival of the BBC-led YouView.

IP Vision, the television technology provider behind the Fetch TV platform that combines digital-terrestrial television with “over-the-top” (OTT) content delivery, is entering the next phase of its business plan this year, as it seeks to improve its service and drive innovation.

Having launched in November 2008 – following the founding of IP Vision in March the previous year – Fetch TV still finds itself in a category of one in offering a Freeview set-top box that supplements DTT channels with Internet-delivered television content.

This is a situation IP Vision will continue to build on while the arrival of potential rivals in this space remains uncertain. The delays to the launch of the BBC-led YouView service – which would also combine DTT and OTT delivery – will give Fetch TV longer than its owners might once have feared to exploit any first-mover advantage.

IP Vision, owned by French consumer-electronics manufacturer Netgem and asset management company F&C Reit, also gives third-party studios and programmers the option to retain their own branding and offer their own services within the Fetch TV user interface.

User interface revamp is first of new developments

Fetch TV is seeking to stand out in other ways too. A new electronic program-guide (EPG) is due to be deployed in the second quarter of this year, with a design that is unlike that of other television-platform operators.

IP Vision chief executive Eddie Abrams told Informa Telecoms & Media that the new EPG was “trying to combine the TV experience with which people are familiar with the latest kind of design and the latest user-interface methodologies that are coming through on consumer technology – on phones and tablets and so on.” The influence of mobile-telephone user interfaces – particularly the smooth scrolling effect made popular by Apple's iPhone – is evident in IP Vision's design.

The EPG will also present its channel guide in columns rather than, as is normal, rows, thereby freeing up space to display thumbnail images for specific programs.

Another new feature is the ability to scroll “backwards” through the EPG to find catch-up content, a function showcased by cable operator Virgin Media when it launched its new Tivo set-top box last month.

As part of new EPG deployment, IP Vision is also focusing on developing what it calls “second screen” applications – applications that enable search and navigation on devices including mobile telephones, tablets and personal computers. This includes a remote-record app and another one (at present in *beta* testing) that gives mobile devices remote-control functionality. These apps are being deployed on Apple iOS devices, such as the iPhone and iPad, as well as Android-supported mobile-telephone handsets.

'Media-server' capabilities

Looking ahead to future developments for Fetch TV, IP Vision will deploy a new generation of set-top boxes that will be able to deliver multiple video streams across a home network – described by Abrams as “a media-server-type product”. He said that the devices would be a “a super-charged Sling [referring to Sling Media's ‘place-shifting’ technology]” that “acts as a

staging point and then services your mobiles, your tablets, your other connected devices in one shot”.

The new SmartBox – the brand name for Fetch TV’s set-top boxes, which are made by Netgem – needs at least another year of development before a commercial launch could take place, Abrams said.

Connected-home functionality is something that Fetch TV is already exploring through its current generation of SmartBox set-top boxes: the SmartBox 8320 HD model – which retails for £205 (US\$324) and includes a high-definition (HD) tuner and a digital video recorder (DVR) equipped with a 320GB hard drive – and the £170 SmartBox 8000 both enable Wi-Fi connectivity, which allows content on the hard drive to be streamed to other devices, subject to rights restrictions. Video can also be streamed from personal computers to the SmartBox for viewing on television sets.

The competitive landscape

Fetch TV is now well into its third year of operation but IP Vision has still to disclose how many SmartBox devices had been sold. It said merely that sales had grown significantly in the last six months and the total was now in “five figures”.

Abrams indicated that the subscriber base of BT Vision (which offers a hybrid DTT-IPTV platform) was something to which the company might aspire. “Over the next year I don’t think we’ll overtake BT Vision in terms of number of users but I think we’ll be firmly the next largest,” he said.

IP Vision was not prepared to divulge any information regarding its financial performance, beyond the fact that turnover increased by 343% in 2009 and by 427% in 2010.

Three-tier content proposition

IP Vision’s business model for Fetch TV is based on offering three tiers of television packages, supported by deals with 14 content partners (see fig. 1). The main free-to-air elements are Freeview and the BBC’s online video service iPlayer. This is supplemented by selected free video-podcast content.

Fig. 1: UK, IP Vision content partners, Jan-11

Genre	Content provider
General entertainment	BBC
	ITV
	Portland TV
	Turner
Premium content/movies	Disney
	Paramount
	BSkyB
	Content Film
Sport	Extreme Sport
Music	Eagle Rock
	The Source
Kids	Baby TV
Adult	Playboy
Health	Fitness TV
<i>Source: IP Vision, Informa Telecoms & Media</i>	

There are two pay elements: pay-per-view (PPV) and “mini” subscription. Movies are the most popular PPV options. These start at £0.99 for standard-definition films and range up to £5 (US \$7.93) for new HD releases. Paramount and Disney are the only major Hollywood studios that have distribution agreements with IP Vision.

The mini-subscription packages – which include linear channels and video-on-demand (VOD) content – are made up of genre-themed packages, such as Kids & Teens and Documentaries &

Sports (both priced £3.99 per month), and individually-priced branded services from providers including Fitness TV, which was added to the offering last week and is priced at £1.99 per month, and Racing UK, which bundles access to the channel with club membership for £20 per month. Also included in the mini-subscription category is direct-to-home operator BSkyB's online video service Sky Player.

Free- and pay-television have co-existed surprisingly well on Fetch TV, according to Abrams. He conceded that IP Vision was concerned that iPlayer content – added to the service in July 2009 – would “start to crowd out the pay stuff” but the reverse appeared to have happened. “The free content drives up video-on-demand usage as a percentage of the base in total and you get a crossover from that free use to premium use,” he said. “It helps drive registration and connection rates and then it helps drive pass-through into a premium customer”.

IP Vision estimates that there are around 15,000 hours of on-demand content available on Fetch TV. The company itself aggregates around 2,500-3,000 hours of content, from content providers including Paramount and Turner, while the majority comes from video podcasts and VOD programs from BSkyB. IP Vision typically adds around 100 hours of new content each month.

Fetch TV hopes to agree deals soon to offer the online video players of the other UK terrestrial broadcasters: ITV's ITV Player, Channel 4's 4OD and Channel 5's Five Demand. Niche content, such as foreign-language movies, will also be a focus.

On-demand content on Fetch TV is delivered using “progressive download” technology where a program starts running only once sufficient data have been “buffered” to allow uninterrupted playing. The operator said that this technology would soon also be used offer a “push”-VOD service that would download programs onto spare capacity on the SmartBox's hard drive.

The new EPG upgrade could give a boost to Fetch TV because the current user interface (see fig. 2) does not distinguish itself from traditional Freeview channel guides in the way that the new one will.

Fig. 2: UK, Fetch TV EPG screenshot, Jan-11



Source: IP Vision

Finding the ‘middle ground’

In addition to working with content partners to provide access to their online-delivered programs, Fetch TV also enables viewers to access online-video websites. IP Vision has opted for what it calls the “middle-ground”, by working with portals such as YouTube to develop tailored service applications.

Comparing IP Vision's approach to some of the connected TV products that have emerged in recent months, Abrams said: “It's very hard – you either take the approach of saying that we're going to make everything open and do our best to make it as generic as possible – but then

you end up with an 84-key remote and all kinds of compromises – or you say we’re going to pick the best of the web and make that experience the best it can be on our device, in which case you can’t do everything”.

IP Vision sees a potential market for its SmartBoxes among consumers that have recently bought conventional television sets, as they would offer a cheaper alternative to buying a new, connected TV set.

YouView and content syndication concerns

IP Vision has been one of several industry players to express concern about the BBC-led connected-TV project YouView, making a complaint to communications regulator Ofcom last August (Ofcom subsequently approved the venture). This was made on the grounds that the removal of competition between the joint-venture partners – or “industry Goliaths” as Abrams called them – in the development of platforms, applications and services for the delivery of video content to broadband-related television devices “restricts competition in the market in general”.

IP Vision also expressed disappointment at BBC governing body the BBC Trust’s provisional decision to reject on-demand syndication of BBC material on a program-by-program basis and to permit only versions of the iPlayer that use standard formats.

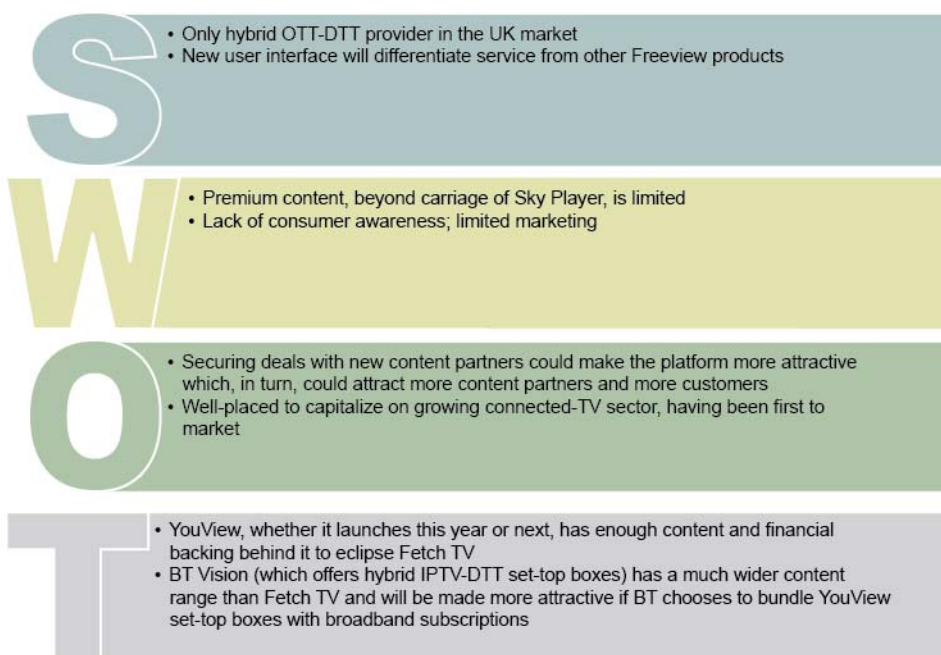
Abrams said: “While iPlayer is a good user interface, it’s certainly not the only user interface. And because that content’s so important, to have to extract access to it to an external user interface instead of using it to support something new, something which is a bit more innovative, that could be quite a restriction in itself”.

The restrictions on the ability of operators such as IP Vision to innovate in providing access to BBC programs is evident when comparing Fetch TV’s new user interface with the one it has to use for iPlayer, which appears dated by comparison and does not fit in with Fetch TV’s sleek new look.

The BBC’s policy in relation to the iPlayer contrasts with that of BSkyB, which is working closely with IP Vision to make its Sky Player service look as good as possible. The satellite operator is keen to “support new, secure delivery platforms in the fast and dynamic [IP-enabled video] sector”, said Griff Parry, BSkyB director of on-demand services.

SWOT analysis

Fig. 3: UK, IP Vision SWOT analysis, Jan-11



Source: Informa Telecoms & Media

Informa viewpoint

IP Vision is experiencing both the positive and the negative sides of being in a category of its own. While being the only player to offer hybrid OTT-DTT devices in the UK market gives it early-mover advantage and an open field to play in, the lack of direct competition means that demand for such devices is unlikely to grow significantly until there are several players competing with each other.

The problem is that when the big player – YouView – finally turns up, it could well dominate the market and Fetch TV could remain very much a minority-interest product.

It might be argued that it is precisely the threat of YouView which has deterred other, smaller, players from attempting to take on IP Vision with products that directly rival Fetch TV.

In order to maintain momentum, IP Vision must focus on securing deals with major studios and programmers to make its service more attractive and a better prospect for viewers who want to access premium content alongside Freeview. Fighting regulatory battles against YouView will remain a secondary, yet important, priority.

Media moguls should not bet the house on Apple, says Giles Cottle

Giles Cottle

News Corp. today launched The Daily, dubbed the world's first "iPad newspaper," at a somewhat low-key event at New York's Guggenheim museum. It certainly lacked all of the razzmatazz that is usually de rigueur at any Apple event. But it was perhaps a more appropriate entrance into the world for a product that is part of an industry that is in dire straits because free Internet news and blogging have changed the way we access information forever.

News Corp. chief Rupert Murdoch has, of course, shown ill-disguised disdain and contempt for such trends, famously labeling news and content aggregators as "plagiarists" and "digital kleptomaniacs," and even threatening to delist his properties from Google by blocking the site's Web crawlers. Most considered this to be an idle threat rather than a likely strategy, but another proposed idea that had more than the air of fantasy about it – a mainstream, paid-for, iPad-only newspaper from a major publishing house – is, as of today, a reality.

Combining the best of the old with the best of the new

There is logic to what Murdoch is doing. At the launch he claimed, correctly, that there is an audience of educated, sophisticated people that don't read national print but that do consume media.

Part of Murdoch's first attempt to address this group was to simply put up a paywall around his properties. The move has had fairly underwhelming results, but there is reason for him to be optimistic that his new venture could be more successful in persuading people to part with their cash. The optimism is partly due to price – users will be charged US\$0.99 a week to read The Daily, rather than the £2 (US\$3.20) a week it costs to read *The Times*.

But more fundamentally, what The Daily has done successfully, based on the launch demo at least, is successfully combine the convenience of digital media with some of the aspects of physical media that people love the most. The pictures on the iPad look stunning. The ability to read what feels like a tangible item, but combining it with Web-style interactivity via a touch screen, is a huge leap forward. It supports audio, video, added information and anything else that people could want to aid and enhance their reading experience, but this is not thrust upon the audience. They can still read an "old-style" publication if they want, or they can watch, listen, learn and tweet to their heart's content.

De-tethering digital newspapers Will this get people to pay up? That depends, of course, on the quality of the content, which is something we can't yet judge, though Murdoch has assembled a fairly impressive masthead for his new title. Beyond this, there are precedents from other media that indicate that people may well pay. Music-streaming services never took off when they were tethered to the PC, but they skyrocketed, in the case of Pandora and Spotify, when they launched on mobile devices. We are about to see something similar with digital movies, with some providers reporting that users buy and watch five times as much content via the TV as via the PC. It's clear that The Daily, likewise, provides much better value and a much better experience for people than simply reproducing a newspaper on a smartphone or PC.

Potential hurdles: scale, a small tablet market and Android fragmentation

Despite the potential for optimism, there is one major fly in the ointment: the size of both the iPad market and the tablet market. Despite the "iPad newspaper" hype, Murdoch explicitly said that The Daily will make it onto other tablets in due course and implicitly did so by claiming that the publication's audience was the "50 million Americans that will own a tablet in 2011." Only 15 million iPads have been sold globally, but even adding in the entire tablet market wouldn't be enough to sell *Wall Street Journal*-style numbers.

That might be less of an issue for The Daily than for others. Based on the weekly running costs of US\$500,000 that Murdoch quoted, it would need the equivalent of only about 650,000 subscribers paying for an entire year, including the cut Apple will take from sales and

excluding ad revenue. For other newspapers, which have high costs associated with physical publishing, these economics make for fairly grim reading.

There's another issue, related to quality of experience. The natural next step to reaching the tablet market would be, one assumes, Android and the numerous tablets that will be based on the operating system. But no tablet has come close to touching what Apple has done with the iPad, and even if they did, the problem of fragmentation, and of hundreds of different devices with different screen sizes and touch-screen capabilities, will be huge for The Daily. Ask any video provider about the difficulty of developing for Android. The Daily will face similar problems, and it will at some point have to sacrifice either scale or quality.

Apple's role

As for the wider ramifications for the publishing industry, media moguls would do well to heed the warnings of other content owners who have bet the house on Apple, only to be left light of pocket as a result. The music and movie industries relied on Apple for digital distribution early on. Despite early positive signs, music downloads via iTunes are starting to peter out. And the movie industry's much heralded Ultraviolet common DRM standard is as much an attempt to break Apple's stranglehold on the digital distribution of movies as anything else. However well The Daily ends up doing, publishers should not fool themselves into thinking that Apple is their one knight in shining armor.

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