

informa
telecoms & media

From
ic intelligence
centre

Telecom Markets

Telecoms & broadband network strategy & regulation
February 4, 2011 • Volume 630



MEET OUR ANALYSTS



Rob Gallagher, Principal Analyst

Rob is the principal analyst for Informa Telecoms & Media's Broadband & Internet Intelligence Centre research portal and editor of *Telecom Markets*. He specializes in broadband network operator strategy, technology and regulation in Europe.

rob.gallagher@informa.com



Giles Cottle, Senior Analyst

Giles is a senior analyst for the Broadband & Internet Intelligence Centre, covering fixed broadband and online content. He has authored several reports, including *FTTX: A Global Analysis and Value Added Services for Broadband Operators*.

giles.cottle@informa.com



Andrew Ladbrook, Analyst

Andrew analyzes online content companies, particularly those from non-English-speaking markets. He is also responsible for creating new content datasets covering online advertising expenditure and online music, among other areas.

andrew.ladbrook@informa.com



Ismail Patel, Research Analyst

Ismail is responsible for Informa's coverage of fixed-broadband and online content in the Middle East and North Africa. Ismail graduated in 2007 from the University of Madinah, Saudi Arabia, and possesses an LLM degree from the School of Oriental & African Studies, University of London.

ismail.patel@informa.com



Kalyan Medapati, Senior Research Analyst

Kalyan is a senior research analyst covering Western European fixed and mobile markets for Informa Telecoms & Media. In addition, Kalyan covers research related to sub-Saharan Africa and emerging technologies.

kalyan.medapati@informa.com



Stephen Wilson, Senior Research Analyst

Stephen is a senior research analyst in Informa Telecoms & Media's broadband team. He specializes in the broadband, cable and IPTV markets of Northern Europe, Central and Eastern Europe and Central America.

stephen.wilson@informa.com

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, Country	Date	Website	Analyst
Interconnection World Forum	London, UK	24-27 Feb	www.iir-telecoms.com/interconnection	rob.gallagher@informa.com
FTTH Council Europe	Milan, Italy	9-10 Feb	www.ftthcouncil.eu	rob.gallagher@informa.com stephen.wilson@informa.com
Broadband World Forum MEA	Dubai, UAE	13-15 Mar	www.broadbandworldforum.com/mea	ismail.patel@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 stephen.wilson@informa.com kalyan.medapati@informa.com

Copyright

© 2011 Informa UK Ltd. All rights reserved.

The contents of this publication are protected by international copyright laws, database rights and other intellectual property rights. The owner of these rights is Informa UK Ltd, our affiliates or other third party licensors. All product and company names and logos contained within or appearing on this publication are the trade marks, service marks or trading names of their respective owners, including Informa UK Ltd. This publication may not be:-

(a) copied or reproduced; or

(b) lent, resold, hired out or otherwise circulated in any way or form without the prior permission of Informa UK Ltd.

Whilst reasonable efforts have been made to ensure that the information and content of this publication was correct as at the date of first publication, neither Informa UK Ltd nor any person engaged or employed by Informa UK Ltd accepts any liability for any errors, omissions or other inaccuracies. Readers should independently verify any facts and figures as no liability can be accepted in this regard - readers assume full responsibility and risk accordingly for their use of such information and content.

Any views and/or opinions expressed in this publication by individual authors or contributors are their personal views and/or opinions and do not necessarily reflect the views and/or opinions of Informa UK Ltd.

Contents

Analysis

Global 'cord-cutters' to have only limited impact on pay TV.....	1
Wholesale-IPTV picture is gloomy in Eastern Europe.....	6

Data

Global, fixed-broadband subscriptions and household penetration by region and country, 3Q10-3Q10.....	11
---	----

Comment

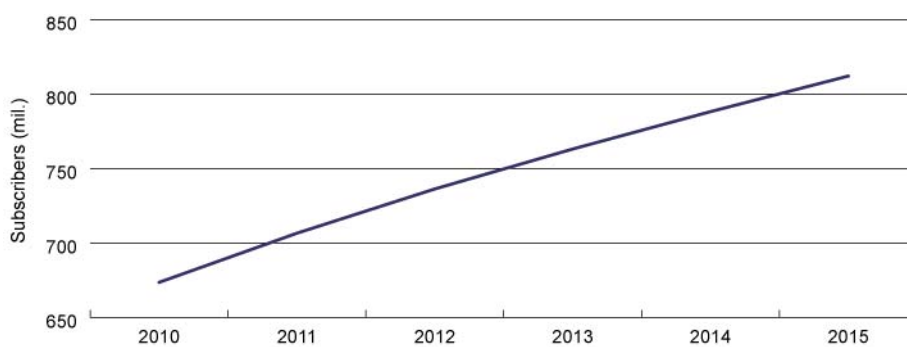
Google TV could be a telco's best friend in the battle for the multiscreen market, says Rob Gallagher.....	13
--	----

Global 'cord-cutters' to have only limited impact on pay TV

Adam Thomas

Informa Telecoms & Media has calculated that the global total of pay TV subscribers closed 2010 at 674 million. Included within this definition of pay TV are subscribers to cable, satellite (DTH/DBS), IPTV and pay DTT. By the end of 2015, this total is forecast to have reached 812 million. (see Fig. 1)

Fig. 1: Global, pay TV subscribers, 2010-2015

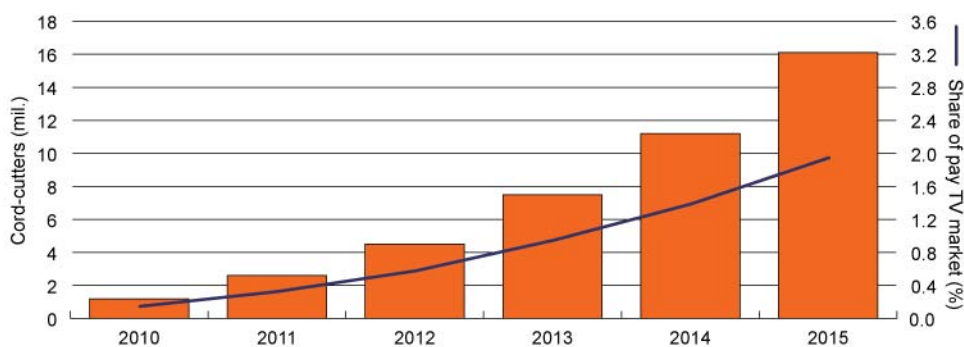


Source: Informa Telecoms & Media

The second half of 2010 was dominated by concern over whether broadband users are 'cutting the cord' i.e. cancelling their pay TV subscriptions in favor of over-the-top (OTT) video alternatives. Informa's numbers show this to have been a relatively minor phenomenon in 2010, with 1.2 million 'cord-cutters' worldwide, equivalent to just 0.18% of the pay TV total.

But OTT services will continue to improve and become increasingly attractive. Connected TVs and settops will facilitate easier access to these services and Informa's forecasts therefore anticipate the number of cord-cutters growing to 16.1 million in 2015, or 2% of the total pay TV subscriber base (see Fig. 2).

Fig. 2: Global, cord-cutters, 2010-2015



Source: Informa Telecoms & Media

It should be emphasized that the total number of OTT video users is already enormously higher (hundreds of millions) than these cord-cutting households. Additionally, we do not equate the phrase 'cord-cutting' with 'churn'. In this context, cord-cutting refers to subscribers who cancel their pay TV subscription, but do not switch to a rival traditional pay TV service.

Instead the cancellation is driven by an intention to use their broadband connection to view OTT as an alternative to pay TV.

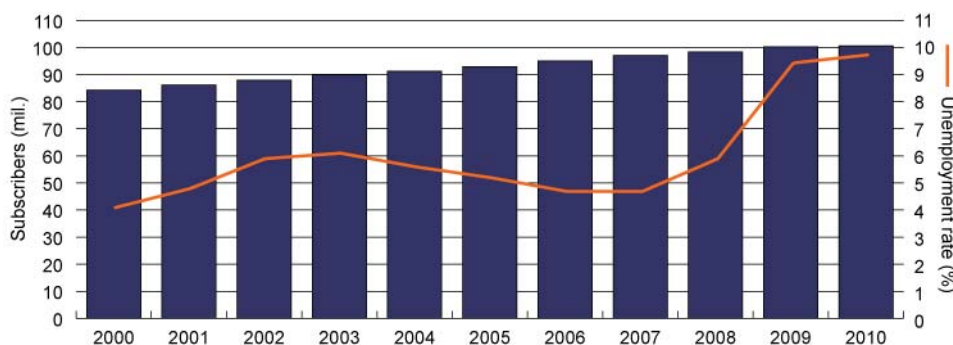
Debate on the impact of OTT has been particularly vociferous in the US, with some commentators suggesting OTT is having little impact on traditional pay TV, while others argue there has been a significant effect on subscriber numbers.

The mature US cable TV sector lost some 1.7 million subscribers in the first three quarters of 2010 and ended the year with around 60 million subscribers. Proponents of OTT suggest cable subscribers churning to Internet TV services have been prompting these losses. What this ignores is the fact that the cable TV sector in the US has been shedding subscribers since 2003 when industry body NCTA reported it to be approaching 75 million subscribers. At that time, of course, Hulu was still just a twinkle in NBC's eye, so other factors have been instrumental in its decline.

While cable has been losing subscribers, the other pay TV sectors - IPTV and DTH/DBS (particularly DirecTV) - have been adding them. Admittedly, the cable losses appear to have been heavier than previously in 2010 and the DTH/IPTV gains slower. But can this be mainly attributed to OTT? Informa doesn't believe so, with the state of the US economy seen as a much more significant factor.

A look at the US unemployment numbers alone is very illuminating (see Fig. 3). In 2008 the US unemployment rate was 5.8%. In 2009 it jumped to 9.3% and was up again to 9.6% in 2010. The 2008-2009 increase of 3.5 percentage points was the biggest annual jump since comparable records began in 1948. The next-highest being a 2.9pp increase in 1974-1975.

Fig. 3: US, unemployment rate versus pay TV subscribers, 2000-2010



Sources: Informa Telecoms & Media, US Dept. of Labor

Add to this a GDP contraction of 2.4% in 2009 - the biggest annual fall since comparable records began in 1969 – and one can see that a unique set of economic circumstances are in play. Against this backdrop it would have been surprising if pay TV subscriber growth was not affected in 2010.

Another factor hitting cable subscriber numbers, in the US, is that many households affected by analog terrestrial switch-off in June 2009 signed up to special deals with cable TV operators, which are now expiring. Some of these are not renewing the pay TV contract on standard terms and are instead transferring back to terrestrial-only.

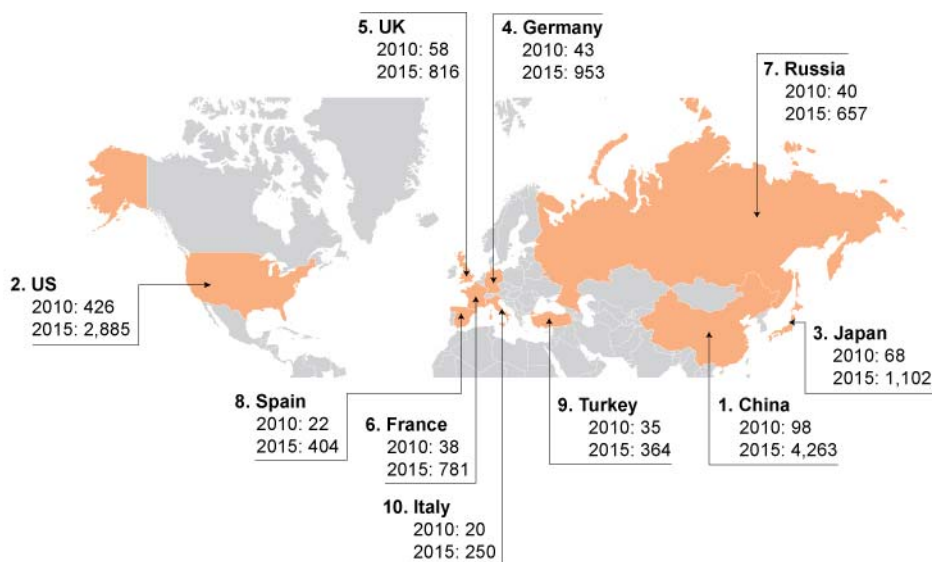
Of course this still means that operators lose subscribers. But it is some comfort to them that this comes from traditional free-to-air (FTA) households that have been inspired by 'switchover offers' to dabble in pay TV – but have opted to return to the FTA fold. This is preferable to pay TV stalwarts being attracted away by OTT.

So, while the economy seems the most significant factor in the US pay TV subscriber downturn, there is no room for complacency amongst pay TV incumbents. Indeed, this situation offers an opportunity for OTT services. While the motivation for cancelling a pay TV service may be to save money during the economic downturn, if the OTT proposition is sufficiently compelling, households may be tempted to try OTT and, if they are impressed by it, may not return to traditional pay TV when the economic situation improves.

The global picture

While most ‘cord-cutting’ commentary has focused on the US market, it is an issue with global ramifications (see Fig. 4). HBO has estimated that it lost 1.5 million pay TV subscribers worldwide in 2010 and some coverage has suggested this could be attributed to the growth of OTT. However, HBO itself put it down to contractual issues with the major US DTH/DBS players and not cord-cutting.

Fig. 4: Global, top 10 cord-cutting countries, 2015 (000s)



Source: Informa Telecoms & Media

Our research shows that while there were 426,000 cord-cutters in the US in 2010 (36% of the global total), this still means there were 768,000 elsewhere. Indeed, looking ahead, it is less developed markets that could ultimately be most vulnerable to the allure of OTT. Several of these markets (including Turkey, Indonesia and Egypt) are characterized by higher broadband penetration than that of pay TV penetration.

China is already seeing significant numbers of cord-cutters – 98,000 in 2010 and a forecast 4.3 million in 2015. These are being attracted away from cable and IPTV by OTT services such as Tudou and Youku.

While these services contain a fair proportion of pirate content, they also have some legitimate carriage deals. In China there is always a risk that regulatory intervention will radically alter a market but, for now, OTT is emerging as a fully-fledged alternative to the traditional platforms. If this continues it could set a precedent for other markets in the region.

Fig. 5: Cord-cutters by region, 2010-2015 (000s)

	2010	2011	2012	2013	2014	2015
Asia Pacific	251	753	1,448	2,647	4,209	6,274
Eastern Europe	154	335	593	945	1,355	1,867
Latin America	38	81	148	228	327	469
Middle East & Africa	75	169	278	419	595	814
North America	434	707	1,015	1,519	2,152	2,976
Western Europe	241	508	1,016	1,701	2,552	3,675
Global	1,194	2,552	4,498	7,458	11,189	16,074

Source: Informa Telecoms & Media

The OTT proposition

Although Informa anticipates significant growth in cord-cutters over the next five years, there is no suggestion of the global meltdown of pay TV subscribers and business models suggested by the more vociferous proponents of OTT.

While there may, ostensibly, appear to be benefits for content owners to cut out pay TV operators and target their premium content to viewers direct, using OTT, it is very difficult to see how the numbers would stack up. Such a radical alteration of their core business model would likely generate a fraction of the revenues currently accrued.

For example, content companies like to have their channels on pay TV basic tiers – as (depending on the deal) they get paid a fee per subscriber and can use this potential reach to attract advertising revenues. Channel owners may sign carriage deals for their popular channels that include a proviso that less popular channels are also ‘bundled’ into the deal. OTT’s primarily on-demand model will not operate in the same way – so acts as a disincentive for channel owners to go the OTT route.

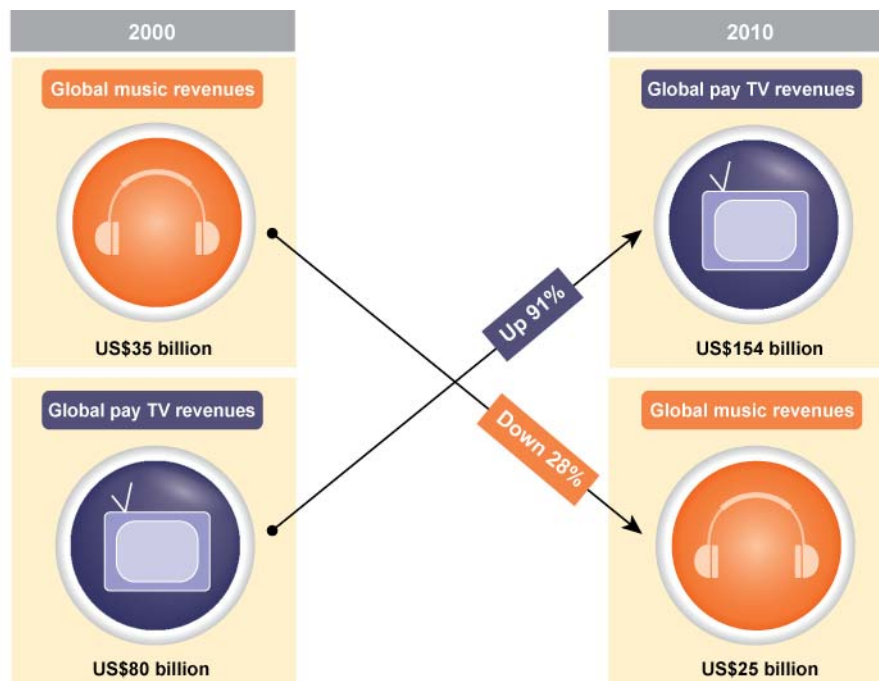
The challenge for the entire industry is to walk the tightrope between popular ideas and profitable ones. OTT, in part, caters for a new generation of TV consumers. Their tastes have to be catered for, or they will be lost to alternative media. The public would love to be able to cherry-pick just those pieces of premium content that they want to watch at that particular time, at a low-cost and without the hassle of adverts. The reality is that such a model is unsustainable, so an alternate model, also attractive, but not disruptive, is needed. The TV Everywhere authentication initiative used by several pay TV operators in the US is one component of this – while the licensing of library content to OTT providers is another.

It is no secret that many pay TV subscribers have been unhappy for decades with the channel bundling system. Their argument is that they don’t want to pay for 100s of channels – when they only watch 10-20 of them. This dissatisfaction has not, so far, led to extensive numbers of subscribers cancelling their services – because they can’t get those 10-20 channels elsewhere. If the premium content from these channels suddenly became available via OTT services, then existing models would come under serious threat.

But this situation would not jeopardize only the pay TV companies – but the content creators/suppliers themselves. In an increasingly disintermediated scenario, traditional pay TV operators (assuming they still hold some premium rights) would have to adapt their model against direct OTT competition – so all but their most popular channels would likely fold, as most channels can’t stand alone and generate anything like the same level of revenue. This would mean that channel owners would be generating less from their popular channels and zero from their niche channels. Would the shortfall be made up in a massive boost from OTT revenues? It seems unlikely in most cases.

There, therefore, seems no logic for content owners to tear-up a long-established business model, proven over decades to consistently generate them tens of billions of dollars per year. Especially when the alternative (OTT) is inextricably linked with the type of free or, at best, low-cost delivery methods that have decimated other media sectors (Music, Newspapers...etc).

Fig. 6: The OTT danger, 2000 and 2010



Source: Informa Telecoms & Media

In the case of the music sector there are further parallels. The music industry was built on sales of albums, with singles often used as loss-leaders to entice the public into buying the album. It was the 'bundling' of music tracks into an album that was core to the economic model. However, as a result of Napster-led music piracy, the industry was forced into the single-track retail model (prompted by iTunes) that has decimated the value of the global music industry (global revenues of US\$35.2 billion in 2000 having dropped to US\$25.4 billion in 2009).

Informa's view, therefore, remains that OTT will find a healthy market. But, for most premium content owners, moving from TV's high margins, to OTT's low margins makes no sense. OTT's focus will therefore remain on library and catch-up content – rather than first-run premium programming. The risks are too great for content owners to license their premium content to OTT services, as this could spark a spiral that could seriously jeopardize existing TV business models. But good revenues can be derived from using OTT as an additional exploitation opportunity in later windows and this should be fully developed.

Informa's full cord-cutting forecasts can be viewed [here](#).

Wholesale-IPTV picture is gloomy in Eastern Europe

Stephen Wilson

- There have been a number of wholesale IPTV deployments in Eastern Europe aiming to serve the region's smaller ISPs.
- Several players are acting as wholesalers, including incumbents and carriers of Internet traffic.
- Success for wholesale IPTV has proved limited, though there are some possibilities for providing wholesale IPTV to the region's smaller FTTB players.

Of all the regions in the world, Eastern Europe is home to the most broadband players. Because of the ease and low cost with which new infrastructure can be built, these markets have low barriers to entry for smaller players and are also in many cases extremely competitive. The small size of the players and the competitiveness of the markets have opened the way for the deployment of a number of wholesale IPTV platforms (see fig. 1).

Fig. 1: Eastern Europe, selected wholesale IPTV providers by country, Jan-11



Source: Informa Telecoms & Media

Because competition is so intense, operators face the need to launch their own TV service in order to offer triple-play packages to match the incumbents and cable players.

But the small size of many ISPs makes it difficult for them to launch their own TV service. Costs of satellite-transponder capacity are generally high. IPTV is a more promising option, but there are a number of cost issues here as well. Proprietary middleware providers, such as Microsoft, with its Media Room platform, charge high fees that tend not to be contingent on the number of subscribers a platform attracts.

In addition, small ISPs face the problem of not being able to take advantage of economies of scale when purchasing settop boxes. Content providers might also not be prepared to spend the time negotiating with small providers from which they stand to gain little revenue. With wholesale IPTV, the small ISPs no longer have to acquire settop boxes or negotiate with content providers (see fig. 2).

Fig. 2: Typical division of labor for a wholesale IPTV platform

Task	Wholesale provider	ISP
TV-content negotiation	✓	✗
Content encryption	✓	✗
Acquiring broadband subscribers	✗	✓
TV-service provisioning, e.g. service activation	✓	✗
Purchasing settop boxes	✓	✗
End billing to customers	✗	✓
First-level support help desk (network maintenance)	✗	✓
Second-level support help desk (TV service maintenance)	✓	✗

Note: Table is based on the division of roles in Vestitel's Tivia wholesale IPTV platform
Source: Informa Telecoms & Media

There are also vendors, such as Slovenia's Smart Com, that have developed technologies that enable a single provider to offer an IPTV platform to various client ISPs but provide enough flexibility that, for example, user interfaces can be customized.

Two basic models have been used for delivering wholesale IPTV.

Model 1: incumbents offering wholesale IPTV

The first model consists of an incumbent wholesaling its IPTV platform to the ISPs that use its wholesale DSL and LLU services. The idea is to try to help protect these ISPs from infrastructure competition from cable and fiber players. In addition, incumbent IPTV services have generally not been particularly successful. Offering wholesale IPTV is an attempt to maximize the amount providers have already spent on their IPTV systems, such as headends and middleware.

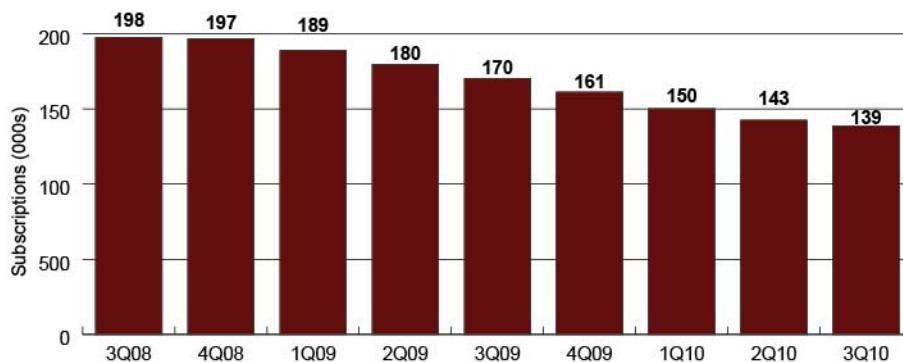
Normally, an ISP using DSL would be able to launch an IPTV service only via an LLU connection. But LLU is not available in Serbia and is limited in Hungary. Offering wholesale IPTV enables incumbents to offer an incentive to alternative ISPs to keep subscribers on the more profitable wholesale DSL rather than LLU. It also helps protect the incumbent's wholesale DSL operation from competitors using other technologies, such as cable, fiber or fixed wireless.

The ability to offer IPTV and wholesale DSL enables the ISP that retails the wholesale IPTV service to compete with the triple play of fixed-telephony, broadband and TV offered by cable and some fiber players. Offering more services is a proven way of reducing churn from the core broadband product to rival offers.

The success of this model has been limited in Eastern Europe for a number of reasons. In Hungary, broadband competition is fierce. Leading alternative operator Digi is offering broadband via its fiber-to-the-building (FTTB) network, with faster speeds than those of the incumbent's copper-based offers, and at a low price. Hungary's largest cable operator, UPC, has also regained territory in the past year and also has a speed advantage in broadband through its DOCSIS 3.0 rollout.

The result is that the number of wholesale DSL subscriptions has been declining rapidly since the start of 2008 (see fig. 3), and wholesale IPTV has struggled to gain more than a handful of subscribers. At end-2009, Magyar Telekom's wholesale IPTV service had gained only 256 subscribers, even though Magyar had signed up six service providers.

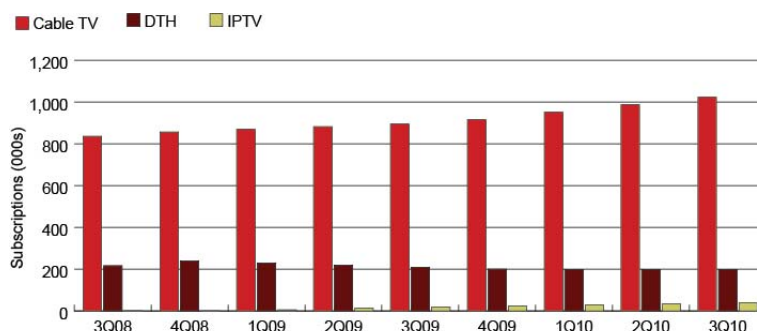
Fig. 3: Magyar Telekom, wholesale DSL subscriptions , 3Q08-3Q10



Source: Informa Telecoms & Media

In Serbia, the incumbent's own IPTV platform has struggled to gain market share and a significant number of subscriptions (see fig. 4), which indicates that the technology is not intrinsically more attractive to Serbians than cable or DTH. If the incumbent, with its financial might, is unable to gain traction, it will be even more difficult for a wholesale provider to.

Fig. 4: Serbia, multichannel-TV subscriptions by platform, 3Q08-3Q10



Source: Informa Telecoms & Media

Issues of trust could arise when one ISP that offers IPTV wholesales its IPTV platform to another ISP in the same country. Since IPTV is an unregulated product, the ISP selling the wholesale connection might feel that it is not being given the same conditions as the original IPTV provider.

Model 2: Other players wholesaling IPTV to neighborhood networks

In many Eastern European countries – in particular Poland, Bulgaria, Ukraine and Russia – many small ISPs have deployed fiber-to-the-building. These operators survive by having a low cost base, partly thanks to their antenna fiber deployments, high broadband speeds offering access to pirated content, and individualized customer service. These operators' weakness is their small size, which means they do not have the muscle to develop their own IPTV platforms.

A number of different kinds of players have entered the market to offer a wholesale IPTV platform. Carriers or operators that provide Internet transit and connectivity to other operators but not retail broadband services are one such set of players. For example, with the Quarto service in Bulgaria, carrier Neterra provides the IPTV platform. The advantage for a carrier is that it already has relationships with neighborhood-network ISP customers. But if the wholesale IPTV platform is available only to the carrier's transit customers, the addressable market is limited. If these operators launch IPTV, the carrier stands to gain from delivering more traffic over its network. The disadvantage of such players' wholesaling a platform is that they have no experience in the TV market and are therefore not familiar with the content market and its intricacies.

Another drawback for this model might be the quality of some of the neighborhood networks. For example, in the case of Vestitel's Tivia wholesale IPTV platform, the ISP must have a

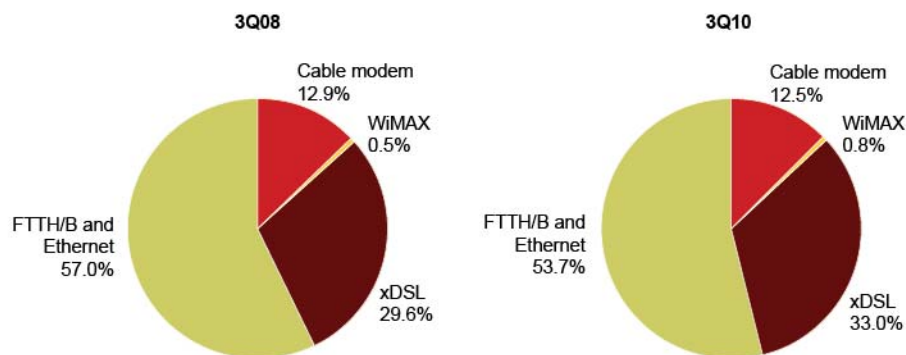
multicast-enabled network, something that few operators can offer. In the case of Neterra's Quarto IPTV platform, the neighborhood-network ISPs also face high demands, such as having redundant electricity supply for every LAN switch. This might discourage some ISPs from signing up to the wholesale platform.

Just as in the model where incumbents offer wholesale IPTV, this model suffers from the fact that IPTV in general is no more attractive to customers than cable or DTH. This is demonstrated by the fact that TPSA has barely made a dent in Poland's multichannel-TV market with its IPTV services. SGT, the wholesale-IPTV provider in Poland, although not unsuccessful, has failed to make much of an impact in the market.

The viability of this model in the future is also in question, because of consolidation among the smaller ISPs in a number of Eastern European countries. For example, Netia is acquiring some players in Poland, and mobile operator M-Tel has already acquired two of Bulgaria's largest FTTH players, Spectrum Net and Megalan. M-Tel's move is especially significant, because it was the company that actually retailed the Quarto platform to the consumer, though Neterra provided the physical platform. The consolidation will result in larger operators, which are therefore more likely to be able to afford to launch their own IPTV platforms or even buy satellite-transponder capacity.

On the other hand, the fact that there is interest in buying some of the neighborhood networks shows that these players are, at least in many countries, attractive assets. Therefore, the argument that these players will disappear as they are crushed by the incumbent and cable operators, leaving no potential market for wholesale IPTV, is not a valid one. For example, although the FTTH/B/LAN operators in Bulgaria have lost 3% market share in the past couple of years (see fig. 5), it is not because they are losing subscription numbers, which continue to grow, but because the incumbent is taking subscriptions in areas where there might be no FTTH/B/LAN networks.

Fig. 5: Bulgaria, fixed-broadband market share by technology, 3Q08 and 3Q10



Source: Informa Telecoms & Media

Another problem is that many smaller ISPs in countries such as Bulgaria are installing parallel networks of coaxial cable in order to deliver TV, rather than IPTV, a technology that has yet to prove particularly attractive in Bulgaria. If the neighborhood network chooses this method, it will be able to keep all the money itself rather than sharing it with a wholesale partner. As it stands in Bulgaria, the LAN ISPs make about €1.50 (US\$2) per customer per month from a wholesale IPTV connection – not an especially large amount.

As with the first model, with this model there might be problems regarding customer service. For example, if there is a problem with the IPTV headend or settop box, a subscriber may call the ISP's helpline, but only the wholesale IPTV provider will be able to resolve the problem. This could lead to confusion and delays in resolving problems. This is especially a problem in those cases where more than two parties are involved. For example, in the case of Quarto in Bulgaria, Neterra provides the platform, various LAN ISPs provide the last-mile broadband access network, and mobile operator M-Tel is responsible for areas such as billing.

Informa viewpoint

Offering bundles including wholesale IPTV will not save wholesale DSL and LLU

Excluding Poland, where Netia is performing well, wholesale DSL and LLU are under pressure in those Eastern European countries where they exist. Launching wholesale IPTV has not enabled these operators to turn the situation around in Hungary. Competition against DSL from other types of infrastructure is just too great. The ability to offer bundles with wholesale IPTV will not turn this situation around.

Wholesaling IPTV to neighborhood networks is more promising

The idea of offering wholesale IPTV to smaller fiber-to-the-x-based operators is a sound one. But it would be better for a player that has a direct connection and knowledge of the TV market to be the wholesaler as opposed to an IP-traffic carrier. With consolidation of these smaller LAN players occurring, it will become more difficult for such a model to work in the future.

But overall, the future isn't bright for wholesale IPTV

With TV markets already nearly saturated and with strong competition in urban areas from cable players in multichannel TV and broadband, the picture in general for IPTV, both wholesale and retail platforms, looks bleak in Eastern Europe. The product has only tended to be successful where one of the other technologies is absent or weak, such as in Croatia.

Operators should look to reduce middleware costs

One opportunity for the operators might be to try to develop some kind of open-source middleware or even develop their own proprietary middleware, such as Elion in Estonia. Cutting middleware deals that are more contingent on IPTV-subscription numbers would also be a step forward. Without such measures, costs for both wholesalers and retailers will remain high – an important barrier in these price-sensitive markets.

Global, fixed-broadband subscriptions and household penetration by region and country, 3Q10-3Q10

Rank, 3Q10 (rank in 2Q10)	Region	Subscriptions, 3Q09	Subscriptions, 2Q10	Subscriptions, 3Q10	Quarterly net adds, 3Q10	Annual net adds, 3Q10	Quarterly change (%)	Annual change (%)
1 (1)	Asia Pacific	173,614,423	200,745,490	208,800,790	8,055,300	35,186,367	4.0	20.3
2 (2)	Western Europe	119,437,350	126,491,360	128,429,360	1,938,000	8,992,010	1.5	7.5
3 (3)	North America	91,219,600	94,321,000	95,377,000	1,056,000	4,157,400	1.1	4.6
4 (4)	Eastern Europe	33,072,420	38,245,660	39,739,230	1,493,570	6,666,810	3.9	20.2
5 (5)	Americas	32,149,959	36,537,560	37,938,530	1,400,970	5,788,571	3.8	18.0
6 (6)	Africa	4,167,437	4,952,032	5,183,092	231,060	1,015,655	4.7	24.4
7 (7)	Middle East	3,516,741	4,224,220	4,390,820	166,600	874,079	3.9	24.9
	Total	457,177,930	505,517,322	519,858,822	14,341,500	62,680,892	2.8	13.7

Rank, 3Q10 (rank in 2Q10)	Region	Penetration, 3Q09 (%)	Penetration, 2Q10 (%)	Penetration, 3Q10 (%)	Quarterly change, 3Q10 (pp*)	Annual change, 3Q10 (pp*)	Quarterly change (%)	Annual change (%)
1 (1)	North America	65.1	66.5	67.0	0.5	1.9	0.7	2.9
2 (2)	Western Europe	59.1	62.1	62.9	0.8	3.7	1.2	6.3
3 (3)	Eastern Europe	22.2	25.6	26.5	1.0	4.4	3.8	19.7
4 (4)	Americas	20.3	22.7	23.4	0.7	3.2	3.3	15.6
5 (5)	Asia Pacific	17.5	19.9	20.6	0.7	3.1	3.5	17.8
6 (6)	Middle East	8.4	9.9	10.2	0.3	1.8	3.2	21.4
7 (7)	Africa	2.3	2.7	2.8	0.1	0.5	4.0	21.2
	Total	27.8	29.9	30.5	0.6	2.6	2.0	9.5

Rank, 3Q10 (rank in 2Q10)	Country	Subscriptions, 3Q09	Subscriptions, 2Q10	Subscriptions, 3Q10	Quarterly net adds, 3Q10	Annual net adds, 3Q10	Quarterly change (%)	Annual change (%)
1 (1)	China	92,410,000	112,275,000	118,225,000	5,950,000	25,815,000	5.3	27.9
2 (2)	US	82,673,600	85,515,000	86,439,000	924,000	3,765,400	1.1	4.6
3 (3)	Japan	31,244,300	32,377,800	32,861,400	483,600	1,617,100	1.5	5.2
4 (4)	Germany	24,810,200	25,997,900	26,243,000	245,100	1,432,800	0.9	5.8
5 (5)	France	19,248,150	20,440,760	20,691,600	250,840	1,443,450	1.2	7.5
6 (6)	UK	18,028,200	18,982,900	19,229,100	246,200	1,200,900	1.3	6.7
7 (7)	South Korea	16,055,323	16,789,910	16,950,500	160,590	895,177	1.0	5.6
8 (8)	Russia	12,277,300	14,734,770	15,385,030	650,260	3,107,730	4.4	25.3
9 (9)	Italy	12,116,350	12,930,660	13,111,060	180,400	994,710	1.4	8.2
10 (10)	Brazil	10,973,800	12,214,500	12,721,400	506,900	1,747,600	4.1	15.9
11 (12)	India	7,957,300	10,158,990	10,849,630	690,640	2,892,330	6.8	36.3
12 (11)	Spain	9,671,770	10,325,240	10,491,900	166,660	820,130	1.6	8.5
13 (13)	Mexico	8,628,300	9,987,480	10,364,000	376,520	1,735,700	3.8	20.1
14 (14)	Canada	8,546,000	8,806,000	8,938,000	132,000	392,000	1.5	4.6
15 (15)	Turkey	6,192,000	6,810,100	6,855,000	44,900	663,000	0.7	10.7
16 (16)	Netherlands	6,293,600	6,555,800	6,638,500	82,700	344,900	1.3	5.5
17 (17)	Australia	5,968,000	6,121,000	6,176,300	55,300	208,300	0.9	3.5
18 (18)	Poland	5,654,100	5,895,800	5,979,200	83,400	325,100	1.4	5.7
19 (19)	Taiwan	5,549,440	5,694,810	5,751,830	57,020	202,390	1.0	3.6
20 (20)	Argentina	3,509,800	3,884,100	4,056,200	172,100	546,400	4.4	15.6
21 (22)	Belgium	3,148,500	3,318,700	3,361,900	43,200	213,400	1.3	6.8
22 (21)	Viet Nam	2,782,930	3,349,700	3,301,000	-48,700	518,070	-1.5	18.6
23 (23)	Romania	2,720,400	2,982,000	3,092,800	110,800	372,400	3.7	13.7
24 (24)	Sweden	2,868,000	2,883,000	2,877,500	-5,500	9,500	-0.2	0.3
25 (25)	Switzerland	2,668,700	2,789,200	2,822,300	33,100	153,600	1.2	5.8

Rank, 3Q10 (rank in 2Q10)	Country	Penetration, 3Q09 (%)	Penetration, 2Q10 (%)	Penetration, 3Q10 (%)	Quarterly change, 3Q10 (pp*)	Annual change, 3Q10 (pp*)	Quarterly change (%)	Annual change (%)
1 (1)	Anguilla	133.3	140.0	146.7	6.7	13.3	4.8	10.0
2 (2)	Turks And Caicos Islands	132.5	132.5	132.5	0.0	0.0	0.0	0.0
3 (3)	Cayman Islands	116.4	117.5	117.9	0.4	1.5	0.3	1.3
4 (4)	Isle Of Man	93.8	110.0	110.9	0.8	17.1	0.7	18.2
5 (7)	Gibraltar	92.3	99.8	102.6	2.8	10.3	2.8	11.1
6 (6)	Hong Kong	96.9	100.1	102.2	2.1	5.3	2.1	5.5
7 (5)	Faroe Islands	97.1	100.5	101.5	1.0	4.4	1.0	4.6

8 (14)	Denmark	81.4	84.5	100.6	16.1	19.2	19.0	23.6
9 (8)	South Korea	95.3	98.6	99.1	0.6	3.8	0.6	4.0
10 (9)	Singapore	86.0	93.4	93.8	0.4	7.8	0.5	9.1
11 (11)	Luxembourg	84.1	91.0	93.2	2.2	9.1	2.5	10.8
12 (10)	Qatar	84.4	91.9	92.9	1.0	8.5	1.1	10.0
13 (13)	Bahrain	69.3	86.5	89.5	2.9	20.2	3.4	29.1
14 (12)	Netherlands	85.0	87.9	88.8	0.9	3.8	1.0	4.5
15 (15)	Andorra	77.0	84.2	84.4	0.2	7.4	0.2	9.7
16 (16)	Israel	82.7	84.1	84.3	0.3	1.7	0.3	2.0
17 (19)	Malta	76.3	81.5	83.7	2.2	7.4	2.7	9.7
18 (20)	UAE	70.6	81.4	82.6	1.3	12.0	1.5	17.0
19 (17)	Liechtenstein	80.7	81.9	82.3	0.4	1.6	0.5	1.9
20 (18)	Iceland	80.7	81.9	81.5	-0.4	0.7	-0.5	0.9
21 (21)	St Kitts And Nevis	73.0	78.0	79.6	1.6	6.6	2.1	9.0
22 (22)	Monaco	76.5	77.9	78.6	0.6	2.1	0.8	2.7
23 (23)	Norway	73.0	76.6	77.4	0.9	4.5	1.1	6.1
24 (24)	France	71.1	75.0	75.8	0.7	4.6	1.0	6.5
25 (25)	New Zealand	68.8	74.0	75.5	1.6	6.8	2.1	9.8

*Percentage points

Source: Informa Telecoms & Media

Google TV could be a telco's best friend in the battle for the multiscreen market, says Rob Gallagher

Rob Gallagher

Telecoms operators once thought they would rule the world. They foresaw a future where people would communicate, access the Internet and watch TV via their mobile phones, PCs and a number of as-yet-unimagined screens. And thanks to their brands, customer relationships and control of the wired- and wireless-broadband networks that would carry the new services, telecoms operators would be best-positioned to profit.

It didn't quite work out like that. But not for the operators' lack of trying. Throughout the course of the last decade, many sought to expand the control they have over their networks to almost every element of the new-media industry, from content and delivery platforms to devices and embedded software.

Unfortunately, the operators overestimated their ability to control these other parts of the value chain, most strikingly in the mobile phone market. Consumers shunned the operators' mobile portals when they found they could access their favorite PC-based Internet services "over the top" (OTT) of their mobile networks.

Pouring salt into the wound, the content, devices and software companies have proved much more effective at entering each other's markets than the operators have. Search engine Google's Android mobile operating system (OS), for example, has effectively achieved take-up operator efforts could only ever dream of. Apple's iTunes, meanwhile, has trumped operator music stores spectacularly in almost every market it is available in.

As a result, the value chain for multiscreen services that span the PC, TV and mobile is increasingly looking like a forbidding place for telecoms operators to play.

TV: the last-chance saloon for operators?

Except, apparently, in one regard: TV. Numerous telecoms operators are continuing to invest heavily in their own homegrown IPTV platforms or white-label ones from traditional telecoms-equipment vendors. Orange is even planning to launch its own connected TV, called SoTV. But the same transformation that happened to the mobile industry is threatening to happen to TV. Apple TV, Google TV and Samsung's Internet at TV have each garnered enough headlines to worry telco TV operators, though not necessarily the results to back them up.

It's important to point out that the mobile and TV markets differ in many ways. Mobile content was more or less an opportunity waiting to happen for the Internet and consumer-electronics firms, thanks to the failure of most traditional telecoms players to fully explore its possibilities. TV is already well catered to by numerous successful free-to-air and pay TV operators and broadcasters, which have decades of understanding of how people use it.

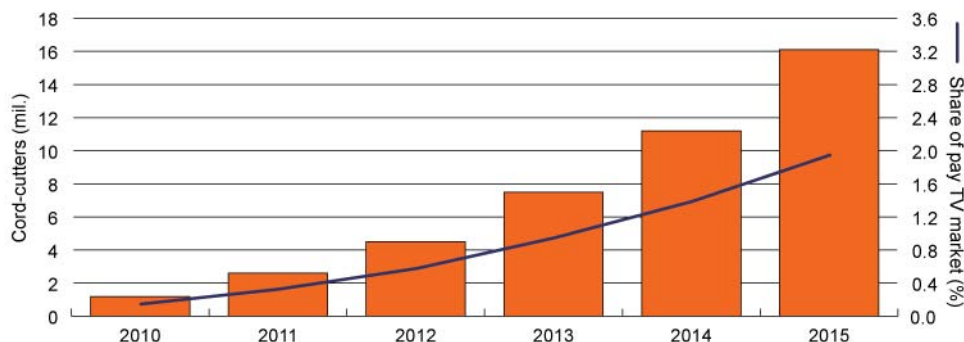
Arguably, their position could be threatened by players with a greater grasp of how people use niche, or "long tail," Internet content and Web 2.0 applications, such as social networking. But it remains to be seen how well these applications will translate to the TV, since they gained popularity on personal devices, such as mobile phones and PCs, rather than the TV, which people tend to have a much more passive relationship with.

OTT threat to pay TV overrated

In any case, it seems likely that the forte of traditional TV companies – mainstream TV shows, movies and sports, the "big head" to the long tail – will remain a key part of any successful TV offering. And as long as it does, the Internet and consumer-electronics (CE) firms' offerings may struggle. A number of major US broadcasters, for example, have blocked Google TV devices from accessing their PC-based online-video services for fear of undermining their traditional TV ad revenues.

For such reasons and others, Google TV et al will not pose as great a threat to pay TV operators as some of the industry's more enthusiastic commentators have made out. Informa's forecasts show that the number of cord-cutters – homes that cancel their pay TV subscriptions in favor of some kind of OTT alternative – will be equivalent to only 2% of pay TV subscriptions worldwide in 2015 (see fig. 1).

Fig. 1: Global cord-cutters, 2010-2015

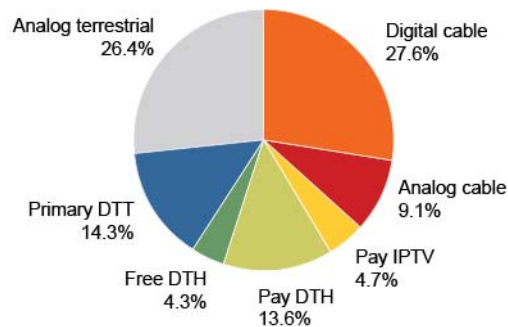


Source: Informa Telecoms & Media

... but telco TV won't fare much better

This is not necessarily good news for telecoms operators. The fact is, the vast majority of them still won't be major forces in TV either. Informa's forecasts show that IPTV subscriptions will make up just 4.7% of TV households by 2015 (see fig. 2). In terms of pay TV, direct-to-home (DTH) satellite and digital cable TV will continue to account for the bulk of the market.

Fig. 2: Global, share of TV households by platform, 2015



Source: Informa Telecoms & Media

The reality is, most telecoms operators will have to do something different if they want to compete in the TV market. One option would be to pursue the same "blue ocean" strategy as the Internet and CE firms, pushing features that contrast starkly with traditional TV, such as apps, connected-home features and the ability to access content on multiple screens.

This option makes the question of which TV platform to use even more pressing. A telecoms operator would have to make its offerings as least as good as Google TV and Samsung Internet at TV, which are likely to be embedded in a growing number of TVs, Blu-ray players and other boxes, whether consumers want them or not.

That said, both Google's and Samsung's products have not had the disruptive effect their makers perhaps would have wanted. Google TV is by many accounts a bit of a turkey, a judgment backed up by the search giant's reported decision to advise its manufacturer partners to drop their Google TV devices from their launches at the biggest consumer-electronics show of the year, CES. Internet at TV, meanwhile, has attracted only 2 million TV-app downloads – and free ones at that – despite Samsung's prediction that it would sell 35 million connected TVs last year.

Scale and the lessons of history

But experience from the mobile market would seem to suggest that telecoms operators and traditional telecoms-equipment vendors are not in the best position to develop the kind of platforms that attract the kind of app developers that helped make the iPhone such a runaway success. For example, Orange and Etisalat's attempt to create the same kind of excitement around the connected home, Soft at Home, appears to have attracted only a handful of third-party developers, mostly from the IPTV industry.

In addition, traditional pay-TV operators might stand a better chance with their own efforts. Clearly, few are ready to partner with Apple. US satellite operator Dish is bundling Google TV devices with its packages, and lead Google TV-device manufacturer Logitech claims that more pay TV operators will follow suit. But the sizable subscription bases of many providers could offer the scale to attract both developers and CE manufacturers to their platforms without requiring them to join forces with Internet upstarts.

Witness, for example, the deals US operators Comcast, Time Warner and Verizon (one of the world's more successful IPTV players) struck for placements of their TV Anywhere services on Samsung's Internet at TV devices. There are also signs that momentum is growing behind a select few platforms favored by traditional pay-TV operators, such as NDS' Snowflake and Tivo (see fig. 5). Informa understands that NDS will be making announcements related to third-party developer ecosystems within the next few months.

Fig. 3: Global, major operators' next-generation TV platform commitments and TV subscriptions, 3Q10

Next-generation TV platform	Operator	Country	Type	Subscriptions
Microsoft Mediaroom	AT&T	US	IPTV	2,739,000
	Deutsche Telekom	Germany	IPTV	1,042,000
	Portugal Telecom	Portugal	IPTV	769,000
	Magyar Telekom	Hungary	IPTV	725,300
	BT	UK	IPTV	505,000
	Swisscom	Switzerland	IPTV	358,000
	Telus	Canada	IPTV	266,000
	Slovak Telecom	Slovakia	IPTV	105,100
	MTS	Canada	IPTV	90,000
	Beeline	Russia	IPTV	80,000
Maktel	Macedonia	IPTV	23,400	
NDS Snowflake*	Unity Media	Germany	Cable	4,499,500
	SFR	France	IPTV	3,343,900
	UPC	Netherlands	Cable	1,906,800
	Zon	Portugal	Cable	1,573,100
	Cablecom	Switzerland	Cable	1,536,900
	UPC	Poland	Cable	1,016,700
	UPC	Romania	Cable	957,800
	VTR	Chile	Cable	894,900
	UPC	Czech Republic	Cable	605,500
	UPC	Hungary	Cable	583,300
	UPC TeleKabel	Austria	Cable	527,100
	UPC	Ireland	Cable	491,000
UPC	Slovakia	Cable	227,100	
Soft at Home*	Orange	France	IPTV	3,230,000
	TP	Poland	IPTV	497,000
	Orange	Spain	IPTV	72,000
	Orange	Slovakia	IPTV	26,100
Tivo	Virgin Media	UK	Cable	3,766,700
	ONO	Spain	Cable	948,000

*The listed operators' parent companies have committed to the platform but have not confirmed whether they plan to roll it out to all the listed subsidiaries and subscribers.

Sources: Informa Telecoms & Media

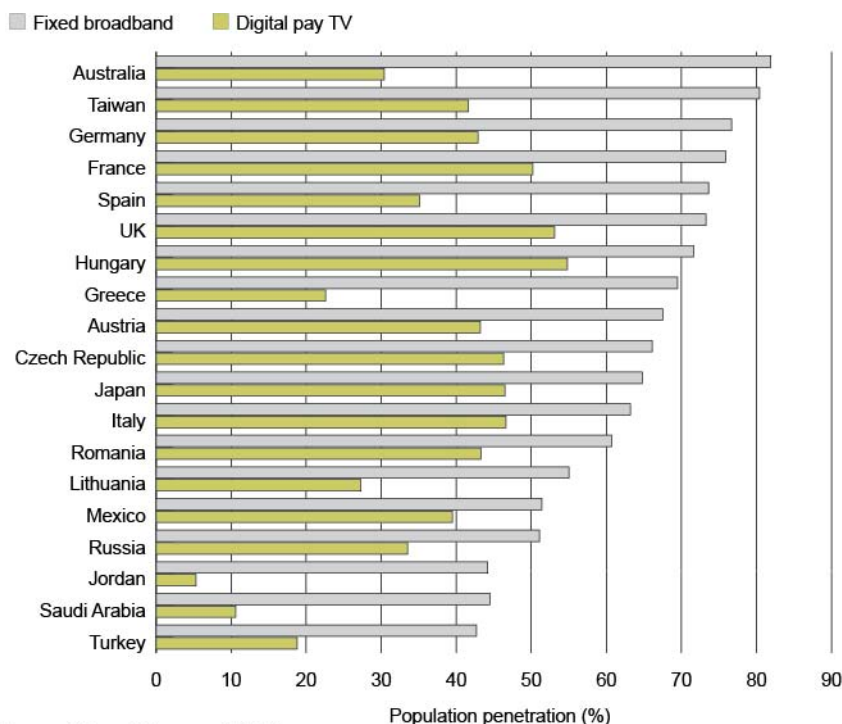
That said, offering interactivity hasn't proved terribly successful in helping IPTV operators win pay TV subscribers. As a Verizon executive remarked last year, "Interactivity will not win you customers; it just won't." The operator's comprehensive sports and movie packages were responsible for that, adding that at best, interactivity might help reduce the number of pay TV customers churning to other suppliers.

But that's not the problem that most telecoms operators – which have few pay TV customers to lose – need to solve. They should be more concerned about losing customers of their core product: fixed broadband. But how can they use TV to retain subscribers if customers aren't willing to pay for it in the first place? The simple answer is to offer it for less or even free, a strategy that worked for a number of today's successful operators in the early days of IPTV.

Telecoms operators and the free-to-air OTT opportunity

The slightly tarnished silver lining of this cloud for telecoms operators is that fixed broadband will continue to outpace pay TV, leading to a substantial proportion of homes in many markets that will have fixed broadband but not pay TV (see fig. 6). And these millions of homes could be amenable to taking some kind of broadband and TV bundle that sits in between the two, in terms of both price and interactive features.

Fig. 4: Global, top fixed-broadband-dominated markets, 2015



Source: Informa Telecoms & Media

The interesting thing about these markets is that content firms have little to lose from going OTT, since they will be earning less in revenues from traditional pay TV.

This approach has been tried before. BT Vision, the IPTV service of the UK incumbent, is aimed at people who don't want to take out a pay TV subscription but would be willing to pay for movies on-demand. Unfortunately, the service has repeatedly failed to meet its subscription targets, a problem compounded by the exorbitant cost of its content rights and Microsoft-based IPTV platform.

But BT hasn't given up on the idea. The operator plans to introduce bundles of fixed broadband and YouView settop boxes, which will be based on a platform developed largely by the BBC and the UK's other public-service broadcasters to provide catch-up TV over the top of any fixed-broadband network. The operator is likely to subsidize YouView boxes in order to drive take-up of its broadband services.

It remains to be seen whether the new offers will prove any more successful than Vision, but the strategy might at least allow BT to effectively outsource some of the content and platform costs to its broadcaster partners.

Of course, the circumstances BT finds itself in are unique. In few markets have the public-service broadcasters teamed up to execute such a comprehensive OTT strategy. In addition, as their traditional markets have matured, many content providers have earmarked low-

penetrated pay TV markets as their next major growth areas and therefore might continue to tread carefully when it comes to OTT.

But other operators struggling to make a dent in the TV market would do well to consider following BT's example by teaming up with an OTT player, such as continental Europe's YouView-alike HbbTV or, dare I say it, Google TV.

Google TV: A quid pro quo for telcos?

Google's global ambitions for Google TV could lend operators the scale to attract content providers, device makers and app developers that traditional IPTV platforms are likely to lack. Telecoms operators, meanwhile, could offer solutions to some of the problems Google TV is likely to encounter, such as distribution, customer service and a billing relationship with subscribers.

There is a precedent: Android. Google's mobile OS and developer ecosystem have proved to be the only viable alternative to Apple's iPhone model for telecoms operators, allowing operators to set up and at least try to make money from their own Android app stores. Even Google is considering using operators to charge users of its global app market via their phone bills as well as via its Checkout payment mechanism. Nokia, for example, reports that this "carrier billing" method has resulted in a twelvefold increase in paid downloads from its Ovi download store.

Android is also highly customizable, offering operators the opportunity to play content providers off each other for virtual real estate on their phones and app stores. Google, for example, pays Apple about US\$100 million a year in a revenue-share deal to be the default search engine on the iPhone, according to one report. A recent deal between Verizon and Microsoft to make the software giant's Bing the default search engine on certain Motorola-made Android handsets suggests that telecoms operators can use this bargaining chip too.

In addition, one of the key selling points of Google's TV strategy is integration with pay-TV services, such as the ability to search DVR results. Probably the main reason the search giant hasn't made much progress in winning over the TV industry with this point lies with the fact that operators and broadcasters are hardly fond of Google. The creation of Hulu, for example, was in part driven by its broadcaster owners' annoyance at YouTube's apparently "copyleft" attitude toward their content.

That said, telecoms operators don't exactly see eye-to-eye with Google on everything either. But as a consultant once remarked to me about the impact Skype has had on the traditional telephony market, "If you want to disrupt a market, destroy it." And for telecoms operators struggling to compete against pay TV operators, their enemy's enemy could very well be their best friend.



Tectonic Forces



Cable Congress 2011

15-17th February 2011, KKL Convention Centre, Lucerne (Zurich), Switzerland

Cable Congress offers an extensive congress programme featuring top executives from the cable, technology, content and new media industries. With visionary speakers coming from Europe the US and Asia, Cable Congress provides insight on the latest developments in the fields of strategy, investments, technology, marketing, content and regulation.

What can you expect in 2011?

- The most influential CEO's from the industry discuss the future of cable and the changing market
- An investor panel discussing current and future merger and acquisitions strategies and how they monetize their investments
- Digital Home Strategies; the differences in strategy, the technology for the future digital home, and the best model to assure cable a competitive edge
- How will the launch of Google TV affect the business of content distribution? What is cable doing to remain center stage
- Dedicated sessions on marketing and technology
- Facts & figures: hard data and estimates

A Leading Edge Agenda with World Class Speakers



Adrian von Hammerstein, Kabel Deutschland



Mike Fries, Liberty Global



John Hahn, Providence



Tom Rogers, TiVo



Andrew Barron, Virgin Media



Patrick Walker, Google/YouTube



Balan Nair, Liberty Global



Paul Liao, Cable labs



Kurt Scherf, Park Associates



Rosalie Portela, ONO



Aaron Heslehurst, BBC



John Dawson, Bloomberg

Internet Café Sponsor:



Lanyard Sponsor:



Orange Juice Sponsors:



Delegate Bag Sponsor:



Coffee Sponsor:



Awards Sponsor:



For General Queries and to Register,
please contact Fiona Higgins,
fiona.higgins@cablecongress.com, +44 (0) 20 7017 5289

For Sponsorship and Exhibition Opportunities,
please contact Dominic Halpin,
dominic.halpin@cablecongress.com, +44 (0) 20 7017 7167

www.cablecongress.com

Organized by:



In Partnership with:



Cable Europe Labs

CTAM EUROPE
Cable's Growth Engine



Cable Congress
Gala Party hosted by:



Logistical Partner:

informa
telecoms & media

Editor*Rob Gallagher***E:** rob.gallagher@informa.com**T:** +44 (0) 20 7017 5254**Senior Analyst***Giles Cottle***E:** giles.cottle@informa.com**T:** +44 (0) 20 3377 3345**Research Analyst***Ismail Patel***E:** ismail.patel@informa.com**T:** +44 (0) 20 7017 5875**Data Analyst***Kaylan Medapati***E:** kaylan.medapati@informa.com

com

T: +44 (0) 20 7017 5012**Contributor**

Adam Thomas

Senior Copy Editor*Charles Gordon***Copy Editor***Robin Marcus***Production Manager***Felicity Agyemang***Marketing***Alica Brlajova***E:** alica.brlajova@informa.com**T:** +44 (0) 20 7017 4755**Main Office**

Mortimer House

37-41 Mortimer Street

London, W1T 3JH

T: +44 (0) 20 7017 4279**F:** +44 (0) 20 7017 4288**Website**

www.informatm.com

Subscriber Service

Informa Telecoms & Media

Sheepen Place

Colchester

Essex CO3 3LP, UK

T: +44 (0) 20 7017 5533**F:** +44 (0) 20 7017 4783**E:** telecoms.enquiries@

informa.com

North America**E:** nathan.knight@informa.com**T:** +1 415 525 3803

Published in the UK 23 times a year and available electronically.

Subscribe**Telecom Markets** – Fortnightly newsletter

(Annual subscription price)

Online license single user

£1,095/US\$1,752/€1,369

Online license 2-5 users

£3,285/US\$5,256/€4,106

Includes PDF, HTML and email delivery, plus searchable archive of back issues

Copyright notice

No part of this publication may be copied, photocopied or duplicated without prior written permission from the publishers.

© 2011 Informa Telecoms & Media

 Cheque enclosed. (Cheques payable to Informa UK Ltd)

Please charge:

 Amex Visa Mastercard

Card no..... Expiry date..... Signature (required).....

To arrange a bank transfer, or if you have any questions concerning payment, please call the customer services team.

Name..... Job title..... Company.....

Address.....

City..... State / Zip / Postcode..... Country.....

E-mail..... Phone..... Fax.....

Please return this form to: Customer Services, Informa Telecoms & Media, Sheepen Place, Colchester CO3 3LP, UK.**T:** (44) 20 7017 5533 **F:** (44) 20 7017 4783 **E:** telecoms.enquiries@informa.com Please send your latest telecoms catalogue. Please tick if you do not wish to receive further information on Informa Telecoms & Media products and services or other selected companies