

The Case for Wholesale IPTV

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Introduction

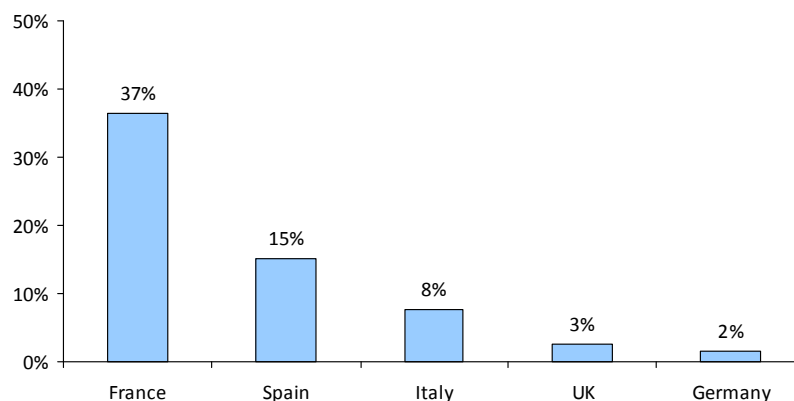
Network operators seeking to compete with triple play offers from cable and satellite providers have launched their own IPTV services. In the majority of cases these IPTV offers have so far failed to reach scale. Scale is particularly important in IPTV, to cover large fixed entry costs, compete for premium content, and secure advertising deals. Developing a wholesale IPTV offer could enable network operators to build overall scale and improve the economics of their retail case through cost sharing with their wholesale business.

TV is a scale business

To complete their triple-play portfolios, network operators across Europe have invested in IPTV platforms and launched Pay-TV propositions. Customer adoption of these retail offers has, however, been mixed. Most operators have yet to make significant inroads in winning market share from the established cable and satellite competition.

Lack of scale in TV is challenging from an economic perspective, given the high fixed costs in infrastructure and premium content that must be covered. Additionally, a sub-scale operator is likely to gain less interest from advertisers and content owners than its larger rivals. The key question for network operators currently in this position is whether they will ever achieve sufficient subscriber volumes within their retail TV operations. If not, they will need to look beyond their retail business to address their scale disadvantages.

IPTV share of Pay-TV Households



Note: France includes IPTV enabled households who may not necessarily use the service

Wholesale provides IPTV operators with one such opportunity. Wholesaling IPTV would enable operators to drive infrastructure utilisation whilst aggregating scale in order to afford premium content and strike more lucrative advertising deals.

The Case for Wholesale IPTV

Customer groups for which a wholesale IPTV proposition could be attractive include ISPs and content owners. The former having a network, but no IPTV platform or content, and the latter having the content, but no infrastructure over which to deliver it.

Crucially both groups have customer bases to which IPTV can be marketed, and thus help bring about the scale necessary for the network operator to succeed in TV.

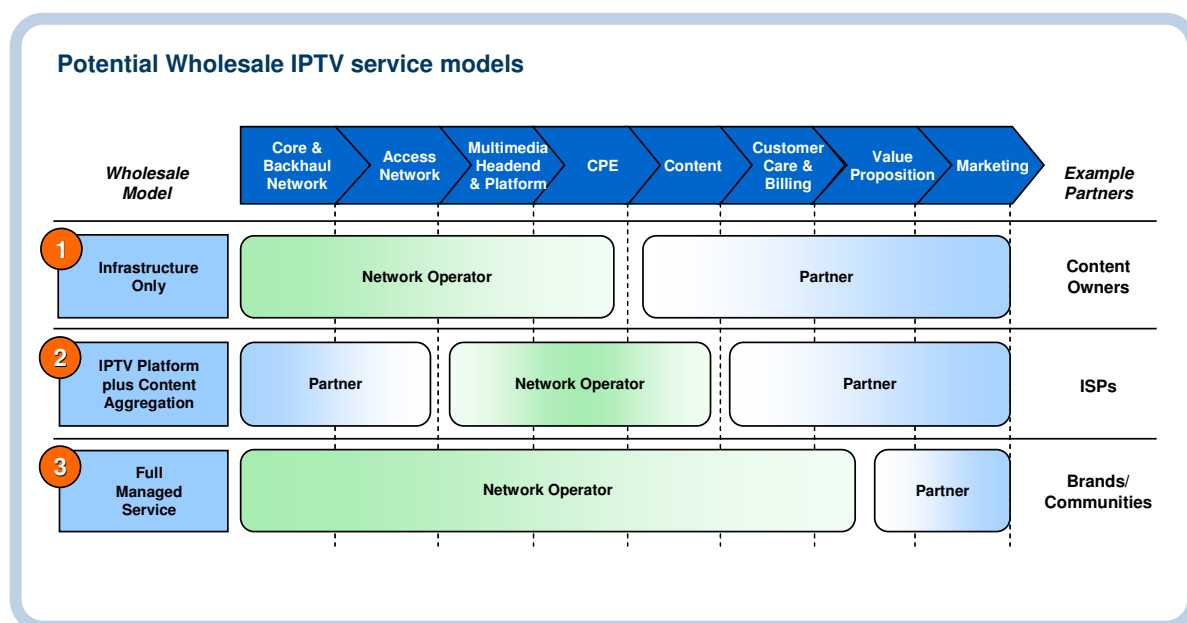
Wholesale IPTV service models

ADDRESSING THE SPECTRUM OF WHOLESALE CUSTOMER NEEDS WILL REQUIRE A RANGE OF SERVICE MODELS

To address the wholesale IPTV market, network operators must first understand their customers' needs. We envisage interest from a broad range of players, and their needs will vary depending on their scale, capabilities and aspirations.

Addressing these diverse needs requires a range of wholesale models, some of which will have more appeal than others for technical, economic and strategic reasons.

Fundamentally, network operators will need to decide whether to only offer wholesale access to their IPTV platform or to combine this with an element of content aggregation. This in turn will determine the addressable market and expected scale benefits to the business.



Lessons from the mobile market

WHOLESALE CAN PENETRATE CUSTOMER SEGMENTS THAT ARE DIFFICULT TO SERVE THROUGH RETAIL CHANNELS

In considering the case for wholesale IPTV, the mobile market provides a useful analogue from which to draw valuable lessons, specifically the role of the MVNO.

The MVNO concept has enabled smaller operators to build scale through wholesale partnerships (e.g. e-plus in Germany). Through MVNOs, operators have also been able to address segments that are very different to their traditional base (O2 and Tesco in the UK). Both of these opportunities are relevant to IPTV operators today, and either could be realised depending on wholesale strategy adopted..

The Case for Wholesale IPTV

Drawing on CSMG experience in the MVNO market, relevant lessons for IPTV wholesalers include:

- The need to select partners with care. Partners must bring something to the IPTV value chain, e.g. content or retail capabilities;
- The need to support a range of wholesale models. Partners will come from diverse backgrounds, bringing e.g. content, network infrastructure, and/or brand and distribution;
- The need to align platform and business strategies. A standard platform facilitates bringing partners onboard quickly and cost effectively, however customization may be necessary for partners seeking retail differentiation.

Economic benefits of wholesale IPTV

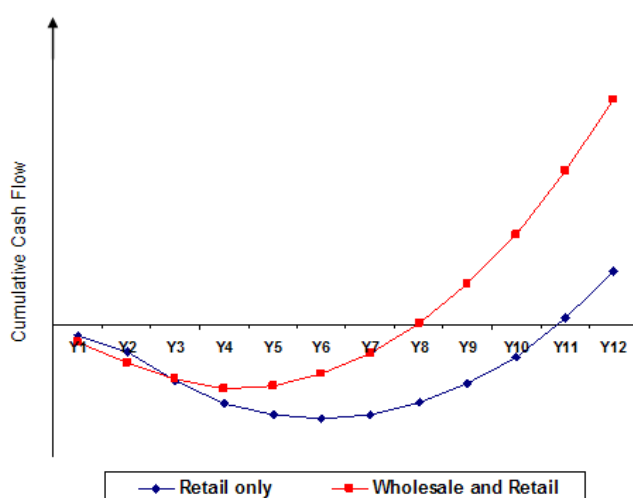
WHOLESALE CAN DELIVER
SIGNIFICANT CASH FLOW
IMPROVEMENTS TO THE IPTV
BUSINESS CASE

As set out above, the current “retail only” model presents a challenging business case for operators seeking a return on investment; a contributing factor being that operators are likely to remain inferior in terms of scale compared to their cable and satellite competitors, and therefore will have comparative cost disadvantages.

To assess the benefit that wholesale could bring to an IPTV operator, CSMG developed a model comparing the IPTV business case with and without a wholesale line of business.

The output shows improved cash flow resulting from greater subscriber scale and more efficient utilisation of fixed cost infrastructure. With a wholesale IPTV offer the time to breakeven is reduced by approximately 25%, even allowing for a degree of cannibalisation to the operator’s own retail base.

Impact of Additional Wholesale business on IPTV model



Wholesale IPTV Business Model Assumptions

Revenues

- Revenues are split between network operator and retail partner 75:25
- Assumes network operator pays for content (typically 50%+ of revenues)

Costs

- Service provider pays for cost of marketing, installation, CPE, customer care and billing
- Network operator pays for content and infrastructure costs e.g. head-end, IT and network transport
- Includes scale economies on content costs
- Excludes broadband network deployment costs

Subscribers

- Total IPTV base is increased by 50% through addition of wholesale offer
- For “Wholesale and Retail” case, the network operator’s “Retail” subscriber base is reduced by 25% due to cannibalisation effect

Conclusion

With few exceptions, network operators have not achieved the scale in IPTV necessary for long-term success. Unless their position improves, they face challenges in under-utilised infrastructure, inability to turn a profit on premium content and lack of comparative interest from advertisers.

Wholesale channels can reach a broader customer base with a wider range of propositions than could profitably be served through an operator's own retail brand. Wholesale IPTV propositions, whilst carrying some cannibalization risk, provide an alternative route for operators to achieve TV business scale.

The key issues that network operators should consider are:

- How significant are the economic benefits of wholesale to my IPTV business?
- Which of the wholesale service models should be offered: a platform-only play, or one that includes content aggregation?
- How much scope for differentiation needs to be supported? How can this be achieved most cost-effectively?

Potential IPTV retailers and service providers should consider:

- What are the range of possible TV entry options? How does wholesale IPTV compare economically and qualitatively against the alternatives?
- Which points of differentiation could my organization bring to the TV market? What support is required from a network operator to realise these?

CSMG has in-depth experience across the value chains of telecoms and IPTV. Our advisory services include strategy development, market analysis and deal structuring. If you are interested in exploring the opportunities and challenges that wholesale IPTV could bring to your organization – whether as a wholesale provider or retail partner – CSMG would be pleased to discuss its experience with you in developing IPTV propositions and wholesale strategies.

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