

Monthly Research Notes

Archives

Telcos in TV Land

Cablecos Go on a Telecoms Land Grab

June 2010 Research Note: Telcos are Losing the Numbers Game

TeleGeography Opinion

Telcos need to step up their game in the pay-TV world. While IPTV subscriber growth has been strong, it has mostly been achieved via cut-throat pricing or bundling strategies that effectively give away the service for free. Incremental revenues for telcos have been marginal. Arguments about IPTV being a means to reducing broadband subscriber churn and increasing customer loyalty may have some merit, but telcos need to develop sustainable strategies that result in real revenue growth.

Meanwhile, as telcos struggle to make meaningful inroads into the pay-TV market, cablecos continue to gain substantial market share with their telecoms service offerings. Cablecos have been hugely successful at expanding beyond their traditional TV market boundaries; in essence they have successfully redefined their core business. While the respective strategies of cablecos and telcos mirror each other, cablecos are succeeding while telcos are failing.

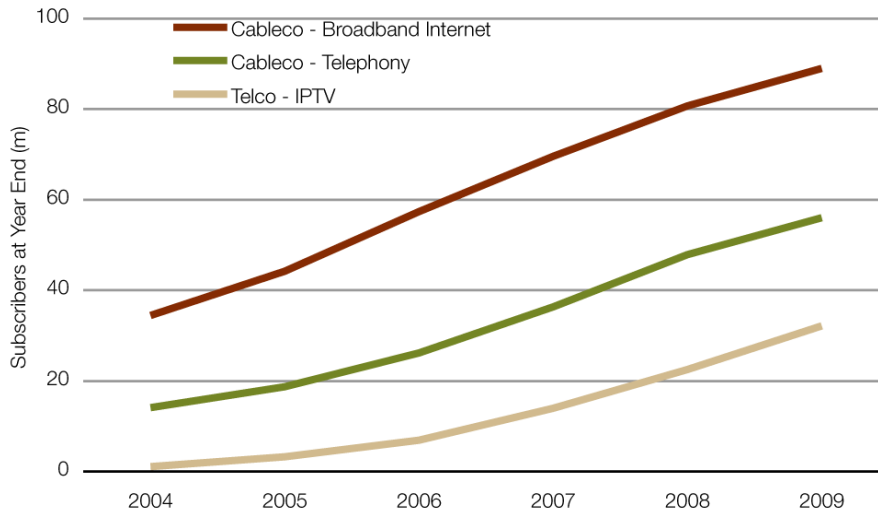
It is not too late for telcos. TeleGeography firmly believes that attacking the pay-TV market is the correct strategy for telcos, but it does not believe that using IPTV as a loss-leader is the correct way to go about it.

Data and Analysis

Over the last five years telcos have grown their IPTV subscriber base by an average of almost 100% per year to reach 32 million at the end of 2009. In 2009 the growth rate was 43%. However, IPTV's share of global pay-TV subscribers stands at just 5%, and, due to its ARPU being much lower than cable or DTH, IPTV's share of pay-TV revenues is just 3%. In 2009 telcos around the world generated IPTV revenues totaling USD5 billion.

As cablecos have increasingly targeted telcos they have now grown their broadband internet subscriber base to 91 million subscribers and their telephony subscriber base to 58 million, representing 19% and 5% market shares respectively. With ARPUs similar to the respective telco service offerings, cablecos were able to generate 2009 revenues of USD56 billion from their main telecoms services (plus some USD10 billion more from other telecoms activities – mobile, business services and wholesale).

FIGURE 1
Subscriber Gains by Cablecos and Telcos

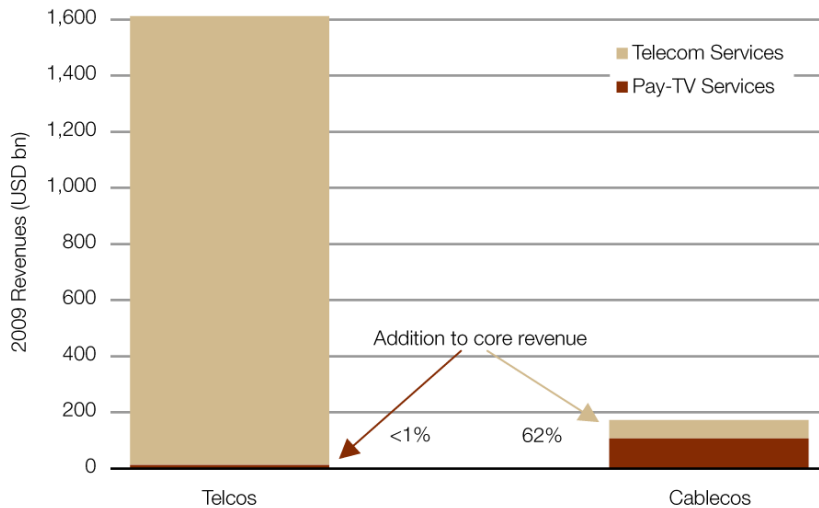


Source: TeleGeography research

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In terms of taking revenues away from each other, cablecos are outscoring telcos by a factor of some 12:1. Given that the telecoms services market is some eight times larger than the pay-TV market, it is clear that many cablecos have been through a major transformational change which has dramatically enhanced their actual and potential scale. Telcos have tried to achieve the same goal but have so far barely moved the needle.

FIGURE 2
Cableco and Telco Revenue Expansion



Source: TeleGeography research

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Three final thoughts or observations:

- The figures above are all at the macro global level. There are many different circumstances to be found at the micro or country level, and that is where individual telcos need to focus. There is not a “one size fits all” solution to successfully growing IPTV, and for sure there are many instances where telcos can successfully grow profitable and sustainable IPTV operations
- While the conclusions are good, the data points above are not entirely fair to telcos. Cablecos entered the telecoms market long before telcos started to aggressively target pay-TV. It was around ten years ago that cablecos started to compete in earnest with telcos, but only five years ago that the early IPTV services got beyond the introductory stage and started to grow aggressively. Setting timing issues aside, it is telcos’ reliance on cut-throat pricing to drive subscriber numbers that is troublesome
- For the sake of completeness, it should be noted that telcos do have some non-IPTV pay-TV interests, currently totaling around 23 million subscribers. Telco ownership of these more traditional cable and satellite DTH services are either the results of long-standing local industry structures or more recent investments; either way they are much lower growth than the IPTV services and are not viewed as being as strategic as IPTV

The content on the preceding pages is a section from TeleGeography's GlobalComms Pay-TV

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TeleGeography Research.

A Division of PriMetrica, Inc.

Washington, D.C. / San Diego / Exeter

U.S. tel: +1 202 741 0020 / U.K. tel: +44 1392 315567.

www.telegeography.com