Cable vs. Telcos: The Battle for the Enterprise Market

EXECUTIVE SUMMARY

Cable MSOs have long been eager to seize market share away from telcos in the commercial services sector. The appeal is easy to understand: Business and enterprise spending on telecom services amounts to some $100 billion annually in the U.S. alone.

Right now, the cable companies get only the smallest fraction of that revenue pie: Cox Communications, which is widely acknowledged as the most aggressive MSO in commercial services, generates only 6 percent of its total revenue from the enterprise sector, and its 2004 enterprise revenue total of $386 million represents less than 0.4 percent of that year's total enterprise spending on telecom services.

The revenue potential awaiting ambitious cable MSOs is enormous, yet despite the promise and potential, cable infiltration into commercial services seems to be perennially just on the horizon. Of course, there are many technical challenges inherent in this transition, but the growth of this market is being inhibited primarily by the business arms of the MSOs, which are currently focused on the residential market and fighting off the threat posed by the RBOCs, which are moving after the MSOs’ bread-and-butter video business. The magnitude of the telco video threat was apparent at the Society of Cable Telecommunications Engineers’ "Emerging Technologies" conference in January 2006, in which an entire track was dedicated to understanding telco IPTV and its strengths and weaknesses.

Cable vs. Telcos: The Battle for the Enterprise Market provides a comprehensive assessment of efforts by North American cable network operators to tap into the vast revenue reservoir of business-class telecom services. The report analyzes cable MSO prospects in this critical market from three perspectives:

- The businesses that buy commercial services
- The cable MSOs that deliver those services to businesses
- The equipment vendors that supply the cable MSOs

The cornerstone of the report is an end-user survey, conducted by Heavy Reading in January 2006, of 112 qualified telecom decision makers and influencers at U.S. business of all sizes on their plans for deploying advanced data services and their perceptions and attitudes toward cable MSOs in providing them. Detailed findings from the survey are presented, including separate analysis of the coveted small- to medium-sized enterprise (SME) portion of business users.

Second, the report provides detailed profiles of the leading U.S. cable MSOs developing and marketing commercial services, including their current offerings, plans for future services, and plans for the various technology options available for delivering those services. Cable MSOs ana-
lyzed in this report are: Cablevision Systems Corp. (NYSE: CVC); Charter Communications Inc. (Nasdaq: CHTR); Comcast Corp. (Nasdaq: CMCSA); Cox Communications Inc. (now a wholly owned subsidiary of Cox Enterprises Inc.); and Time Warner Cable Inc. (a subsidiary of Time Warner Inc. [NYSE: TWX]).

Third, this report provides detailed profiles of leading equipment suppliers active in commercial services, including their commercial services strategies, key products sold into commercial services, and Heavy Reading’s assessment of each company’s strengths and weaknesses. Equipment vendors analyzed in this report are: Ciena Corp. (Nasdaq: CIEN); Cisco Systems Inc. (Nasdaq: CSCO); Fujitsu Ltd. (Tokyo: 6702; London: FUJ); Harmonic Inc. (Nasdaq: HLIT); Motorola Inc. (NYSE: MOT); Narad Networks Inc.; Nortel Networks Ltd. (NYSE/Toronto: NT); Scientific-Atlanta Inc. (NYSE: SFA); Siemens AG (NYSE: SI; Frankfurt: SIE); and Xtend Networks Ltd. (a subsidiary of Vyyo Inc. [Nasdaq: VYYO]).

This three-pronged assessment of the market will give readers a well grounded, realistic, and defensible view of how commercial services will evolve in North America.

In addition to the untapped revenue potential, a variety of competitive market forces are also driving cable MSO interest in the commercial services sector:

1. Cable companies need to look beyond consumer video for growth. After decades of marketing broadcast video to consumers, the market is saturated. Looking at the top ten MSOs, video is growing at single-digit rates, certainly not enough to get Wall Street excited about cable. Incursions over the past few years by satellite-based video service providers already have caused cable operators to lose some share of the consumer video market. The addition of competition from telco “triple-play” initiatives will further erode cable’s market share.

2. Competition from the telcos is threatening to be strong, and the cable MSOs are scared. Verizon’s FiOS triple-play service is the first competitive shot across the bow for MSOs, but SBC’s ambitious Project Lightspeed is not far behind, and BellSouth is also investigating IPTV. For MSOs, the telco competition for video customers is really a no-win situation. At best, they hold on to the customers they already have but are required to cut pricing due to the intense competition — meaning revenues go down. Most likely, they will fight to hold on to existing video customers but lose some market share in the process — meaning declining revenue due to both lower pricing and lost customers. Moving into commercial services, therefore, provides a twofold advantage: making up for lost revenue on the consumer side; and putting the telcos back on the defensive and distracting them from their video forays.

3. Many MSOs believe that the RBOCs and IXCs are vulnerable in business services, particularly in the SME market. The RBOCs and IXCs currently control the lion’s share of business services revenue, but they pay far less attention to the SME market, making this rather low-hanging fruit. Cox CEO Jim Robbins gave a good summation of the cable offensive strategy last July when he stated: “If telcos go after our video business, then we should go after their medium and smaller businesses. They don’t pay any attention to those guys, and they’re crying out for a soft touch from a good cable company.”

4. MSOs are not just an alternative to the incumbent providers for these services, but a financially stable alternative, very different from the crash-and-burn CLECs of the 1990s. The cable companies are also “local” in their structure, and they are well known to businesses in the communities they serve. Heavy Reading research in this area validates these assumptions. The excerpt below is based on responses to our survey of U.S. enterprises, conducted for this report in January 2006. It underscores the willingness of the majority of businesses to consider cable companies for their business services.
Report Scope and Structure

Cable vs. Telcos: The Battle for the Enterprise Market is structured as follows:

- **Section I** is an introduction to the report, with complete report key findings.
- **Section II** is a market overview outlining the North American landscape for commercial telecom services and the types of business-class services being offered and planned.
- **Section III** delivers a detailed look at the different network access options available to cable MSOs and the pros and cons of each. It also evaluates the technology upgrade options available to cable operators to solve bandwidth limitation issues.
- **Section IV** details the results of Heavy Reading's January 2006 survey of enterprise user attitudes toward telecom service providers in North America.
- **Section V** profiles five major U.S. cable MSOs active in commercial services today.
- **Section VI** profiles key network equipment vendors marketing to the North American cable commercial services market.

The report is essential reading for a wide range of industry participants, including the following:

- **Cable MSO service providers**: What opportunities are available in the enterprise market for commercial services? How likely are cable operators to gain significant market share in this sector? Which kinds of companies are likely to be most receptive to using cable MSOs for telecom services? What would attract those customers to cable? What does the enterprise market see as cable's biggest weaknesses in the telecom sector?

- **Equipment suppliers**: What is the most likely timetable for cable MSO expansion into enterprise telecom services? How will that expansion occur? Which technologies or services are likely to lead the way? How significant will cable MSO investment in telecom equipment likely to be? Which operators are most likely to move first into this sector?

- **Telecom service providers**: How real is the competitive threat from cable MSOs in the enterprise telecom space, and when is that competition most likely to emerge? What are the key strengths that cable MSOs will be able to leverage in their efforts to gain market share, and how can your company respond to those strengths? What strategies can you deploy now to minimize the threat posed by cable MSOs?

- **Investors**: How significant will cable MSO inroads into enterprise telecom markets be, and when will those inroads occur? Which companies are emerging as the early winners, and which ones are likely to struggle for market share?

Cable vs. Telcos: The Battle for the Enterprise Market is published in PDF format.