Digital Content in the Telecom Ecosystem: The Sports Factor

EXECUTIVE SUMMARY

The rapidly changing telecom competitive environment is causing network operators of all stripes to explore and adapt new business models and relationships that range well beyond delivery of conventional voice and data services. Video services have emerged as a key element in the telecom service portfolio. Early attention focused on the technologies required to deliver consumer-grade video to mass markets, but as delivery problems are solved, the focus is shifting to digital content as a source of service differentiation.

Key forces affecting the telecom industry’s push into digital content markets include:

- The advent of Web 2.0 technologies and community/social networking, causing traditional media to radically rethink their roles and business models to remain relevant. The world’s largest media companies, including Fox, Sony, and NBC Universal, are all repositioning their companies for the new digital age.

- Wireline broadband is hitting critical mass at last, creating opportunities for both streaming and on-demand (archived) broadband video content to PCs, as an alternative to traditional TV. Video content for broadband (both user-generated and professionally produced) is growing exponentially.

- Culturally, a generation is growing up that is steeped in new communications technologies, to the extent that the TV is just one of many devices used for entertainment – and often no longer even the primary device.

- Mobile data technologies are rapidly evolving, and we are seeing the beginnings of business models built around video content streamed to mobile devices such as cellphones and iPods, creating yet another entertainment platform option for consumers and adding more pressure to the “lean back” TV model.

- Telco TV, following more than a decade of on-again, off-again experimentation, is now a reality in North America. With tens of billions of dollars in backing, Verizon and AT&T are securing Tier 1 programming packages that rival those offered by any incumbent TV provider and are rolling out their TV services across the country.

Digital Content in the Telecom Ecosystem: The Sports Factor assesses the telecom sector’s role in the new media landscape by examining developments in sports content and programming. The focus of the report is on the positioning of North American telcos as new entrants in the entertainment industry ecosystem, and how that ecosystem is likely to intersect with the entire telecom services supply chain.
The report includes full analysis of results from an exclusive *Heavy Reading* survey of telecom and cable service providers regarding their companies' perceived roles in the future of entertainment services. The survey drew responses from 156 qualified telecom service provider respondents, the vast majority of whom are involved in their company's entertainment plans.

Key issues covered in *Digital Content in the Telecom Ecosystem: The Sports Factor* include:

- What will be the role of the telco in the new entertainment world?
- What roles do telcos see for PCs and mobile devices as alternatives to the current TV/STB model?
- What roles do sports content producers see for PCs and mobile devices as alternatives to the current TV/STB model?
- What roles will telecom equipment suppliers play, beyond product delivery and installation?
- Who do telecom service providers trust most for partnerships around entertainment?
- How do sports content companies and programmers view the telcos as emerging video service providers?
- Can sports programming provide any unique opportunities for telcos seeking to differentiate from the incumbent cable and satellite players?

In addition to exclusive survey results, *Digital Content in the Telecom Ecosystem: The Sports Factor* is based on one-on-one, exclusive interviews with a large ecosystem of companies surrounding sports programming. These players include wireline, wireless, and converged wireline/wireless service providers; specialist technology and services suppliers for sports programming; and sports content companies.

One-on-one interviews were supplemented by a host of secondary sources, including financial reports with the U.S. Securities and Exchange Commission (SEC), prior *Heavy Reading* research, press releases, articles published in trade and business publications, and technical papers and presentations from conferences.

Companies profiled in this report include a mix of service providers, content owners, and technology suppliers. The companies profiled are:

- AT&T Inc. (NYSE: T)
- The Houston Texans
- Major League Baseball (MLB)
- MediaFLO USA Inc., a subsidiary of Qualcomm Inc. (Nasdaq: QCOM)
- MediaZone, a subsidiary of Naspers Ltd. (Nasdaq: NPSN)
- MobiTV Inc.
- National Football League (NFL)
- Nellymoser Inc.
- RealNetworks Inc. (Nasdaq: RNWK)
- Sprint Nextel Corp. (NYSE: S)
- TVN Entertainment Corp.
- Verizon Communications Inc. (NYSE: VZ)

Survey results show that service providers are highly optimistic about the roles they will play in the future of entertainment. Respondents to our survey overwhelmingly believe that players with converged wireline and wireless offerings have the most to gain from the digital entertainment evolution, more than cable and satellite providers and user-generated content players such as YouTube, as shown in the following figure.
Respondents were asked a range of questions on their companies’ attitudes and plans regarding digital content and services. In one sample question, respondents were asked to identify likely strategic partners for sorting through business model issues related to digital entertainment, as shown in the following figure.

**Excerpt 2: Service Provider Partners for Business Model Issues**

The results are interesting – especially for network equipment makers, which are likely to be asked not only to supply a network and integrate the pieces of that network, but also to build out the business cases for service providers to make money.
Report Scope and Structure

Digital Content in the Telecom Ecosystem: The Sports Factor 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 state of sports programming and new media today, from a North American perspective, as well as the key issues, challenges, and opportunities facing market participants – from service providers to technology suppliers – as they build their strategies for adapting sports content to new platforms.

Section III details the results of Heavy Reading’s Worldwide Media and Technology Survey of service providers’ attitudes about and plans for digital entertainment.

Section IV details North American service providers’ plans and strategies for sports programming.

Section V profiles major suppliers of sports content.

Section VI profiles technology providers that are heavily vested in the future of sports programming for new media platforms.

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

- **Telecom service providers**: How is the business model for delivering digital entertainment content likely to evolve? What is the likely role that telecom operators will play in the digital content ecosystem? How are your competitors preparing to enter the digital content era? What are the clear opportunities that exist in this emerging sector? What are the major pitfalls to avoid? Which prospective partners are likely to provide the best guidance in this sector?

- **Equipment suppliers**: How do your service provider customers perceive your role in the digital content era? What opportunities will you have to monetize the carrier push into digital content delivery beyond selling equipment? Which types of operators are likely to be most receptive to an expanded role as a business partner?

- **Cable MSOs and satellite service providers**: What are the real competitive threats posed by telecom service providers as they move into digital entertainment distribution, specifically relating to sports content and programming? What are the key strengths that you will be able to leverage in their efforts to protect market share, and how can your company maximize those strengths? What strategies can you deploy now to exploit the vulnerabilities of telcos as newcomers to this sector?

- **Providers of digital entertainment content**: How will telecom operators fit into the existing digital content ecosystem? How will the emergence of telcos as content providers affect your existing relationships with other distributors? What advantages are to be gained from the arrival of a new distribution channel? What are the potential hazards to avoid?

- **Investors**: How will the market share battle take shape in the digital content distribution sector? What are the risks and rewards for each side in this showdown? Which technology providers are likely to emerge as the main beneficiaries of this battle, and when are they most likely to reap those benefits?

Digital Content in the Telecom Ecosystem: The Sports Factor is published in PDF format.