EXECUTIVE SUMMARY

Telecom carriers around the world are now making significant investments in their networks, not only to deliver digital video content to subscribers, but also to stake their claim as key players in the digital media industry. But even as they try to navigate this new terrain, telcos are finding that the media ecosystem itself is undergoing some fundamental changes, due in no small part to new technologies that telcos and their competitors are introducing into the mix. As a result, long-established relationships between content producers and distributors are shifting, leaving the digital media ecosystem in a state of flux, if not downright upheaval.

Telecom in TV Land: A Roadmap to the New Digital Media Ecosystem provides a detailed analysis of the TV industry value chain and the current business models for the distribution of TV programming. The report evaluates many emerging applications in this area and assesses their respective effects on the value chain. Looking ahead, it offers three possible scenarios for the industry, taking into account the consequences of new digital applications, and lists the critical success factors, leading indicators, and best strategies for various stakeholders. The report also profiles 16 companies that are emerging as significant disrupters to the established TV ecosystem and analyzes their likely roles in redefining the digital media sector.

While the provisioning of data services has already caused a shift in telco business strategies, the media business presents a considerably steeper learning curve for network operators and their technology suppliers. The most important difference here is that the content is not exclusively user-generated; unlike high-speed Internet access and voice, the media business is first and last about content.

Service providers are now trying to gain access to that content in order to offer it to consumers. The licensing of TV programming is an extremely complex exercise, requiring multiple parties to approve a particular licensing deal and recurring payments to be made to a variety of players. Perhaps the most frustrating aspect of this process for technologists used to published software development kits and application programming interfaces is the fact that the price of almost every item is negotiated individually.

The final agreement depends on the audience the content can reach through a provider, the demographics of that audience, and perhaps most of all, the bargaining power of the provider. In most regions, cable and satellite service providers already own the vast majority of pay TV homes, and are thus in a much stronger negotiating position than the telcos. Telcos will therefore make less attractive deals compared with incumbent TV providers.
Up against long odds, the telcos are looking for any possible edge, usually in the form of enhancements to the consumer's TV-watching experience, such as greater choice of channels, superior program guides and navigation, interactive features, video on demand (VOD), and in-home connectivity. In this effort, telcos are supported by their technology vendors, which are driving innovation to support these features. The challenge for the telecom industry is to recognize the impact that the value chain will have on their ability to succeed by focusing on quality of experience and technology innovation.

For any telecom technology vendor developing a corporate or product strategy that anticipates rich media applications, it is critical to understand the power structure, working relationships, and business models that will determine the availability of content for those applications. The TV value chain employs a bewildering array of revenue models, and many of the shares, splits, rates, and commissions are renegotiated on a regular basis. Any product development and return-on-investment model that does not take into consideration the cost, requirements, and constraints on content availability will almost certainly fail.

Excerpt 1: TV Creation & Distribution Revenue Models

Even as the media business influences the development of technology, technology is influencing the media business. This further complicates negotiations, since the owners of content are simultaneously trying to adapt to new business opportunities and plan for the future. Telecom is merging with media at a time of dramatic change, so many rules are up in the air.

Internet video is now perhaps the most disruptive of these. In the fall of 2005, Apple announced an agreement with ABC to offer certain shows for online distribution through its popular iTunes portal. Extensive discussions had been taking place for months between various video content owners and online channels, but no one had been quite ready to pull the trigger until that point. That deal opened the floodgates, and since then scarcely has a week gone by without a series of agreements for Internet video distribution. For more on this subject, please see the Heavy Reading report Internet TV, Over-the-Top Video & the Future of IPTV Services (Vol. 5, No. 10, June 2007).
The most significant constraint for Internet video today is the terminal device. Survey after survey has proven that consumers have little to no interest in viewing long-form video on their PCs. Small, bite-sized video “snacking” is an attractive option, but it is questionable whether Internet video has significantly affected TV viewing to date: In the U.S., TV viewing has actually increased during the rise of Internet video, according to tracking firm Nielsen Media. However, leading device manufacturers are now working on simple and inexpensive solutions for PC-to-TV connectivity. Once these solutions are widely available, Internet video could begin to have a powerful effect on the TV business.

Content owners see an opportunity to simply eliminate the middleman – the service provider, cable, satellite, or telco – and use the public Internet to distribute their content directly to the consumer. They are unlikely to miss the heated and often bitter negotiations that go along with the existing network/operator relationship in the cable business. Nor are the content owners untouchable: The popularity of YouTube and user-generated content could threaten their revenues as well. The proliferation of inexpensive digital cameras and simple PC-based video editing programs now allows anyone to be a filmmaker and distributor.

Even applications now being offered by cable and satellite operators could affect the value chain. Today, TV programming is primarily sponsored by the more than $130 billion global TV advertising business, shown in Excerpt 2.

Excerpt 2: TV Industry Revenues (Total: >$130 Billion)

![Exhibit 2: TV Industry Revenues (Total: >$130 Billion)](source: Heavy Reading)

However, the emergence of digital video recorder set-top boxes could substantially reduce the viewing of commercials, and therefore the ability of networks to sell ad time. VOD and place-shifting are other already available technologies that could disrupt the entire value chain. Should advertising fade away as a business model, the programming networks will look to content providers to pay the entire costs of production and marketing, dramatically changing the economics of the TV business.

Meanwhile, of course, mobile carriers and device manufacturers are developing their own video services to compete with mainstream TV. Mobile video to date has not enjoyed much success, and it is unlikely to threaten the TV experience for the mass-market consumer. However, interactive capabilities and marketing and promotion opportunities abound. There is a real opportunity to tie together multiple applications here, particularly with service providers exploring triple- and quad-play bundles.
Report Scope & Structure

*Telecom in TV Land: A Roadmap to the New Digital Media Ecosystem* is structured as follows:

**Section I** is an introduction to the report, with complete report key findings.

**Section II** provides an overview of the TV value chain today, including the key industry players, revenue models, and select market sizing and trending data.

**Section III** details important areas of conflict between members of the value chain and analyzes the relative negotiating strengths of the various players.

**Section IV** explores emerging video technologies and discusses the disruption each application could cause along the value chain, as well as which players would be affected.

**Section V** offers three hypothetical scenarios for the future, analyzing the likelihood of each, the impact it would have on the value chain, and the players that would win and lose as a result.

**Section VI** profiles companies offering "over the top" services disrupting the TV value chain, as well as companies in a position of market importance that are not in the TV value chain today and will benefit from disrupting it.

**Section VII** profiles three leading telco IPTV providers.

*Telecom in TV Land: A Roadmap to the New Digital Media Ecosystem* is essential reading for a wide range of industry participants, including the following:

- **Suppliers of video infrastructure and delivery technologies:** How will the ongoing shifts in the new digital media ecosystem affect your business? Where are the new opportunities for market growth? Are your products and marketing messages in line with network operator plans and expectations? Are there significant gaps in your product line coverage that need to be addressed to meet future demand for rich media services?

- **Wireline and wireless network operators:** How do your plans for delivering next-gen digital media services compare with those of your competitors? How will ongoing changes in the digital media ecosystem affect your plans and your ability to deliver new services efficiently and profitably? Which technology suppliers are in the best position to deliver the products you need?

- **Digital content creators and distributors:** How will network operators fit into the evolving digital media ecosystem, and how will your organization be affected by their market entry? What are the opportunities to strike new partnerships to maximize the revenue potential of your content assets? Will network operators emerge as willing partners in the new digital media ecosystem?

- **Investors:** How will the convergence of the digital media and broadband worlds affect long-term profitability and market performance for each involved sector? Which companies are emerging as the most likely survivors in this new environment? What role are network operators most likely to play in the new digital media ecosystem, and how will that role affect other players in this sector?

*Telecom in TV Land: A Roadmap to the New Digital Media Ecosystem* is published in PDF format.