REPORT EXCERPT

Can Video on Demand Save IPTV?

VoD Economics, Global Forecasts, and the Case for IPTV VoD

Pyramid Research
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Overview

As wireline telecommunications providers work to monetize their broadband networks, reenergize their business models, and become more competitive in a market characterized by triple and quadruple plays, an important part of their strategy is built around Internet Protocol television (IPTV) services. However, a mere “me too” strategy of providing linear channels will neither work against entrenched TV players nor convince consumers to start paying for TV. IPTV technology leverages the flexibility and scalability of IP to allow operators to offer more content that is more personalized and interactive than traditional broadcast TV. Within this context, video on demand (VoD) has rapidly become a significant stepping stone on the way to interactive TV (ITV), which promises to disrupt the traditional TV business by radically transforming the TV viewing experience and creating substantial service differentiation for IPTV operators.

IPTV and VoD services are as uncertain as they are tantalizing, however. The TV business is complex and largely new territory for telcos; the jury is still out on the prospects of the significant investments involved. A new report by Pyramid Research—***Can Video on Demand Save IPTV? VoD Economics, Global Forecasts, and the Case for IPTV VoD***—takes a long, hard look at the VoD business model for IPTV operators, analyzing its value proposition, investment requirements, content dynamics, and overall market opportunity to assess whether telcos should take on the challenge or make do with pay-TV alone.

In Section 1, we review the global evolution of VoD services, platforms and deployment economics. Section 2 includes an analysis of the new telco business model and the VoD value proposition for IPTV players. In Section 3, we examine the IPTV VoD business models of today and how and why they will change over time. VoD thrives on compelling content, but IPTV operators are quickly finding out that content acquisition is more time-consuming and expensive than envisioned. Section 4 delves into VoD content dynamics, providing insights into successful VoD content strategies and best practices from the perspectives of IPTV operators and content providers. Finally, in Section 5, we project VoD transactions and revenues over IPTV networks, by region. Included in this report are also four case studies of operators that provide VoD services:

- France Telecom, France
- PCCW, Hong Kong
- Time Warner Cable, USA
- Verizon Communications, USA

Key Objectives

In the report ***Can Video on Demand Save IPTV? VoD Economics, Global Forecasts, and the Case for IPTV VoD***, Pyramid Research provides answers to the following questions:

- Can VoD save IPTV?
- How will the VoD business model evolve on IPTV platforms?
- Which IPTV VoD packaging strategy will come out on top?
- What type of content is necessary to make VoD work?
- How much does IPTV VoD cost?
- What is the IPTV VoD opportunity?

Use this analysis to assess the economics of VoD from network architecture to content sourcing and the revenue opportunity for VoD services over IPTV networks by region, as well as to examine a range of emerging IPTV and VoD business models across the world.

Target Audience

Operators
Understand the technology, competitive, and content challenges that await an IPTV VoD launch. Use our forecasts to size the market opportunity and our case studies to assess best practices and develop your go-to-market strategy.

Content producers
Evaluate new markets opportunities and develop strategies to expand the audience for your content and to increase your revenue from it.

Vendors
Understand market dynamics and assess the needs of both IPTV VoD carriers and content providers. Use our forecast to develop sales plans and identify key market opportunities.

Broadcasters
Evaluate the impact of the new technology and the competition to develop a market-leading but realistic growth strategy.

About the Author

Ozgur Aytar, Research Manager, CMT Research

Working from the company's headquarters in Cambridge, Massachusetts, Ozgur Aytar is a Research Manager in the Communications, Media and Technology (CMT) Research Team at Pyramid Research. The CMT Research Team focuses on emerging business models and technologies in the communications and media markets, and as part of this team, Ozgur spearheads the analysis of vendor business models, the MVNO model, and broadband business. In addition, Ozgur is the Editor-in-Chief of Pyramid's monthly newsletter, Next Generation Trendletter, which provides a global assessment of industry best practices and analysis of the drivers and barriers to the success of new business models and technologies.

Ozgur's published reports include: ***Can WiMAX Challenge 3G? Performance, Economics and Opportunities***, ***Transforming Telcos with Triple Play: Key Lessons and Best Practices for Winning RGU Strategies***, ***MVNOs and MVNEs: Analyzing the Viability of Virtual Players***; ***Transforming Telcos with IPTV: Business Models, Competition and the Content Challenge***; ***Mobile Operator CAPEX: Charting the Transformation of Mobile Carrier Spending***; and ***Positioning WiMAX: How It Stands Against Cable, DSL, Wi-Fi and 3G***.

Ozgur has presented at numerous industry conferences and is regularly quoted in publications including *The Wall Street Journal*, *The Washington Post*, *Mobile Communications International*, *RCR*, *Global Wireless*, *Total Telecom*, and *The Deal*.

Ozgur holds a Bachelor of Arts in Economics and Environment Studies from Gettysburg College. She has also earned a minor in East Asian Studies, with a focus on the Japanese language, history and culture. She is fluent in English and Turkish.

Report Extract

The evolution of IPTV VoD business models: From customer retention to multiplatform VoD

- **VoD services over IPTV networks don't promise direct returns in the medium term, but they will contribute to customer retention efforts.** With new movies representing the most popular and costly VoD assets, IPTV players pay almost all revenue back to the studios and can hardly achieve any profits from VoD transactions. Initially, VoD should be about customer retention. TV is an essential component of a triple or a quadruple play, and VoD can help differentiate a telco's IPTV service. There is little evidence, however, to suggest that TV carries more weight than the other services. Simply put, exclusive, premium VoD content cannot compensate for deficient voice and broadband offerings. Yet VoD is a necessary evil for IPTV operators. For some, it is a way to differentiate themselves from satellite DTH carriers; for others, it is about matching competitors' pay-TV offerings. It is also a way to convince consumers to pay for TV.

- **IPTV VoD models should be more lucrative as customer bases grow over the next five years.** Shorter release windows for content will play a significant role in the evolution of the model, but more importantly, by developing a multiplatform presence for their VoD content, IPTV operators will build larger audiences and grow profits. When IPTV VoD reaches an acceptable scale, we expect that telcos will have more negotiating power with the studios and more opportunities with advertisers.

- **Utimately, to make up for declines in wireline voice revenues and stay relevant, telcos should invest in building a robust content business. VoD is a key component of that strategy.** With consumers increasingly demanding access to content anytime, anywhere, and on any device, telcos have an opportunity to build fully integrated multiplatform VoD services that can be accessed from TVs, PCs, and mobile devices. Most telcos have access to large amounts of funds to make sure that they can put together differentiated content offerings. For example, France Telecom has already created 'mobisodes' and special highlights for its VoD content for mobile devices, as well as trailers, previews, and exclusive interviews for the PC. Indeed, France Telecom reported revenue of €400m from content services in 2006, including sales of VoD, music downloads, and games. The operator has experienced unprecedented growth in its content business; it had originally planned to achieve that level of content revenue by 2008, and expected VoD to generate 22% of the total.

Without a content business that can readily respond to the rapidly changing patterns of media distribution and consumption, IPTV players risk becoming dumb pipes as over-the-top providers bypass them and reach consumers directly.

- **Developing a multiplatform offering will take time, largely because of copyright and licensing issues.** While telcos such as Telefónica, Verizon, and France Telecom are already pursuing the multiplatform opportunity, they still have to license content for each platform separately. Having content that's licensed for an IPTV VoD platform does not mean that it can also be distributed over a mobile platform. Indeed, telcos have reportedly found the content sourcing process to be more complex and time-consuming than anticipated. Content providers are interested in extending their reach, but they are also concerned about disrupting established advertising models as well as about piracy.

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Additional Resources

Additional Reports	Price
The Global Mobile Capex Index: Analyzing the Big MNO Spenders - *Published: June 2007* In this report, Pyramid Research analyzes Capex levels, trends, and drivers, and compares the strategies of 15 top mobile operators from both emerging and mature markets globally. It provides a top-level analysis of the Index on an annual and a quarterly basis, emphasizing the largest and smallest players within the Index, the biggest movers, and the fastest and slowest in terms of Capex growth. This report offers insight into business opportunities for mobile network vendors as well as benchmarks for operators worldwide. It examines aggregate trends in Capex at each of the 15 MNOs in the Index over time, evaluates spending on Capex components such as infrastructure, civil works, and applications, and focuses on the relationship between Capex and service revenue. The report also analyzes the relative rankings of the companies in the Index.	US$2,500
Fixed-Mobile Convergence: What Works, What Doesn't, and the MNO's Path to Substitution - *Published: April 2007* In March 2007, Deutsche Telekom cancelled T-One, which raises a number of questions for service providers looking to launch fixed-mobile convergence (FMC) offerings. Why did T-One fail? Was it merely a DT marketing failure, or are FMC services not quite ready yet? Has FMC worked for any of the providers that have introduced it commercially? Is it necessary for MNOs to rush FMC, especially for the benefit of providers that have an eye on mobile and fixed Internet services as the next opportunity for revenue growth?This report seeks to answer these and other key questions pertaining to both the present and future of MNO-driven FMC.	US$1,990
From Apple to Orange: How MNOs Can Make Mobile Music Work in an iTunes World - *Published: March 2007* The report focuses much on the way the Internet model for legal digital music consumption has sculpted mobile models to date, how these models are not designed around the requirements of mobile operators, and what changes need to be made to ensure that mobile music is a leading revenue generator and driver of data consumption for MNOs in the coming years.	US$1,490
Demystifying Opex & Capex Budgets: A Pyramid Research Study - *Published: February 2007* This 25-page study helps to quantify operator network capital and operating investments worldwide. It examines how network-related spending among different functions is allocated by operator type,mobile, wireline incumbent and wireline challenger. Conducted online, this survey of roughly 100 operator network executives offers critical insight into the priorities and needs fueling operator decision making and helps vendors stay competitive by diversifying services offerings and appealing to operator sensibilities.	US$1,500
Deciphering the Cost of WiMAX Licenses: The cost of WiMAX spectrum, why it is cheaper than 3G spectrum, and why it is about to become more expensive - *Published: February 2007* This Pyramid Research report takes an in-depth look at the drivers of WiMAX spectrum pricing.We also ran a benchmark analysis of more than a thousand licenses awarded in more than 20 markets across the world, as well as a correlation analysis of WiMAX spectrum costs in 17 countries against a number of key indicators, including GDP per capita, mobile and broadband penetration, urban vs. rural areas, etc.We analyze the results of those correlations in this report, and provide an assessment of the trending of WiMAX spectrum costs, at a time when such key markets as India, the UK and Malaysia are readying to award more spectrum.	US$1,490

About Pyramid Research

For 20 years, Pyramid Research has helped companies in the converging communications, media, and technology industries stay ahead of market trends, understand competitive threats, and capitalize on opportunities. We advise the world's leading vendors, service providers, equipment manufacturers, and the financial community on how to implement best practices, build offensive growth strategies, and drive profitability. Pyramid Research's coverage includes over 90 countries with specialized research in mobile/fixed communications, media, content, and CAPEX & OPEX.

Corporate Headquarters
58 Charles Street
Cambridge, MA 02141
USA
Tel: +1 617 454 1515
Fax: +1 617 454 8898

Europe, Africa, & Middle East
Bloomsbury House
Suites 17/18
4 Bloomsbury Square
London, WC1A 2RP
United Kingdom
Tel: +44 20 7430 2932
Fax: +44 20 7430 29333

Asia-Pacific
Onfem Tower, Suite 1801
29 Wyndham Street
Central, Hong Kong
Tel: +852 2525 8455
Fax: +852 2525 8827

Americas
Waterford Business Park
5201 Blue Lagoon Drive
Suite 971
Miami, FL 33126
USA
Tel: +1 305 629 3615
Fax: +1 305 629 3100

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www.pyramidresearch.com
Questions? Call +1 617 494 1515 or email info@pyr.com