

OPINION

INSIGHTS INTO THE EMERGING MULTI-PLAY, MULTI-PLATFORM VIDEO BUSINESS

Infighting and the need for new skills are among the multi-play challenges

Mark Pearson at Cairneagle Associates suggests multi-play is harder than it looks, but is a necessary strategy

The flow of global news headlines is relentless: the new mantra for consumer service providers is 'multi-play'. On the face of it, the case for multi-play is persuasive:

- It offers a fuller portfolio of services, which can help to win more subscribers, generate more ARPU and reduce churn.
- It can leverage existing cost structures to reduce the incremental cost of the new service.
- It offers simplicity and convenience through a single bill and one point of contact.
- Finally, it allows innovative propositions that knit together the different service elements.

So far, so good. It all seems to be working: Telewest, the UK cable operator that is merging with NTL, is on track to hit 40pc triple play households in 2006 after six years of combining TV, voice and broadband. Unfortunately the picture looks distinctly less rosy close up.

OPERATOR CHALLENGES

Operators and service providers face an array of challenges, including:

- Uninterested consumers. Research suggests that in the major EU countries, consumers are either not interested or, at best, neutral to the triple-play idea.
- Increased competition. Voice, broadband and digital TV are already intensely competitive markets across Europe with many providers struggling to generate decent returns. Clearly, the move toward multi-play will only

exacerbate the situation, at least in the short-term.

- Execution risk. Moving into new markets often requires companies to develop or acquire new assets and competencies, with all the inherent risks that entails. How will BSkyB fare as it attempts a worldwide first: delivering multi-play across a hybrid satellite/DSL platform?
- Organisational infighting. For some companies, multi-play requires divisions to work together for the first time, which can be problematic.

INTERNET THREAT

In addition to these challenges, service providers will increasingly face the threat of Internet-based competition. In our opinion, it is this threat that is likely to have the more profound long-term impact. These "over-the-top-providers" frequently possess global scale, strong software development capabilities and new (ad-supported) business models. They are already making themselves felt in the voice space, where we see the likes of Skype being joined by global portals keen on extending their significant email and instant messaging bases into voice. How long before the same thing starts happening to video?

VULNERABLE VIDEO

Living room TVs are increasingly becoming Internet-enabled as consumers install home networks. The list of candidates waiting to challenge service providers' VOD propositions is long and includes: device-driven



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digital entertainment stores (e.g. iTunes, Sony Hub, Xbox Live); studios going direct; global portals; and independents (e.g. Netflix, LoveFilm). No wonder then, that the US telcos are considering a two-speed Internet and Deutsche Telekom is fighting to keep its fibre investment free of regulations.

SENSIBLE STRATEGY

Despite these challenges, we believe multi-play is a sensible strategy for service providers to pursue. In the short-term, providers need to overcome the technical and practical implementation challenges to delivering a seamless multi-play bundle to the mass market. They also need to find the most effective marketing levers for winning and retaining customers. But, just as importantly, they need to recognise the challenges presented by the over-the-top providers and decide whether to partner, block and/or differentiate against them. The long-term winners could be those service providers that increasingly behave like the over-the-top providers themselves and adopt a device/platform agnostic approach for their content and service portfolios.

Cairneagle is a strategic consultancy that provides top level support to major corporations and ambitious entrepreneurs.

ONLINE

Mike Fries, CEO of Liberty Global, has questioned whether telcos can make money from video if they act 'rationally'.
www.newvideobusiness.com