

A future in content(ion)

Can telecom providers win a share of the digital content market?

High growth in digital content offers significant opportunities for telecommunications providers. But their ability to capitalize on this potential is a point of contention and debate. Telecom providers clearly need upgraded networks and technology platforms to handle more sophisticated content and to extend their addressable market. But equally important, they must begin delivering value beyond just access – providing a step-change in consumer experience and grabbing their share of emerging channel advertising revenue.

The market for digital content is growing rapidly and is forecast to reach US\$135 billion by 2010. The telecommunications (telecom) industry is focused on gaining a sizeable share of this market, as voice telephony revenues decline. With digital convergence blurring industry boundaries, telecom providers can now expand their addressable market to include areas of media and advertising that were once beyond their reach. Even in regions with low cable penetration, many operators are investing in digital content in the hope of offsetting the fall in fixed-voice revenues from increasing use of mobile phones and new technologies like Voice over Internet Protocol (VoIP).

The most promising areas are television and video. However, it is here that the battle is likely to be keenest as cable providers increasingly offer triple-play bundles and traditional barriers among media, telecom and networks collapse. Delivering all but the most basic digital content services over

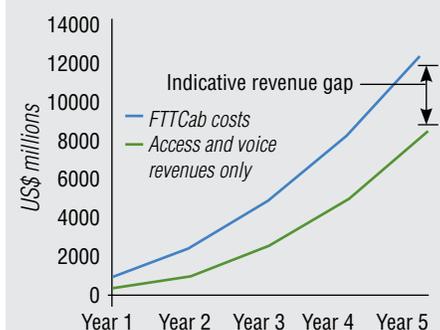
networks that were originally designed for voice communications and Web browsing is challenging, and telecom operators will therefore have to upgrade their networks to compete. As demand for high-definition television (HDTV), realtime video on demand (VoD) and other such next generation services increases, they will need to make major investments – with returns that are highly uncertain and likely to be positive only in the long term.

Our analysis shows that, with the appropriate scale and average revenue per user levels, telecom providers can achieve payback on their network investment for basic Internet Protocol television (IPTV) services over Asymmetric Digital Subscriber Line (ADSL) in a three- to five-year period. But such services will not be enough to compete with next-generation services from cable, satellite and terrestrial broadcasters. HDTV, VoD and the like will require far more bandwidth than the current ADSL technology can deliver.

Our model of the economic implications of investing in the two main alternatives to ADSL – fiber to the cabinet (FTTCab) and fiber to the home (FTTH) – demonstrates that revenue from content is critical to the business case (see Figure). Furthermore, the investment case for upgrading existing networks is critically dependent on achieving high penetration rates (in the range of 30 to 50 percent, depending on the option chosen).

Given the maturity of the TV market and the existence of strong competition from the entrenched cable and satellite broadcasters, we believe that achieving such high penetration rates will be a considerable challenge. The most successful operators will thus be those

Revenues from access and voice alone will be insufficient; content revenue is critical to the FTTCab investment case.



Source: IBM Institute for Business Value analysis.



that can simultaneously control their costs and drive penetration, by differentiating themselves from their rivals with high-value offerings to content owners, advertisers, consumers and third-party service providers.

Opportunities in digital content fall into two broad categories: production and distribution. In our opinion, content production offers little potential for telecom providers; most operators will do better by partnering with content providers than by attempting to produce content themselves. In distribution, operators will have to move up the content distribution value chain and bundle their traditional offerings with advanced digital content services and possibly move into aggregation. This should extend, in our view, to offering wholesale content distribution services to other content providers.

Consumers increasingly want choice, flexibility and control over the media experience. Telecom operators can draw on their unique skills and capabilities to capitalize on this trend and distinguish themselves from rival platform providers.

They are well-placed both to extend the scope and scale of the services that are available, and to delight consumers through the power of "4A": making content accessible anywhere, anytime to anyone via any device.

Mobile advertising represents an emerging opportunity that mobile providers are uniquely positioned to address. As the number of digital channels proliferates and audiences fragment, advertisers are seeking more effective ways of optimizing their expenditure. Telecom service providers can satisfy this need by combining their insight and knowledge about consumer preferences with the ability to target advertising based on individual user location.

To defend and grow their share of the digital content market, telecom service providers will ultimately have to make a substantial organizational, cultural, technological, operational and business model transformation as they transition from providing network connectivity to enabling the consumer's digital experience.

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How can IBM help?

- **Securing and differentiating investment in broadband:** Rapid service creation environments to enable and new services and delivery of Internet Protocol Television (IPTV), video-on-demand and digital convergence solutions
- **Enabling, empowering and extending the 4-A vision to users and communities:** Design and implementation of Service Delivery Platforms, Web2.0 and Collaboration capabilities
- **Exploiting the advertising potential of the subscriber base:** Customer Analytics, Social Network Analysis
- **Adopting innovative and flexible content business models:** Innovation/Idea factory, Business Model Innovation

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