

Key Issues

IPTV Forum swells as big guns pull together ahead of consolidation

- The old IPTV world has begun to consolidate, but it likes to think Europe is different

There was a queue at IPTV Forum in London last week, all the way back past the lifts and round into the bar area. That was the first statement about what should have been yet another unsurprising show about IPTV, that there is real main stream interest out there now and everyone wants to get in on the action.

As the dazed organizers tried to get everyone into the keynote session, delay was inevitable and a certain amount of chaos ensued, a pithy analogy for the industry itself.

But the reason for the size of the audience and the unexpected success of the show was surely because each of the companies that have made the IPTV industry over the past five years had brought their big guns to the fore with CEO's on the speaking program of IPTV pioneers Kasenna, Entone, BT Entertainment, BitBand, Video Networks, Widevine, and the keynote opened with someone who is perhaps symbolic of IPTV in Europe, in Chris Coles, CEO of Myrio.

Coles represents the "other" side of IPTV, how the industry likes to see itself, made up of small innovators who have gleaned important secrets in how to make IPTV and triple play work. Although Myrio is one of the two leading middleware companies (the other is Orca), it is now owned by Siemens, which in itself represents the counterpoint to a US IPTV world that is now coming to be dominated by Microsoft. So giving Myrio the keynote and not having Microsoft talk until the third day gives the impression that all is right with the world and that IPTV is still a domain for investment and innovation, and that it is not going through a period of consolidation.

However the truth is that IPTV is going through a first round of consolidation. We talked to Kreatel at the show which said that it was "business as usual for 2006" after its acquisition by Motorola and that they "hope" that they will become the centre for R&D for IPTV for Motorola, but weren't really too sure.

Scientific Atlanta were in evidence, but how long will its logo be seen at these shows, when the Cisco one is so well known, and also we saw Skystream, recently acquired by Tandberg TV in what might be its last year as a separate organization. Already missing was Philips' CryptoWorks, acquired recently by Irdeto, but already having its marketing efforts absorbed into its new parent.

Kreatel says that it is business as usual for 2006, and then maybe they'll become the IPTV center of excellence for Motorola. Maybe.

And consolidation won't stop there. Does the world have room for 60 set top suppliers? Surely not now that Kreatel has gone. Does the world need more than a handful of alternative conditional access suppliers and companies like Telenor's Conax and France Telecom's ViaAccess, seem superfluous and ripe for acquisition despite being owner by notable parents.

At the end of Coles keynote (see separate story) he called on Telcos to go beyond the role of merely providing data transport systems and there and then he stated the idea that divides the entire 2,000 or so people at the show.

If Telcos do try to operate a triple play, and try to become more than just the data transport system, they will come to threaten everything and everyone. Two such believers in the walled garden approach to telcos have made enough big news this week with AT&T (nee SBC Communications) CEO Ed Whitacre and his counterpart at Bellsouth Duane Ackerman, both well known for their forthright views on charging companies like Google to use their access highways.

A merged AT&T and Bellsouth will represent a bigger lobbying force in favor of walled gardens, because these guys think that they should own a piece of everything that comes through their network, by right.

Whispers of the merger went around the show like wildfire on Monday and then it was announced later in the US. It looks like a done deal. Twenty year ago when the RBOCs were formed and AT&T was broken up by consent decree, there was no competition to AT&T. Now the cable companies and Sprint and other wireless networks, potentially in partnership with satellite TV companies, along with VoIP operations from Vonage to Skype, all represent some kind of competition and Bellsouth and AT&T being brought together will look, at least in the wireline world, more like tying together two stones to see if "now" they'll float.

The two companies will get through the regulatory and monopolies issues comfortably, but still have all of the issues they had before the merger. Before, they were two companies that did not compete anywhere and even shared the largest mobile operator in the US. Now with the exception of the being a singularity of direction at Cingular (which needs it badly as it is being outflanked day to day by Verizon Wireless), there is little changed.

But for IPTV there is one big chance that has now slipped by. Bell-

So should Telcos try to become more than a data transport system or should they carry on doing what they already do so well?

south had continually refused to commit to Microsoft and Alcatel IPTV, stating that it was trialing Microsoft, but not yet ready to go further as it ploughed its own furrow in IPTV, which is said time and again had different need from AT&T. Bellsouth had continued to hold talks with every IPTV and telecoms supplier with a view to covering any strategic possibility for IPTV and kept all their hopes open that it might decide to go with conventional IPTV suppliers after all.

Now under AT&T's committed IPTV direction, that possibility is extinguished. Bellsouth cannot make any concerted expenditure decision during the year or so that it will take to complete the merger, and then it is certain to go forward with an extension to AT&T's project Lightspeed.

Given that Microsoft already controls the (non-IPTV) fiber TV at Verizon with its cable based TV Foundation Edition software, that gives it a clean sweep of all the US majors, with Bellsouth coming more by default than decision.

IBM raised the question of Walled gardens and is sure that they just won't survive. Bell Canada is not so sure

It was IBM that raised most clearly the issue of Wall Gardens at the show, through their consulting arm that was once PWC, and Bill Scott the leader of digital media consulting. IBM put out a report on "The end of TV as we know it," a few weeks back and we covered it in detail

The report makes some genuinely valid new points about TV. It is carefully constructed, well argued, and derived from 65 interviews with senior industry executives, Wall Street analysts, economists and technology visionaries although we're a bit miffed that they didn't talk to us. Additionally it had extra research from the Economist Intelligence Unit, which carried out another 108 interviews across cable, satellite, telco, broadcast and TV networks executives from Europe, Asia and North America.

Fundamentally it expressed the old argument about diversifying new video models such as DVR, web TV and video downloads, creating a stratification of fragmented TV services, with the existing \$60 billion of US TV advertising revenue being spread over more and more players.

What IBM says will initially happen is that the world will split into two types of individuals, those that remain largely passive in the living room and those that expect content anytime, anywhere through multiple channels on multiple devices. This latter grouping, driven by both the young and the gadget conscious, will demand platform ag-

nostic content, mobility of media experiences, individualized pricing schemes and an end to the traditional concept of release windows.

Opposing this view was Martin Cullum, general manager for video networks at Bell Canada, who summarized the view to a shocked audience that “there is a lot of mileage yet in the walled garden business model,” referring to a network where only the owner of the network can deliver services over it. He added, “The best way to stop Google coming onto your TV screen is not to put an html browser on it in the first place.”

This brought howls of derision and left many of the audience shaking their heads at such a “head in the sand” attitude, and no-one was really sure whether or not to take him seriously. As an adherent to Microsoft IPTV Cullum is of course referring to the fact that currently its set top architecture uses a discreet proprietary client, with no browser.

Later Mark Gray, CEO of VoD and middleware company Kasenna, said that at the moment he had 500 TV channels with “none of what I want to watch,” and he called for a single channel with “everything I want to watch” on it. “TV should be a portal through which to offer a huge variety of services, where each new service could be quickly and inexpensively added.”

Gray was echoing IBM who took up the running through Scott once more, clear on how IBM sees the market developing. “It’s like going to a shop, and picking up what you fancy. It’s too much trouble to go to another shop. In Pay TV terms, going to another shop is canceling contracts and finding another supplier.

“Most TV is like that these days. If you buy Sky (or DirecTV or Dish or Comcast), you get everything from that supplier, the set top, the EPG, the channels it has bought in. It’s much the same when you buy from a cable operator or an IPTV company, but it won’t stay that way. “Today when you buy a CD over the internet your ISP has no say in what you choose and who you buy it from. You can go to Amazon and order a CD whatever ISP you are signed up with, and that’s how we see pay TV going.

“As content becomes more and more available over the internet, the companies who will win with consumers are those that will open up a route to lots of different content providers so that TV is more like the internet. Operators should be working out how to charge content owners for a Quality of Service guaranteed route to the home”

Mark Gray, CEO of Kasenna says that his TV service has 500 channels, none of which he wants to watch. “TV should be a portal through which a huge variety of services can be offered.”

“Once a tier 2 telco that cannot afford to build its own services begins to offer a QoS route to its customers, then everyone else will have to follow,” said Scott.

And according to Scott, much of this is already beginning to happen with shorter release windows for content and stronger content protection technologies, and he said that AACS, the content protection grouping that came together to build a standard for next generation DVDs, is planning to extend the model to protect content moving in and around the home.

“Once one tier 2 telco decides that they just want to offer a QoS delivery service, then everyone else will have to follow”

Privately Scott told Faultline, “The public face of many operators is to say that none of this is coming, but privately we have had a huge amount of interest since we wrote this paper on TV.”

Ironically, on virtually the same day as the show and the AT&T Bell-south merger announcement, a US senator (see separate story) has introduced the Internet Nondiscrimination Bill, which will make it illegal for a company like AT&T to offer different speeds of access to different types of content over its internet connections.

This is in response to AT&T wanting to charge Google and Amazon fees to have speedier access to their customers. AT&T would have to actually apply a brake to these services actively by building in QoS controls, just what Scott of IBM wants to happen. There is a big difference in guaranteeing speeds using QoS, and deliberately slowing traffic that won’t pay a tollcharge.

If the US had a sensible unbundling structure like most parts of Europe and some parts of the Far East, this couldn’t happen. But legal challenge killed that off two years ago in the US and increasingly it looks like European IPTV, through enlightened regulation, will end up with a more competitive IPTV world where walled gardens don’t work, while the US will use big business lobby power to produce IPTV and a triple play that’s only available through monopolistic incumbents.

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Myrio CEO sees new set of hurdles for successful IPTV rollouts

The IPTV Forum in London this week was kicked off by Chris Coles, the CEO of Myrio, one of the middleware companies that act like glue in most IPTV projects, and now a subsidiary of Siemens.

Siemens and its Surpass system have had major successes at Bel-

gacom and KPN this year in Europe, and Belgacom, after a slow start, is understood to be connecting about 500 IPTV homes a day.

Coles represents the old school IPTV, made up by the start ups who invented the business, as opposed to the big technology companies like Alcatel, Motorola, Cisco and Microsoft and of course his new parent company Siemens, who have recently invaded.

Coles recapped the progress made so far in IPTV and got down to business talking about the devil that is in the detail of different IPTV installations all over the World.

“It’s not just about bundling services and churn reduction. There remain bandwidth, content and integration challenges. There are divergent take up rates, every region is different.

“There are four things that define TV right now. Delivery options can be cable or satellite or DTH or even VHS and DVD. Viewing habits are changing through DVR and network DVR and the demand based experience began with video stores.

“There is a lot more content produced every day that is already digital, in news and sports programming especially and the devices that it is played on are both growing (big flat TV screens) and shrinking (iPods and handsets).”

“There is business model flux. It is well understood that the revenue model for voice is declining, so is data delivery. So cost structures need to be declining too and it is imperative that there are new revenue streams and video is essential. But video brings with it the same disruption that the world wide web brought to voice networks. And the successful companies are not those that treat video as some kind of late arriving step child. The global leaders in this technology – and he pointed to PCCW and Fastweb – are triple play by design and they promote the service like a mobile operator or a broadcaster, not like an incumbent telco.

“In my experience there are four enduring aspects, the first is content, the second is communications. In the past audience engagement meant that the consumer picked up a phone or logged onto the internet. With IPTV direct interaction will become possible. “On the commerce side companies like BskyB have managed to engage with customers successfully, but there are more examples of failure in the past in commerce connection to consumers, but this is improving day by day, with a pure IP model.

“Four things define IPTV right now, delivery options, the DVR, more and more digital content and devices both shrinking and growing”

“The timeline for IPTV is different for every country. If an incumbent has to enable a 25 Mbps signal with outside plant, it could take ten years.”

“Finally there is the control aspect, one that has to be given a lot of consideration. A large number of viewers remain okay with passive viewing. To them choice looks like complexity. But there is a rapidly growing segment, which includes everybody under 30, that wants to chat, interact with TV programs, find out what their friends and neighbors are watching and share it with them.”

But then Coles went back to his warnings. “Not all networks are the same. They have different loop lengths, different loops density, different fiber depths, and most of all the back office and billing is different, And finally regulatory environments vary from country to country as does consumer behavior.”

“The timeline is different in each country. If the incumbent has to rewire the country to enable a 25 Mbps signal, with outside plant programs, then you can be waiting ten years for IPTV.”

This led to his clarion cry that in order to be relevant, IPTV practitioners need to customize, and this was a parthian shot aimed behind him at his rival Microsoft. His implication was clearly that some companies offer a “one size fits all” strategy, while Myrio and its partners, are more prepared to customize.

“No two solutions are the same. There are different encoding schemes, and while everyone is opting for MPEG 4, there are a variety of implementations, and there are licensing issues.

“How close do we take VoD to the edge of the network is another decision that varies from customer to customer. We know it is not wise to have only DVRs in the home and we know it is now wise to have it all in the network, the best is a combination, but where is the right compromise for each operator?”

“And what is the degree of personalization that each operator will allow their consumers, that’s another key choice,” he said before moving onto support services.

“For Operational Support Systems most operators start with an overlay network, but there needs to be a new genre of billing system. And as for security, it is clear that IPTV networks are held to a more stringent standard by the content businesses. It is easier today to steal content from a cable or satellite network than from IPTV,” a statement that will have made him more enemies than friends, but which is becoming increasingly true.

Coles went on to call for what he called “out of market” content by which he means that IPTV systems need to evolve to bring any content in the world to a set top or a PC or to a mobile, whether it is connected to the home network or not.

And although he stuck by his guns, saying that he still believed in buying best of breed (rather than one size fits all) an IPTV project needs systems integration, project management, and above all a full system view on how to optimize a network. “A change in any part of the network usually has adverse affects in every other part of the network, and you have to be able to see that and fix it.”

Finally he settled on integration of services as the way forward. “We have some integration with voice – call control and call visibility on a TV screen for instance – but there needs to be more and better integration between the services in order to really prevent churn,” said Coles. His point is that once you are used to the benefit of live TV pausing when you have an incoming call and caller id flashing on the screen, it is then that a triple play customer won’t feel comfortable canceling his TV or his phone service, because they work together. Right now they can be cancelled and all the consumer loses is a bit of discount.

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BellSouth will boost Cingular, but AT&T still exposed in wireline

A takeover of BellSouth by AT&T - much discussed last year in the run-up to the merger of AT&T with its new Bellco owner SBC - looks like becoming a reality earlier than many had expected, with a deal on the cards for about \$67bn (plus assuming \$17bn of debt). In the current regulatory environment in the US, it is, amazingly, likely that the deal would go through with relatively few conditions, creating a two-horse race (plus Qwest) with Verizon in the triple play market.

For AT&T’s aggressive CEO, Ed Whitacre, the strategy is obvious. Taking over its fellow Bell operator is the ultimate extension of the process of consolidation that has reversed the break-up of the AT&T monopoly of 1984 and brought together the original seven regional Bell operators. Acquiring BellSouth means that the company’s wireless joint venture with AT&T, Cingular, will be wholly owned, and the mega-operator will have greater reach to compete with the cablecos, which are increasingly working as a collective in some markets. In particular, it will be easier to address fixed/mobile convergence with Cingular under one ownership, and will reduce the territory

Underneath there is now twice the problem with declining wireline voice revenues