



IPTV in Wonderland

'Red Queen effect' has Europe's telcos running to stand still

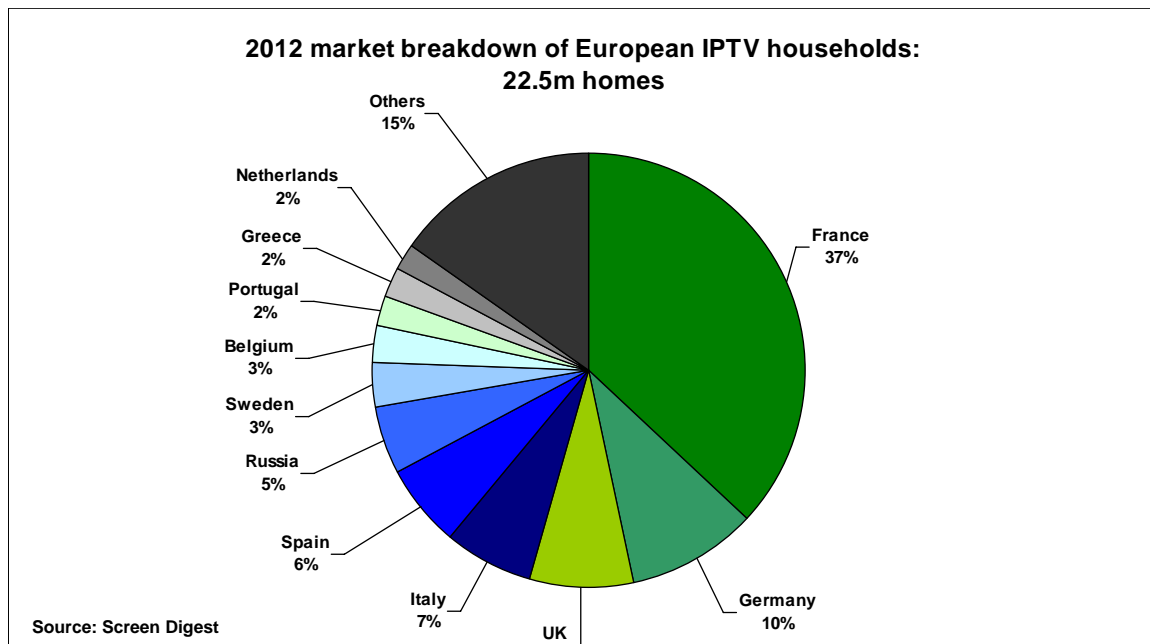
London 23rd September 2008: The latest report from media analyst Screen Digest (www.screendigest.com) examines the challenges faced by telcos and their IPTV services in 26 countries across Europe. 'IPTV Business Models: Profit and Loss in the Telco TV Space' discusses the likely success of their strategies.

These strategies are likened to a statement made by the Red Queen in Lewis Carroll's 'Through the Looking Glass' by the report's author Richard Broughton. Despite rushing out IPTV services to differentiate themselves, their competitive position remains unchanged. As the Red Queen says to Alice "Now, here, you see, it takes all the running you can do, to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that!"

IPTV services were seen as a way to reduce churn in broadband markets and boost additions by making the overall product more attractive to customers. The research in this report reveals that IPTV has not covered its costs in reduced churn rates and has had little or no positive growth impact on the broadband market overall.

Yet despite this, telcos are pressing ahead with their plans, with Europe forecast to have over 12m IPTV subscribers by the end of the year and well in excess of 22m by the end of 2012. On the positive side, some IPTV service providers in the heavily cabled markets of Belgium, Sweden and Germany have found that broadband additions have seen an increase relative to the growth of other DSL players, bringing them more in line with rival cable triple-play operations and the market average.

In these cases, the launch of IPTV has returned the companies to their original position in the broadband market. Screen Digest Analyst Richard Broughton comments "In these markets IPTV is not so much putting the companies at an advantage, just at less of a disadvantage."



In other European markets including the UK, France and Italy, where pay-TV holds less sway over consumers, the positive impact has been more muted. Furthermore, with a number of services in the markets pulling in low TV revenues, there is the question as to whether services can ever repay investment. A key way for services to get out of this rut is to increase their ARPUs through the addition of further packages and content.

BT has certainly taken this to heart. With the recent launch of HD push-video-on-demand (pVoD) on BT Vision and major subscription package revamp, it is clear that BT is attempting to bring its TV service revenues per customer clear of what Screen Digest sees as the 'danger zone' of less than €7-8 per month— the value below which, as a result of technology costs, it becomes very difficult for an IPTV service to make a profit.

Incremental changes to service offerings do, unfortunately for IPTV providers, make it simpler for competitors to respond in kind, getting operators nowhere. This is why from a competitive stand-point, a move such as buying sports rights might make sense. As the report points out, however, it is extremely difficult for IPTV service providers to make a profit from acquisitions of premium sports rights – even the wildly successful Belgacom has yet to break even.

Broughton concludes "Adding small amounts of content and novel features is certainly a strategy for telcos to make their TV services more profitable, however, it

fails to address the fundamental strategy issues of the TV and broadband businesses. Providers who are offering IPTV services are behaving like the Red Queen in Through the Looking Glass by running to stay where they already are. In order to actually get anywhere, operators will need to move at least twice as quickly.”

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About this report

The research in this press release is based on data from Screen Digest’s latest report, ‘IPTV Business Models: Profit and Loss in the Telco TV Space’. The report includes an overview of the state of the European IPTV market, and assesses business models and strategies currently used by IPTV operators in the region. The report also looks at the potential for profitability in the IPTV space, including models detailing how technology selection and TV impact on broadband business segment affects ROI on IPTV operations. The report also includes by-country data on IPTV revenues and subscriber uptake.

About Richard Broughton, Analyst

Richard works within the television analyst group at Screen Digest and specialises in business practices and trends in the emerging IPTV industry. He is also responsible for the department’s advanced video-on-demand forecast model.

About Screen Digest

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