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Video as a Core Service for Telcos

Analysis of 50 Leading Operators in Achieving Video Business Success

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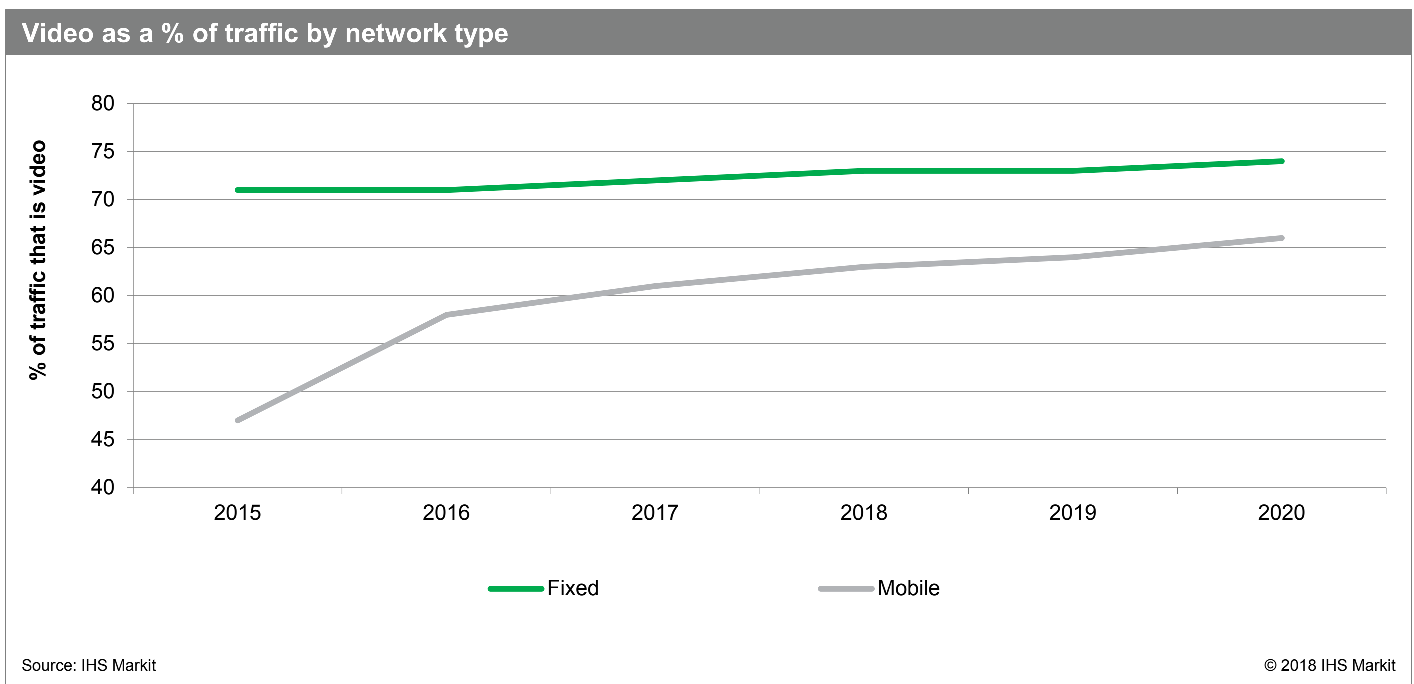
Part 1: Executive summary

Under pressure to not only maintain but advance their market positon in the face of intensifying competition on multiple fronts, telcos must evolve quickly to keep pace and find opportunities for growth. Investing in and improving their broadband and mobile offerings can only achieve so much – the key to enhancing the appeal and value of these core telco services is attaching them to, or positioning them next to, something more marketable: video provides the necessary tool.

The need to better monetise video is made more pressing by the rising infrastructure costs it is incurring for operators. Video increasingly dominates IP traffic on their networks, accounting for 72% of fixed-network traffic and 61% of mobile-network traffic in 2017, according to IHS Markit data. Telcos will struggle to fund the capacity required to support this growth with broadband and mobile revenues alone – although broadband revenue is generally increasing, it is failing to offset declines in mobile revenue.



The revenue-generating opportunity for video alone is significant – in 2017, the 50 largest telco video operator groups generated an estimated $89.3 billion in video revenue, up 8% from $82.7 billion in 2016. And between them, they account for more than 300 million video subscriptions. But these figures do not begin to fully quantify the true of value of video to a telco. Its bigger-picture role is to support the overall business's customer, revenue and EBITDA growth, which it can do either as part of the bundle, or as an unbundled offering designed to secure higher-value, more stable customer relationships in the future – this is why it should be treated as a core service.

The most successful telco video operators have already adopted this mentality, crafting video propositions that are compelling enough from a content, features and pricing point of view to scale – and have a positive impact on the telco business – fast.

The routes to achieving video business success vary – there is no one single approach that can guarantee it. IHS Markit analysis of the 50 leading telco video operators reveals five principal strategies, which are rarely adopted in isolation, having rather been executed in various combinations by the telco video winners:

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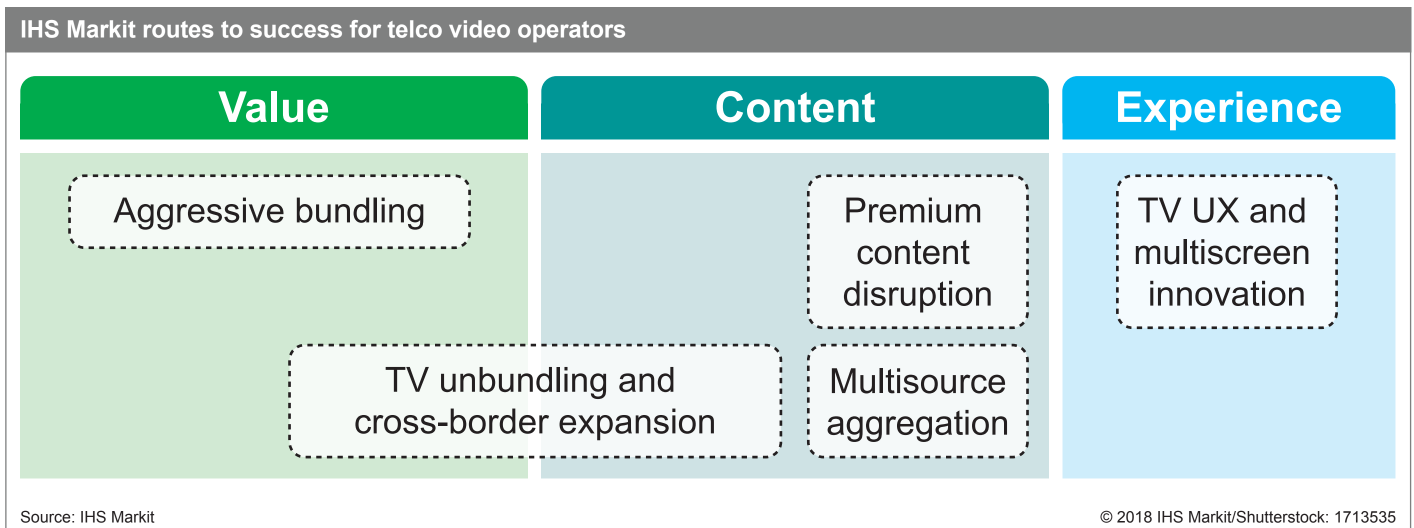

Examination and categorisation of the winning strategies that have characterised the evolution of telco video, drawing on case study examples from the leading players, will form the basis of this study, which is designed to guide others on the path to making video a core service. Based on our analysis, IHS Markit offers five video-focused recommendations for telcos:

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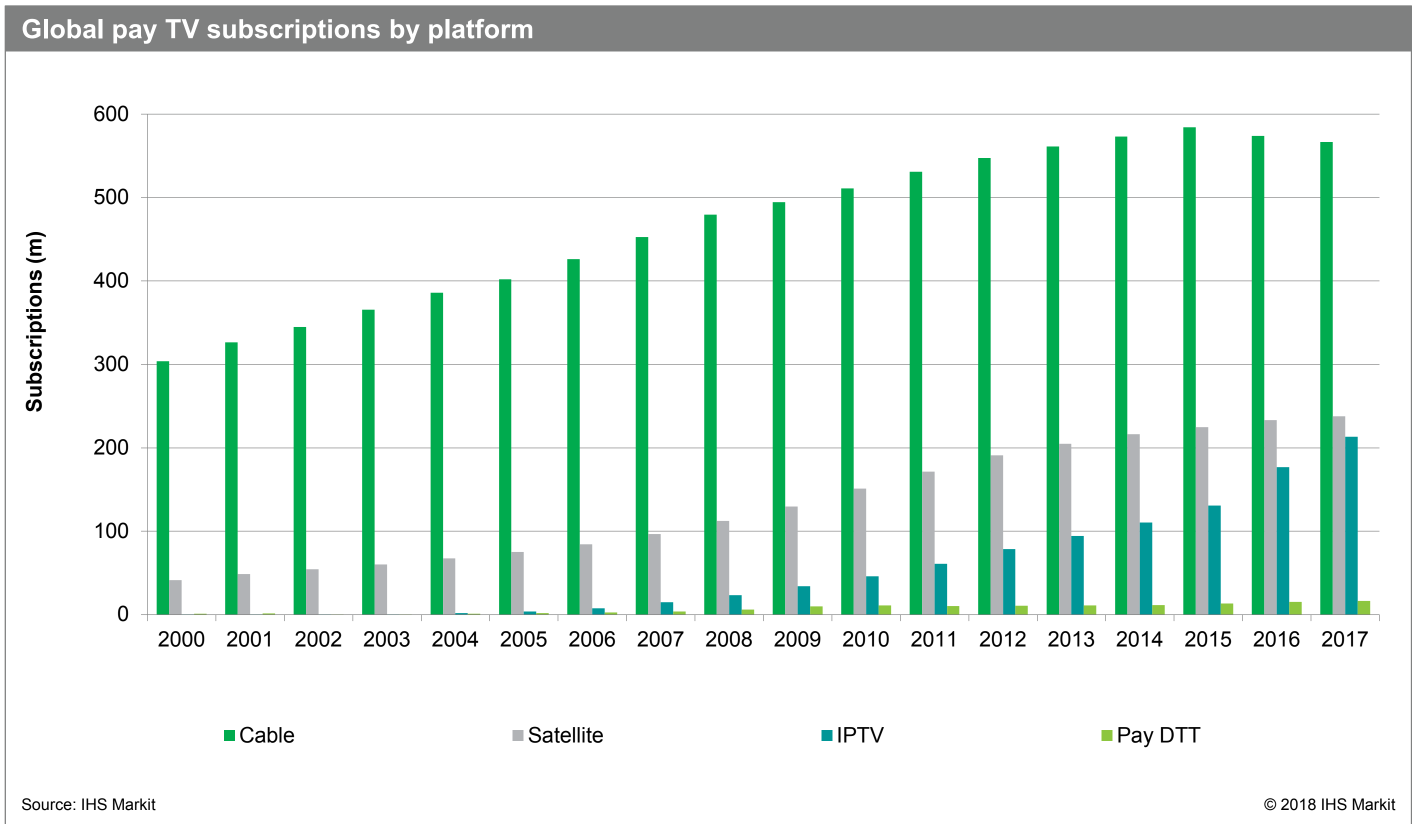
Part 2: Telco video business analysis

The role of telcos in the TV market, and the role of video in the telco business

As late entrants to the TV market, playing catch-up to their cable and satellite rivals, telcos' success in building up their video businesses from scratch since the turn of the millennium is commendable. At the end of 2002, there were just a handful of operators serving less than 100,000 IPTV subscribers – fast-forward 16 years, and there are more than 130 providers serving an IPTV subscriptions base of more than 200 million.



Though the main vehicle for growth, IPTV has not been telcos' only means of amassing TV subscribers – cable and satellite services, and increasingly online video offerings, are supporting the major players' video expansion strategies.

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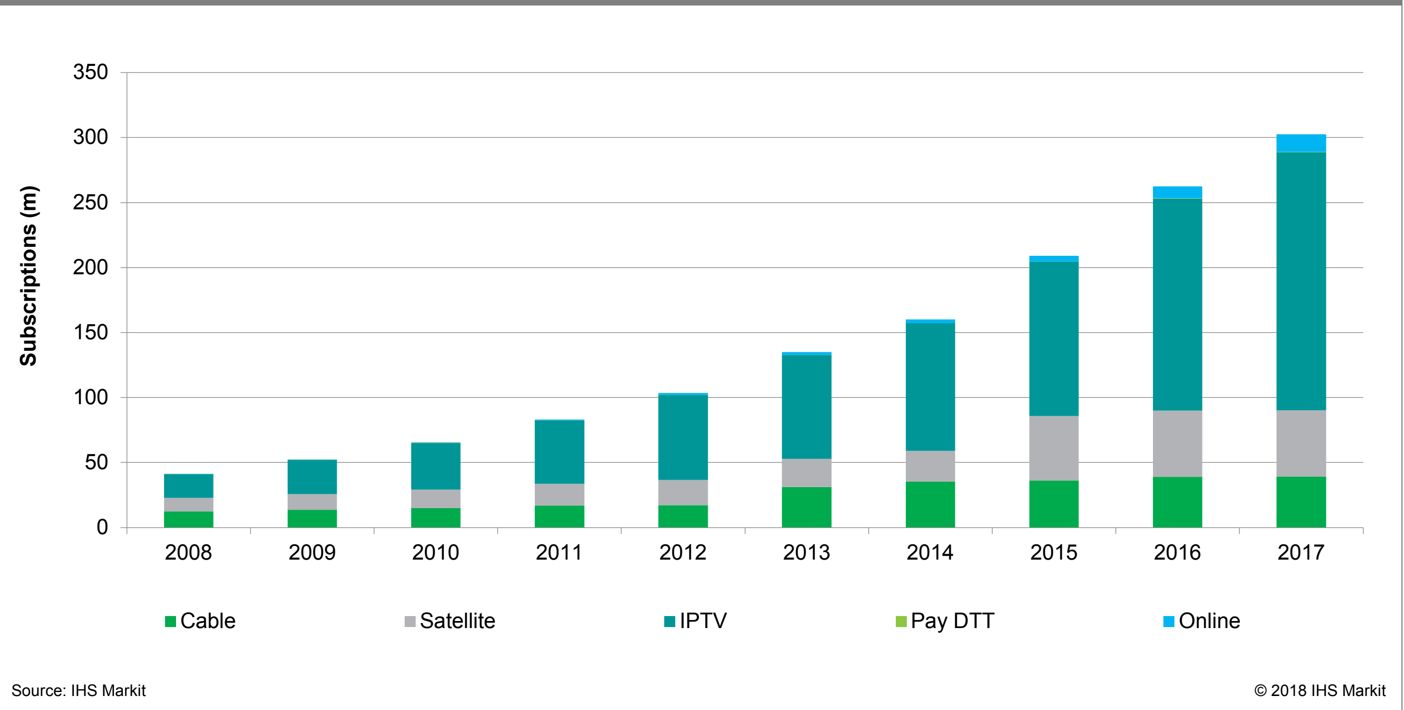

Both the need for, and the means to building, video businesses of significant scale is rooted in telcos' status as incumbent broadband providers. Protecting this core business, as well as compensating for declines in fixed-line telephony subscriptions, has been one of the primary reasons to pursue pay TV ambitions, in the face of intensifying multiplay competition. But having a readymade customer base with which to target video services is also an opportunity beyond simple defensive measures, and puts telcos in the advantageous position of being able to sell a bundle of complementary services, which can be designed to be synergistic.

As such, video has become central to many telcos' businesses, with subscriptions accounting for more than a quarter of operators' combined TV, broadband and telephony revenue-generating units (RGUs) in many cases. However, assessing video's role from more of quad-play perspective, as opposed to a triple-play one, adding mobile to the mix highlights the fact that telcos are yet to sell video into this segment of their customer base at significant scale – in the vast majority of cases, subscriptions for mobile (when offered) vastly outnumber video subscriptions.

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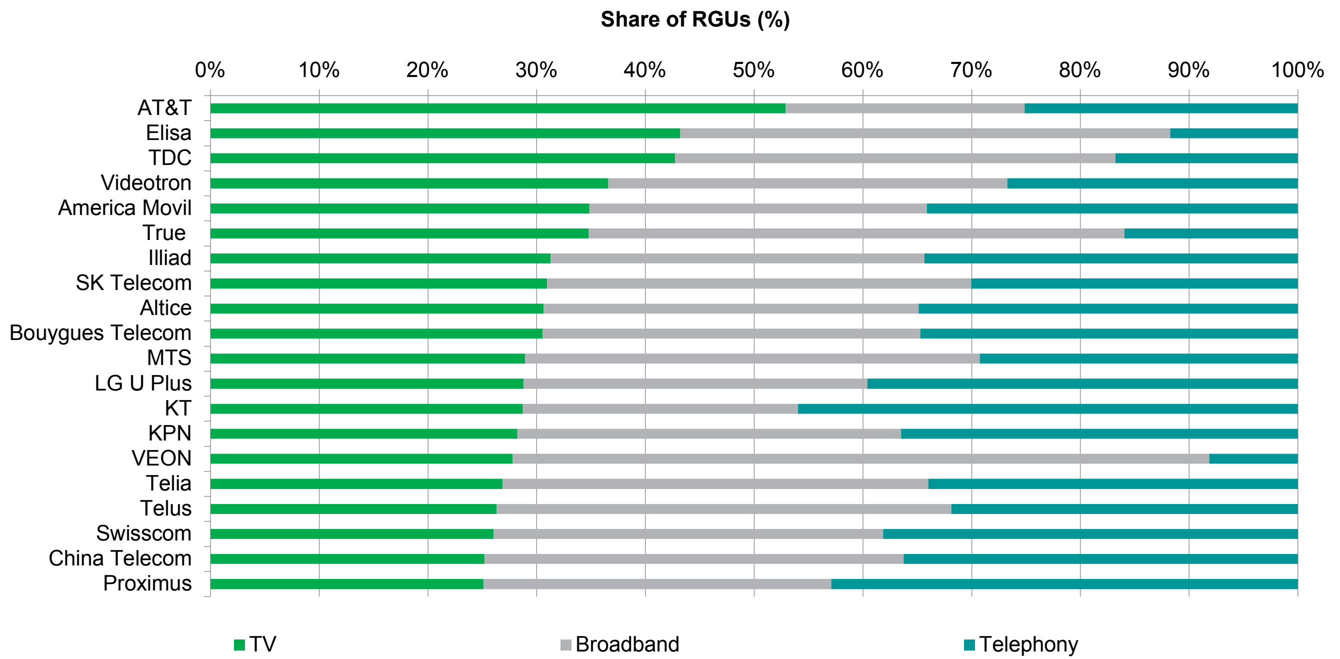
Telco video operators by TV as % of TV, broadband and telephony RGUs (Q3 2017)



Notes: 50 largest telco video operators ranked according to TV share of RGUs; 20 highest displayed
Source: IHS Markit

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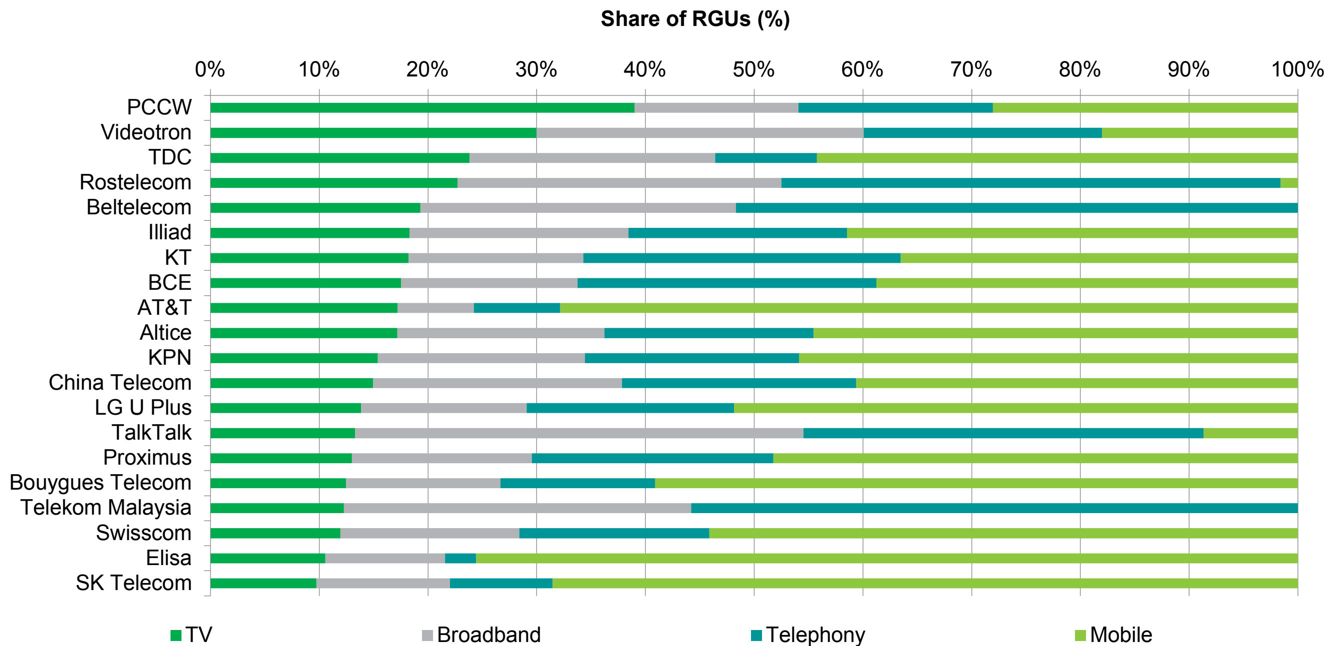
Telco video operators by video as % of video, broadband, telephony and mobile RGUs (Q3 2017)



Notes: 50 largest telco video operators ranked according to video share of RGUs; 20 highest displayed. Video includes pay TV and online video subscriptions.
Source: IHS Markit

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The aim of this study is to highlight the opportunities that exist for telcos to expand their video businesses and make it a core service.

Defining video as a core service

To IHS Markit, **video as a core service** means using traditional pay TV or online video as a primary value proposition for driving telco business growth.

In essence it reflects a change in priorities, away from commodity telco services towards having a TV or video offering as a core to telcos' consumer value. This often includes leveraging video's marketability and appeal to sell broadband, mobile and telephony – in various bundled combinations.

In addition, with video as the core, it can be expanded to a broader target market via broadcast or online distribution, often motivated by the possibility of attracting new subscribers to the bundled telco offering.

As this definition suggests, making video a core service for telcos is primarily motivated by the indirect benefits it brings to their business. A broad strategy of (in most cases) selling TV services at low cost in order to compete with the incumbents means that telcos' video divisions struggle to achieve profitability in isolation – revenues generated by content services, feature monetisation and video-specific network access may not exceed a video division's CAPEX and OPEX. However – as this study will emphasise – this should not detract from the bigger-picture goals video services contribute to, in particular, *overall* customer, revenue and EBITDA growth, and churn reduction.

Methodology: Defining and identifying telco video leaders

Distinguishing what are commonly understood to be telcos from other providers of TV and communications services – namely, cable operators – is becoming increasingly difficult. Both types of company operate fibre-based fixed-line networks through which they sell triple-play services, with cable providers also now moving into mobile telephony provision, via MVNOs.

However, the value of maintaining a distinction between the two is in tracking how companies that came from very distinct backgrounds – telcos from fixed-line telephony and cable operators from analogue TV – have evolved their businesses in order to compete and grow. That legacy also carries through into those companies' current strategies and product offerings. Cable TV, for instance, is typically a more 'full fat' and expensive proposition than often less comprehensive and lower-priced IPTV offerings. And cable operators also, broadly speaking, have very limited mobile assets, mostly operating MVNOs with small customer bases.

For the purposes of this analysis, IHS Markit defines telcos as companies with a legacy in selling telephony services – fixed and then (in most cases) mobile – as their core products, before expanding into broadband and TV.

In terms of measuring those operators' video businesses, there are several ways that this could be done. To identify the 50 leading players to examine for this study, IHS Markit used a measurement of total video subscriptions, across both traditional pay TV networks and any online video services. And in order to give as complete a picture as possible of these telcos' businesses, we sized them at group level, including all operations in which they have at least a 50% ownership stake. This means that A1 Telekom Austria Group, for example, is included within America Movil.

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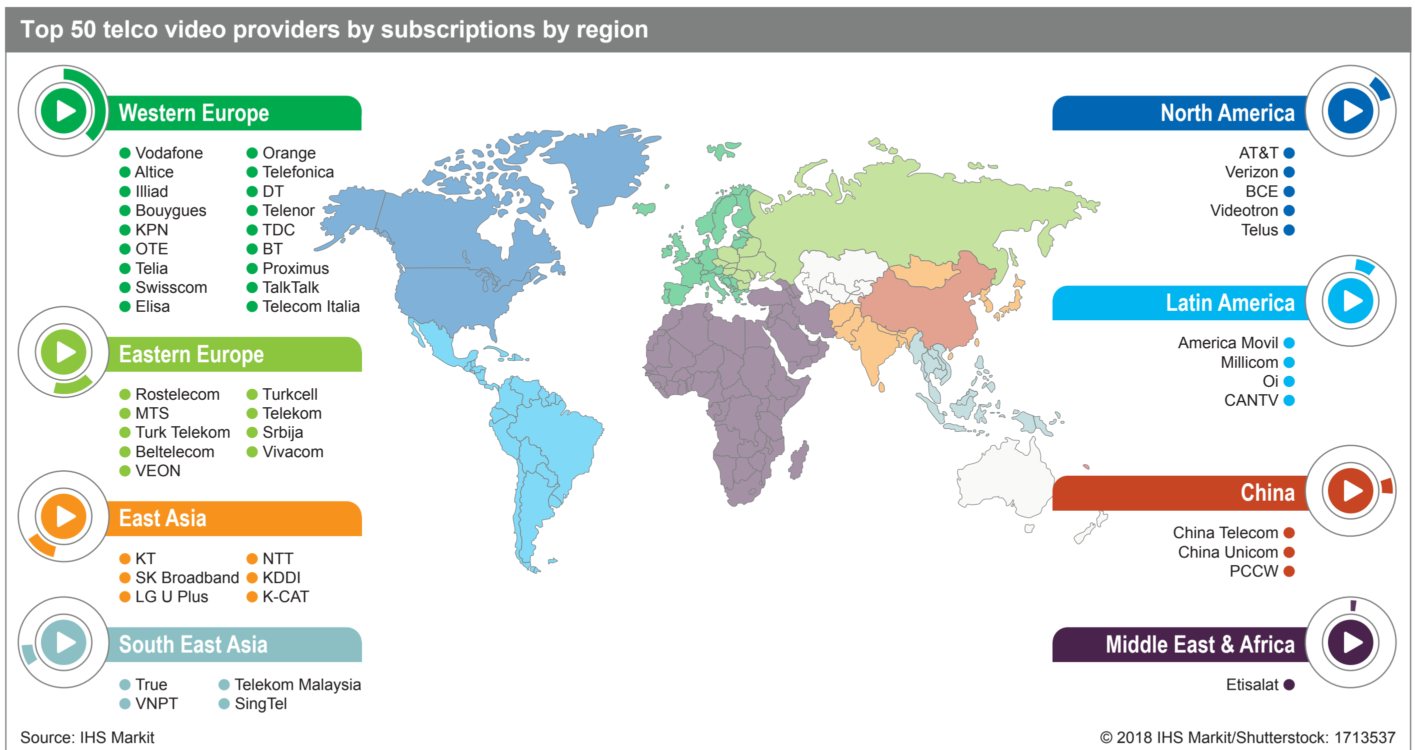
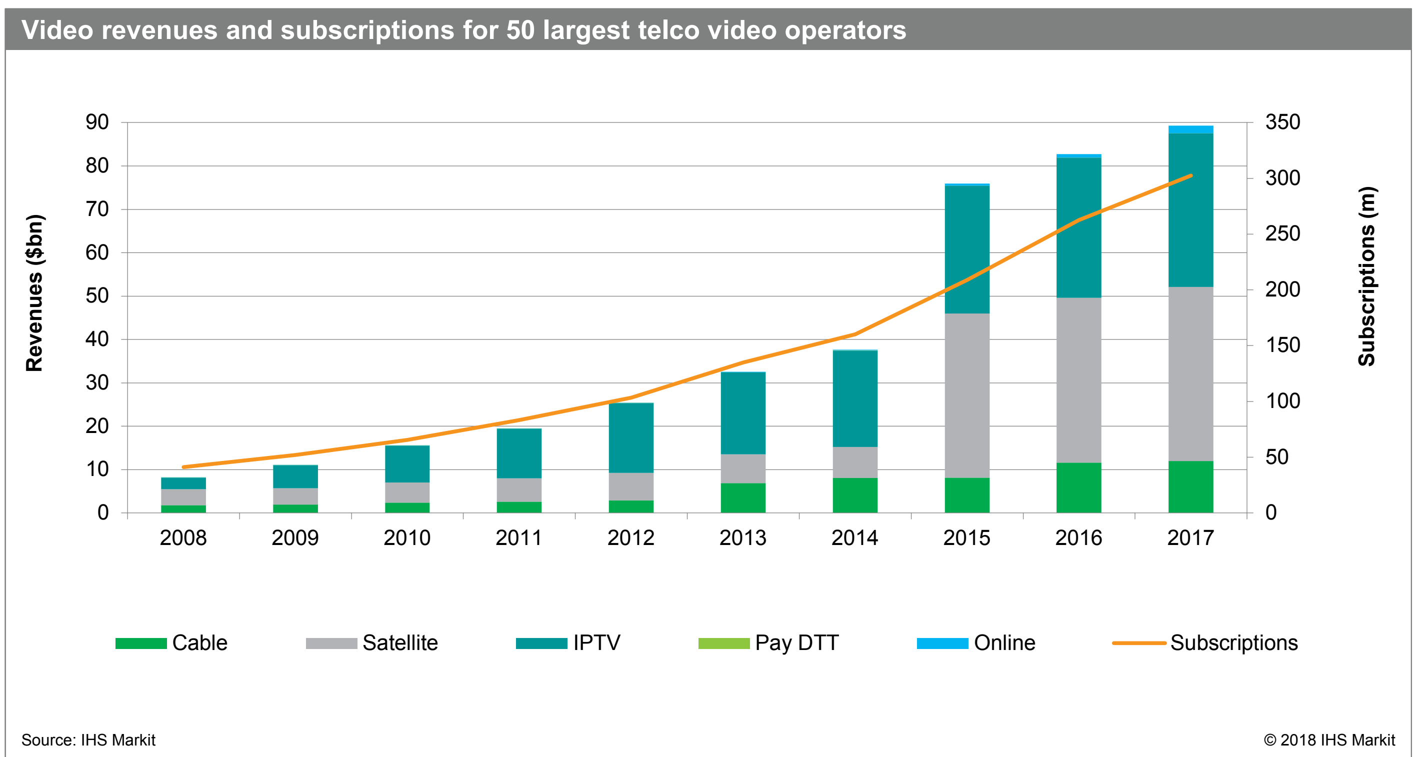
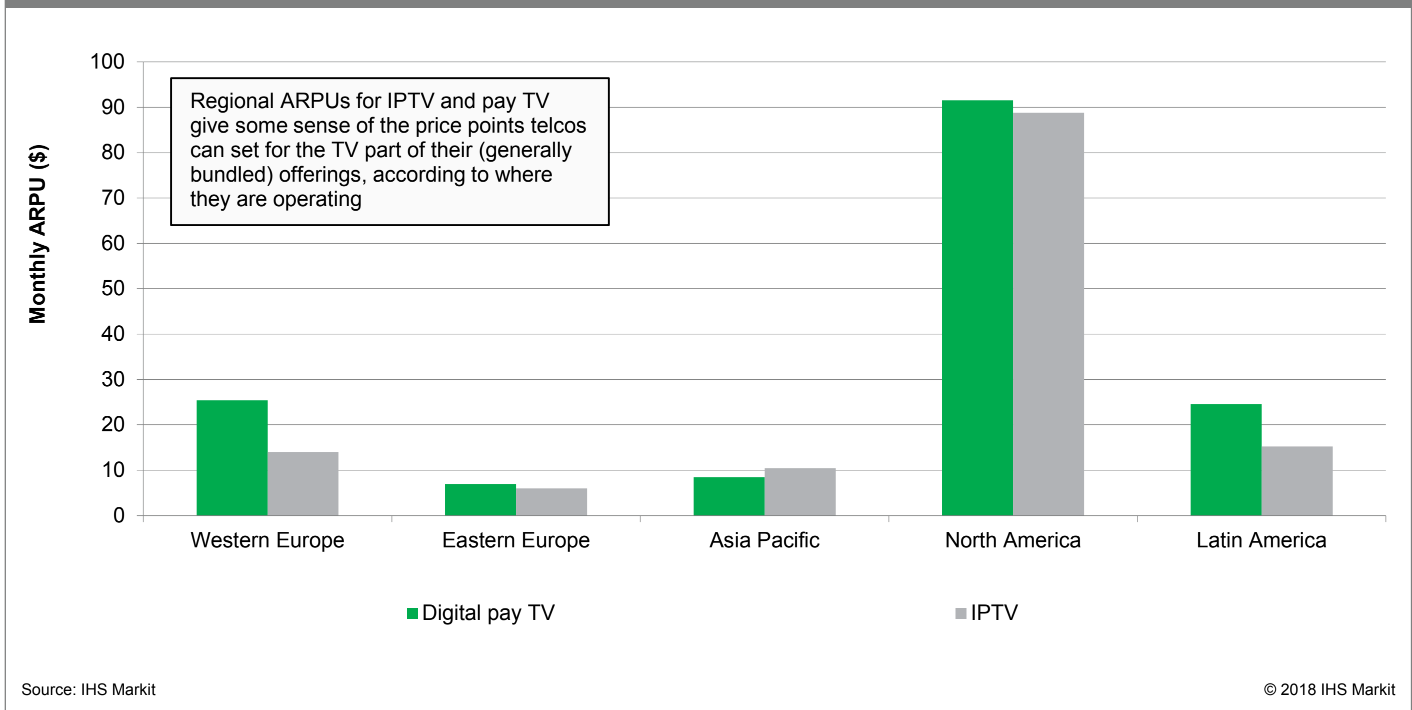


Telco video operator benchmarks for success

Between them, the 50 largest telco video operators accounted for more than 300 million video subscriptions at the end of 2017, and generated $89.3 billion in video revenue in the year, up 8% from $82.7 billion in 2016.



The relationship between video subscriptions and revenue for operators varies by market – it is in large part dictated by the conditions of the markets in which the companies operate, in terms of the threshold for consumer spending on TV and video services. It also varies depending on the nature of the particular TV proposition. As a result of these variables, average revenue per user (ARPU) for telcos' video subscriptions can vary significantly, ranging from just a few dollars a month to over $100 (AT&T).



In seeking to identify benchmarks for telco video success, metrics such as subscriptions and revenue totals are not easily comparable across operators, as they vary significantly according to the size of the market(s) in which the telco operates. A more comparable measure is market share – though the ceiling is again determined by local factors, primarily the competitive landscape.

Assessing their core video businesses of pay TV, the average pay TV market share of the 50 leading telco video operators – i.e. the percentage of traditional pay TV subscriptions accounted for across the operators' entire addressable market (all the countries in which they operate) – was 20.4% in 2017. Only one telco accounts for more than half of pay TV subscriptions in their market(s) – PCCW, with its 57% pay TV market share in Hong Kong.

Applying the market share measure to telcos' entire pay video universe – i.e. their share of all video subscriptions, including online – lowers the average to 16.6%, with only 18 of the 50 largest operators pursuing pay TV lite strategies and Netflix dominating the SVoD market.

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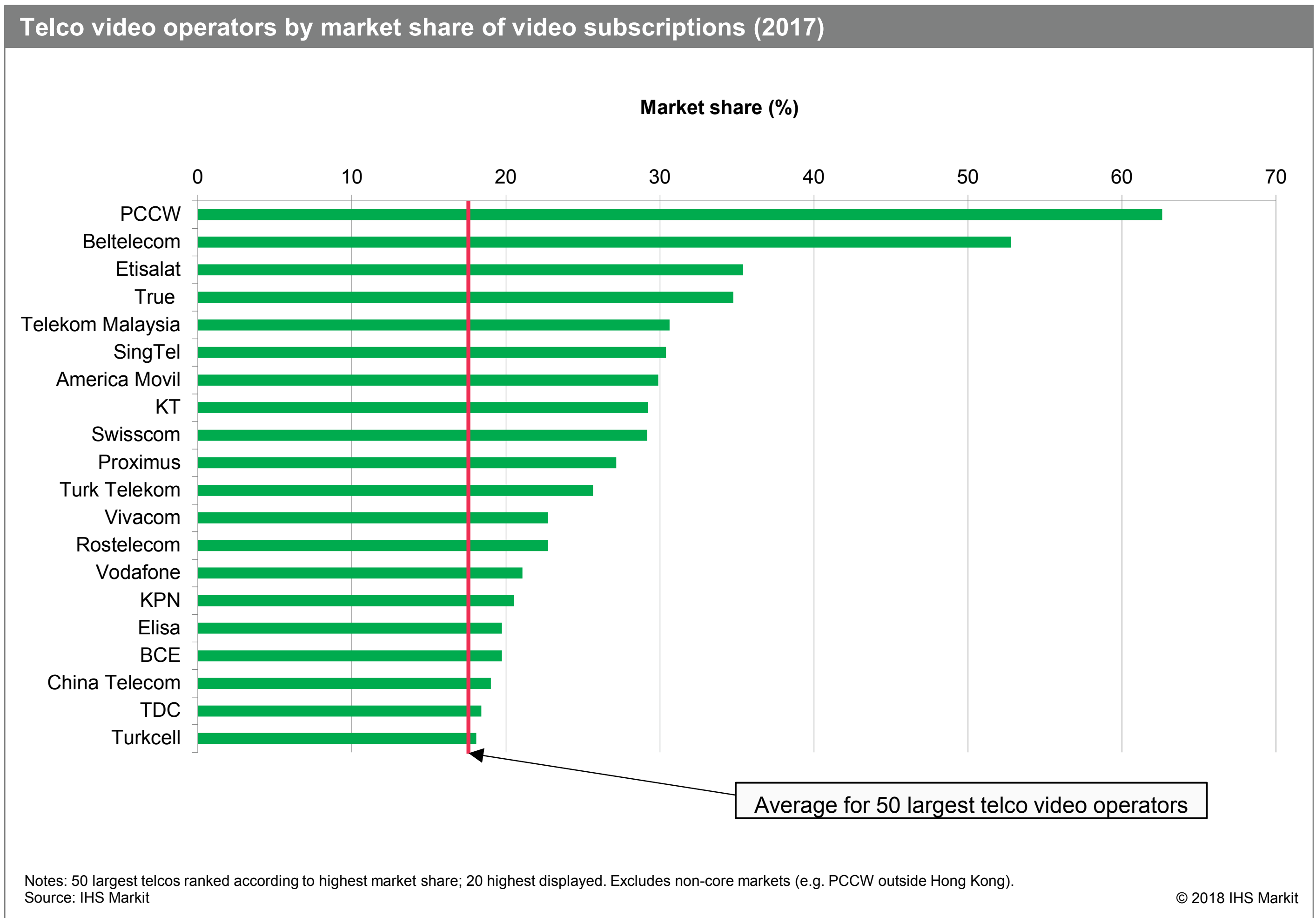
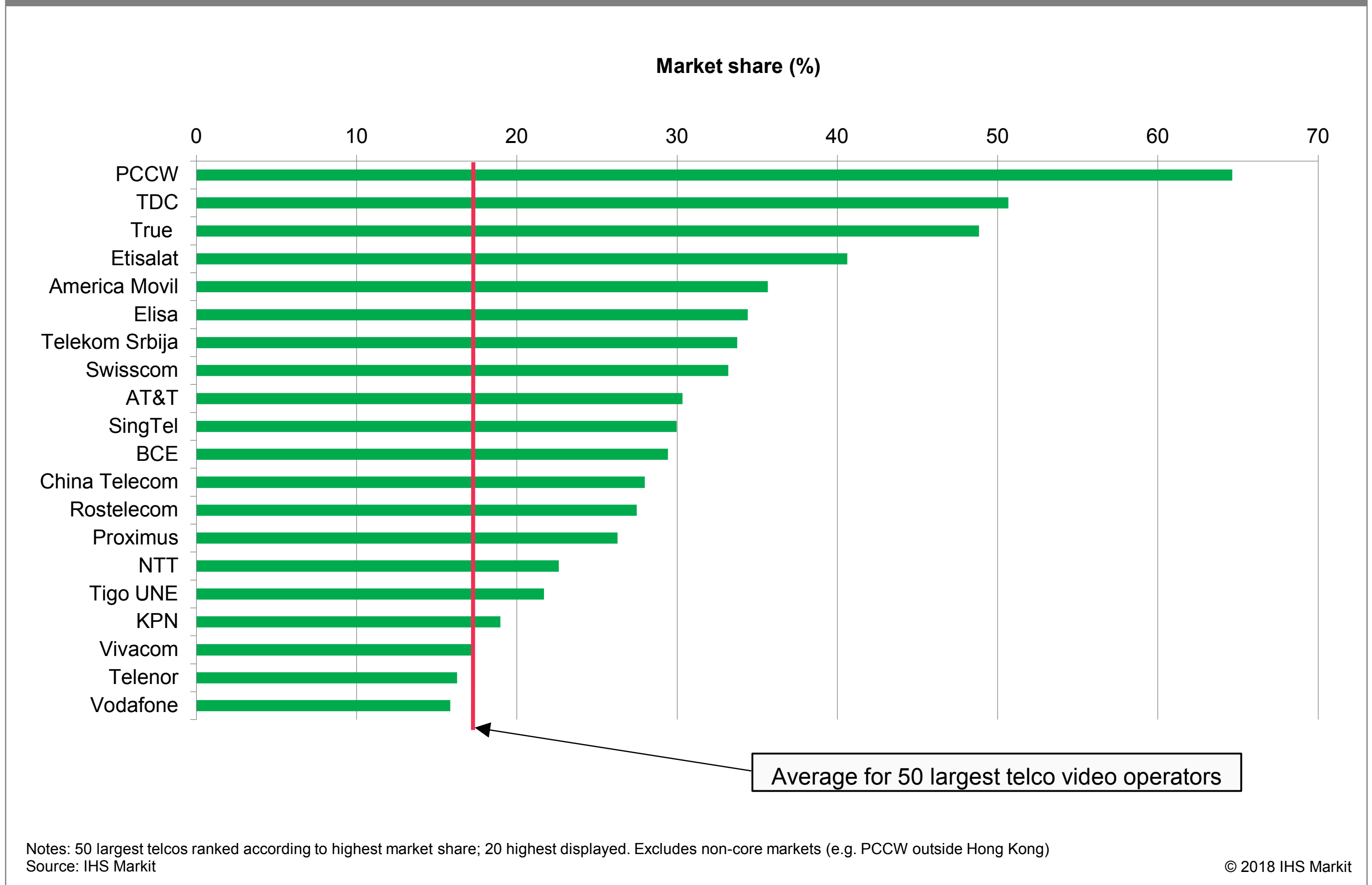


In terms of video revenue, telcos' market share is marginally lower than for subscriptions, at an average of 16.3% in 2017. When comparing the individual operators' share of each, there is a fairly even split across the 50 largest providers of those taking a larger share of revenue than they do subscriptions and vice versa.



Looking to other benchmarks for video success, making video core to the bundle is a priority for telcos. Selling IPTV into broadband customer bases is an effective way to achieve this – within the 50 leading telco video operators, most of those that are primarily focused on IPTV and online TV services (i.e. those not selling cable and satellite at significant scale) had upsold more than half of their broadband subscribers to IPTV by the end of 2017. Making video a core service in this way will boost penetration of video services within operators' RGU base and, in turn, their market share of video subscriptions and revenue. With video, across the industry as a whole, becoming an increasingly dominant source of IP traffic – accounting for 72% of fixed-network traffic and 61% of mobile-network traffic in 2017 – the need to leverage it for subscription and revenue growth is clear.

Categorising the telco video winners

The metrics analysed above only tell part of the story of telcos' video success – digging deeper into the data reveals the strategies that have enabled them to achieve this. These strategies are attached to profiles – IHS Markit identifies five of these, with telco video winners commonly fitting more than one of them. These, and the three broad categories they sit it, are outlined below, and will be analysed in greater depth, through case study examples, in Part 3.

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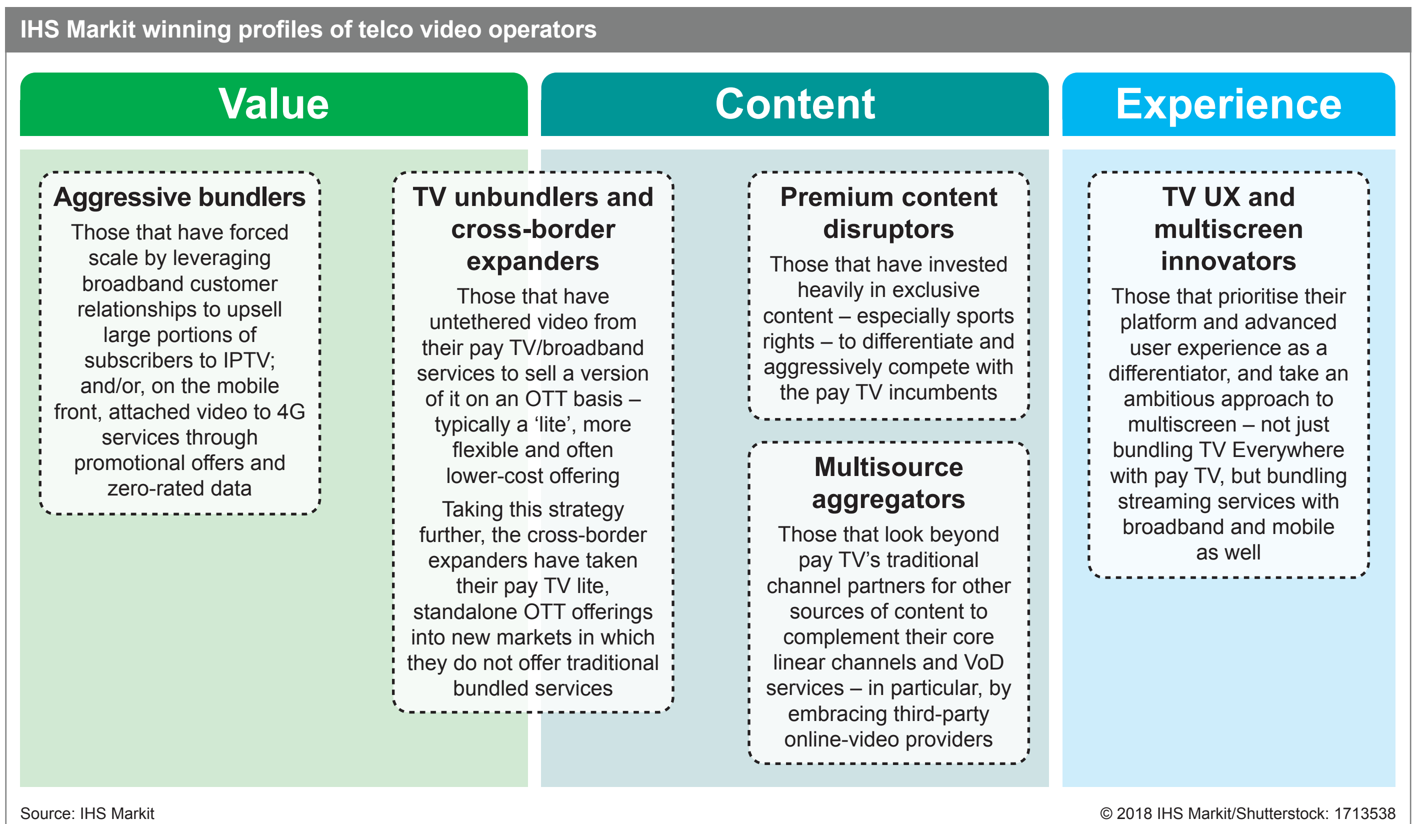

Part 3: Executing telco video strategies

Each of the strategies that have defined the evolution of the telco video business have pros and cons that those seeking to implement them now should consider. Identifying suitable market conditions is also important, with some strategies best suited to specific environments. The results that can be achieved from executing them appropriately are evidenced by success stories that can be found across the 50 leading operators under study for this analysis.

Aggressive bundlers: Forcing scale by positioning video as a value driver

The need to force scale in telcos' video businesses has necessitated strategies for making video services as accessible as possible to operators' customers. Video thereby serves a central value driver, increasing the appeal of, and customer attachment to, the core telco services it is bundled with.

From a fixed-line point of view, at the heart of many IPTV business plans has been the strategy of upselling customers of telcos' core services, broadband and telephony, to triple-play at little or no extra cost – the aggressive bundlers make the addition of TV to the bundle a no-brainer for consumers. The most successful operators in this category have, however, executed the strategy at the expense of higher TV ARPUs, upselling customers to TV at very low additional cost.

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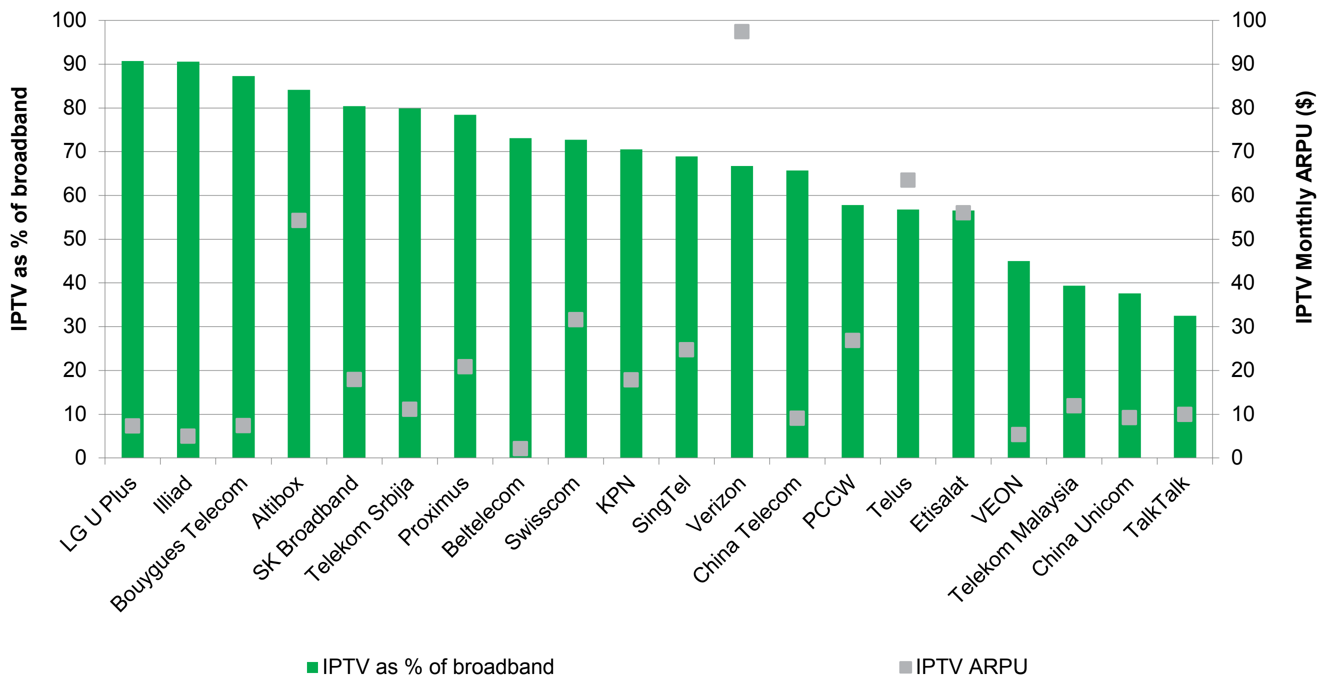
IPTV as a % of broadband subscribers vs IPTV ARPU for selected telcos (2017e)



Source: IHS Markit

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Aggressive bundling SWOT analysis

Strengths	Weaknesses
Lowers the barriers to entry for pay TV by offering it as a low-priced addition to broadband/bundled services	Strategy often comes at the expense of higher TV ARPUs, with the TV element of the fixed-line bundle being relatively low value
Solidifies broadband and mobile customer relationships and boosts operators' competitiveness in multiplay	Depending on how much investment goes into the TV product, selling it at a low price could make it unprofitable or loss-making in isolation – though its primary role is as an indirect revenue generator
Increases the addressable market for TV to include homes that do not want to churn from their current provider – i.e. a satellite home could take an IPTV box for a second room if it was cheap enough	Optimising/throttling zero-rated video quality may limit its consumer appeal; conversely, optimising it can put a strain on operators' mobile-broadband networks
Opportunities	**Threats**
Strategy suitable for most market conditions, including when pay TV is in a growth phase and in mature markets where offering a lower-cost alternative can attract customers from rivals	Other telcos executing a similar strategy could exert pressure on pricing and, in turn, margin
Once the TV/video customer relationship is secured, there are opportunities to upsell subscribers to higher-priced packages and services	Zero-rating has been flagged by some regulators for potentially breaching net neutrality rules and could therefore face hurdles

Source: IHS Markit

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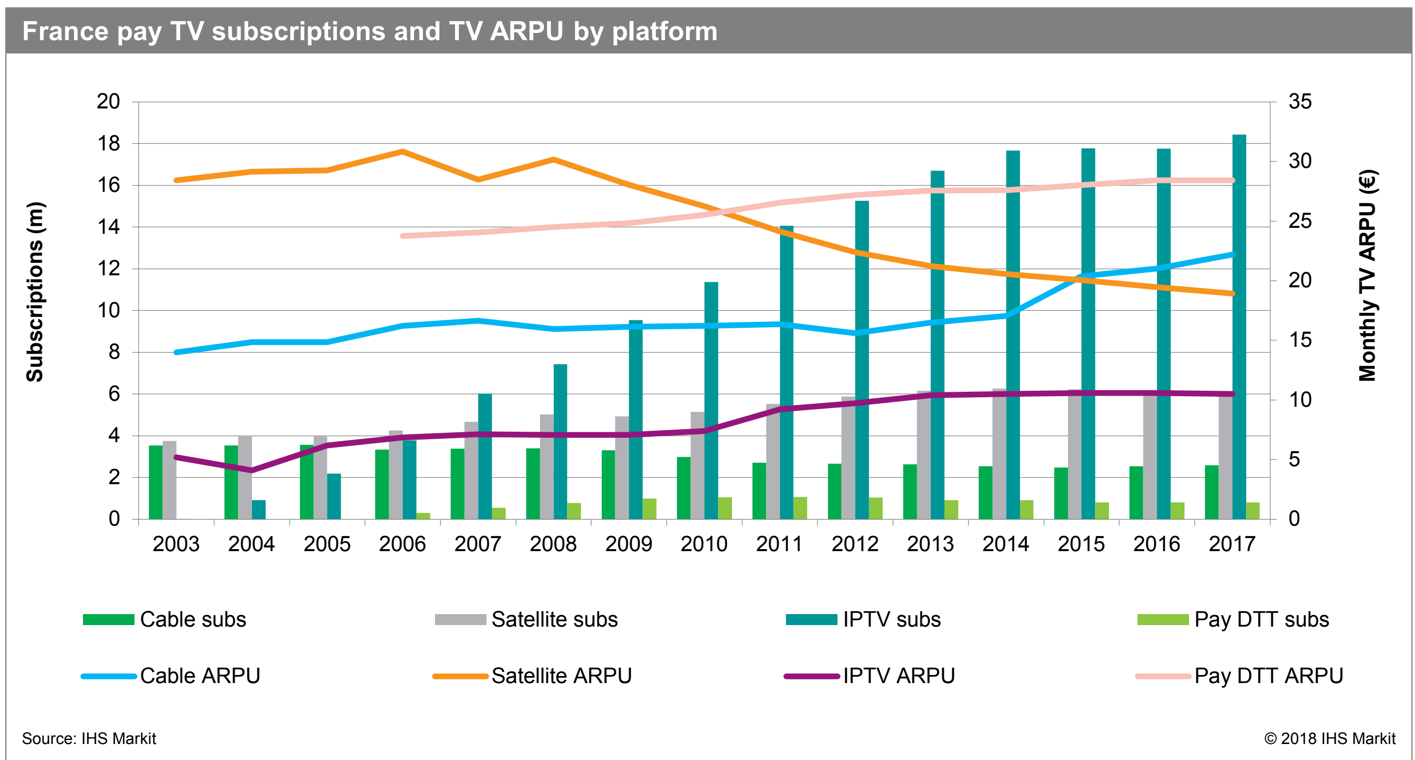
The most positive results of lowering the barriers to entry to pay TV in this way can be seen in France, the world's largest IPTV market after China. Here, the four big telcos began equipping their broadband customers with subsidised set-top boxes at little or no extra cost to upsell them to multiplay packages, a practice that began in 2003. IPTV became the leading pay TV platform in France in 2007 and there are now close to 18 million subscribers.



From a mobile point view, a growing number of operators are seeking to increase the appeal of their 4G services, and cement existing customer relationships, with video apps – either their own, or those of third parties. Specific hooks include at-no-extra-cost bundling, extended free trials, discounting and zero-rated data – though sponsored data offers have been subject to regulatory scrutiny in some markets.

Case study: China Telecom's rapid drive to upsell tens of millions to IPTV

Executing a rapid expansion, primarily across China's southern provinces, state-owned telco China Telecom has compensated for declines in its fixed-line telephony business by focusing on convergence and bundling. The result has been a surge in take-up for its mobile, broadband and IPTV services – its TV offering, E-Surfing HD, ended September 2017 with 78.5 million subscribers. The operator is targeting 100 million IPTV subscribers, as part of its plan to make it a basic service for its customers.

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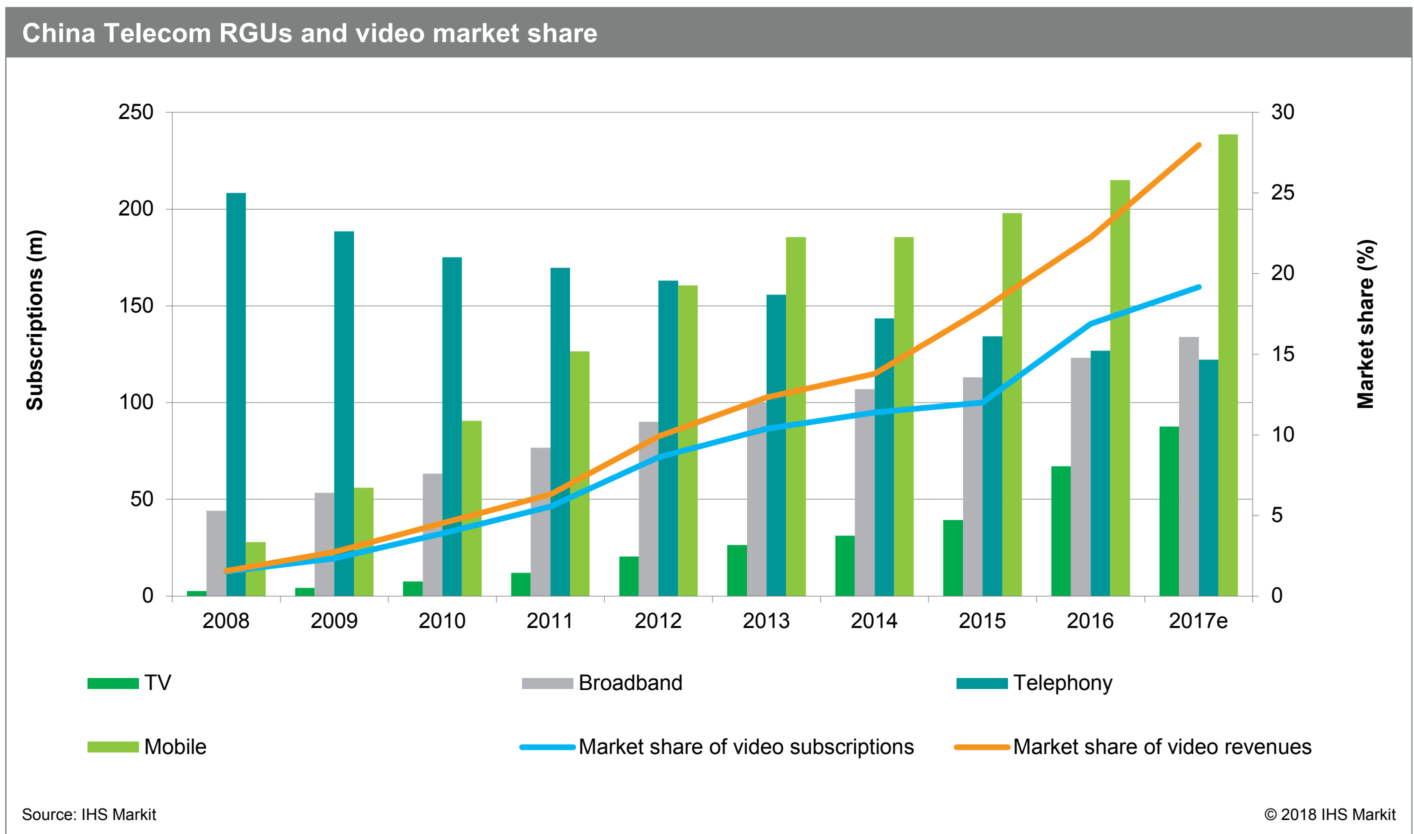

The crossover between its three growth services is where much of China Telecom's success lies. As well as having converted 56% of its 128 million broadband subscribers to IPTV, the telco has achieved 77% dual-play penetration across TV, broadband and mobile, with 46% of customers taking all three, and 56% of mobile subscribers taking broadband or TV. The latter KPI provides evidence of successful cross-sell into its mobile customer base, something many telcos are trying to achieve.

Network investment has been at the heart of China Telecom's convergence strategy – the operator delivers broadband speeds of more than 100 Mbps to 37% of subscribers, with two-thirds of mobile subscribers receiving 4G services. The super-fast broadband speeds are benefitting its video business – China Telecom began rolling out 4K UHDTV services in 2015, increasing the appeal of its TV offering and providing an incentive for customers to upgrade to E-Surfing HD. And use of consumer data, such as through user-profile based marketing, will help the operator to better target, engage and upsell its customers across devices and services.

Premium content disruptors: Taking the boldest route to differentiation

As late market entrants, an effective – but expensive – means of making an impact in pay TV for telcos is to invest in exclusive, marquee content. Premium sports rights have proved to be a common linchpin of such strategies, with telcos using them as a tool for challenging the pay TV incumbents by legitimising themselves as serious contenders and attracting the customers needed to confirm this status.

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Selected European telco investment in content

Telco	Channels	Major sports rights	Production and distribution
Altice	SFR Sport, Sport TV (Portugal)	Premier League (France, Switzerland), English Premiership (Belgium, France, Switzerland), FC Porto (Portugal)	Altice Studio
BT	BT Sport	Premier League – two packages of 42 matches, FA Cup, Scottish Premier League (Scottish league championship), Champions League, Europa League, Moto GP Championships, English Premiership	-
Deutsche Telekom	-	Basketball Bundesliga (German Basketball League), German Ice Hockey League (DEL)	-
KPN	KPN Presenteer	-	-
Orange	OCS (with Canal Plus)	La Liga – non-residential premises, via JV with Vodafone (Spain)	Orange Studio
OTE	Cosmote History	NBA League, Greek Cup, Premier League, Champions League, Europa League, Greece national football team – qualifying matches for Euro 2016 and 2018 World Cup, La Liga, Formula One Championship	-
Proximus	Proximus 11+	D1B (Belgian football league 2nd division), Champions League	-
Telefonica	"Movistar Partidazo, Movistar Futbol, Movistar Series"	La Liga, Copa del Rey and Supercopa, Spanish Basketball League, Premier League, Formula One Championship	Telefonica Studio
Turk Telekom	Tivibu Spor	Champions League, Europa League	-
Vodafone	"Ziggo Sport (JV with Liberty Global in Netherlands)"	Netherlands qualifying matches for Euro 2016 and 2018 World Cup (NL), Champions League (NL), Premier League (NL), Primera Liga (NL), La Liga – non-residential premises, via JV with Orange (Spain)	-

Source: IHS Markit

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Premium content disruption SWOT analysis

Strengths	Weaknesses
Marquee content gives telcos' video services a clear USP and makes them highly marketable	Typically expensive, especially exclusive sports rights, which incumbent providers are loath to give up without a fight
Fast way to make an impact and build up a TV subscriber base quickly	Telcos not investing in premium content can typically provide their customers with access to it via channels sold by the rights holders on a wholesale basis – but without the benefit of packaging it in ways that give their individual products and bundles a competitive edge
Opportunities	**Threats**
Strategy well-suited to mature pay TV markets in which the addressable free-to-air audience is limited. Best executed by those with deep pockets for significant investment	Costs not necessarily sustainable – competition that telcos bring drives up the cost of sports rights and other premium content
Puts telcos in a good position to take customers from their rivals, as opposed being a secondary provider	Danger of losing customers if key rights are lost
Exclusive content can be used to boost the appeal of mobile (if offered) as well as fixed-line services	

Source: IHS Markit

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Case study: BT's football-led premium sport push

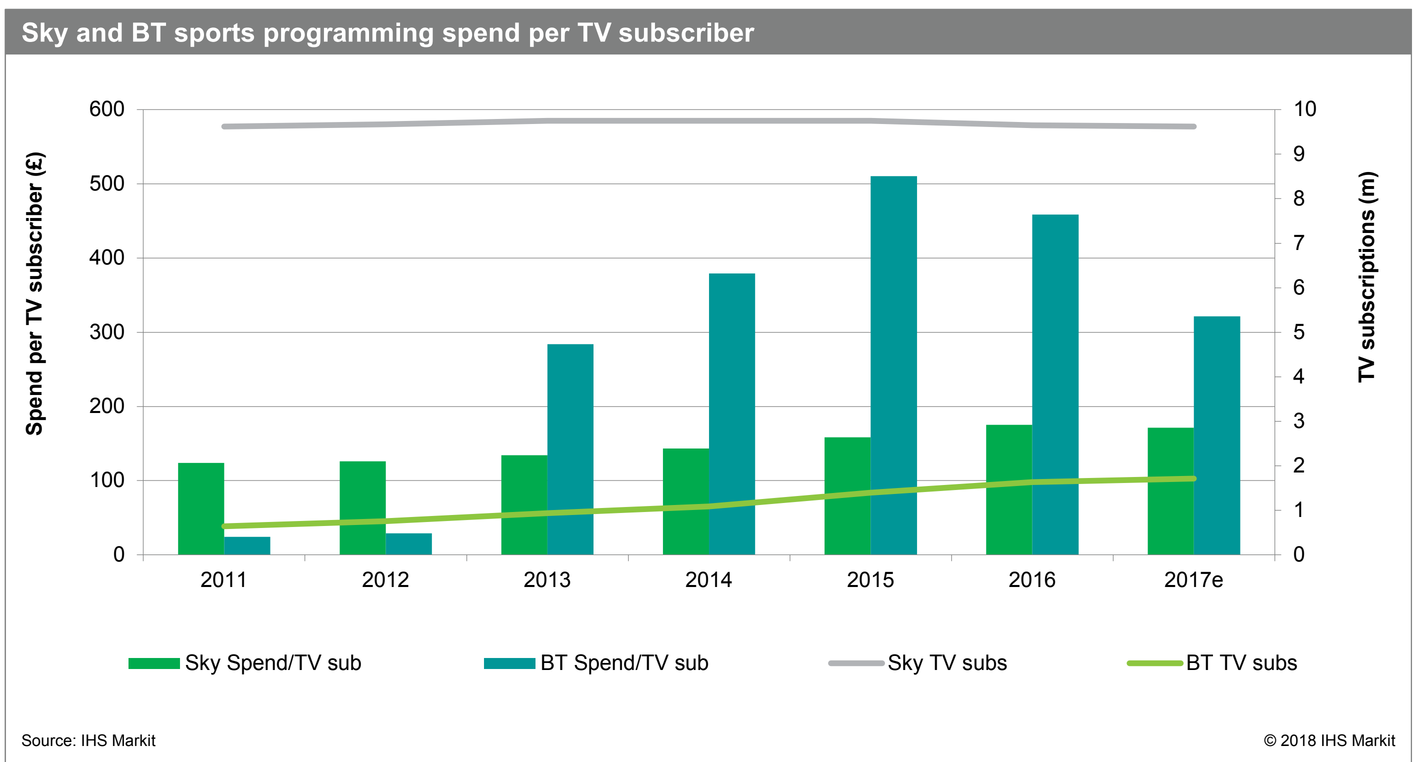
One of the most high-profile premium sports-led strategies executed by a telco came when UK incumbent BT made a surprise move to challenge pay TV market leader Sky – it acquired Premier League football rights in 2012 and 2015, and UEFA Champions League football rights in 2014 and 2017, among other exclusive sports content. The move was primarily motivated by a need to protect its fixed-line business, which was coming under increasing pressure following Sky's move to acquire its own ISP in 2005. While BT struggled to gain traction with its own TV product, launched a year later, Sky went on to become the UK's largest triple-play

provider in 2012. Another factor was BT's frustration with the restricted wholesale access to Sky Sports it was being offered, with Sky providing Sky Sports 1 and 2 only, not the full bouquet of channels, and not on 'fair terms', according to BT.

BT identified premium sport as the weapon that would spearhead a change in its fortunes. Its acquisition of live Premier League TV rights marked a shift in the established UK market dynamic, as the telco became the first secondary rights holder of the competition equipped with a pay TV platform of its own and other services with which to bundle its sports offering (Sky previously shared the rights with specialist sports channels Setanta and then ESPN).

BT announced its arrival as a major TV player by offering the channel package it launched to air its new content, BT Sport, at no extra cost to its broadband customers. The move underlined the importance of sports rights as a driver of multiplay, rather than simply TV, subscriber growth. As such, analysing the cost of sports rights should increasingly be analysed on a per-RGU basis, as opposed to a per-TV-subscriber one.

Sky and BT sports programming spend per TV subscriber



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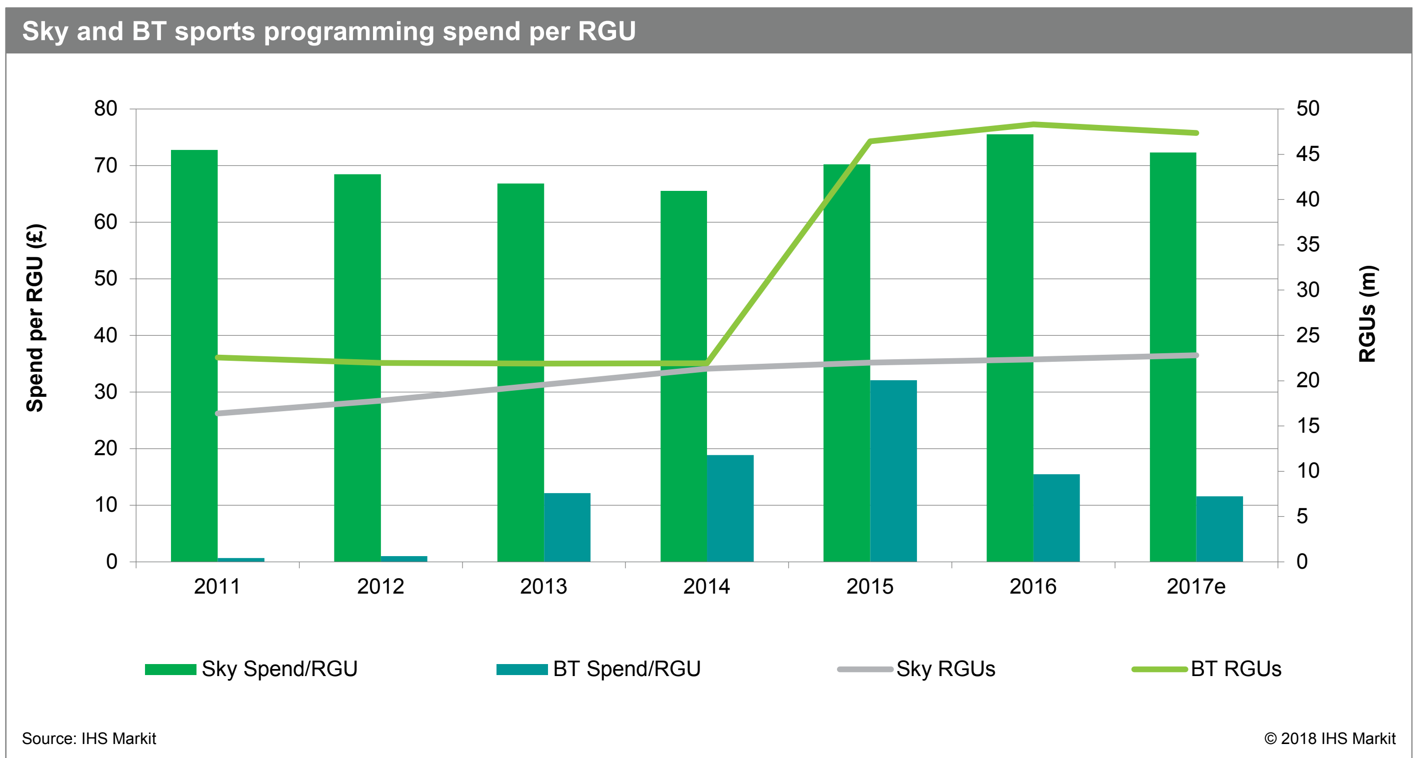

The change in strategy for BT has come at huge expense. Its Premier League rights investment for the 2013-2019 period totals £5.09 billion ($6.8 billion) and its Champions League and Europa League deals for 2015-2021 is costing £2.01 billion – not to mention the operator's significant additional spend on other rights, broadcast facilities and on-screen talent, etc. Following its initial 'free with BT broadband' offer, the operator is now executing a direct monetisation strategy, introducing a £3.50 monthly charge in April 2017.

Though it has been expensive, BT will be relatively pleased with the return on its sports-rights investment. Although BT Sport has not significantly slowed Sky's growth or triggered an increase in BT broadband subscriptions, the strategy has helped BT to reduce fixed-line losses and – with the support of its 2012 YouView-based revamp of its TV platform – reinvigorate growth for BT TV. The operator also reported an increase in revenue for its consumer division (of which BT Sport and BT TV are a part) in the financial year to end-March 2017, a rise of 7.1% to £4.93 billion. While this is not yet a full return on the investment BT has made in premium content, the strategy's success as a defensive measure – in terms of minimising customer churn and positioning the operator to compete strongly in the future – should also be factored into its evaluation.

Case study: Premium entertainment proves a better fit for Orange

Though premium sports-driven strategies have attracted the most attention in the industry, they are not the only way for telcos to succeed with content rights. France's Orange provides an example of a telco shifting its focus away from sports content to movies and entertainment. It used a combination of all three to drive initial growth for its fledging IPTV platform, in 2008 launching a bouquet of film and TV channels under the Orange Cinema Series (OCS) brand, as well as a Ligue 1 football-based channel in the same year. Orange Sport served as a secondary-premium offering behind pay TV incumbent Canal Plus's sports service. Though both of Orange's channel brands helped the operator's TV platform gain traction, the telco determined that the revenues were not sufficient to justify continuing investments in each.

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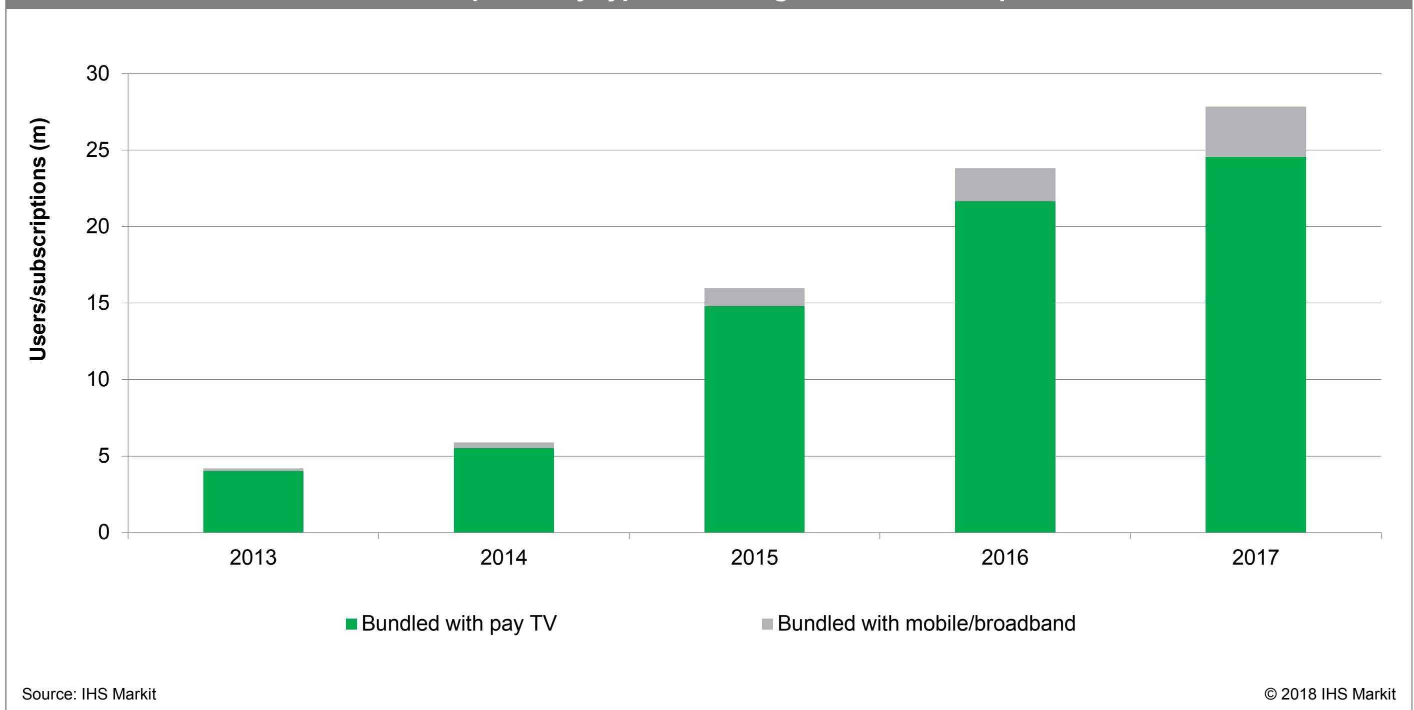
As a result, Orange sought to divest stakes in both assets. Unable to find a partner of buyer for Orange Sport, it closed the channels in 2012 – a move expedited by the entry of Al Jazeera's BeIN Sport to France. A partner for OCS was found in the form of Canal Plus, which took a 33.3% stake in the business in 2011. The deal resulted in wider distribution of the five OCS channels, on CanalSat and other platforms. Orange's commitments to French movie production remained in place and the telco has struck exclusive content deals with major production houses, notably, HBO.

TV UX and multiscreen innovators: Delivering high-quality video anytime, anywhere

TV user-experience (UX) innovators seek to provide their customers with a cross-platform, feature-rich TV service. Even if they do not have content offerings comparable to their rivals, if telcos can provide their customers with an intuitive and user-friendly experience of free-to-air and limited pay content, this can go a long way to establishing them as valued and trustworthy TV service providers.

Provision of multiscreen is a vital part of this strategy. This is an industry term that has come to mean different things to different people – for IHS Markit, being a true multiscreen provider means going beyond the set-top box to deliver video content across devices, striving for a fully joined-up TV experience. Basic TV Everywhere is a key part of this, but should be part of a broader set of services and features that allow customers to watch the TV and video they pay for wherever and whenever they want, picking up on one device where they left off on another – and should be driven by consistent, cross-device, personalised recommendations. The most successful multiscreen operators go beyond bundling TV Everywhere with pay TV to bundling streaming services with mobile and broadband as well.



TV UX and multiscreen innovation SWOT analysis

Strengths	Weaknesses
Advanced features and an intuitive cross-platform experience can help to differentiate telcos' TV offerings from those of their rivals for customer acquisition	Can be expensive – depending on the operator's ambitions for the platform, and the technology partner(s)
Supports customer acquisition and retention, and advanced set-top box features can be monetised with additional monthly fees	Direct monetisation of multiscreen has generally proven to be difficult – there are few examples of telcos charging additional fees
	Additional content rights required for true multiscreen provision drive up costs for operators
Opportunities	**Threats**
Strategy suitable for all telco video providers but particularly useful for operators that do not have another USP to focus on, e.g. exclusive content	Box swap-out costs can be an expensive long-term investment – but can be recouped, at least in part, through additional monthly fees for the new platform and/or incremental price increases over time
Some evidence to suggest that UX enhancements can have a direct impact on revenue – e.g. better recommendations marginally raising TVoD consumption	Attempts to directly monetise multiscreen can undermine its core business benefits of customer acquisition and retention
Possible direct monetisation of multiscreen with the right features – but it will generally be a value-add	

Source: IHS Markit © 2018 IHS Markit

Case study: Deutsche Telecom's advanced TV platform

Both with and without the most premium exclusive content during its IPTV expansion, Germany's Deutsche Telekom (DT) has focused on innovating the TV UX and marketing that as a USP. The latest iteration of its TV platform reflects this strategy – launched in May 2016, Entertain TV 2.0 seeks to offer an advanced and streamlined TV experience through:

- Intuitive search and navigation across sources, integrating of live and on-demand with features such as Restart
- Personalised recommendations for better content discovery
- High-spec hardware supporting 4K UHDTV services
- Multiscreen and second-screen functionality

A consistent focus on an advanced TV UX has helped DT maintain the appeal of its service even when it has not been an exclusive rights holder of the most popular sports content. The telco has not held rights to the top two divisions of the Bundesliga (Germany's football league) since the 2009-2013 period, when it owned exclusive IPTV and mobile rights. Unwilling to enter a bidding war with Sky, DT has instead focused on distributing Sky's premium sports channels – meaning that it can still provide access to this content via its platform. And the telco is still investing in sports rights outside of premium football – it has exclusive agreements for rights to the national basketball (2014-2018) and ice hockey (2016-2020) leagues – both of which are popular in Germany.

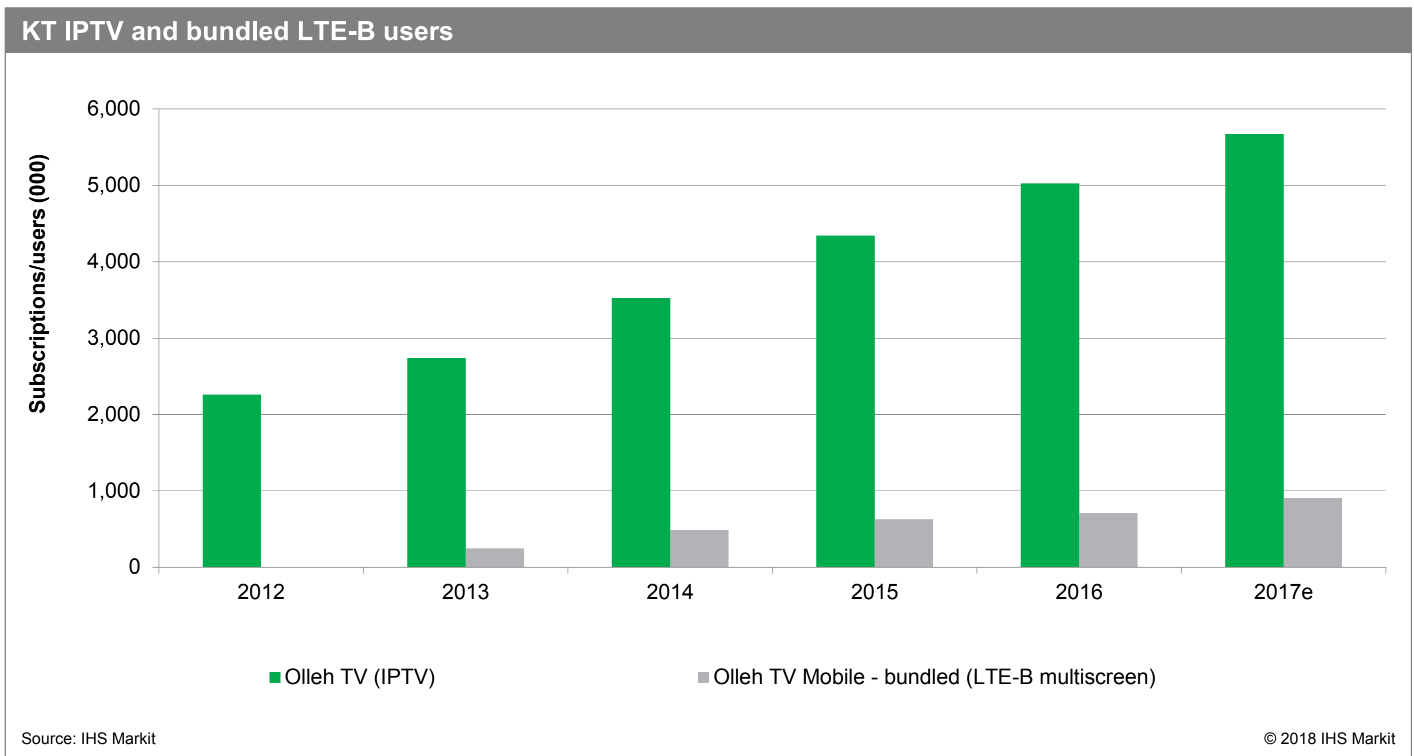
DT's advanced TV service also provides a platform through which its customers can access third-party apps, with the telco providing access to both Netflix and German SVoD offering Maxdome, which is run by local broadcaster ProSiebenSat.1. This aggregation strategy is another route to telco video business success, as discussed in the next subsection.

Case study: KT's multiplatform and multiscreen distribution of Olleh TV

Leading Korean pay TV operator KT has built its success on diversifying its service offering to facilitate convenient access for users across multiple platforms and devices. Unusually, it operates its TV service across three core platforms: IPTV (Olleh TV), DTH (SkyLife) and a hybrid DTH/IPTV service (Olleh TV Skylife). The operator continues to achieve customer growth, with cumulative subscriptions across its pay TV platforms passing the 10 million mark by the end of 2017, according to IHS Markit estimates.

Supplementing KT's core pay TV offering is a unique multiscreen service – launched in 2014, Olleh TV Mobile represents the first commercial deployment of LTE-broadcast TV. South Korea provides the unique market conditions to make LTE-B viable, in particular, a large number of enabled devices, primarily provided by Samsung, which sells a significant number of these in its home market.

For KT, the technology facilitates the delivery of a comprehensive TV and on-demand service, including 80 live channels and 110,000 pieces of VoD content, to mobile devices. The telco provides access to this to its IPTV subscribers at no extra cost, but also monetises it directly by offering it to its 4G mobile customers for KW5,000 ($4.40) a month, throwing in 10 GB of data that can be used specifically to access Olleh TV Mobile. The service is also offered on a standalone basis for the same price. KT multiplay customers using Olleh TV Mobile TV benefit from its integration with the operator's IPTV platform, with users able to pair the mobile app with their set-top box, facilitating seamless viewing across devices.



Multisource aggregators: Embracing new content providers

In order to provide their customers with a truly comprehensive TV service, pay TV operators must look beyond their traditional content partners. Multisource aggregators understand telcos' role as gatekeepers to the best content available, positioning their platforms as a one-stop-shop ecosystem of devices and applications for accessing this. This means bringing together linear channels, on-demand TV and movies, broadcasters' catch-up, and – increasingly – third-party SVoD and online video services.

Multisource aggregation: Operator-SVoD partnerships SWOT analysis

Strengths	Weaknesses
Supports subscriber acquisition by boosting telcos' entertainment content offerings – including 4K UHD content – especially if they do not already offer a (competitive) SVoD service of its own	Limited direct revenue-generating opportunity – in the case of Netflix partnerships, operators only take a share of Netflix subscription fees when customers sign up to the service via the operator's platform, and few do
Strengthens operators' reputation as the trusted aggregator of the best content services available	The TV app experience on set-top boxes can be less intuitive than on other devices
Boosts customer satisfaction and loyalty to reduce churn	
Opportunities	**Threats**
Strategy appropriate for all telcos – but less appealing to operators that invest in exclusive movie and entertainment content and run their own channels and on-demand services, viewing/usage of which third-party SVoD could cannibalise	Potential reduction in TVoD consumption, hitting ARPU and revenue
Leverage competitive advantage over rivals that may be more reluctant to partner with third-party online-video providers	Increased churn from / reduced take-up of premium movie channels, from which operators receive variable margins

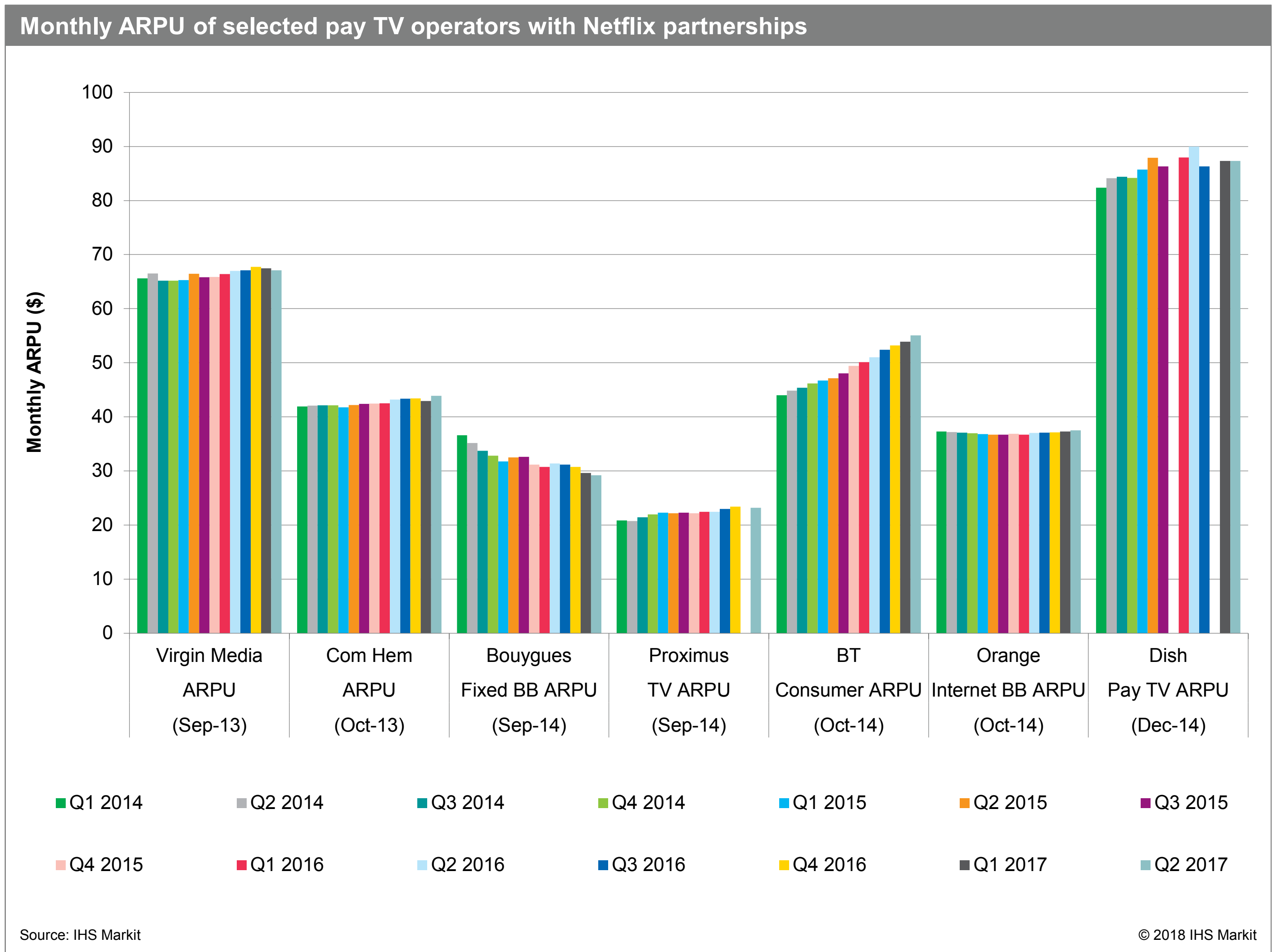
Source: IHS Markit © 2018 IHS Markit

Case study: Netflix on telco TV

The most popular third-party SVoD app addition to the pay TV bundle in the global context is Netflix. A trend of partnerships with operators – a large proportion of which have been telcos – has been fuelled by both Netflix's surging subscription growth, but more so by its channel-like behaviour, with the company ramping up its investments in original content. Netflix is now outspending the likes of NBC, Viacom and HBO, with its programming spend totalling $7 billion in 2017, around two thirds of its revenue for the year. This has yielded hit shows such as *House of Cards*, *Orange is the New Black* and *Narcos*, and is increasingly being allocated to local content production in international markets to address the different cultural and social expectations of Netflix's expanding customer base, as well as, in some cases, regulatory requirements.

For telcos, providing their customers with direct access to this content via the set-top box makes sense – it is better to keep them on-platform than have them seek it via an alternative device. Doing so not only enhances the operators' entertainment offering, including 4K UHD content, but also increases customer satisfaction, which can help to reduce churn. It is worth noting, though, that it is not a significant direct revenue generator. Operators typically get a recurring share of the monthly subscription fees Netflix receives from customers that sign up via the operator's platform, that share typically being between 5% and 15% – but in practice they benefit very little from the arrangement, as most Netflix users either already have an account, or if they do not, sign up via a more user-friendly device, such as a PC/laptop or tablet. Furthermore, from a cost point view, telcos must ensure their CDN infrastructure meets Netflix's QoS standards for its streams in order to carry the service on their platform.

The addition of Netflix to the pay TV bundle has had a net positive impact on operator KPIs, with the SVoD offering generally benefitting operators' business, while co-existing well with more traditional parts of the bundle. Its integration has at least supported growth in some areas – specifically, ARPU, with several operators fostering increases over the period of their partnerships with Netflix (French telcos Orange and Bouygues are among the exceptions, both seeing modest declines, which are primarily a result of pricing pressure). Positive KPI trends such as these, as well as the increases in customer satisfaction many of Netflix's operator partners have touted, provide evidence of the partnerships supporting their strategic goals – or at least not hurting their performance.



TV unbundlers and cross-border expanders: Untethering video to boost reach and drive growth

Embracing third-party SVoD is one part of telcos' approach to online video, but there is also scope for them to pursue standalone streaming service opportunities of their own. Those that are doing this, the TV unbundlers, have untethered subscription video from traditional pay TV networks to boost reach and drive video subscription and revenue growth. A total of 18 of the largest telco video operators identified by IHS Markit have pursued this strategy – some aggressively – often bundling their online video offerings with broadband or mobile instead of traditional pay TV.

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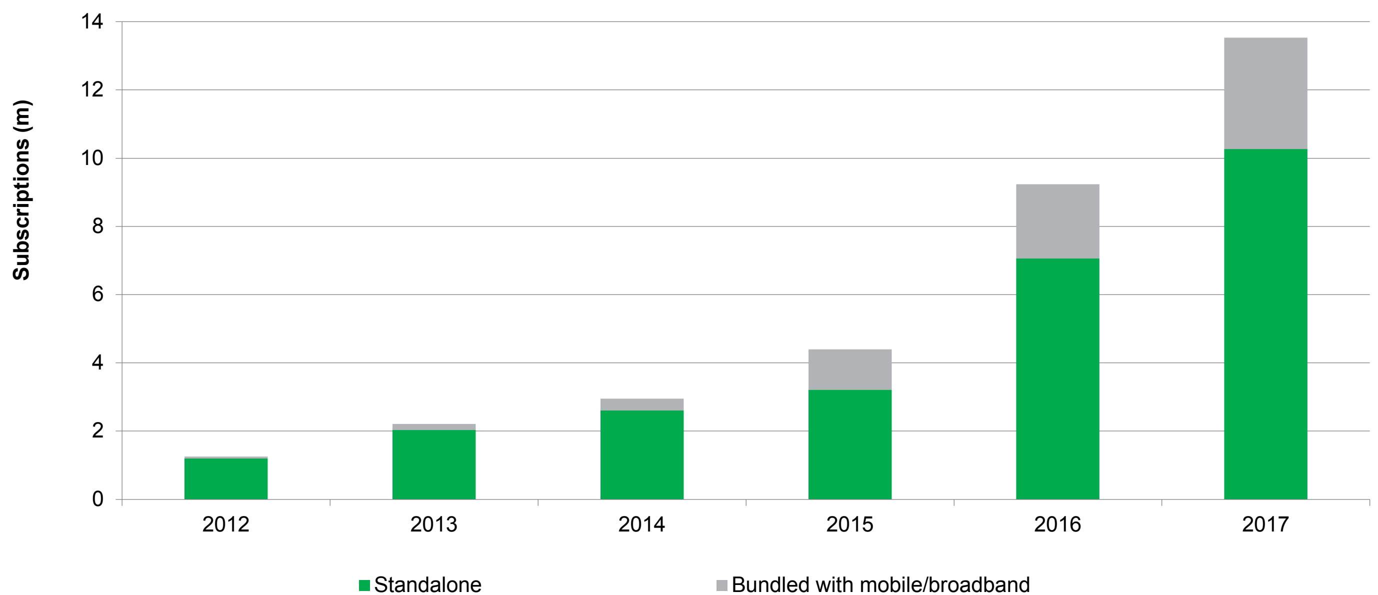

Unbundling TV in this way allows telcos to offer pay TV 'lite' services that are more accessible than, by contrast, the skinny bundles that some operators have used to give traditional pay TV customers greater flexibility. While initiatives such as Verizon's Custom TV 'skinny bundles' and Danish cable operator Stofa's a-la-carte service MitTV give subscribers more control in terms of how they construct their TV package, they are still tethered – to varying extents – to some of the less flexible aspects of a pay TV subscription, such as a long-term contract and/or a set-top box carrying associated fees (rental, shipping, etc.).

The pay TV lite OTT strategy is, in most cases, a response to two main factors, in varying measure:

- Market saturation of traditional pay TV bundles with long-term contracts, especially 'full-fat' offerings
- Competition from online streaming services that are more flexible and lower-priced than pay TV – i.e. Netflix, Amazon Prime and some other similar offerings. This competition is resulting in some level of cord-cutting in some markets – including consumers churning from rival pay TV operators that can be targeted with pay TV lite services.

For telcos, pay TV lite primarily serves as an extension of the broad strategy of using video – primarily IPTV, but now standalone online video too – to sell broadband and other communications services, i.e. allure customers that do not see value in having a set-top box and are resistant long-term contracts for TV.

And even where they are completely unbundling video services from any of their core products, the strategy is ultimately geared towards selling these, by creating as many customer relationships as possible for ongoing cross-selling and upselling efforts.

An extension of the TV unbundling strategy is for telcos to take their pay TV lite offerings across borders – to expand into new markets in which they do not already operate. The strategy provides a means of operators

overcoming saturation in their home markets by launching video services outside them. This multi-market approach to online video is already being executed by a range of other players, in particular, global SVoD providers Netflix and Amazon, and content owners such as Disney and Sony.

TV unbundling and cross-border expansion SWOT analysis

Strengths	Weaknesses
Expands the addressable market for video services, i.e. homes that are unlikely to subscribe to traditional pay TV, and provides a means of overcoming market saturation in telcos' home market(s)	The flexible nature of standalone online video offerings – being contract-free – means that they do not provide a reliable revenue stream in the same way pay TV does
Allows operators to better compete at the lower-end of the subscription video market where Netflix is flourishing	Cross-border expansion requires investment in new content rights for new territories, with operators coming up against new competitors, i.e. the established rights holders
Opportunities	**Threats**
The TV unbundling strategy is particularly well-suited to operators struggling for traditional pay TV growth in mature markets, and to those not protecting a high-ARPU core TV service	Cannibalisation of traditional pay TV services – of particular concern if these are high-end offerings with high price points
Similarly, the cross-border expansion strategy is also best-suited to operators that are struggling to grow further domestically, but who are also willing to make significant investment in some tent-pole programming to stand out from the competition	Lower levels of customer satisfaction compared to traditional pay TV – by nature of being pay TV 'lite', services are limited, lacking certain features and/or content, as well as having a poorer QoS
In telcos' core markets, increasing the number of customer relationships via pay TV lite opens up cross-sell and upsell opportunities for other products and services. Pay TV lite services can also be evolved to offer additional content and features for raising ARPU in the long-term.	Danger that a sub-par international offering will gain little traction not make a return on investment
With the right international content offering, telcos have the potential to build significant video bases outside their core market(s)	

Source: IHS Markit

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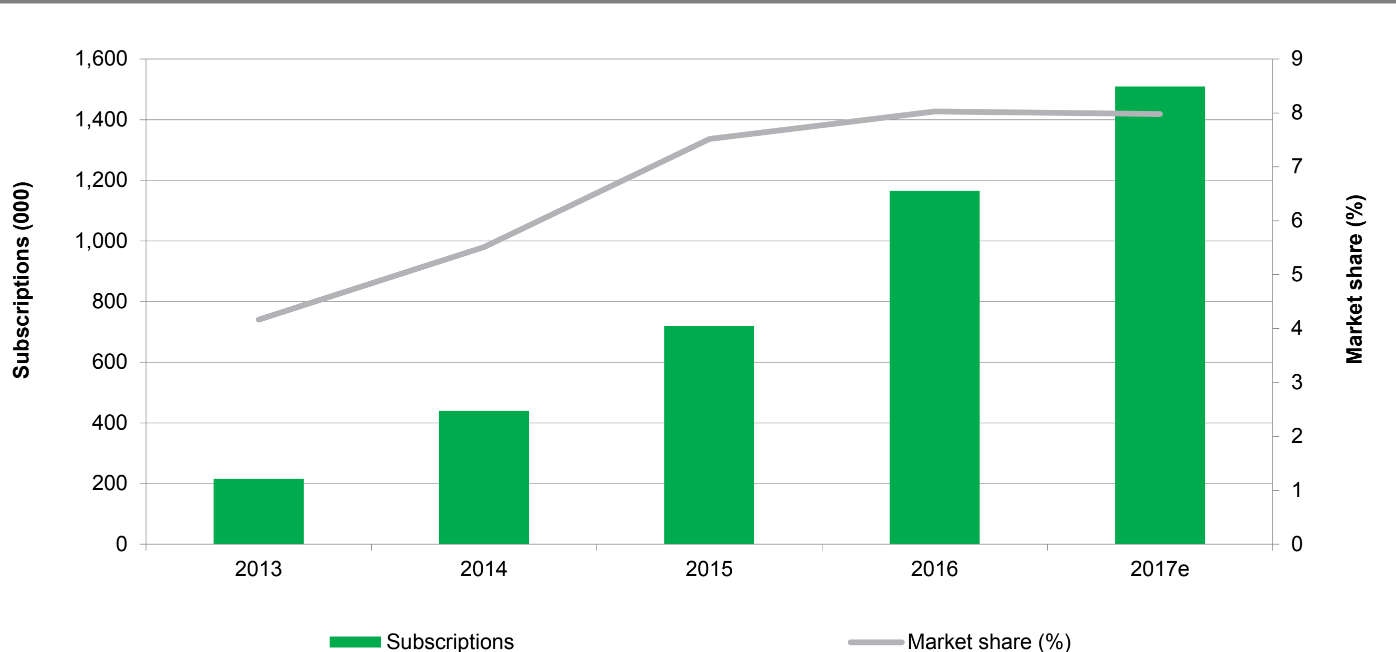
Case study: America Movil's aggressive Claro Video pay TV lite push

America Movil, Latin America's largest pay TV operator, has been particularly aggressive in pursuing a standalone online video strategy. Having faced competition from Netflix, which launched in Latin America in 2011, much sooner than in the SVoD giant's other international markets, America Movil moved quickly to counter the threat. Just a month after Netflix's launch, the telco acquired DLA (Digital Latin America), a company with VoD credentials, having forged close ties with Hollywood studios and content providers. DLA was already in the early stages of developing an SVoD service, which formed the basis of America Movil's answer to Netflix, Claro Video. The service was launched in Mexico, before being rolled out across Latin America.

Claro Video standalone subscriptions and subscription-online market share



Source: IHS Markit

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Offering subscription, transactional and free-to-view content, SVoD is the primary business model for Claro Video, which America Movil offers to existing clients of Claro's voice, Internet and pay TV subscribers, the latter for whom it serves as a multiscreen add-on. The exception is Mexico, where, due to competition concerns, the regulator has refused to award America Movil a pay TV licence, a stance that has resulted in the operator offering Claro Video completely standalone.

Though America Movil may be sacrificing some growth in its higher-ARPU traditional pay TV business in what is still an underdeveloped region for pay TV, the operator was forced to react to the competition it is facing from Netflix, streaming rival Blim and others, and target the huge number analogue TV users needing to make their digital TV choice.

Case study: AT&T's pay TV lite-led multiplay expansion via DirecTV acquisition

Executing an M&A move that will define its multiplay strategy for years to come, AT&T acquired the US's largest satellite operator DirecTV for $48.5 billion in 2015. The telco had already been operating a successful IPTV service, U-verse, for almost 10 years, but sought a video business of greater scale, ripe for cross-selling opportunities – i.e. a video base into which to sell mobile, as well as broadband, and vice versa.

The revamping of DirecTV for a mobile audience has been at the heart of the post-acquisition strategy – in November 2016, it launched DirecTV Now, a pay TV lite service targeting the US's growing number of cord-cutters and cord-nevers with a $35-a-month offering. The service has been made particularly attractive to AT&T mobile customers, who are given zero-rated access if they subscribe. To further enhance the DirecTV content offering, AT&T is pursuing another major piece of M&A business, agreeing a $85.4 billion deal to acquire Time Warner – the parent company of HBO, among other assets – in October 2016, a deal yet to be authorised by US regulators.

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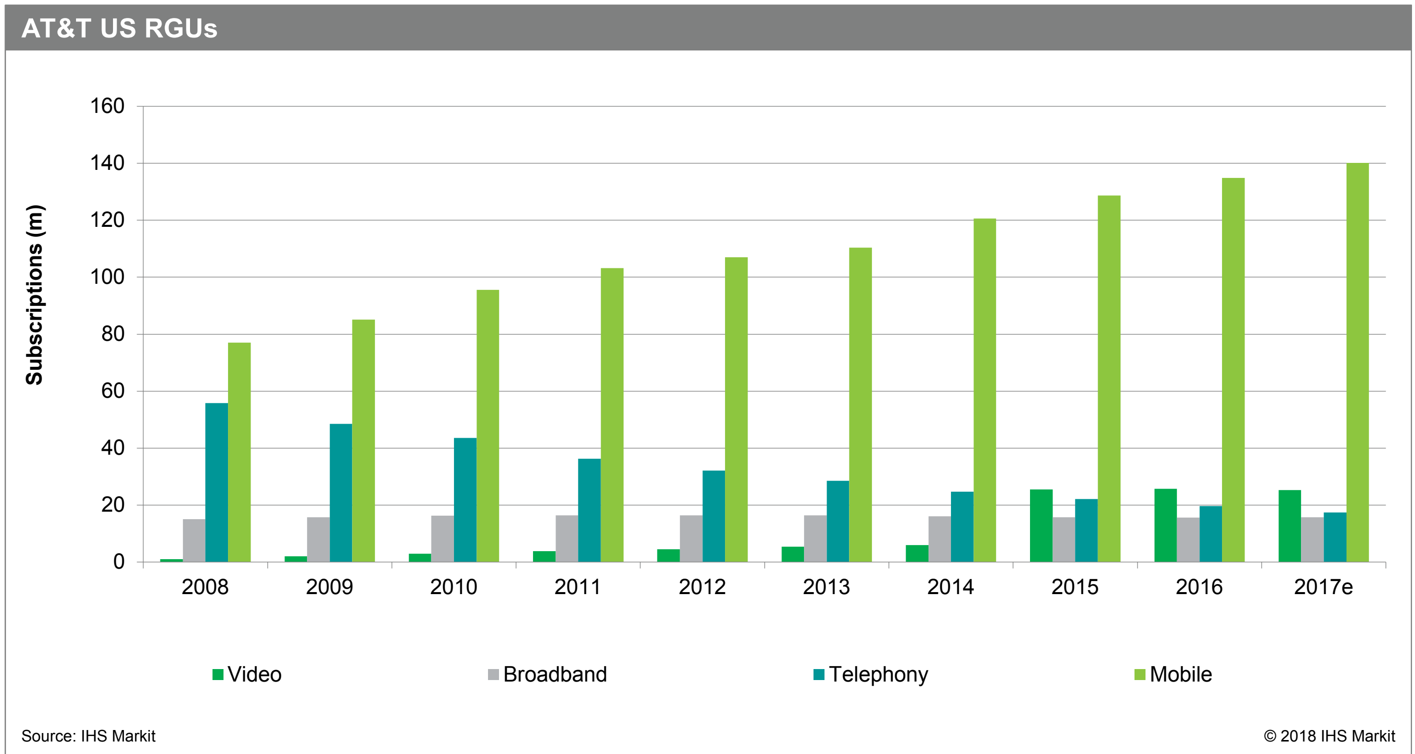
AT&T's reinvigorated video strategy is geared towards creating as many video customer relationships as possible, even if many of these are low-ARPU ones. The DirecTV Now base will, the operator hopes, be primed for upsell to more full-fat pay TV subscriptions – which enable multiple users and offer DVR functionality, 4K UHDTV content and other premium features – in the longer term. But there is certainly a strong risk of DirecTV Now cannibalising both DirecTV and U-verse, which had monthly ARPUs of $120 and $115 respectively in 2017, according to IHS Markit data. The strategy is essentially a gamble that growth via DirecTV and the upsell it could bring in the future will offset any lost revenue from substitution of pay TV for pay TV lite.



Case study: PCCW's Viu cross-border expansion strategy

With Asia proving a fertile ground for new, local online video players – Iflix and HOOQ, a joint-venture of telco SingTel and Hollywood studios Sony Pictures and Warner Bros., among them – Hong Kong-based PCCW saw a similar expansion opportunity. In 2015 it launched Viu, targeting Asian viewers with select content offered on a freemium basis, building on a strong online strategy in its home market, which started with TV Everywhere.

Expansion outside of Hong Kong was a logical move for PCCW, operating in a market of just 2.5 million TV households and where pay TV subscriptions have been in decline since 2013. Preparing for this move, the telco set up an HKD1.3 billion ($166 million) content investment fund for programming and production. This was on the back of a successful co-production distributed first in China and then 13 other Asia-Pacific markets, *The Virtuous Queen of Han*. PCCW also acquired a majority stake in Vuclip, a US-based mobile video service that had a reported 7 million-plus paying mobile subscribers in India, Indonesia, Malaysia, Thailand, UAE and Egypt at the time of the deal. Vuclip also had existing partnerships with more than 10 leading mobile operators across these markets.

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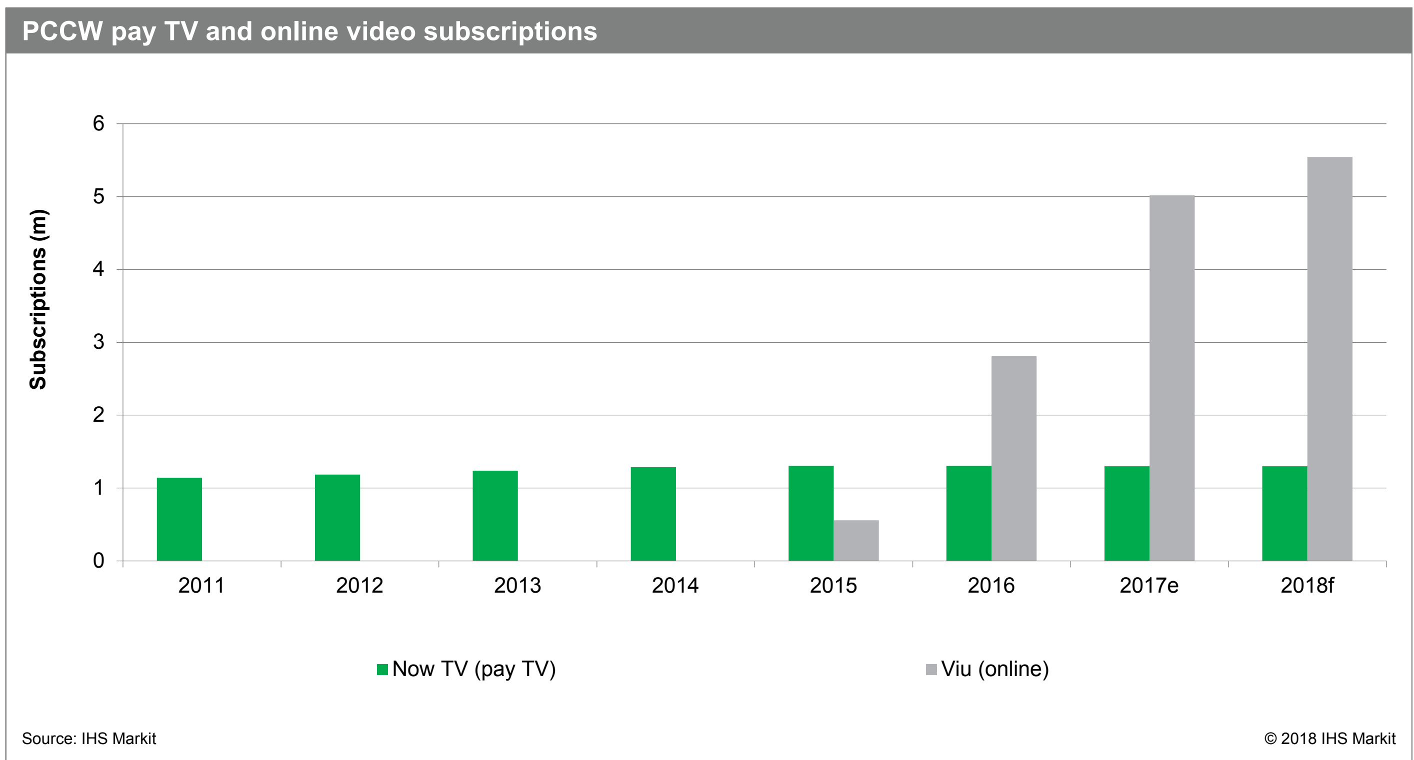

These content moves provided the basis for PCCW to roll out Viu. Making the service as palatable as possible for consumers in a region where piracy is common, the telco initially offered the service on a free, ad-supported basis, before beginning to introduce premium tiers offering ad-free viewing and some exclusive programming in March 2016. It has maintained Vuclip as a separate offering for short-form video, leveraging the service's operator and customer relationships to market Viu as the home for TV content, including popular shows from Korea and Taiwan subtitled for local audiences between eight and 24 hours after first broadcast.

Part 4: Recipes for success in telco video

The strategies outlined in this research can only achieve so much in isolation – they represent ingredients in a recipe for success, complementing each other in many cases. There are several overlapping areas of priority that IHS Markit believes should be operators' main focus, outlined in the following recommendations.

Leverage telcos' core strengths to deliver on the promise of anytime-anywhere TV and video

Netflix and other popular online video offerings have been instrumental in changing consumer expectations about the parameters of video services – the ability to stream content on multiple devices has made paying customers less tolerant of restrictions that characterised previous generations of pay TV platforms, such as the tethering of content to the set-top box.

Telcos are in a position to meet these expectations and deliver a fully joined-up multiscreen experience – equipped with platforms, services and means of distribution, they must continue to invest in their high-speed networks, media management and delivery capabilities, and multiscreen functionality and content rights.

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Build a content offering that is proportionate to your ambitions and embraces aggregation

Premium content, from premium football rights to entire producer-distributor businesses (e.g. Time Warner), can be astronomically expensive. But such investments are not required to achieve success in video for telcos. They are usually attached to specific strategic goals, typically one or both of the following:

- Gaining traction in maturing, cable- and satellite-dominated markets

- Achieving a second growth phase oriented around selling video into mobile customers via flexible streaming services.

Exclusive content rights give the telcos owning them the advantage of packaging premium TV and video in ways that give their individual products and bundles a competitive edge. But the channels that provide a home for this content are often offered on a wholesale basis (even BT, having refused to wholesale BT Sport to Sky for several years, eventually struck an agreement with its arch rival), meaning that telcos not investing in premium sport can typically provide their customers with access to it without owning the rights themselves.

Telcos that are primarily focused on playing the aggregator role should see video as a low-cost add-on to their bundled offerings, supporting and protecting their broadband businesses. Their aggregation should extend to content providers from all backgrounds, including online video. Partnerships with Netflix et al. may not benefit operators through direct revenue generation, but they serve broader strategic goals, boosting operators' content offerings and supporting customer retention and upsell.

There is also room for these operators to make some more modest investments in exclusive content, such as individual TV series, that offer some level of differentiation and are lower risk.

Telcos investing in premium sport and having to accommodate rights-cost increases rises must find ways to absorb them and better monetise their portfolio of products. Strategies for doing this fall into three main categories:

- Aggressively target RGU growth, in the form of:

    - New pay TV sports package subscriptions

    - Pay TV lite OTT subscriptions featuring flexible access to sport

    - Multiplay packages that will increase the number of products per customer

- Pass the increased cost of rights on to consumers by raising prices

- Cut costs, either by reducing content spend on other sports or movies/entertainment, or by making the business more efficient in other areas

A combination of all three, to varying degrees, is likely to be executed by most operators that find themselves facing this dilemma. And it is likely to be a viable strategy for those managing more modest rights cost increases than some of their peers.

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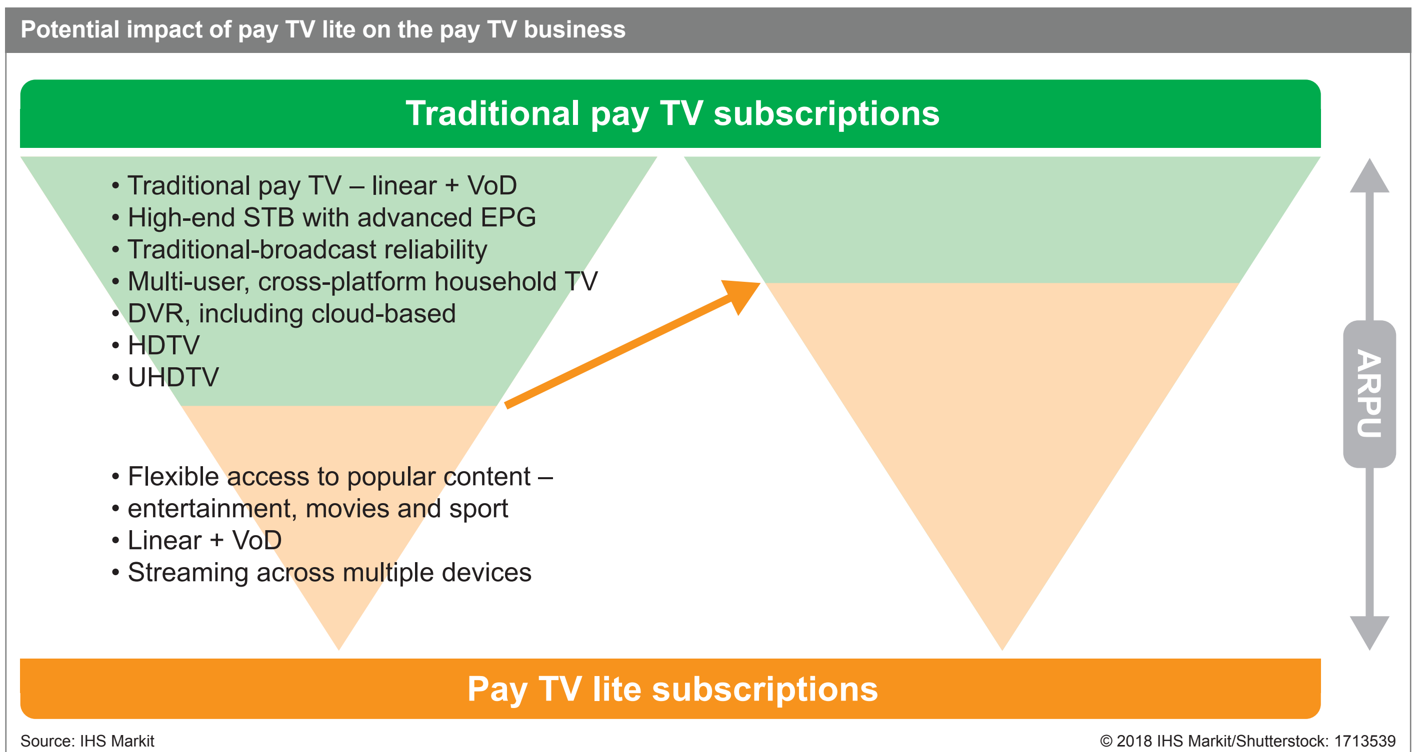
Seek opportunities to execute a two-tier video product strategy

Unbundling video services from traditional pay TV networks is becoming increasingly necessary for telcos seeking to expand their reach – those that do not, risk losing touch with the mobile-first generation that primarily seeks video content on devices other than the TV, and missing out of this growth opportunity. Achieving viable scale with pay TV lite can only be achieved with a compelling service, though – telcos developing new offerings must identify ways to differentiate through the right mix of content, features and pricing. This will be challenging – and potentially prohibitive – in more mature and competitive online video markets.

The pay TV lite strategy carries some risk – but the level posed varies from operator to operator, depending on the make-up of their core business. The main risk is of cannibalisation of traditional pay TV subscriptions, which is more a threat to operators of high-end TV services that have high price points, and therefore generate high ARPUs. This mainly applies to DTH operators, with the likes of Sky, Dish and Foxtel potentially accelerating churn from their core platforms by offering a more flexible and lower-priced alternative.

Potential impact of pay TV lite on the pay TV business



Source: IHS Markit

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AT&T's DirecTV is therefore facing such risk from the DirecTV Now product. But the telco is responding to what is an unstoppable shift in the declining US pay TV market, which has been irreversible disrupted by the Netflix-led online revolution.

For many telcos, though, IPTV is a relatively low-cost addition to their core bundles, meaning that there will be little incentive for churning from them in favour of a similarly-priced online video alternative, thereby limiting the risk of cannibalisation.

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Expand into new markets via online video – if you have something compelling to offer

As an extension of the TV unbundling strategy, there is an opportunity for telcos to expand their online video offerings to new audiences outside their home markets. This is a strategy best suited to operators that are struggling to grow further domestically.

However, this endeavour should not be undertaken lightly. While the content offering does not have to be as extensive as in the operator's core market(s), it must, in IHS Markit's view, have some tent-pole programming and a clear identity to differentiate from the online-video competition. This is the case with PCCW's Viu and SingTel's HOOQ. The same cannot be said – at launch at least – for the new pay TV lite service launched in Spain by Sky in September 2017, which is not as compelling as the Now TV / Sky Ticket services offered in its core markets and does not have a clear USP.

Focus on the indirect benefits of a positioning video as a core service

As the strategies and case studies examined in this paper have emphasised, video's value to a telco goes far beyond the revenue and potential profit it can generate in insolation. Operators making investments in video services and the technology that supports them should not necessarily expect to see the CAPEX and OPEX required to be returned by their video division alone. Revenue generated by content services, feature monetisation and video-specific network access will make significant contributions, of course, but the overall success of video – in particular, the indirect impact it has on the health of a telco business – will be harder to measure.

Telcos should see video – pay TV and/or online video – as a primary tool for elevating their overall value proposition, as the most marketable part of their offering, the appeal of which can be leveraged to sell broadband, mobile and telephony in various bundled combinations. And it will, through pay TV lite OTT offerings, increasingly become a means of forging new customer relationships, which may be low-ARPU and less reliable to begin with but can be nurtured into higher value, more stable ones.

Telcos should also be motivated by the threat of the negative consequences of ignoring video's potential – failure to make it a core service will put them at a competitive disadvantage, either now or in the future, and leave their core services vulnerable to increased churn, which can be difficult to reverse.

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