Television Through the Internet, Who Stands to Win?

Josep Valor
e-business Center PwC&IESE
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While the much talked about Terrestrial Digital Television (TDT) has still to arrive, telecommunications operators want to popularize a new way to watch television: TVIP, or Television over Internet Protocol, is a broadband service that lets users watch content on our televisions.

For now, the only TVIP service in Spain is Imagenio, which belongs to Telefonica. But Auna, Wanadoo and Jazztel have already announced that they will set up TVIP services in the near future.

In principle, Auna’s service will be available in July and will obviously start to deploy in areas that are not covered by its cable network. The operator will thus have nationwide presence and be in a position to obtain scale economies in publicity and content. After all, DSL takes advantage of the traditional telephone line infrastructure that is already in place in most homes and requires much smaller investments than a completely new network.

Auna will use part of the Telefonica infrastructure, as will Wanadoo and Jazztel before the end of the year. In other words, all the operators will use practically the same infrastructure and technology. Taking the cue from Internet access, it is going to be impossible to differentiate between competitors on this point. The difficulty to differentiate the service has led to a price war among operators and has brought about a drop in the monthly Average Revenue Per User (ARPU). But the decrease in rates or the increase in speed connection for the same price has a limit: operators cannot afford to roll out their own networks without getting paid enough to amortize them. They prefer to use Telefonica’s infrastructure, which places all the operators within the same price range.

In this sense, content seems to be the only factor where competitors can differentiate. In Spain there is a paid television platform, owned by Sogecable, whose main appeal is films and sports events.

Will TVIP operators be able to displace the content

Highlights

1 Analysts foresee that the monthly Average Revenue Per User (ARPU) that European Internet access providers receive will fall from 40 euros in 2002 to 21 euros in 2008. This will force the operators to increase the number of services so that they can take in more revenue per customer.

2 In June the number of subscribers to Telefonica’s Imagenio stands at 45,000 against the 2,500 customers it had one year ago. The company expects to reach 200,000 users by the end of the year and one million by 2008.

3 In February 2004, France Telecom, owner of Wanadoo, set up MaLigne TV, its TV service over DSL. At present, MaLigne TV has between 150,000 and 200,000 customers. In the United Kingdom Kingston provides DSL TV, while in Italy it is supplied by Fastweb, in France by Free and in Japan by Softbank Yahoo.

4 Microsoft has made an alliance with Alcatel to include its TVIP software in all the devices of the French company. Its software will also be integrated in services provided by telecommunication companies such as SBC Communications, BellSouth and Telecom Italia, but not Australia’s Telstra, which has just broken its agreement with the software giant.
Sogecable provides? Key to doing so is to have exclusive content. Otherwise (as has already happened with football broadcasts after a law that declared it “a general interest”), without any added value to allow for differentiation, price will once again be the only way to compete.

That is how things stand; the outlook for operators is rather gloomy. The only ones to gain from this increase in services are customers who benefit from the fall in prices. However, the CMT, the Telecommunications watchdog, has already taken it upon itself to limit the discounts -so typical when new products are launched- that Telefonica was going to extend to their future Imagenio customers.

If the telecommunications companies do not win, who will benefit from the appearance of TVIP on the market? The clear answer here is those who contribute differential elements to this offer: software developers and content providers. While the former, led by Microsoft, struggle to become the standard, content providers are excited about having all their products on all platforms. That means that if a winner does emerge from this market, it certainly will not be a telecommunications operator. They will be involved in a price war once again.