**Telcos: Problems increase...**

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IP invades everything. The fact that these networks, through which both information and the voice travel, are becoming more widespread, together with the increasing popularity of flat rate payments mean that time and distance factors are progressively of less consequence for the price of communication. The amount of time you spend online no longer matters. Neither does the distance between ourselves and the person at the other end of the line in a telephone conversation, or for how many minutes we speak. We pay an ever cheaper monthly fee and forget about it.

In a world of “everything over IP” and flat rates, telecommunication operators can no longer “fatten up” their bills when customers consume more on traditional communication services.

So, how can they maintain profitability?

There are basically two ways of doing so. The first is to hold on to current clients by reducing the churn rate or by attracting new customers; but as a result of the pressure of competition, this is no easy task (practically 100% of homes subscribe to some operator’s services). The second method is to try to increase the average return per user (ARPU). In the attempt to retain their subscribers and to boost their spending, a large number of traditional operators have opted for providing additional services such as IP telephony or Television over IP networks.

By offering their own on-demand television and video services by ADSL, operators are in fact re-selling content. But many of these same services are available on other platforms such as cable or satellite TV. In this case, price is the only remaining competitive factor. This means sacrificing the margin, something which goes against the initial intention of increasing profits. What’s more, this is not easy to sustain in the current climate due to the large inversion implied by content and infrastructure - assuming of course that a given operator does not only have at its disposal the content which most interests its audience. Digital + is still the dominant platform because it holds contracts with the Hollywood majors - so it can be the first to transmit cinema’s best - and because it owns exclusive

**Highlights**

1. A survey questioning more than 53,000 Internet users, carried out by the Association for research in the Means of Communication (ARMC), reveals that some 74% of users choose the 24 hour flat rate charge option.

2. At the close of 2004, there were more than 3.41 million Internet contracts in existence. Gaptel estimates that by 2008, the figure will reach around 8.41 million divided between ADSL connections (6.07), cable (1.58) and others (0.33).

3. Around 20% of Spanish homes now use paid TV channels. The average monthly spending/expenditure on these services is 32.8 euros, a higher amount than that recorded for fixed telephone lines (26.7), mobile telephones (25.8) and Internet (19.3).

4. Red.es estimates that the number of paid TV users will almost reach the European average (30% of homes) by 2008. Satellite TV shall continue to be the majority option (48.9%), followed by ADSL TV (25.6%) and cable TV (25.25%)
or almost exclusive broadcasting rights for sporting events and bullfighting. To put it another way: as long as fixed line operators continue to offer their clients the same channels and content as those available on satellite and cable, their IP television (IPTV) platforms will not bring in a great profit. The feasibility of these services will depend on who takes away with them the broadcasting rights when the time is up on current contracts. At such a time, star content sale prices will surely go up.

Operators’ arrival on the scene of the IP telephony business presents other challenges. IP networks are progressively making voice transport, the main traditional source of income, more convenient. This phenomenon is also provocative in that it favours the entrance of companies who have no network infrastructure, such as Skype, into the telephony market. The tendency indicates a future of free (or almost free) IP network-based calls; as with e-mail, but using the voice; or as in the case of instant messaging services, also free and already beginning to incorporate the voice. In fact Yahoo! and Microsoft have just united their messenger services, which means that more than 275 million users will be connected and will be able to converse without the need of a an intermediary telephone operator.

The co-existence of VoIP and mobile telephones and Personal Digital Assistants (PDA) with WiFi access means that the problem could extend to mobile phone operators, given that the user will be able to call from anywhere using Internet connection and without having to rely on the operator - his mobile phone bill will also be drastically reduced.

New combinations of technology and devices arise on a daily basis: fixed line telephones which transmit call using IP networks; mobile phones function alone thanks to WiFi connections; computers which can speak to other computers and/or with fixed line telephones; instant messaging services which incorporate the voice; television providers which telephone and Internet connection through the same receiver (set-top box)…

To sum up, in a world of access platforms which converge thanks to IP networks, everyone offers everything and tries to sell their own integrated package of connectivity, telephony and television (triple-play). At the end of the day, the winner will be able to marry the best triple-play offer and the best value-added services. But, at the moment, black clouds are forming on the operator’s horizon - because with IP on the scene, the problems for telcos only increase.