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Have the telco TV stars aligned?

By Jeff Baumgartner, Editor
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Faced with competitive threats to their bread-and-butter voice business, the telcos have taken some major steps in the last couple of years when it comes to adding their service bundles.

How to get into the video business was again the primary theme of the 2005 TelcoTV show, held last month in San Diego. Telco interest in video and the overall maturity of the market was in stark contrast when compared to the 2003 iteration of the show. Back then, SureWest Communications was the best IPTV champion to point to. SureWest is still on the video radar, of course, but it has much more company now.

Just how much more? A lot, if you believe the projection that about 72 million subscribers around the world will get video from the telcos by 2010, according to Alcatel VP of Marketing Jim White, a show keynoter.

In addition to those projections, it is apparent that cable operators (and the DBS guys, too) will have a big marketing challenge on their hands, as telcos continue to refer to their IPTV offerings as "better TV."

SBC Communications, which is set to launch its "U-verse" IPTV service next year, believes the stars have finally aligned for the RBOC to move aggressively into video, said company VP of Product & Strategy Jeff Weber, another keynoter.

Before the integration of IP-based services and technology became possible and the costs came down, "it didn't make sense for SBC to move into TV," Weber said. SBC sold its Ameritech cable systems to WideOpenWest LLC back in November 2001.

Also making the decision easier today has been the emergence and pairing of bandwidth-saving advanced codecs and switched video. For SBC it means that "the forces are right" for IP-delivered video services, he added.

SBC, Weber said, completed most of its IPTV field trial work in October, and it was all completed with "production level" equipment. The RBOC plans to shift into a "controlled" launch by year-end and into 2006, and a scaled launch by mid-2006.

Obtaining content, and the right content, is not the barrier that it once was. "Thirteen months ago, [content] was top of the list as a worry, [but] is nowhere near that today," Weber said.

SBC is also not too worried about obtaining franchises, claiming its IPTV service should not come under the same scrutiny as RF-based cable systems. Verizon, which is using RF overlay techniques to offer service initially, is the opposite, and has been aggressive in signing franchise agreements.

"This [IPTV] is a different animal," Weber said. "Our view is we don't need a franchise."

Feeling independent

The cable industry has long battled against the potential of offering a "dumb pipe" as the bar on speed continues to rise.



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But, according to two independent telcos, just providing the pipe is plenty good enough.

"We want to be the pipe provider; [it] doesn't matter what's [riding] over that pipe," explained Richard Ruhl, general manager of the Pioneer Telephone Cooperative, who spoke on the independent telco panel.

For Chibardum Telephone, a telco that serves 14,500 access lines in the northwestern portion of Wisconsin, video is just a "tool" and a gateway for other services. "We don't make any money with it (video)," said Chibardum CEO Rick Vergin.

In 1999, Chibardum launched a VDSL "lite" service using gear from Next Level Communications (now part of Motorola), offering two to three streams of video.

Both agreed that providing HD and DVR services is not imperative today, but will become so soon.

"I think we've got 18 months to be able to provide [those services], or it will start to haunt us," Vergin said.

Pioneer, meanwhile, is close to launching DVR services in partnership with set-top maker Amino Communications.

Although many telcos are using gateway devices to distribute IPTV services to multiple sets in homes over legacy coax, Pioneer is taking a much different approach: installing Cat-5 for every video subscriber.

The downside is the "significant" cost, Ruhl said. The irony, he explained, is that Pioneer actually saves a lot on those installations by using a contractor to install the Cat-5. Its own LEC charges about double the rate of the contractor, he noted.

More telco TV savings

Although they won't be able to help with the Cat-5 cost issues, the National Rural Telecommunications Cooperative (NRTC) and the National Telecommunications Cooperative Association (NTCA) have moved ahead on a plan that will help rural telcos enter the video business less expensively than before.

Working in partnership with SES Americom and the company's new IP-PRIME platform, the organizations plan to launch the service in 2006.

The venture will provide rural telcos with program licenses and volume discounts on equipment—and up to a 90 percent savings on associated infrastructure costs, according to NRTC President & CEO Bob Philips.

The group has already signed up its first trial customer: the West Kentucky Rural Telephone Cooperative, which provides telecom services in 18 exchanges. The co-op, which also serves part of west Tennessee, expects to begin beta tests of the service in Q1 2006.

SES Americom launched IP-PRIME earlier this year, offering a centralized distribution system for both standard- and high-definition channels and programming. SES Americom is basing the service from Vernon Valley, N.J., where video and audio fare will be received and processed for distribution via satellite and fiber landlines to IPTV provider hubs.

For smaller operators that need a "turnkey" approach, SES Americom will supply the set-top middleware as well as a centralized conditional access (CA) system. At the show, SES Americom demonstrated support for Myrio Corp.'s middleware, but has yet to reveal any CA partners.

Despite SES Americom's partnership linked to smaller operators, IP-PRIME "can serve all segments of the market," explained Bryan McQuirk, SES Americom's president of media solutions.

Counting on on-demand content

Two years ago, the independent telcos at this show lamented the difficulty in obtaining programming, and instead having to rely on consortiums like the National Cable Television Cooperative to get access to programming at a fair price. With giants like SBC, Verizon and BellSouth shifting their video plans into high gear, it's apparent that the content folks, particularly those involved with video-on-demand (VOD), are now a bit more willing to reciprocate that interest.

Although the technology of video-on-demand is as important as ever, content remains king, and remains the key driver for VOD.

So what's happening on the latter to draw more viewers to the on-demand platform and to satiate the studios and content products that are fueling it?

A panel that featured key executives from Paramount Pictures, 20th Century Fox, NBC Universal Cable, and Warner Home Video On Demand offered a raft of suggestions and best practices that telcos could use to get the most bang for their VOD bucks.

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For most, that starts with the user interface.

Audrey Schneggenburger, the VP of marketing, worldwide PPV & VOD at 20th Century Fox, stressed the importance of promoting titles with movie posters and jacket art—rather than boring text.

The user interface "is your best marketing tool," she said.

"The GUI is your store front," added Michelle Edelman, VP of marketing for Warner Home Video on Demand.

Schneggenburger also emphasized the need for simple navigation. For example, minimizing the number of "clicks" it takes to get to the VOD screen and to the order screen is a big plus, she said.

Content suppliers have also been dabbling in more advanced promotional campaigns to push the VOD envelope.

Paramount Pictures, explained company Director of Marketing Kristie MacDonald, is using a "rent with your remote" message to promote films such as "Alfie" and "The Honeyymooners."

In a VOD case study, NBC Universal leveraged local ad sales to push the on-demand release of "In Good Company," which stars Dennis Quaid and Topher Grace. Further, CNBC's Maria Bartiromo did not stump for the film directly, but tied in on-demand business tips to support the effort. NBC Universal's VOD affiliates were offered the ability to order and obtain the materials—including three taggable TV spots—via the Web.

Among the results, about 70 systems representing 16 million subscribers signed up, according to NBC Universal Vice President of Marketing, On Demand Stacy Melle. She said the effort produced a return on investment of 20-to-1.

One of the biggest challenges VOD faces is competing with earlier DVD and theatrical windows. As the "third window," VOD has the added difficulty of attracting viewers who may have already seen the film in the theater or on DVD. According to Edelman of Warner Home Video, about 8.3 percent of consumers bought a ticket to see "Batman Begins." So far, just north of 2 percent have purchased the DVD. The projections for VOD? Just 1 percent.

So, how do video service providers get more people to buy "Batman Begins" on VOD? One possible solution: offer them extra content usually relegated to DVD.

Warner Home Video on Demand came to that conclusion after a study found that 20 percent of viewers would buy a VOD title if it included bonus materials. But just not any bonus materials will do. They had to be something that wasn't available via the other windows.

Warner Home Video aims to do just that starting next month with its "Movies That Pop" campaign, with titles like "Batman Begins" and "Charlie and the Chocolate Factory."

In a demonstration last week, those "extras" looked very much like VH1's "Pop Up Video" concept, whereby snippets and trivia about the movie "pop" on-screen in sync with the scene being shown.



Warner Home Video on Demand brought its "Movies That Pop" message for titles such as "Charlie and the Chocolate Factory" to the '05 TelcoTV confab.



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