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How will the Microsoft-Alcatel Partnership Impact Smaller IPTV Players? --Myrio CEO, Chris Coles, on How his Company will Position itself

When Microsoft and Alcatel announced their IPTV partnership last month (see article in this issue), many observers speculated that this alliance between software and telecommunications equipment giants could be bad news for smaller players in the IPTV middleware-applications space, such as Orca Interactive and Myrio. [itvt] recently caught up with Myrio CEO, Chris Coles, to get his reaction to the Microsoft-Alcatel partnership.

He speculated that the partnership, while admittedly a potentially powerful one, could make it more difficult for Microsoft TV to build relationships with companies that compete with Alcatel: "Alcatel certainly brings a competency to the partnership, in terms of understanding IP networking from the central office or headend out to the home, which is not something that most software companies have exposure to, and that's certainly a value," he said. "But the partnership probably also polarizes the landscape a bit, because there will be some rival access equipment providers and integrators that now will not want to work with Microsoft out of concerns about the relationship with Alcatel. So I think this could be an unintended consequence of this move." Myrio, on the other hand, Coles continued, "has a large list of access equipment providers that we work with today, and that provide us with strong IP networking competency; companies like Siemens, Calix, Lucent, Paradyne, Zhone, Wave7, OSI and others. So, while Alcatel hasn't been on that list for a while because they had their own IPTV software-development efforts, you could certainly say that a who's who in the rest of the category is working with us, and we believe that will continue. And it's important to remember that carriers typically have 2 or 3 different access solutions in their network at any one time: for that reason, they will want to look at other options, not just at Alcatel-based systems."

Coles also speculated that many telcos might not want to commit to a Microsoft-Alcatel end-to-end platform, preferring instead the flexibility of being able to mix and match "best-of-breed" solutions from multiple vendors: "I see the Microsoft value proposition as being a somewhat closed end-to-end type system," he said. "It includes the encoding, the DRM, the VOD, and so on. It's all brought to you by Microsoft. Now that could be a point of strength for some operators, and a point of concern for other operators. Let me provide some historical examples from the cable space," he continued. "Cable placed a large technology bet on Scientific-Atlanta and Motorola. This was an effective and efficient way of getting their business jump-started, but it may not have ultimately yielded the right degree of innovation at the right cost structure as their business matured. So now you have various initiatives from CableLabs that are designed to allow cable MSO's to make their own choices on the product mix in their delivery networks. They want to be able to plug in and unplug new solutions in a way that they control as opposed to in a way that's

controlled by their vendors. Historically, when Microsoft would approach the cable industry, there was always a concern on the part of the operators that working with Microsoft would entail a continuation of the sort of dependency they had on Scientific-Atlanta and Motorola. Microsoft has always been an intriguing partner, but also a concerning partner, you might say, because of their well-documented track record on the PC platform, which they've controlled very tightly."

Coles nevertheless conceded that, despite any concerns telcos might have about using an end-to-end IPTV solution from such a powerful vendor, a surprisingly large number of telcos have already signed up to trial or purchase Microsoft's solution: "It's definitely interesting that a number of large telcos around the world have signed on to Microsoft's Early Adopter Program," he said. "It's certainly somewhat counter to telcos' historical approach of preferring an open architecture, being able to make vendor substitutions and having at least two vendors active. So we'll see how this one ultimately plays out. My belief is that they'll probably come back around to their standard approach, with at least two vendors in the considered set, so that they have the ability to substitute if they need to." [itvt] asked Coles why he believes Microsoft's IPTV early adopter program has apparently been so successful: "I think that they've made the introductory trial program financially attractive, and that it probably covers more than just the Microsoft TV product, in order to entice the operators' interest," he said. "And I would also expect that all the early adopter agreements and the commercial deals they've secured have a number of clauses that would allow the telco to be able to exercise other options. I very much doubt there's any kind of exclusivity, because that would be quite counter to the way the telcos do things. At this stage, when there's still a lot of design and development work left to do, and before you've even signed up your first customer, entering into a long-term exclusive deal for an untested solution is not a bet that most rational people would make." (Note: [itvt] contacted Microsoft TV for a response to Coles' comments about its early adopter program: "While we do not discuss specific financial details of any agreements," a statement emailed to us by the company read, "the primary incentive our EAP partners enjoy is the ability to trial and provide input into the creation of our IPTV Edition platform. It is an opportunity that each one of them has been excited about. The SBC deal we announced in November is most likely one of the largest software deals in this industry, demonstrating in real terms the value of our IPTV Edition platform.")

[itvt] asked Coles whether he thought the sheer size of Microsoft--the fact that, at least in terms of market capitalization, it is the largest company in the world--will encourage telcos to use its software if for no other reason than because they can be confident that it will not go out of business: "I think there's probably an assumption of safety and confidence in going with Microsoft," he conceded. "And they do have large, competent development teams. Nevertheless, they are an enterprise software company that is extending its position into carrier-class applications, which is not an area in which they have historically operated. To the best of my knowledge, there is no Microsoft technology at the core of any of the large telco or PTT networks. It tends to be Unix or Linux. So, when you talk about being in the heart of the network and delivering 24/7 carrier-grade services, that's not a place that they've historically been in. The carriers know that, and they're watching closely." We also asked Coles whether the presence of an Alcatel-Microsoft behemoth in the IPTV marketplace and its apparent success in signing up large telcos around the world will lead Myrio to focus on selling its solutions to smaller independent operating companies (IOC's), an area of the market in which it has already secured over 60 deployments: "We have never really viewed ourselves as an IOC-only play," he said. "We have always

positioned with the large accounts as well: as you know, we've already got a tier-one operator, Belgacom, up and in service, and we've secured several other large operators in the US and Asia that we'll be announcing shortly. The market is still wide open, as it's only recently that the larger telcos have begun to get public about their IPTV plans. That said, we're not going to neglect the IOC market, because they've obviously been quite instrumental in the success we've had thus far, and--even without the larger operators--they can support a very viable and strong business model for us."

[itvt] asked Coles to summarize how Myrio will position its solutions to operators going forward: "We'll tell them that we have a field-proven, field-hardened solution that they can put into their network today, and then give us input as to what they want to see on the product agenda in the future, so that they're able to deliver the services they want," he said. "Five years of market success with larger and larger carriers has given us, I think, a great deal of insight into the unique challenges that an IP network presents to video traffic--by which I mean that video has a low tolerance for latency. Our solution is not a demo. It's not a concept. It's not PowerPoint charts. It's the real deal, and it is working on ADSL, VDSL and fiber-to-the-home networks today. It's already up and running, and we have 64 accounts--which I think counts for quite a bit."

(Note: Coles did agree with Microsoft TV's Ed Graczyk--see article in this issue--that the cable industry is itself very interested in IPTV: "Cable companies have a lot of IP in their networks, because of DOCSIS and VoIP," Coles said. "So I think it's a given that they will soon have IP video. However, I don't believe it will immediately--or even within the next 5 years--represent a total replacement of MPEG-2-transported video or even analog video. But I do see it as a logical extension to send unicast or very narrow-cast video content to their customers, where it's impractical for them to broadcast it because there isn't a big enough base of consumers that would watch niche content. So I do think it will be very relevant to what they're doing, even within the OCAP framework.")