



# The (Business) Case for IPTV

OPASTCO

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# **IPTV is Disruptive**

- ***Meet your new boss, (NOT) the same as the old boss***
  - ***“Won’t Get Fooled Again”; The Who (2007 Version)***
  
- ***Welcome to the (Marketing) machine***
  - ***“Welcome to the Machine”; Pink Floyd (2007 Version)***

# **IPTV is Disruptive**

- **Strategically, it MAY BE required**
- **Financially, it MAY / MAY NOT work**

## **IPTV Requires Expensive Networks**

- **Regulated broadband networks can ONLY enable IPTV**
- **USF and Interstate tariffs support broadband**
- **USF? Current cap and politics**
  - **Cap effectively limiting ROE**
- **Interstate (NECA) tariffs basically stable**
- **Combined, these revenues are OK**

# **IPTV Requires a New Business Model**

- **Video is HARD WORK**
  - If it was easy....
- **Corporate / Competitive Culture**
- **Marketing Excellence**
- **New Regulatory Issues**
- **Digital / Intellectual Rights Management**
- **The Long Tail**

## Corporate / Competitive Culture

- **Is competitiveness in your DNA?**
- **Are you a 24/7/365 company**
- **Super high quality / responsiveness**
- **Do your company values align with video content?**
  - **Y'all know what I'm talking about here, right?**
- **IntraCompany "Digital Divide"**

# Marketing Expertise

- Do you know your competition?
- Do you know how to price?
- Do you know churn can kill you?
- Install costs vs natural churn
  - People move about every 5-7 years

# Regulation

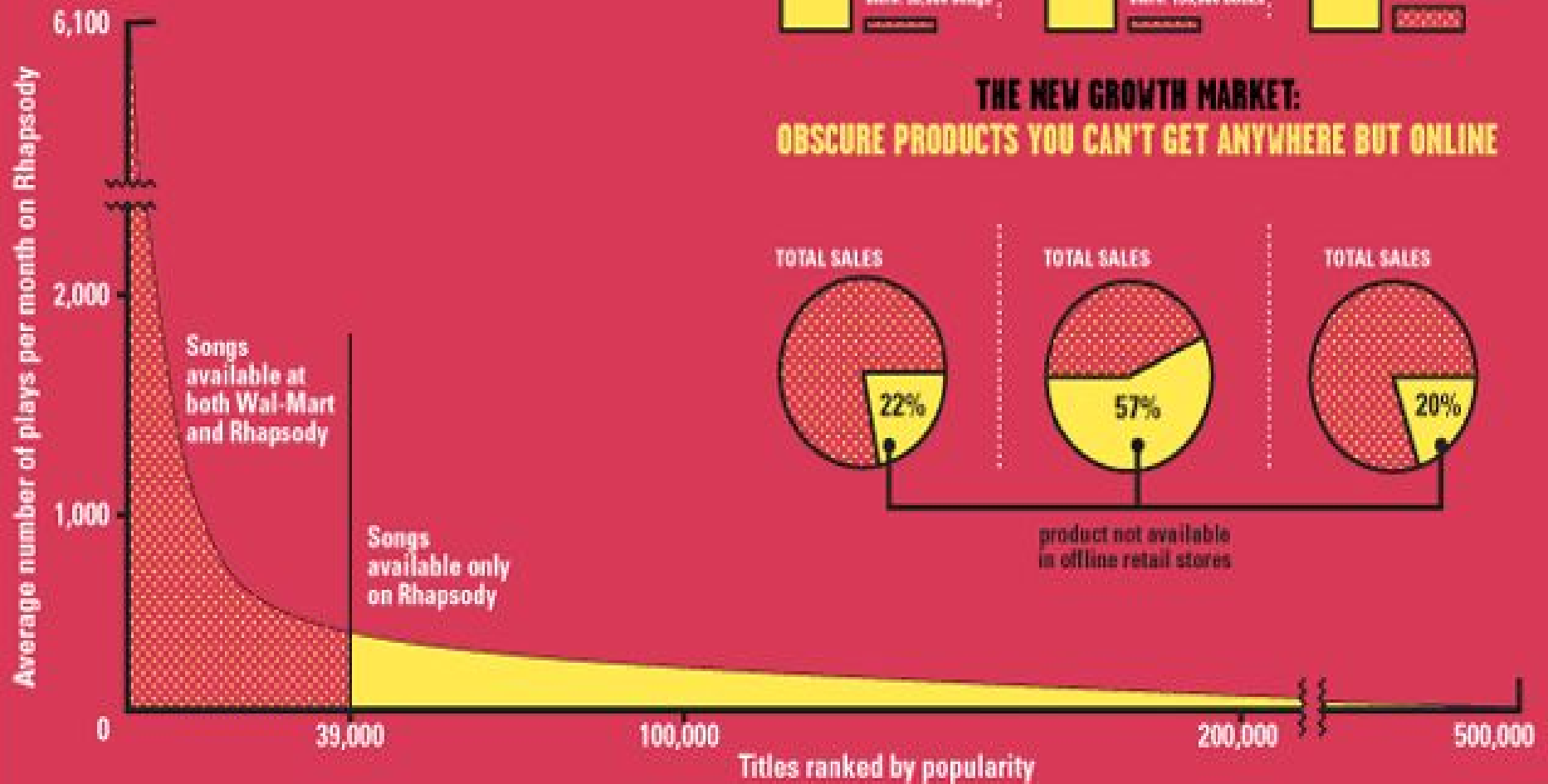
- **Franchising?**
- **Title I vs Title II**
- **Pricing / Bundling**
  - Reg Non reg

# Digital / Intellectual Rights Management

- Content
- Shared Content
- Customer-Secured Content
- Copyright
- Patent

# ANATOMY OF THE LONG TAIL

Online services carry far more inventory than traditional retailers. Rhapsody, for example, offers 19 times as many songs as Wal-Mart's stock of 39,000 tunes. The appetite for Rhapsody's more obscure tunes (charted below in yellow) makes up the so-called Long Tail. Meanwhile, even as consumers flock to mainstream books, music, and films (right), there is real demand for niche fare found only online.



## The Long Tail

- On the left...
  - USF, Settlements, End User Monthly Recurring
- On the right...
  - End User Events
    - VOD / PPV
    - Downloads, Skins, eCommerce
  - Third Party Relationships
    - DRM
    - Advertising, the Google model

# Operational Excellence

- **FIVE or SIX 9's**
- **99.9999% Reliability (2.6 minutes / month)**
- **99.999% Reliability (26 minutes / month)**

# Margin Analysis

- **Assume...**
  - IPTV Revenue = \$50
  - Less DSL Access = \$14
  - Less Content = \$25
  - = Gross Margin = \$11
  
- **Then Assume...**
  - Set top = \$200
  - Install labor = \$460

## Margin Analysis

- Gross Margin (\$11) amortized over install cost
- $\$660 / \$11 = 60$  months
- By the way... \$460 install cost optimistic in some cases
  
- Then...
  - Assume Set-top box update on a \_\_ year interval (Assume at most 5 years)
  - Assume \_\_% churn (Assume at least 12%)
  - Assume competitive response affects top-line revenue

## Why the Triple Play Matters

- Assume additional (broadband) revenue = \$25
- Assume backbone cost = \$6
- Assume modem cost = \$30
- Then
  - Revenue = \$75
  - Less DSL Access = \$14
  - Less Content = \$25
  - Less Backbone Cost = \$6
  - = Gross Margin = \$30
- Gross Margin (\$30) amortized over install cost
  - \$690 (\$660+\$30) / \$30 = **23** months

## Finally, Remember...

- **Even though underlying network supported...**
- **Margin analysis requires serious planning and management**
- **Head end cost not yet examined**

## Conclusion

- **IPTV is a new business using a new technology**
- **Building a capable network is only a part of the story**
- **IPTV must be rigorously evaluated from strategic, operational and financial perspectives**