

U.S. MSO Triple Play Service & Infrastructure Report – 2005-2008

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Introduction – Executive Overview

The purpose of this survey is to determine the priorities and plans for new services and support infrastructure among eight major cable MSOs (Multi Systems Operators) in the U.S. representing over 60% of the U.S. cable market.

Based on direct structured interviews with over thirty (30) technical, marketing, strategy and operations MSO managers, and with relevant vendors, the report examines near-term and long-term priorities for new services and for IP upgrades. Research was conducted in Q4, 2004, and a summary of the findings is included in this Executive Overview. The actual names of the participating MSOs are not revealed due to the confidentiality agreement prior to the survey.

Section 1: IP Upgrades

One of the main issues for the eight major US cable operators (MSOs) is the increased use of IP (Internet Protocol) to support the new services. Survey participants reveal that the road to total 2-way IP (Internet Protocol) network could be a long road, and one with many branches and routes. There is no best way to achieve a 2-way IP system, although all of the surveyed MSOs believe that 2-way IP using the best of GBE (Gigabit Ethernet) and fiber holds high promise of improved efficiency and less complexity. Getting to that end point depends on budget, on which applications get first priority, and on the decision of whether to go step-by-step or take a big leap early in going to switched IP.

Table 1-1 above reveals that virtually all U.S. cable systems are IP enabled to support HSD (High Speed Data).

Table 1-2 shows the highest ranking of the IP upgrade goals (with 5 as the highest ranking goal). Unified switching and VHE (Video Headend) consolidation appear the most frequently. (See the full report for details)

Table 1-3 shows the sequence for introducing new services, using examples from MSO #1, #2 and #3.

Section 2: DVR and Related Services

The purpose of this section is to analyze the strategic importance, relevance, and revenue generated by DVRs (Digital Video Recorders) being leased to consumers by major MSOs. This section also captures the importance of various DVR-related features and functions as part of the overall strategy of the MSOs.

Table 2-1 above summarizes the averages of all the eight MSOs in each of the categories listed. For Service Category #1, DVR as Revenue Generator/Churn Inhibitor, all eight of the MSOs are in the stages of deploying (D) it. The total number of subs with DVRs is 2.4 million, with a rating importance of 4 now and 4.7 in the future (5 = highest). For Category #2 the impact of HDTV on DVR Usage, seven MSOs are currently deploying HD and only 1 MSO is in trial (T). The overall rating of importance for this category is

3.5 now and 4 in the future, meaning HD will have increasing importance to DVR usage (and to the overall strategy). For the impact of music on DVR or DVR on music service (#3), the importance of it for now and for the future carries a low rating of 1. Half of the major MSOs are deploying it and the other half are not offering it (N). Outtakes and Trailers for Movie/TV shows on DVRs (#4) also has an average low rating of 1.5 for now and the future. Only one MSO is deploying it and all the other seven MSOs are not participating in offering movie trailers on DVR (but will place trailers on the VOD server instead). Photo Album (#5) and Full Movie Downloads to the DVRs (#6), are also relatively low in importance as DVR features, with an importance rating of 2 for now and 2.22 for the future. Half of the MSOs are studying (S) the Photo Album functions while the other half are not pursuing it; and for the Full Movie Download (#6), only 2 are studying it while the rest are simply not pursuing it. Below is an example of the tables included for each category explaining why it is of high or low of importance.

Section 3: DVR with Advertising Services

This section focuses on the DVR with built in Advertising Services that go beyond movie trailers and music samples (discussed in Section 2). Each of these services requires some degree of interaction with the headend billing system in order to track usage. The Data Tracking activities associated with DVRs in US cable operations are unquestionably the newest, least developed and most controversial of all the categories surveyed in this project. It is new because the technology for doing it is still under discussion and un-standardized. It also is an undeveloped area because the methods for interpreting and standardizing its use have not been agreed upon. It is controversial due to the heightened concern (by consumers) about loss of privacy in the North American market in the past several years. Yet, there is a pressing need for MSOs to come up with innovative ways to replace advertising revenue due to the tendency of DVR users to skip or fast-forward through most ads. So it is important for MSOs to progress as quickly as possible in this area, while being careful not to create public backlash.

Section 4: ITV Services

This section captures the use and prioritization of eleven of the most popular of all ITV (interactive or 2-way) services (excluding DVRs) which cable has developed over the past five years. It also helps identify reasons for high ratings, and identifies which services have the strongest chance of growing stronger in the next 2-4 years.

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Section 5

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It also estimates the relative benefits to users and the role played by IP for each new service. The main findings, as shown earlier, include why and how the DVR came to be a central strategy for the MSOs; what related features and consumer benefits can be turned on with the DVR; and what related on-demand services will generate the best revenue and the greatest competitive advantage against satellite triple-play in the U.S. market. Also covered is why Advertising is one of the most under-rated and mis-understood revenue areas in the U.S. cable business today, and what MSOs can do to address this opportunity.

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