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Competitive Realities Force Telcos Into an IPTV Corner

But They Must Address Increasingly Complex Back Office Issues to Ensure Smooth Rollouts and Long-Term Success

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Telcos are at a crossroads. Competitive pressures have reached a fever pitch -- from cable providers who now offer telephone service; from small VoIP and Internet providers who offer bargain basement pricing; from wireless providers who offer multiple calling plans. Clearly, the only way telcos will be able to ensure long-term viability is through realizing their triple play potential by rolling out IPTV and enhanced e-commerce services. This will enable telcos to compete head-to-head with their cable rivals and to differentiate themselves from niche players and wireless providers. But they better get it right the first time.

The prospects for long-term success are tenuous at best. Some telcos have visions of a 20-30 percent market share after simply rolling out their IPTV services. However, Forrester Research expects US IPTV subscribers to reach only 9.3 million by 2011, less than 10 percent of projected market according to Forrester's "Telcos' IPTV Reality Check" report (April 2005). Telcos are battling three tough opponents. Cable TV, Direct Broadcast Satellite and off air broadcast are already well entrenched and meeting the consumer's traditional TV needs. The challenge is to offer a differentiated and compelling service that will provide new and innovative features tailored to the viewing habits of today's television audience.

Obviously, the stakes are extremely high for the telcos. Providers like Verizon and AT&T are spending billions of dollars to update their networks to ensure they are equipped for widespread television rollouts. To reach even Forrester's modest projections and make any headway in recovering these staggering investments, telcos must introduce reliable IPTV services that deliver the promised advanced features without a hitch. If hardware and back office systems are not ready for prime time (no pun intended), the consumer backlash and resulting PR nightmare from service horror stories will be devastating. You think people get a little cranky when their email or phone service is down for an hour? Imagine the mass hysteria of a network outage or technical glitch that causes millions of subscribers to miss the fourth quarter of the Super Bowl or the season finale of "Lost." Again, the stakes are high. To avoid this disastrous outcome, not only does the consumer technology need to be reliable and user-friendly from the get-go, but OSS/BSS systems must be able to adapt to entirely new usage paradigms and hardware.

These new paradigms along with the resulting billing complexities can be mind boggling. Telcos will be responsible for managing much more than simply billing for 411, *69, caller ID, and tiered Internet access. IPTV technology brings the vastness and flexibility of the Internet to the television screen, delivering unprecedented on-demand content and interactivity to the subscriber and giving telcos a piece of the e-commerce and entertainment pie. IPTV features include advanced digital video recording (DVR), picture in picture, key word and content searches -- movie title, actor, director, etc. - - and the ability to display digital photos and other content.

Subscribers will also be able to create multiple content bundles for each individual viewer in a single household, much like users personalize news Web sites with weather, sports and stocks of their choice. The ability to access on demand content such as videos and games, as well as to access local community content, join specialized communities and other enhanced features will increase the appeal of IPTV services. Providing additional personalization, the ability to offer personalized content,

specialized bundles/packages and e-commerce options will be a key differentiator for the new IPTV service providers as they go head-to-head with traditional TV providers.



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Additional e-commerce capabilities enable the consumer to purchase music videos, video games, DVDs and other related products... from their TV interface. Imagine watching the Final Four and an ad for national pizza chain pops up on your screen. Using your remote, you click the ad and connect to neighborhood franchisee for the chain. You might then place the order for your pizza via the TV or by connecting automatically through your VoIP phone service and charge the pizza to the account associated with your TV/Phone/Internet bill.

Cross marketing between IPTV service providers and content providers will provide the opportunity to offer a variety of compelling new services. As another example, the ability to market complementary products associated with a program or series is possible through interactive on-screen offers. Customers may choose to purchase the soundtrack from the night's episode or a copy of the program they just watched. Enhanced voting and interaction on reality/contest shows also becomes possible. Imagine voting for the contestants on tonight's episode simply by pressing a pin code and a number on your remote.

And when the convergence of phone, Internet and IPTV come together, the complications will be astronomical. With traditional TV, all the content constantly flows downstream to each customer, with the exception of the occasional pay per view boxing match or movie on demand purchase. The customer can choose from as many choices as their individual cable or satellite companies make available. An IP network works the opposite way: the content remains in the network, but the subscriber must select and download everything they want to watch a la carte – basically creating an ongoing pay per view experience. Subscribers can access a "record now – watch later" feature for their favorite shows and they can also go back and download a missed show or view the remaining episodes of a show, movie or other event. Telcos must be able to track and bill for all of these individual content purchases, from major network shows, movies and videos, sporting events, music and games – all at a range of prices. Now throw retail merchandisers and advertising into the mix and let your imagination run wild.

This all sounds great. But how do the telcos make it work? Because of the content variety and interactive, on-demand nature of IPTV, settlement must occur outside the previously simple confines of the telecom industry and underlying billing systems have to manage entirely new usage paradigms. New partners are already emerging from areas where traditional telephone companies have never ventured, including gaming providers, production houses and record labels. New IPTV providers must find a way to adapt their existing rigid procedures to a more fluid and dynamic business model without abandoning their current BSS/OSS system.

It will be necessary to process usage information from a variety of information sources. IPTV systems will need to manage the collection and mediation from the game servers, video on demand servers, multicast servers, and other content sources that will be used by key downstream systems such as retail billing, wholesale settlement, advertising settlement, and management reporting.

Luckily, there is hope. OSS/BSS providers are working to adjust their offerings to support IPTV challenges brought on by on-demand television, new vendor/merchant relationships through interactive features and new content partnerships. One solution is to turn to a clearinghouse, which can assist with the settlement and billing of these services by enabling the flow of information between IPTV suppliers and partners, as well as integrate with existing BSS/OSS systems.

Because of their ability to process data and financial transactions from every type of communications network and retail or content service provider, clearinghouses can provide a hosted solution that serves as the central hub for collection and processing of various pieces of usage activity, thereby significantly easing IPTV implementation costs. Since the accurate and timely delivery of billing information is critical for all involved parties -- end user customers, suppliers and partners -- a clearinghouse can simplify billing and settlement between them, as well as provide the needed interfaces for these new services between existing systems. Clearinghouses can also assist with the management of new partnership agreements, acting as an aggregator for movie and video game content. Clearinghouses can easily track pricing plans and settle between all involved parties. In doing so, the service provider can focus on delivering quality services to their subscribers.

Clearinghouses have the tools and solutions IPTV providers need to augment basic IPTV services by enabling advanced e-commerce solutions that will enhance subscriber value and truly differentiate Telco IPTV services from basic cable and traditional broadcast models.