

Pipeline

Knowledge Is Power

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Access Technology Rumble: Cableco vs Telco

By Tim Young

The struggle between cablecos and telcos continues to rage. It's a natural battle, really. In many markets, smaller telcos are hard-pressed to do battle against incumbents, and cablecos are the most obvious choice for a competitor. They've gotten quite good at and quite comfortable with voice service, and consumers are growing ever-more trusting of VoIP and dependent upon data connectivity.

Conversely, with FiOS, advanced IPTV, and other video services available as weapons in the telco arsenal, and with time marching on and rollouts continuing, telcos may be able to stay in this thing.

One bit of back-and-forth lately has been as a result of Charter Communications' introduction of DOCSIS 3.0 in the St Louis area, which is apparently an affront to Verizon, who took shots at the cableco. (The entire exchange can be found in Karl Bode's blog at dslreports.com, available here: <http://www.dslreports.com/shownews/Verizon-Laugh-Off-DocSIS-30-100567>).

Let's take a look at the state of the conflict, from the perspective of a few CSPs on both sides.

Looking across the Aisle:

There was a time in which cablecos and telcos played neatly in their own sandboxes with very little overlap. Telcos did voice. Cablecos did video. Neither did much data, though that was telco's realm, such as it was. Phones were phones and cable was cable and never the twain would meet.

It's clear that such an idiom no longer applies.

"Cable companies do represent direct competition for Verizon," said Robert Elak, spokesperson for the telco. "Our two segments represent the primary avenues for customers to bundle their services – voice, broadband, TV (either double or triple play) and bundling is king for customer retention." Jenny Bridges, spokesperson for AT&T concurs, especially "as the lines between cable and telecom companies blur, with both sides offering a bundle of services. We compete directly with cable competitors in every local market served by our AT&T U-verse services and other wireline services."

David Grabert, Director of Media Relations for Cox Communications, confirms that the feeling is indeed mutual on the other side, noting that even before services like FiOS and U-Verse were rolled out, telcos "were in co-marketing agreements with Satellite companies that allowed them to compete with us on the residential 'triple play'."

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Maura Mahoney , Vice President of Sales and Marketing for RCN Metro (the business-class transport subsidiary of US cableco RCN) also agrees: "RCN Metro thrives in a world of 'co-opitition', in which carriers are our customers, providers and competitors. This division has been able to effectively compete and win enterprise customers from telcos throughout it's history. "



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Enterprise:

So the residential market is viewed as anyone's ballgame. The enterprise (and even the SMB) space, on the other hand, has long been the domain of the telco alone. However, a quick look at aspects of one of Comcast's latest advertising campaigns confirms that cable is not content to sit idly by while telcos reap the majority of the SMB and Enterprise reward. In television spots I've seen in Chicago (and I'm sure are airing elsewhere), Comcast's Business Class services (including video, voice, and data) are being touted as a way to maximize efficiency and lower costs.

A look at Comcast's website reveals solutions for Small, Medium, and Large businesses. Comcast is by no means alone among cable providers in this push. After all, while the demands of service are higher in the business space, it's too large a pool of potential subscribers to ignore. Furthermore, now is an ideal time for cablecos to release this messaging, as nervous businesses are looking to cut costs and reevaluate expenses, so a potentially lower communications bill may be just the bait needed to lure enterprise and SMB customers their way.

"Enterprise customers are always looking for choice," said Mahoney. "The large customers that RCN Metro serves can not rely upon a single provider and need to utilize multiple carriers to ensure that their network is resilient. The company started as being the "smart alternative to the status quo", but recently our clients have stated that we are their primary provider for services and the incumbent carrier has now taken the secondary role. "

"Cox pioneered the delivery of business class services from cable," said Grabert. "We have made significant inroads in serving small- to medium-sized businesses in our footprint and today we have numerous big wins with larger regional businesses (e.g. regional health systems, education...)." He contends that this is a trend that's upward-bound. "Cable will continue to win commercial business away from the telcos and Cox Business has been the fastest growing aspect of Cox's overall business – growing revenue at approximately 20% per year."

Bridges asserts that AT&T (and, by implication, perhaps other widespread Tier 1 Telcos) is far better equipped for the enterprise market than cablecos. "Our global network and broad portfolio of

enterprise services – including wireless and wireline voice and data, network consulting and integration, hosting and application services, digital media, unified communications, security, business continuity, and telepresence – make AT&T the ideal solution provider for enterprises.”

Elak went one step further when asked if cablecos have what it takes to compete in the enterprise space. “It would take a very significant investment in network infrastructure for cable companies to become players in the enterprise market,” he said. “We do not see that happening.”

A graphic advertisement for ConceptWave. The background is a school of blue and yellow fish swimming in a blue ocean. The text is overlaid on the left side. At the top, it says "Let us *direct* your workflow". Below that, it says "ASK CONCEPTWAVE ABOUT ..." followed by a bulleted list: "• multi-play orders", "• exception order handling", "• centralized dynamic catalog", and "• processing millions of orders". At the bottom left of the graphic is the website "www.conceptwave.com". At the bottom right is the ConceptWave logo, which is a stylized white wave followed by the text "ConceptWave". Below the graphic, there is a light blue banner with the text "Empowering Service Orders" and "Proven, high performance order and catalog management solutions." in a smaller font.

Let us *direct* your workflow

ASK CONCEPTWAVE ABOUT ...

- multi-play orders
- exception order handling
- centralized dynamic catalog
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Empowering Service Orders

Proven, high performance order and catalog management solutions.

Natural Edge:

Players from each segment have strengths that are specific and pronounced, in many ways. Some of these strengths are due to company history and philosophy, and others are outgrowths of specific technologies.

When asked about the strengths of their specific access technologies, responses (of course) varied.

“Cable companies are not all the same so each brings its own points of differentiation,” said Grabert. “Cox is particularly known for our outstanding customer care and operational excellence. As strong advantage we hold is our ability to move quickly and innovatively to meet the needs of business customers in our markets. We have excelled in reaching out to commercial customer populations that have been underserved our outright neglected.” And on the issue of bandwidth, Grabert asserts that “we are able to compete fully against the telcos and have many successful custom solutions in deployment, some HFC(hybrid fiber-coax) and some fiber to the premises.”

Bridges focuses on a different strength for AT&T. “Because of our wireless properties, we have the ability to offer our customers competitively priced bundles, including quad-play bundles (TV, Internet, voice, and wireless on the residential side, and Internet, local voice, long distance voice, and wireless on the small and medium business side) – something that many cable companies can’t match.” (Grabert does cite that Cox will be launching a wireless service this year, so that may be one cableco that’s a little tougher to defeat with quad play. Continuing, Bridges said, “Our AT&T U-verse TV service is 100-percent IP-based, which gives us several advantages over older cable-based technologies in terms of unique features and functionality, content, and integration.”

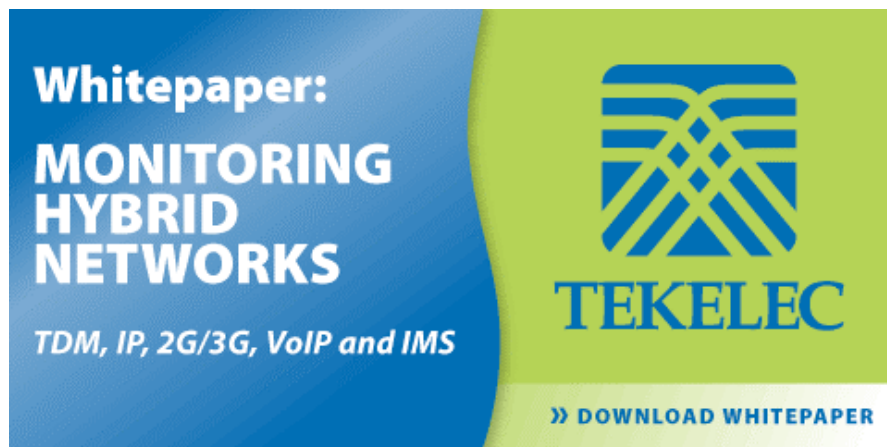
“RCN Metro prides itself on being nimble and extremely customer-focused,” said Mahoney, “and we know that these attributes have allowed us to win business. We have regularly been able to turn up additional capacity for clients in a matter of hours, we have the local market knowledge so we can

do the impossible to serve our clients and are staffed with industry veterans who built this network and service set from the ground up. We dedicate resources both pre- and post-sale and our employees are on a first name basis with our clients. It is that service and supports that sets us apart from the competition. "

"We hold a distinct advantage with our networks and technology over the cable companies," Elak said of Verizon. "Whether it is copper or fiber, the customer experience with our services is much better and customer satisfaction is much higher. Indeed, in February, a leading consumer advocacy group found our bundles and TV service superior to the competition. Additionally, our customer support is deeper and more responsive than cable offers."

Indeed, despite massive spending on customer service efforts on the cable side, cablecos have a tough time shaking the image of poor customer service. Comcast, for example, has employed what CEO Brian Roberts refers to as the "Comcast Marshall Plan", hiring 15,000 engineers and CSRs, but still can't quite shake the specter of snoozing technicians and blocked P2P packets. (All of which is expounded on in a great profile of Roberts that ran this January in *Wired*.

http://www.wired.com/techbiz/people/magazine/17-02/mf_brianroberts?currentPage=all.)



Other Players:

And what about other companies out there, attempting to usurp market share (at least for value-added services) from both cablecos AND telcos?

"We take all of our competitors seriously, including over the top providers," said Grabert. "We closely monitor activity in the marketplace, while remaining confident in our facilities-based services for our residential and commercial customers. Cox offers a high-touch experience for all of our customers, fully managed services that are supported with industry-leading customer care. This is difficult for over-the-top competitors to match."

Bridges echoed the sentiment of customer-responsiveness as the key to competitive edge. "We recognize that the market landscape is continually changing, and likewise, [AT&T is] always evolving our services and strategy to respond to what our customers want," said Bridges. "Our focus is on offering consumers a better alternative to cable companies through unmatched services, competitive pricing, and a complete quad-play bundle with wireless."

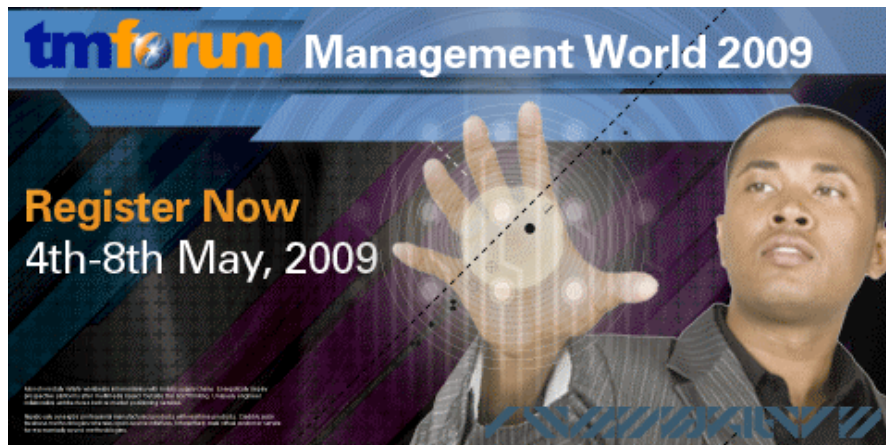
And does Elak consider over-the-top and content providers a major threat to Verizon? "Not really – our advanced networks, particularly FiOS with it's incredible capacity for data, is what content providers need to deliver their product to the market," said Elak. "Verizon enhances the content experience for consumers because of our network."

However, despite any preparation, flexibility, or confidence shown by service providers, over-the-top providers still manage to chip away at the distribution and advertising revenue of telcos and cablecos. While Vonage and other over-the-top voice services have been covered in detail in Pipeline, video providers like Hulu haven't gotten a lot of mention in our pages. However, as they are distributing video content directly into the homes of millions, directly supported by ad revenue, and completely side-stepping the traditional television structure, they certainly bear mentioning.

Whereas the impact of YouTube, which still owns the lion's share of online video viewership, is limited by the length (<10 minutes) and origin (generally homemade, which is tons of fun, but hardly disruptive) of its content, Hulu delivers first-run television programming and a relatively large volume of movies for free. In addition, most major networks stream programming directly from their websites (I almost always catch Lost on abc.com), and experiments like the CW's dropping of Gossip Girl from its online streaming content in an attempt to lure viewers to the live broadcasts have been utterly ineffective, and have saddled networks who take such measures with the image of being Luddite techno-phobes. (In case of Gossip Girl, the CW restored online streaming after less than 3 months after loud viewer complaints and no real rise in live viewing).

Streaming from Hulu, network sites, and other sources like AOL Television, are tempting for advertisers, too, as viewers can't fast forward through commercials like they can on DVRs.

In addition, companies like Netflix offer unlimited streaming plans of a huge variety of new movies and TV programs for extremely low-cost. Throw in the convenience of Netflix-compatible set-top boxes like those offered by Roku and you have a situation in which, for many, traditional television service is unnecessary, regardless of the access technology over which it is delivered. It's anecdotal, but I know dozens of people who lead busy lives and never seem to be able to watch live television anyway, so they've dropped their home video services and watch their television programs online.



A recent Nielsen study shows that live television still owns the bulk of viewership in the United States (151 hours per month, vs over 7 hours per month of time-shifted TV and just under 3 hours of online video in Q4 2008), but the numbers are up across the board. The same study shows that, though

time-shifted TV still out-paces online viewership, young viewers watch both at the same rate. In addition, the study found that online viewership peaks between 9am and 5pm on weekdays, so this is still a workplace phenomenon. Also, it was stated that spikes in online viewership in Q4 2008 was driven by SNL/Sarah Palin videos.

But what will the landscape look like as younger viewers get older and are less and less willing to arrange their schedule around live TV? It's an issue. It will be interesting to see how cablecos, telcos, programming networks, over-the-top providers, and other affected parties deal with the changing needs of consumers and the changing demands on providers.

In Short:

With cablecos resolving, at long last, to chip away at the telcos' enterprise market share, cablecos demonstrate a potential edge, going forward. Will that be enough? Will DOCSIS 3.0 be able to help cablecos, in spite of its large price tag to the end consumer? It's a tough economic environment for the rollout of a service that costs more than many pay for their entire triple-play bundle.

In the end, cablecos and telcos will continue to hammer each other, expanding bandwidth and adjusting cost along the way. Meanwhile, content is king. People in the communications space are always looking for the next "killer app". The real differentiator is content. How will cablecos and telcos, alike, confront the changing expectations of viewers and the increasing levels of competition? By figuring out ways of delivering content at a price-point, level of quality, and level of convenience that viewers have come to expect.

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