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Cablecos, Telcos, and "Hand-to-Hand Combat"

By *Tim Young*

For years now, cablecos and telcos have been shaking free from their traditional core business propositions.

Competition. It's the hallmark of a healthy market and a boon for innovation. It's the foundation of capitalism.

And it can be really, really scary.

Not always scary in a bad way, but certainly unsettling for companies that, for years, have enjoyed market domination. For years, now, Pipeline has devoted an issue to the ongoing struggle between cablecos and telcos, who are, increasingly, battling for the same bits of market-share. Moreover, we were planning on speaking to the proverbial second front that both types of companies have been dealing with from over-the-top providers.

However, providence has interceded and given us the gift of two major stories that have helped to change our point of reference, somewhat. We'll unpack these stories in greater detail, but first, let's talk background for just a moment.

For years now, cablecos and telcos have been shaking free from their traditional core business proposition to become providers of a total network experience. They've become providers of an entire multimedia lifestyle, fueled by their access into consumer homes and businesses and a growing demand for services among consumers (which should, preferably, all appear on the same bill with a discount for the bundling.

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Now, we already know that VoIP has taken such firm hold in the network, and has become widely trusted enough (in terms of user experience) that cablecos have made real inroads into the voice arena. Furthermore, telcos have been doing more to embrace VoIP, at least through their wireless branches, with deals popping up between VZW and Skype (see Verizon makes Skype Mainstream in this issue) and AT&T and Vonage.

This may just be a hallmark of evolution. Perhaps all voice will soon be VoIP. However, this growing lack of any discernable technical difference between the cable and telco voice experience is notable. Trefis analysis reports that traditional landline voice service is responsible for about 15% of AT&T's current stock value, and just 8% of Verizon's. That's for residential and business customers.

Meanwhile, Trefis reports digital voice as 18.9% of Comcast's stock value.

Cox Communications is another company that has chipped away at telco voice offerings. "Back in 1997 when we launched Cox Digital Telephone, we squared off against incumbent phone companies that had enjoyed a 100-year monopoly," said David Grabert of Cox Communications. "By differentiating on the quality and value of our bundle of services, we were able to take market share in telephony that exceeded all expectations. Today, in Cox's most established telephone markets, we are the number one provider."

And then, of course, there are companies like Canada's Rogers, which is "unique in that not only do we offer premium cable services such as Rogers Home Phone, Rogers Hi-Speed Internet and Rogers Cable (television), and Rogers On Demand Online; but we are also Canada's largest provider of wireless voice and data communications services," said Angela Volpe of Rogers's communications department.

This is indicative of a growing expansion of cablecos into the wireless space. I chaired a panel on the future of cable at TMForum's Management World-Americas event in December, and had the chance to speak to three executives from three countries on two continents (Rogers CIO Tom Vari, Net Servicos (Brazil) CTO Rodrigo Duclos, and Cablevision Argentina COO Roberto Nobile), and all three spoke of the importance of the expansion of the idea of the "home" into a much more fluid concept that involves providing the subscriber with the functionality, access, and comfort of home regardless of the subscriber's physical location. It's a sentiment that's growing in the cable sector, and a potential threat to the telco's other areas of traditional dominance.

Meanwhile, firms like Verizon have been hinging their competitive bid for the home triple/quad play customer on building a bigger, meaner network

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through FTTH rollouts. Verizon's FiOS was going to be that cable-killer.

Then, a few weeks ago, it was announced that the FiOS rollout was winding down. Market observers leapt into action, declaring that FiOS was dead.

I took a moment to speak to Verizon's Bill Kula, and he painted a different picture. He told me that accounts of FiOS being "axed" are exaggerations, at best. "We have reached a point where we're fulfilling our original commitment to pass 18 million households, nationwide. That hasn't changed," said Kula.

Rather, Kula described the halt as an opportunity to do more to generate subscribers in areas where the network is in place, and that the company has not ruled out continuing expansion in the future. "It stands to reason that we, as the year moves forward, will do less engineering and construction, and do more sales and marketing," Kula said. "Further buildout is possible, but we're not there yet. We are, however, moving full speed ahead."

In addition, Kula points to the fact that the areas where FiOS is in place have the benefit of one serious network. He pointed me in the direction of a recent "Heard on the Street" column by The Wall Street Journal's Martin Peers. Therein, Peers indicates that based on the sheer speed and capacity of the FiOS network, and the bottomless appetite for bandwidth exhibited by subscribers, that "Ivan Seidenberg may have the last laugh." However, there are other elements at work.

Until the last week or so, I had planned to unpack, in greater detail, the competition between traditional CSPs and over-the-top carriers as a second front in each type of company's respective wars. However, the recent ruling by the US Court of Appeals for the District of Columbia in favor of Comcast and against the FCC and net neutrality really changes the landscape.

If service providers have the ability to throttle over-the-top applications at will, this may be a front that could disintegrate. In addition, with the aforementioned mainstreaming of traditional VoIP players through established wireless carriers, we're seeing a blending of the "establishment" and "anti-establishment" forces.

Still, over-the-top video providers may feel the worst effects of the ruling. Streaming video demands mighty high levels of fidelity, and could crumble easily as the result of a too-thorough tightening of access policy. So far, Hulu hasn't been particularly vocal about this ruling, though they have fought for net neutrality in the past. Furthermore, this particular Comcast case was brought as a result of the throttling of P2P activity, and on its site, Hulu lists its competitors as "the various piracy services that enable users with the ability to illegally access premium content for free, without the permission of the content owner" with no mention of mainline video services. Still, if CSPs can, theoretically, reduce quality and cause Hulu users to look elsewhere for their jollies, that means reduced revenue for the video outlet, any way you slice it. (Though I noticed rumblings on the blogosphere that, as NBC has a stake in Hulu, Comcast's NBC acquisition actually creates a sort of feedback loop linking Comcast to Hulu. Cold comfort, I'm sure, and it's unclear if this relationship will do anything to influence policy.)

However, these decisions aren't final, and the struggle for market share continues to include considerations of the over-the-top market.

Some providers, however, are ready for any and all challengers. Verizon's Kula noted that "the competitive environment is frenzied," referring to the current landscape as a "hand-to-hand combat environment."

That's a fitting description. All of the providers are striving for customer wins. Kula notes that Verizon enjoys 3.4 million FiOS data customers and 2.9 million FiOS TV customers in the area in which it is currently online and available. As the homes passed climbs higher, approaching the target of 18 million, that number has the strong chance of growing and growing.

Meanwhile, cable is chipping away at the SMB and enterprise space and the mobile space (Rogers notes the upcoming release of their Mifi and one-rate data roaming plans) and strengthening its customer satisfaction. "Early on, we decided that customers purchasing multiple services from Cox should have one number to call for service and questions," said Grabert, "and that they should also receive one bill." The back office implications of such a decision underscore the need for CSPs of ALL stripes to stay on top of their OSS and BSS decisions.

This is an underlying part of every piece of this competitive puzzle. Are over-the-top providers permitted? Can they be throttled? It takes OSS support to ensure that the traffic is dealt with appropriately, either way.

Do consumers demand more services? Are their needs changing? It takes strong OSS/BSS support to provision, deliver, bill, charge, and otherwise provide and monetize any new service.

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