Pipeline
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www.pipelinepub.com Volume 8, Issue 3

Newswatch

By Jesse Cryderman

The Results are In

Quarterly reports hit the wires this month from many major carriers and vendors, revealing some interesting trends. In the US, the battle between blue and red continues to rage, and while both carriers reported revenue growth, that metric doesn't tell the whole story. Verizon did outpace AT&T in terms of revenue growth, reporting 6.6% year-over-year revenues for the quarter to AT&T's 2.2%.

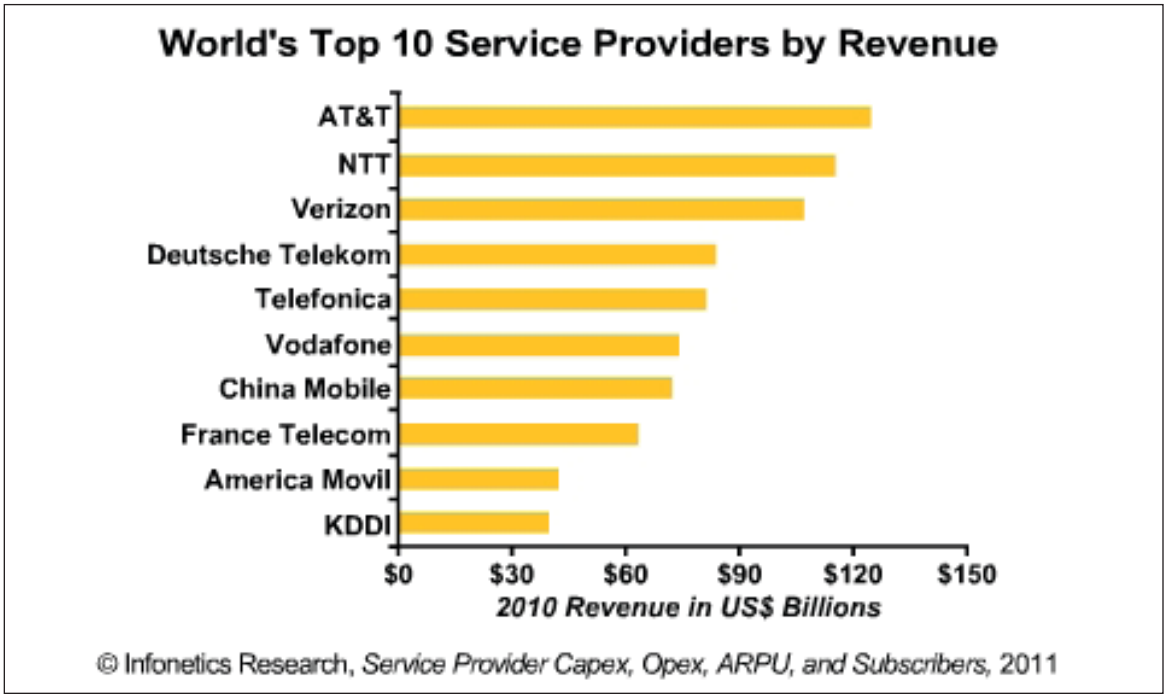
However, despite all the rhetoric and analysis surrounding Verizon's iPhone launch, AT&T activated 1.3 million more iPhones last quarter than Verizon, and AT&T also led in overall smartphone activations (which have the highest ARPU) with 70% vs. Verizon's 60%. Verizon is hoping that the iPhone5 refresh will reverse its fortune, but the drop date on the Apple's new device is something the carrier cannot control.

AT&T also added more new customers with its bundled U-Verse plan compared to Verizon's FiOS. Both carriers experienced losses in traditional voice customers, with AT&T losing 1.2 million voice lines and Verizon digital voice connections dropping 7.9%.

Globally, carriers revenues grew to $1.72 trillion over the past year, and carrier capex is expected to grow 4.7% in 2011, according to the latest Infonetics research. AT&T continues to lead the world in revenue, followed by NTT and Verizon.

Netflix vs. MSOs

Netflix also released their quarterly results this month, but their growth and 16% profit margin wasn't the news



story as the company performed as expected, despite their recently announced new pricing model. It was their investor newsletter that piqued the interest of studious analysts, wherein Netflix revealed that their, "largest competitor over time is likely to be an improved MVPD service offering more Internet video on-demand." In other words, Netflix isn't the least bit concerned with competitive pressure from the likes of Hulu Plus or Amazon Prime (they "haven't detected an impact on [their] business from Amazon Prime), but is squaring off with the cablecos.

Netflix strategy is, " to consistently improve the quality of our service and stay two steps ahead, so that consumers will continue to enjoy Netflix," but one has to wonder how the company can offer such quality improvements without owning the network hardware over which they stream their content. How can Netflix control jitter, latency, and packet loss? Pipeline asked Netflix these questions, but as of press time, they went unanswered.

Netflix singled out DishOnline as a potential competitor, and several days later Joe Clayton, CEO and President of Dish Network, responded to the challenge in the LA Times. "Everybody's enamored with Netflix. Who's to say we can't do the same thing? We have access to the studios, we have access to huge movie libraries." Clayton told the Times. It looks like Dish's purchase of Blockbuster and recent spectrum spending spree are all part of a plan to battle Netflix and become a competitive

AT&T activated 1.3 million more iPhones last quarter than Verizon.

player in the wireless game. "We are putting together the building blocks to be able to provide a whole suite of services to the customer," continued Clayton. "Wireless voice, broadband, video, mobile ... we're going to have the capability to do all of the above."

Dish Network turning into a rival for AT&T or Comcast may be a stretch; the bigger question is can Netflix do battle with the telcos and emerge victorious?

Analyst Richard MacDonald thinks they have a strong chance. In a recent article for investor analysis website SeekingAlpha.com, MacDonald elaborated on the analysis he performed for his boutique research firm:

"We believe Netflix's advantageous position vis a vis the consumer is, in general, the strongest business model we have studied in thirty years, save basic cable. Certainly it is more robust than Blockbuster, and more robust than Showtime (owned by CBS, but less than a 10% contributor) and probably HBO (owned by Time Warner and a substantially larger business). These businesses are outdated packaging models. About the only way they can compete on a level playing field is for

the cable operator to waive the basic cable purchase requirement, and no cable operator is going to do that."

Restructuring and Rightsizing

Cisco and RIM tightened their belts this month, as both companies undertook restructuring efforts that included significant staff reductions. Cisco cut 9% of its workforce (6,500 employees) to shave a cool $1 billion of expenses, and RIM reduced its workforce by 11% (2,000 employees). On Wall Street, investors responded positively to the news from RIM, but the cuts were not enough to keep Cisco stock from continuing its downward trajectory.

RIM has just overhauled and relaunched its Blackberry line and made deals with 225 wireless operators, but a recent survey says nearly half of RIM and Android users will switch to iPhone which may mean it's too little too late for the beleaguered third-place mobile platform.

Beyond staff reductions, Verizon and RIM underwent executive restructuring this month as well. Longtime Verizon CEO Ivan Seidenberg, who has lead the company since 2000, stepped down and COO Lowell McAdam has filled the vacancy. For its part, RIM announced it will be shuffling the executive ranks, and COO Don Morrison left the company.

ISPs Failing to Meet Speeds as Advertised

The FCC released its Measuring Broadband America report, and while carriers are performing closer to their broadband targets than in 2009, they are still regularly performing below their advertised speeds. In terms of technology, DSL fared the worst, delivering speeds that were 82 percent of the advertised speed. Peak-period speeds declined across all platforms, and across most metrics, fiber-to-the-home service performed the best.

"Everybody's enamored with Netflix. Who's to say we can't do the same thing?" Joe Clayton, CEO, Dish Network.

The report triggered a strong response from Free Press Research Director S. Derek Turner, who issued the following statement:

"No matter how industry tries to put a positive spin on these results, the report shows conclusively that many Americans are simply not getting what they pay for. This study indicates Comcast, Cox and Verizon FiOS largely perform well, but other companies like Cablevision, AT&T, MediaCom, and Frontier all fail to deliver their customers the quality of service promised."

"The fact that providers using the same technology turned in very different performances indicates that delivering promised speeds can be done, but some ISPs are simply failing to properly maintain and provision their networks. It's completely inexcusable that millions upon millions of Americans are paying for something they're not receiving."

To read the full report, click here.