

Millions and Millions Served: The OTT Factor

By Tim Young

A few weeks ago, my fiancée and I went to go see the David Fincher/Aaron Sorkin Facebook epic *The Social Network*. On the movie poster and in the epilogue to the film itself, it is mentioned that Facebook now enjoys 500 million users. That's quite a feat, to be sure.

However, it reminded me of something I had read the day before, which was that, as of the end of 2009, Skype had 60 million MORE users than that vaunted Facebook figure. 560 million users, worldwide, responsible for 36.1 Billion skype-to-skype minutes in the last quarter of 2009, alone (according to Skype's Jonathan Rosenberg, quoted in GigaOm). Over a third

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of those Skype sessions included video.

So Mark Zuckerberg may have 500 million friends, but Skype's got that, plus the population of Italy.

But it's not just the sheer number of Skype users that helps paint a picture about the current state of the over-the-top voice and video landscape.

A quick look at Skype's media center completes the picture. "Skype for Android now available" just as it is announced that Android users have eclipsed iPhone users in the US and Japan. "Avaya and Skype Sign Strategic Agreement," emphasizing Skype's growing appeal for the business community. Partnerships with KDDI and Verizon Wireless paving the way for

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Skype's growing mobile reach.

But Skype isn't the end of the story.

On the video side, over-the-top plays from Hulu to YouTube to Netflix continue to allow consumers the option of taking an end-run around the conventional service provider value chain. With a decent broadband connection and a properly equipped set-top box (from the likes of Roku), gaming console (Wii/PS3/Xbox 360), or web-enabled Blu-Ray player, combined with applications that enable web content from the likes of Netflix and Hulu Plus, makes for a solid video option at less than half the price of a decent digital cable/IPTV bundle. (Heck, ever since the switch to digital over-the-air TV, those who've opted to cut the cables even have a surprising number of news, weather, and sports coverage from their local network affiliates, often in stellar HD.)

So while OTT services have been utilized as supplements to regular pay TV services for some time (with short-form video sites like YouTube carrying the lion's share of the web traffic), signs point to more and more subscribers getting rid of the pay TV altogether in favor of over-the-top video exclusively. A report from Yankee Group released in April of this year predicted that in the twelve months following the report's publication, 1 consumer in 8 would cut or

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reduce their pay TV service and get their video from some other source.

Why? Yankee Group analysts Vince Vittore and Dmitry Molchanov attribute the move to rising costs associated with pay TV services (and, to quote the old political chestnut, it's the economy, stupid. We know that programming fees are spiking, but we also know that consumers are in a cost-cutting mode these days), as well as the proliferation of connected TVs and devices that function as set-top boxes.

However, I think it's also worth mentioning that there has been a substantial shift in the way people look at (no pun intended) television. DVRs and video-on-demand shot an arrow through the heart of appointment-based television, teaching consumers that they can sidestep scheduling overlaps and endless commercial breaks by moving towards time-shifted viewing. Once consumers get used to the idea of watching what they want with limited forethought, the source of the programming becomes immaterial.

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The user experience is not terribly different for a consumer watching Netflix on-demand from a web-enabled Blu-Ray player than it is for a consumer watching on-demand video from a cableco.

The narrowing of the substantive gap between traditional CSPs and OTT providers can also be seen in the voice realm. A June 2010 report by Business Insight points out that conventional telecommunications companies are among the largest providers of IP voice services. While the process is fundamentally different from the CSPs perspective, in terms of the direction of revenue and who is stuck with the bill for network maintenance and expansion, the experience of the end user is not fundamentally different, in many cases.

Add to that fundamentally shifted user behavior the success of Skype. Throw in the proliferation of Google Voice. Add on other applications that cut into traditional revenue streams like Textfree (which enables texting for those with no text plan) and, from the same company, mobile VoIP app Pinger. Not only do you get a possible reduction in ARPU, you get a situation in which some users can opt to use an iPod Touch, plus some OTT apps, rather than an iPhone.

But there are, some may say, fundamental differences in user experience for OTT applications. As a whole, over-the-top providers lack the network visibility that traditional CSPs have. Furthermore, while subscribers may stick to low- or no-cost voice and video applications, QoS is a real problem, and that's without even getting into net neutrality issues. (By the way, if you haven't checked out Ed Finegold's article on net neutrality in this issue, it's definitely worth a look.)

And revenue continues to be an issue. Skype gets by with its SypeOut revenue, but as an IPO looms closer, revenue will increase as a concern. Meanwhile, ComScore's formula for keeping track of OTT video ratings has undergone changes that have hurt providers, like Hulu, that depend on ad revenue to pull in their bucks. This summer, ComScore's account of Hulu's viewership plummeted from 43.5

million in May to 24 million in June, according to the LA Times, after the company revised its methodology.

In that same LA Times article, Tim Hanlon, a Chicago digital media strategist, is quoted as saying, "It's maddening. You would think 15 years on, we would be in a better place. But we're still talking about fundamental discrepancies in things like page counts." (Article here: <http://articles.latimes.com/2010/jul/26/business/la-fi-ct-hulu-20100721>).

In addition, Google has hit an uncommon snag (if you don't count that whole China thing) as its Google TV service ran into opposition from execs at the major networks over business model protection, though that story circles back to the issue that's at the heart of the struggle between CSPs and OTT plays.

However, there are reasons to believe that, at least on the video side, OTT plays may not be quite as disruptive as was once believed. Tal Givoly, Chief Scientist for Amdocs, sums up the potential reasons for the possibility for reduced divisiveness in his blog, noting that customer demand for OTT video alone, without pay TV, is still marginal, noting that what they really want is enhanced functionality with as little added complexity as possible.

Givoly also points out that there is a clear reason for an alliance between satellite players and OTT video plays, since most of the OTT video will actually be consumed across someone else's network. Also, IPTV players, who generally own less paid content and have a newer set-top box environment, for the most part, have a rational interest in supporting OTT video. That leaves cablecos who, once their chief access-technology rivals have fallen in line, will get on board with OTT as a me-too maneuver. This leads Givoly to predict that all TV providers will have OTT video access capabilities built into their set-top boxes within the next few years.

And it is within this potential fusion that many of the core OSS issues associated with OTT services can be resolved. CSPs have the level of access to the network that can complete the QoS puzzle for OTT plays, and a visible partnership will eliminate

the need to furiously protect networks against OTT revenue.

Going back to the Skype example, 560 million is a huge number, and this growth is in spite of the very quality issues that are central aspects of the arguments that OTT plays cannot truly replace traditional communications services. With skirmishes over net neutrality, network access, marketshare, and innovation raging, however, the idea that the foes are, in many cases, becoming friends is an interesting development indeed.