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At the IBC in Amsterdam this year, IPTV was a hot topic, and for good reason: service providers are rapidly rolling out IPTV services to consumers all across the continent. Not every venture has been a winner, but there have been a number of successful deployments, and more are on the way. Graeme Packman, of Understanding & Solutions, a U.K.-based consulting firm, gave a very interesting presentation on IPTV in Amsterdam, and provided additional data used in preparing this article.

One country where IPTV seems to be taking hold is in France. In the past three years, over 300,000 subscribers have signed up for IPTV service from Orange (France Telecom). Around two-thirds of alternative ISP Free's 1.9 million broadband subscribers are eligible for its IPTV service, which includes over 80 channels, in a package that includes ADSL2+ Internet access and free voice calls to fixed lines in over 20 countries. Other IPTV providers include alternative operator Neuf Cegetel, which recently acquired AOL France, Telecom Italia subsidiary Alice, and T-Online (Deutsche Telekom) subsidiary Club Internet.

France has an estimated 25 million television households, with approximately 3 million CATV subscribers and 4 million satellite subscribers (in addition to the 1.5 million subscribers with IPTV service available). According to Point-Topic, another U.K. consultancy, France had 10 million broadband subscribers as of December 2005 so there are a significant number of potential future IPTV subscribers.

The penetration of IPTV in France is high, compared to other markets. In the U.K., a country with roughly the same number of television households, the penetration of IPTV is much lower—only 30,000 subscribers as of a year ago, according to an article in *The Register*. This contrasts with the penetration of digital TV services in the U.K. of almost 70% of viewers, a much higher ratio than in France or many other countries in Europe.

The success of IPTV has occurred for a number of reasons, some of which are specific to the French market, and some that may be true for other locations. Let's take a look at some of the major reasons, many of which I was able to discuss with Mr. Packman.

- *Pricing.* Due to a very competitive market, the prices for IPTV services are very low. Orange/France Telecom's basic IPTV service with over 40 channels

costs 16 Euros per month, or just a shade over \$20 per month. Free's basic triple-play package that includes high speed internet access, telephony, and IPTV, costs 30 Euros, or about \$38, per month. At this low price, many Free customers are happy purchasing the package just to get internet and telephone service, and don't utilize the television services. Incumbent Orange has started to bundle its basic IPTV service, which includes over 30 channels, free of charge with some of its broadband access propositions.

- *Weak Competition.* As mentioned above, the main alternatives to IPTV are CATV and satellite, both of which have achieved penetration far below levels in other countries. In the case of CATV, up to a year ago there were several cable operators who had not converted the analog base to digital as rapidly as had happened in the U.K., without VOD capability. There have been a number of mergers between CATV operators recently, which should improve the competitiveness of these systems and further push the transition into digital, including the introduction of VOD services. In the case of satellite TV, penetration has been hurt by strict local planning rules that make it impossible for many potential subscribers to mount antennas on their homes. As a result, for many potential viewers, IPTV may be their only way to get digital TV services.

- *Wide Range of Content.* The channel offering of the two large IPTV suppliers is quite extensive. In addition to channels from all over France, both services offer basic-tier international programming from a number of other countries in Europe and the Middle East. In addition, Orange/France Telecom offers over 200 premium channels. Both operators have also partnered with media group Canal+ to offer premium content.

- *New Services—HD and VOD.* While not as important as the reasons mentioned above, both HD content and VOD services may act to drive subscribers to IPTV. The HD broadcast market in France is much less developed than the U.S. market. IPTV service providers are positioning themselves to capture HD business when it emerges by deploying HD capable

set-top boxes today. In France, VOD services are also not common, and IPTV providers have in practicality, the first providers to offer VOD.

Other countries in Europe offer different pictures for IPTV. For example, the U.K., which has roughly the same number of television households as France, has twice as many digital satellite subscribers (over 7 million). Also, NTL/Telewest operates CATV systems that pass half the homes in the U.K. and has 5 million subscribers. As a result of these and other factors, IPTV penetration levels in the U.K. are far below those in France, and are expected to stay that way for several years at least.

The IPTV situation in the U.S. is also very different. With 110 million television households, IPTV has yet to make a significant dent—less than 0.5% of the overall market. The largest company pushing IPTV today—AT&T—has officially rolled out its IPTV service only in San Antonio so far. One factor slowing rollout is that many DSL lines in the U.S. span greater distances and use lower speed technology that is not well suited for IPTV. Another factor is that over half the U.S. broadband data users receive service from cable modems serviced by CATV companies, who have little incentive to roll out IPTV service to compete with their digital cable offerings.

As you can see from the foregoing, IPTV is a means to an end—a new way to deliver content to viewers that, with the right conditions, can be successful in the marketplace. However, it is always prudent to remember that consumers care most about access to content that they want to watch, and that they don't care too much about how it is delivered. Studies by Mr. Packman have shown conclusively that the dominant factor driving viewers to digital video technology is the increase in the range of content that they have access to. This is as true for IPTV as it is for the digital video technologies that have come before.

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