

Telecommunications

IPTV success: Lessons from the front line

By Arjang Zadeh, Greg Douglass and Ray Dogra

Arjang Zadeh is a London-based partner with Accenture who leads the global network practice of Accenture's Communications & High Tech operating group.
arjang.zadeh
@accenture.com

Greg Douglass, a partner in Accenture Communications & High Tech/GlobalSolutions, heads the global Convergence group.
gregory.j.douglass
@accenture.com

Ray Dogra is the Accenture global lead for IPTV.
raymond.dogra
@accenture.com

The delivery of television programming and interactive services over a converged IP network—called "Video over IP" or now, more frequently, "IPTV"—will be a critical aspect of achieving high performance in the communications industry over the next decade. Major telecommunications providers, along with a host of cable and media companies, are now chasing after a share of the IPTV market, a business that could be worth \$17 billion a year by 2010.

Despite such promise, many challenges lie ahead. IPTV technologies and solutions are immature and the market is fragmented. No out-of-the-box IPTV solution yet exists—complete, integrated and ready to go. This technical reality has already led to setbacks for several providers that waited until far too late in the development process to consider integration challenges and the impact on their existing systems, especially operational systems like rating and billing.

No operator has yet launched IPTV services that have been proven to be scalable, stable and high quality, and that deliver an acceptable return on investment. Yet major IPTV trials are now in place all over the world, and the IPTV market appears to be at an inflection point, ready for rapid expansion.

Based on our IPTV experiences and on lessons learned by early adopters on the front lines, here

are some critical IPTV insights and the most important factors to be addressed to increase the likelihood of achieving high performance with an IPTV strategy.

Content is king

Some of the excitement about IPTV services focuses on the interactive and on-demand capabilities that can be delivered over the high-bandwidth IP network. Companies do need to be adopting those capabilities in pursuit of differentiation and increased customer loyalty. However, even in countries such as the UK—which has the most advanced interactive services in cable, satellite and terrestrial technologies—interactivity is not yet generating significant revenue uplift. This situation is likely to continue, at least until a "killer app" emerges that leads to a dramatic uptake in demand for interactive, on-demand services.

What is the most important component of an IPTV solution? The experiences of providers in both Europe and the United States have made it clear that the programming content itself is primary. Acquiring and processing that content are not skills that telecommunications providers necessarily possess, so they must decide how to get those skills.

Prepare a rigorous business case

The business case for IPTV adoption is strong, though more challenging for some of the players.

Because content providers have the supreme position in the IPTV value chain, margins may appear discouraging. Providers must carefully build the cost of content into their IPTV business cases. Accenture's business case analysis indicates that content acquisition will become the most significant component in the cost/revenue model for IPTV, accounting for more than 40 percent of costs by the fifth year of operation.

IPTV will probably be simultaneously the most complex service a provider has and also the one with the lowest gross margins. What this means for most providers is that they must squeeze as much cost as possible from elements of the platform, including the set-top box and the hardware, software and middleware.

Transmission quality must be high

Since content is king, the quality of the programming feed itself must be as good as or better than existing TV services. Monitoring and measuring the quality of an IPTV feed can be a challenge, however. Network experts know how to measure network quality, but that does not necessarily indicate what a customer actually sees on a TV screen. If a customer is paying for video on demand and then complains about the picture quality during a movie, knowing where the problem occurred is vital to deciding whether give that customer a refund.

Excellent customer service is an imperative

Communications service providers must pursue bundled solutions today to achieve profitable growth. A customer using multiple services from a single provider becomes much more entrenched and is less likely to churn, if the value and quality of the entire bundle remains high. And there's the rub.

Based on the extensive experiences of operators in Europe that have employed a bundle or solution-selling strategy, bundling can be a double-edged sword. If the bundle is good, with value differentiators built into the bundle as a whole, customers are less likely to be

lured away from competitors for fear of losing the value of the bundle. However, studies have shown that operators that have trouble with the quality or value of one of the components or services in the bundle find that their customers are actually as much as 60 percent more likely to churn than a customer of a single service.

So service providers that aggressively launch a low-quality video service bundled with voice and/or data may not only lose that customer as a video buyer, but also as a buyer for voice and data services as well. And that can be a very expensive blow to the customer base. What to do? First and foremost, operators must monitor and rigorously measure both customer satisfaction and the stability of services being offered. This may require ensuring that CRM capabilities are fully integrated throughout the entire solution that is being sold.

A stable platform is essential

Stability of the service is the most important ingredient to IPTV success; and that means stability of the platform and architecture itself. If the IPTV service is unstable, high customer churn will result, and operators may end up with a customer base where churn negates their customer acquisition efforts.

A truly comprehensive IPTV solution encompasses the systems, video infrastructure and network elements required for an end-to-end solution, as well as definition of the processes to operationalize the video services being offered. The most important success factor, in Accenture's experience, is creating a stable and scalable IPTV service over a broadband multi-service platform. This has proved to be challenging to almost every operator.

All the network and service control issues required for quality of service and bandwidth control between the different services over the same broadband access requires significant engineering know-how as well as understanding of multiple broadband services and their characteristics. The architec-

ture that enables the video service must also be stable over the access network and home access gateway using IP. This is not a trivial matter; design of such an architecture requires unique understanding of video as well as broadband.

Finally, the complexity of delivering an end-to-end IPTV platform is not just in the technical challenges in integrating all the video network components and systems involved, but, also in the integration with OSS/BSS platforms to be able to offer video services in tune with the operator's customer experience goals.

Meeting the challenges

IPTV represents important competitive opportunities for communications companies, and operators should be acting now to address their most important operational challenges. Service provisioning and customer service are extremely important, for example. So is storage and management of content, and developing true, end-to-end quality of service in a complex network.

A robust and stable platform is the most important ingredient to success. Without such a platform, and the architecture that underpins it, operators cannot develop and retain the customer base necessary to succeed.

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