

**Global IPTV Navigator Series:  
Point of View on German IPTV Market**

Telecom & Media Insights

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# 1 Management Summary

In this whitepaper Capgemini Consulting's Telecom Media & Entertainment (TME) unit draws from several years of experience in the European IPTV market and provides a summary analysis of the German IPTV market.

Analogue terrestrial TV is fading out and being replaced by mostly digital terrestrial TV (DTT). A recent market analysis by the *Gemeinsame Stelle Digitaler Zugang (GSDZ)*<sup>1</sup> showed that digital terrestrial TV is the only TV source that is actually increasing the amount of relative subscribers, while cable is losing and satellite is stagnating. Offering hybrid Set-Top-Boxes (STB), which can receive DTT and IPTV signals has helped keeping prices down in France and therefore was supportive in the market success. This development cannot be seen in Germany. Here, DTT is treated as a competitor to IPTV services with none of the operators having hybrid STB on their roadmap.

In more mature markets the penetration of paid satellite TV services was also an indication for the potential take-up of IPTV services. Experience shows that IPTV is a good alternative for expensive digital pay TV services via satellite. However, analogue and digital satellite services are both free of charge in Germany. This means that a consumer buying a satellite dish can receive up to 100 German speaking channels plus additional 200 channels with different languages such as French, Italian, Spanish and Polish. None of these channels are premium content channels providing for example exclusive sports content. Subscribers in Germany would need to pay for such content as well. The only company offering it, *Premiere*, attracted in the past years roughly 4 million<sup>2</sup> direct and indirect subscribers with its business model, underlining the reluctance of German consumers paying for such services. This will be an equal challenge for IPTV operators.

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<sup>1</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

<sup>2</sup> Source: [www.premiere.de](http://www.premiere.de) investor relations information for third quarter 2007

Cable operators can be the winners in the medium and long term with bundled services like voice, internet and TV services. Around 50% of viewers in Germany subscribe to TV services via analogue or digital cable<sup>3</sup>, which positions cable in a top spot for securing this role in the future as well. Historically cable operators have not been successful in upselling their large customer base. This was mostly due to an unattractive price per content proposition. Bundling voice & internet with television can make the price for the package more attractive. A recent example of the second largest cable operator, *Unitymedia*, shows that bundle package prices can considerably decrease. Besides having a lot of leeway with the price for television services, it is also technically less challenging for cable operators to offer voice and internet services than for Telcos offering TV services. This fact will be the major hindrance for a broad breakthrough of Telco TV in Germany.

Another aspect to consider is the state of the German broadband market. This is really supportive to IPTV deployment. Recent numbers published by *VATM* show that about 50% of German households have broadband services<sup>4</sup>. Out of these about 74% have bandwidth connections above 2 Mbit/s., which means that the state of the overall network is very good. Adding Deutsche Telekom's VDSL deployment means that the network is not a bottleneck for good IPTV services. However, the network is the necessary requirement for IPTV services but it is not sufficient. As mentioned, the service offering has to be competitive against satellite and cable as well.

Last but not least, besides the German market conditions, the offering needs to meet a certain degree of mass-market readiness in order to achieve high take-up rates. Capgemini identified five key areas that need to be mastered: (1) Customer Focused Communication, (2) Efficient Customer Service, (3) High Technical Availability, (4) Usage Convenience and (5) Available After-Sales Services. Benchmarking Germany with other markets, Capgemini TME sees a range of challenges with German operators, which may be due to the missing

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<sup>3</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

<sup>4</sup> Source: Dialog Consult / VATM "Der deutsche Telekommunikationsmarkt" Oktober 2007

competition in this market and may change with new operators entering the market. *Deutsche Telekom* is a good example how to change from less effective market communication at the launch of the service to a better understandable customer focused communication since re-launch of its campaign. This should help the customer to better comparing IPTV with cable and satellite offerings. As to the four other areas there cannot be a best practice example identified in Germany.

Taking these market dynamics into consideration, Capgemini TME arrives at the conclusion that IPTV will not develop as quickly as it has been developing in benchmark countries. However, Capgemini's forecast clearly indicates that IPTV is going to be a strong alternative player in the German market for TV access in the coming years. If IPTV operators acknowledge the challenging market conditions in Germany and act accordingly, subscriber take-up may even be stronger than what Capgemini's forecast suggests.

## 2 German Market Analysis

The market for TV services over IP connected networks (IPTV) in Germany was always understood as very difficult to develop. The first offering came from Telecom Italia's subsidiary *HanseNet*, which is marketed under its retail brand "Alice" in early 2006. However, it was only available to the cities of Hamburg and Lübeck for a very long time and never really mass-marketed. In the course of 2007 it started to soft launch IPTV in other large cities as well, but this was highly limited to network availability. Just recently HanseNet announced that it will deploy its IPTV services in about 150 cities in Germany<sup>5</sup>.

The first notable recent market entry was *Deutsche Telekom's* "Entertain" offering of IPTV services via its VDSL network in 27 cities in the fall of 2006. It had good intentions offering its TV services over 50 Mbit/s. bandwidth connections, but it highly underestimated consumers' willingness to pay a premium price for services, they regarded as basic TV services. A range of technical difficulties after launch rendered the market entry even more difficult. Almost one year later it changed its network approach by including regular ADSL2+ connectivity as well. Thereby it increases its reach to more than 50 cities. In a recent press release *Deutsche Telekom* states that it can market its "Entertain" offering to almost 50% of German households<sup>6</sup>.

The latest market entrant for IPTV services in Germany is alternative fixed net operator *Arcor*, which is partly owned by *Vodafone*, the second largest German mobile phone operator. Their approach towards deploying IPTV services is less ambitious than of *Deutsche Telekom*. Judging from the outside it seems that they focus on the network they have and upgrade it towards higher bandwidth capacity and multicast functionality where necessary. From December 1, 2007, its IPTV services shall be available in about 51 cities<sup>7</sup>. It has been trialling its services in Kassel since May, which should ensure that the service will actually

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<sup>5</sup> Source: [www.hansenet.de](http://www.hansenet.de) press release November 11, 2007

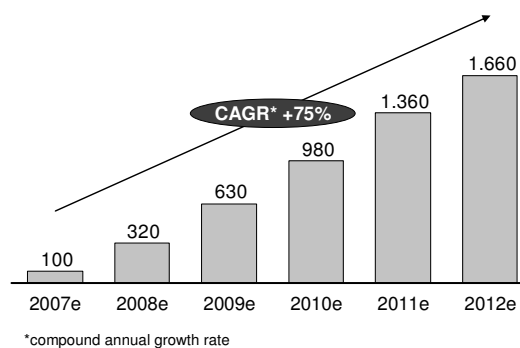
<sup>6</sup> Source: [www.telekom.com](http://www.telekom.com) T-Home press release August 29, 2007

<sup>7</sup> Source: [www.arcor.de](http://www.arcor.de) press release October 30, 2007

work, once it is offered in the market. As of today it seems questionable whether *Arcor's* offering will boost the demand for IPTV services. What looks promising is the fact, that they offer basic TV services for 9,95 Euro per month, which is cheaper than what the two competitors offer. Another plus for *Arcor* is its leverage to actually build a 4-play bundle offering, which would combine basic telephony, internet, TV and mobile services in one price and one package. Consumer research shows that product bundles, along with a price discount is what consumers are very interested in.

The example in France illustrates that competition is helpful in developing the market for IPTV services. But certain decisive market constraints will not disappear, even with more players in the market. This is why Capgemini TME's forecast for IPTV in Germany predicts about 1.7 million subscribers by 2012. This is more conservative compared to publications from other market analysts, which made subscriber forecasts for up to 2.5 million by 2012. This forecast arrives at a compound annual growth rate (CAGR) of about 75%, which is the result of a four step analysis.

**Figure 1: German IPTV subscriber forecast, 2007-2012, (Thousand)**



Capgemini TME started first with the analysis of the German market for TV reception with a particular focus on terrestrial, satellite and cable TV. While terrestrial TV has a neutral impact on IPTV growth, cable and satellite TV have a negative impact on IPTV subscriber growth.

Secondly, the developments in the market for broadband internet access were taken into consideration. Broadband penetration is expected to further increase, but overall growth is slowing. Capgemini TME expects an overall broadband

penetration rate of about 70% by 2012. The market share of DSL broadband is expected to decrease to about 65% by 2012 primarily due to increased broadband cable TV offerings.

As a third step, Capgemini TME reviewed the assumptions and predictions for IPTV subscriber growth of other analysts and consulting companies<sup>8</sup>. They all agree on a slow start for IPTV services but disagree on the speed of growth. While optimistic forecasts calculate with about 90% compound annual growth rate, more pessimistic forecasts arrive at 50% compound annual growth rate.

The fourth and final step was the benchmarking of Germany with countries that show similar market constraints but are more mature in terms of IPTV deployments. It is difficult to find a proper benchmark because most IPTV services are still in its early stages and the German TV market is rather unique. The closest benchmark from a TV market point of view is Belgium. However, the IPTV subscriber growth in Belgium is not an appropriate benchmark, as the strong growth rates of the only local IPTV operator *Belgacom* is due to its exclusive football rights for the Belgium market.

All factors considered Capgemini TME's current forecast of almost 1.7 million IPTV subscribers by 2012 underlines that IPTV is a growing market but meeting a very challenging market environment.

## 2.1 Terrestrial TV

Already around 10% of German TV households watch digital terrestrial television (DTT)<sup>9</sup>. This number is most likely to increase with the switch-off of analogue services in 2012. DTT is offered in most metropolitan areas in Germany and is particularly strong in the north and east of Germany. As it is more a public service than a commercial operation, there has not been a lot of

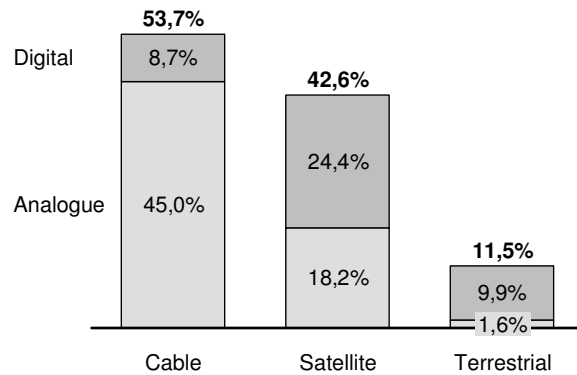
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<sup>8</sup> BITKOM & Roland Berger (2007), Booz Allen Hamilton (2007), Mercer (2005), Deloitte (2007), Forrester (2006), Gartner (2005), Goldmedia & BITKOM (2007), Goldmedia & Screendigest (2006), Informa (2005), iSuppli (2007), Ovum (2005), PricewaterhouseCoopers (2006), Solon (2005)

<sup>9</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

advertising around DTT in Germany so far. Taking this into consideration it is striking that it has already captured around 3.6 million TV households.

**Figure 2: German TV reception by source in 2007**



Source: Gemeinsame Stelle Digitaler Zugang (GSDZ), 2007 Basis: 36.98m HH in Germany

The big success of DTT in the UK demonstrates that viewers consider DTT services as a viable alternative to other TV services and it is not at all guaranteed that consumers will stick to more expensive TV services. When DTT became available in the UK under the *Freeview* brand, it became a real success story with more than 14 million viewers today, which equals to a market share of more than 60%<sup>10</sup>. The same applies to France, where DTT is widely used as well. In both countries, IPTV offerings are built around DTT. This means that operators such as *British Telecom* in UK or *France Telecom* in France offer a hybrid Set-Top-Box, which has a DTT and an IP tuner to receive channels from both sources.

In Germany, DTT is perceived as a potential threat to IPTV with *Deutsche Telekom's* announcement that it will not upgrade their Set-Top-Boxes to DTT capability. This means that consumers have to decide whether they want to

<sup>10</sup> Source: [www.freeview.co.uk](http://www.freeview.co.uk) press release November 20, 2007

watch DTT or IPTV. Market dynamics in other countries show that consumers will most likely switch to DTT and not to IPTV. DTT offers all the most popular channels at a sometimes higher picture quality than IPTV. It costs only a one-time fee for the Set-Top-Box, which can be as cheap as 50 EUR, and then the viewer – like all other TV viewers - has to pay only the public license fee of around 17 EUR per month to the government<sup>11</sup>. Furthermore, it is very easy to set-up with almost no technical skills required.

In this nascent market of IPTV services, particularly price per TV content offered will be decisive to win the customer as they do not understand what other services IPTV offers beyond simple TV content. Pricing is particularly a challenge for IPTV when competing with satellite services.

## 2.2 Satellite TV

In Germany the case of satellite TV is puzzling. Satellite TV has always been heralded as another way of true free-of-charge TV. Viewers only need to purchase a satellite dish and a set-top-box and there are no add-on costs involved – except of course for the public license fee every TV viewer has to pay. Currently, around 19% of consumers still watch about 30 TV channels via analogue satellite transmission<sup>12</sup>. With analogue transmission being replaced by digital, viewers are now moving to digital services. Digital TV offers more than 50 German speaking channels, if quality is not accounted for, the number of channels increases to more than 100 and if the German language is neglected, the program guide stops at 299 channels. This amount of channels can be watched at no monthly cost.

This large amount of channels does not include, however, so-called premium channels that show recently released blockbuster movies without the interruption of commercial services or exclusive sports content. Such services need to be subscribed to from the sole operator *Premiere* and can be watched via a conditional access card. *Premiere* has always had a difficult time convincing

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<sup>11</sup> Source: [www.gez.de](http://www.gez.de)

<sup>12</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

viewers to subscribe to its services. It currently has around 4 million subscribers, which is around 11% of all TV households<sup>13</sup>. Even the acquisition of exclusive football rights did not help to grow this number substantially. The main reason for this may be because excerpts of the football matches are still aired on free TV once the football game is over.

This situation is in stark contrast to other countries such as France, where there has been traditionally a very low free TV offer via satellite and most consumers subscribed to Pay-TV services such as Canal+/CanalSat in France. In such countries, where people are used to pay for satellite TV services, it is much easier for an IPTV offering to gain popularity. IPTV lowered the price point for pay TV services in France from above 60€ to below 30€.

With IPTV in Germany consumers are facing the decision to replace their existing TV services, to which they subscribe to for free (via satellite or terrestrial), with an offering for which they have to pay between 9,95€ (*Arcor*), 14,95€ (*HanseNet "Alice"*) or 19,95€ (*Deutsche Telecom "T-Home Entertain"*)<sup>14</sup>. For satellite TV viewers this is unlikely to happen on a large scale except maybe for the ones that subscribe to premium TV services from *Premiere* via satellite.

### 2.3 Cable TV

The situation of cable TV services in Germany is also quite peculiar compared with other countries in Europe. Ever since the market for TV broadcasting was liberalized in the mid 1980s the government rolled out cable services all across Germany. Currently more than 50% of German households watch TV via cable<sup>15</sup>. With the liberalization the amount of available free TV channels jumped from essentially 3 analogue public services broadcasters (ARD, ZDF and the regional channel for each federal state of Germany respectively) to more than

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<sup>13</sup> Source: [www.premiere.de](http://www.premiere.de) investor relations information for third quarter 2007

<sup>14</sup> Source: company websites as of November 2007

<sup>15</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

10 channels back then to more than 30 analogue TV channels today, with the most popular commercial TV channels included.

Digital cable will offer more than 100 channels but the fact that only 8.7% subscribe to digital cable<sup>16</sup> implies that a large channel choice at higher cost is not a major buying incentive for consumers. Capgemini project experience shows that most consumers do not require more than 15 channels on average.

But the availability of digital cable is also depending on the upgrade level of the underlying cable network. This is still small but all three major cable operators are aggressively investing into the build-up of the network to not only offer digital cable, but also voice and internet services. This was and still is the most obvious reason for telecommunication companies to deploy IPTV services. This threat is now becoming ever more real and one of the main obstacles why Telco IPTV is developing less quickly in Germany than in other countries.

There are two striking competitive advantages of cable operators over telecommunication companies. First, it is much harder for Telcos to deploy IPTV services than for cable operators to deploy voice and internet services. TV over IP is Quality-of-Service (QoS) critical, challenging from a network architecture point of view and sensitive to scalability in the back-end systems. Deploying voice and internet services for cable operators may be also challenging, but they do not have to worry that much about QoS. Due to mobile services and cheap voice over IP offerings, people are now used to average telephony services. They also accept it if the internet is not always as fast as promised, as long as the packages are delivered at some point. For TV services this situation is very different. Consumers require no less than 100% of TV stream availability, because this is what they are used to and with a big screen it is much simpler to be annoyed if the screen freezes or turns black.

Secondly, cable operators have a high margin on TV services, and it does not hurt their financials as much as it does Telco operators if they have to lower their prices on TV services. *Unitymedia* is a good example as the company is

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<sup>16</sup> Source: GSDZ "Digitalisierungsbericht 2007" August 2007

currently offering 3-play services for as low as 35€ per month<sup>17</sup>. Yet, this requires a basic cable fee of 12€ per month but it is still around 25% cheaper than comparable voice, internet and TV services from *Deutsche Telekom*.

Therefore, as long as prices of Telco triple play services are not decreasing to levels in France, the race for the customer will most likely be won by cable operators. The only thing that is currently holding back cable operators' success is the speed of network upgrades on the one hand and the provisioning of services to the customers on-time due to high demand.

## 2.4 Network Bandwidth

Currently about 50% of German households have broadband services<sup>18</sup>. Out of these about 74% have bandwidth connections above 2 Mbit/s., which means that the networks are in good conditions. IPTV services need high network bandwidth and the higher the bandwidth available, the better the service. However, IPTV does not necessarily need access networks that deliver 50 Mbit/s. to the home. Current compression technology allows the delivery of TV signals over IP networks with a bandwidth of as low as 7 Mbit/s.. This requires that the TV streams are encoded in MPEG4 standard at around 2.5 Mbit/s.. Examples in Eastern Europe demonstrate that TV services can be delivered in MPEG4 quite successfully.

*Deutsche Telekom* thought it would be a competitive advantage to have a VDSL network, but it underestimated consumers' willingness to pay for such high speed services. VDSL requires significant investments, which the consumer is not willing to pay for. Since the summer of 2007, *Deutsche Telekom* decided to complement the VDSL product with standard ADSL offer<sup>19</sup>. This helps not only to reach a wider audience, but also to provide the service at a substantially lower

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<sup>17</sup> Source: [www.unitymedia.de](http://www.unitymedia.de)

<sup>18</sup> Source: Dialog Consult / VATM "Der deutsche Telekommunikationsmarkt" Oktober 2007

<sup>19</sup> Source: [www.telekom.com](http://www.telekom.com) T-Home press release August 29, 2007

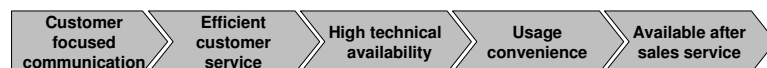
price. Competing offerings from *HanseNet* and *Arcor* work with standard ADSL networks, which allow offering the services in 50-150 cities from the start<sup>20</sup>.

Overall, the bandwidth situation in Germany is very supportive for IPTV services. It is strong enough to even support the emergence of new competitors to IPTV, which take a different approach to the delivery of TV channels. These are so called WebTV services such as *Joost*, *Babelgum* or *Zattoo*. While *Deutsche Telekom*, *Arcor* and *HanseNet* rely on proprietary and controlled networks, these WebTV services are piggybacking on existing open internet networks. The TV content is delivered via peer-to-peer technology, which enables these companies to offer their services free of charge to the consumer. Currently these services are only available for the PC screen, but there have been rumors, that some are working on Set-Top-Box strategies as well. This is not far fetched, as a partnership with Set-Top-Box manufacturers or with companies like *Sony* and *Microsoft* to become part of their gaming consoles would be quite simple to establish. As of today, the QoS is not for TV screens so they are no real threat to traditional and IP television services. But they have the potential to become a bigger threat in the future and thereby negatively influence the overall subscriber growth of IPTV services.

## 2.5 Mass-Market Readiness

Price is not a determining factor alone for the success of IPTV services. Experience shows that IPTV offerings need to meet a certain level of mass-market readiness to be successful. To ensure mass-market readiness, Capgemini looks at five segments along the *Visual Services Delivery Value Chain*.

Figure 3: Capgemini's Visual Services Delivery Value Chain



<sup>20</sup> Source: [www.hansenet.de](http://www.hansenet.de) press release November 11, 2007; [www.arcor.de](http://www.arcor.de) press release October 30, 2007

There has yet to be found one company, which is mastering all five areas. But Capgemini's global IPTV benchmark shows that there are best practice examples around the globe for each of these areas:

#### **Value chain segment 1: Customer focused communication**

##### *Best practice: T-Home Entertain (Deutsche Telekom)*

At the launch of its IPTV services, *Deutsche Telekom* spent little on advertisement, which was probably because the service wasn't entirely ready. Its first advertisement was limited to outdoor ads, which did not help the consumer to understand the service. Its website did little to mitigate this, as it was very difficult to navigate.

In the summer of 2007 it re-launched its ad campaign and website. It started to show TV ads, which clearly emphasize the benefits of IPTV services beyond an attractive TV channel line-up. It complemented these highly effective ads with a website that is very easy to navigate and where interested consumers can find out very easily how much the service costs and what advantages IPTV offers.

#### **Value chain segment 2: Efficient customer service**

##### *Best practice: Free*

Much like *Deutsche Telekom* did, *Free* also learned from its shortcomings in the past. When it launched IPTV services, it was so successful that it did not have the capacities to ensure a timely set-up of the services. Call-center staff was too small to process all the new orders and delays happened frequently. Nowadays, *Free* turned itself into a customer service company. All IPTV processes function properly, be it the availability test, the rapid distribution of technical devices or the activation of services. *Free* guarantees its customers the set-up and delivery of the Freebox within 24 - 48h.

#### **Value chain segment 3: High technical availability**

##### *Best practice: Belgacom*

When *Belgacom* started to work on IPTV services it had always had the attention of the CEO. It was always understood that *Belgacom* did not want to take any chances when deploying the services. Therefore it looked for a partner, which could implement a platform that meets high quality of service standards and is scalable for high subscriber growth.

The partner of choice was *Siemens*, which is now *Nokia Siemens Networks*. The solution that *Belgacom* build helped it to emphasize its technical advantages and high quality compared to cable or satellite TV. Critical areas to pay attention to are minimal packet loss and jitter on the head-end side, but also guaranteed bandwidth management and short channel switch time on the network side.

#### **Value chain segment 4: Usage convenience**

*Best practice: Verizon*

Convenience will become important when price is no longer the key differentiator between TV offerings. IPTV is not only a large selection of channels. It enables the customer to view the channels s/he wants at the time when it is suitable for the consumer. An intelligent Electronic Program Guide (EPG) automatically ranks channels based on how often a particular channel is watched. Thereby the consumer has always his most favourite channels first in a quite simple way.

Moreover channels can be recorded and stored on a network drive, which enables consumers to access a TV archive and pick the content that was missed in the previous seven days. Taking this idea to the next level, network based personal video recorders start automatically to record content, which fits the viewing behaviour and/or the profile of a particular user.

#### **Value chain segment 5: Available after sales services**

*Best practice: France Telecom*

With the French IPTV market already reaching a state of hyper-competition, the care for the customer after the sale is extremely important. Even more important for the local incumbent that is faced with a hyper-popular competitor in its core voice and internet, as well as television market.

*France Telecom* has been spending a lot of time on building up its customer service department with IPTV skilled employees in call centres and point of sales (PoS). Television service is a product with a much higher customer involvement which triggers consumer responses much more rapidly than with voice and internet services. Besides trained people the organization needs to support after sales services with aligned business processes and customer relationship management systems.

## 3 Global Top 5 IPTV Operators

France was the first country to deploy IPTV services on a mass market level and still is the global IPTV leader. By now close to 3 million households have been subscribing to IPTV services and Capgemini's list of global Top 5 IPTV operators<sup>21</sup> contains three companies from France: *Free*, *France Telecom* and *Neuf Cegetel*. France is closely followed by *Verizon* in the USA and *PCCW* in Hong Kong. Although Western Europe is leading the IPTV deployments, North America and Asia are expected to catch up soon.

### 3.1 France Telecom

#### ***Background information***

*France Telecom* is the incumbent operator in France and offers voice, internet, television and mobile services under its *Orange* brand. It was among the first European Telecom incumbents to launch IPTV already in 2003. At that time there was no off-the-shelf IPTV platform available, which is why *France Telecom* developed its own. This platform is nowadays marketed by *Thomson* as part of their end-to-end IPTV platform. *France Telecom* has today almost 1 million IPTV subscribers.

#### ***Value proposition***

*France Telecom* offers its IPTV services for 29,99€ per month including voice, high speed internet and basic TV services of around 80 channels. Further 150 premium channels are optional.

Additionally a Set-Top-Box, called "Livebox", has to be rented for 3€ per month. A deposit of 49€ is necessary for the box, in case of damage the maximal return fee is 200€. A subscription of VoD with more than 1000 available movies and unlimited access is available for 4,99€ per month.

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<sup>21</sup> All stated information is based on publicly available information such as company websites, press releases and investor relations information.

### ***Strategic intention***

*France Telecom* was the first company to introduce the idea of a “Home Gateway” instead of just calling the DSL modem a router. The home gateway is branded as “*Livebox*” and people actually use it as a piece of furniture rather than something they are embarrassed about. *France Telecom* continuously builds up services around its *Livebox* such as the introduction of a home surveillance device, which lets user screen their home via an internet connection on the PC screen or a mobile phone screen.

## **3.2 Free**

### ***Background information***

*Free* is a subsidiary of *Iliad* and the best known and most popular alternative telecommunication services provider in France. Its subscribers are called *Freenautes*, and *Free* is always on the forefront of innovation. It started IPTV services in 2002, earlier than *France Telecom*. Instead of deploying modem and set-top-box, it introduced just one box, the *Freebox*, which combines both functionalities in one device, which makes the set-up process much easier.

Its fame and reputation of constant innovation helps *Free* to remain very popular and spend only minor amounts in ad campaigns compared to its competitors. Its latest innovation is the launch of “*TV Perso*”, an on-demand service of user-generated videos for the TV screen of all its TV over DSL subscribers. *Free* built a special application that makes it very simple for users to upload their content on to the platform and this content is shared with other *Free* TV users.

### ***Value proposition***

*Free* was the company to introduce in September 2002 the de-facto price limit for triple-play services in France. Its offer for voice, internet and TV services for 29,99 €/month was so successful that the other market players had no alternative than lowering its prices as well. Every ADSL subscriber has access to up to 100 channels which are included in the basic price. Additional channels and Pay-TV offerings from Canal+ can be ordered separately.

Furthermore, *Free* offers its subscribers a subscription video on demand service for 5.99 €/month. It includes a catalogue of hundreds of films and television series.

### ***Strategic Intention***

*Free* is price leader by offering a huge bundle of services for only 29.99€/month. But it had to improve its customer care - it has significantly reduced delivery time for its Freebox and improved its call centre activities. In the last year it was able to reduce its CAPEX to a significant extent. The mother company *Iliad* has submitted an application on July 30, 2007 for the 4<sup>th</sup> mobile license in France so it is very likely that it is going to offer a quadruple-play bundle as soon as the license is awarded to *Free*.

## **3.3 Neuf Cegetel**

### ***Background information***

*Neuf Cegetel* quickly developed from a very small to the third largest fixed-line Telco company in France. It followed an inorganic growth approach and bought the fixed-line assets from *AOL* and *Club Internet (Deutsche Telekom France)*. Both acquisitions were a major success for *Neuf* and it is now a real competitor to *Free* and *France Telecom*. Unlike *Free*, which focuses on residential markets only, it provides services to residential and SOHO (Small Office/Home Office) customers, SMEs and major corporations, as well as local authorities and other carriers and Internet Service Providers. In 2006, the group entered the world of quadruple-play services and fixed/mobile convergence.

### ***Value proposition***

The basic price for internet, voice and television is 29.90€ per month as well, however, it also sells voice and internet services either as double-play or stand-alone offering. *Neuf TV HD* offers 150 channels, some of them in HD quality. *Neuf* charges fees between 1€ and 19.90€ for packages with further specific channels. *Neuf TV* promotes particularly its two offers from Canal Sat and Canal+ that provide access to up to twenty premium channels, Disney, Discovery and exclusive Sports content. Canal Sat is available for 20.90€ per month, Canal+ for 31.90€. Additionally *Neuf TV* offers 3000 films via Video on Demand on a pay per view basis.

### ***Strategic Intention***

*Neuf* is closely trailing *Free* in its ambitions to become the number 2 player in the French market. To achieve this, it is continuously expanding its TV offer, but also recognizing that some people may not be interested in a triple-play

bundle. Therefore it offers stand-alone products as well. *Neuf* is also aggressively pushing its mobile brand and it will not take much longer, when it offers some converged services between TV and mobile.

### 3.4 PCCW

#### **Background Information**

*PCCW* is the largest and most comprehensive provider of telecommunication services in Hong Kong. Its IPTV services grew to a subscriber base of slightly above 500,000 by the first half of 2007. These are the subscribers who are paying for TV services. The subscribers reached with the service are above 800,000 and these are customers who do not yet pay for TV services but may use *PCCW's* video-on-demand services.

#### ***Value proposition***

All of *PCCW's* 24-hours channels are charged on a pay-per-channel model, which is offered in the form of a monthly plan. The monthly rates for a single channel are from 1€ to 9€. *PCCW* offers very strong content packages combined with newest technologies. It provides 150 local and international channels and 70 exclusive world-class movies, sports, news and general entertainment channels. Additionally it offers a “sports pack” with 14 Standard Definition and High Definition channels. This is *PCCW's* most expensive channel package for 19€ per month.

A special feature of *PCCW* is a split screen with 4 live UK premier league football matches on one TV screen. Other available services are football betting, a network based personal video recorder (PVR) and live football match statistics.

#### ***Strategic Intention***

*PCCW* will focus more on offering quadruple bundles consisting of voice, internet, television and mobile services. By doing this it is not only commercially combining these products but also the underlying technologies. It aims at offering truly converged services.

Operationally it has successfully achieved the upselling of its products and services by providing various premium content packages. It also introduced attractive prices by one-off installations and Set-Top-Box rental fees. Further

growth of the customer base can be expected due to highly attractive content packages.

### 3.5 Verizon

#### ***Background information***

Verizon is a leading American broadband and communication company, heavily investing in their own fibre optic network. FiOS TV, Verizon's IPTV branch, was launched in September 2005 in Texas. By 2007 it achieved a remarkable IPTV penetration of 25% in Texas. IPTV subscribers have grown constantly from 20.000 in Q1 2006 to more than 700.000 subscribers in Q3 2007.

#### ***Value proposition***

*Verizon's* Interactive Media Guide makes it easy to search and manage multimedia content as well as to personalize it. In its video-on-demand library the company offers more than 12,000-titles. About 60% of these titles are for free.

The customer can choose between two basic packages: First FiOS TV Premier for 43 US\$ per month. It provides 200 channels including local channels (ABC, CBS and FOX) and Video on Demand (VoD).

The second offer "La Connexion" costs 33 US\$ per month. It contains 140 channels including 25 popular Spanish channels and VoD. The premium packages range from 8-26 US\$, they include e.g. sport, movies, Karaoke and foreign channels. Verizon offers six different Set-Top-Boxes, with or without hard-disk and some of them suited for High Definition TV. The rental price for a Set-Top-Box ranges from 5-20 US\$ per month.

The company has a clear focus on customer care. "A good customer service experience begins with installation, continues with regular support and is an important customer retention tool", says Mr. Shawn Strickland, vice president of *Verizon* video solutions, to the press in September 2007<sup>22</sup>. One of the company's

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<sup>22</sup> Mr. Shawn Strickland, vice president of video solutions for *Verizon* in a company press release (from 20th September 2007)

most popular tools is FiOS TV Widget, a free interactive feature that provides local weather information.

***Strategic Intention***

*Verizon* announced that within the year 2008, FiOS customers will be able to use cell phones and the Internet to manage their home entertainment services such as scheduling recordings on their digital video recorder. Over the next years, additional content like games, podcasts and Internet video will be offered, manageable via the interactive media guide.

## About Capgemini TME

Capgemini Consulting Telecom Media & Entertainment is the leading global management consulting unit of Capgemini dedicated to helping CEOs and senior executives in the converging communications industries address their most critical strategic and operational challenges. Our clients include over 80% of the top telecom, media & entertainment leaders worldwide and we have successfully delivered over 1,000 engagements in some 50 countries around the world.

Capgemini has a unique way of working with its clients, which it calls the Collaborative Business Experience. Through commitment to mutual success and the achievement of tangible value, the company helps businesses implement growth strategies, leverage technology, and thrive through the power of collaboration.

Capgemini employs approximately 82,000 people worldwide and reported 2006 global revenues of 7.7 billion Euros. More information about individual service lines, offices and research is available at [www.capgemini.com/tme](http://www.capgemini.com/tme)

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