Video business success for telcos:
Benchmarks, strategies and challenges highlighted at IBC 2017

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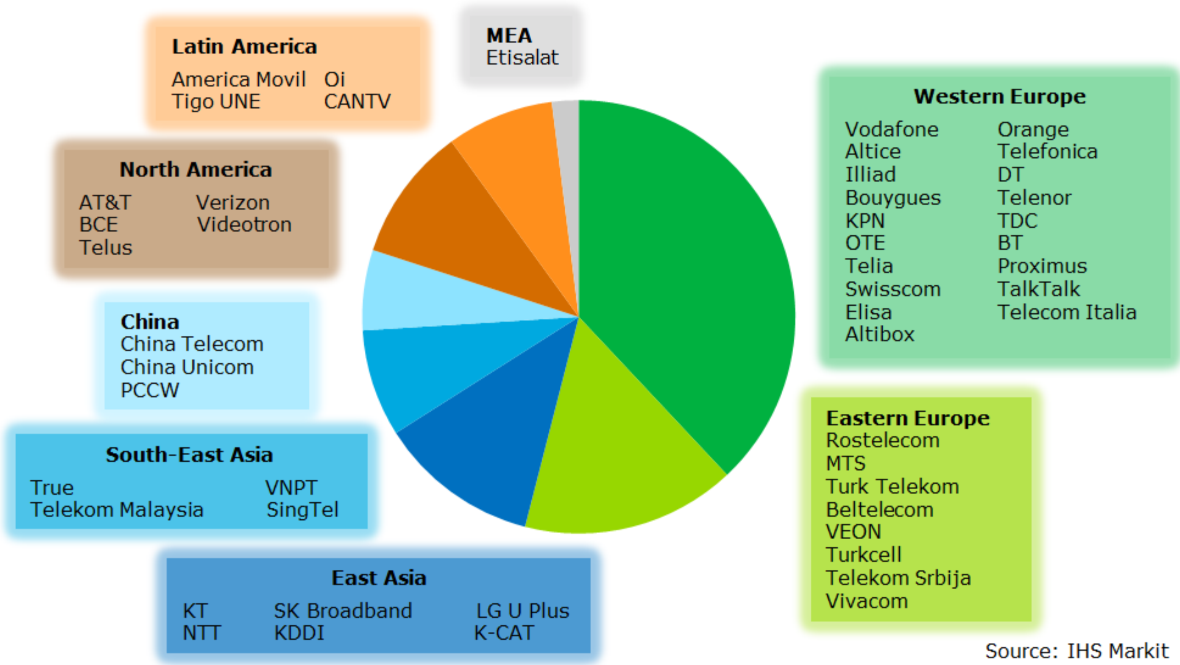
An event the scale of Amsterdam's annual IBC tradeshow – this year attended by a record 57,669 industry professionals – tends to leave no stone unturned in its demonstration and examination of the latest technology shaping the TV and video industry. Conversations with vendors about their latest wares and the direction of the industry are at the core of the event, but discussions with executives on the operator side of the business about the issues they are facing are less common. IHS Markit was therefore pleased and proud to be the sole analyst firm present at a special behind-closed-doors roundtable of pay TV video executives, organised by Huawei.

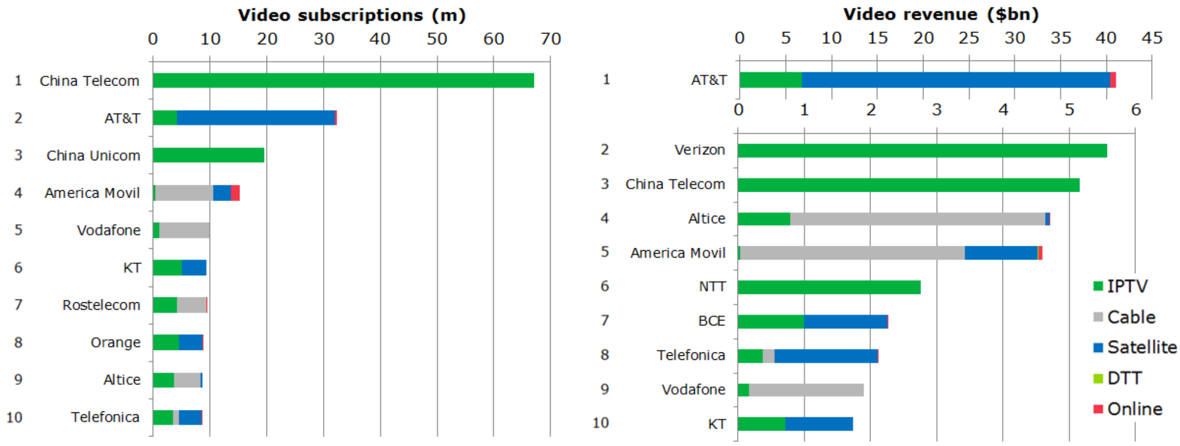
Assembled to discuss the topic of video business success for telcos were representatives from a diverse mix of major pay TV operators from some of the largest markets in Europe, Latin America and Asia. IHS Markit was given the privilege of setting the scene for the extended discussion to follow by presenting our analysis of the evolution of the telco video business. As part of this, we identified the 50 leading telco video groups by subscriptions and the performance benchmarks they have set.

Top 50 telco video providers by subscriptions by region



Source: IHS Markit

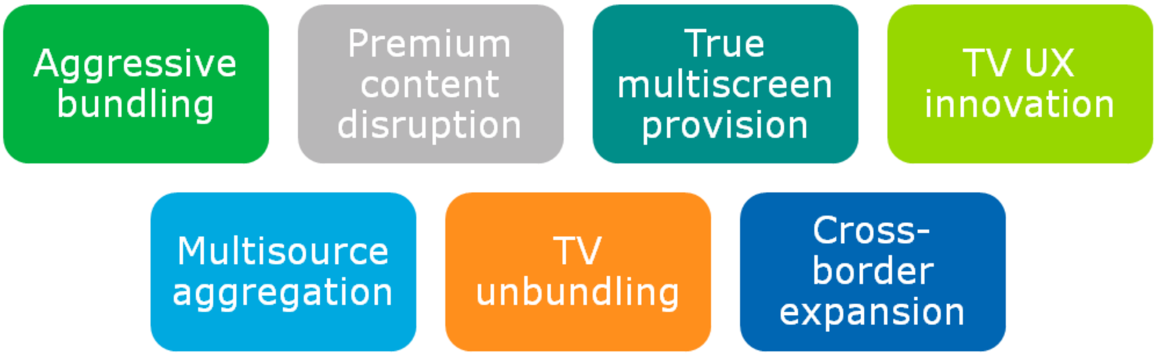
Top 10 telco video providers by subscriptions and revenue (2016)



Source: IHS Markit

Furthermore, we categorised, examined and detailed the winning strategies that have characterised these telcos' success.

IHS Markit's routes to success for telco video operators



The analysis presented at IBC, and briefly outlined above, represents a preview of forthcoming deep-dive research to be published in a white paper, *Video as a Core Service for Telcos: Analysis of 50 Leading Operators in Achieving Video Business Success*, in November 2017.

Opportunities and challenges for telco video operators

The insights shared by the operators participating in the roundtable discussion shed light on the causes for optimism in the telco video business, as well the challenges faced in the changing landscape.

One consensus positive was the feeling that, as providers of access as opposed to content alone, telcos are well-placed to retain their position in the multiplay market – as long as consumers want digital content, whether video, music or online games, they will need to pay for access to networks to get it. And, like IHS Markit, the operators in attendance broadly saw video as a core service that represents the most marketable hook for attracting customers to their broadband and mobile offerings. Indeed, it was video's indirect contribution to the broader telco business, in terms of its role as a bundle draw, that was highlighted by some as being more important than the revenue it generates in isolation.

Some operators are being more aggressive than others in making video a core service for their customers, pushing alternatives to traditional pay TV in the form of flexible online video offerings bundled with mobile and/or broadband. Many are even completely unbundling access to video via standalone online services, to ensure that they have as many customer relationships as possible for ongoing cross-selling and upselling efforts – again underlining video's importance as an indirect revenue generator.

Assessing shifts in the content rights landscape, the operators did not feel that fragmentation would threaten their strong position as video aggregators – with the likes of Disney unbundling their channels via dedicated direct-to-consumer (D2C) apps, operators will still, it was argued, be needed as distribution partners for these offerings. Such a scenario points to the rise of a new kind of carriage deal, where operators strike agreements to carry on-demand video apps, instead of linear channels, much like they have with Netflix, itself a channel-like online video service.

However, in spite of content owners' ongoing need for telco distribution partners, the D2C trend is still, in IHS Markit's view, a somewhat worrying trend for those operators in terms of their pay TV ambitions – wider, a-la-carte distribution of key subscription video content on alternative platforms (those of Amazon, Google, Roku and others) has the potential to marginalise traditional pay TV and undermine its appeal.

In terms of challenges, one area in which it was agreed operators need to improve is customer data – both better using what they have and gathering more of it. One executive admitted that, after prioritising things like product strategy and customer acquisition and retention, collecting and analysing data was the last thing his company thought about, but that they needed to give it more attention, to unlock its value.

One problem, though, is the lack of data operators get access to when working with partners such as Netflix and YouTube – their visibility ends once the customer enters the app, at which point operators do not know how they are using these services. This highlights one of the challenges of providing access to third-party apps as opposed to linear channels and in-house on-demand services.

While the operators expressed a willingness to work with online content services that either behave like channels (Netflix) or aggregate semi-professional MCN content that is not widely carried on traditional TV (YouTube), they were more wary of online aggregators moving into professional programming – specifically, Facebook. The social network's new Watch service, which has ambitions of hosting long-form, 30-minute TV shows, was identified as posing a threat to pay TV, by providing an alternative platform for operators' traditional content partners. With Facebook, Twitter, Snap and others ramping up their video growth strategies, they will become increasingly bandwidth hungry – good news for operators from a broadband and mobile perspective, but less positive for their video businesses.

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