Perspective

Ghassan Hasbani
Hadi Raad
Kais Louizi
Atul Divakaran

booz&co.

The Big Picture *IPTV's Value and Challenges for MENA Telecom Operators*

Contact Information

Beirut
Ghassan Hasbani
Partner
+961-1-985-655
ghassan.hasbani@booz.com

Hadi Raad
Senior Associate
+961-1-985-655
hadi.raad@booz.com

Dubai
Kais Louizi
Senior Associate
+971-4-390-0260
kais.louizi@booz.com

Atul Divakaran
Associate
+971-4-390-0260
atul.divakaran@booz.com

EXECUTIVE SUMMARY

Despite numerous innovations in television service delivery technologies over the years, and high household penetration of existing services, Internet protocol television (IPTV) may still offer a potential opportunity for telecom companies in the Middle East and North Africa (MENA). The region is characterized by traditional and conventional television service that is delivered primarily via free-to-air satellite and illegal distribution, which offer cost advantages for viewers but little to no interactivity. This lack of interactive services, along with negligible competition from cable, makes the MENA region well positioned to leverage the advantages of IPTV.

Telecom operators can draw customers by offering them greater interactivity, a wider choice of content, and a high level of customization and control over that content. Operators will also benefit by offering advertisers a precise, granular way to target their messages, to reach a more relevant audience. IPTV allows operators in the region to bundle television service with existing services like voice and data, thereby driving up average revenue per user, and it allows them to move up the value chain, from being mere "pipes" to being media aggregators. A few MENA operators have launched IPTV service, and others are in the process of rolling out IPTV in 2009 and 2010. However, operators wishing to launch or expand their IPTV offerings face several potential challenges: Many consumers in the MENA region report being satisfied with free-to-air satellite service, which has an increasing number of channels and no monthly cost. Broadband penetration is low, and most households that do have broadband connections don't yet have sufficient bandwidth to support real-time video streaming.

The network capabilities required to deliver and support IPTV involve significant expenses, and premium content is costly to produce or procure, especially in a region with scant copyright protection. Because of these factors, IPTV service is not suitable for all markets, and operators considering such ventures need to understand their consumers and assess whether there is sufficient demand to justify the expense.

KEY FINDINGS

- IPTV's greatest value lies in its ability to empower customers, offering them a greater choice of content and greater control of that content
- PTV allows telecom operators to boost their average revenue per user with bundled IPTV and video services, as well as transform themselves from mere connectivity players into media companies that offer content
- For MENA operators to successfully roll out IPTV, they need to make sufficient investments in premium content acquisition and infrastructure development, and ensure that their service is delivered with consistently high quality

IPTV MODELS AND SERVICES

Television service delivery technology has evolved rapidly over the years, from terrestrial to cable (CATV), satellite (direct-to-home, or DTH), microwave (multichannel multipoint distribution system, or MMDS), and, more recently, broadband IP (IPTV). These increasingly sophisticated technologies have brought a corresponding increase in the variety of services offered and they have introduced new ways for service providers to differentiate themselves and attract customers. Specific advances include:

- ***A more granular level of audience:*** from mass broadcast to select multicast (pay TV and pay-per-view) to exclusive unicast (video-on-demand, or VoD).
- ***Added value for customers:*** from plain video services to convergence with voice and data services (including video conferencing and Internet telesites).
- ***Higher levels of viewer interactivity:*** from simple electronic program guides to viewer-interactive television programming to television commerce. The interactivity component has evolved in conjunction with the means by which viewers can interact with the programming; this has progressed from zero interactivity to virtual interactivity through the Web, telephone, or SMS (short message service), to real interactivity through the television itself.
- ***Increased level of personalization:*** from generic viewing to a specific customized viewer experience, including personalized content and targeted advertising.

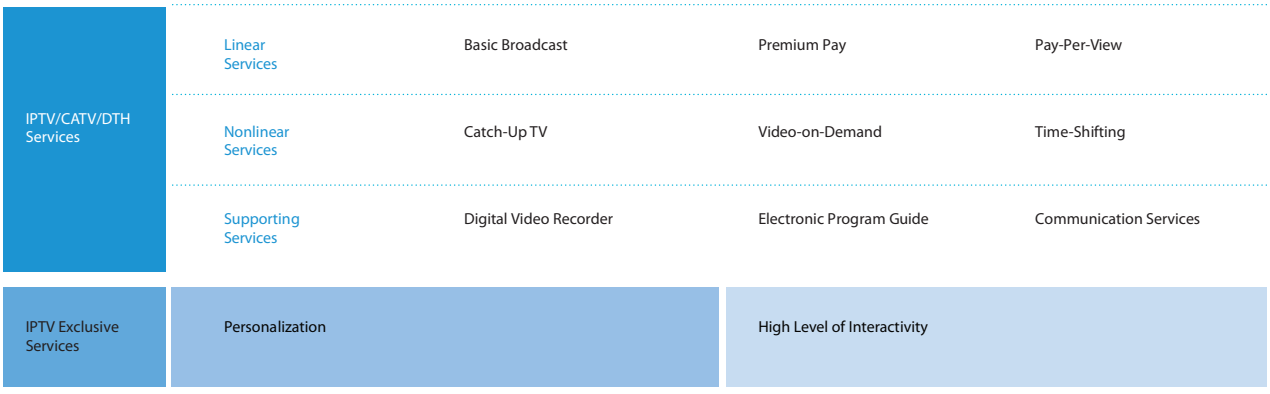
IPTV can be defined as digital television service delivered over a broadband connection, which supports all the traditional services offered by CATV and DTH. In addition, only IPTV provides a personalized viewer experience with a high degree of customization and targeted advertising and high levels of real interactivity *(see Exhibit 1)*.

IPTV has two differentiating factors that enable these features: First, a convenient return path (the broadband connection) that can accommodate viewer commands along the same medium as the video feed, enabling a high degree of real programming interactivity; and second, a unique, IP-based address for each user's set-top box that allows targeted advertising and other personalized services.

IPTV is typically delivered using the service provider's closed network infrastructure and offered at consistent quality levels approaching those of DTH and CATV. This approach is different from the delivery of television or video content over the public Internet on a best-effort basis, called Internet TV or Web TV, in which video signals occasionally get dropped.

Operators in advanced markets, predominantly in Europe, have already implemented IPTV widely. No single definitive model exists for how it should be implemented, and each market's characteristics must be analyzed before adopting one of the following models.

Exhibit 1
IPTV Services



Note: Linear services refer to standard television service in which the viewer watches a scheduled TV program only at the particular time it is aired and on the particular channel that airs it.
Source: Booz & Company analysis

Wholly IP-based (dedicated IPTV set-top box) vs. hybrid (hybrid IPTV-satellite or terrestrial set-top box): In wholly IP-based models, the free-to-air (FTA) broadcast channels and other video services—in addition to traditional voice and data services—are delivered over the broadband connection to a specific IP address. Examples of service providers following this model include Fastweb S.p.A. and Free, a subsidiary of the Iliad Group.

Hybrid models, by contrast, encompass a supply of FTA broadcast channels transmitted over a traditional medium such as satellite or terrestrial, which the operator integrates with complimentary video services, such as VoD, over the broadband connection using hybrid set-top boxes. The advantage of hybrid models is that they allow a provider to leverage the existing reach of a wide range of FTA broadcast content, without burdening the broadband network with carrying this traffic. Companies that use this model include BT Vision's Freeview.

Streaming vs. downloaded content: Most service providers—including du, Qtel, and Maroc Telecom—use the streaming model, in which programming is delivered continually to the viewer's set-top box. This approach requires a robust, high-capacity network with redundancies built in to eliminate service outages. A few others, such as Hanaro (now part of SK Broadband) in Korea, have pursued a download strategy for their IPTV services, wherein pre-selected programs can be downloaded to the viewer's set-top box. Viewers choose from a menu of locally downloaded programs and view them at their convenience. The advantage of a downloaded content model is that it tends to be less expensive, less demanding on the network, and hence less complicated to roll out.

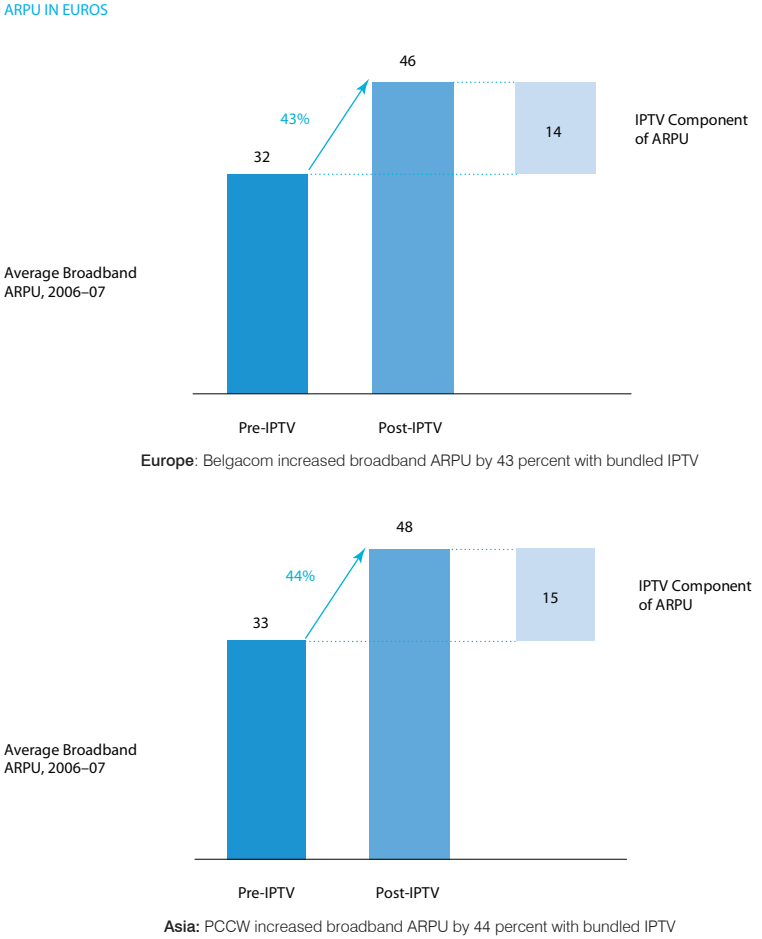
Hybrid models allow a provider to leverage the existing reach of a wide range of FTA broadcast content, without burdening the broadband network with carrying this traffic.

THE VALUE PROPOSITION OF IPTV

IPTV's greatest value lies in its ability to empower customers, offering them a greater choice of content, including services like VoD, user-generated content, and greater control of content through features like time-shifting, multi-angle viewing, digital video recorders, and rich electronic program guides (EPG), all which enhance the personalization experience. Moreover, repairs, upgrades to service, and billing are easier for consumers to manage when they're bundled into "triple-play" combinations that include voice, data, and video from a single provider. Finally, bundles could result in savings relative to separate stand-alone subscriptions.

From a service provider perspective, IPTV allows operators to boost their average revenue per user (ARPU) with bundled IPTV and video services, as operators in Europe, the U.S., and Asia have already demonstrated *(see Exhibit 2)*. Moreover, IPTV could also help increase Internet and broadband penetration, leveraging TV sets as access devices, especially in MENA countries where PC penetration and English literacy are low.

Exhibit 2
Results from Europe and Asia Show That IPTV Has Significant Impact on ARPU

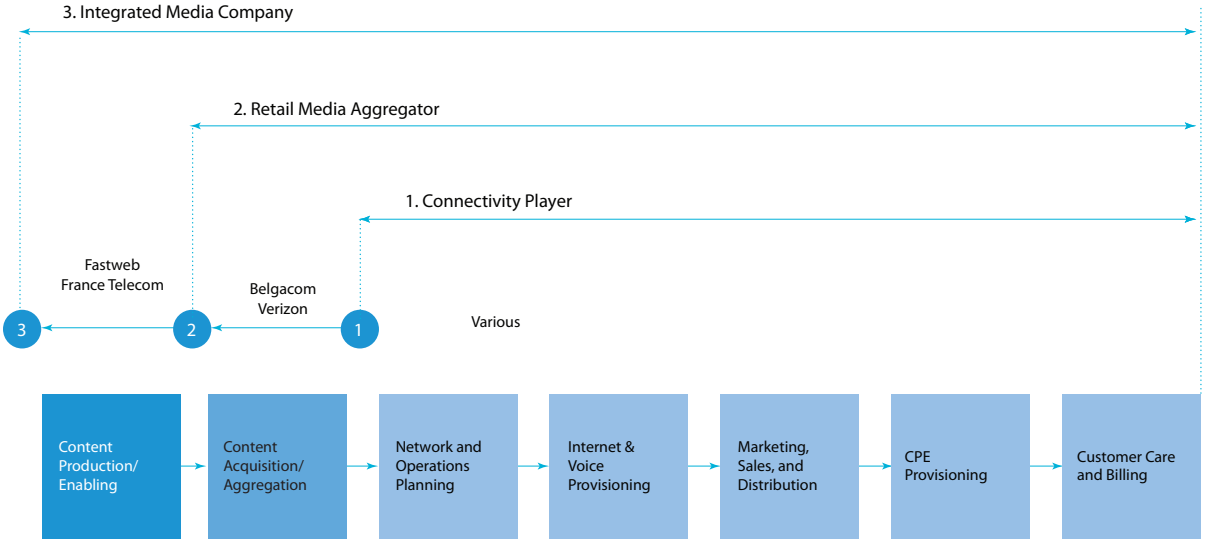


Source: World Broadband Information Service (WBIS); Booz & Company analysis

More important, IPTV allows operators to transform themselves from mere connectivity players into media companies that offer content. When operators have ventured into the content arena through IPTV, they have typically assumed the role of a retail media aggregator, with content acquisition and aggregation capabilities. A few European operators, like France Telecom and Fastweb, have gone beyond that and assumed the role of an integrated media company, with their own content-production capabilities *(see Exhibit 3)*.

This shift has been instrumental in relieving some of the revenue pressures caused by the declining value of traditional voice and data services. In this way, IPTV represents the latest step in media convergence. Just as cable operators have entered the telecom space and offer nontraditional services like Internet access and voice-over-IP via cable-broadband connections, telecom operators now have an opportunity to expand into the kind of television and video-delivery service that was once the exclusive province of media companies. The scope of their roles along the value chain depends on market conditions and telecom operators' capabilities.

Exhibit 3
IPTV Lets Operators Become Media Players

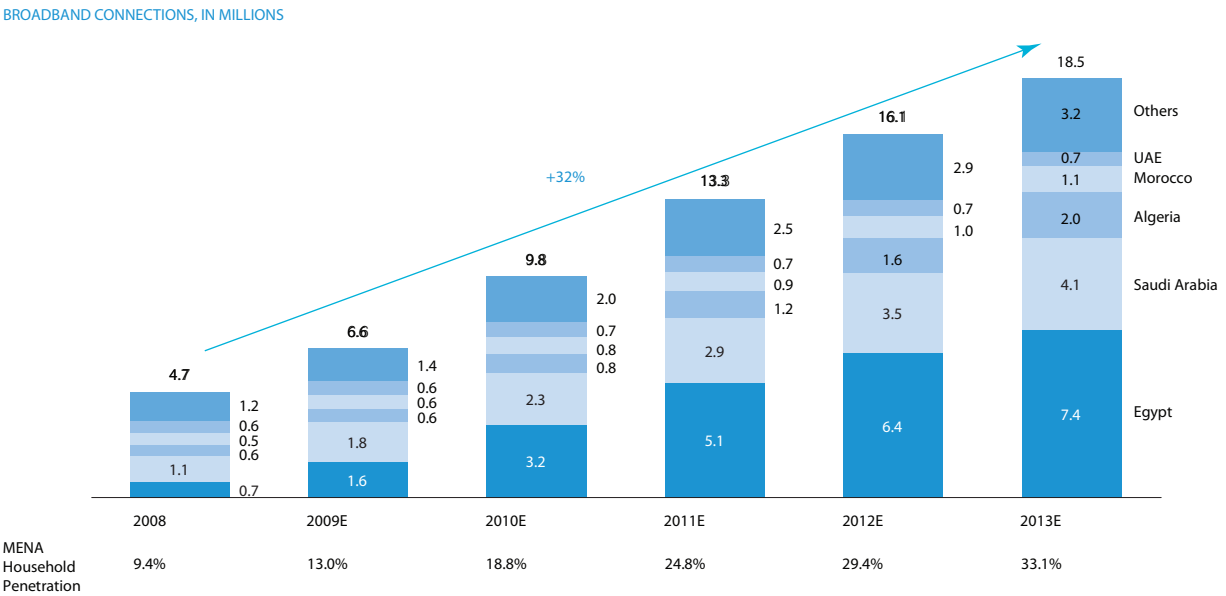


Source: Booz & Company

THE ADVENT OF IPTV IN THE MENA REGION

The television landscape in the Middle East and North Africa (MENA) region is dominated by illegal distribution and FTA satellite service, with household penetration reaching as high as 94 percent in countries such as Saudi Arabia. This service, though popular, offers no real interactivity and no way for the provider to communicate with specific subgroups of the audience. Cable TV penetration in MENA is quite low (about 5 percent). Microwave (MMDS) service is used only in small pockets in Kuwait, Bahrain, and Egypt, and terrestrial service is not popular in the region because of its limited content. Furthermore, the number of broadband connections in the region is expected to grow by double digits, with household penetration expected to increase from 9.4 percent in 2008 to around 33 percent in 2013 *(see Exhibit 4)*.

Exhibit 4
The Number of Broadband Connections in the MENA Region Is Expected to Increase Substantially



Source: Informa Telecoms & Media; WBIS 2009; Booz & Company analysis

These characteristics make the region relatively more receptive to new television technology, and they give telecom operators a chance to quickly move up the value chain and leverage their existing infrastructure via IPTV ventures. A few operators have recently launched such ventures, and several more are in the pipeline for 2009 and 2010 *(see Exhibit 5)*. Still, IPTV household penetration at the beginning of 2008 was very low—just 0.2 percent. That gives IPTV the potential for rapid growth in the region, particularly given the appeal of its features for MENA viewers.

Preliminary data suggests MENA companies that have launched IPTV have improved their ARPU roughly in accordance with European and Asian benchmarks, but it is still too soon for ironclad numbers, as operations in the region are still nascent.

Exhibit 5
IPTV Launches in MENA

OPERATOR	OPERATOR	LAUNCH DATE	KEY SERVICES
du	UAE	July 2006	Linear TV (broadcast and premium); EPG (including favorite channel listing, profiling, and reminder setting)
Maroc Telecom	Morocco	August 2006	Linear TV (broadcast and premium); EPG
Etisalat	UAE	December 2006	Linear TV (broadcast, premium, and PPV); EPG; VoD; interactive services (gaming, shopping); advertising
Qtel	Qatar	May 2007	Linear TV (broadcast, premium, and PPV); EPG (including parental control); VoD; DVR; time-shifting
Jordan Telecom Group	Jordan	September 2008	Linear TV (broadcast and premium); EPG (including weather, news, and local information); VoD; interactive services

Source: Arab Advisors Group; operator Web sites; WBIS; ipTV-Daily

THE CHALLENGES FOR MENA OPERATORS

Despite the advantages for consumers and businesses, IPTV may not be the right choice for all operators in the region. Service providers need to understand their market and assess the extent to which current offerings address the needs of viewers. IPTV ventures are expensive and complex, and they require consumers to pay higher monthly bills; in some markets consumers may balk at paying those premiums for enhanced television service.

Moreover, those operators that decide to launch or expand IPTV ventures despite such factors face several challenges. First, broadband penetration is still quite low in the region (excluding Bahrain and the United Arab Emirates). Furthermore, broadband speeds are quite slow; even the homes that have connections sometimes don't have sufficient bandwidth to support streaming television service.

In addition, content remains a significant challenge. Operators must consider the investment required to secure exclusive content, which can be onerous. There's little local or regional premium content production in MENA, so shows must be produced elsewhere. That expense can be daunting, especially given the rampant piracy in the MENA region. Most operators do not have the necessary capabilities to negotiate, secure, and manage content.

Another consideration is the intensity of the competition. Internet television services now offer many nonlinear features such as online DVRs, time-shifting, and VoD. These Web venture companies present a dual challenge for operators—not only do they siphon away potential customers, but they transmit their content using the operators' own broadband data connections. This eats up operators' bandwidth while generating revenues for third parties.

The most significant issue is that most homes in the MENA region get their television service from FTA satellites or through illegal distribution, which feature relatively primitive service but cost a household a minimal amount, if any, outside of initial installation costs. FTA satellites and illegal distribution represent up to about 90 percent of TV subscribers in some MENA countries.[1] Moreover, many FTA channels are able to transcend national boundaries due to the common language and culture, and as such there has been huge growth in their number, which reached around 500 in 2008.[2] According to a recent survey a majority of viewers are satisfied with FTA offerings.[3]

Internet television services not only siphon away potential customers, but they transmit their content using operators' own broadband data connections.

GETTING IPTV RIGHT IN MENA

For telecom operators in the MENA region that decide that IPTV is right for their markets, there are a few key factors that are critical to a successful rollout. For operators that don't have the capabilities to meet these criteria, IPTV is probably not a viable option.

Operators must be able to develop a lineup of services that takes into account the uniqueness of the MENA media market, especially with respect to the plethora of illegal distribution and FTA satellite channels on offer.

Hybrid solution: A particularly compelling implementation option is to launch hybrid IPTV-satellite solutions. These could provide the dual benefits of IPTV services with the wide range and low cost of FTA programming.

Nevertheless, some satellite content may be morally objectionable in several Middle East societies, and local societies may have an interest in countering this service and replacing its pervasive content with more suitable alternatives. In light of this, a potential strategy for competing with FTA satellite service is to position IPTV in conservative markets as a controlled and decent TV alternative.

Features: Innovative interactive services are likely to have significant appeal in the region and should be a key part of any IPTV offering. Digital video recorders, which allow viewers to choose the time convenient for them to watch particular programming, could be popular given the time differences with Europe and the U.S. (which both generate content that is popular in the MENA region) and the limited supply of regional premium programming alternatives. Pay-per-view could be a big attraction given the popularity of live football games and Arabic movies in the region. Interactivity can be a potential draw given the hype around reality shows—for instance, viewers can vote off contestants on some shows directly through their television, rather than voting via their phone or over the Internet. As they offer IPTV, operators should constantly define, prioritize, and introduce innovative interactivity features.

Content: A successful IPTV entry requires operators to secure exclusive or premium content that can differentiate a service provider from its competition. Premium content acquisition is expensive, and operators must set aside reasonable budgets for this purpose. But for the right pairing of audience and content, the investment can be justified. For example, Showtime Arabia's viewership has been boosted significantly since it acquired the regionally exclusive—and expensive—rights to broadcast English Premier League football.

Operational readiness: IPTV imposes some new requirements in customer care and field and video operations, which must be appropriately handled via insourcing, outsourcing, or "managed services" models.

Infrastructure readiness**:** Perhaps the most critical prerequisite is infrastructure readiness. IPTV runs over high-quality broadband connections and it is paramount that operators ensure they have the necessary resources in place: Access networks must be designed with short local loops that can guarantee sufficient bandwidth and stability. The core network has to support high data capacity, flexible routing, and a high quality of service with low packet drop, jitter, and latency. The service platform should have the flexibility to support the rapid launch of new services. The customers' set-top box must be interoperable with other existing broadband equipment in their homes, and it must be easy to install and manage remotely. In short, a sound supporting infrastructure should be in place to ensure a high-quality experience for the customer.

IPTV runs over high-quality broadband connections and it is paramount that operators ensure they have the necessary resources in place.

CONCLUSION

IPTV presents a unique value proposition for MENA telecom operators. From a supply perspective, this region faces very little competition from cable, and presents high penetration levels of FTA satellite and illegal distribution.

Careful positioning by telecom operators can give IPTV a big boost. From a demand perspective, consumers in the region are likely to be receptive to operators' IPTV offering and its benefits: improved interactivity, a richer content portfolio, personalization, and the convenience of one-stop shopping (including subscription, billing, maintenance, and upgrades) for all home communication and entertainment needs.

But to be successful in IPTV ventures, operators need to provide consumers with attractive content with significant control over that content, through services like time-shifting, catch-up TV, and VoD. They need to make sufficient investments in premium content acquisition and infrastructure development, and ensure that their service is delivered with consistently high quality. In a region where viewers are used to getting hundreds of channels for free, only a particularly compelling package of services will persuade consumers to start paying for IPTV.

Endnotes

[1] Informa Telecoms and Media.

[2] Arab Advisors Group.

[3] Arab Advisors Group.

About the Authors

Ghassan Hasbani is a partner with Booz & Company based in Beirut and Riyadh. He specializes in telecommunications markets assessment, investments strategies, mergers and acquisitions, marketing, product and service development, organizational restructuring and governance, technology plans, channel strategy and management, customer care, business development, and CFO and CEO agendas.

Hadi Raad is a senior associate with Booz & Company based in Beirut. He specializes in telecom market entry and growth strategies, marketing planning, product development, business development and transformation, and CFO agenda, covering financial planning and valuations, economic analysis, corporate finance, cost optimization, and value-based management.

Kais Louizi is a senior associate with Booz & Company in Dubai. He focuses on information and communication technologies and has experience in telecom sector development, large-scale privatization programs, strategy-based transformation, market entry strategy, and technology strategy.

Atul Divakaran is an associate with Booz & Company in Dubai. He specializes in telecommunications markets assessment, marketing strategies for next-generation telecom services, telecom business portfolio governance, and technology plans.

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