

Telco IPTV Growth Strategy in Taiwan

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Abstract— With the absolute advantage of owning broadband network, Telcos are positioning their IPTV service as part of bundled broadband packages to increase their revenues. The number of global Telco IPTV subscribers is growing at a rapid pace and expected to reach 105 million in 2013. Although emerging content delivery technology increase value from these investments and derive competitive strength, the market strategy employed by each telco is determining the ROI (Return of Investment) of IPTV development. This paper targets at finding market growth strategy by analyzing possible product/market combinations to help telcos in Taiwan finding out the correct direction for future marketing development. The results reveal that telcos in Taiwan have very good opportunities to increase the IPTV revenues by offering differential high definition program, quality of service network, flexible pricing strategy, and convergent digital home services.

Keywords— IPTV, Telco IPTV, Ansoff Matrix, Growth Strategy, Digita home

I. INTRODUCTION

The IPTV (Internet Protocol Television) service is a convergent service which multimedia contents are delivered through Internet Protocol network. The ITU-T IPTV Focus Group officially defines IPTV as “multimedia services such as television/ video/ audio/ text/ graphics/ data delivered over IP-based networks managed to support the required level of QoS/QoE (Quality of Service/ Quality of Experience), security, interactivity and reliability” The ecosystem of IPTV includes four parts for business role models – content provider, service provider, network provider, and customer shown as Figure 1. [1][2].

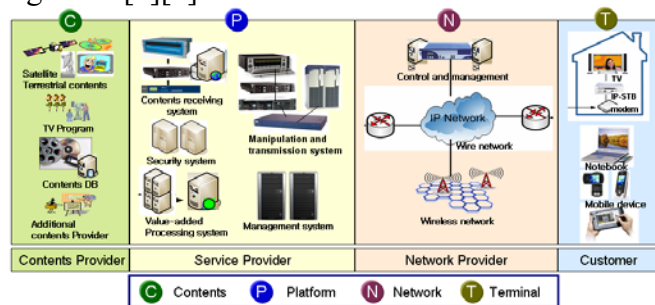


Figure 1. Overall definition and description of IPTV in the business role model

Telecom operators (telcos) around the world are facing the challenge of declining voice revenue due to increase competition and mass proliferation of VoIP (Voice over Internet Protocol) communication. In order to increase their revenues, telcos are positioning IPTV service as part of bundled broadband packages with the advantage of owning broadband network infrastructure. According to the Ovum report in 2009, the number of global Telco IPTV subscribers is expected to reach 100 million in 2014. This report also forecasts the IPTV subscribers in Asia-Pacific will grow from 16.9 million at 2010 to 40.68 million in 2014, a compound annual growth rate of 38% [3]. Although the IPTV global market is growing fast in recent years, many challenges still exist with regard to IPTV service development, offering, and marketing strategy. Chunghwa Telecom (CHT) – the leading telecom carrier in Taiwan, started to offer multimedia on demand (MOD) service since 2004 and aims to reach one million subscribers by the end of 2010. How can make this “dream” come true?

In this paper, we propose Telco IPTV marketing strategies from 4 different viewpoints --market penetration, market development, product development, and diversification, to help telcos in Taiwan to make good decisions when they make market strategy. We found that telcos can increase market penetration by offering differential contents, quality-assured connectivity, comprehensive pricing strategy, friendly user interface, and vertical integration. Telcos can target their existing IPTV service to multi-dwelling unit (MDU) and hospitality environments for market development. To develop new products on existing market, telcos can integrate new digital home service to existing

IPTV set-top box and provide multi-room thin-client set-top box to attract new customers and reduce the churn rate. Telcos can reuse their technology and experiences on developing IPTV service to provide new FMC and quad-play convergent service for diversification.

II. RESEARCH METHOD

There are many papers studying the IPTV market by analysing user behavior [4], [5]. They focused only on customer side and don't cover the entire IPTV business roles. This paper looks at the market growth strategy from global perspective by studying global IPTV market trend, industry value chain, consumer behaviours, and service cases in Europe, United States and Taiwan, then use Ansoff Growth Matrix to position IPTV within an overall market strategy and business model. The research method is shown as Figure 2.

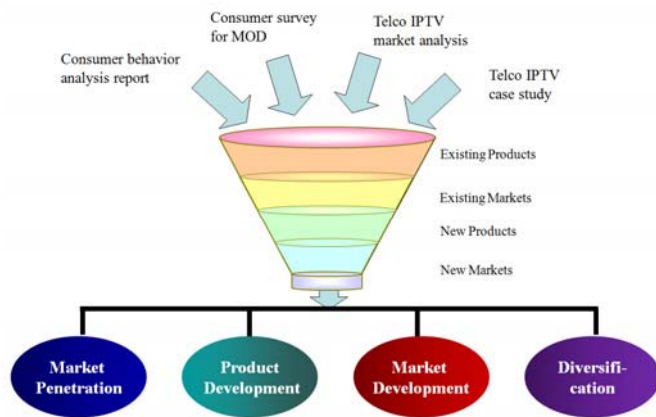


Figure 2. The research method

The Ansoff Growth Matrix is a marketing tool created by Igor Ansoff and first published in his article "Strategies for Diversification" in the Harvard Business Review (1957). The matrix allows marketers to consider ways to grow the business via existing and/or new products, in existing and/or new markets – there are four possible product/market combinations. The Ansoff matrix is shown as Table 1 [6], [7]:

TABLE1. THE ANSOFF GROWTH MATRIX

	Existing Products	New Products
Existing Markets	Market Penetration	Product Development
New Markets	Market Development	Diversification

The Ansoff Matrix provides four growth strategies:

- **Market penetration:** The firm seeks to achieve growth with existing products in their current market segments, aiming to increase its market share.
- **Market development:** The firm seeks growth by targeting its existing products to new market segments.
- **Product development:** The firm develops new products targeted to its existing market segments.
- **Diversification:** The firm grows by diversifying into new business by developing new products for new markets.

III. RESEARCH RESULTS

After studying the global Telco IPTV market analysis [3], consumer behavior analysis report in Taiwan [8], [9], consumer survey of CHT MOD service [10], and case study of AT&T U-verse [11], Iliad Free TV [12], CHT MOD [13], we found the Telcos IPTV growth strategies in Taiwan are as followed:

A. Market Penetration

Telcos can increase market penetration by offering differential premium content, quality-assured connectivity, comprehensive pricing strategy, user friendly interface, and vertical integration.

1) Premium Content

Content is king! It is understand that rich contents will always attract customers and continue to be a major differentiating factor between services. The quality of the content and the perceived value of the IPTV service drive subscriber growth and revenue input. The customer's decision to switch from cable TV to IPTV is based on the ability to get particular contents, telcos must offer premium content with features of "variety", "family", "fashion", and "high definition" to attract new customers and increase the loyalty.

Variety: Telcos should offer a wide variety of entertainment contents including news, movies, cartoons, sports, and TV-series programs and oftentimes have preferential access to premium content.

Family: Living room is always the family gathering center. People enjoy family time with all family members here. So, the IPTV service should have popular family contents like Video/ Karaoke/ Game on-demand to bring all family members together.

Fashion: IPTV content should be fashion and keep up with worldwide event especially in sports programs and hot movies. With providing fashion contents will bring in new customers quickly. The obvious example is that the 2008 Olympic Games and 2010 FIFA Games drove the CHT MOD subscriber quick growth in Taiwan. Fashion is always short; telcos need to have high fashion sensitivity and brings highly attractive contents to meet the market trend.

High definition: Providing high definition programs is viewed as basic requirement for multimedia service providers in Taiwan. Although telcos in Taiwan have already launched high definition programs, they must continue to provide more and more contents bundled with FTTx broadband network to keep them on leading position.

2) *Quality-assured Connectivity*

If we believe “content is king” then it’s equally true that “video quality is queen” in IPTV service. To ensure high video quality, it is required to establish IP networks that guarantee robust and efficient content distribution. Deployment of reliable content distribution network is one of key requirement for network delivering IPTV service. IPTV is a real-time service that has very stringent QoS requirement. A small amount of delay may not affect the quality of experience of IPTV. However, a delay longer than 1 second will result in a less than satisfying end user experience. With the advantage of constructing and maintaining broadband network themselves, telcos should continue to ensure high level video quality with QoS and QoE to keep customers loyal and produce an attractive return.

3) *Pricing Strategy*

Price is always the major consideration for customers to bring in a service. The pricing strategy for IPTV service must be different from traditional telecommunication market by considering the

situation of all business roles and set a win-win-win position. This paper proposes a pricing triangle model -- “platform”, “content” and “time” for telcos to make service price shown as Figure 3.

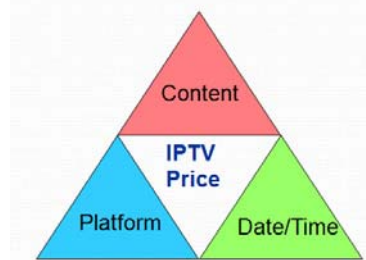


Figure 3. The IPTV pricing model

Platform: The platform functionality can be divided into basic and highly value-added packages by offering different services. The basic package offers the basic TV-channels and limited interactive function. The value-added packages can be range from simple function like media-on-demand to advance function like triple play service. The basic fee must be cheap to lower the entry barrier and bring in tentative customers. (The basic fee of CHT MOD service is NT\$ 89 with 28 TV-channel provided.) Once the customers were satisfied with basic IPTV service, they will be willing to pay extra money to enjoy new value-added service.

Content: Telcos can use "profit-sharing" strategy to encourage content providers providing rich contents for them. According to our research, the customer acceptable price for one movie is NT\$30 to NT\$ 60 and NT\$ 150 for one value-added package in Taiwan.

Time: The content charging fee should be time-dependent. Telcos can divide rate period into regular time and preferential time and have different charge rate for different usage time similar to the charge policy they proposed in traditional phone call service. In addition to meet the need of different users, the time-dependent pricing strategy can also balance network loading and reduce the operating expenses.

4) *User Friendly Interface*

The consumer experience life cycle goes through six phases -- select, buy, configure and install, use, break and fix, maintain shown as Figure 4. In “select” and “buy” stages, deciding factor is how

the services can improve the way they live and work. In “configure and install” stage, consumers want “Easy to start”. The primary concern of use stage also stays in the same: the ease with which the brand-new user can enter an application, navigate through that application, efficiently execute the main tasks, and enjoy their experience enough to stay engaged and ultimately return to the application at a later time. Users expect IPTV service to be very simple and intuitive to use. The primary concerns for design user friendly interface are:

- More efficient to use—it takes less time to accomplish a particular task
- Easier to learn—operation can be learned by observing the object
- More satisfying to use



Figure 4. Consumer experience life cycle

5) Vertical Integration

Currently, all telcos in Taiwan offer IPTV service through standalone set-top box and the STB connects with TV-set by audio/video cable. This additional set-top box and cable line will result in messy home decoration. Customers always complain about that. As IPTV industry moves towards vertical integration, telcos can collaborate with TV-set makers to build the set-top box component in TV-set. With this collaboration, the set-top box cost can be reduced and the joint marketing agreement can be set between telcos and TV makers to co-promote IPTV service and TV-set.

B. Market Development

The rental and hotel operators are continuously looking for new revenue growth opportunities, as the market reach maturity in Taiwan. They want to differentiate their properties by offering cutting edge video, particularly exclusive sports program

and high definition premium content to attract customers and generate high ARPU (Average Revenue Per User). It brings telcos significant market development opportunities in the multi-dwelling unit (MDU) and hospitality environments.

Figure 5 shows the basic components for MDU IPTV deployment which include broadband access network to the building, in-building termination device, in-building network, and the customer premises equipment.

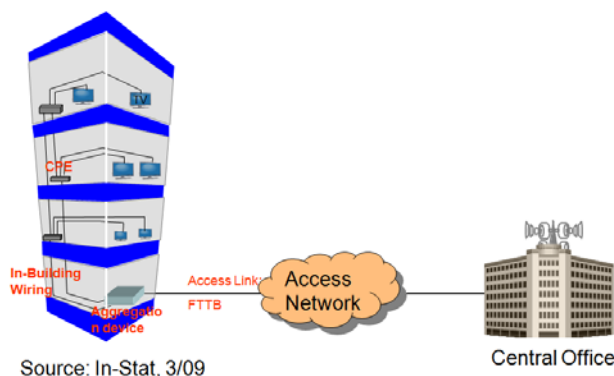


Figure 5. The infrastructure of MDU IPTV deployment

According to In-Stat report, the MDU IPTV revenues will more than double between 2009 and 2013 shown as Figure 6. By 2013, North America will account for 43% of total MDU IPTV revenues, Asia/Pacific and EMEA, comparatively, will account for 26% and 27%, respectively. MDU IPTV market is another big cake for telcos to develop [14].

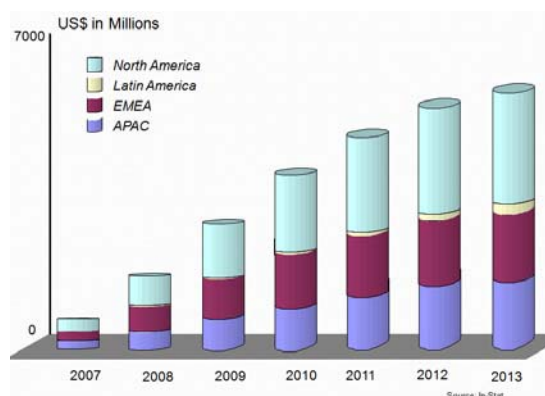


Figure 6. Worldwide MDU IPTV Revenues (2008- 2013)

C. Product Development

To develop new products on existing market, telcos can use thin-client set-top box to extend IPTV service to all room in customer’s family and

further provide new service by integrating digital home service to existing IPTV set-top box.

1) Adding Multi-room Service

In Taiwan, telco IPTV service only support single-room environment. But, customers are demanding a broader range IPTV service to address whole-home connected entertainment environments. Customers also expect more advanced features from their set-top boxes, such as shared/networked digital video recorder (DVR) capabilities and time shift feature. To address this growing requirement, telcos should upgrade their IPTV service by adding thin-client set-top box in bedroom or dens along with high-end set-top box in the living room to provide multi-room IPTV service [15].

2) Integration with Digital Home Services

IPTV alone is not enough to beat the competition with cable TV. Telcos can position IPTV against competition through integration with digital home services. Digital home service is an emerging market in Taiwan which enriches our life with features enhancing safety, healthy, comfort, energy saving, peace of mind, and sustainability.

Figure 7 show the scope of digital home services defined by Chunghwa Telecom that cover home Management/monitor, Information, Communication and Entertainment/Education (MICE²). Home management service facilitates convenient, secure, carefree and sustainable home living space with automatic control, surveillance, home banking and personal wellness management. Information and communication service in digital home is based on broadband infrastructure and provides services such as high speed surfing, high speed downloading, and video communication. Entertainment/Education services support personalized features including multimedia-on-demand and online education.



Figure 7. The digital home vision of Chunghwa Telecom

According to digital home vision of Chunghwa Telecom, IPTV is one of digital home services Telcos can extend IPTV set-top box as home server to provide new add-on services by integrating video cameras, sensors, smart meters, body composition, and controllable home appliances. The system infrastructure is shown as Figure 8.

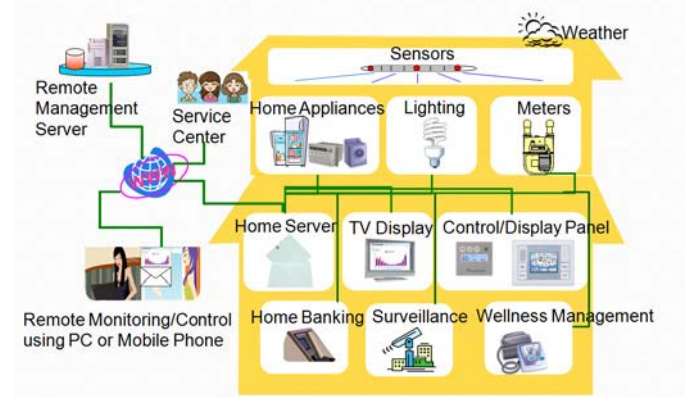


Figure 8. The digital home service infrastructure

D. Diversification

Digital convergence will sustainably impact people's lifestyle and work style. Telcos can reuse their technology and experiences on developing IPTV service to provide new FMC (Fixed Mobile Convergence) and quad-play services by offering voice, data, video and mobile service.

IV. CONCLUSION

The IPTV is an emerging multimedia service that telcos are seeking to increase their revenue and make profits. In Taiwan, the broadband network penetration rate is very high, 68.91% on January 2010 [16]. This healthy network infrastructure gives telcos good opportunities to deploy IPTV service. After analysing the market by Ansoff Growth Matrix, we found that telcos in Taiwan can increase their IPTV revenue and reduce the churn rate through offering differential high definition TV programs and exclusive rich contents. IPTV is competitive price-wise. A good price strategy should consider the entire business role and make the pricing model from three different angles -- operation platform, content, and using time. Besides, IPTV service is definitely user-centric. Telcos must provide plug-and-play features and friendly user interface to make IPTV service simple and easy.

Finally, digital home service is the emerging market in these years. Telcos can extend their IPTV service by integrating new digital home services through IPTV set-top-box to enrich people's life.

By considering ways to grow via existing products and new products, and in existing markets and new markets, we found that there are great opportunities for Telcos in Taiwan to increase their IPTV revenues.

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