



Tuning in to the future?

Telecoms firms are moving into television, but it may not be a licence to print money

IT IS a little after nine o'clock in the morning in Grapevine, a leafy suburb of Dallas, Texas, and Thomas Hixon, a Verizon engineer, is hard at work installing equipment outside a customer's house. This is one of the neighbourhoods where Verizon, America's second-largest telecoms firm, has laid fibre-optic cable under the streets as part of an \$18 billion network-construction programme. By 2011 its cables will pass 18m American homes.

A directional boring machine has already drilled a tiny underground tunnel under the driveway, allowing a final length of fibre to be run from the neighbourhood splice-box to the customer's house. This single fibre can support multiple phone lines, 60-megabit-per-second Internet access and over 400 television channels, with plenty of capacity to spare.

By lunchtime, Mr Hixon has finished installing everything. The phones are working, the broadband is running and he is demonstrating how to work the digital-video recorder (DVR), which allows programmes to be paused, rewound and recorded. Robert Blalock, the newest customer for Verizon's new FiOS network, is grinning broadly. Buying phone, broadband and television service together gives him a discount of \$30 a month and a single bill, easier than three separate ones.

Verizon's FiOS project is one of the most ambitious examples of how telecoms operators around the world are moving into television services, in direct response to the march of cable operators

into the voice market. The snag from the telecoms firms' point of view is that whereas it costs very little to provide voice services over an existing cable network, it is very expensive to upgrade telecoms networks to deliver television over broadband internet connections, a technology generally referred to as internet-protocol TV (IPTV).

With its FiOS project, Verizon is one of a handful of operators around the world to have taken the most expensive route of all, "fibre to the premises" (FTTP), ie, running fibre right up to customers' homes. The others are NTT and SoftBank in Japan, KT in South Korea, and operators in parts of Sweden, Italy, Denmark and a few other countries. The cost involved has weighed on Verizon's share price, and its credit rating has been downgraded. "The market is very sceptical of FiOS spending," according to Blake Bath, an analyst at Lehman Brothers, earlier this year.

But the service seems to be proving popular: in Keller, Texas, the first suburb where the fibre network was rolled out, over 35% of homes have already subscribed to FiOS TV, and over 40% to the broadband service. This bodes well for Verizon's plan to achieve 35-40% market penetration for broadband and 20-25% for TV in the areas covered by its new network, which already includes parts of Texas, Virginia and Florida.

Sheila Lau, president of Verizon's operations in Texas, says the take-up of the "triple-play" bundle of voice, broadband and television over FiOS is nearly 80% of those

taking FiOS at all. The average revenue per user, a key industry measure, is growing, and in every area where FiOS is available Verizon has been able to reduce the rate at which it is losing voice subscribers; in some areas, it is even adding some.

I want my IPTV

But for the ultimate example of an incumbent telecoms firm moving into TV, you have to visit Hong Kong. When PCCW, the local phone company, launched a TV-over-broadband service in September 2003, everyone laughed; it had tried similar ventures twice before, in 1996 and 2000, and had failed on both occasions. But its new service, Now Broadband TV, proved a success. Today it has more than 40% of the market and is on course to displace the local cable operator as the main provider of pay-TV in Hong Kong.

Moreover, last year PCCW became one of the first incumbent operators worldwide to arrest the decline in fixed-line subscribers. This is the kind of success that other telecoms firms dream of: a new service that not only stops line loss, but beats the cable companies at their own game and brings in new revenue. Better still, the service is expected to become profitable by the end of the year. No wonder that "just about every phone company in the world" has come to visit PCCW, says Alexander Arena, the firm's finance chief. PCCW is now advising telecoms firms in several countries about how to emulate its successful roll-out of IPTV.