



## **Independent Telco, Cable Television Market Summary**

### **Overview:**

This document provides a brief overview of the market for independent telephone companies (independent telcos, also known as IOCs) that also provide or are planning on providing cable television services. Many of these entities have been providing cable television services for 20+ years, mostly over traditional hybrid fiber coaxial systems. In the late 1990s, several telcos began deploying all digital-ATM networks from Motorola/Next Level so that they could offer video, telephone and Internet through a common network. Recently, many telcos have begun deploying or investigating the use of all digital, Internet Protocol Television (IPTV) as an alternative to HFC.

### **The Offer:**

IPTV can potentially open up new revenue streams for both programmers and operators, as the systems are all-digital, so it could be possible to infer viewing patterns from the equipment deployed in the home, increasing the value to advertisers and other potential sponsors. For instance, the bundled packages telcos offer are as compelling as any offered by the major MSOs. Here are some of the benefits of the typical telco product offering:

- Consistent, digital quality on every television channel
- Caller I.D. appears on television screen upon incoming calls
- Bundled packages of telephone, internet and cable television service
- Ability to upgrade (or downgrade) subscribers to any service package without a truck roll
- Interactive Program Guide is available to three television sets in every household
- Ability to order premium and PPV titles on three televisions per house

The implementation of IPTV systems is of great concern to programmers, however, as their very strengths of being all-digital and having the ability to communicate in a two way fashion could leave them vulnerable to theft and piracy, if not properly protected.

### **Market Background:**

In the United States, there are approximately 1,200 to 1,400 IOCs. These companies tend to be in rural and suburban areas and tend to be smaller than the average cable system. For instance, the average size of an NTCA member is 5,500 subscribers.<sup>1</sup> Over 10

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<sup>1</sup> NTCA is the National Telecommunications Cooperative Association. The NTCA represents approximately 550 IOCs. There are three national lobbying organizations in the U.S; NTCA, OPASTCO and USTA. OPASTCO has approximately 550 IOC members consisting of smaller,

million homes are served by these entities as the primary service provider. Viodi's estimates of the current market size are as follows:

|                        | <i># of Systems<sup>2</sup></i> | <i># of Basic Subscribers<sup>3</sup></i> |
|------------------------|---------------------------------|---|
| Served Via HFC         | 350 to 400                      | 500,000 to 750,000                        |
| Served via ATM or IPTV | 100 to 120                      | 160,000 to 180,000                        |

Many of these telcos operate their cable systems as separate subsidiaries, so it is easy to under-count the actual number of telcos offering video services. Additionally, many of them often band together into consortium's to share the high costs of items such as headends.

### **Market Trends:**

Independent Telcos are innovators. As an example, a decade ago, hundreds of them pioneered the digital Direct Broadcast Satellite business in conjunction with DirectTV and the NRTC (National Rural Telecommunications Cooperative). This is a bit ironic, as what the IOCs did then is being duplicated now by the larger telcos with their recent deals with Echostar and DirectTV. IOCs also had among the first commercial deployments of DSL, Digital Switching and fiber optics, so it no surprise that they are innovating again with IPTV networks.

Recent conversations Viodi has had with independent telcos, their Engineering firms and their vendors indicate that the majority of new video systems are all-digital platforms either via hybrid fiber/twisted pair or fiber to the home networks. Telcos are finding that the aforementioned integrated networks reduce their operational costs. The integrated network also allows them to more quickly roll out service to their existing customers as compared to a traditional HFC network. Telcos are also finding that for them to compete it is necessary for them to offer a full service network.<sup>4</sup> 70% of the telcos at the Telco TV tradeshow indicate that they plan on upgrading to video within the next two years.<sup>5</sup>

Telcos are finding that they need to expand their service footprint to protect their incumbent exchanges. As a result, many of them have CLEC operations and offering multiple services to areas outside their traditional footprint.<sup>6</sup> One 100 year old telco grew from **10,000 to 18,000** subscribers between 2001 and 2003. They are able to move into surrounding areas and capture up to **96% market share** from the incumbent providers, because they are offering superior service with more channels and better quality. In fact, many of the systems they overbuild are analog-only systems with limited downstream

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privately-owned telcos, while USTA has the larger telcos, such as Bell South, SBC and SureWest and approximately 500+ IOCs. There is a great deal of overlap among these organizations.

2 Please see <http://www.viodi.com/newsletter/040801/article3.htm> for details.

3 Sean Riley of Fox Cable Networks estimates that Fox Cable serves 150 telcos and 400k subscribers.

4 Paul Bertino, Director of Marketing for Hickory Tech, suggested at the IP Video @ Supercomm show that their real world deployments indicate that Triple Play offers 10% more gross margin percentage and twice the gross margin dollars.

5 <http://www.shorecliffcommunications.com/Telcotv04/>

6 Please see <http://www.reuters.com/newsArticle.jhtml?type=reutersEdge&storyID=6096418>

capability and no upstream capability.

### **Summary:**

In general, independent telcos believe that in order for them to remain relevant in the 21<sup>st</sup> century telecommunications landscape, they must defend their existing base by enhancing it with an array of new services. Bundled into packages, these services are quite attractive to independent telcos' customers. The telcos are finding that they can be successful by building their networks beyond their existing exchange areas, allowing them to experience new levels of growth while helping to protect their base business. It is only a matter of time, before the larger telcos adopt a similar approach, in the same way that they have followed these smaller telcos in previous technology and service deployments.

### **About Viodi, LLC**

Viodi's goal is to be *The Bridge Between the Heartland and Hollywood*. As such, Viodi produces a bi-monthly newsletter, the Viodi View, which is sent to over 2,700 people, 1,800 of which are involved with the management of independent telcos. Viodi also organizes and produces conferences that bring together individuals from content sources with the independent telcos. Viodi also provides consulting services to help both independent telcos and their suppliers have a better understanding of their respective needs and products.

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