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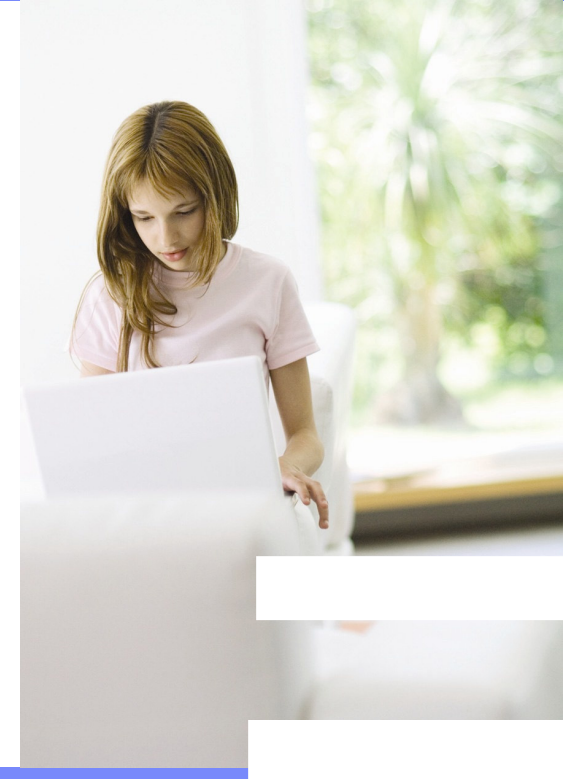
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# The Great Convergence – of Content, Telecommunications and Business

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Global Communications Sector Leader  
IBM Institute for Business Value



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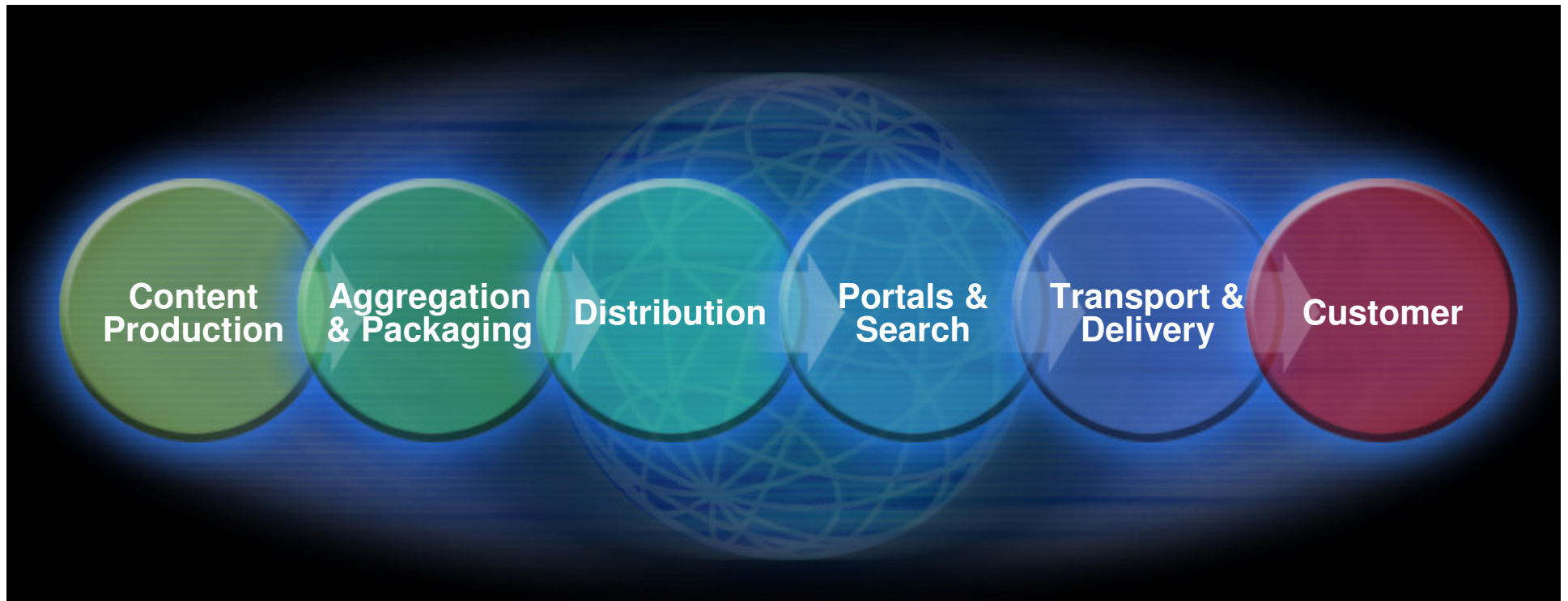
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The rise of the digital content market

**Digital convergence is blurring boundaries among telecom, Internet and media and is spawning an emergent “telemedia” industry**

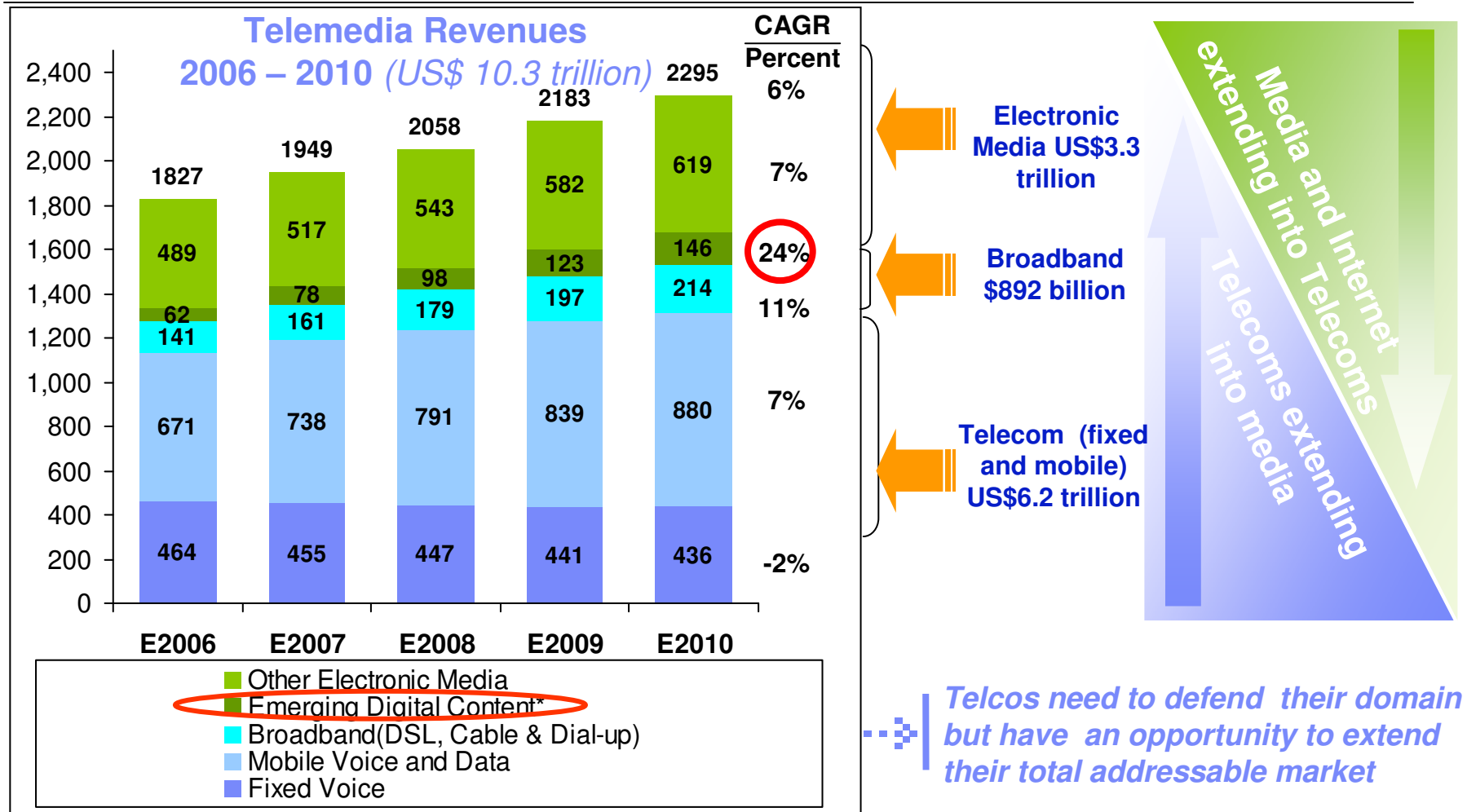
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*expanding the addressable market for service providers to include areas that were once beyond their reach*

The rise of the digital content market

## Expansion in the addressable market is driven by high growth in digital content and represents opportunities and risks for the future value of telcos

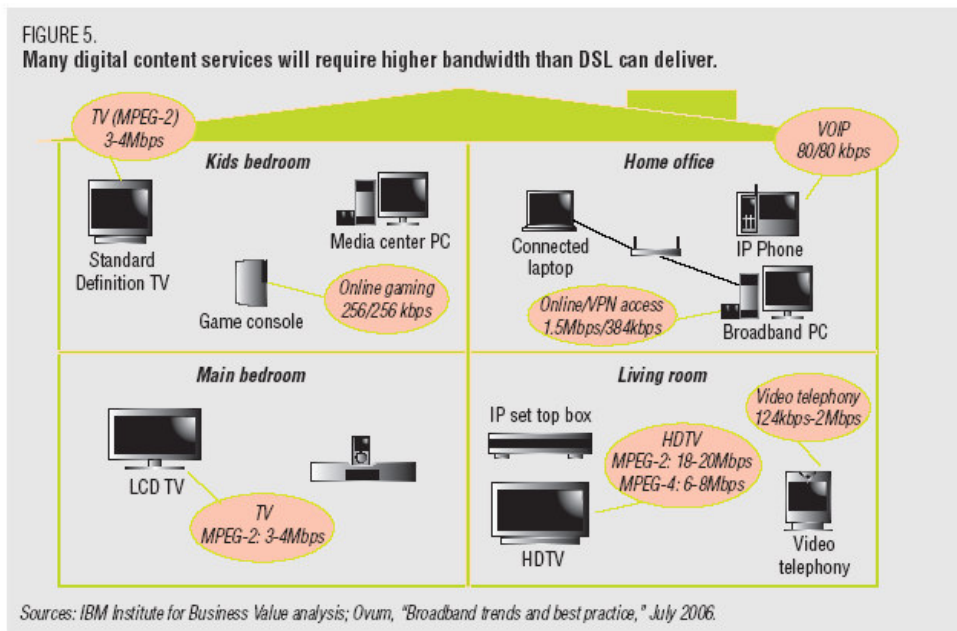


Sources: Ovum, "Total Voice Revenue Forecast by Region" and "Mobile Regional Forecasts", November 2006; PricewaterhouseCoopers, "Global Media and Entertainment Outlook: 2006-2010"; Ovum, "IPTV Forecasts," August 2006; Datamonitor, "Broadcast TV to mobile," December 2005; Informa Telecoms & Media, "Advertisers Turn to Mobile Channel," September 7, 2006 Press Release; Verorjis Suhler Stevenson, "Communications Sector Forecast 2004-2009"; Yankee Group, "Video Games Are the Next Frontier for Advertisers," March 2006; and IBM 3 Institute for Business Value Strategy: A Future in Content | 24-Apr-07 © Copyright IBM Corporation 2007

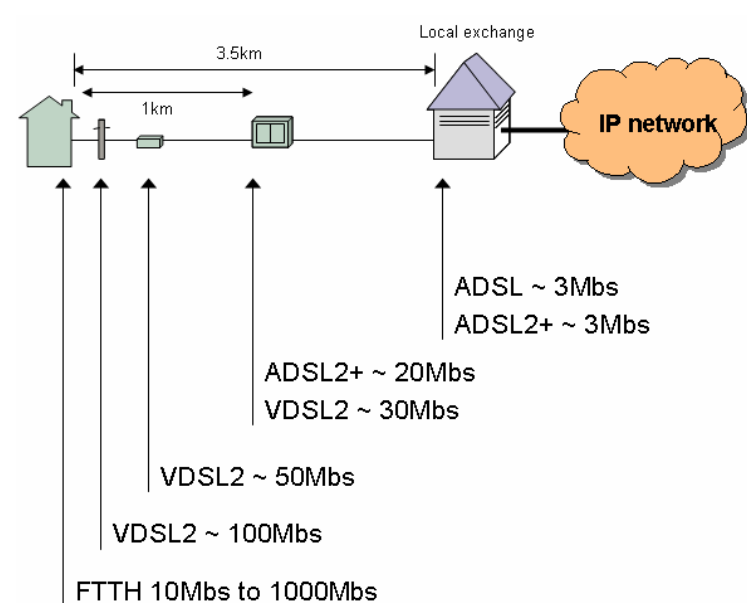
The investment case for entering the digital content market

## IPTV is not sufficient and advanced multimedia services such as HDTV require higher bandwidth not available in much of today's access networks

### Household Bandwidth Requirements



### Decreasing Loop Length, Increasing Bandwidth



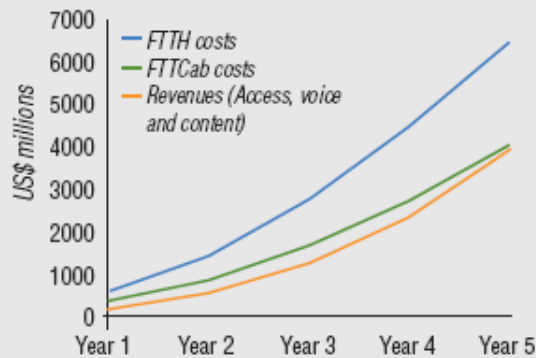
❖ *Even with advanced compression rates such as MPEG4, operators will need to provide more bandwidth to deliver advanced video services*

Source: Ovum, Future of Broadband November 2006, IBV Analysis,

The investment case for entering the digital content market

## The investment case for fibre, however, is critically dependent on achieving high penetration rates (30 - 50 percent) but is this realistic?

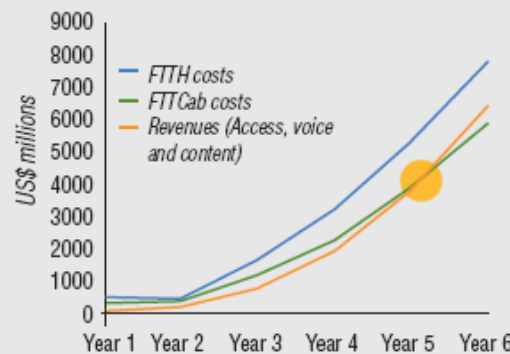
**FIGURE 8.**  
Telecom operators are unlikely to recover investment in optical fiber with a penetration rate less than 20 percent.



Source: IBM Institute for Business Value analysis.

❖ *Telcos investing in FTTCab could break even at a penetration rate of 30 percent, but the business case is dependent on revenues from digital content.*

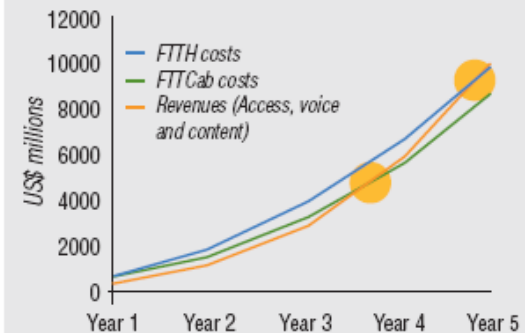
**FIGURE 9.**  
Telecom operators investing in FTTCab could break even with a penetration rate of 30 percent, but those investing in FTTH will find it a challenge.



Source: IBM Institute for Business Value analysis.

❖ *At current deployment costs, a telecom operator investing in FTTH would need a 50 percent penetration rate to break even within five years*

**FIGURE 10.**  
A telecom operator investing in FTTH would need to achieve a 50-percent penetration rate to realize a return on its investment.



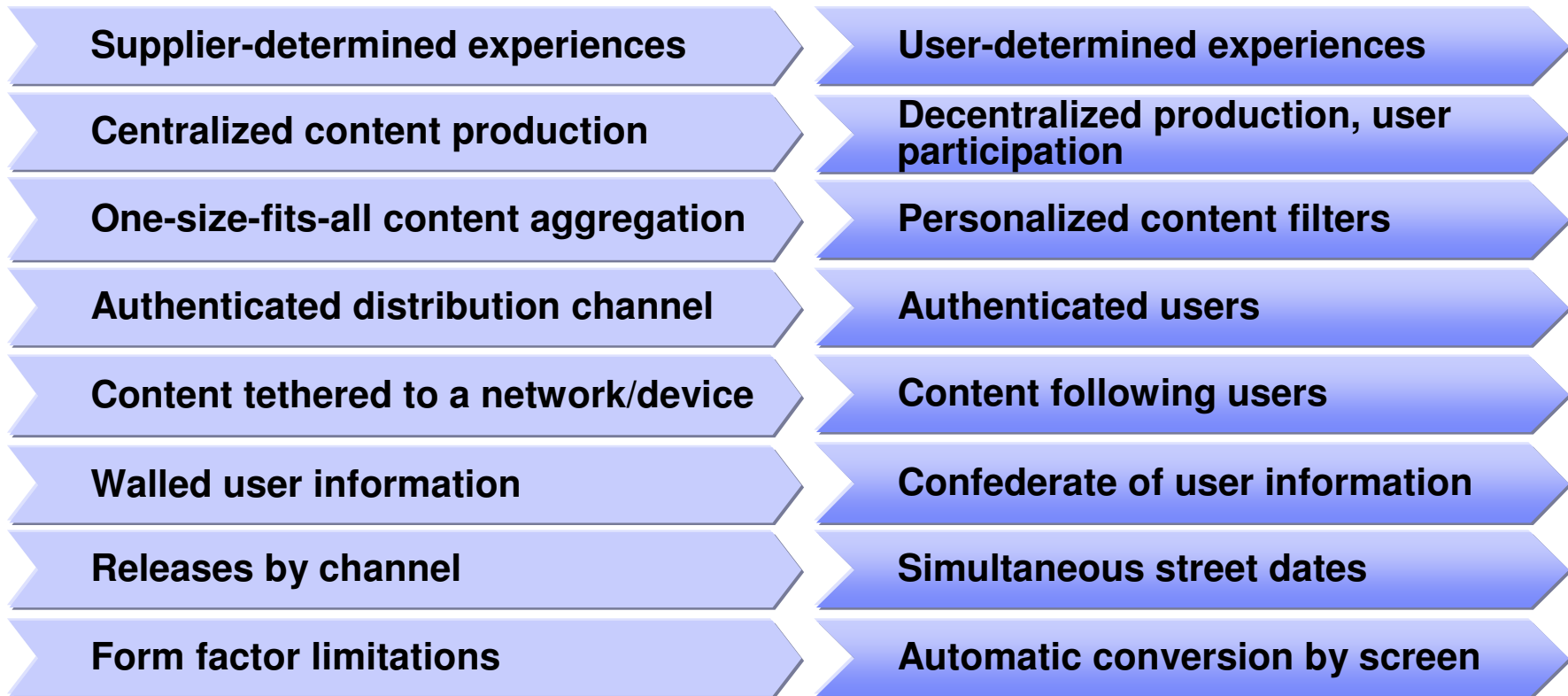
Source: IBM Institute for Business Value analysis.

Value beyond delivery - Trend towards flexibility choice and control

**Beyond delivering rich multi-media content consumers are demanding new experiences namely: *flexibility, choice and control***

**Present**

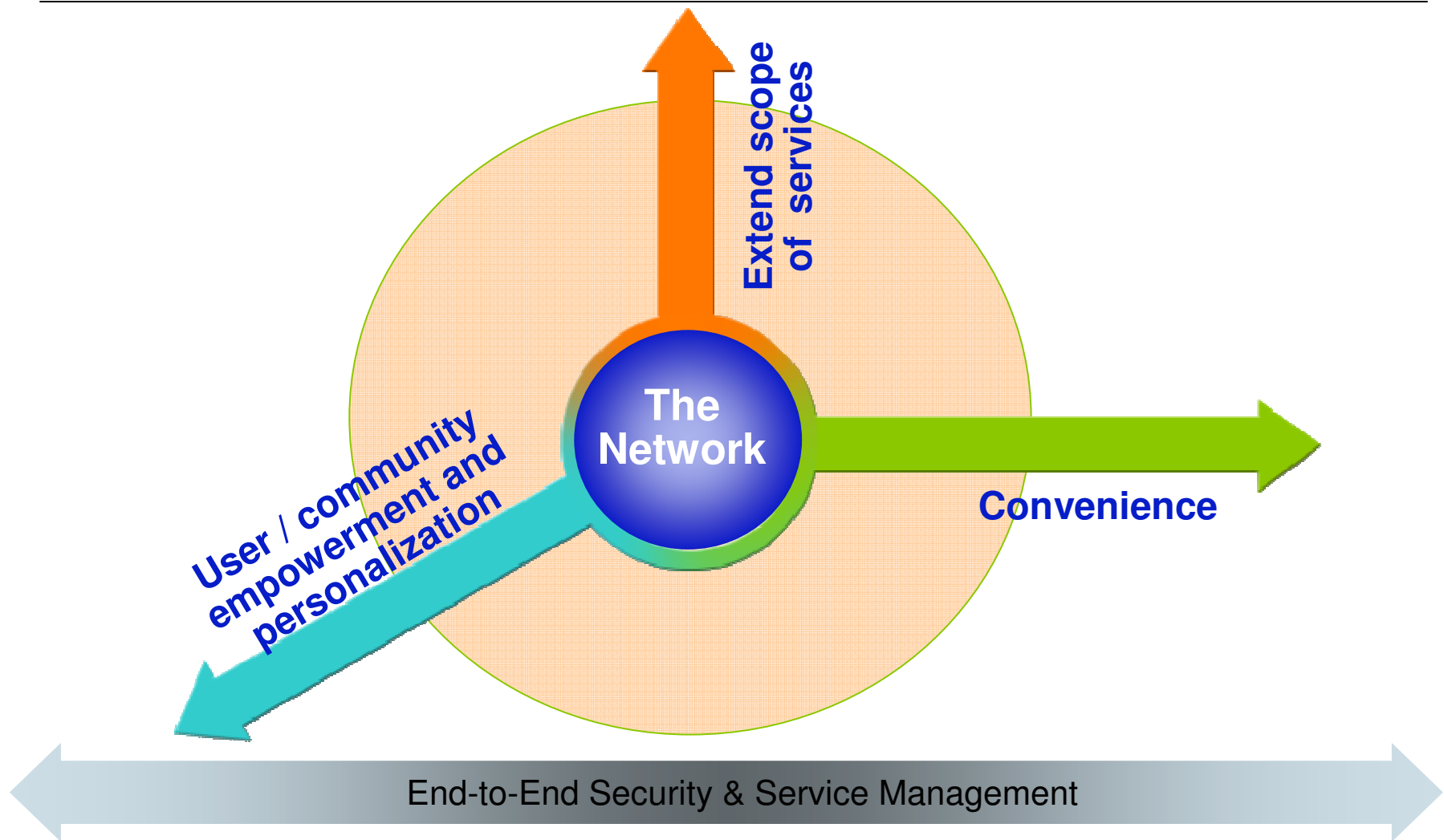
**Emergent and Future**



**In the future, user-centricity – not network or device-centricity – prevails**

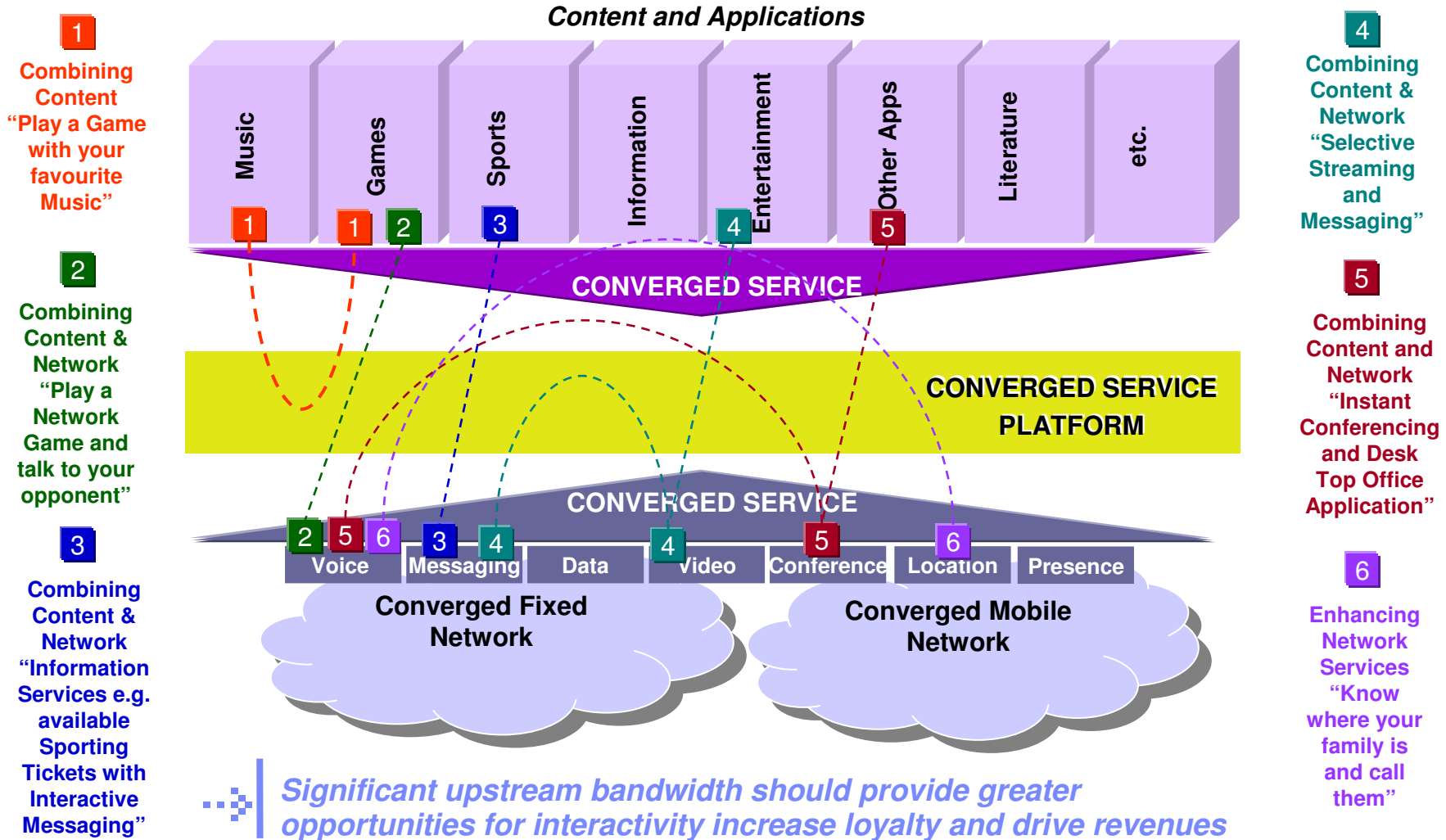
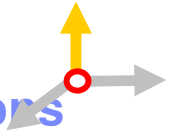
Value beyond delivery - Trend towards flexibility choice and control

**To be successful telecom service providers must deliver enhanced choice, flexibility and control underpinned by security, service reliability & assurance**



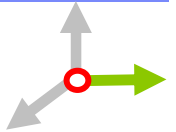
Value beyond delivery – Extending scope of services

## Content services can be enhanced by combining user-centric applications with network-based functions to provide the optimal consumer experience



Value beyond delivery – Convenience

# Telcos are uniquely placed to manage the complexity of multi-channel access to create a more convenient user experience



Source: IBV Analysis

Value beyond delivery – User / community empowerment and personalization

## Rather than become traditional media distributors, Telcos should reinvent “walled experiences” and collaborate with aggregators and content owners

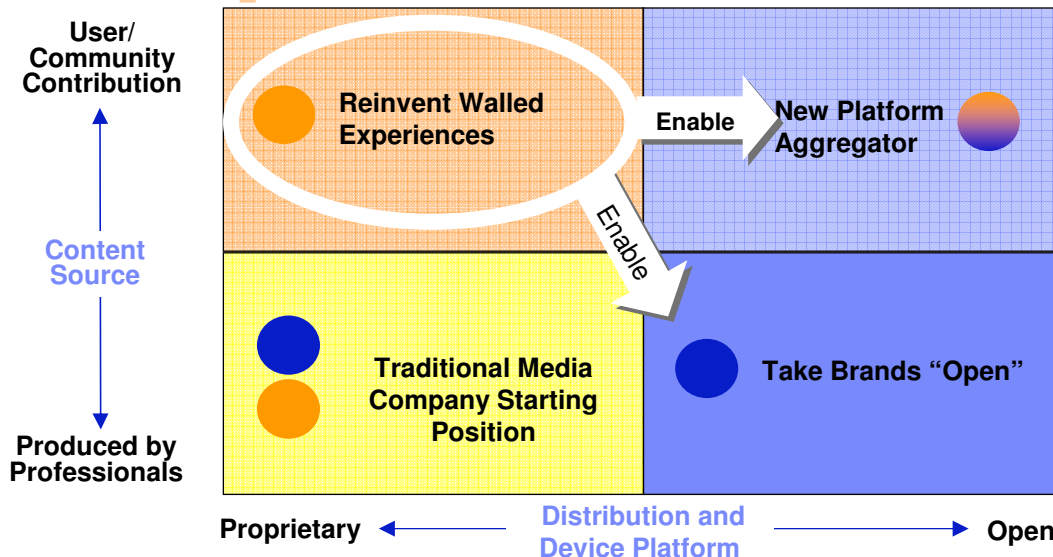
### Reinvent content “walled experiences”

- Enhance social networking and collaboration through location and presence capabilities
- Provide third-party authentication amongst participants
- Add user and community contributions and incorporate non-traditional niche content
- Remote digital storage for video content

### Collaborate with New Platform Aggregators (e.g. Second Life, MySpace)

- Enable services and application with network-based functions such as voice, SMS, IM, location and presence
- Identity management and authentication across networks
- Bridge virtual and real worlds through communications e.g. voice, SMS, conferencing

### Media Business Models (2006-2010)



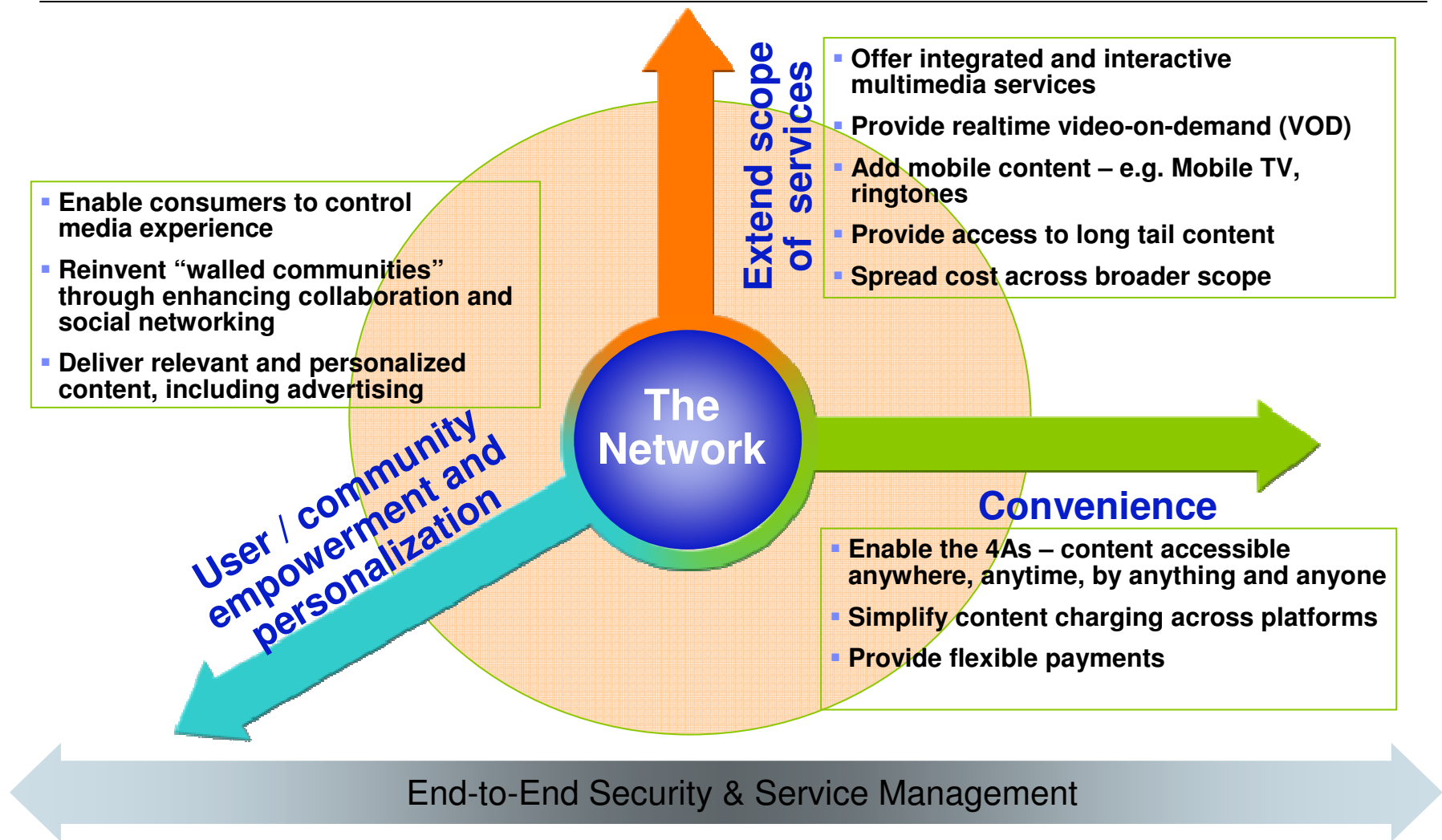
### Enable self-publishing and direct to consumer

- Possible emergence of *virtual* video and digital content services provider and enabler of access to long-tail content
- Telecom providers are well-placed to provide low-entry cost ‘white label’ digital content delivery platforms to enable retailers and content owners accelerate the deployment of direct to consumer digital content services

- Content Owner Options
- Media Distributor Options

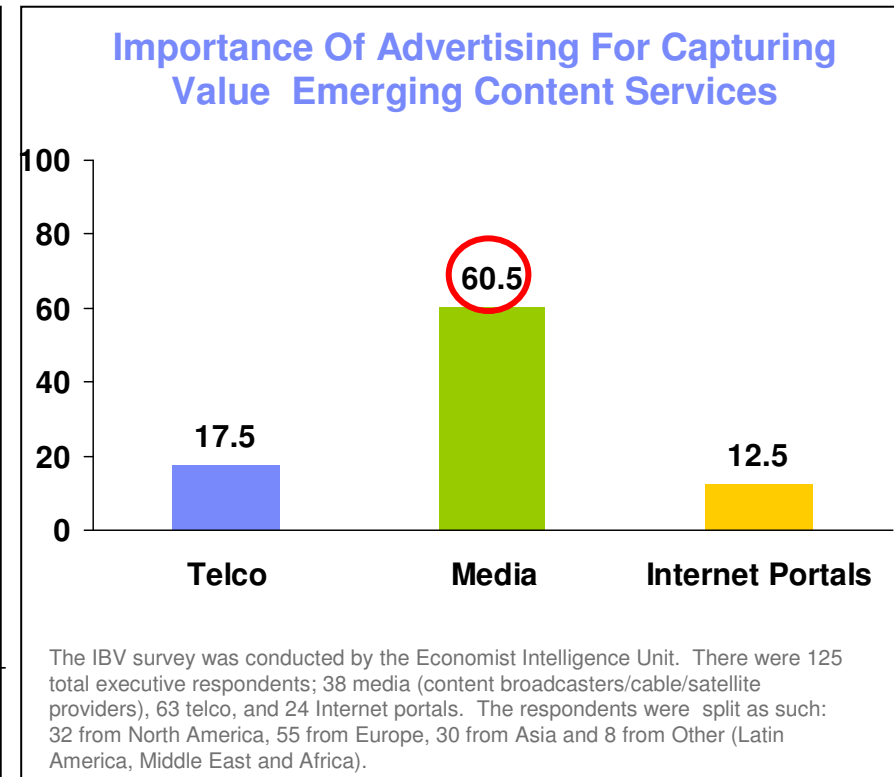
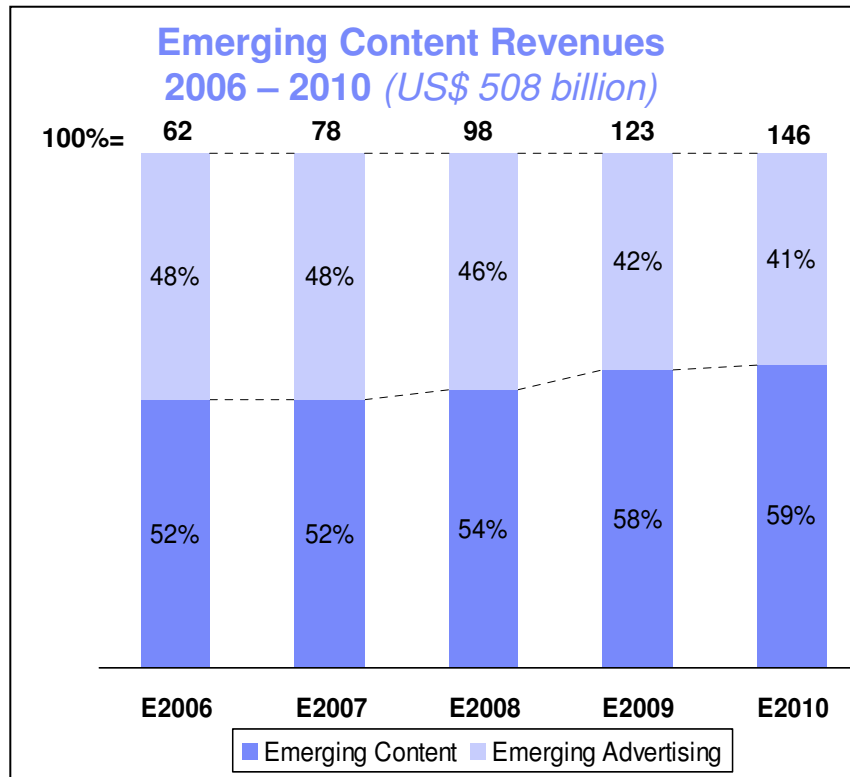
Source: Berman, Dr. Saul, Abraham Steven, Battino Bill, Shipnuck Louisa, Neus Andreas. “Navigating the media divide: Innovating business models with new and old partners”.

**Beyond content delivery, Telcos are well-placed to deliver enhanced customer experience by enabling choice, flexibility and control**



The role of advertising

## Advertising will become a significant source of revenue for digital online content however its potential is under-estimated by telecoms executives

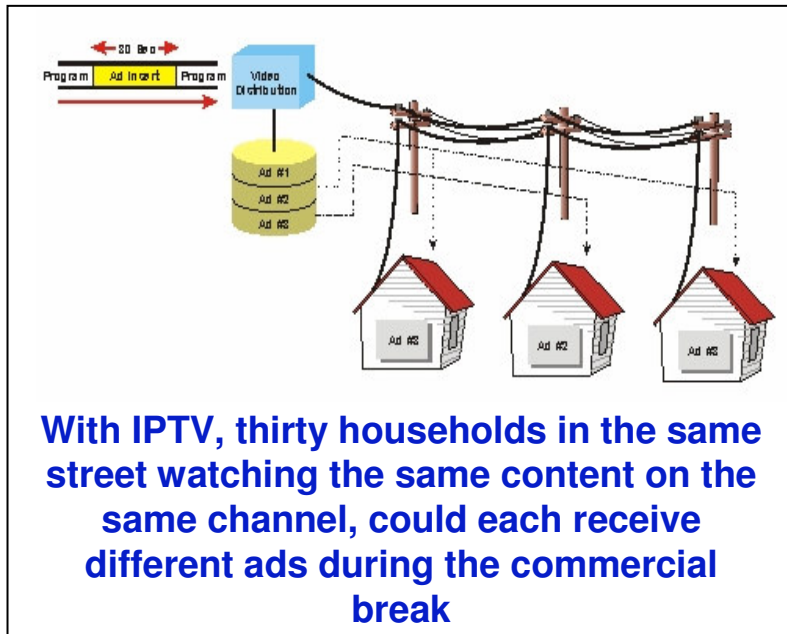


❖ *"Mobile marketing could be phenomenally important, if you look at the penetration figures for handsets, and the passion for it... it ought to be phenomenally powerful, and through that lens, we ought to be spending 50% of our budget on it..." James Eadie, Coca-Cola Marketing Manager December 2005*

Source: IBV Analysis Mobile Marketing Magazine, December 2005

The role of advertising

## Telecom providers can combine location, presence and customer insights to extend reach and effectiveness of advertising

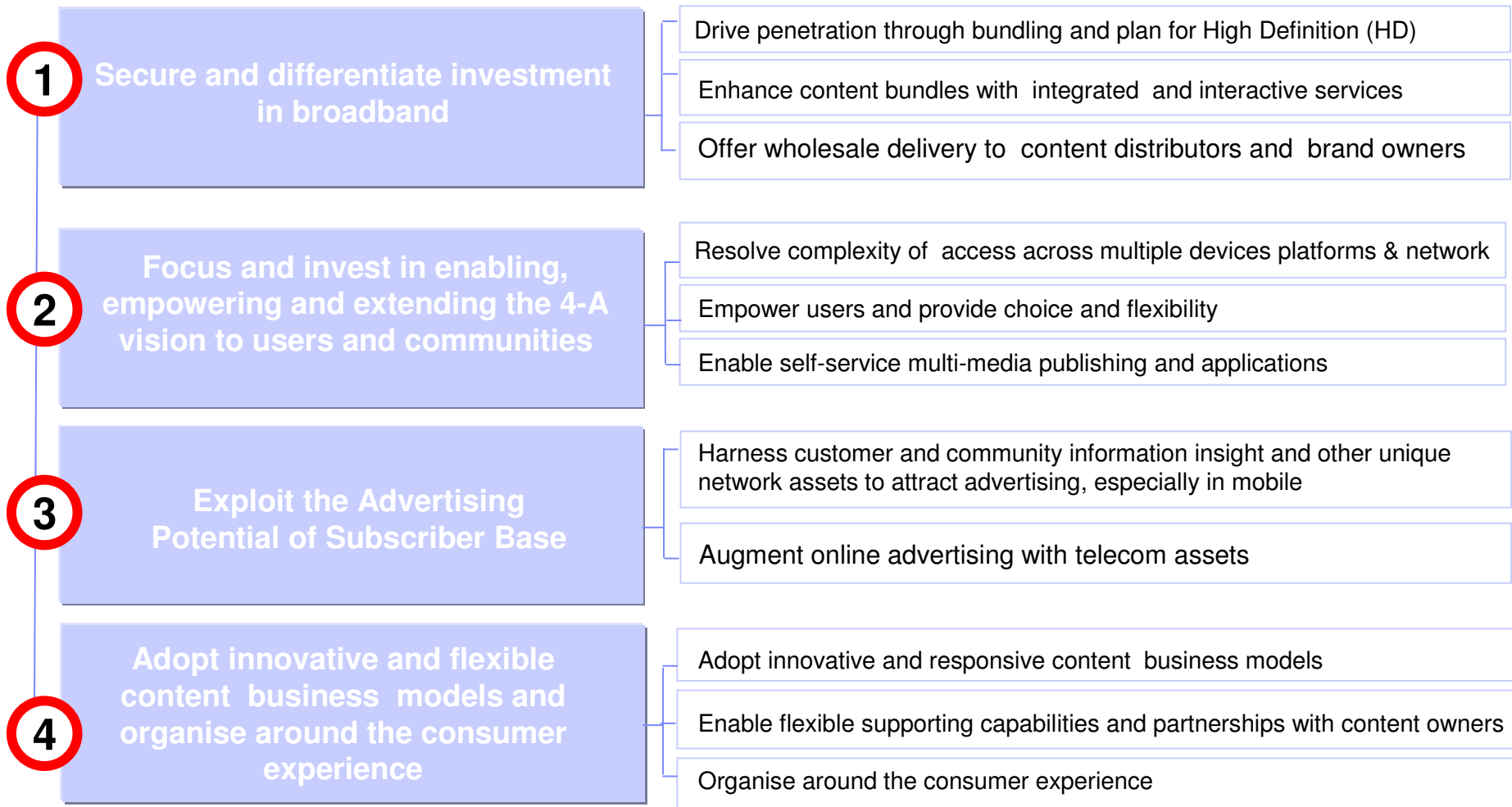


### Telecom Assets for Advertising

- **Network Intelligence**
  - Presence, Location etc
- **Interactivity**
  - Two-way communication enabling real-time interactivity
  - Dynamic on demand *ad insertion and placement*, time shifting
- **Ubiquitous access and extended reach**
  - 4A –content accessible anywhere, anytime, by anything and anyone
  - Multi-device access
- **Customer Information Insight**
  - Relationship with a large subscribers base
  - Knowledge of customer activity and preferences
  - Tracking and accountability
- **Relationship with advertisers**
  - Yellow pages relationships
- **Mobile network**
  - Telecom providers remain gatekeepers

Location, presence and personalisation are key to enhancing the consumer media experience

## A Future in Conten(tion) - Imperatives and Recommendations



## Key Contacts

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Summary

# Thank You and Related Publications



**A future in Content(ion)**  
 Can telecom providers win a share of the digital content market?



**Navigating the Media Divide –**  
 Innovating and enabling new business models



**Primetime for Mobile Television**

# Thank you!



**The Innovation Paradox in the Telecom Industry**