

## Content Insider #67

### IPTV – Who Will Make Money Off The Matrix

*“A déjà vu is usually a glitch in the Matrix. It happens when they change something.”* – Trinity in the 1999 movie **The Matrix**.

The Internet Matrix emerged in the late '80s with three struggling internet service providers (ISPs) serving researchers, educators and a few business people. It enjoyed spectacular growth.

Morpheus and Neo sat there just enjoying the success !!!



Even Morpheus and Neo could see the benefits of the Internet Matrix once IPTV becomes the widely accepted entertainment resource (photo Warner Bros).

The Internet's Matrix 2 came in the '90s with more excitement, more money than people could imagine. The death of many of the stars was painful...and expensive.

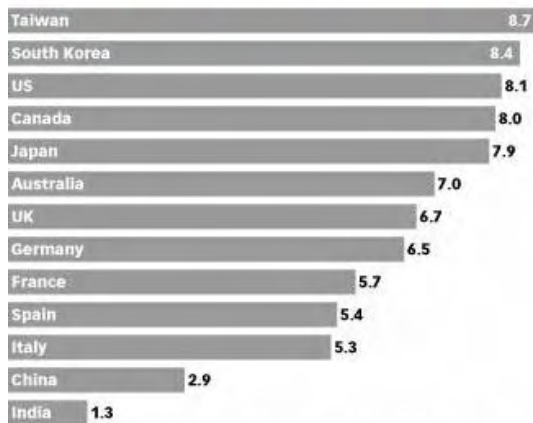


With personal and independent video sites becoming established so quickly, they could spell the end of Tellywood's control over your free time. Consumers could simply show them the door. (photo Warner Bros.)

With the slow, struggling emergence of IPTV the third remake is here.

It is scaring the hell out of everyone...CE manufacturers, Tellywood, advertisers and yes more than a few consumers who don't know what to watch or where to watch it !!!

**Digital Living Index\* for Select Countries Worldwide, 2005**



Note: \*based on proclivity to adopt and use MP3 players, video-on-demand (VOD), home networks, computers, online services and similar advanced technologies  
Source: Parks Associates, December 2005

**Figure 1** - In the increasingly digitally connected world, the Internet is rapidly becoming the first place people turn for information, education, news and entertainment. (Source: Parks Associates)

CE manufacturers know folks around the globe have gone digital. We've got our MP3 players, computers for everyone in the family, home networks (ok some do) and slowly HDTV sets. But if we all migrate to IPTV they have to deal with MPEG 4 decoders, new formats and gawd sets that are just large monitors.

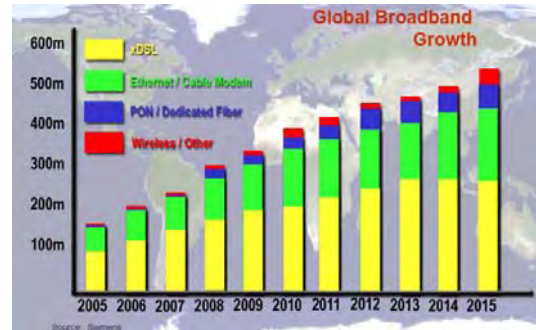
That's exactly what Sony, Matsushita (Panasonic) and a few others plan to do early next year...Internet TV sets.

They might as well.

Kids do most of their multitasking in front of their computers anyway.

They're even helping boomers keep the heat on for global broadband growth

Our son for example doesn't have time for TV. His truck's bumper sticker declares his freedom... "Kill Your TV."



**Figure 2** – DSL connection has the potential of outstripping cable growth even with some of the more creative bundles. The key is billing consistency (Source: Siemens)

Unplug the cable?

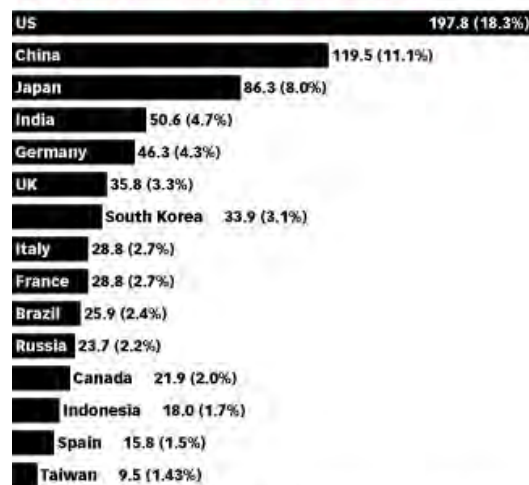
No problem.

Just don't touch his DSL connection!!!

True the world isn't all broadband...yet

But it is connected.

**Top 15 Countries Worldwide, Ranked by Internet Users, 2005 (millions and % of total users)**



Note: total for the top 15 countries - 750 million; worldwide total - 1,081 million  
Source: Computer Industry Almanac (CIA), January 2006

**Figure 3** – While the U.S. has more total internet connected people, Iceland and South Korea lead with the highest connectivity per capita. (Source: CIA)

And it's getting faster...slowly.

Last year, 194 million households WW had broadband service. By 2010 the number will increase to 413 million according to In-Stat.

The U.S. may have the best Internet products but the country is still only #12 in the high speed connected world. Iceland and South Korea lead the pack while Northern Europe has seven of the top ten slots.

Cable – big in the U.S. and Canada – will make modest bundled gains over the next few years but most folks seem to think of cable as aahh...TV!

Strategy Analytics believes the incumbents and independent DSL providers will have the greatest growth. But then they still have a lot of progress to make in their creative billing practices.

You'd think the competition would give us ordinary folks an edge...doesn't happen.

In fact, the telcos want to get even more creative with their pipes.

For example they want to slice and dice their service charges. Want video...VoIP, music...security...IPTV?

Doesn't matter if the pipe isn't being used...you should pay **more** !!!

Then too there is that little thing called QOS (quality of service) !!!

Our kid is part of the increasingly connected generation...

Cell phone in hand, listening to online music, IMing friends and whomever, surfing for class assignments, updating his

MySpace, catching the latest on YouTube he has no time for regular TV !!!

If he wants a "real" show, he knows where the online stuff is at. And according to Online Publishers Association (OPA) he isn't alone.



**Figure 4** – The awareness and enjoyment of online video entertainment has grown significantly in the past two years and forecasts are that the numbers of regular viewers will grow significantly in the next few years (Source: OPA)

In fact Arbitron reports that Internet viewing has been increasing steadily in the U.S. – 7% in January '04, 8% in '05, and 12% in '06.

That could be habit forming !!!

And according to iSuppli it will.

IPTV subscribers in Western Europe are projected to be more than 16.7 thousand by 2010 compared to 3,283 thousand this year. In the U.S. there will be more than 422 M homes with broadband by then.

All prime candidates for complete entertainment their way !!!

IPTV is expected to expand by a factor of more than 26 from last year to 2010!

iSuppli sees the subscribers growing from 2.4 million last year to more than 63 million by 2010.

That is a growth rate of 92.1% by anyone's calculations !!!

What worries the controllers is that people who are viewing this stuff aren't just kids.

Nielsen's research shows that:

- 12.61% are 12-17
- 7.15% are 18-24
- 19.11% are 25-34
- 54.46% are 35-64

The rest are at the other ends of the age groups

That means serious loss of viewers' eyeballs and worse yet advertisers clutch purses....sheess !!!

Just as online music created an opportunity for indie musicians, they have found an eager market for music video webcasts. Clubs across the country are installing webcams to entertain the global online market. It is great promotion for the clubs...for the bands...for the music lover.

For example Gig, a club in LA, regularly video records unsigned bands for their showcase. As the online audience grows you'll be certain merchandising will follow – music video sales, club and group merchandise and yes even download song sales.



**Gig Show** – At the LA club, Gig, independent bands are recorded using a webcam and the videos are streamed over the Internet to music video aficionados. It's good exposure for the bands, great publicity for the club and even generates cash with club/band memorabilia. (Photo: New York Times)

Online competitors to cable's MTV are also getting off the ground. Network Live, Live Nation and others are working on music VOD and a range of streaming entertainment.

Every conventional TV network and production operation has similar video education, information and entertainment projects in the works.

Tellywood isn't certain how much of their audience IPTV will siphon off but they do know if someone is going to start eating their lunch. They want to be the fat cats at the table doing it!!!

Biggest problem?

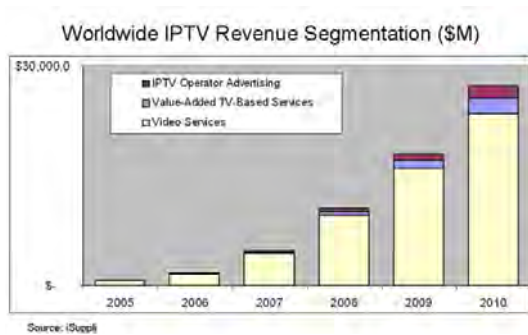
Finding the damn show you gotta see is impossible. There are thousands of shows/channels on the Internet now and in a few years there will be like a gazillion IPTV channels around the globe.

No one has come up with a good on-line service TV Guide.

It's OK for the time being. Our son sends us cryptic notes saying we should check out such and so.

Of course he's not going to be home forever (we hope).

The IPTV trend spells huge expenditures in advertising, value added TV-based services and video services.



**Figure 5** – Content owners, aggregators, ISPs and hardware/software producers see financial opportunities at almost every turn with IPTV in the years ahead (Source: iSuppli)

ISPs haven't been this excited since the '80s.

As Morpheus said, *“Throughout human history we have been dependent on machines to survive. Fate, it seems, is not without a sense of irony.”*

The battle has only just begun.

Over the next few years there will be a huge push for subscribers.

Providing video will simply be the admittance ticket.

They will have to offer a rich set of offerings and...aggressive pricing.

As Cypher said...” *It means buckle up your seatbelt, Dorothy, ‘cause Kansas is going bye-bye.”*

Today, the Internet is the place to see and be seen. Even if you're a nobody you can be seen.

Certainly Tellywood is jumping on the bandwagon if only out of defense. But it is the indies who have the potential and the power to change the control structure (and heck even make some money along the way).

The potential numbers look good.

The margins look good.

The profits look good.

Of course initially the picture quality is only just passably good...not great.

That's understandable – and acceptable – at this stage in the technology's growth.

There are a whole new set of technical issues to be worked out. Like:

- high-def versions of H.264, VC-1, MPEG-4, DivX, JPEG
- correcting jaggies, judder, motion blur
- our beloved DRM

Internet video has a huge upside. But it comes with a risk to the content owners cannibalizing their present revenue streams. And for the next few years they will simply try to survive in **The Matrix**.

There will be ad-based, subscription-based and all-you-can-eat buffet services.

Not surprisingly lots of folks – content owners, aggregators and ISPs -- like the ad-based approach. Folks like Google and Yahoo are getting ad folks trained in the 1-1 online advertising model.

Last year it accounted for about \$13 billion or 4.6% of the total media advertising. By 2009 it is projected to be \$22.3 billion or 7.5% of the total.

That's not chump change !!!

Add that to Tellywood's grand scheme of rent-not-to-own video and it will change the industry ... dramatically.

Of course there are a few obstacles like lawyers...new definitions of IP...ancient laws...lawyers.

Tellywood obviously wants to maintain its strangle hold over content rentals.

The online video sites are getting personal and indie content – some ultra bad, some mediocre, some pretty darned good – from everywhere.

Sites like MySpace Videos, Yahoo! Video Search, MSN Video Search, Google Video Search, AOL Video and ...oh yeah YouTube are already gaining huge audiences. Even lowly Grouper, which Sony just bought, showed a traffic increase of 1,678% in the first six months of the year according to Hitwise.

They prove that creativity doesn't just reside in Tellywood and folks have a wide range of interest levels (commonly referred to as Chris Andersen's **Long Tail** view of tomorrow).

Loosely translated consumers may be able to tell Tellywood...*Our way...or the highway.*

Andy Marken

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