

Saudi Telecom Turns Up IPTV

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Saudi Telecom (STC) is the incumbent fixed and mobile provider in Saudi Arabia, with US\$12.9 billion in revenue and US\$4.3 billion in capex in 2009. Though it is the incumbent, it faces strong competition from mobile upstarts Mobily and GO Telecom. To counter the threat, this year Saudi Telecom will begin live deployments of its innovative hybrid IPTV service, combining DVB-S satellite broadcast content with IP-based delivery of premium broadcast and video on demand (VOD) content.

In 2009, STC selected Huawei to provide middleware, VOD servers, set-top boxes, and systems integration services. It's a significant step for STC, not simply because it's an entirely new service offering, but because IPTV is viewed as a critical, long-term platform for the delivery of even more services into the home. Broadcast TV, VOD, and DVR are just the beginning of a laundry list of services that could very well include video telephony, home surveillance, and home automation and control.

At last month's IPTV World Forum in London, I had the opportunity to sit down and speak with Mr. Maziad Nasser Alharbi, STC's GM of New Service Solutions, about STC's plans for IPTV, why it is such a critical service for the operator, and the business drivers for offering IPTV.

COMPETITION LEADS TO SEARCH FOR NEW REVENUE OPPORTUNITIES

Like many incumbents, Saudi Telecom faces a host of threats to its existing revenue base:

- Etisalat's Mobily service continues to grow its mobile subscriber base, putting pressure on STC's ability to grow mobile voice and data revenue
- Mobily also has launched fixed mobile broadband service to challenge STC's hold on fixed broadband access lines
- GO Telecom has launched a WIMAX mobile broadband service in Riyadh, Jeddah, Makkah, Al-Madina, Yanbu, and Khames Masheet
- STC's fixed access lines continue to decline due to mobile substitution

The competition has been able to make inroads quite quickly because STC has historically acted as an incumbent. Relying solely on the strength of its brand name and its near monopoly on fixed broadband and telephony lines made STC vulnerable to competition. And STC's 2009 financial performance (growth in operating revenue only 5.3%, down from 38% in 2008) proves just how much the competition has hurt.

To organically grow its revenue, STC naturally started with its main competitive advantage: its monopoly on fixed broadband access lines. Fixed broadband penetration has historically been low. But in the last year, STC has been aggressive in rolling out ADSL2+ services along with basic ADSL to offer subscribers a range of bandwidth tiers to suit their needs. At the end of 2009, STC had 1.2 million ADSL subscribers (out of a total 4.2 million fixed line subscribers). STC expects its ADSL subscriber base to explode to nearly 4 million by the end of 2010, through a combination of an increase in the number of homes passed and a reduction in the price of ADSL services. ADSL bandwidth offerings range from 2Mbps all the way to 10Mbps. So, STC's IPTV subscribers will upgrade their broadband service to support the delivery of high quality standard definition and high definition video.

But STC also expects its new IPTV offering to be a long-term driver for increased ADSL subscriber growth. Though short-term growth expectations are modest, STC believes its IPTV service will be popular because of significant demographic changes driving the demand for content that IPTV is uniquely suited to provide.



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A PREMIUM SERVICE GEARED INITIALLY TO POWER USERS

The TV landscape in Saudi Arabia is dominated by satellite. There are over 25 million satellite TV subscribers out of a total population of 28.6 million as of 2009. However, 65% of these subscribers use their satellites for free-to-air channels only and do not pay to access premium broadcast content. Nilesat and Arabsat are the primary satellite providers and together offer over 400 independent channels.

The remaining 35% of subscribers who do subscribe to premium broadcast services are STC's early subscriber targets; they represent households with clear disposable income and an obvious desire for premium video content outside the standard selection of channels. For many of these households, there is a strong demand to watch first-run movies, as there are no movie theaters in Saudi Arabia. Though overall television consumption in these homes is slightly lower than in the average Saudi household, there is a clear shift away from general broadcast TV consumption toward an on-demand viewing environment.

Most importantly, for STC's long-term IPTV success, the number of these particular single-family households continues to grow, having increased from 47.6% of total single-family households in 2005 to 49.3% expected in 2010.

In terms of demographic changes, nearly 70% of Saudi Arabia's population is under the age of 35. A younger society means a high degree of mobile phone penetration, growing rates of fixed broadband penetration and, most importantly, a desire for more content from many more sources and for that content to be delivered on demand. STC intends to capitalize on all these trends with a unified network delivering high quality fixed and mobile television services.

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BUILDING OUT THE ON-DEMAND NETWORK WHILE BUILDING ON EXISTING CONTENT

Delivering on-demand content via its IPTV network is where STC has a distinct advantage over its satellite competitors, who currently do not provide such services. Because STC wants to provide a differentiated video service that introduces consumers to services like VOD and PVR, STC has built out a network designed to handle high VOD and nPVR (network PVR) concurrency rates, since content will at first be limited, but subscriber demand for the limited content is expected to be high.

STC will use a combination of both client PVRs and a network PVR service, depending on which pricing plan a user selects. For its nPVR service, STC is planning to cache and store video content from select channels for one week. STC views its PVR services as critical differentiators, especially when it comes to sports. The ability to pause, rewind, and fast-forward through soccer matches and other sporting events is in high demand among Saudi citizens, and STC is uniquely positioned with its IPTV network to deliver that service.

As has been the case worldwide, not every content owner allows the nPVR service, so not all content STC offers will be stored. To facilitate the acquisition and aggregation of both broadcast and on-demand content, STC founded Gulf Allied Digital Media (GADM), a joint venture among STC, All Asia Networks (Astro), and Saudi Research and Marketing Group (SRMG). Headquartered in Dubai, GADM aggregates content from across the globe, packages, and localizes it for network operators throughout the Middle East. GADM not only aggregates video content but also ringtones, wallpapers, over-the-top video, and other mobile and broadband content so operators can package and distribute content across multiple services. This meshes with STC's long-term plan for IPTV to be a platform for a wide range of new services beyond broadcast and on-demand content. STC has also deployed a service delivery platform (SDP) to help integrate third-party content from organizations like GADM while exposing the network capabilities of STC's IPTV, mobile, and fixed broadband networks to additional third-party content providers.

For existing broadcast content, STC is using an innovative, hybrid approach, combining DVB-S satellite reception of over-the-air channels while delivering premium and VOD content via IPTV. This approach provides STC two immediate benefits:

1. By using existing satellite delivery of broadcast channels, STC reduces its initial capital expense by lowering the number of transcoders, encoders, and decoders it needs in each of its headends.
2. Installation of STC's service is minimally invasive to the subscriber because it re-uses the subscriber's existing satellite dish. Subscribers will receive a hybrid DVB-S/IPTV set-top box along with a decryption card that provides subscribers access to the premium IPTV content. With an expected average of two to three STBs per home, the faster the technician can install the devices and get the service up and running, the better.

STC has a very realistic plan for IPTV subscriber growth, focused first on capturing premium subscribers with unique services and high quality content that competing satellite providers simply can't offer.

Taking advantage of the existing satellite service in the home is critical to the success of STC's IPTV service. First, STC can offer a larger package of channels and content at about the same price as current pay satellite options. Second, expected IPTV subscribers typically have large homes with multiple television sets, and one or two satellites are used to receive broadcast content, depending on the number of channels the subscriber is paying to receive. STC's initial plan is not to replace the satellite service at each TV set. Rather, the new service is initially being positioned as a complement to existing satellite service and a way to get VOD, PVR, and other advanced services into the home on the primary television set, while the second and third sets continue receiving broadcast TV via satellite only. The idea is to simply bring more entertainment into the home, rather than replace the video service homes are familiar with. Once the household becomes familiar with the advanced services enabled by IPTV, the thought is that the other TV sets in the home will also be upgraded.

FOCUS ON QUALITY TODAY; NEW APPLICATIONS AND SERVICES TOMORROW

Beyond providing new services that personalize the television experience for subscribers, STC is also focused on delivering a higher-quality service than competing satellite options. Within their network, STC is using H.264 compression to offer a wider range of HD content, including a library of HD VOD programming. The use of H.264 is imperative, as there is a significant shift in HD technology underway among major broadcasters throughout the Middle East. To enable all those HD channels over an ADSL network, H.264 compression is critical. STC is also planning to provide enhanced digital rights management (DRM) across all its content offerings, as well as a very detailed parental control system, which is critical for subscribers. STC is also offering subscribers caller ID on the screen, and will eventually allow subscribers to reject, forward, or forward to voicemail any incoming call from the STB.

In upcoming releases, STC has ambitious plans to layer on more features and services to help differentiate the offering, and position IPTV not just as a new way to watch TV, but as a platform for the introduction of new entertainment and communications services into the home, including:

- **3-screen service:** A subscriber can view personalized TV content on his TV, mobile phone, and computer. STC currently offers a subscription-based mobile TV service using GPRS, and is trialing a free DVB-H service in Riyadh. Ultimately, STC would like to integrate these offerings by using its SDP, and have subscribers be able to access the content they subscribe to or have stored on their home or network PVRs on any device.
- **Targeted advertising:** Unlike competitive satellite offerings, which have no current solution for collecting subscriber usage data and metrics, STC can offer this data to advertisers and can offer them premium, highly targeted advertising "avails." STC's target customer base is in high demand among advertisers, and they will pay for anything that will help differentiate their products and messages.
- **Online gaming, shopping, and portals:** Extreme weather conditions in Saudi Arabia often limit outdoor leisure and recreational activities. Therefore, adding in features such as home shopping and online gaming directly via the IPTV service is viewed as another important feature for STC. In addition, creating portals for third-party content, similar to those offered on mobile devices, is intriguing; STC can use its SDP to manage subscriber identities across its IPTV and mobile services to deliver single sign-on functionality, making any interaction with an STC-provided service that much more intuitive.
- **Mobile remote control:** Allowing the user's mobile phone to set up remote recordings, access an optimized version of the electronic program guide (EPG), and make changes to existing settings, such as parental controls, will further tighten the integration of STC's services and compel subscribers to remain loyal customers.

REALISTIC, ACHIEVABLE GOALS

STC has a very realistic plan for IPTV subscriber growth, focused first on capturing premium subscribers with unique services and high quality content that competing satellite providers simply can't offer. Where other IPTV providers worldwide were criticized for delivering "me-too" services, no one can say that about STC's early offerings or their long-term vision. Introducing VOD and PVR into the Saudi marketplace is revolutionary and satisfies a growing demand for more content and more personalized content.

Longer-term, layering on mobile, voice, and data services and tightly integrating them using an SDP to manage third-party content and subscriber identities will unify and simplify the customer's interaction with any STC service. In addition, the ability to offer customized video selections on demand to multiple screens will drastically reduce subscriber churn and help STC to regain share in the highly competitive mobile market.

Make no mistake, the road ahead for STC will be challenging—incumbent satellite operators own the video market. But there is a sea change in demographics and demand for innovation, making this the perfect opportunity for STC to deliver a successful IPTV service.

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Analyst Jeff Heynen is a widely recognized author, speaker, and consultant with expertise in telco and cable IPTV, IP video, switched digital video, mobile broadcast video, and service provider broadband. He tracks equipment, services, phones, and subscribers, running the gamut from IPTV set-top boxes, VOD, encoders, edge QAMs, middleware, content protection software, and mobile broadcast video phones, to CMTS, MSAPs, NGDLCs, DSLAMs, broadband CPE, PON, and FTTH.

Jeff authors regular Infonetics market share and forecast reports, interviews service providers around the world about their plans and preferences, produces near-weekly research notes for clients, moderates webinars, speaks at industry events such as IPTV World Forum, and is frequently quoted in trade and business press, including *Light Reading*, *NetworkWorld*, *The New York Times*, and *The Wall Street Journal*. Jeff is also a consultant to startups, service providers, manufacturers, and the investment community, identifying new market opportunities, providing due diligence, and advising on positioning, product development, business plans, and M&A activity.

Prior to joining Infonetics Research in 2005, Jeff spent four years as Senior Product Marketing Manager with VoIP switch equipment startup sentitO Networks, and two years as Marketing Communications Manager with telecommunications infrastructure manufacturer Tellabs. As a journalist for Japanese newspaper *Asahi Shimbun*, Jeff covered the rise of the technology industry in Silicon Valley in the mid-90s, as well as the entertainment industry in Hollywood.