Telcos: Viable Entrants into the US Television Market?

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“For phone companies, cable firms are enemy No. 1. For cable companies, satellite firms are enemy No. 1.” – Patrick Mahoney, Yankee Group

As fiber optic services begin to penetrate the US markets, this may soon not be the case. Almost a decade after their failures of Americast and Tele-TV, the Regional Bell Operating Companies (RBOCs) are again making an attempt to provide television services to their customers in the form of IPTV. Is this “new” move by the Telcos to enter the television services market going to push the telecommunications companies ahead of the cable companies? Will it just put them on equal footing to continue competing, or will it not even be enough to bridge the technological gap between these competing industries? And where will satellite fit in?

This paper will seek to explore these questions by first focusing on past attempts by telecommunications companies to enter the television services market, and then examining the viability of the Telcos’ entrance into this market in its current state. It will first offer brief histories of past attempts by the Bells to enter the television market, then examine whether current conditions make now the right time for Telcos to strike, and finally discuss what the Telcos need to do to effectively compete in this market. Last, it will discuss possible outcomes the introduction of IPTV may have on the telecom, cable, satellite, and entertainment industries, as well as the consumers subscribing to these services.

Part I: History of the Industry

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1 James S. Granelli, Digital Home Front; Race is One for a Single Connection; Tech and Telecom Firms are Sparring Over Bits and Bytes on the Same Turf, (Los Angeles, CA: Los Angeles Times, December 26, 2004.)
Past Attempts of Telcos to Enter Cable Market

For a brief period in the mid-nineties, Telcos appeared to be intent on entering the television market. Two of the larger failures, Tele-TV and Americast, are discussed below.

Tele-TV

Tele-TV was jointly founded in 1994 by Bell Atlantic Corp, Nynex Corp, and Pacific Telesis Group in order to develop an interactive video network media for each Bell’s respective region. The project had lost momentum by 1996, with the Bells choosing instead to focus on wireless cable and long-distance. After petering out for a few years, and Bell Atlantic and Nynex pulling out from the deal, it was ultimately determined that the Bells should delay the development of interactive programming until “technological advances make it economical to sell the services.”2 The Bells admitted that this could take many years. Now, nine years later, one wonders if the time is right to re-attempt an entrance into the television market. Have things changed enough?

Americast

In 1995, Ameritech, Bell South, GTE, SBC Communications and Disney joined forces to create Americast, a television venture that met a similar fate to Tele-TV. The purpose of this entity was to use phone lines to offer television programming to customers. The Telecommunications Act of 1996, however, caused local phone companies to turn their attention towards the long-distance market.3 In response, SBC attempted to pull out of the venture, and Americast moved its programming and marketing divisions to Disney to shift its focus towards

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technology. The move prompted some, like Stephen A. Weiswasser, to leave the organization, and the venture eventually fell apart.

Part II: Current Situation

The war between the RBOCs and cable operators (MSOs) has been escalating for years, with no clear winner in sight. Where one gains an advantage, the other quickly finds a way to compete. With cable now in the local telephone market and the Bells offering satellite television and looking to provide cable television themselves, it is hard to make a clear distinction between the two industries. As Charles Golvin, a Forrester analyst, puts it, “What we have today in metropolitan areas are two giant monopolies dueling it out.”

Cable Television Industry

Although cable providers still far outweigh their competitors in terms of television market share, there is already competition in this market, some of it stemming from Telco partnerships with satellite providers. In September 2004, the cable market was estimated to include 98.47 million customers, with 26 million of those obtaining services from a provider other than their local cable operator. After the failed attempts of Tele-TV and Americast, the Bells looked to partner with third-party providers in order to offer their customers a triple-play of local and long-distance services, high-speed internet access, and television programming. Satellite providers emerged as an obvious partner choice. SBC currently offers triple-play packages with DISH Network, while Verizon’s Freedom Packages provide customers with up to 225 DirecTV channels.

Current MultiChannel Video Industry Players

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4 Seth Schiesel, Another Setback in Quest to Marry TV and Phones (New York: New York Times, March 9, 1998.)
5 James S. Granelli, page 1
6 2004 Year End Industry Overview (National Cable and Telecommunications Association, September 2004.)
7 Verizon website, www.verizon.com
The multichannel video industry consists of three types of players:

Multiple Cable Systems Operator (MSO) – The term MSO refers to franchised cable TV providers that offer cable services in multiple locations.

**Top MSO Cable Providers, December 2004**

<table>
<thead>
<tr>
<th>Rank</th>
<th>MSO</th>
<th>Subscribers</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Comcast Cable Communications</td>
<td>21,548,000</td>
</tr>
<tr>
<td>2</td>
<td>Time Warner Cable</td>
<td>10,884,000</td>
</tr>
<tr>
<td>3</td>
<td>Cox Communications</td>
<td>6,287,400</td>
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<tr>
<td>4</td>
<td>Charter Communications</td>
<td>5,992,000</td>
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<tr>
<td>5</td>
<td>Adelphia Communications¹</td>
<td>5,211,600</td>
</tr>
<tr>
<td>6</td>
<td>Cablevision Systems Corporation</td>
<td>2,963,000</td>
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**Source:** Kagan Research, LLC. All rights reserved.

**Notes:** Unless otherwise noted, counts include owned and managed subscribers.

(e) Estimate

¹The counts includes Non-Filing Entities and Rigas Entities, including customers in Brazil and Puerto Rico.

Direct Broadcast Satellite (DBS) – Satellite providers offer more than 150 digital channels to consumers, and are often sold in bundles by telecom providers. As of September 2004, DBS had 23.97 million subscribers. DirecTV and EchoStar dominated the direct broadcast satellite marketplace, with 13.5 million and 10.5 million customers, respectively.

Broadband Overbuilds – This group refers to competitors using their own broadband networks to offer television services to customers, including Bells like Verizon and SBC. Currently 1.4 million customers subscribe to broadband overbuilds. Players in this group are often categorized by offering “bundled” cable, phone, and internet services and offering discounts to consumers. Other broadband overbuild competitors include RCN/Starpower, Knology, WideOpenWest, and SureWest.

**Why Enter Now?**

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¹ National Cable and Telecommunications Association website, [http://www.ncta.com/industry_overview/top50mso.cfm](http://www.ncta.com/industry_overview/top50mso.cfm), 6/5/2005
9 National Cable and Telecommunications Act, page 21
10 National Cable and Telecommunications Act, page 22
¹¹ National Cable and Telecommunications Act, page 22
**Fiber Optics: Capacity** - The 2001 telecom bubble burst left a glut of unused fiber optics lines waiting to be used. Fiber-optics companies, supported by analysts, falsely predicted Internet adoption rates would skyrocket to traffic doubling every 100 days, and ferociously built lines to meet this expected demand. While many people have now adopted high-speed internet use, they are not using nearly the bandwidth that many predicted. Despite all of the commotion over Telco plans to use them, it is estimated that 85% of existing fiber lines are not active. Further, those that are in use are only using under 5% of total transmission capacity.\(^{12}\) Clearly capacity will not be an issue for the Telcos as they endeavor into this new market. With prices cut considerably from what they were five years ago, the Bells are able to scoop up a greater portion of these lines.\(^{13}\)

**Speed** - Fiber optics can offer consumers download speeds of up to 30 Mbps and upload speeds of up to 5 Mbps.\(^{14}\) For consumers, this translates into benefits such as loading movie trailers in five seconds or less, streaming media in real-time sites, and shortening movie/video content download times to a matter of minutes.\(^{15}\)

**Installation** - In addition to the benefits it brings to consumers in terms of speed and access to new features, fiber has an easier installation process than one might expect.\(^{16}\)

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\(^{13}\) Charles Golvin and Maribel D. Lopez, *Don’t Get Too Excited About Telcos’ Fiber Plans* (Cambridge: Forrester, June 28, 2004.).


\(^{15}\) Jeffrey Halpern, page 8.

\(^{16}\) Jeffrey Halpern, *Verizon: FiOS is Here! Fiber Arrives in Irvington, NY*, (Irvington, NY: Bernstein Research Call, April 29, 2005.)
In 2003, the FCC ruled against forcing Bells to lease their fiber networks at regulated rates, providing them great relief. Analysts speculated that the RBOCs would begin plans to build fiber to homes immediately. A 2003 Legg Mason report stated, “The Bells will invest because of a variety of issues, including regulatory relief, equipment priced at appropriate levels, demand for services that require fiber, and most important, competitive pressures from the cable operators.” Two years later, we are beginning to see the effects of the FCC ruling.

What is IPTV?

IPTV refers to the delivery of broadcast-quality TV through the use of Internet Protocol networks. Using IP networks allows consumers to integrate their household media, including PCs, televisions, Web, voice and video telephony. A major distinguishing feature of IPTV is that it delivers one stream with a consumer’s requested channel or video-on-demand program, in contrast to cable and satellite offerings of hundreds of channels that consumers may or may not be interested in. Other consumer benefits include faster channel...
changing, telephony features, networked video games, gambling and other forms of commerce over the TV, and interactive features like voting on television programs.\textsuperscript{21} The chart above compares services provided by IPTV, cable and satellite.

**First Movers: Verizon and SBC**

*Why the Rush?*

Both Verizon and SBC have reaped the industry and accumulated cash over the years, with SBC sitting on $4.8 billion and Verizon on $700 million at year-end 2003. There is a small window of opportunity for them to reinvest this money, however. If the Telcos do not reinvest these earnings within four years, their shareholders will surely demand dividend payments.\textsuperscript{22} Additionally, they must act quickly if they want to attempt to bridge the gap between cable competitors like Comcast and Time Warner. If SBC and Verizon do intend to make an attempt to successfully enter the cable television market, now seems to be the right time.

The Bells may actually be in such a rush that they have to make technological compromises to enter the market as quickly as possible. For example, Verizon chose to use traditional broadcast technology to run digital and HD television over its network. This merely matches what cable companies are offering instead of waiting to use technology to give it an edge. Not all Bells are following this strategy, however. SBC opted to hold out to use IP-technology for Project Lightspeed. The Bell plans to support the higher bandwidth necessary for Internet-routed TV by pushing fiber deeper into the network.

**Verizon FiOS TV**

Goal: To make its network available to three million homes by end of 2005.

Cost: $39.95 – downloads at 5 mbps

\textsuperscript{21} Maribel D. Lopez, page 3

\textsuperscript{22} Charles S. Golvin and Maribel D. Lopez, *Don’t Get Too Excited About Telcos’ Fiber Plans* (Cambridge: Forrester, June 28 2004).
$49.95 – downloads at 15 mbps
$199.95 – downloads at 30 mbps

Deployment Strategy\(^\text{23}\): Fiber to the premises (home) (FTTP) and Fiber to the Node (FTTN)\(^\text{24}\)

Launch Date: FiOS is already being offered in certain areas, with FiOS TV soon to follow.

FiOS TV is just one product to be offered through Verizon’s FiOS network and services, which is already being offered in 250 communities on the East coast and in Texas.\(^\text{25}\) Until recently, Verizon had held off on launching a marketing campaign. Now, with a substantial number of communities to market to, the Bell is beginning to launch carefully targeted marketing tactics such as Hummers wrapped in FiOS banners, direct-mail campaigns, and billboards to those areas who have access to the new network.\(^\text{26}\) In some communities, Verizon is also trying to communicate the experiential benefits of FiOS by creating storefronts and “FiOS lounges” (pictured above) for consumers to “test drive” the network. Verizon is also using lounges and storefronts as an opportunity to begin marketing FiOS TV. In some storefronts, televisions playing FiOS TV promos are on display.\(^\text{27}\) One will have to wait until the service is launched at year-end to determine the effectiveness of the FiOS TV marketing.


\(^{24}\) SBC Communications website, www.sbc.com

\(^{25}\) Marguerite Reardon, *Verizon Hits the Gas on Fiber Campaign* (CNET, May 9, 2005.)

\(^{26}\) Marguerite Reardon, page 1

\(^{27}\) Marguerite Reardon, page 1
**SBC Communications Project Lightspeed**

Goal: To reach 18 million homes in the next three years

Deployment Strategy\(^{28}\): Fiber to the Neighborhood (FTTN), rather than homes

Launch Date: First test market launch in December 2005

Not many details have been released about Project Lightspeed, with the exception of which vendors will be producing its software and hardware. The Bell has struck deals with Microsoft, Alcatel, and Yahoo! to provide streaming video for its users.\(^{29}\)

**Part III: What Does It Take to Succeed?**

**Capital Requirements**

The capital requirements to deploy fiber lines are significant. Over the next three years, SBC plans to spend $4 billion to reach the homes of 18 million customers, half of its entire customer base.\(^{30}\) Verizon will be spending $800 million this year alone to support its FTTP initiative.\(^{31}\) This may be a case of a Bell getting its money’s worth. Although Verizon’s FiOS is the most capital intensive of the fiber strategies, some analysts favor it as a winner. During a recent research call, analysts at Sanford Bernstein predicted that Verizon’s FTTP, although requiring more capital than other Bell fiber strategies, would earn higher returns than its direct competitors.\(^{32}\)

**Content: Who is Signing Deals with Whom?**

In addition to providing a means to deliver information to the households, the Bells will need to package “what” they will deliver in the form of entertainment. Both companies have

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\(^{29}\) SBC Communications website, www.sbc.com


\(^{31}\) *Verizon Deploying Fiber Optics to Homes and Businesses* (Verizon website, www.verizon.com.)

\(^{32}\) Jeffrey Halpern, *Verizon: FiOS is Here! Fiber Arrives in Irvington, NY*, (Irvington, NY: Bernstein Research Call, April 29, 2005.)
hired seasoned television industry executives to help secure the most coveted content for their services. Terry Denson, formerly VP of programming for Insight Communications, has joined Verizon, while SBC nabbed HBO’s former executive, Dan York. With SBC yet to announce any content deals, Verizon is leading the way after signing in April to carry NBC Universal’s Channels. NBC Universal is the first major broadcast network to sign with FiOS, and joins other content partners such as Discovery Networks and the Starz Entertainment Group, owned by Liberty Media.

*Legislation*

In order to move forward with any of these plans, the Bells will need FCC approval to enter the TV market at the accelerated rate they hope to. One key issue that the Bells are fighting to overcome is the requirement to negotiate franchise agreements with individual municipalities instead of obtaining statewide franchises. The outlook does not look bright. Just last weekend the Bells suffered a significant defeat in the state of Texas, when the state legislature chose not to act on a bill that allowed statewide franchise for new entrants to the television market. The blow was especially great for SBC, who is based in Texas and has a significant number of lobbyists pushing its cause. Kathy Grant of the Texas state cable association commented, “If they can’t get it here, I think it’s going to be a hard first for them.” This may be all too true. The Bells have similar pending agreements in other states. If Texas is looked to as a model for these cases, the outcome will not be good for the Bells.

Sanford Bernstein lists Verizon’s potential ability to obtain municipality franchise agreements among the Bell’s greatest risks. Jeffrey Halpern states, “Unless it (Verizon) is

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33 Maribel D. Lopez, *Telcos’ IPTV Reality Check* (Cambridge: Forrester, April 11, 2005.)
34 Jim Hu, *Verizon’s Salvo on Cable TV*, (CNET, April 20, 2005.)
35 Jim Hu, page 1
37 Peter Grant, Amy Schatz, and Dionne Searcy, page 1.
willing to change its regulatory tack and deploy video ahead of securing such franchises, the company risks significant delays in deploying video over fiber and, thus, having a competitive triple-play bundle.”

SBC faces similar troubles. The company currently delivers services to 2,000 municipalities. SBC’s delivery strategy may be its saving grace, however. Unlike Verizon, who plans to deploy fiber lines into customer’s homes, SBC’s strategy is to run lines into neighborhoods and then transmit signals over the Internet. With this type of delivery, the company maintains that it is providing data services and therefore does not require cable franchises with each municipality. It is unknown as to whether a judge would back up this line of reasoning. Legislative decisions will also have a major impact on marketing efforts for the services. If the Bells are forced to deliver the service one municipality at a time, national campaigns will prove ineffective.

Complements

The introduction of IPTV into the marketplace also opens doors for set-top hardware and software providers. Microsoft seems to be leading the race in pairing up with the Bells. It has already signed agreements and is beginning testing with three Bells, Verizon and SBC among them.

38 Jeffrey Halpern, *Verizon: FiOS is Here! Fiber Arrives in Irvington, NY* (Irvington, NY: Bernstein Research Call, April 29, 2005.)


Set-top boxes could prove to be big business, with SBC claiming it will spend over $400 million on Microsoft set-top box software by 2014.\textsuperscript{41} Other players, like Yahoo! and Google are beginning to enter the game, and there seems to be room for growth in the future.

\textit{Triple Play?}

Will the move into TV services allow Telcos to offer a “triple play” bundle of voice, high-speed Internet, and television that surpasses their current offerings? And what will it take to lure consumers away from the cable triple play? James Pehnune, of Strategy Analytics, comments, “The biggest challenge for the phone companies in offering a TV service is figuring out how to compete in a market that is already very well-served by cable and satellite. They have to give users a reason to switch to them.”\textsuperscript{42} Josh Bernoff at Forrester agrees. “If Telcos’ triple-play services are the same as cable operators’ offerings, these rollouts won’t do much beyond slowing voice defections and driving prices down.” He stresses that in order for the Telcos to differentiate their bundles, they must offer features like the abilities to pause live TV programs, use TV voice mail, and download videos to PCs.\textsuperscript{43} The differentiated product must also be coupled with a strong marketing campaign, an area that Bernoff believes has not historically been a strength for the Bells.

The Bells, however, may have an alternative way to reach new customers: merge with competitors. If all goes as planned in the expected 2006 completion of the SBC and AT&T merger, a post-merger SBC will have access to an additional 24 million households in addition to three million coveted business customers.\textsuperscript{44} In fact, the two companies recently reached an

\textsuperscript{41} Josh Bernoff, \textit{SBC And Microsoft Shake Up the TV Space} (Cambridge, Forrester, November 17, 2004).
\textsuperscript{42} Jim Hu, \textit{Verizon’s Salvo on Cable TV} (CNET, April 20, 2005.)
\textsuperscript{43} Josh Bernoff, \textit{SBC And Microsoft Shake Up the TV Space} (Cambridge, Forrester, November 17, 2004).
agreement on using Covad Communications Group as a supplier of IP services. Likewise, Verizon’s acquisition of MCI will push the Bell into 14 million new households and one million new businesses. These mergers also conjure up the question of whether the Bells actually need to enter the television market to be profitable. As acquisitions continue and there are fewer players in the long-distance market, the Bells may profit when business customers find themselves forced into using one provider and unable to practice their current contract negotiations tactics.

While telecoms and cable companies vie it out for top triple-play offers, studies report that only 19% of consumers actually prefer the triple-play offerings. In addition, those that do often site discounted prices as their motivation for choosing bundles. In order to capture these customers, the Bells must compete effectively on price. Video and television spending still appears to be significant, however. TNS Telecoms’ reported breakdown of the average household’s monthly telecom spending (shown in chart above) shows that current video spending is at $55.03, safely in the middle of what consumers pay for wireless services and local phone and internet services.

Part III: A Look Ahead

Who Wins?

Set-top hardware and software providers

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45 SBC, AT&T Reach Services Agreements with Covad, (San Antonio: Business Wire, May 5, 2005.)
47 Maribel D. Lopez, Telcos’ IPTV Reality Check (Cambridge, Forrester, April 11, 2005).
48 Maribel D. Lopez, Telcos’ IPTV Reality Check (Cambridge, Forrester, April 11, 2005).
49 TNS Telecoms (eMarketer, April 2005.)
As mentioned above, Microsoft already has a strong hold on this marketplace. If IPTV becomes as successful as everyone hopes, their set-top boxes will sell, providing them with yet another outlet to grab consumers.

**Hollywood**

Perhaps the one clear winner from this situation will be the entertainment industry. As Carla Folta of Viacom puts it, “We are a content company. In our view, any additional distribution channel is a good thing for us.”\(^{50}\) More than that, the television cable distribution oligopoly of Comcast, Cox, and Time Warner has shifted creative power away from programmers.\(^{51}\) As the cost of programming continues to rise, the situation has worsened for the programmers. There is no guarantee that the Bells rising as cable television competitors would throw the ball back into the programmers’ courts, but it is certainly a hope for them. The drawbacks that have become part of the game for entertainment are, of course, the threat of piracy and copyright that an additional distribution channel can bring. Those considerations aside, however, the entertainment companies are certainly in support of a new entrant into the television and video marketplace.

**Consumers**

As the MSOs and RBOCs continue to battle it out to be consumer’s number one providers, will consumers finally see the benefits of competition in terms of price cuts? In a Los Angeles Times article, James Granelli writes, “Consumers are likely to benefit because they’ll be able to play competitors off one another the way they do now with mobile phone carriers. They’ll just have to be willing to move to different technologies.”\(^{52}\) They may even already be

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\(^{50}\) Jim Hu, *Verizon’s Salvo On Cable TV* (CNET News.com, April 20, 2005).


\(^{52}\) James S. Granelli, *Digital Home Front; Race is On for a Single Connection; Tech and Telecom Firms are Sparring Over Bits and Bytes on the Same Turf*, (Los Angeles, CA: Los Angeles Times, December 26, 2004.)
seeing these benefits. Cablevision recently made a preemptive move to lower the cost of its triple-play bundle from $119 to only $89.99.\(^{53}\)

In addition to potential price wars, the delivery of IPTV will allow consumers to gain Web access from their TVs, something most have been anxiously awaiting. While this may be a win for consumers, it creates possibilities for activities that could be detrimental to television programmers, such as file swapping and piracy.\(^{54}\)

**Who Loses?**

**Satellite Industry?**

Many are predicting that the satellite industry will lose out if IPTV takes off as predicted. If Telcos become empowered with their own medium to reach consumers, they will no longer need alliances with satellite products like DirecTV and EchoStar. This may be the case in the long-run, but in the short-run the companies stand to gain or at least hold their ground. If Telcos must continue to negotiate IPTV franchises one city at a time, consumer demand for their television services may grow in areas they can not yet deliver to. In these cases, the Telcos will hold over eager consumers with their DirecTV and DISH offerings, expanding satellite’s market base while it may be losing customers in others.\(^{55}\) With regards to long-term strategy, original content may be the satellites’ ticket to staying in the game. Josh Bernoff advises satellite companies to continue to gain market share through unique content like NFL packages and ethnic channels.\(^{56}\)

**What about Cable?**

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\(^{53}\) Maribel D. Lopez, *Telcos’ IPTV Reality Check* (Cambridge: Forrester, April 11, 2005.)

\(^{54}\) Peter Grant, *Merger of TV and Web May Hit Cable Industry Before It’s Prepared*, (New York: Wall Street Journal, April 18, 2005.)

\(^{55}\) Josh Bernoff, *SBC And Microsoft Shake Up the TV Space* (Cambridge, Forrester, November 17, 2004), page 8.

\(^{56}\) Josh Bernoff, *SBC And Microsoft Shake Up the TV Space* (Cambridge, Forrester, November 17, 2004).
If cable giants such as Cablevision are concerned, they are not readily admitting it. Cablevision’s chief operating officer, Tom Rutledge, dismissed the idea that he is worried about Verizon’s move to add FiOS service to ten new communities, saying that Verizon’s impact “has been almost completely insignificant.” According to Rutledge, out of the 9272 homes that FiOS marketed its service to through direct-mail and print advertisements, only 46 homes purchased the service.57 Also, while the Bells may have an initial technical advantage in terms of speed, the cable companies feel confident they can compete effectively in this area. The question seems to be whether either company will be able to provide a differentiated product. One wonders what basis consumers will have for choosing between IPTV over cable services as the two industries compete head-to-head.

IPTV’s potential success could also mean a bigger threat for cable-television companies than simply losing market share. By allowing consumers to access the Internet through their TVs, a window of opportunity is created for consumers to access content directly from the content providers, eliminating the cable company’s as middlemen.58

**Future Outlook: Promising?**

The telecom industry may see great changes in the near future. In an interview with Broadcasting & Cable, Jim Warner, president of the TeleManagement Forum, predicted the industry is “moving towards a model that is very much like the retail fashion industry, where they’ll need to turn on a dime and react to changes. Historically, they (Telcos) haven’t been good at that. They like to take years to develop a product and then let it sit in the marketplace for

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57 Marguerite Reardon, *Cablevision: We’re Not Afraid of Verizon’s Fiber* (CNET News.com, May 5, 2005).
years as they get their money back.” Whether the Telcos will be able to gain the flexibility they need to stay on top of such an industry remains to be seen.59

With legislation playing such a large role in the Bell’s potential success, it is hard to make predictions about whether Project Lightspeed and FiOS will fare better than Americast and Tele-TV. Verizon has already begun its deploy of its FiOS network, and the value it brings to consumers in terms of speed is slowly being recognized. How quickly its Fiber-to-the-Premises (FTTP) network will penetrate the market is still under speculation. The Yankee Group reported last year that FTTP deployment would pass 2,100,000 premises by 2008. In April, however, In-Stat predicted FTTP would reach 11.8 million US households by 2009.60 In either case, with 110 million households, there is still ample room for growth in years to come, as well as room for competitors to move in. An eMarketer article discussing potential reasons for increased FTTP demand further predicts, “The key to FTTP growth driver will be video – consumers want their on-demand TV.” Assuming legislation permits, this could mean good news for the Bells. Even if penetration is as good as expected, though, the RBOCs have tough targets to hit. According to its own estimations, SBC must gain 30-50% of video market share to meet its target returns.61

Will the use of fiber optics allow a winner to emerge from the MSO / RBOC war? Brian Roberts, a chief executive at Comcast, offers his two cents. “Fiber optics is not what’s going to win. It’s what you do with it. If we innovate I think it’s ours to win.”62 If what he says is true, it may just be anyone’s game.

60 The Fiber Count is Rising (eMarketer, Inc., May 4, 2005.)
61 Simon Flannery, Raina Smyth, Jessica Yau, SBC “Most Optimistic in Four Years” (New York: Morgan Stanley Equity Research, May 5, 2005.)
62 Peter Grant, Merger of TV and Web May Hit Cable Industry Before It’s Prepared (New York: Wall Street Journal, April 18, 2005.)