The Tale of the Tortoise and the Hare

By Peter Simpson

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The South African pay-TV market is undergoing a tsunami of change as the country embarks upon the road towards full-scale digitisation. This provides the backdrop for a dramatic change in the viewing habits of millions of TV consumers across the country.

Mass versus Premium markets

Arguably, two of the greatest challenges faced by African cable operators today are: i) delivering TV across wildly contrasting market needs and ii) doing so in a cost effective manner.

Africa's unique market means that the improved availability of broadband and 3G mobile in urban areas is likely to lead to the increasing adoption of hybrid and OTT solutions, encouraging greater product innovation amongst operators and facilitating the growth of multi-screen, multi-room viewing in the connected home of the future, featuring all the bells and whistles of PVR, start-over, live pause, catch up and VoD to grab viewers' attention. The mass market opportunity lies however, with retaining existing pay-TV viewers and attracting first time pay-TV viewers. Where pay-TV subscriptions represent a significant proportion of their subscribers' monthly salaries, 'great' TV fundamentally means compelling content (this could be 4 channels v 100 note), an engaging user experience and a high quality of service - all at an affordable price.

Subscriber acquisition and logistics of supply and distribution are more challenging and more costly over such vast distances and geographical topographies, when a pay-TV operator has to balance the cost of content (production and/or purchase), cost of delivery and distribution, subscriber acquisition costs... with low ARPU, it doesn't take much to tip the balance the wrong way - but get it right and the opportunity is huge!

Ultimately, operators need to hook first-time pay-TV subscribers with an attractively priced proposition, but have a flexible platform and upgrade path allowing them to move their subscribers over time to more advanced services.

Lowest cost or future-proof...

Hypothetically, let's consider two pay-TV operators: 'Hare' and 'Tortoise' who wish to launch their first pay-TV services. 'Hare' launches a basic broadcast service, with a nominal STB price of R300 with subscriber acquisition plus broadcast delivery costs of around R300, a total of less than R1,000 per subscriber. At low monthly fees, it is two years before 'Hare' can make any money. 'Hare' now wishes to drive subscriber ARPU higher, but finds he needs to invest in a new STB to deliver his PVR service and it takes him another two years to recoup his investment. 'Tortoise' however, decides to invest in a STB that is upgradeable with future extensibility - which costs him R400. With the same operational costs, it takes him 2.5 years before 'Tortoise' makes any money.

But now it gets interesting - 'Tortoise' lets his subscribers know that by using an external USB flash drive or HDD ('Tortoise' may even decide to sell his own branded drives) they can now get live-pause, single tuner PVR for another R100 per month. One year on and 'Tortoise' tells his customers they can now access push-VOD services with a wide selection of movies at R25 per rental. Four years out, and 'Tortoise' is now enjoying around R60 ARPU per month from many of his subscribers; 'Hare' on the other hand is still paying for his PVR STB and chasing his tail!

In the censored sequel, 'Hare' teams up with his cousin 'Fast Buck', who persuades 'Hare' that instead of paying R300 for a STB, they can get the cheapest hardware, middleware and conditional access system (CAS) components and shoe-horn them into a lowest cost STB for less than R200. Unfortunately, we are unable to print this horror tale of high integration costs, late to market, poor hardware and software quality leading to high customer service costs and returns. The ending is dramatic and harrowing with all 'Hare's customers churning to 'Tortoises' services.

This tale has particular resonance in the African market where there seems to be a greater focus on purchase price rather than the total cost of ownership (TCO), which takes into account future upgrade and extensibility costs, alongside the need to deliver a quality of service and experience that maximises customer engagement and loyalty.

The ideal solution for a digital evolution?

So, what should operators be looking for from their STB supplier and solutions providers?

Number one is reliable and robust hardware, with enough CPU MIPS, memory and extensibility to deliver today's services, as well as the capability to launch +1 and ideally launch +2 evolution service capability. Now, add an open and modular middleware with flexible user interface (UI), for example with HTML5 where you can pool development skills from web, mobile and broadcast industries and add functionality components incrementally (e.g. PVR library and planner or Push-VOD portal).

Next, choose a software Conditional Access System (CAS) that not only delivers you savings of up to 60% when compared with a hardware CAS, but also yields additional efficiencies in distribution and logistical complexity - giving you the ability to respond to security threats more rapidly and dynamically. Then using a service delivery platform to ingest metadata over the broadcast channel you can enhance your users' experience with pictures, banners, promotions and Push-VOD editorial. Add a sprinkling of remote diagnostics and service management capability to monitor and assure your customers of optimal service quality. Finally, package all of this into a pre-integrated, tested solution and you have the foundations to start a profitable and future-proof pay-TV business.

The OTT challenge

In our tale, we illustrated a possible pay-TV strategy that starts with an initial deployment of linear TV moving on to offer PVR, push-VOD and start-over, but how does an operator incorporate OTT and multi-screen services into the equation? Africa's infrastructure constraints mean that adding the two-way connectivity required to deliver OTT services through the STB are challenging. So, what are the options available?

If the same homes that are enjoying cable TV also have ADSL connections, one approach would be to incorporate Ethernet into the STB and simply use this to connect to the Internet, if the A/VDSL gateway has wireless capability then this can be added to the STB for a more painless, less costly and more seamless install and set-up process. If no ADSL is available then operators could add a 3G or LTE modem in the form of a USB device connected to the STB (integrated is a possibility but operators need to consider increased logistics complexity and costs managing SIMs and mobile connectivity). Another option would be to connect - either directly via Bluetooth or Wi-Fi - to the customer's smartphone giving a unique blend of OTT and PayTV services where the smartphone can even be the RCU for the payTV operator.

Whilst the advent of smart TVs and IPTV may appeal to the 'Hares' amongst us, the 'Tortoise' figured out long ago that the STB is the pay-TV Operators best bet in delivering quality of service and gives the operator absolute control over the network quality and distribution of media across multiple screens in the home.

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