



# Broadband & Media Perspective

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## Sogecable Moves into Triple Play through Partnerships with Telefónica and Orange

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### ANALYSIS SUMMARY

- The Spanish telecom market is one of the fastest growing in Western Europe, fueled by a construction-driven economic boom and immigration-driven population growth. Broadband Internet access is expected to remain the chief growth area in the near future. At the same time, IPTV's arrival in 2005 reignited growth in the pay-TV market while boosting the importance of the converged sector.
  - In a telecom market increasingly characterized by convergence and thriving triple-play bundles, Sogecable has no broadband or voice offerings of its own. Although it is the pay-TV market leader and owns exclusive content, this has eroded its customer base. To cope, Sogecable decided to partner with two major triple-play players, which will benefit from its exclusive content and media expertise.
  - Sogecable's entry into triple play will have a direct effect on the competitive situation. Spanish telecom players are now expected to rely on different strengths to attract customers, in a situation resembling that in the UK. Whatever the competitive outcome, we expect the move to strengthen the convergence trend and support further growth in triple play.
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## EVENT SPOTLIGHT

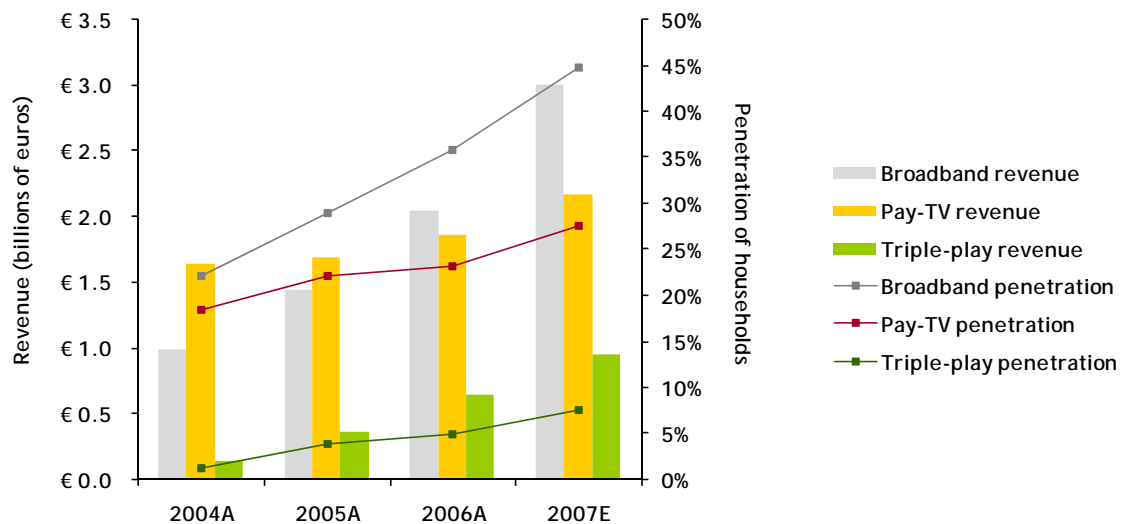
On December 1, 2007, Sogecable, the leading pay-TV provider in Spain, started offering Trio+, a triple-play service that bundles Sogecable's Digital+ pay-TV service and Telefónica's voice and broadband services. At the same time, Sogecable was finalizing an agreement with Orange, announced in December, that entails similar cooperation. These two agreements cover not only service bundling but also further partnerships in areas such as content management and mobile TV. These strategic moves will enable Sogecable to enter the triple-play arena and leverage its content business. **Pyramid Research believes the strategic reasoning behind these deals is in line with market conditions and trends, and we expect the agreements to lead to a win-win situation for the players involved. Overall, the deals will strengthen the convergence trend in Spain, where triple play is expected to continue to grow over the next couple of years.**

## BEHIND THE HEADLINE

→ The Spanish telecom market is one of the fastest growing in Western Europe, fueled by a construction-driven economic boom and by strong immigration-driven population growth. Broadband Internet access has been the main growth area of the telecom market, a trend expected to continue in the near future. At the same time, the arrival of IPTV in the pay-TV market in 2005 has reignited growth in this segment while boosting the importance of the converged sector.

A good measure of the rapid growth of fixed broadband is household penetration (see Exhibit 1), which grew from 22% in 2004 to 45% in 2007, when it reached nearly 7m households. Revenue has also grown quickly, at a CAGR of 32.1% between 2004 and 2007. This is the result of strong pushes by Telefónica, which in 2007 had 56% of the broadband Internet access market, and by its main competitors, which remain small in comparison.

Exhibit 1: Broadband Internet, pay-TV and triple-play (voice, broadband and pay-TV) household penetration and revenue in Spain (billions of euros)



Source: Pyramid Research



Along with IPTV came the acceleration of triple play developments. Adoption has been fueled by the launch of bundled offers, a move aimed at sustaining revenue.

After sluggish uptake of Sogecable's satellite service, market leader Digital+, caused a slowdown in 2004, the Spanish pay-TV market has also been growing. In 2005, pay-TV growth was reignited by the launch of Telefónica's IPTV service, Imagenio, and household penetration increased from 18% in 2004 to 27% in 2007. Although IPTV has been driving this growth by increasing competition, the Spanish pay-TV market still remains a two-horse race between Sogecable's Digital+ satellite service, with a 48% market share, and ONO, Spain's biggest cable TV provider, with a 21% market share.

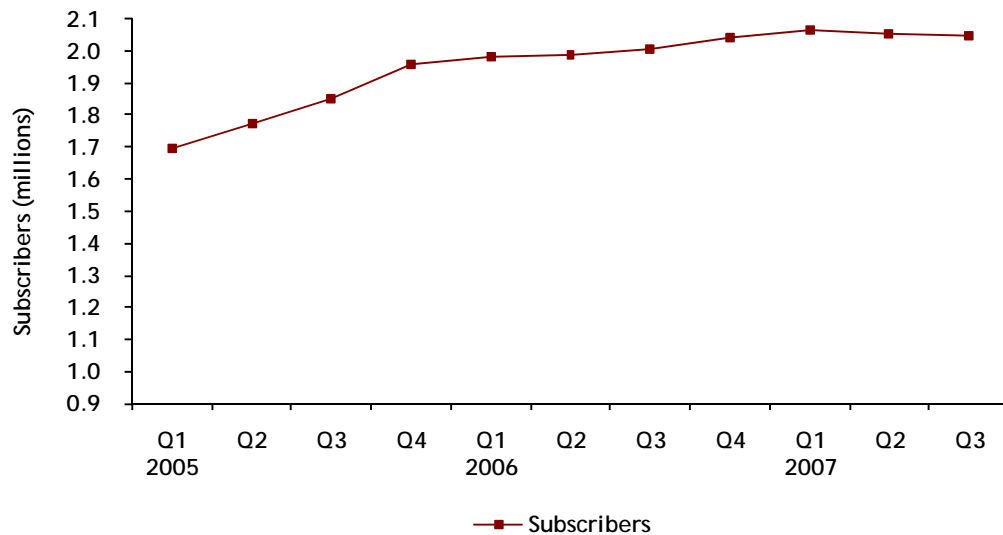
Along with IPTV came the acceleration of triple play developments, fueled by telecom providers' launches of bundled offers – convergence moves aimed at sustaining revenue. The uptake of triple plays has been growing robustly, with household penetration going from 1% in 2004 to 7% in 2007, which reflects the acceptance of bundled offers such as Telefónica's Trio and ONO's 3 by consumers who value the savings these bundles provide.

### Strategic partnerships aim at customer retention and content leverage

- In a telecom market increasingly characterized by convergence and thriving triple-play bundles, Sogecable has no broadband or voice offerings of its own. This has led to the erosion of its customer base – even though the company is the pay-TV market leader and owns exclusive content. Pressured by the loss of customers and seeking new revenue streams, Sogecable decided to partner with two of the biggest contenders in the triple-play arena, which in turn will benefit from Sogecable's exclusive content and media expertise.

The number of Sogecable subscribers stagnated during 2006 and started to decrease in 2007 (see Exhibit 2). Although the company has explained the decreases as the result of seasonal trends or issues with football (soccer) broadcasting rights, the fact is that the slowdown has been observed since 2006, about the same time uptake of IPTV and triple plays picked up. This suggests that Sogecable is losing competitiveness with telecom providers, which offer bundles with content and communications services at discounted prices. This in turn puts pressure on Sogecable's pay-TV customer base as customers who are less interested in Sogecable's exclusive content are attracted to the value provided by telecom companies' bundles.

Exhibit 2: Sogecable's subscriber base evolution



Source: Sogecable

Unlike other players' bundles, Trio+ is not giving customers any discount so far; its price is just the sum of the prices of the individual services.

Without broadband and voice offerings of its own, Sogecable was unable to offer a triple play until it partnered with Telefónica and Orange. Through its partnership with Telefónica, Sogecable offers a triple-play package under the brand Trio+, in which customers get a dual play from Telefónica and pay-TV from Sogecable. Unlike other players' bundles, Trio+ is not giving customers a discount, with its price simply being the sum of the prices of each company's services. This is probably due to the fact that the Spanish competition authority (CNC) is still analyzing the deal for potential abuse of market power. Upon CNC's approval, the pricing is expected to be revised, with discounts applied to the bundle. The triple-play bundle to be launched with Orange during Q1 2008 is expected to have more aggressive pricing and to offer discounts from the start.

Triple-play bundles will be an important retention tool for Sogecable in preventing further erosion of its customer base. At the same time, the agreements give Sogecable the possibility to leverage its exclusive content and media expertise as it manages content for the two partners and explores new business opportunities. For example, Sogecable agreed to develop an HD mobile TV platform with Orange. Moreover, Sogecable's partnership with Orange opens up quad-play opportunities, with Orange's mobile voice potentially being added to the bundle.

Telefónica and Orange will also benefit from the deals, because both are now able to include a premium pay-TV product with their triple-play bundles. At the same time, the two can now offer pay-TV in areas where they previously had no IPTV coverage. Also, the agreements include resource sharing in content management, giving Telefónica and Orange access to a broader range of content with better terms. Orange will further benefit from the agreement because it also stipulates that Sogecable provision its mobile TV platform, "Digital+ móvil," which had been exclusive to Vodafone customers.

## Increased competition will strengthen convergence and triple-play uptake

- Sogecable's entry into triple play through these agreements will have a direct effect on the competitive situation in the Spanish telecom market. Players are now expected to rely on different strengths to attract customers, in a situation similar to that observed in the UK. Whatever the competitive outcome, we expect the move to strengthen the current convergence trend and support further growth in triple play.



Competition is expected to increase in the next couple of months, supporting the expected growth in triple-play uptake.

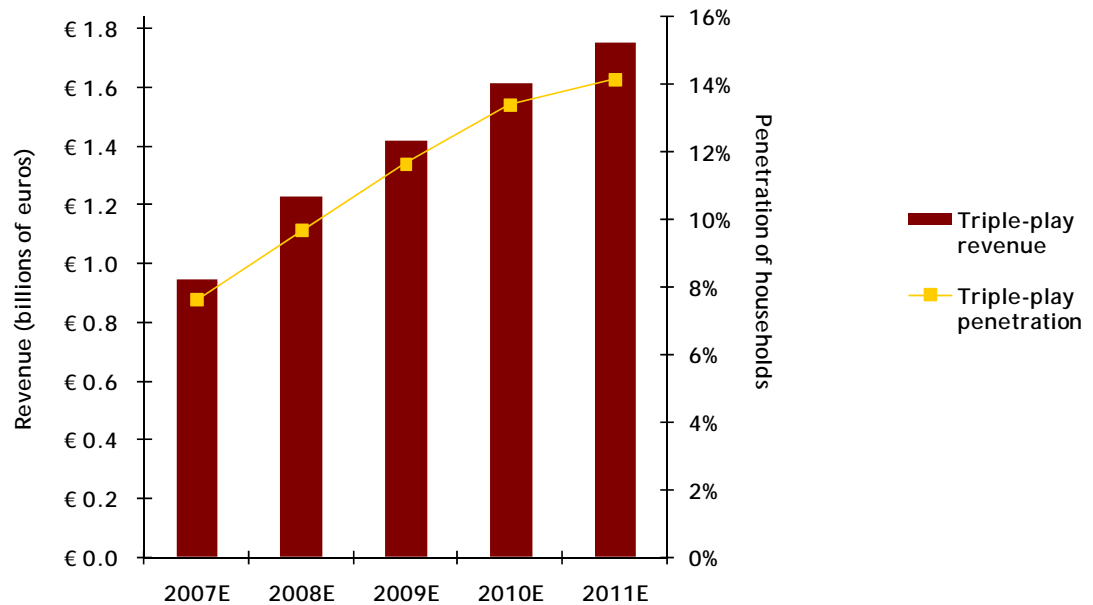
With Sogecable's exclusive content offering included in Telefónica and Orange's triple-play bundles, the competitive scene is expected to change. The two players now have an edge over competitors such as ONO and Jazztel when addressing consumers who value Sogecable's content. Telefónica and Orange can now offer these premium packages and also benefit from having privileged access to Sogecable's commercial channels, which reach around 2m households. Nevertheless, this advantage will be optimized only when discounted versions of these bundles are offered, enabling further differentiation from competitors.

Facing a disadvantage in content offerings, ONO most likely will have to start relying on other strengths, such as broadband access speed or network reliability. Jazztel, on the other hand, may opt for a low-price strategy in order to attract more cost-focused customers.

This situation is similar to that observed in the UK. Before entering the triple-play market, Sky – a satellite provider and the pay-TV market leader in the UK – had no telecom presence. Nevertheless, the competitive situation in the country was different, with many strong players challenging incumbent BT, which has not dominated the UK broadband market as strongly as Telefónica dominates in Spain. In this situation, Sky opted to enter the triple-play segment on its own, buying an alternative broadband provider. This proved successful and led to strong uptake of its triple-play bundles. In light of Sky's success, cable TV provider Virgin Media opted for a strategy focused on broadband access speed as its key differentiator. Other telecom providers, such as Tiscali, chose price as a way to differentiate their offerings. Building on its presence in the mobile sector, Orange picked a quad-play strategy, but it has failed to produce results so far.

Whatever the competitive situation is in terms of the different players' strategies and approaches to the market, we expect competition to increase in triple plays over the next few months. This increased competition will support the expected growth in triple-play adoption, with household penetration doubling from 7% in 2007 to 14% in 2011. Revenue, meanwhile, is expected to increase at a CAGR of 13%, to reach €1.75bn in 2011.

Exhibit 3: Spain - Triple-play household penetration and revenue forecast (billions of euros)



Source: Pyramid Research

## CLIENT RECOMMENDATIONS

- Vendors – As broadband penetration rates rise and providers focus on offering higher access speeds, equipment-selling opportunities will surface.
- Content providers – Increased competition and a need for differentiation by triple-play providers will create selling opportunities for additional content and services.

## Additional resources

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### Recent reports and other products from Pyramid Research

**Market Positioning and Operator Strategies for IPTV; A Global Overview**  
*Research Report published January 2008*

Telcos are increasingly positioning their IPTV services as part of bundled broadband packages, and the services are gaining subscribers at rapid pace. In this report, Pyramid Research provides a global snapshot of IPTV adoption and analyzes market dynamics in 10 disparate countries, ranging from highly developed markets (France, for instance) to emerging markets where IPTV services are only at the cusp of being introduced (South Africa). In each country, we examine the shape and form of IPTV offerings and put them in the context of competing broadband and pay-TV market offerings.

**Moscow: Military Frequency Restrictions Give CDMA and WiMAX a Head Start in Mobile Broadband**  
*Broadband & Media Perspective published February 2008*

The rollout of 3G in Moscow has been delayed for a few years by the Russian defense ministry's need for certain frequencies. As a result, the uptake of 3G in Russia will likely be much slower. This Perspective looks at how the delay will affect the 3G licensees and whether WiMAX and CDMA2000 EVDO operators are likely to win more of the mobile data business in Russia.

**Will Fixed-Mobile Substitution Spread from Voice to Broadband in Portugal?**  
*Broadband & Media Perspective published February 2008*

This Perspective takes a close look at the Portuguese market, where fixed-mobile substitution is expected to continue in the coming years. Mobile penetration will continue to rise, and the mobile sector overall will continue to increase its weight in the telecom sector. But now that fixed-line operators are, in a defensive move, beginning to offer mobile broadband as a complement to their cheaper, faster fixed broadband packages, it remains to be seen if this will encourage fixed-mobile substitution in the broadband market in the near future.

**Neighborhood Networks in CEE — Is the End Near?**  
*Broadband & Media Perspective published February 2008*

Neighborhood markets have occupied a large share of the broadband access market for the past few years in several CEE countries. But now the advantages they enjoyed are being eroded by more competition from liberalization, a growing interest in advanced services as a result of increased wealth among its customer base and the slow eradication of pirated content. This Perspective looks at the fate of the networks and what network operators can do to protect their businesses.

**From Triple-play to Quad-play: Strategies, Business Models, and Best Practices**  
*Research Report published: September 2007*

Multi-play business models continue to gain in popularity across the telecom and media space. This report provides an in-depth examination of the evolution of these models. Building on case studies and examples from dozens of telco, cable, satellite, and other multi-play providers around the world, the report analyzes multi-play positioning (it's about protecting the core), pricing (discounts dominate), and the bottom-line performance of triple play (mixed). The report also reviews the emergence of multi-play models driven by a new breed of players (mobile, satellite, WiMAX), and proposes a rethinking of the concept of quad play.

**Can Video on Demand Save IPTV? VoD Economics, Global Forecasts, and the Case for IPTV VoD**  
*Research Report published: June 2007*

This report takes a long hard look at the VoD business model for IPTV operators, analyzing its value proposition, investment requirements, content dynamics, and overall market opportunity to assess whether telcos should take on the challenge or make do with pay-TV alone.

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### Additional Products

**Forecasts**  
 Updated on a quarterly basis, our Forecast products provide a complete picture of demand trends affecting each geographical market covered. The Excel output includes five years of historical data and five years of market projections, providing complete macroeconomic and market-sizing information. Available for: Mobile Communications, Fixed Communications, Mobile Data, Mobile Enterprise, Mobile Handsets, Mobile CAPEX, Internet and Media, Network OPEX.

**Country Intelligence Reports**  
 Country Intelligence Reports offer insightful analysis of a country's communications, media, and technology industries, including regulatory pressures and overall competitive landscapes.

These data-intensive reports are published annually for 64 countries worldwide, and illustrate key trends within given markets, making them an excellent complement to our Forecast products.

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