Strategic drivers & early lessons from Telefónica´s 'imagenio' IPTV service

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Imagenio becomes a key element of the Digital Home concept pursued by Telefónica to maintain its market leadership ...

The Digital Home strategy is the result of the integration of three building blocks:

- Broadband access
- Multiple devices connected through a domestic area network
- Services and applications
Imagenio has been conceived as a unique value proposition with distinctive features for family homes ...

**Imagenio**

Flexible configuration of packages: **Basic** & **Advanced**

**Spanish Football:** live & recorded

**Video on demand:**
+3,000 hours of cinema, concerts, TV series, news, documentaries, ...

**20 Interactive services:**
electronic magazine on TV, email & Internet access on screen ...

- **Provides 6Mbps ADSL access** for our customers to receive Digital TV
- **Uses ADSL2+ technology for increased coverage**
- **Compatible with Digital Terrestrial Television**

Up to 78 TV and 15 audio channels
... with an increasing coverage based on business criteria

**Evolution of national coverage**

<table>
<thead>
<tr>
<th>Year</th>
<th>Million households</th>
<th>% of homes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004</td>
<td>1.7</td>
<td>12%</td>
</tr>
<tr>
<td>2005</td>
<td>3.5</td>
<td>24%</td>
</tr>
<tr>
<td>1Q06</td>
<td>4.4</td>
<td>28%</td>
</tr>
<tr>
<td>2008</td>
<td>&gt;7.5</td>
<td>&gt;50%</td>
</tr>
</tbody>
</table>

As of today, Imagenio is available in all Spanish regions

Increased coverage will be achieved following a profitability likelihood planning method

**Case study: Priority Investment areas in the Madrid region**

Data mining demand model, tuned by Imagenio customer base
Imagenio has become one of the main drivers of success for Telefónica in the Spanish broadband market.

Imagenio client base accelerated with 2-Play and 3-Play offers launched in Sept. 05 to reach 267,473 clients by end June 2006.

1,2 – 1,4 million Imagenio customers by 2009.

Telefónica is driving Internet Broadband penetration growth while maintaining market share.

Retail Internet BB Market Share

1. Estimated for the Telefónica Group in Spain.
In 2004, Telefonica decided to evolve its network architecture based on its prior experience.

- **TV Headend**
  - IPTV Platform
    - Centralised Service Center (e.g. EPG)
    - Local Service Centers
  - Metro Ethernet Access Network
    - IP DSLAM
  - Customer Home
    - TV
    - STB
    - Telephone
    - PC

- **NGN/IMS Platform**
  - Integration with other advanced services (e.g. Videoconferencing)
  - Reduction of CapEx/Customer & allowing for more service capabilities
  - Gain Home Networking Expertise

**Telefonica Business & Operations Systems**
- Remote Customer Premises mgmt.

**Key Points**
- Stable & Scalable Transferred to the industry
- Gain Home Networking Expertise
There are multiple lessons to be learned with regards to the key design parameters of an IPTV solution

What almost everybody talks about

- Broadband network: access (IPDSLAM), transport (GEThernet/ SDH), IP Core
- IPTV Platform: middleware/ DRM/ STB/ Look&Feel
- Video compression technology: MPEG2/ MPEG4/ WM9
- Systems: provisioning & billing
- Content

What almost nobody talk about

- Home networking
- Knowledge of access
- Design & availability for video signal
- Knowledge of customer behaviour
- Network & services architecture
- O&M/ customer care systems & processes
Early issues and challenges range across the whole customer experience

<table>
<thead>
<tr>
<th>Area</th>
<th>Details</th>
</tr>
</thead>
</table>
| 1 Customer acquisition | - TV over ADSL constitutes a very powerful offer at a reasonable price  
- Adequate coverage and product awareness are key factors for a successful and effective commercialization  
- Customers barriers to purchase include:  
  - the product is perceived too new for some customers and they prefer to wait to see how it works  
  - telecom operator not perceived as a TV provider  
  - content offer fitted to diverse customer needs  
  - installation process perceived as a complex operation  
- Sales channels must be trained to handle a complex new product/business |
| 2 Provisioning and installation | - Operational processes are critical due to the quantity of new details to be taken into account in order to ensure customer satisfaction:  
  - Incorrect coverage verification or product incompatibility  
  - Saturation in operations and infrastructure deployment due to the high growth in sales  
  - Customers canceling prior to installation  
  - Problems during the installation, multiple causes |
| 3 Customer retention | - Situations that must be avoided since day 1 include:  
  - Technical and malfunctioning service problems  
  - Insufficient value added perceived in the product (product/price relation)  
  - Difficult retention at the end of aggressive but needed try & buy promotions |
### Household roadmap 2006-2007

#### Broadband Access
- High-speed connectivity as a basis for Advanced and Connected Digital Homes
- TV videoconference with 3G interworking
- Domotics: Integrated home devices and remote management
- Seamless Fixed and mobile services

#### Domestic Area Network with multiple devices
- Personal TV: HDTV, Shift TV, DVR, flexible content selection.
- New customer experience (IPTV 2.0)
- Connectivity Bundled with VAS: Home content management
- Family management (education, security and health)

#### Services and Applications
Telefónica has had a 4-year learning period, already having a business model not easily replicable by its main competitors.

- Telefónica’s success is not directly related to access technologies availability.
- Video on Demand (VoD) has proven to be the hardest technological milestone to be achieved.

Telefónica is now exporting its IPTV winning model abroad: CTC (Chile), TeleSP (Brazil) and Telefonica O2 Czech Rep.

Telefónica has decided the creation of the IPTV Competence Center internally to foster the innovation in this area and optimize the efficiency (development/deployment).
Currently we do not see any limits to the growth and development of Imagenio

Main figures

- 267K customers connected at 1H06
- 34% of our customers buy “video club” VoD films (3 films by month in average)
- 21% of our customers buy football contents (2 matches by month in average)
- 20% of our customers have at least one subscription service
- Massive service with national coverage

imagenio

Near future:

- More customers: 1,2-1,4 million by 2009
- More channels (beyond basic package), more flexible
- More complete/ attractive VoD content offering
- More interactivity, new and better services
- More coverage: 50% of households by 2008