



# **Horizontal vs Vertical Business Models**

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# Horizontal Business Models

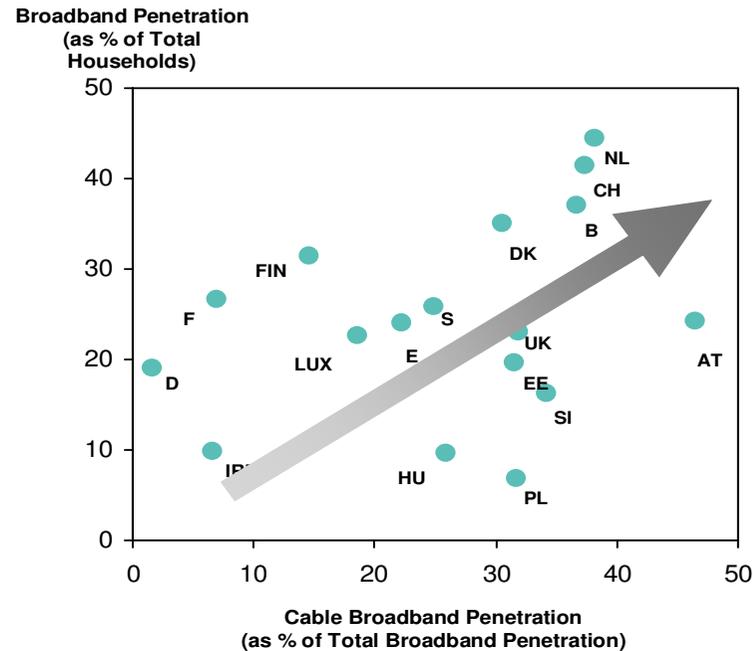


- **Integrated business model (retail provider of triple play services over own infrastructure) is where the value of our business is based on**
- **The resulting infrastructure competition has accelerated innovation and penetration of broadband & DTV in countries with significant levels of cable consolidation**
- **It has allowed cable to become the only credible contender of telecoms dominance in the Digital Home space**
- **European market analyses procedures by NRAs have not led to structural separation of infrastructure & services being imposed on cable anywhere**

# Cable's role in driving innovation & competition

- In analogy to cable's role in driving broadband penetration in Europe, cable will also accelerate triple play competition for the Digital Home

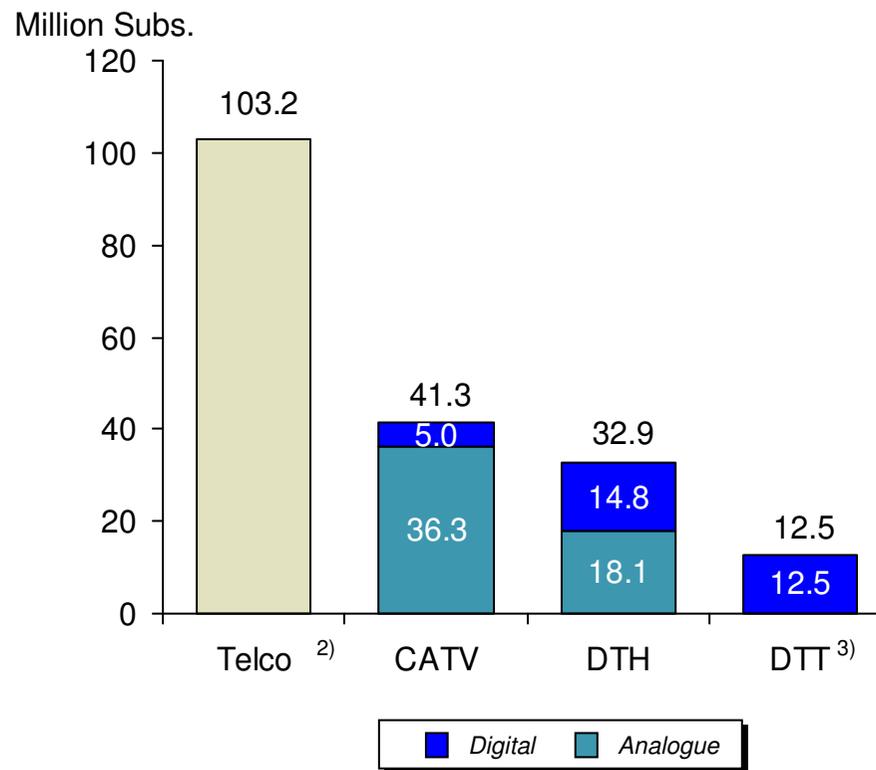
Broadband and Cable Broadband Penetration (Europe, 2004)



Sources: Screen Digest 2005, Booz Allen analysis

# In the convergence space, cable is the only credible contender against telco dominance in Europe

**Platform Subscribers**  
- Selected Western European Countries<sup>1)</sup>, m, 2005 -



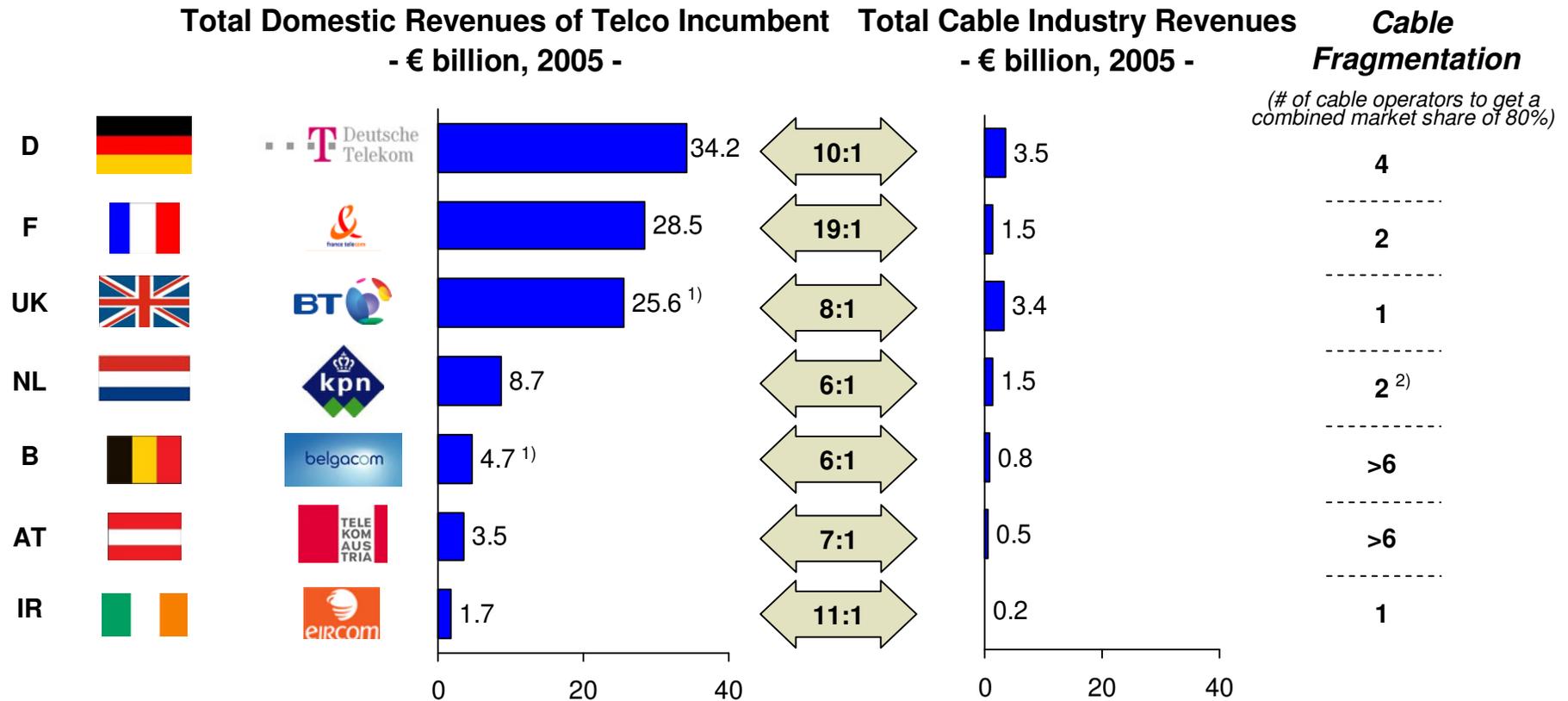
(1) Austria, Belgium, France, Germany, Ireland, Netherlands, and UK

(2) Number for telco include only the incumbents' subscriber numbers

(3) Digital Terrestrial Free TV

Sources: Screendigest 2006, Dataxis, Booz Allen analysis

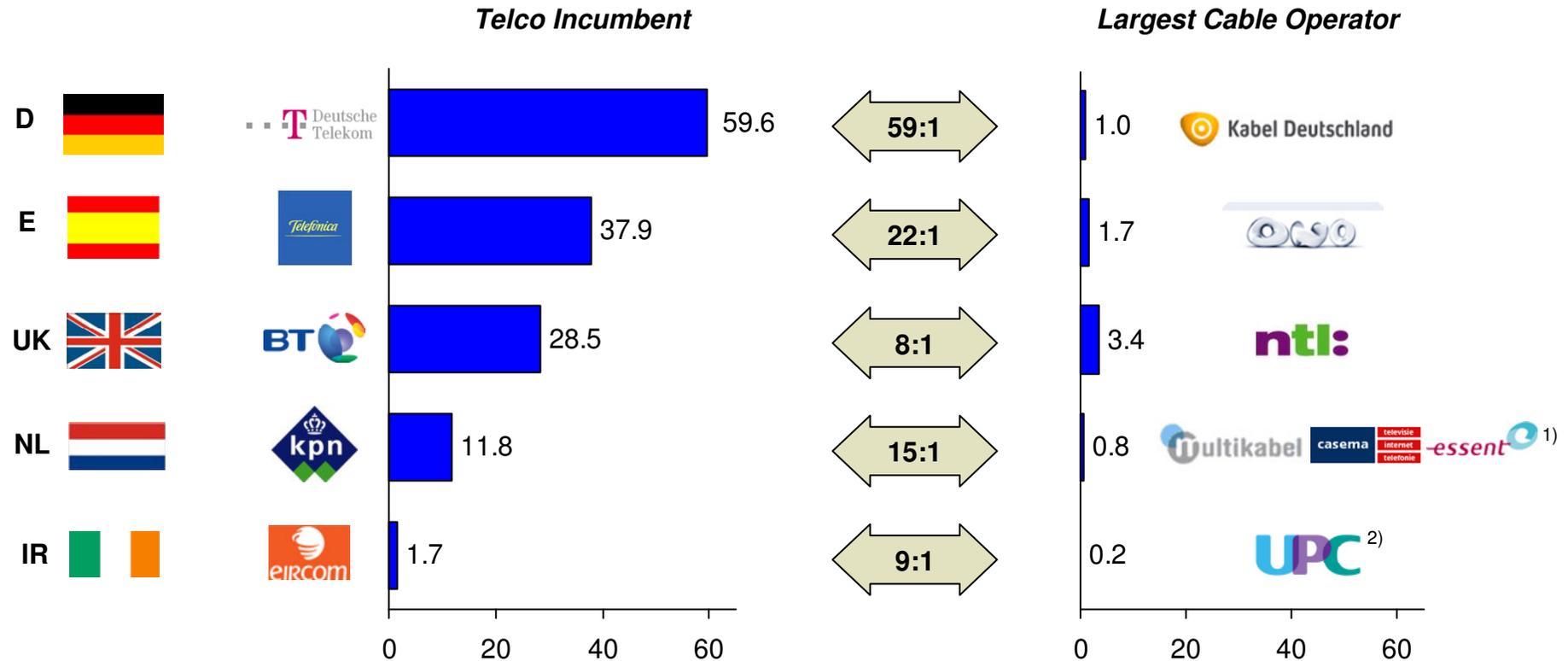
# However, cable is disadvantaged compared to the much larger European telco incumbents



Notes: Revenue includes fixed telephony, mobile telephony, internet access and TV distribution  
 (1) 2005 domestic revenue for UK and B assumed to be the same ratio from total as in 2004  
 (2) Dutch competitive landscape after the merger of Casema, Essent and Multikabel in summer 2006  
 Sources: ABN Amro 2005, Screen Digest 2005, Annual Reports, Booz Allen analysis

# Comparing telco incumbent with individual cable operators shows an even stronger imbalance

Total Revenue Comparison  
- € billion, 2005 -

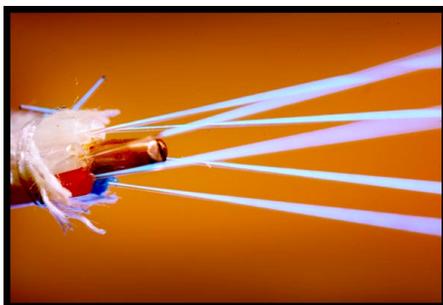


(1) Dutch competitive landscape after the merger of Essent, Casema and Multikabel in summer 2006

(2) Chorus and NTL merger in December 2005

Sources: ABN Amro 2005, Annual Reports, Booz Allen analysis

# Horizontal Business Models



- **Going forward, the prospect of infrastructure competition between NGNs remains firm and realistic**
- **Significant NGN investments will not be made if network operators will be reduced to 'dumb pipes': a tough declining margin business**
- **LGI will be looking for strategic partnerships\* with OTT providers to enhance application development & time to market of innovative broadband services: 'Managed Pipe'**

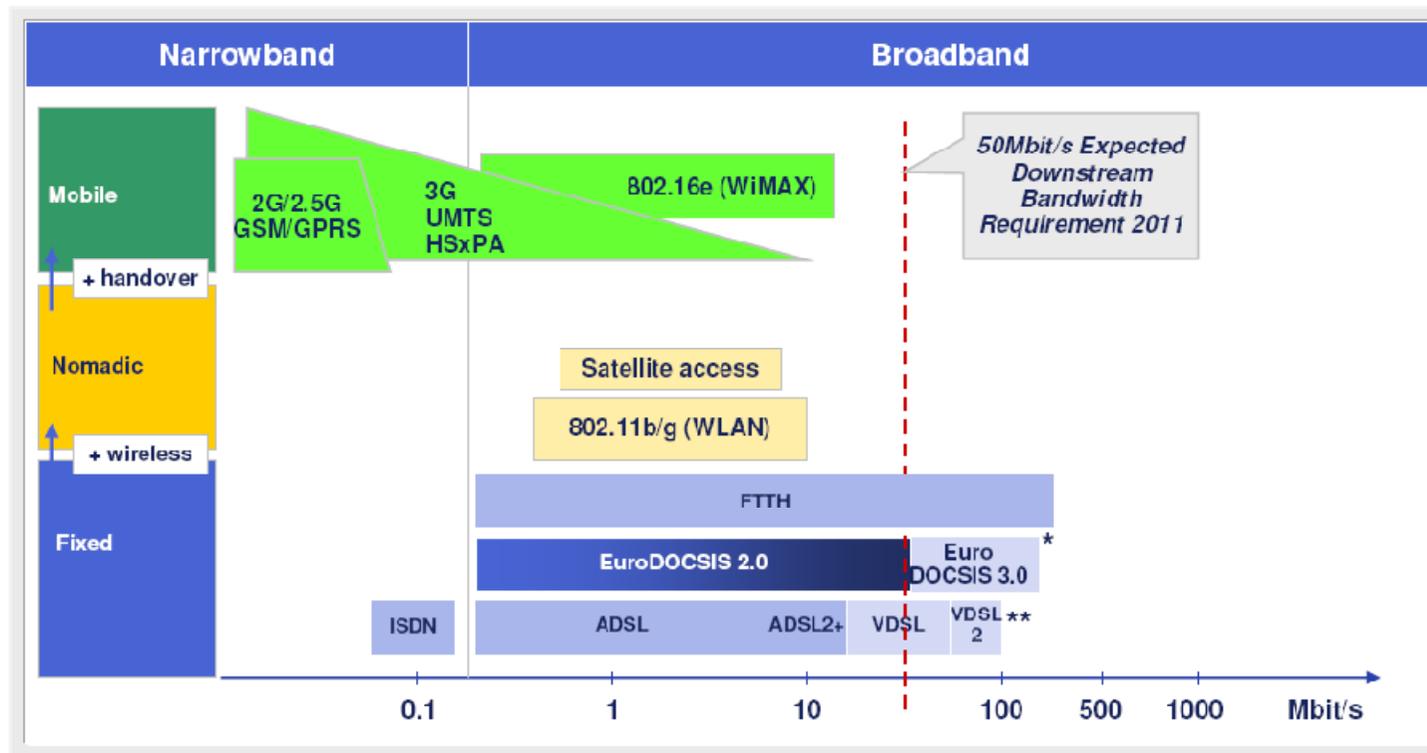
\* Google stated its interest in teaming up with cable to help customize user viewing over TV networks. "*Rather than replacing traditional distribution, we think [OTV] can make traditional TV distribution stronger.*" In other words, Google wants to be a leader in video search, not become a video distributor to end-users.

# NGN Infrastructure Competition

The Concept of Next Generation Networks



There is ample availability of different Broadband technologies which cover all aspects of Broadband usage



\*) future EuroDOCSIS 3.0: max 200Mbit/s downstream, 100Mbit/s upstream; \*\*) future VDSL2: max 100Mbit/s downstream and 100Mbit/s upstream;  
Source: Arthur D. Little Analysis, UPC, KPN

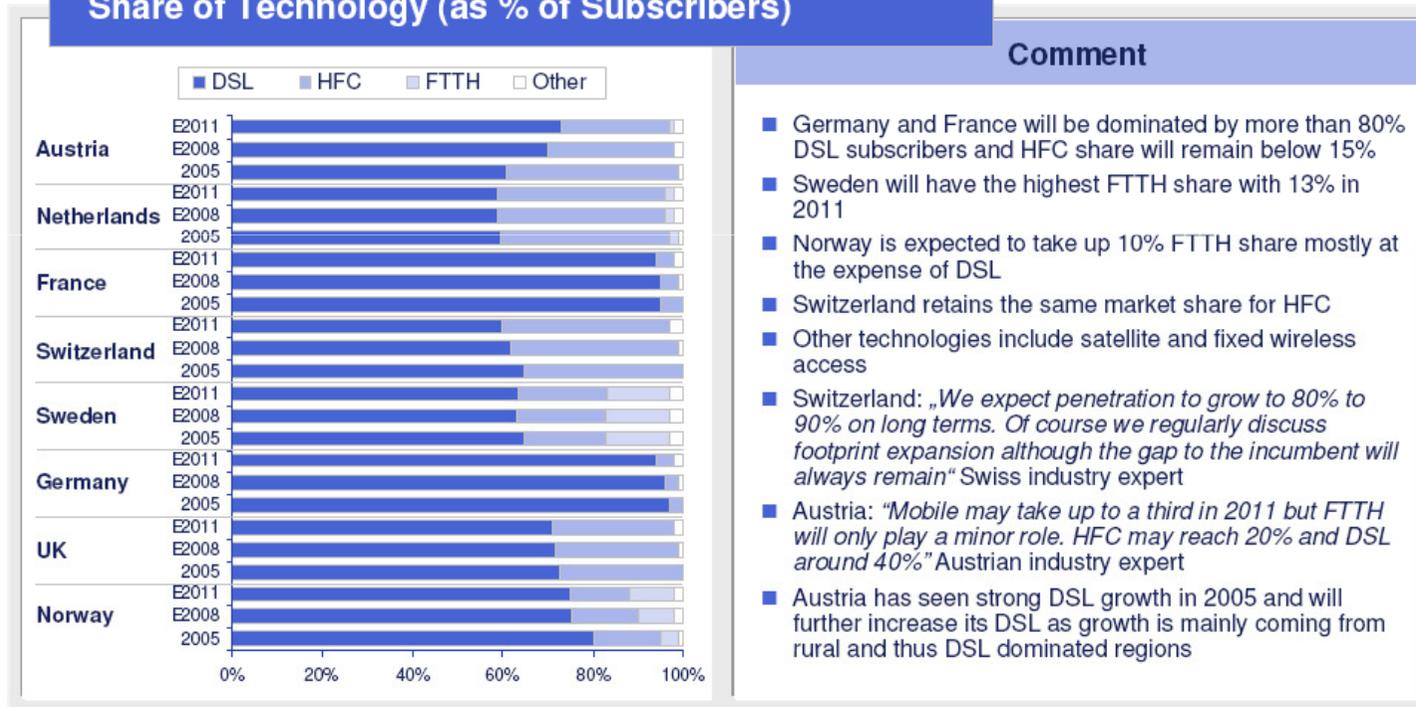
# Share of NGN Technologies

Next Generation Broadband Market Development – Subscribers & Penetration

1.1

In a market environment with sufficient access competition, DSL (>50%) will remain the dominant technology in W-Europe, cable will increase slightly while FTTH will reach at most 13% share in Sweden and Norway only

Share of Technology (as % of Subscribers)



Comment

- Germany and France will be dominated by more than 80% DSL subscribers and HFC share will remain below 15%
- Sweden will have the highest FTTH share with 13% in 2011
- Norway is expected to take up 10% FTTH share mostly at the expense of DSL
- Switzerland retains the same market share for HFC
- Other technologies include satellite and fixed wireless access
- Switzerland: „We expect penetration to grow to 80% to 90% on long terms. Of course we regularly discuss footprint expansion although the gap to the incumbent will always remain“ Swiss industry expert
- Austria: “Mobile may take up to a third in 2011 but FTTH will only play a minor role. HFC may reach 20% and DSL around 40%” Austrian industry expert
- Austria has seen strong DSL growth in 2005 and will further increase its DSL as growth is mainly coming from rural and thus DSL dominated regions

Source: Proprietary Arthur D. Little Broadband Research



Next Generation Networks in Europe – Broadband in 2011 and beyond

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# Vertical Business Models



- **Chellomedia produces niche digital channels, interactive and on-demand applications & aggregation of content (rights)**

- Originally, Chellomedia's *Digital Media Centre* was established to support UPC's DTV roll out as the first digital play-out centre in Europe



- **Chellomedia's business model is based on non-exclusivity**

- Chellomedia content & applications are wholesaled to all distribution platforms

- **Profitable as this activity may be, it does not fundamentally strengthen our negotiating position vis-à-vis the owners of 'must have' content:**

- Public service broadcasters
- Film studios
- Sports rights owners
- International thematic channels



- **Cable is subject to unharmonised 'must carry' obligations across Europe**