Glassmeyer/McNamee Center for Digital Strategies

Who Will Win the Home Entertainment War?

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MBA Fellows Project

Glassmeyer/McNamee Center for Digital Strategies

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Tuck at Dartmouth
1900

Home Entertainment War

- Home entertainment value chain
- Industry trends
- Key industry players
- Winner and strategic advice

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- Key industry players
- Strategy for a cable operator

Home Entertainment Value Chain

Devices	Home Networks	Service Providers	Content Providers
Set-top box	Wireless	Cable operator	VOD
PC	Coaxial	WiMax	Television
Network audio	Bluetooth	Telco	Movies
Gaming consoles	Ethernet	Satellite	Portals

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Increasing competition in service provider space

- Service providers are feeling intense competitive pressure
  - Churn between cable and satellite
  - Telcos starting to enter video distribution space
- Need to launch new services that will demonstrate gain in competitive advantage

Increasing amounts of content confuses consumers

- Digital cable and satellite increase potential program offering to thousands of channels
- Strong need for personalization or "smart agents" to find content

PC companies are moving into the living room

- Microsoft Media Center and HP media hub is gaining momentum
- PCs can do a LOT more than a STB
- Open architecture means innovation

Lack of legal on demand content!

- Lack of strong digital rights management systems is inhibiting the creation of legal content

- Content creators are scared – everything can be cracked, how can they get around this?

Increasing illegal distribution of video content

- Internet used to distribute content
- Circumvents revenue opportunities for all players in the game

Incompatible platforms and systems hindering development

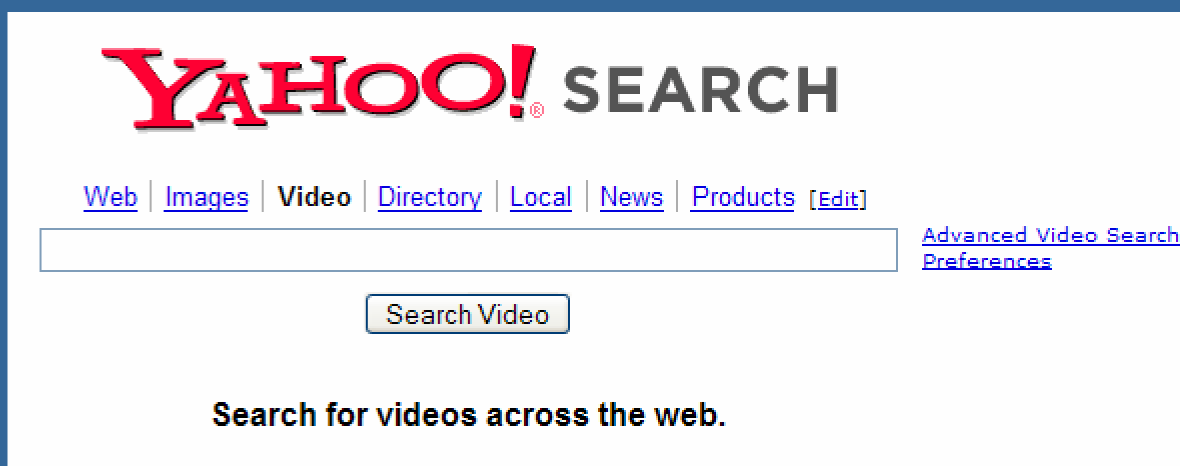
- Average consumer has no ability to get all this working themselves
- Need for a trusted third party to fix this
  - Service provider
  - Retailer

No good payment system exists for content

- Provides an opportunity for those with **existing** relationships to act as brokers

- Cable, satellite, portals, etc.

Portals entering the video space



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Devices:
Set-top box

Key Strengths

- Existing relationships with service providers
- Working leasing model to consumers

Key Weaknesses

- Lack of innovation, relative to PCs
- Low barriers to entry

Devices:
Consumer electronics

Strengths

- Brand recognition in consumer market
- Ease of use

Weaknesses

- Lack of integration with system
- Slow to innovate

Devices:
Personal computers

Strengths

- Open platform → innovation
- Powerful Windows platform

Weaknesses

- Poor usability in entertainment space
- Lack of stability
- Copy protection concern

Microsoft

Devices:
Gaming consoles

Strengths

- Presence in home entertainment systems
- Powerful consoles - more feature rich

Weaknesses

- Reach limited to gaming population

Service Providers: Cable

Strengths

- Large subscriber base and relationships
- Big two-way data pipe to home
- Leased home equipment

Weaknesses

- Customer image issues
- Historical lack of innovation
- Slow moving structure

Service Providers: Satellite

Strengths

- Track record for innovation
- Strong customer relationships
- Broad reach

Weaknesses

- Limited 2-way data capabilities
- No VOD or localization

Service Providers: Telcos

Strengths

- Consumer confidence and strong relationships
- Existing physical access to the home

Weaknesses

- Lack of content relationships
- Focus on reliability, not risk taking innovation

Content:
Video content creators

Strengths

- Popular content owners hold power position

Weaknesses

- Slow to adopt new distribution technology
- More available content → more competition
- Lack of distribution and customer relationships

Content: Portals

Strengths

- Existing relationships with consumers
- Ability to deliver services across Internet

Weaknesses

- Lack of pipe to television
- Inexperience with delivering living room quality entertainment

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The winner is…

- Existing **relationship with customer**
- **Control** of data pipe into the home
- Power of the **incumbent position**
- **Two-way** communications capabilities
- Most available **bandwidth**
- Relationships with **content** providers

Cable operator

Leverage existing competencies

- Strengthen existing large subscriber base
- Lower churn through more cross selling
  - DVR and VOD services
  - Voice services
  - High speed data
- Provide value added installation, configuration and maintenance services in the home

Refocus on convergence

- Partner with online portals
  - Video search
  - Audio services
- Integrate standard and IP video offerings
- Launch interactive television potentially opening new revenue opportunities

Differentiate with personalization

- More channels have potential negative effects
- Combine content with personalization to create differentiated value added service

Foster innovation by opening networks

- Push for more set-top box manufacturers
  - Open encryption is evolving, but no new set-top box players yet
  - Pushing for more players will increase innovation

- Create and promote open standards
  - Will increase 3rd party application development
  - Services can be deployed *with* cable operators

Cable will seal a victory with right strategy

- Cable is best positioned to win in current landscape

- Right strategy relies on innovation focus, moving towards convergence, and personalizing content.

Questions?