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September 2021 - Issue 2

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Independent Communications News
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Transitioning to IP Video: Key Strategic Considerations



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Many U.S. Cable operators are rethinking their recent plans to deemphasize video. Further, those operators who have come to understand the strategic value of a video offering have been forced to rethink their IP video strategies in the wake of recent vendor Chapter 11 bankruptcy proceedings, which could be a months-long restructuring process under new ownership.

Consequently, a number of critical strategic questions and concerns are being raised both in relation to the role of video (and especially *IP video*) in an operator's strategic future as well as in relation to the selection of an IP video partner.

Regarding the role of video, operators in recent years have strategically deemphasized or entirely eliminated their video offerings in large part in response to increasing content costs that have resulted in eroding video margins, contrasted by comparatively healthy broadband margins and developing broadband competition. This landscape is changing dramatically, however, with increased regulatory pressure and broadband competition, foreshadowing significant downward pricing and margin pressure for broadband in the very near future.

In addition, operators are coming to realize that while broadband remains profitable (for now) and increasingly essential, it is largely invisible to the customer, delivering no meaningful branding or customer engagements. Video, by contrast gives an operator's broadband service a public "face." That plays a critical role in delivering constant visual customer engagement for many hours every day. Further, it's been shown that broadband subscriber counts grow 2X – 5X faster and churns less when combined with a video service. And, while even legacy video delivers ongoing, daily engagement with customers, its economic benefit to an operator's overall business is further strengthened by a successful transition to IP video by enabling the following incremental opportunities:

- Use of video screens to promote an operator's Broadband services;
- Leveraging video screens for incremental operator advertising revenue;
- Use of video screens for brand-building: Beyond logos and colors;
- Promoting partners with shared values; and
- Advertising company events, charities, community, local initiatives, etc.

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- Ability to curate OTT/SVOD apps inside the operator TV app:
 - Ensuring that universal search “hits” include OTT/SVOD content on Netflix, Disney+, Prime, Hulu, etc.; and
 - Importantly, the operator earns the “credit” from customers for being a one-stop, ***without the need for separate business relationships with the OTT/SVOD providers***

In selecting an IP video partner, recent events have made a few things abundantly clear: a partner’s financial stability not only determines if it will remain viable, but also determines a partner’s flexibility in structuring business and financial models (CAPEX vs OPEX, for example) that are sustainable and match the needs of each operator.

Also important is whether their IP video partner is a private or public company and to what degree it is owned or backed by venture capital and/or private equity. This can significantly determine who actually controls the partner and what its focus and priorities truly are - investors vs. customers, for example.

Also key are the IP video partner’s people, history, capabilities, expertise and trustworthiness. Ideally, the partner will have a strong track record of service provider partnering success in video operations and delivery, bandwidth management and expansion, operational support, and video hosting and management, with a well-documented history of commitment and trust among cable operators. ■
