Strategies in the broadband cable TV industry: the challenges for management and technology innovation

Mike McGrail and Bob Roberts

Abstract

Purpose – To examine the status and strategies of the broadband cable TV industry on a world-wide basis.

Design/methodology/approach – Data were gathered through a review of the literature and a series of one-on-one interviews with key industry executives, and with consultant analysts dedicated to the industry. The SWOT technique proved useful in analyzing the organizational environment; value chain analysis was used to understand the value-generating components of the core activities; a Boston Consulting Group product portfolio matrix identified the nature of the products offered by the industry.

Findings – Four forces were identified which had impacted significantly on the industry. These were the rise of the internet, the experience of competition for telephony services, the arrival of satellite TV, and a persistent image of poor customer service. The paper observes that recent trading results have revealed very little evidence that modified strategies are making a significant improvement in the industry’s overall competitive position.

Research limitations/implications – Limitations relate to scope of companies chosen for the research and by the dependence on the mainly qualitative nature of the data. Further research is required to review innovation in the light of continuing technology developments and mergers within the industry.

Practical implications – More radical innovation is required so that the industry can successfully address its current difficulties whilst simultaneously preparing itself for future competition.

Originality/value – The interview data when submitted to a strategy framework formulation exercise enabled the environmental situation of the industry to be understood and the identification of the critical success factors to achieve strategic objectives.

Keywords Broadband networks, Cable television, Internet, Management strategy

Paper type Research paper

Introduction

The role played by the broadband cable companies in the provision of high-speed internet access to consumers in particular has been very significant. More than 10 per cent of households in the USA today use a cable modem to access the internet and the growth rate is over 20 per cent per annum. In the UK, the numbers are smaller but growing fast. Worldwide, in total, the number of households accessing the internet by cable modem will soon exceed 20 million.

However, despite the success of the cable modem based services, the broadband cable industry that provides them has experienced some enormous financial difficulty, with considerable associated publicity. At the heart of their difficulties lay the fact that the strategy for growth through the promotion of the “triple play”, that is, of offering TV entertainment, telephony services and internet access in attractively priced combination packages, had failed to meet the original expectations. The strategy followed had not made enough progress in the consumer market place to enable its providers to generate revenues sufficient to cover the costs of its provision. In most cases, even when the capital costs of building the networks are not taken into account (that is, by looking at “Ebitda” earnings or free cash flow) the revenues generated were still not sufficient to cover the operating costs. Thus, every additional subscriber compounded the problem and the repayment of the enormous debts of these companies became impossible.
As a consequence of the financial outcomes described above, at the beginning of 2003 there was a threat to the growth of low cost access to electronic commerce. The future of these broadband cable companies and their ability to continue to provide internet access that was competitive to DSL-based services, appeared to be dependent upon the willingness of the responsible executives to rethink their organizational strategies. This paper explores whether this rethinking has happened and, if so, what form the “new realization of what must be done” has taken.

This paper asserts that these strategies adopted for the future are unlikely to be radical enough to change materially the industry’s situation, the innovative content within the strategies being deemed insufficient. The industry faces enormous technical and financial challenges and will face an increasingly difficult business environment for the foreseeable future. This introduction is followed by a brief review of the broadband industry, an explanation of the research approach, an outline of the strategic implications and critical success factors emanating from the interview data, a discussion of future strategies followed by concluding comments and recommendations regarding the issues that still need to be addressed by the industry.

The broadband cable TV industry: the contextual history to date

By way of background, the broadband cable TV industry began in the USA in the early 1950s. Over time, the ability of cable to carry more TV channels enhanced its attractiveness until almost two thirds of all US households were connected. The UK took the vanguard for liberalizing the regulatory framework of the cable TV and telephony markets by allowing the deployment of both services by one company, a process commonly called ‘convergence’. During the mid-1990s, executives and politicians often referred to the UK as a “laboratory” for the new cable technologies and corresponding services (Mandelson, 1998).

Not long after the UK deregulated its markets, the EU began to follow suit. Some member states moved much more quickly than others (Huntley, 1997; Bryant, 2001). Sweden, for example, already had a liberalized telecommunications environment whilst Germany had a highly centralized structure with Deutsche Telecom providing both the cable TV and the telephone network infrastructure.

The evolution of broadband cable activity has spread well beyond the USA and Europe. Anxious not to miss out on what was expected to become an extremely important element of future economic infrastructure, the “information superhighway”, many other countries have attempted to create supportive legislative environments for the building of their own broadband cable networks. The governments of Australia, Venezuela, Japan, Korea, Chile, and many others, actively set about creating an environment in which these new networks would be deployed and in which they could prosper. In each country, the approach adopted has been different but the broadband cable industry has played a pivotal role in the development of consumer based, electronic commerce business (B2C) and has enabled the widespread provision of cable modems for high speed Internet access in almost all major world markets. Now, throughout the world, many millions of homes can receive multi-channel TV services, telephony services, internet access, and in an increasing number of places, fully interactive services such as video-on-demand, home banking, gambling, shopping and on-line games (see Table I).

Despite the progress made in most developed countries in deploying multiple service broadband networks the capital costs, and the costs that arose from the operational difficulty of establishing and growing cable TV and competitive local telephony services, were grossly underestimated. The Financial Times (2002b) contained a number of reports on broadband cable companies. It reported that UPC, Europe’s third-largest cable operator, would seek protection from its creditors in September and that NTL, Europe’s fourth-largest cable operator was likely to soon emerge from bankruptcy after a significant financial restructuring, (Davies and Major, 2001). It further reported that Globocabo, the largest broadband cable operator in Latin America, had abandoned its Initial Public Offering due to adverse market conditions.
The world’s two largest countries, India and China, have also failed, for a variety of nationalistic and other ideological reasons, to create truly viable broadband cable TV markets, despite asserting that they intended to do so. Yet, even in those societies where there has been little hindrance to development by government regulation, the picture is not one of commercial success. For example, the report by Hughes (2001) shows the extent of the problems experienced by the broadband cable companies in Asia. Neither Singapore nor Hong Kong, the home of liberal capitalism in Asia, were able to produce profitable broadband cable companies (Chung, 2001; 2002). In Singapore, the government had been more supportive than most in its desire for the country to become “an intelligent island” (Choo, 1997). Hong Kong, which actively promoted the establishment of its main broadband cable company, Wharf Cable (now i-Cable) was also the place of the world’s first commercial deployment of video-on-demand services in 1998; however these were subsequently closed in 2002 (Lemon, 1998; Hong Kong Yearbook, 1999; Hong Kong Government, 2002).

<table>
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It was all to have been so very different. As broadband cable companies merged with each other and others embarked upon a series of cross-border acquisitions to create pan-European organizations, the talk was of the compelling logic that necessitated the urgent execution of their strategies for growth – these companies planned to leverage the newly available broadband technologies to provide multiple services across high speed, fully interactive, broadband networks, combining telephony services, TV entertainment and Internet access under one umbrella – the "triple play".

Clearly, as a commercial proposition, this strategy did not work. A very large amount of money was lost and many senior executives left their positions during the summer of 2002. At the heart of their difficulties lay the fact that the "triple play" strategy for growth failed to meet expectations. In many cases, revenues were insufficient to cover even the operating costs. Thus, every additional subscriber compounded the problem and the repayment of debts became impossible.

Lack of profitability has partly been caused by the capital and operational expenses that have proved to be greater than planned. For example, the deployment of completely new hybrid fibre-coax (HFC) interactive networks, or the upgrading of existing networks, proved to require more capital expenditure than originally thought. For example, in the USA, from 1998 to 2001, the ten largest broadband cable companies spent $46 billion upgrading their systems, according to Michael Goodman of the Yankee Group (Samuelson, 2001). In addition, the costs of marketing the new multi-channel TV services outside the USA, upon which most of the new broadband cable operators depended to provide their initial cash flows, also proved to be greater than expected (Becker, 2002).

In many of the markets, for example, the UK, Australia and Japan, there was significant consumer resistance to paying for additional TV services. In fact, in the UK, less resistance was experienced to taking telephony service from a cable operator than to taking TV service; by late 2001 there were more telephone subscribers on UK broadband cable networks than there were TV subscribers, (Forester, 2002). However, they discovered that although gross margins generated by telephony services were larger, they were consumed by interconnection charges and increased customer service costs. The need to acquire additional staff with telecommunications skills was a frequent comment in the interviews held for this paper and these significant economic and operational costs are also cited in Cable Datacom News (2000) as an explanation of the limited cable telephony deployment in the USA, apart from those of Cox and AT&T Broadband (now part of Comcast).

The second set of reasons for the unfavourable financial results arose from the shortfall in revenues against expectations. In most countries, where new networks were built, the growth of subscriber numbers was not as rapid as expected. The new services of cable telephony and Internet access had mixed results. An analysis of subscriber numbers shows that telephony services were most successful in the UK and Australia, and that internet access was most successful in the USA. However, in the USA itself, there was relatively little growth in the numbers of cable TV subscribers, despite the introduction of digital TV services; the satellite TV providers won the majority of the increase in subscribers for multi-channel TV.

In summary, throughout the world, the capital costs, and the costs that arose from the operational difficulty of establishing and growing cable TV and competitive local telephony services were grossly underestimated and the sales forecasts were very over optimistic.

Whether or not the problems of the broadband cable industry can be attributed to specific industry misjudgments on costs, to market over-estimations, or to macro-economic factors in some proportion or another, the fact remains that this is an industry in severe difficulty. The strategies followed have not proven successful and have had to be rethought and revised. For the executives in charge, the overriding priority has become to improve the financial operating performance of the units under their control. This has meant an inevitable short-term focus on cost cutting and revenue protection and, in many cases, financial restructuring (Winslow, 2002). Expansion plans for new geographies or new services have been substantially curtailed.
These issues have determined the direction of the debate for this paper concerned with determining:

- What are the primary industry issues and critical success factors in the broadband cable industry?
- What strategies for the future are organizations adopting?
- Are these strategies likely to prove successful?

The research approach

Senior executives were interviewed from two US organizations, Comcast and AOL Time Warner, the two largest companies in the USA which account for almost half of the market for cable TV subscribers; one Canadian organization, Rogers, the largest cable TV company in Canada; three major European organizations, Ish of Germany, ONO Cableeuropa of Spain and TV Cabo of Portugal, each of whom are the market leaders in their respective countries; plus Taiwan Broadband Communications of Taiwan and Jupiter Telecommunications, the largest cable TV company in Japan. This selection of organizations was chosen to allow for a global perspective to be placed upon the results obtained. Business is a partisan activity and it is very difficult to find objectivity in its participants. Therefore, in order to gain an a more independent, informed second opinion, respected consultant analysts dedicated to the broadband cable industry for each of the three selected geographic regions (North America, Europe and Asia) were also interviewed. The questionnaire used for them followed the same format as that for the executives, but was structured on a region-wide basis.

Each interview included a structured and an unstructured component. The reasons for the two components were first, to enable a framework of common understanding to be established which would ultimately provide a broad qualitative database of comparable responses, and second, to allow the opportunity for each interviewee to expand upon topics and priorities of specific interest to themselves and their organizations.

Interviews first delved into the interviewee's perception of the present-day situation of the industry and their own organization's position within it. Then, the past strategy of their organization, its outcomes, and the likely future strategic direction that would be taken were examined. The questions were designed to allow the interviewees to focus upon what they believed had been their response to the issues that they had faced. Later questions sought answers that would help to determine to what extent their strategic responses had already been formalized (or whether these strategies were still currently evolving or had not yet been addressed). The final question addressed whether or not there was a consensus within their company or if there was more than one strategy competing for dominance. At the end of each interview, a discussion of the competitive forces acting upon the broadband cable industry was held, using the model developed by Porter (1980) to provide a stimulus for the unstructured component of the interview.

The analysis of the strategies has been performed using a number of models and techniques. The SWOT technique proved useful in analyzing the organizational environment; value chain analysis was used to understand the value generating components of the core activities; a Boston Consulting Group product portfolio matrix identified the nature of the products offered by the industry. The research was also informed by Porter's (1980) five-forces model for industry competition and the works on strategy of Hamel and Prahalad (1994) and of Johnson and Scholes (2002).

The interview results

As emphasised by Cornford and Smithson (1996), there can be considerable difficulties with the interpretation of qualitative data in a scientific way. These difficulties can include that of generalization and the problem of the openness of the data to a variety of interpretations. Even with these limitations, an induction process carried out on the interview data through a thorough scrutiny of the interview results, shows that the primary industry issues raised by the interviewees, when grouped according to content, can be classified into the following five categories:
1. Regulation.
2. Competition.
5. Financing.

In order to detect the underlying strategies contained within the interview results, a strategy framework formulation exercise was undertaken using the interview information as the input data. In the process of this formulation, the past and future strategies of the broadband cable companies emerged.

This strategy exercise followed in broad outline the processes described in Robson (1997) and Porth (2002). The main components of this exercise were:

- a SWOT analysis to assess the nature of the industry in its environment;
- a value chain analysis (Porter 1985) to establish where the value created by the industry originated; and
- a Boston Consulting Group product matrix to determine the nature of the product portfolio of the industry.

The SWOT analysis

The interview data were used to perform this analysis and to draw the following conclusions.

In the case of the SWOT analysis the focus of the analysis was upon the nature of the industry within its environment. The SWOT exercise (Table II) revealed that the strength of the industry lay embedded in its massive scale and worldwide presence, combined with further opportunities for continued growth.

Value chain analysis

Next, a value chain analysis (Porter, 1985) was performed. This determined that the essence of the value generated by the broadband cable industry was in the “utility” that it provided by delivering the communication of relevant content to individual consumers (see Figure 1).

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weaknesses</th>
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</thead>
<tbody>
<tr>
<td>The extensive, interactive broadband cable networks are capable of supporting the “triple play” and many other, as yet commercially unproven, services to consumers.</td>
<td>Poor financial results have caused a general loss of confidence in the industry.</td>
</tr>
<tr>
<td>This is a valuable and still growing business; inside the USA, for example, large-scale consolidation has created huge organizations with powerful resources and market presence. Outside the USA, there are considerable numbers of franchise homes yet to be connected to the networks and, therefore, of new subscribers to be acquired.</td>
<td>The large-scale and increasingly complex networks are costly to build and operate. In contrast with the satellite TV industry, the introduction of new services in broadband cable is a time-consuming activity. The traditional monopoly thinking endemic in the industry has made innovation difficult.</td>
</tr>
<tr>
<td>Opportunities</td>
<td>Threats</td>
</tr>
<tr>
<td>There is considerable room for further growth with the existing telephony and internet access services. The future growth potential from exploiting the interactive capability of the networks to deliver additional services for the benefit of the consumers is as yet unknown, but could be substantial</td>
<td>The increasing competitive pressure from satellite TV and telephony services could cause a further worsening of financial results. There is a lack of readily available finance. The industry labours under a reputation for poor customer service. Management complexity continues to increase along with associated costs</td>
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</table>
Some key points are summarized from this analysis:

- In its simplest form, the broadband cable industry collects TV content and distributes it to the subscribers. There was considerable debate within the interviews as to the value created in the chain by the in-house production of TV content. Most broadband cable operators do not have sufficient scale in terms of subscriber numbers to produce TV material as competitively as the specialist organizations that sell their output more widely. The main impetus for such internal production was prestige and competitive advantage through localization. Internal production was also used to help in the differentiation of content from that of the satellite TV competition.

- Internet services deliver access to the World Wide Web for surfers. According to the interviewees, content based pricing of the internet services, along the lines of the Adventis model proposed by Hurd (2001), had been a major preoccupation as a possible way to leverage income. In theory, this income would have been obtained by selling advertising on the basis that the “internet” to which the cable subscribers were given access, was in fact a “walled garden”, within which the subscribers were contained and consequently the advertising directed at them would have been more effective. Additional revenue would have been obtained by way of commissions according to the value of the transactions entered into by the subscribers. Considerable effort was expended on devising models for charging for content on the Web. For example, in Portugal, to be done according to the geographic location of the sites accessed or as a percentage of the value of transactions conducted. Most of this effort was wasted, as the models were deemed to be uncompetitive and instead, technical superiority has since been used as the differentiation basis for value with this service.

- The interviewees for this exercise confirmed that essentially the same value chain existed for all of the broadband cable companies. In a number of instances, for AOL Time Warner, Rogers, and Comcast in particular, the broadband cable operations were part of much larger organizations that were diversified into a number of other activities, such as mobile telephone services and separate, arm’s length, media content production. In all cases, these other activities were separately managed entities that did not impact directly on the strategies followed by the cable operators, and were therefore not directly relevant to the value chain analysis.
The Boston Consulting Group matrix

To continue the interpretation of the feedback from the interviews, the final step of the strategy framework formulation, the positioning of the “products” of the broadband cable industry in a Boston Consulting Group matrix, was undertaken (see Figure 2) with the following results. From this matrix, using the normal criteria for this exercise (Robson, 1997) the following conclusions would be drawn at a global level. The telephony services, the dog, should be reviewed and consideration given as to whether or not to discontinue them. The cable TV service, the cash cow, should be managed on a cost-conscious basis to deliver the maximum positive cash flow. This cash flow would be used to support the continued growth of the internet access service, the star, and to promote the development of the new interactive services, the wild cats, any one of which could possibly become the growth star of the future.

The wild cats, based upon interactive services, are closely coupled with the deployment of digital TV, where the intention is to provide them on a TV set. Otherwise they could be supported through the internet access services using a PC. However, then they become part of the electronic commerce internet world and the ability of the broadband cable company to add value, and thereby to derive additional revenue, is extremely limited. The fundamental issue, as to how the choice between TV and PC will be resolved, or more realistically, how the two will be merged within a home network, may well decide the next star service.

Critical success factors

To understand the strategies followed by the broadband cable companies the critical success factors were identified from the analysis in section 4. These critical success factors were closely aligned with the primary industry issues that were drawn up through a process of induction from the interview interpretation. At an industry-wide level, the critical success factors can be summarized in general terms as follows:

- The cost price of attractive television content (especially vis-à-vis satellite TV). In most cases, satellite TV had been in a position of competitive cost advantage because of its ownership of many TV studios and the broadcasting rights to major sporting events (competition).

![Figure 2 Broadband Cable BCG product portfolio](image)
The level of interconnection charges, plus the willingness of the incumbent telephone service providers to co-operate in the provision of interconnection and other related services (competition).

The need for operational effectiveness (to run the multiple services successfully, to satisfy customers and to attract the necessary staff skills) whilst maintaining margins; for this to happen, cost control, both of capital and expense, had to be rigorous (management complexity).

The required speed of deployment of the upgraded networks with two-way capability able to deliver the new interactive services critical for growth (business models for new technology).

The necessity for strong sales and marketing functions to fight the competitive battles for subscribers (competition).

The availability of adequate capital to fund the development of the networks and services (financing).

In essence the conditions required to meet these critical success factors were not sufficiently met. The rise of the Internet was for the broadband cable industry a technology issue, but as the interviewees maintained, they had not been technology driven. Thus, a commercial opportunity was created that was not exploited as quickly as it possibly could have been. The deregulation of the broadband cable and the telecommunications industries created a completely different competitive environment for which few of the companies involved were well prepared and few were able to make any significant progress in penetrating each other’s markets for many years, if at all, as in Germany for cable telephony. The emergence of the rival satellite TV industry was both a technology and a commercial issue for the broadband cable industry. Again, the familiar pattern of denial, followed by obstruction, then grudging acceptance of a new competitor was clearly visible during this period. Finally, the customer service perception issue was a purely commercial one that could have been addressed more quickly through the application of technology, but this could only happen once there was a willingness to accept that the problem existed and there was a desire to do something about it.

The future strategies

In describing their future strategies the interviewees appeared to recognise the fact that financial objectives would only be attained through the successful achievement of the other strategic objectives, and not through any separate set of actions; in the words of one interviewee ‘execution, execution, execution’. In other words, critical success factor six, the availability of finance, would only be met if the other five were also met.

In these modified strategies, the priority for revenue growth had changed to emphasize the supply of additional services to existing subscribers for incremental revenues, with minimum incremental costs. In principle, the competitive strategy had been moved to one of differentiation using the “triple play” more selectively. There was an increased concentration of resources upon the star product, Internet access, and upon some of the wild cat products, such as video-on-demand. Apart from the UK, and one or two other markets, the emphasis upon cable telephony services for revenue growth considerably diminished.

Greater awareness of the need to contain costs through the identification of business efficiencies was evident from the interviewees’ responses. For them, reductions in capital expenditure and employee lay offs had already become widespread. For Comcast and AOL Time Warner in particular, operational efficiencies were being urgently sought, facilitated by the large number of mergers and acquisitions that had occurred in the recent past, (Lowry et al., 2002). This increased emphasis on cost control was in pursuit of profitability alone, and not as a core component of an overall cost leadership competitive strategy.

There were now widely-stated policies to improve customer satisfaction, initiatives to improve customer-facing activities, and to respond to complaints and queries. Two of the interviewees, Comcast and Rogers, claimed that this had become their highest priority in the
fight against satellite TV. This was a clear response to the successful differentiation strategies of both the satellite TV and telecommunications competitors.

The success of the cable modem products had boosted the morale of the industry in what had otherwise been difficult times. It had become possible to make technical leadership a priority to sustain the industry’s competitiveness. This was because of the interactive capabilities that upgraded, or new networks had made available. The technological superiority of these networks for the delivery of interactive services, whether they were intended for the TV or the PC, was clearly demonstrable against the capabilities of DSL and satellite TV based interactive services, (Garcia and Wilkins, 2001).

However, the extent of the risks presented by various technological threats may have been underestimated in the revised strategies:

- For broadband satellite TV services, the new Digital Video Broadcast – Return Channel over Satellite (DVB-RCS) standard removes the need for the telephone return path within Europe (Broadband Magazine, 2002).
- The alternative provision of entertainment services centered upon the use of DSL-based networks, as promoted by Philips and Telefonica, can bypass broadband cable networks to every connected household (Castro, 2002).
- Research and pilot development of Digital Powerline Communication, which uses the electricity networks to carry digital signals, could eventually bypass the broadband cable networks, and could even reach a higher proportion of homes (Financial Times, 2002c).
- The benefits of personal video recorders in the set top boxes deployed by the satellite TV companies show that the satellite TV industry possibly has an effective answer to broadband cable’s interactive services (Financial Times, 2002a).
- The deployment of services in the home using 802.11b based wireless technologies, (Brown, 2002), will change the traditional distinction between the TV and the PC.
- The streaming of video content to consumers, across the internet, disregarding national boundaries, will bypass normal content provision agreements, (Baines, 2002).

A process threat can be identified in the provision of the internet access services; the industry could become the source of its own disintermediation. It could be reduced to being the provider of the physical network connection only, but not of the more valuable content. Content, including that for the TV, could be accessed directly from web sites, streamed to the home and displayed on networked, digital television sets. This would indeed require the acquiescence of the content providers, but that may be forthcoming, depending upon their competitive strategies. If that were to occur, then the cash cow position of the cable TV services in many markets would be undermined.

None of the interviewees saw any significant threat arising from the provision of entertainment services by third generation mobile technologies. If such services were to prove popular, they would also undermine the basic provision of the physical network connection services supplied by the broadband cable companies. A combination of this technology with 802.11 “wi-fi” could prove to be a truly disruptive technology and materially impact upon the broadband cable industry.

A more fundamental strategic review, therefore, will be required, one that will go much further than the strategies implicit in the current actions. The revised strategies, presented by the interviewees, deal only with the present day problems; they do not address the type of threats listed above.

Conclusions and recommendations

The interview data when submitted to a strategy framework formulation exercise enabled the environmental situation of the industry to be understood and the identification of the critical success factors to achieve strategic objectives. The analysis presented in this paper indicates that a number of issues remain to be addressed by the industry:
The underlying issues behind the first and second critical success factors, the need for inexpensive content and for interconnection, remain poorly addressed. This reflects the relatively weak negotiating position of the industry with both the TV content suppliers and the telecommunications companies. The revised strategies described by the executives contained little apparent innovation. Their strategies now emphasized either the acquiring of new subscribers in conventional ways, as in Europe and Japan for the “triple play” services, or the retention of existing subscribers through improved customer service provision and the bundling of services to make switching suppliers more difficult, as in North America.

Of the five primary industry issues that are confronted by the industry, competition and management complexity, can be expected to continue to exacerbate the situation. Two others, legal regulation and financing, will remain unhelpful to the industry. Only one, business models for new technology, offers an opportunity to alter the balance of competitive forces in the industry’s favour. Deploying new technologies and products for their own sake, however, would not be sufficient to effect the desired changes. Such deployment must be coupled with innovative, management vision to create attractive new services.

The majority of those industry executives interviewed maintained that they were not technologists and that they viewed technology primarily as an enabler of services to be delivered to consumers. At first glance, this appears to be a sensible and appropriate stance to take. This approach to technology, however, masks a fundamental weakness, namely, that the past low level of importance placed upon technology, and its exploitation, now makes a technology-based strategic competitive response that much more difficult to achieve. Broadband cable companies must therefore reconsider the importance of their greatest assets. The networks that they operate should be re-evaluated as they can be used to pursue differentiation based competitive strategies because they have inherent advantages over alternative delivery methods. Broadband cable has considerably greater bandwidth available than telecommunications networks and a far superior interactive capability to that of satellite TV. In the competitive fight for survival these inherent advantages have become under emphasized.

The prevailing business models for the broadband cable companies are failing to create sufficient value to generate the required revenues and will not do so in the future. In fact, if management does not seize the initiative, there is the distinct possibility that the opening up of their networks to third party service providers may be forced upon them. Such a rethinking did appear to be emerging when the interviewees in Taiwan, Spain and Portugal each suggested offering access to their networks for third party providers to allow revenue sharing for other services such as telephony, home security and home networking. The Becker et al. (2002) report strongly endorsed the adoption of this approach to improve the competitive positioning of European broadband cable companies and stated that the problems of the industry in Europe are a result of poor strategy. The broadband cable networks could be placed in extended value chains, or value nets (Bovet and Martha, 2000), in collaborative partnerships with other service suppliers. This would enable the creation of attractive services for consumers to buy. Such innovation would allow for the technology to be exploited and the value chain to be enhanced without significant, additional, capital expenditure. The new value net partnerships developed could help to displace complacency. In this way companies could rethink their mode of business operation to take advantage of the pivotal role that they have as providers of the digital networks through which value nets are operated. They could seek to identify and meet the wishes of the millions of subscribers in the databases of the broadband cable companies (Mitchell, 2000).

A technology-based strategy to exploit the networks in collaboration with others, where the broadband cable company has little or no “ownership” of the content, combined with the Internet, will open up a whole array of new services. These services will also require the broadband cable companies to continue to blur the distinction between the PC and the TV. It will include more elaborate partnerships with the set top box
manufacturers to build hybrid PC/TV devices. These devices could use “wi-fi” wireless technologies to interconnect to other equipment within the home to avoid the need for additional wiring. The partners for collaboration would need to offer services that fully utilize the bandwidth and interactive advantages of the broadband cable networks. These products could include medical services, sophisticated financial and insurance services, digital camera security systems, elaborate games and other interactive, multimedia based, electronic commerce activities delivered to the home. In this manner, a competitive strategy, based upon differentiation, can be aggressively pursued. Then, the broadband cable connection to the home will become of greater significance to the consumer rather than simply being seen as a source of non-essential TV entertainment or of low-cost telephone service.

A reappraisal is required of the value to the broadband cable company of pursuing a least-cost competitive strategy with regard to telephone service. When delivering this service, the broadband cable networks, in the continued absence of deployable IP-based technologies, have relatively little competitive advantage versus the telecommunications networks. The Boston Consulting Group matrix (Figure 2) clearly identified the telephony service as a ‘dog’ in most countries. By definition, least-cost strategies do not generate high gross margins. Therefore, consideration should be given to abandoning this element of the “triple play”.

Greater emphasis needs to be placed on marketing the value of these new products to the consumer. The value is comprised of two elements, both of which must be present if success is to be achieved. The first element is the intrinsic value of the service itself, which to a large extent will depend upon the collaborative partner. The second element is the value placed upon the importance of the extensive support that must be provided to the consumer. Without the presence of such support, the consumer would be unwilling to become dependent upon the use of the services. Thus, the broadband cable company must be seen to be the provider of the “complete solution” to the consumer. This step, therefore, means directly addressing the perception that the quality of customer service provided by the broadband cable companies is inadequate. If this perception is not radically altered then the new products are unlikely to be adopted by sufficient numbers of consumers to make their introduction worthwhile.

Finally, the industry’s competitors will rush to copy innovations of this nature in one form or another. To counter this, the industry must institutionalize the innovation process to enable the continuous reinvention of its competitive strategies.

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