Solon Survey of European Cable Communication 2011 | 2012
Key Findings
European cable operators are optimistic about revenue growth and see broadband, mobile and B2B as the largest opportunities:

European cable operators participating in this year’s survey are forecasting a revenue growth of over five per cent per year until 2014. Video growth is slowing down and because of this, operators consider broadband as the largest growth driver, with mobile and B2B services as major new opportunities.

Slight growth in EBITDA margin until 2014:

European cable operators expect EBITDA margins to grow on average by 2pp until 2014, forecasting an average margin of 48 per cent. While they expect a slight increase in the gross margin of the core business and a decrease in SG&A as percentage of revenues, disproportionate growth in the lower margin segments, mobile and B2B services will diminish this positive margin effect.

CAPEX as a percentage of revenues is expected to decrease. However, the history of Solon Cable Surveys since 2004 shows that achieving this target is a challenge:

This year’s survey anticipates a decrease of CAPEX from an average of 23 per cent of revenues in 2010 to 18 per cent in 2014.

Customer value maximization gaining importance:

Cable operators across Europe experience a slow-down in subscriber base growth. To counteract this development, upselling to triple and quadruple play is prioritized on the strategic agenda. Maximizing the value of current subscribers by increasing ARPU takes precedence over gaining new subscribers.

Strategic focus remains on product innovation:

Product innovation, particularly video, is at the centre of European cable operators’ strategic agenda. Improvement of operational performance is of lower priority for most cable operators until 2014.

The survey highlights an important trend – basic TV penetration is forecast to decline, while pay TV penetration will grow. Next-generation TV is regarded as a necessity in the video segment:

Next-generation TV services are cited as the main tool to protect the TV customer base. Major elements of future TV services include multi-screen, TV-everywhere and next-generation STBs. In addition, cable operators highlight the importance of turning OTT from a threat into an opportunity.

Mobile and B2B services have been launched by most operators. Strong growth is expected after initial hurdles:

The great majority of cable operators have moved into the mobile and the B2B business. While these operators often experienced initial draw-backs in gaining a foothold in these segments, they are now reporting an increase in revenues and expect strong growth in the coming years.

Strong bandwidth increase expected:

The capability of increasing speed is considered key to preventing churn and winning the infrastructure competition against FTTH players by most European cable operators.
Editorial

The fifth Solon European Cable Survey presents an in-depth look at the opportunities and challenges faced by cable operators in Europe and their expectations until 2014. With 14 participating operators from 11 different countries, the 2011/12 edition of our survey provides a wealth of references, benchmarks, business ideas and market opportunities for cable operators.

This year’s participating operators cover a total nearing 25 million cable customers and represent over 50 million RGUs. The participation cut-off point was set at a minimum of 100,000 basic access subscribers.

Although most participants originally started with analogue distribution networks, they are now successful in different competitive environments:

- Own linear premium pay TV penetration of up to 44 per cent
- Own broadband penetration from 20 per cent to 85 per cent
- Mobile revenue share of up to 14 per cent
- B2B and wholesale revenue share of up to 33 per cent

We would like to take this opportunity to thank all participating executives for sharing their views and data, which has helped to produce a comprehensive overview of the state of the European cable industry in 2012. We are confident that individual feedback reports will help participating companies achieve their strategic and operational goals.
Management Consulting for Media and Telecoms
European cable operators look optimistically on the coming years, anticipating an average revenue growth of over five per cent per annum until 2014. This, however, represents a marginal slowdown in growth expectations compared to our last survey conducted in 2009.

As the traditional cable market is becoming more mature, operators across Europe are exploring new business areas to drive future growth. Broadband, mobile telephony and B2B/wholesale are regarded as strong growth drivers until 2014.

Competition for subscribers is becoming more intense across all segments. While the cable operators’ core business, basic TV access, is attacked by IPTV, DTT and OTT providers, FTTH and LTE are expected to become more serious competitors for broadband. As a result, subscriber bases are stagnating, forcing cable operators to increase efforts to protect their base.
Bundling and upselling are key ways of increasing customer value and loyalty. Cable operators have been successful in upselling in the past, almost doubling the average number of RGUs per subscriber between 2004 and 2010. The average ratio for RGUs per unique subscriber in 2010 was 2.1 and is expected to reach 2.7 in 2014.

The positive impact on customer retention is highlighted by the fact that single-play subscribers are on average five times more likely to switch providers than those subscribing to more than three services.
EBITDA and CAPEX: Going strong

European cable operators anticipate stable total gross margins and a slight decrease in SG&A levels, resulting in an average EBITDA margin increase of 2pp until 2014.

As the mobile segment gains importance, gross margins and operational scale effects might be slightly mitigated depending on the business model cable operators chose for their mobile activities. Gross margins for MVNOs are typically lower than those cable companies achieve in their traditional core business.
Subscriber Acquisition Costs (SACs) still vary widely amongst the participants, especially when measuring the marketing efficiency, that is, SACs in terms of ARPU.

Graph 4

Marketing efficiency
SACs in terms of ARPU, H1 2011

Average SACs per gross add are expected to increase significantly until 2014. For TV, cable operators anticipate an increase of 33 per cent and for broadband and telephony, an increase of 14 per cent.
Most European cable operators expect to maintain a stable FTE base until 2014, while forecasting a decrease of personnel costs as a percentage of revenues. Therefore, average productivity is expected to further increase until 2014.

Participants of this year’s European cable survey forecast CAPEX to grow in absolute terms but to decrease as percentage of revenues from an average of 23 per cent in 2010 to 18 per cent in 2014. CAPEX split is expected to remain fairly stable, with installations representing the significantly largest share.

Operators also expect downstream and upstream traffic to more than double until 2014. The average cluster size is expected to decrease by 35 per cent, with network/in-house upgrades almost complete.
Video: Next-generation TV services are key to defending against IPTV and OTT

This year’s survey reveals an interesting trend with regards to TV services. For the first time, the operators forecast basic TV penetration to decrease.

A key TV churn driver is IPTV, being responsible for more than half of all cable TV access churners. The main reasons for churn, according to the survey participants, are aggressive advertising and pricing by established IPTV players as well as convenience and a superior content offer.
Operators forecast the share of TV access churners moving to OTT to double until 2014. Operators expect customers’ price sensitivity as well as an increased availability of devices and offers to be the main reasons for churn to OTT.

According to the survey results, satellite and terrestrial TV competition will be of less relevance for future TV access churn, because those infrastructures are unable to bundle services.

As a result of this pressure, most participating operators place the launch of next-generation TV services as one of their top three strategic agenda items in the near term. Multi-device, next-generation STBs and better usability are named as cornerstones of most video strategies.
Cable operators also plan to embrace OTT usage. While some operators plan to launch their own OTT offers, most of them will integrate OTT or specific features into their own products.

This strategic push of TV services and products is expected to lead to a corresponding growth of pay TV penetration and ARPU, thus compensating for the loss of basic TV customers.
Broadband and fixed-line telephony: Increasing speed levels to stay ahead

Broadband remains the main source of revenue growth for European cable operators. After several years of suffering from declining internet ARPUs, cable operators are increasingly able to stabilise ARPUs by offering or granting higher speeds, which is reflected in a stable forecast for average internet ARPU of approximately 20€ per month (net).

The average marketed bandwidth is expected to more than double through 2014, with nearly half of cable broadband subscribers taking 50 Mbps or higher offers. However, upselling to higher speeds has shown limited success, which suggests that higher bandwidths represent a churn prevention and gross add tool.

**Customers by subscribed bandwidth**
% of broadband subscriber base, primarily marketed bandwidth in Mbit/s, H1 2011 vs. 2014e

![Graph 9]
European cable operators highlight the importance of proactive contract prolongations and free VAS in stabilizing broadband ARPUs at current levels. A return to volume-based fees does not seem to be an option for most operators because customers are used to flat-rate pricing.

Most cable operators note an increasing overbuild of their networks with alternative high-speed infrastructure, i.e. FTTH and VDSL. While the median FTTH overbuild today is only 10 per cent, this number is expected to increase to 26 per cent in 2014 as many incumbent operators are increasingly looking into rolling-out fiber in order to stay competitive. At the same time, the median VDSL overbuild is expected to grow from its current figure of 40 per cent to 75 per cent.

While FTTH and VDSL are considered serious competitors, European cable operators do not feel threatened by the potential impact of LTE in the short-term. However, over half of the operators anticipate some impact on their broadband business by the time LTE rolls out.
Mobile and B2B: The new growth opportunities

In the 2009 survey, cable operators were indecisive about the strategic importance of both mobile and B2B. Two years later, the picture has become much clearer. Operators across Europe highlight the importance of both segments in driving future revenue growth.

On average, they expect to double the share of revenues generated through mobile offerings, while the revenue contribution from business and wholesale activities is forecast to increase by approximately one-third.

The majority of European cable operators have already made the transition into the mobile business by launching broadband as well as post-paid voice offerings based on own tariff business models. Only a few companies operate on a pure resale basis.
However, operators report limited to medium success in the mobile space so far, mainly because of small corresponding marketing budgets and little experience in the mobile business. Those cable companies that have made the move into mobile (with over 10 per cent of total revenues from mobile), state that bundling and access to attractive handset offers are reasons for their success.

A similar picture is revealed when it comes to cable operators’ B2B and wholesale services. While almost all European cable operators have built-up operations to attract business clients, with the view to extending B2B product portfolios in the next two years, they often report rather limited success in this segment. However, some participants have already achieved over 30 per cent of total revenues from B2B services. This illustrates the untapped potential within the segment that cable companies could address.

Successful players point to the importance of network advantages and specific, targeted B2B sales and marketing, whilst others list low B2B brand awareness, product gaps and tough competition as key reasons for limited success.

While operators that launched services for SMEs and large corporate clients report high product success, most cable players experience difficulties regarding their SoHo products, indicating that commitment to B2B is required for success on business products.
Infrastructure: Dealing with increasing data traffic

Cable operators have invested heavily in network upgrades over the past few years. As a result, operators have surpassed their forecasts from the previous survey and managed to upgrade over 90 per cent of their homes, making them IP-ready end-to-end. By 2014, operators expect network upgrades to be virtually complete.

Today, capacity upgrades are at the top of the cable operators’ network agenda, followed by next-generation TV implementation and finalization of DOCSIS 3.0 roll-outs. Overall, operators need to meet an increasing consumer demand for higher bandwidths and fend off FTTH competitors. In previous surveys, average peak traffic has always been underestimated. Going forward, cable operators expect the average peak traffic per subscriber to slightly more than double until 2014.

Cable operators are following different approaches in order to increase network capacity. Some operators manage most of the traffic growth by adding new DOCSIS channels, whilst keeping cluster sizes relatively large (for example, one operator with 12 channels and an average cluster size of 2,200 HP). Others have invested heavily in cluster splits and can handle the traffic with a rather limited number of DOCSIS streams (for example, one operator with an average of 650 HP per node and 4 DOCSIS streams). Looking ahead,
European cable operators expect to reduce the average cluster size to 1,000 homes, while increasing the number of DOCSIS channels to an average of 13 in 2014. This will evidently drive investment needs.

European cable operators expect to significantly decrease CAPEX as a percentage of revenues until 2014. As in 2011, most of CAPEX is expected to be spent on CPE & Installation (45 per cent of total CAPEX), followed by core equipment (12 per cent), IT (8 per cent), network extension (7 per cent) and capacity increases (6 per cent).

While operators have predicted a similar CAPEX development in previous editions of this study, reality has shown that operators can only slowly decrease this ratio.

80 per cent of cable operators name capacity upgrades as one of their top three network projects for the next two years. In addition, over half of the cable players plan to implement network projects related to the introduction of next-generation TV platforms. DOCSIS 3.0 also remains a key network project, and was cited as one of the top three projects by 30 per cent of the cable players.
## Glossary of abbreviations

<table>
<thead>
<tr>
<th>A</th>
<th>ARPU</th>
<th>Average Revenue Per User</th>
</tr>
</thead>
<tbody>
<tr>
<td>B</td>
<td>B2B</td>
<td>Business To Business</td>
</tr>
<tr>
<td></td>
<td>BB</td>
<td>Broadband</td>
</tr>
<tr>
<td>C</td>
<td>CAPEX</td>
<td>Capital Expenditure</td>
</tr>
<tr>
<td></td>
<td>CPE</td>
<td>Consumer Premise Equipment</td>
</tr>
<tr>
<td>D</td>
<td>DLNA</td>
<td>Digital Living Network Alliance</td>
</tr>
<tr>
<td></td>
<td>DOCSIS</td>
<td>Data Over Cable Service Interface Specification</td>
</tr>
<tr>
<td></td>
<td>DTT</td>
<td>Digital Terrestrial Television</td>
</tr>
<tr>
<td></td>
<td>DTH</td>
<td>Direct To Home</td>
</tr>
<tr>
<td>E</td>
<td>EBITDA</td>
<td>Earnings Before Interest, Tax, Depreciation and Amortization</td>
</tr>
<tr>
<td>F</td>
<td>FTE</td>
<td>Full Time Equivalent</td>
</tr>
<tr>
<td></td>
<td>FTTH</td>
<td>Fibre To The Home</td>
</tr>
<tr>
<td>H</td>
<td>HD</td>
<td>High Definition</td>
</tr>
<tr>
<td></td>
<td>HP</td>
<td>Homes Passed</td>
</tr>
<tr>
<td>I</td>
<td>IPTV</td>
<td>Internet Protocol Television</td>
</tr>
<tr>
<td></td>
<td>IP</td>
<td>Internet Protocol</td>
</tr>
<tr>
<td></td>
<td>IT</td>
<td>Information Technology</td>
</tr>
</tbody>
</table>
kBit/ KPIs Kilobit Per Second Key Performance Indicator
LTE Long Term Evolution
Mbit/s Megabit Per Second
MVNO Mobile Virtual Network Operator
OTT Over The Top
p.a. Per Annum
PVR Personal Video Recorder
RGU Revenue Generating Unit
SAC Subscriber Acquisition Cost
SD Standard Definition
SG&A Sales, General and Administration
SME Small and Medium Sized Enterprises
SoHo Small Offices Home Offices
STB Set Top Box
VAS Value Added Services
VDSL Very High Speed Digital Subscriber Line
VoD Video On Demand
Team of authors

Christian Teichmann is Managing Director at Solon’s London Office. He focuses on business building and growth strategies in cable, fiber and data center industries as well as on bringing companies to the public and private debt and equity markets.

Matthias Hamel is Principal at Solon’s Munich Office. He is heading the Solon Technology and Innovation Practice and is a board member of CTAM. Matthias focuses on strategic and transaction support of European cable operators as well as mobile players, fiber/fixed line operators and TV channels.

Stephan Kalleder is Principal at Solon’s Munich Office. He is heading the Solon Cable Practice and focuses on strategy and transaction projects across all telco and TV infrastructures (including fixed, mobile, DTT and DTH).

Susann Friedrich is Business Analyst at Solon’s Munich Office.
Solon Management Consulting focuses its strategy consulting activities on the media and telecommunications sectors. Its clients are leading European media and telecommunications companies as well as banks and private equity investors. Solon supports its clients in developing and implementing company strategies, capturing new business, optimizing core processes and accompanying M&A activities from market probing to the closure of the transaction. With offices in Munich, London, and Budapest, Solon’s projects span the European continent.