



The Market Opportunity for Triple Play

The triple play market opportunity has great momentum amongst rural telecom service providers. Like their larger counterparts serving urban markets, rural carriers also realize that a well planned and executed triple play strategy is necessary to remaining relevant and competitive in a rapidly evolving marketplace.

Selecting the technology platform with the right combination of features, capacity, and flexibility is critical to ensure rural carriers succeed with the triple play now and in the future. Equally vital is a solid understanding of the market factors which drive triple play adoption and customer retention. In order to achieve the required return on the significant investments made in triple play networks, rural carriers must understand and act upon the market factors and opportunities present in the marketplace.

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The RLEC Triple Play Landscape

Rural carriers have traditionally embraced new technologies early in their lifecycle. History demonstrates that from the advent of digital switching, to the Internet and wireless, rural carriers have taken advantage of their small size, nimble decision-making capability and integral presence within their service areas to implement new technologies and services more quickly than larger national carriers. Triple play is no different.

Approximately 48% of RLECs offer some form of the triple play today, and just over half of these triple play providers have offered it for three or more years¹. Rural carriers are not tied to the commonly deployed triple play platform of DSL-powered broadband, IPTV, and voice service exclusively. In fact many RLECs use hybrid fiber coaxial platforms to deliver both video and broadband, and in some rare cases, voice as well.

Other rural carriers are now investing heavily in the network infrastructure necessary to deliver the triple play experience. For example, fiber to the home (FTTH) is growing both in stature and deployments as a triple play platform, and is currently used by 47% of existing rural triple play carriers².

However, there is still considerable room to grow. Roughly one half of RLECs have yet to deploy a triple play solution. The coming months and years should see significant additional triple play deployment activity, as many of these remaining RLECs implement a triple play experience that helps them meet increasing competitive challenges. Indeed, all carriers, regardless of their current triple play situation, must ensure that their networks can accommodate the growing demand for content-rich applications and bandwidth intensive services—a demand which will certainly intensify dramatically over the next three to five years.

Understanding Consumer Interest in the Triple Play

As rural service providers go about the challenge of converting customers to the triple play bundle, understanding how they view the value proposition for triple play can significantly contribute to their conversion success.

In late 2007, Alcatel-Lucent conducted primary market research amongst rural consumers which provides meaningful insight into rural consumer interest and perception of triple play bundles. Like their urban counterparts, rural consumers are very aware of service bundles, with 57% of rural consumers currently subscribing to a bundled service³.

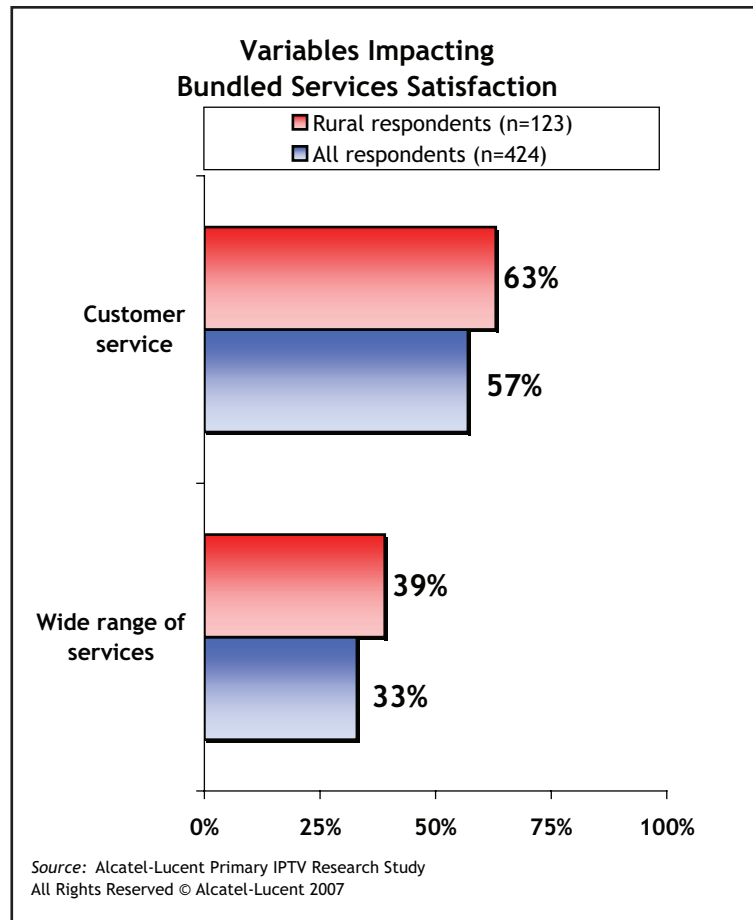
A common thread among rural consumers and their interest in triple play revolves around broadband Internet. Rural customers cite the presence of a robust broadband Internet service as a

1 Examining the IOC Triple Play Landscape, Pivot Media LLC, 2007

2 Ibid

3 Includes service bundles of all types

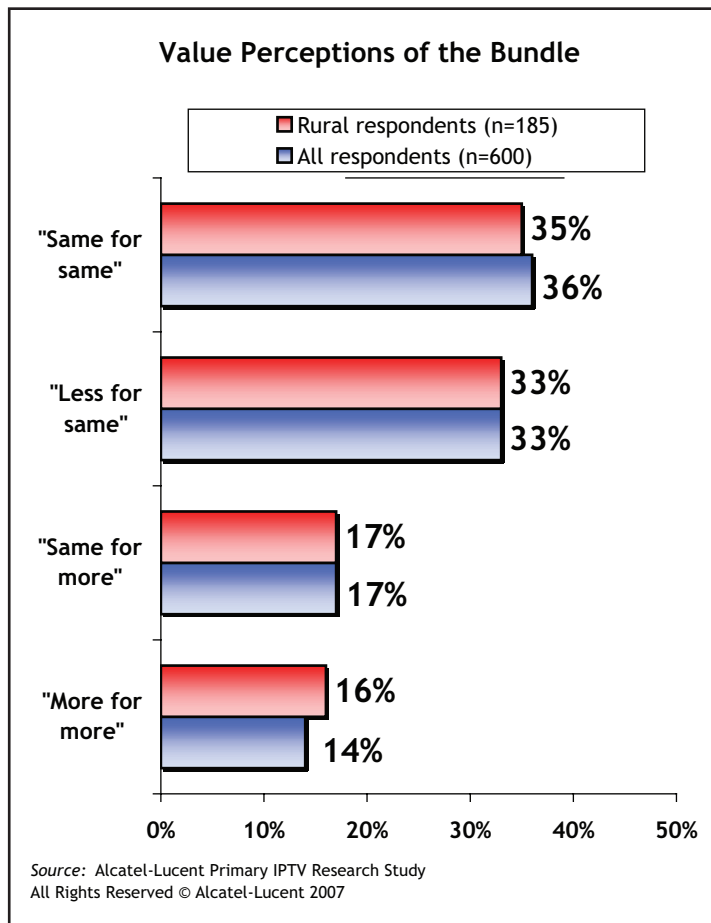
mandatory component of the triple play bundle. In fact, rural customers appear to be more sensitive to higher speed broadband than other demographics and are more likely than urban consumers to identify slow bandwidth speeds as a source of frustration. The implication for rural telecom carriers is clear—the “need for speed” must be addressed when designing triple play networks, and when creating bundles and service tiers. Strategies which aim to grow triple play penetration should consider leading with and emphasizing high impact broadband Internet service.



In addition to robust broadband packages, rural customers also have high expectations for good customer service. Sixty-three percent of rural customers cite good customer service as a necessary requirement of their triple play service provider, exceeding the 39% who cite a wide range of service options as necessary. Rural service providers will have to continue their legacy of good customer service with the triple play while also recognizing that it adds considerable stress to a traditional telephony-focused customer service infrastructure.

The Alcatel-Lucent research results also revealed that rural customers possess a “more for more” attitude concerning triple play bundles, when compared with urban customers. They are more likely to perceive the value proposition for the triple play bundle as “more services for more money”. Rural service providers should seize on this perception by ensuring that their bundles, and their corresponding marketing campaign, emphasize “more” as a key message. (See page 3, Chart B)

There is also a significant opportunity to provide additional services such as technical support and ongoing home network management to triple play customers.



Consumer electronics retailers have been quite active in launching similar “Geek Squad” services. Forty-eight percent of consumers expressed interest and willingness to pay for services related to home network installation and remote troubleshooting support solutions. About half of those interested indicated they would be willing to pay at least \$69.99 for the installation and set-up of a home network. As technology becomes pervasive in both the workplace and now the home, customers are looking for simplified solutions. Rural service providers have a real market opportunity to extend the triple play bundle beyond just selling a service, to creating a robust, managed, and simplified experience within their customer’s home.

Making the Switch

Rural telecom carriers are in an enviable position, compared with their competitors, because rural customers are more likely to switch to telco triple play offers than other demographics. They view the local telco as more trustworthy and cite a favorable customer service reputation as a key reason for selecting it over other service providers. They also have more stringent expectations of their local telcos, including a less expensive triple play package and, as discussed earlier, faster Internet speeds.

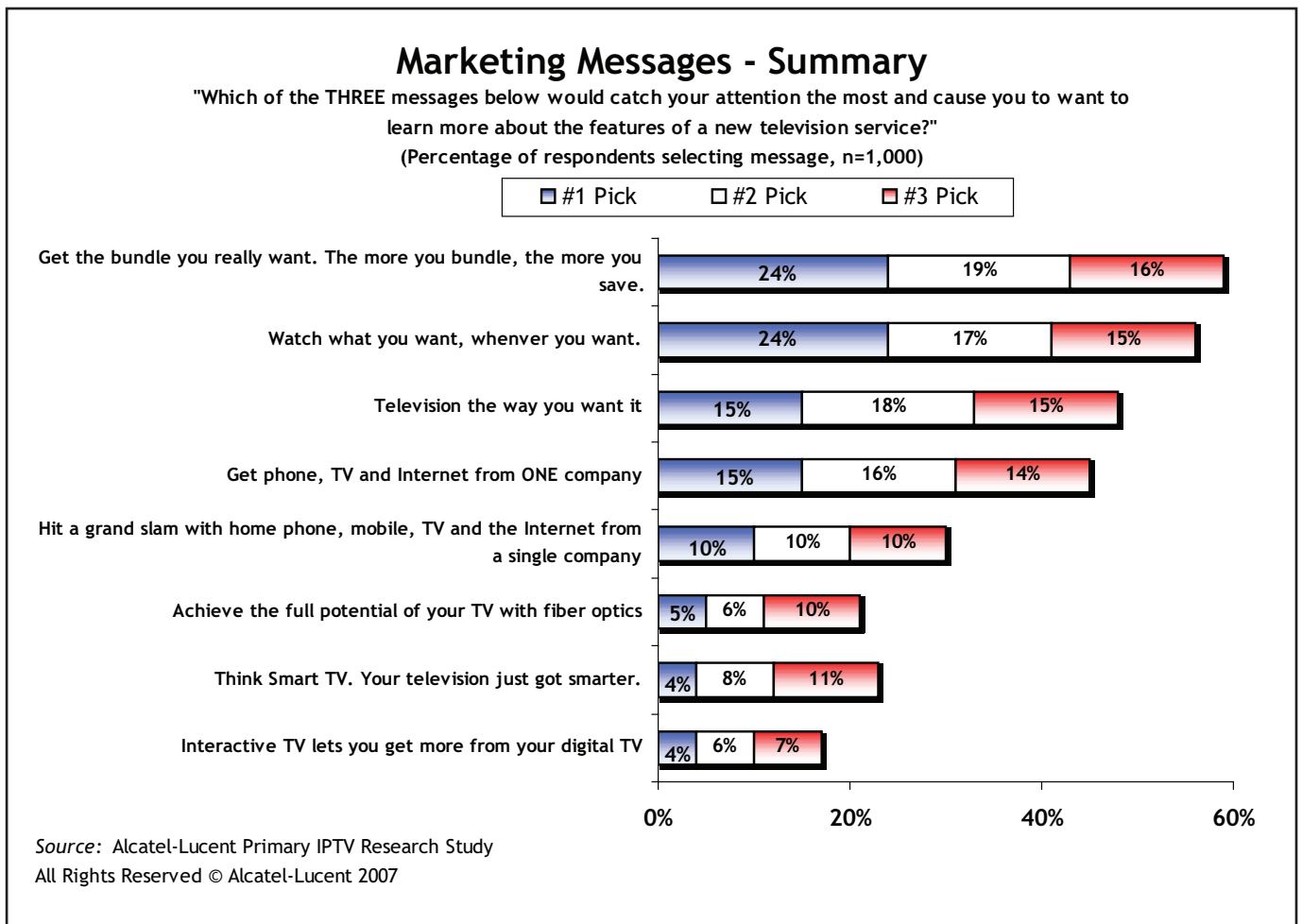
Another factor that contributes to rural consumers’ interest in local telco triple play offers includes a single bill for all services. Rural customers also cite a keen interest in enhanced local community video programming. Offering such programming can provide tangible competitive differentiation, because regional and national video service provider competitors are normally unwilling or unable to offer such programming options.

Rural telecom carriers would be wise to leverage these inherent competitive advantages. Moving forward, the competitive pressures for triple play will almost certainly increase for most providers. By leveraging their inherent trust and reputation for customer satisfaction, while also exploring enhanced local programming strategies, rural telcos can position themselves to grow triple play market share at their competitor's expense.

The Right Message

Rural customers have been quite consistent with their expectation of the triple play. They want to see value, but not at the expense of a robust package. Having an effective message which resonates with these expectations should prove beneficial.

The Alcatel-Lucent Rural Triple Play research suggests that messaging which emphasizes “more” and “savings” may strike the right tone. For example, “the more you bundle, the more you save” type language strikes a good balance between value and substance. The “Grand Slam” message, which emphasizes a complete entertainment and communications bundle, including wireless, has shown some traction with rural customers as well. Additionally, rural customers like messaging which emphasizes personalization. For example, “watch what you want, when you want” resonates with customers who increasingly want more control over their entertainment experience.



Crafting the right message in the context of comprehensive triple play marketing effort will be critical. Rural service providers should allocate adequate resources towards not only the technology of triple play, but also the means to effectively market and communicate its value.

Conclusion

The market opportunity for triple play is upon you. Rural service providers who actively study, understand, and recognize the opportunities it presents are in a much better position to succeed.

Rural customers tell Alcatel-Lucent that robust broadband, enhanced customer service and value are the key ingredients for a winning triple play proposition. Rural telcos are in a unique position because they inherently possess the good customer service reputation already. Combining that reputation with the right mix of services, features, and value will serve them well in the increasingly competitive triple play landscape.

About Alcatel-Lucent

Alcatel-Lucent provides solutions that enable service providers, enterprises and governments worldwide, to deliver voice, data and video communication services to end-users.

As a leader in fixed, mobile and converged broadband networking, IP technologies, applications, and services, Alcatel-Lucent offers the end-to-end solutions that enable compelling communications services for people at home, at work and on the move.

With operations in more than 130 countries, Alcatel-Lucent is a local partner with global reach. The company has the most experienced global services team in the industry, and one of the largest research, technology and innovation organizations in the telecommunications industry.

Alcatel-Lucent achieved adjusted proforma revenues of Euro 17,8 billion in 2007 and is incorporated in France, with executive offices located in Paris. [All figures exclude impact of activities transferred to Thales]. For more information, visit Alcatel-Lucent on the Web: <http://www.alcatel-lucent.com>

Alcatel-Lucent is the leader in end-to-end-triple play networks, currently deploying its TPSDA with more than 50 operators worldwide. Alcatel-Lucent is also the world leader in both IPTV and Mobile TV, having already enabled TV, video and music services for more than 140 fixed and mobile service providers around the world.

www.alcatel-lucent.com

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