



## **LYA Perspective on 2005!**

2005 promises to be a challenging year in the communications industry with more opportunities but also higher uncertainty as competition heats up in most of the major segments of the industry and new technologies challenge the established business models. The competitive landscape is becoming increasingly complex, especially for service providers focusing on the consumer markets such as cablecos and broadcasters.

Consumers now enjoy a broad array of choices to spend their money ranging from VoIP, to mobile, traditional telephony, and on the horizon, Internet TV and TV channels on their mobile phones. Broadband power line technology, still under the radar screen in 2004, may come out of hiding and bring into focus a potentially greater role for utilities in the overall competitive landscape.

On the business side, telcos will focus on accelerating the migration to IP platforms for the corporate customers but as well on extending the acceptance of these services to the general business market. Cost effectiveness and proving new applications will be key as telecom carriers continue to morph into solutions providers to meet the needs of their clientele. Some utelcos may see part of their competitive advantages shrink as IP platforms are deployed to provide a host of services including voice.

### ***In telecommunications***

As highlighted in our 2004 Report entitled “ Canadian Consumer Telecom and Cable TV Forecasts”, the power structure in local markets is shifting from telephony to high speed Internet as the core service on which to build customer relationships and services. Success in high speed Internet will become a key factor impacting the success in VoIP and subscription TV services.

All eyes will be on CRTC as it unveils its awaited VoIP regulatory framework. This will have a determinant impact on the ability of Canadian incumbent telcos to include VoIP services in their service bundles as forborne services. Will the CRTC provide a little something for the telcos to chew on, such as forbearance for VoIP on a resale basis or will it remain totally committed to the view expressed in the original Public Notice that VoIP is a local telephone service and should be regulated as such? Will any giveaways to the ILECs come with strings attached on wholesale services to be provided to the other service providers? The 2004 VoIP hearing was focused on consumer applications, but what about VoIP services for business?

January 10 saw the start of a new spectrum auction for broadband spectrum in the 2.3GHz and 3.5Ghz bands. Major Canadian carriers as well as smaller players such as Internet service providers



are “enjoying” putting in practice their auction strategies to determine who will be the winners for this very attractive spectrum leftover from the first auction held one year ago.

Mobile continues to be the darling of the Canadian telecom market. We expect to see price increases with Canada now a 3-way market with Rogers back in the lead. The launch of Virgin Mobile should bring significant emphasis, again, on the young consumer and prepaid mobile services could see renewed growth. Multimedia messaging carrier interoperability and wireless number portability will likely be issues addressed in 2005.

Telus will need to decide what to do with its MIKE network based on Motorola’s IDEN technology as a ripple effect of the Sprint PCS/Nextel transaction and the eventual phase out of the IDEN technology.

Rogers needs to decide how to move forward with Microcell. Should it keep running it as a separate entity, a division or fully integrate it into its Rogers service offerings and network? Should City Fido become an element of a local phone strategy as a complement to VoIP?

Broadband/mobile convergence could be the ace up the sleeve of Rogers, a benefit not immediately available to other cablecos unless they follow into the footsteps of Eastlink, Primus and Sprint Canada and decide to add mobile to their offering. Service providers without a mobile network should seriously address how this will impact their business over the coming years and how they could tap into this opportunity.

Foreign investment in the telecommunications industry is lower than it has been for many years with the pull out of ATT Wireless and of Verizon. Could there be more consolidation with domestic players in the Canadian industry? Possibly. One interesting combination would be for BCE to buy Shaw Communications to enhance its footprint in Alberta and BC and further increase competitive pressure on Telus.

### ***In broadcasting and digital media***

Broadcasters and media firms need to increase the focus on their digital strategies. The impact of mobile and IP on both radio and TV, conventional as well as specialty, is likely to increase dramatically over the next 12-24 months.

Services such as Audible.com coupled with portable audio devices such as the iPod are reinventing audible books as well as providing a preview of “Radio Your Way” or radio when you want it. . In the US, XM Radio is already offering its services as Internet radio for a monthly subscription fee. With a favorable ruling by CRTC, satellite radio may be launched in Canada and enrich the current offer.



Costs for the transmission and storage of video files are declining and becoming more time efficient as higher bandwidth Internet access services become prevalent. High Speed Internet households provide a pre-disposed substantial market base for Internet TV and their numbers keep growing. A number of firms such as DaveTV and Akimbo, sometimes referring to themselves as next generation broadcasters, are looking to tap into these new applications considering different business models, including advertising and subscription driven revenue models. .

Mobile TV is a reality in many countries and will surely come of age in Canada over the next little while. Mobile rights for sporting events are already being traded in other countries and savvy broadcasters and rights owners know that additional value can be obtained from their properties. The following highlights key developments in mobile video in 2004, which bode well for a strong focus on these applications in 2005 and beyond.

1. The BBC issued video phones to some of its journalists, so they can record and send short video reports via GPRS (2.5G) network.
2. Sweden's Telia bought the exclusive rights to stream video content from the summer Olympic Games to mobile. The service was available to 2.5G and 3G handsets.
3. A baseball video channel was added to the existing MobiTV service available on Sprint PCS Vision. PCS Vision also introduced 30 audio channels, one per MLB team.
4. The Open Mobile Alliance (OMA) and many handset announced plans for a common standard for mobile TV, namely the DVB-H (Handheld), a variation of the terrestrial digital TV broadcast European standard.
5. Qualcomm announced plans for a US wide network for delivering video and audio to 3G handsets using the CDMA2000, 1xEV-DO and WCDMA standards.
6. ESPN and Sprint PCS announced that an ESPN branded mobile service called ESPN Mobile would be launched in 2005. The service will use Sprint PCS networks, both the current 1XCDMA network and planned EV-DO network.
7. Closer to home, Unique Broadband Systems (UBS) and Look Communications plan to launch a mobile video network in Toronto and Montreal in 2006.

With all these developments, 2005 should be quite an important year in the industry with new opportunities and exciting challenges.

### **What you can expect from LYA in 2005**

At LYA, we look forward to continue to serve members of the Canadian communications industry via an expanding suite of services. LYA is the leading management consulting and research firm providing in-depth financial, marketing and technology expertise covering the range of communications services from telecom to broadcasting.

Whether you want to fine tune or recast the strategic direction for your company, LYA can help develop an understanding and an assessment of the various forces at play in the industry as well as how your firm specifically could be impacted over the next few years and the opportunities and risks that may materialize.



Our services and publications are briefly described on our web site. We invite you to contact us directly to get additional information and as always, look forward to you feedback.

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Lemay-Yates Associates Inc., 2075 University Street, Suite 1000, Montreal H3A 2L1 CANADA