

Is the Triple Play Working?

By Arthur Middleton Hughes

Many leaders of phone and cable TV companies have said that the “triple play” is essential to successful customer acquisition and retention today. By the triple play, they mean that the same company offers and sells telephone, Internet broadband, and video-TV to its customers.

Why is this considered to be so important? The easiest to understand is the effect on customer churn. It is known in many industries that customer churn is a function of the number of products owned by each customer.

The churn rate is the percentage of particular customers who defect each month. Suppose 100,000 subscribers have land lines from your company. Look now at those who have both land lines and broadband. Their churn rate will probably be lower. If you look further at those who have these two products plus a third one such as wireless or IPTV, you will note that these customers may have a still lower churn rate.

Churn is expensive. By churn we mean the switching by customers from one provider to another to take advantage of lower prices or new features. It is expensive to acquire a new customer. Sometimes it takes a year or more to pay off the cost of acquisition through profits from subsequent purchases. When customers leave due to churn, the acquisition cost is lost. So is future revenue.

To reduce churn, companies use a host of strategies. Some involve long-term contracts. Others involve customer communications, or excellent customer service. As it turns out, one of the most productive strategies is to sell the customer a second or third product. This is particularly effective in reducing churn if the product prices are structured so that the purchase of second and third products reduces the monthly price to the consumer of the first product. Otherwise known as “bundling,” this tactic can also greatly reduce the acquisition cost of the second and third product.

To create a bundled price system, the provider has to have several different products. Banks have lots of different products: checking and savings accounts, credit cards, auto loans, home equity loans, etc. Experience proves to them that the value of a second or third product is more than the profit from that product. It also increases the increased retention rate of the first product. Telephone companies in the past have typically had

only one product: one or more land line phones. As long as the telephone company had a monopoly on wired phone service, the annual retention rate was typically very high—at least 95% or more.

Since wireless phones came along, the wired line churn rate has been growing. Some wireless customers have found that they can do away with wired phones altogether. Add to that competitive phone service provided by cable TV companies, or Internet companies like Skype or Vonage, and the churn problem has become a major concern to all phone companies. For example, Verizon sued Vonage for patent infringement and won a \$58 million plus 5% royalty verdict which is being appealed. Most press accounts attributed this lawsuit to the intense competition between Vonage and land line phone companies.

For several years, phone companies have been selling a second product: Internet broadband using DSL. This is the double play. One problem with phone company broadband has been that cable TV companies also offer Internet broadband, which, because of their coaxial cables, is often much faster than what the telephone companies have been able to provide. A more serious problem for phone companies is that cable TV companies have begun offering telephone service as well as broadband: the triple play. Cable TV companies have been stealing phone company customers by the millions in the last few years through the triple play. Phone companies have decided that they have to find a way to offer what the cable TV companies provide – video and TV -- to keep their customers.

There is no question today that in theory the triple play for a telephone company, appropriately offered in a bundle, can be used to boost the retention rate or to reduce the churn rate (which is the same thing). That is why telephone companies have been trying to discover the most effective method of offering video-TV to their customers. The triple play increases the retention rate. But what about customer acquisition?

Does the triple play improve the acquisition rate?

Do some consumers place a value on the idea of putting all their eggs in one basket? Do they want to get phone, broadband and TV from the same company so much that their purchase decision is swayed into choosing a triple play provider over buying phone service from the phone company and TV service from a cable provider? Triple and quadruple play assumes that a subscriber would want fixed and mobile voice with broadband internet and Video-TV through a single, bundled subscription, at a lower price than buying the services individually from different suppliers.

To see if this is true, we have to ask how do most consumers make their communication vendor decisions? To begin with, we can divide customers into two categories: early adopters, and mainstream buyers. Early adopters always want to try something new before most people have even heard of it. They are the ones who will purchase phone service from a cable TV company, or video-TV from a phone company. A small percentage-- say 10% -- of all consumers are early adopters. The triple play might well appeal to them. Telco and cable TV marketers should seek out early adopters and get them to try and buy.

Looking at the rest of the consumers--the mainstream buyers --we can also divide them into two categories: transaction buyers and relationship buyers. A transaction buyer is interested mainly in price. Show them a way to save money, and they will go there. Relationship buyers are not as interested in price. They are motivated by two ideas: quality of service, and loyalty. They want a reliable provider who gives good customer service. They do not care so much how much it costs as much as does it work well, is it reliable, and do they treat me well?

For transaction buyers, a triple play bundle may be a great idea, and should work well. It should reduce their costs. For relationship buyers the triple play may not work at all. They may have Comcast in their living room providing TV, Verizon in their kitchen and bedroom providing the phone service and AT&T as their wireless phone company. They may not like the idea of deserting any one of these three tried and true providers in favor of a bundle idea which forces them to leave old friends.

How are companies doing in selling the triple play? Pyramid Research (www.pyr.com) reported that most Telcos are selling 1 to 1.5 revenue generating units (RGUs) per customer while cable companies perform slightly better, selling around 1.5 to 1.9 RGUs per customer. Time Warner Cable reported that only about 7% of their customers had bought the triple play by 2007. CableVision, which ended up in 2006 in the red, however, reported that over one third of their 3.1 million cable TV subscribers have bought the triple play. Verizon had an RGU of 1.4 by the third quarter of 2006 – a year to year growth of 1.1%.

Is the triple play profitable? Comcast's CFO John Alchin said recently, "The triple play really changes everything about our business and the way that we are marketing to our customers. It's important to take into account that we're really presenting this to the customers as a \$33 value for each one of the products that we are offering." The \$99 package for all three products typically expands, he explained, with customer-requested

upgrades, to between \$120 and \$130; pointing out that about 80% of those adding Comcast Digital Voice are subscribing to all three of the company's triple play products.

Overall, the triple play is working for cable. The following figures are only rough estimates of the 8,500 cable TV systems and the 1,300 US landline phone systems. They show that, if we ignore wireless, cable is doing better with the triple play than the phone companies:

2006 Estimates	All Cable	All Phone
Landlines	9,500,000	120,300,000
Broadband	28,290,000	16,100,000
TV	65,600,000	210,000
Total	103,390,000	137,610,000
RGU	1.58	1.14
Revenue (millions)	\$74,700	\$100,000
Revenue/Subscriber	\$1,139	\$831

What they show is that cable leads in broadband subscriber acquisition, as well as having acquired nine and a half million phone customers compared to the phone companies 210,000 TV customers so far. In general, the cable company's revenue per wired subscriber is greater than that of the Telecoms. The telephone companies are getting into the triple play very late in the game. For a cable company that has already millions of broadband customers, it is very easy, technically, to add phone subscribers using Voice over Internet Protocol (VoIP). For the telephone company with two little copper wires going in to a residence, adding television service is a very difficult assignment. Verizon and AT&T are approaching the task in two completely different ways. Verizon with their Fios system is laying fiber optic cable to three million homes per year (6 million so far). Fiber is so powerful that each cable can provide a homeowner with enough bandwidth to handle as many high definition TV sets, computers, and phone lines as any consumer could possibly need. Despite this capability, Verizon has signed up only about 207,000 TV customers. AT&T with their U-Verse system is attempting to use advanced DSL to provide TV to customers through the existing copper phone wires. They have only sold 3,000 consumers so far after a year of trying. In summary, selling the triple play including TV for telephone companies is expensive and very difficult. For cable companies, it is comparatively easy.

Where Telcos are accomplishing the triple play, however, is with wireless. Both Verizon and AT&T own wireless companies that are expanding rapidly and are very profitable. If done right, the triple play with wireless should work just as well as it does using TV as the third play. This is undoubtedly a key reason why AT&T has renamed their Cingular wireless system as AT&T.

Conclusion. The triple play is useful goal for any telecom seeking to increase profits. RGU is a useful measurement for success in marketing. Some companies are doing a lot better than others. By segmenting their subscribers into categories such as early adopters and transaction buyers they may be able to concentrate on those consumers most likely to buy the triple play.

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