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IPTV's eastern promise

At HanaTV, the IPTV service owned by South Korea's SK Telecom, the most popular valued-added service – perhaps unsurprisingly – is Karaoke TV. In fact, Karaoke TV outsells TV games, e-learning and cartoon services on the platform. Customers who choose to pay the extra US\$2 (€1.40) a month for Karaoke even receive their very own microphone. Yet the service has only attracted some 10% of HanaTV's 805,000 subscribers.

The problem for HanaTV is heavy competition – and not just from rival IPTV providers KT Telecom and LG Dacom. The biggest competitor has been cable. But all that is set to change this month when for the first time HanaTV and the IPTV providers in South Korea will begin launching live, linear TV channels on their platforms, channels that hitherto have only been available on cable or via over the air TV. It will likely mark a turning point for a market that already provides some very interesting cues for IPTV operators around the globe.

HanaTV, for example, has pioneered a very interesting VOD service that effectively creates a new distribution window in between the theatrical release of a film and its release on DVD. The service, called HanaBox, began by offering Korea-made films, but now includes Hollywood titles from NBC Universal. The new window is between two and three weeks after theatrical release in Korea and before the regular DVD/VOD window. Customers who want to see these films before the DVD release pay a premium of about US\$3.50 per title, which is double the cost of regular VOD, but the upside for the subscriber is they see the films earlier and in the comfort of their own homes. "That's the long-tail strategy for con-

tent," says Stephen Kim, managing director of Hanaro Media, which operates HanaTV.

Kim says that other studios like Sony are also in discussion about HanaBox because, although the buy rates are about the same as in the VOD window, the prices are a lot higher, making for higher margins all around, for the studios and for HanaTV. And what are the buy rates? By February HanaTV had VOD buy rates of 40%, while the average across the year so far has been 30% a month.

South Korea boasts one of the biggest broadband-enabled markets in the world with some 90% broadband penetration. This country of 16 million TV homes also benefits from high minimum broadband speeds. While IPTV operators such as BT Vision in the UK are struggling to provide 3.5Mbps, in South Korea some six million homes today have a minimum speed of 100Mbps.

HanaTV is contemplating the launch of 50 to 70 linear TV channels over the next few months. Its competitors will likely do the same. The new channels will be on top of the VOD movies, concerts, catch-up TV and value-added services such as home shopping, fortune-telling, on-screen newspapers and a service called My Content that allows subscribers to download their own photos and music (using the USB port on their set-top box) so they can view their own photos on their TV screens. Other innovative services such as SMS-texting using the TV remote control are set to launch by the end of the year.

What is interesting about South Korean IPTV is it has had to be innovative to compete with cable. For example, HanaTV has a very interesting home shopping service that the company developed in competition against the five existing linear shopping channels in

the market. HanaTV's channel has functionality more akin to the internet. Hanaro Media also recently signed a games development agreement with a developer called Gravity, owned partly by Japan's Softbank. And its on-screen EPG uses advertising in a variety of clever ways with ad revenues showing an eight-fold growth rate (from a small base) over the last year.

Kim expects that offering live channels will be a big help in tipping the balance towards IPTV: "Catch-up TV is very important to our subscribers. The live channels will be important in the same way."

Some 10% of South Korean households take IPTV, only a little less than pay for satellite TV. The majority of homes in the country take cable. IPTV will likely increase its share, with the largest operator expected to be HanaTV's competitor KT's MegaTV.

Hanaro Media also hopes that bundling its IPTV service with voice, mobile and a broadband connection will make it stand out against the competition. In March SK Telecom, a large mobile operator, purchased Hanaro and it has just begun to bundle the four services in one package. Whether the quad-play idea will work is open to debate, but it's the speed of development of IPTV in Korea, and new innovations such as the HanaBox window, that interests me – and could provide lessons for IPTV operators elsewhere. This is the kind of interactive, flexible, fast service that people will want. Cable and satellite operators beware: the future of IPTV is alive and well in South Korea today. ●

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