

Hanaro Telecom Transforms IP Video Business Strategy and Creates Roadmap to the Future

Executive Summary

CUSTOMER NAME
Hanaro Telecom

INDUSTRY
Service Provider

BUSINESS CHALLENGES

- Develop IP video as sustainable foundation for growth
- Maintain first-strike advantage and outmaneuver well-funded competitors
- Build highest-quality subscriber base and expand rapidly into the mass market

SOLUTIONS

- Work with Cisco IBSG to rethink existing video-on-demand (VoD) approach to mass-market services
- Develop comprehensive strategy for a full-scale IPTV service
- Build a technology foundation to support an innovative, continually evolving service and deliver an extraordinary customer experience

BUSINESS RESULTS

- Developed comprehensive strategy for prioritizing, packaging, and delivering VoD services and IPTV solutions
- Projected one million IPTV subscribers by end of 2007
- Dramatic rise in Hanaro's stock price and profile in the industry

Hanaro Telecom is leading the way in IP video in Korea, one of the world's most advanced information and communications markets. Working closely with Cisco® business consultants and technology experts, Hanaro crafted a comprehensive business and technology strategy to add new growth through a fundamentally new business model. Hanaro now offers a new proposition to subscribers while breaking away from a historical head-to-head battle with price-based competition.

Business Challenges

Hanaro Telecom is the second-largest fixed-line telephone and broadband provider in Korea and was a pioneer in introducing broadband services to the country. Despite the company's past successes, however, its leaders were concerned about the future. While the Korean market is one of the most sophisticated in the world—with millions of consumers using leading-edge music, gaming, and Internet services—competition for customers is fierce. Facing stiff competition from national incumbent providers, Hanaro's voice and broadband offerings were rapidly becoming commoditized, and its customer base was eroding.

"We were involved in nothing short of a knife fight in the middle of the street between ourselves and two major competitors," says Dominic Gomez, chief operating officer of Hanaro. "We were competing head-to-head on broadband and voice products, and we had to make a paradigm shift: We needed to find a strategic high ground that would render us more competitive."

Hanaro leaders believed that video services offered an opportunity to stake out a new place in the market and create a more differentiated and profitable business model. In July 2006, the company launched an innovative video-on-demand (VoD) service called HanaTV. HanaTV transcended past Korean VoD offerings (which were almost exclusively



Cisco Internet Business Solutions Group (IBSG)

delivered via PCs) by bringing movies and popular TV shows on demand directly to subscriber homes—something that was unavailable previously in most of the country.

The service was an immediate success, garnering several hundred thousand subscribers in its first year. By positioning HanaTV as a VoD service complementary to analog cable, Hanaro was able to build a profitable offering without competing directly with entrenched broadcast TV services.

“We have a buzz, we’ve reinvented ourselves, and at the end of the day, we have completely altered the market perception of our company.”

Dominic Gomez
Chief Operating Officer
Hanaro Telecom

Hanaro’s executive team, however, was unsure of where to go next. They recognized that their competitors, seeing the success of HanaTV, would soon roll out their own VoD offerings. Internally, the company was at a critical juncture, determining whether to focus on optimizing the existing VoD strategy to generate as much value as possible or make a larger capital and organizational investment in bringing a full-blown IPTV (Internet Protocol Television) service to the market that would combine the current service with broadcast TV and other value-added applications*.

“We weren’t complacent about the future, but we were so focused on executing HanaTV that it was hard for us to look around the corner,” says Carlos Aquino, operations director of TPG, one of Hanaro’s private-equity investors. “We also didn’t know how far away that corner was.”

Solutions

As Hanaro was beginning to debate the future of HanaTV in earnest, the company was approached by the Cisco [Internet Business Solutions Group](#) (IBSG). Hanaro had a long relationship with [Cisco](#), and the IBSG consultants offered to share some of their findings from their work with other IPTV providers around the world.

“We knew that at some point, we would be adding other value-added services to our initial VoD product,” says Mark Pitchford, chief marketing officer, Hanaro. “We knew we wanted to continue to upgrade the platform, and we had good people thinking about it. But getting an independent perspective that could provide information both on what was happening in the market and what was possible from a technology standpoint was extremely valuable.”

* IPTV is a system where a digital television service is delivered using IP infrastructure, which may include delivery by a broadband connection. For residential users, IPTV is often provided in conjunction with video on demand and may be bundled with Internet services such as Web access and voice over IP. Source: www.wikipedia.org 2007.

“We were competing head-to-head on broadband and voice products, and we had to make a paradigm shift: We needed to find a strategic high ground that would render us more competitive.”

Dominic Gomez
Chief Operating Officer
Hanaro Telecom

Together, Hanaro and Cisco created a multipronged task force that brought together business consultants from IBSG, a technology team from Cisco Advanced Services, Scientific Atlanta (a Cisco company), and the Cisco Korea team with Hanaro's executive-led team. The team zeroed in on three fundamental questions:

1. Should Hanaro continue with a VoD-focused strategy, or should they leap ahead with a full IPTV strategy?
2. Was Hanaro's current service portfolio truly meeting consumer preference in terms of its services, pricing, and bundling?
3. Should Hanaro's current IP infrastructure be upgraded to support more subscribers and more demanding IPTV services, or should the company build a new IP infrastructure from the ground up?

The task force created a two-track approach to address these questions, encompassing both business and technology issues.

Crafting a New Business Strategy

Working closely with Hanaro executives, IBSG conducted a comprehensive strategic review of Hanaro's business model, as well as its plans to address competitive challenges, the needs of the company's market, and the timing and potential financial return on the various options. Ultimately, they decided to move away from the current VoD path and focus on launching a more complete IPTV service using Cisco technology. With the ability to begin converting subscribers to IPTV immediately after Korean regulators began issuing licenses, the team believed Hanaro could move its best customers to a better-protected, more lucrative business model while competitors were still battling over basic VoD.

To lay the foundation for this strategy, Cisco helped Hanaro develop a new, mass-market approach to HanaTV. As successful as the VoD service was, it was primarily attracting high-end customers who were willing to pay the relatively high price for on-demand capabilities and for the full range of HanaTV content. Instead, Hanaro worked with IBSG to craft a tiered pricing and packaging strategy that would be immediately compelling to the mass market. Drawing on experience with other successful IPTV offerings, IBSG was able to offer major insights in the redesign of the VoD service, as well as help create incentive mechanisms for up-selling and cross-selling. IBSG also helped Hanaro identify which of the many IPTV services under consideration would be most valuable to subscribers and most important in creating a differentiated customer experience.

“Where IBSG really helped us was to give us a perspective on what others in the industry worldwide were doing and what were some quick lessons we could learn from that,” says Pitchford. “They also provided an added perspective on the longer-term path of where we needed to take this business based on what had been successful in other markets or not, as well as where technology was going.”

Building a Technology Foundation

The Cisco and Scientific Atlanta technology teams performed a comprehensive assessment of the readiness of Hanaro's network to support the needs of the planned strategy, including higher availability, better video support, multicast capabilities, advanced functions, and capacity to serve five times the number of subscribers. Based on this assessment, Hanaro found that they could actually save by rebuilding the IP network instead of trying to upgrade the existing infrastructure. The company also opted to base its set-top-box strategy around more future-focused devices with larger capacity for high-definition content, full TV time-shifting (recording programming to a storage medium to be viewed or listened to at a time more convenient to the consumer), and terrestrial broadcast tuning capabilities.

"Where IBSG really helped us was to give us a perspective on what others in the industry worldwide were doing and what were some quick lessons we could learn from that."

Mark Pitchford
Chief Marketing Officer
Hanaro Telecom

"When we launched HanaTV, the bulk of our investment focused on the content and marketing aspects, not the infrastructure," says Gomez. "As we continued to evolve the product, it was paramount that we understood the consequences of what we were contemplating from a technical and network perspective. There was a big missing link there, and the engagement with Cisco crystallized specifically what we needed to do to achieve what we'd envisioned."

Business Results

Working closely with Cisco business and technology experts, Hanaro was able to craft an end-to-end approach to its future video services and build both the strategic and technological foundation for a more sustainable, profitable business model.

"This work with Cisco has provided us with a clear path for evolving to IPTV that, quite frankly, we would not have gravitated to nearly as quickly on our own," says Gomez. "We've established a template that is going to lead us to the next phase of our business."

Today, the company is relaunching HanaTV and is rapidly moving forward on the business and network preparations for delivering a full-scale IPTV service. In the long term, Hanaro believes that the strategy will allow the company to become the IPTV leader in Asia. In the near future, the company expects HanaTV to attract one million customers by the end of 2007 and become a major pillar for growth for Hanaro within the next three years. Gomez believes that the strong collaboration between Cisco and Hanaro and the integrated task force's ability to address every business and technical aspect of the strategy has played a major role in this success.

"This was as comprehensive a model as we could have asked for, encompassing everything from the marketing aspects of the product to the infrastructure," says Gomez. "I think that's what set this experience apart. I don't know whether we could have found another consultative service or technology partner that could have provided us with that depth and breadth."

"This was as comprehensive a model as we could have asked for... I don't know whether we could have found another consultative service or technology partner that could have provided us with that depth and breadth."

Dominic Gomez
Chief Operating Officer
Hanaro Telecom

Ultimately, Gomez believes that the business and technology roadmap developed by the task force has already reaped significant benefits for the company by positioning Hanaro as a true innovator in the Korean marketplace and the emerging leader in IPTV.

"By launching a successful video service offering and staking our place in the market the way we have, we've changed the rules of the game," says Gomez. "It's improved our competitiveness, our top-line revenue, our stock price, and on and on. We have a buzz, we've reinvented ourselves, and at the end of the day, we have completely altered the market perception of our company."

More Information

The Cisco Internet Business Solutions Group (IBSG), the global strategic consulting arm of Cisco, helps Global Fortune 500 companies and public organizations transform the way they do business—first by designing innovative business processes, and then by integrating advanced technologies into visionary roadmaps that improve customer experience and revenue growth.

For further information about IBSG, visit <http://www.cisco.com/go/ibsg>



Americas Headquarters
Cisco Systems, Inc.
170 West Tasman Drive
San Jose, CA 95134-1706
USA
www.cisco.com
Tel: 408 526-4000
800 553-NETS (6387)
Fax: 408 527-0883

Asia Pacific Headquarters
Cisco Systems, Inc.
168 Robinson Road
#28-01 Capital Tower
Singapore 068912
www.cisco.com
Tel: +65 6317 7777
Fax: +65 6317 7799

Europe Headquarters
Cisco Systems International BV
Haarlerbergpark
Haarlerbergweg 13-19
1101 CH Amsterdam
The Netherlands
www-europe.cisco.com
Tel: +31 0 800 020 0791
Fax: +31 0 20 357 1100

Cisco has more than 200 offices worldwide. Addresses, phone numbers, and fax numbers are listed on the Cisco Website at www.cisco.com/go/offices.