

## **LiveTimeNet Case Study:**

### **Profitably distributing Latin American television channels to broadcasters in the US**

Gustavo Sanchez stared out of his 12<sup>th</sup> floor window at The Sofitel Hotel, watching the port, and the activity in the Retiro downtown district. Gustavo was the general manager of US operations for Diego TV and he was back in Buenos Aires to meet with his company's board to present a strategy for radically increasing US distribution for Diego's five Latin American television channels.

The US market represented the single largest market opportunity to drive the company's growth over the next several years. The US demographics were extremely favorable and getting better. Diego TV had strong, well-branded television properties, advertisers were looking for ways to get in front of the large and growing Spanish-speaking population, and, perhaps most importantly, there was a tremendous technology-led opportunity emerging in the US broadcast station market to add new channels. The FCC had mandated that all broadcasters had to switch to digital over-the-air broadcast during 2009, which created an opportunity for these broadcasters to add more channels over the same spectrum because of the bandwidth efficiency of digital video. For Diego TV, this was a huge window of opportunity to increase the number of viewers for their television channels by offering their channels to digital broadcasters.

Gustavo's challenge was to find a cost-effective distribution strategy to deliver these channels to these broadcasters. Satellite was the most common method of delivering broadcast television channels to various drop-off points but the economics did not favor Diego TV. Moreover, while these five channels were standard definition quality today, Diego TV planned to migrate them to HD quality in the future, further exacerbating the economics of satellite delivery.

However, Gustavo had recently learned about Maryland-based LiveTimeNet (LTN) from his network engineering director. LTN offered a unique service and a major economic advantage to customers like Diego TV. LTN had a nationwide network in the US with multiple nodes where television channels could be ingested and delivered terrestrially for a fraction of the cost of satellite transmission to both Diego TV and its broadcast station customers. LTN was able to ingest Diego TV's MPEG 2 SD channels directly from the US landfall and reliably deliver these channels in any combination to any drop-off point as a 5 Mbps MPEG 2 IP stream with an end-to-end latency of less than 100 milliseconds and with the highest video quality.

Gustavo reviewed his financial options once again.

**Table 1: Annual cost comparison to deliver 5 channels to 25 US broadcast station sites**

	<b>Satellite</b>	<b>LiveTimeNet</b>
<b>Fixed cost</b>		
- Teleport facilities	\$168,000	\$0
- Transport cost	\$744,000	\$411,000
<b>Variable cost</b>		
- Drop-off costs	\$0	\$120,000
<b>Total annual cost</b>	<b>\$912,000</b>	<b>\$531,000</b>
<b>Annual cost savings</b>	<b>\$0</b>	<b>\$381,000 (42%)</b>

By using LTN, Diego TV would save 42% of its distribution cost per year! Equally important, its fixed cost of distribution went down from \$912,000 to \$411,000, a savings of \$501,000. This was crucial to Diego TV because while the plan was based on sound assumptions, Gustavo was not certain about how long it would take his sales force to sell 2 channels each to 25 broadcast stations. LTN's pricing allowed Diego TV to grow its costs with revenue, while satellite and teleport providers required Diego TV to make the entire investment before any revenue was realized.

Another critical issue for Diego TV was the incremental capital investment required by broadcast stations to ingest its channels over satellite. LTN delivered the same channels over an Internet connection, often over the station's existing Internet link. This reduced both the time and the financial hurdle for a Diego TV channel to be broadcast over the station's over-the-air infrastructure.

The final piece of the puzzle was the future proofing offered by LTN. Diego TV could add new channels, both SD and HD, and new end-points easily and seamlessly without requiring any new contracts or significant up-front commitments. This gave Gustavo freedom to add both content and customers profitably without making a big financial bet each time. Importantly, LTN also gave Diego TV an easy and cost-effective way to distribute not just linear programming but also occasional-use and event programming to the US market. The flexibility of being able to distribute any content to any destination was an important factor in Diego TV's ability to meet their customers' needs in a highly responsive manner.

As Gustavo reviewed the financials and his presentation, he felt confident about making a commitment to his board that he had a terrific plan to grow his revenue in the US and a business model that lowered the company's overall risk, increased its profitability immediately, and gave it more room to grow in the future.