

An Inner View of IPTV

Growing a New TV Era

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Like other observers, the nearsighted at CMS NewsLine (CMSN) were caught off guard by the rising tide of IPTV. While a bit disoriented by an ever changing landscape of broadband services, applications and electronic traffic some of us failed to appreciate the inbound momentum of IP as it came to be the protocol wrapper of choice for most everything on the e-line. If present indications are correct IPTV may become the more economic, flexible and secure way to deliver video, TV and other valuable content to the mass audience. As with other paradigm shifts that rearrange the landscape of technology and its business models, it is only natural for some to question the utility of IPTV — and to hold back in ways they may later prefer to forget. As the Wall Street bubble of 2000 was in part fueled by hot air and empty promises, why not be a little cynical about the hype surrounding IP? Yet Internet Protocol in general and IPTV methodology in particular do seem real enough these days.

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In fact there is a growing consensus among heavyweights in the electronic transport business regarding the utility of IPTV, including the folks at UT Starcom, Nortel Networks, BigBand, Kasenna and many others that suggests that the rest of us better get on board — and do so soon. This applies to the big investors who fund the cable empire, including some big players on Wall Street. While cable does indeed have its big pipe, does it also have the right technology in place? Only the shadow knows as wide-eyed cable CEOs continue to study their technology tealeaves with

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an ever-growing level of concern. In the meantime they must also seek ways to protect their leading services from those nasties of DBS, as in DirecTV and Echostar. That explains their concern with cable churn — at several percent of lost subscribers per month — and the search for stickiness via the three-way or four-way play. Could it be that those masters of advanced technology and slight of hand at Cisco will turn out to be spot on about IP as the better way to deliver TV and Video as well as telephony? With the SBC and Verizon Telcos soon to be well mounted on slick new IPTV technology and even now breathing noisily near the starting gate, we and the cable MSOs may soon find out. So do stay tuned, as herein we tell all.

Our approach is to consider the various consumer, business, technology, financial and regulatory aspects of the onrushing battle of the Telcos versus Cable for media and communications dominance. Of course no one knows what the outcome will be as the game is only now becoming earnest for VoIP from cable providers such as Cox, Comcast and Time Warner. Similarly the telcos including SBC, Verizon and Bell South are only readying to do battle armed with IPTV and IP Video. This colossal market struggle may require upwards of 50 billion dollars for more boxes, wires and software to fund the preparations on both sides of line. Yes, it all sounds like another happy occasion in the lands of Cisco

and of the great IBM — bless their clever hearts. Lurking in the background and not sure just what to do are the US regulators at the Dept. of Commerce and the FCC. After nearly destroying the airline industry with their deregulation policies just a few years ago, the folks at Commerce may want to be more careful this time around. Somewhere in the shadows Michael Powell, the former head of the FCC, must be relieved to be out of the fray.

To the naked eye of the average viewer watching his or her TV, PC, cell phone or PDA it may appear that basic cable, satellite, broadcast and even IPTV provide much the same thing. In the

sense of the basic viewing experience perhaps this is so. However, the technologies on which each is based vary greatly, with some on the leading edge pointing to the future while others are less promising and possibly even

moribund. Indeed, broadcast TV today still ties up a good deal of the public's electromagnetic spectrum as bandwidth that the communications sector and the government badly need. Satellite in turn has such a broad footprint that it is often unable to effectively delivery the local message so as to target the audience as well as cable. Also it is primarily a one-way pipe and somewhat limited in its ability to do interactivity — at least for the time being. Cable remains the big pipe with its fibre, its massive QAM multiplexing and its true two-way capabilities for communications,

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TV, Internet, VoIP, VOD and all the rest. Yet some bright folks while pondering the future of WiMax and IP technology still wonder whether cable has invested too heavily on outdated network and head-end technologies. That is put up too many bucks for systems that mainly send everything downstream to the set-top box without sufficient concern for such things as bandwidth utilization, CapX issues or economic efficiency. Maybe yes and maybe no.

Now forcing its way onto stage center is an evolving IPTV capability, based on advanced switched network packet technology, which is able to underpin a truly intelligent new TV business system. Dumb like a fox it is. Further, with IP over broadband it is possible to unify many varieties of services and applications for information, communications, and entertainment, the ICE of life. This includes the telephone service know as VoIP, the VOD services known as Video over IP, the TV services know as IPTV as well as Internet access, wireless service, e-commerce and all the rest. In plain terms such a standards based system could save a lot of CapX and also lower the complexity, operating expense and worrisome obsolescence of systems and services, as the same boxes and systems are used to drive much of the ICE to office and home. How fabulous is that?

Furthermore, the risk of systems

obsolescence that cable operators have had to face every year is likely to be reduced with IP for TV. Just think of the thousands of cable head-ends located all over the US chock full of boxes and systems — at times one for each service — which it seems require replacement every couple of years or so. This demands lots of capital, as the end of a system's utility may occur before there is time to write off the investment on the basis of depreciation and amortization. No wonder Wall Street is nervous about the \$100 billion or so cable has invested the past few years to upgrade systems and modernize its pipe. With the Telcos and their futuristic IPTV systems looming ahead, the cable folks have reason to pay careful attention. For example one somewhat surprising research finding from those keen folks at Parks Associates of Texas is that perhaps as many as 27% of American households might be induced to switch to Telco IPTV. With DBS now at 22 million subscribers and hundreds of thousands of lost subs per month to explain away, that is hardly what the cable MSOs want to hear.

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Thus we are reminded that the satellite folks and also the broadcasters remain well anchored in the TV game and must not be overlooked. Recently the broadcasters took a serious hit from what some see as a one-sided unfavorable Must Carry ruling by the FCC. Yet it was to a degree a self-inflicted wound based on a display of arrogance anchored in an unrequited

faith in their supporters in the US Congress and the FCC. That said, these broadcast folks are not about to roll over and play dead, they will move forward. For example, as their systems become all digital they are in position to make a strong play in the HDTV arena. That is they can reach out directly over the airwaves to the rapidly growing crowd of pricey HDTV set owners — and offer them an excellent HD service for free, as a counter to cable! Thus, as they have been so dramatically made aware that the gentlemen's agreement with cable is broken, they will find ways to change their business model to better accommodate the current

reality — and continue to prosper. Did someone say: 'Et Tu Brute' to Roberts and the cable brotherhood? No way, its was just business, but sooner or later they probably will be made to pay!

As to Charlie Ergen at Echostar and Rupert Murdoch of DirecTV, what is one to say of these star market rogues, except that they are valiant-at-arms. In 2000 the cable folks proclaimed that DBS was finally nailed to the wall and that its subscriber base would be capped at no more than 13 million satellite subscribers (farmers) in the US. We and a few others disagreed, based on the fact that the need for a true two-way pipe for television was still years away. As noted above, clever action in the marketplace by satellite TV has resulted in its approaching 22 million subscribers — including many

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premium upscale folks — as in Beverly Hills, Gross Point, Palm Beach and the like. Even now digital cable's picture quality is taken as inferior to that of satellite — at least in Santa Cruz and Newport Beach California. DirecTV has recently announced a new platform capable of true interactivity and endowed with advanced EPG and DVR systems. It seems that Newscorp, the parent of DirecTV, learned its lessons well at Canal Plus in England and appreciates what is required for Gaming, Sports, Shopping and Entertainment. In its view such capability need not be based on lots of uplink traffic but can instead work off a large well-stocked local

hard drive. With its DirecTV-DVR, DirecTV-HD and all the rest as in Voom Voom Voom, it is trump and trump again to cable — and we don't mean Donald. Can satellite maintain such momentum for years to come? No one knows. In this context it pays to remember that the folks at Coca Cola who became rich selling sugared water now earn more billions selling plain old water; so we should never forget the true power of great marketing.

In the core that powers all of the advanced electronics including IPTV is the evolving reality of ever more powerful microprocessors and electronic storage systems. The evolution of these technologies, along with further advancements in the mathematical methods that compress, multiplex and encrypt data, continue

to play a major role in determining which media technologies will prevail. Now it seems that the more intelligent standards based IP technology is at the heart of a better solution for television. If so, that could place cable in a quandary as it risks everything on its current, dare we say it, dumber pipe. Of course cable can with sufficient time, money and will switch many of its systems to a unified, less capital intensive and lower operating expense IP configuration. Now sell that to an investment community that recently bought into the previous scenario of very big pipes, proprietary walled gardens, VOD systems and high fences! Still Brian Roberts, CEO of Comcast, and the cable brotherhood have shown that they can reverse field when they have to; as illustrated when Comcast recently switched from attacking TiVo and DVR technology to jumping on board—with a look of innocence on its public face. Yet can the cable masters of a veritable zoo of proprietary technologies and legacy boxes really fully embrace a unified standards based IPTV solution? We will just have to wait and see.

To illustrate how difficult it is to accept drastic change consider the following bit of history: The balance between carrier power and battleship power in the great navies of the world prior to and during World War II is in some ways analogous to today's contest between IPTV and cable TV technologies. While the

battleships, those dreadnaughts of the high seas, had enormous firepower that was able to launch massive shells 35 miles or more, by 1938 they had become vulnerable to carrier air attack. In the US General Mitchell and a few intrepid navy men argued for more carriers, as did Admiral Yamamoto in Japan. When push came to shove at the port of Toronto in Italy, Pearl Harbor and also at the Battle of Midway it was carrier mobility and firepower that carried the day. As to the battleships, including the German battleship Bismark and a fleet of American and other battleships, they

were either sunk or in humiliation locked at safe harbor. Thus by late in the war the carriers ruled the high seas while the battleships were relegated to such lesser roles as to be off-shore batteries to cover

landings at Normandy and elsewhere. Today the US Navy has a dozen or more great carrier battle groups and no battleships. Nonetheless, back in the mid nineteen thirties it was very difficult to tell whether the carriers could succeed as a counterweight to the great battleships. Now look again at IPTV versus QAM and MPEG enabled cable TV.

Thus to a great extent it comes down as it often does to the vision thing. Is Internet Protocol or IP, especially the standards based variety, the wave of the future or can a plain old big pipe with its great capacity succeed by the sheer weight of its size and throughput? As computer power continues to expand

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it seems reasonable to suppose that a switched network, as in the Telco Model, will ultimately be far more efficient and economic than pushing 500 channels downstream to a client set-top box via a simpler cable pipe. But as no one knows for sure, that contrast is to a large degree what the resolution of this conflict may come down to. Note also that in the IP model all systems, applications and services are managed by one consistent system as opposed to an ad hoc collection of systems and boxes that presently enable the cable business. Is the quickness and skill of a Sugar Ray Leonard the better way or must one rely on the greater firepower of an Evander Holifield? Indeed both are very good, but the market may in the end only support one — as it did with Homo Sapiens over Neanderthals.

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As to the contestants and their playbook, it is important in this examination of IPTV to remember that the game for communications and entertainment media dominance is populated by a great variety of different folks driving an array of systems that all have serious limitations. They include: broadcasters who are now thanks to the FCC somewhat short of sufficient direct access to the majority of American homes, satellite providers who have limited broadband and lack a two-way pipe, cable providers who lack wireless capabilities and enterprise customers and a deep knowledge of telephone

communications and telcos who lack contacts, infrastructure and experience in the entertainment arena. So all are deeply flawed at least for the time being and no one is the clear winner. Except for all that, the cable companies with their nearly completed all fibre pipe and digital infrastructure are indeed a ways ahead of the pack when it comes to gadgetry and systems — but not marketing. However, when it comes to the loyalty of subscribers, satellite is king while the telcos have also earned a high level of trust from the public, especially when compared to cable. As to marketing to the consumer in general, the broadcasters are not bad while the satellite folks are at times downright brilliant. With their leftover monopoly mentality and a pension for focusing on Wall

Street and Washington DC, both the Telcos and the Cable MSOs display limited acumen when it comes to marketing to the consumer. Sorry Char, but putting on one after another self-congratulatory cable marketing and technology songfest — while most interesting and lots of fun — does not necessarily lead to effective marketing to the consumers in this competitive era.

Superimposed on this mosaic of media haves and have nots is a wide and uneven tapestry of regulations and regulators. With convergence now really underway, can the necessary rules be made to apply uniformly on an equal basis to cable, satellite, broadcasters and the telcos alike? So

far it would seem not. As cable seeks to make great headway against its competition with VoIP and the triple play, based among other things on providing real telephone service, it is sure to come under the umbrella of FCC regulation. How could it not? As to rights management issues and the DRM and CA used to protect the commercial interests and copyrights of business, the Department of Commerce will surely have much to say about how cable, satellite, telcos and broadcasters apply a uniform standard as they provide limited copying and other fair use to libraries, researchers and vacationers. As some regulations come from the States, the telcos will be challenged to navigate an additional legal maze or two as they seek to spread their wings with IPTV.

As to providing a level playing field for the variety of providers offering similar services, a uniform set of standards and a common jurisprudence needs apply to IPTV and all other services. In the end the major cable MSOs such as Cox and Time Warner may rue the day they entered the phone business — as they may now be regulated. As many observers have noted, the excess of profanity, sex and violence — as in rap music videos on MTV — that are being shown on a daily basis on several cable TV networks is sure to attract the watchdogs in Congress as well as the government regulators. Even as Viacom blames its subsidiary CBS which in turn blames its sister

company MTV which in turn blames Janet Jackson who blames her wardrobe manager and her parents — the grubbing for advertising money continues unabated. Is this a First Amendment issue? We think not, it is only about plain old decency. Perhaps we should ask the sage of US Commerce John McCain where is Commerce and where is the US Senate on these issues?

How ironic it seems that each of these law centric media businesses now finds itself vulnerable to the vagaries of the state apparatus and its multi-faced apparatchiks. Today satellite systems are critical to national defense,

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communication systems are at the heart of national security, broadcast has always been regulated and now the cable MSOs have wedged their way in as well. So we have the makings of a Washington lobbyist free for

all. At stake is the very fabric of a free society, its institutions, its industrial and commercial base and most of all the protection of the rights of families, those who are raising the next generation of free Americans. Today, it seems fair to say that as advanced media goes, so goes the nation. Make no mistake about it the ICE of life — Information, Communications and Entertainment — is a large part of the basis of modern life, thus the providers of ICE are to a high degree responsible for what the citizens see and hear about their world whether at home, at work and at play. In this context it is best to

let all the media services providers compete on a level playing field — excluding those who attempt to improperly influence government officials or violate the rights and privacy of the public.

This brings us to IPTV and the consumer. All arguments based on the idea that cable and the VPNs, as private networks in a free market society, are free to maximize their profit at the expense of the consumer are somewhat suspect. For they pale in importance when compared to the greater societal need to protect the children, shield the home from excessive intrusion by commercial interests and preserve the free and democratic bicameral form of government we enjoy today. After all, freedom and free enterprise do not mean that anyone empowered with advanced technology and systems can willy nilly trample on consumer rights, ignore the sanctity and privacy of the home or the citizen's right to raise his or her family in their own way. So cable in particular, with its MTV and other virtual miscreant networks, may indeed need to be throttled and possibly regulated. Say to compete on an equal footing with the telcos, or to limit the obscenity some may for profit's sake wish to share with the children of America. On this subject Republicans and Democrats can generally agree, while only a few from the extreme right and left or from far down below may continue to seek First Amendment protection for such foul

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play.

With regard to those consumers, we heard at the recent Parks Associates Connections Conference in San Francisco that the telcos are still struggling to shed a legacy enterprise mentality that dates back to the days when AT&T was king of the world. As a consequence it was reported that it is uncertain that the Telcos and ILECs can gain a true consumer focus in time to compete effectively against the cable and DBS providers. Ms. Hyeon Lee, VP of Samsung and a former executive at Lucent, pointed out that in Korea the service providers including the Telcos are focused on making love with the consumers —

i.e. putting the consumer first and foremost at the heart of their marketing efforts. She also noted that the big problem in the US and Europe is not a lack of interest or understanding on the part of the consumer, but

the often outdated attitudes of media providers who are unable to shed their ingrained enterprise first mindset. If this is true, then cable will indeed maintain the upper hand over the telcos for years to come. In fact in the US it seems fair to suggest that the cable MSOs, the Telcos and the broadcasters all have a big corp mindset wherein they may portray the consumer as a dupe or a dope to be manipulated and exploited. Only the DBS satellite folks seem to fully appreciate that we have now entered the consumer in charge stage in our economic history. For them it is long

live Joe and Jane as couch potato TV viewers and their PC, PDA, IPTV, iPod, Play Station and cell phone enabled children, Jack and Jill.

As to IPTV at the center of the competitive game for media hegemony, it is based on great technology that can only get better. After all, the Internet is an ORCA or an open revenue channel access system and IPTV and IP Video are its progeny. Of course much IP for TV will also find itself supporting virtual private networks (VPN) and other closed networks for data control. Nonetheless, true IPTV is likely to achieve its greatest success in the open cloud that is the Internet. With Google, Yahoo, Microsoft and many others prepared to enable the logistical technologies necessary to effectively search and navigate the soon to be millions of content websites on the open network, it is sure to become a big hit. Indeed it may in time, in terms of the size of its public, eclipse the primary commercial entertainment networks. Services such as DaveTV and Akimbo that offer specialized content and services may soon reach directly into millions of homes via the Internet; while largely bypassing the broadcast, telco, cable and satellite service providers.

As to the major telcos committed to an IPTV solution to deliver video and television to the public including SBC, Verizon and Bell South, it is inaccurate to paint them

all with the same brush. Indeed Verizon is most anxious to be first to market, more than it is to be first with the best technology or service. To the outside eye it would seem that they are taking what they believe to be the safe and sound business approach of mimicking the successful cable distribution model. Is this the best way for them to go? No one can say for sure. With technology evolving so rapidly, those who now lag behind may later on have the opportunity to leapfrog their more nimble and intrepid present day competitors. That is ultimately gain the upper hand on those who moved ahead of them early on in the implementation of IPTV

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service. Here we find SBC and its partner 2Wire as a determined duo seeking to better the cable MSOs with truly superior and innovative state of the art IPTV systems. Who is right and who is wrong in these strategies.

The cable folks are betting that Verizon is right and praying that SBC is off the mark. However, with the WinTel pair of Intel and Microsoft in the IPTV camp, it is a little hard to believe that the cable guys and gals will turn out to be right on this. But only time will tell.

In this regard there is a technical fly in the ointment called wireless now emerging, or WiMax to be more specific. It seems that some of the bright folks at Intel and elsewhere believe that such technologies may within a few years gain in the battle for the last mile or two to the home.

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If this were to be the case, than laying lots of FTTH or FTTN or FTTP as in Fibre To The: Home, Node or Premise may not be necessary and SBC may be about to waste billions of dollars. In any case, if WiMax becomes a big success in this arena it is likely to be very bad news for the cable MSOs as gatekeepers, as over-the-air intruders and interlopers will have breached their 'Heavens Gate'. In that eventuality, there goes the cable neighborhood with its protected three-way and four-way play. In Zen philosophy they speak of the eight-way, and maybe that is the future of the media world. In any case, the role of wireless is most critical to the evolving IPTV entertainment space.

Also on the technical side, the upcoming major upgrade of the worldwide Internet technical specification from version IPV4 to IPV6 will greatly enhance IPTV. Indeed security will be even better, multicasting will be enabled and other technical enhancements will further empower this world standard. As is to be expected, the legacy Internet traffic router boxes that are more than a few years old will need to be replaced. But this is a small price to pay for a greatly enhanced capability. Working in conjunction with the new MPEG4 video compression standard, IPV6 will make it possible to move massive amounts of standard and high definition TV and video over the public and private networks. As they like to say in show business: "That's a

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wrap!" And what an electronic wrapper it is, as these new capabilities help to move the IPTV paradigm forward once again.

Finally it will come down as it always does to the willingness of some lead players to spend money and face risk. If the telcos are moving into the IPTV business primarily to pacify Wall Street, they will never invest enough to make real headway against cable. If on the other hand, they see cable's three-way play, which includes VoIP, as a real challenge to their overall business, they will be far more willing to walk the last mile and invest heavily. Indeed there is always a risk that comes with owning a fat cash cow and hoping that it will never get sick. For the telcos their enormous profit from legacy enterprise telephone service does represent such a cash cow and they will seek to protect and preserve it at all cost.

However, with wireless now nearing cost and service parity with landed telephony, the enterprise telephone service business will face more and more competition and the telcos may even find themselves losing out to a new class of telephone service providers.

With VoIP now in at least twenty-five percent of the Fortune 500 companies, is preserving the telco enterprise play in big business telephony a realistic goal? We think not. If we are right, the Telco's are now in a fight for their lives, their very survival, as they face

the cable MSOs! In this scenario convergence has taken place and all the various service providers can offer the two-way, three-way or four-way play of Information (Internet access which some still call data), Communications (as in VoIP), Entertainment (like TV, Video and Gaming) and Wireless (as in cell phones and connected PDAs). In this world the Telcos must go all out and invest as much as \$20–40 billion to properly arm their legions for success or at least survival. Were they to fail to make the big bet and only invest \$10 billion or so, then they could fail to hold their ground and in time be relegated to a minor role to become a footnote in high tech media history. Our money is on the Telcos listening to their greater gods and doing the right thing for their shareholders, by investing and investing some more.

At the start we offered a walkabout on the rise of IPTV and you have weathered this tour. It is indeed a very complex economic game involving great industries, great companies and many creative and even inspired folks. In the wake of IPTV will come another whole wave of media convergence. All of this is at the heart of providing media services that appeal to the consuming public in a consumer-in-charge media world. It seems that all of the players in the game including the Telcos, the satellite providers, the cable MSOs and the Broadcasters have serious limitations yet they are likely

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to stay the course. There is also a great legion of technology providers, hardware houses, service providers, application companies, advertising companies, research outfits and others ready and waiting with new systems and new solutions.

In Shumpeter’s creative destruction in a free market only a few smart and lucky companies can survive. As for the rest, they must consolidate, merge and agglomerate or else fail. In any case the public should be the winner. As to the role of government it must indeed remain a participant so it can be there when it is truly needed, but no more than that. Hands off as an alternate libertarian regulatory method only leads to power and control in the hands of the biggest bully around — not a good solution for the consumer. Full-on New Deal style regulation on the other hand

only leads to equally unacceptable varieties of market socialism and market decay. With so much at stake everyone in the media needs to contribute to the issues discussed herein so that an efficient IP based media can arise wherein all happily skate on thick secure ICE. Say you read it here first, then play on your ICE and move on through.

(Leo Willner and Greg Kalsow contributed to this issue. In order to discuss any of these points with the authors, please e-mail them at: leo@cmsderfler.com and greg@cmsderfler.com)

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—Georgia Pech, Editor]

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