

Approaching the Zettabyte Era



“Approaching the Zettabyte Era” is part of the Cisco Visual Networking Index, an ongoing initiative to track and forecast the impact of visual networking applications. This paper presents some of the key findings of Cisco’s global IP traffic forecast and explores the implications of IP traffic growth for service providers. For a more detailed look at the forecast and the methodology behind it, please see the paper “Cisco Visual Networking Index – Forecast and Methodology 2007–2012.”

June 16, 2008

Executive Summary

Annual global IP Traffic will exceed half a zettabyte in four years. At just under 44 exabytes per month, the annual run rate of traffic in late 2012 will be 522 exabytes per year. A zettabyte, or 1,000 exabytes, will be the new milestone to look for beyond 2012.

Global IP traffic will nearly double every two years through 2012. Total IP traffic in 2012 will be six times larger than it was in 2007, and four times larger than it is this year. Driven by high-definition video and high-speed broadband penetration, consumer IP traffic will bolster the overall IP growth rate so that it sustains a fairly steady growth rate through 2012, growing at a compound annual growth rate (CAGR) of 46 percent.

The Internet in 2012 will be 75 times larger than it was in 2002. Internet traffic will generate 28 exabytes per month in 2012, the equivalent of seven billion DVDs each month.

Last year was a year of phenomenal growth in IP and Internet traffic. Total IP traffic grew 55 percent during 2007, and is estimated to grow by 63 percent in 2008. Following the same pattern, Internet traffic grew 46 percent in 2007, and is estimated to increase 51 percent in 2008. After this the annual growth rate will begin to decline, and the growth rate of IP traffic in 2012 will be 32 percent.

P2P is growing in volume, but declining as a percentage. Compared to last year, peer-to-peer (P2P) file sharing networks are now carrying 600 petabytes per month more than they did this time last year, which means there is the equivalent of an additional 150 million DVDs crossing the

network each month, for a total monthly volume of over 500 million DVD equivalents, or two exabytes. Despite this growth, P2P as a percentage of consumer Internet traffic dropped to 51 percent at the end of 2007, down from 60 percent in 2006, and is estimated to drop to 44 percent by the end of 2008. The decline in traffic-share is due primarily to the increasing share of video traffic. A secondary factor in the decline is a trend toward web-based file sharing in place of P2P file sharing in some regions.

Video Highlights

Internet video is now approximately one-quarter of all consumer Internet traffic, not including the amount of video exchanged through P2P file sharing. Internet video was 22 percent at the end of 2007, and will reach 32 percent by the end of this year.

The sum of all forms of video (TV, VoD, Internet, and P2P) will account for close to 90 percent of consumer traffic by 2012. Internet video alone will account for nearly 50 percent of all consumer Internet traffic in 2012.

In 2010 Internet video will surpass P2P in volume. This will be the first time since 2000 that any application has displaced P2P as the top traffic driver.

In 2012, Internet video will be nearly 400 times the U.S. Internet backbone in 2000. It would take well over half a million years to watch all the online video that will cross the network each month in 2012. Internet video will generate 10 exabytes per month in 2012.

The Internet is (still) not collapsing under the weight of online video. Service providers are accelerating their infrastructure upgrade plans in response to the traffic growth. As a result of the upgrades, utilization levels of international Internet backbones actually declined in 2007, as reported by Telegeography.¹ In the near term, the most formidable challenge that online video poses for the Internet backbone will be flash crowds rather than the overall volume of traffic.

YouTube is just the beginning. Online video will experience three waves of growth. Even with a six-fold increase between 2007 and 2012, current Internet video growth is in its initial stages. Internet video to the PC screen will soon be exceeded by a second wave arising from the delivery of Internet video to the TV screen. Beyond 2015, a third wave of video traffic will result from video communications.

Video communications and dynamic video content will ultimately test the Internet more than pre-recorded video content. Service providers have a host of options available to help ease the burden of on-demand video traffic. Real-time video communications, on the other hand, will be a bandwidth burden with few remedies.

Non-Internet IP video will increase more rapidly than consumer Internet. The twin trends of on-demand viewing and high-definition video are generating very rapid growth in cable video and IPTV traffic transported over IP in the metro. Consumer IPTV and CATV traffic will grow at a 65 percent compound annual growth rate (CAGR) between 2007 and 2012, compared to a CAGR of 43 percent for consumer Internet traffic

The sheer volume of video creates the potential for traffic “surprises.” Consumer behavior evolves slowly, but the hefty size of video files means that mass adoption is not necessary for massive shifts in traffic patterns. This phenomenon is similar to the P2P phenomenon, wherein service providers and network operators were taken by surprise when a small number of Internet users began to generate a very large amount of traffic. Like P2P, video makes Internet traffic less

¹ Source: Telegeography, Global Internet Geography, 2008.

predictable than ever, and should certain unexpected scenarios develop the forecast from Cisco may prove too conservative.

Video changes the equation for service providers. Video consumes more than its weight in bandwidth, in the sense that consumers pay much less per megabyte for video than for any other content or service. With the advent of over-the-top services, services are no longer tied to underlying connectivity, and it is increasingly the case that service revenue is no longer tied to connectivity revenue. However, consumers are not in the habit of valuing services according to how much bandwidth they consume. In response, consumers may develop a more advanced bandwidth vocabulary, and service providers will develop new revenue models.

Video will shift the topology of IP traffic. Growth in the core is strong, and growth in the metro is even stronger. Between 2007 and 2012, core IP traffic will quintuple, and metro IP traffic will increase by a factor of seven. Beyond 2015, traffic growth in the core will begin to accelerate again, as non-cacheable video content gains popularity.

Mobile Highlights

Mobile data traffic will double each year from now through 2012. Mobile broadband-enabled laptops are creating sharp increases in mobile traffic. In some parts of the world, mobile broadband is becoming a substitute for fixed broadband. The result is that mobile data traffic in 2012 will be over twenty times what it is today.

Japan's mobile data and Internet traffic was still twice as high as that of any other region in 2007. However, by 2009, North America will surpass Japan in mobile traffic, as will the rest of Asia-Pacific.

Global Highlights

Internet traffic is growing fastest in Latin America, followed by Western Europe and Asia-Pacific. The rapidly increasing Internet penetration and the advent of high-speed connections to a greater number of universities and businesses will result in Latin America having the highest growth rate through 2012.

Business Highlights

Business IP traffic will grow at a CAGR of 35 percent from 2007 to 2012. Increased broadband penetration in the small business segment and the increased adoption of advanced video communications in the enterprise segment will result in a CAGR of 35 percent for business IP traffic from 2007 to 2012.

TelePresence will start to be a significant driver of enterprise IP network traffic by 2012. In 2012, the amount of TelePresence traffic on enterprise WANs will be more than five times the volume of the entire U.S. Internet backbone in 2000.

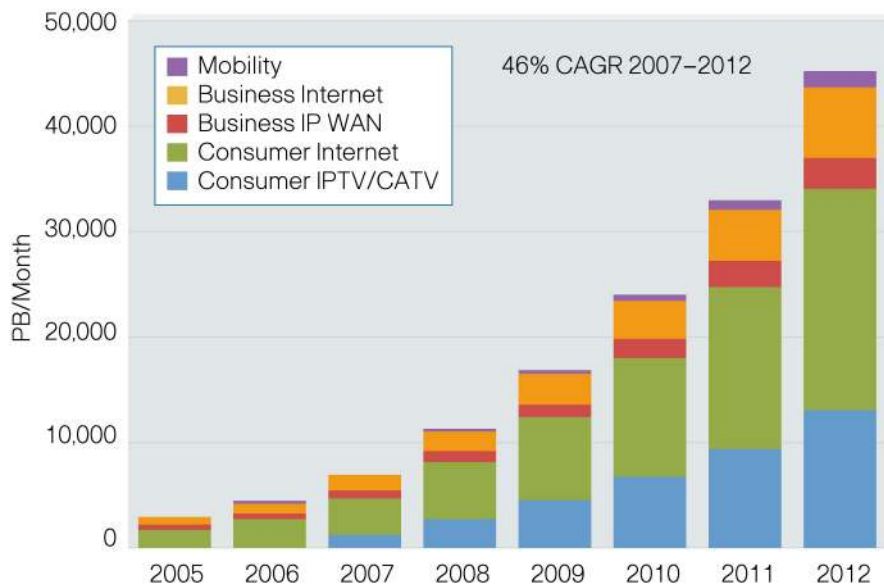
Business Internet traffic will grow fastest in developing markets and Asia-Pacific. North America, Western Europe, and Japan will have slower growth rates. In volume, North America will continue to have the most business IP traffic through 2012, followed by Asia-Pacific and Western Europe.

Stating the Obvious: Video Is Causing IP Traffic Growth

According to Cisco's global IP traffic forecast, consumer video will be responsible for the majority of the traffic growth between 2007 and 2012. As Figure 1 shows, overall IP traffic is expected to grow to 44 exabytes per month by 2012, and over 32 of those are due to consumer traffic. Consumer traffic, in turn, is driven by IP transport of VoD over the metro (11 exabytes per month in

2012), Internet video streams and downloads (about 10 exabytes per month in 2012), and the exchange of video and other files through P2P.

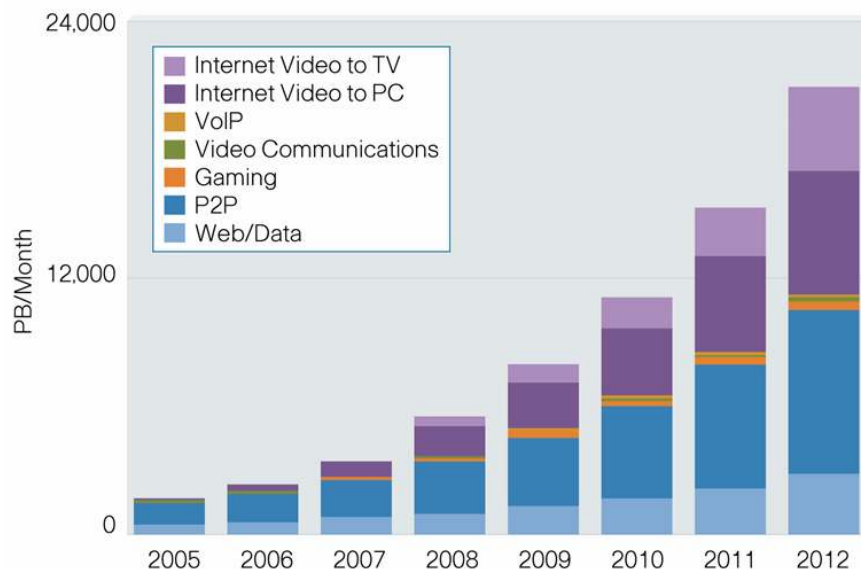
Figure 1. Cisco Forecasts 44 Exabytes per Month of IP Traffic in 2012



For more details, see the paper entitled "Cisco Visual Networking Index – Forecast and Methodology 2007–2012." Source: Cisco, 2008

Figure 2 shows the components of consumer Internet traffic growth. Of the 20 exabytes per month of consumer Internet traffic that will be generated every month in 2012, nearly 50 percent is due to Internet video.

Figure 2. Cisco's Global Consumer Internet Traffic Forecast



Source: Cisco, 2008

Given the importance of video in IP traffic growth, this paper will focus on video as the primary factor of global IP traffic growth.

YouTube Is Just the Beginning

“Four percent of all the bits going across high-speed Internet lines at Comcast is YouTube.” Brian L. Roberts, CEO of Comcast, 2007.

“Only about 2 percent of our traffic in Europe is estimated to be YouTube traffic... We’re not concerned about it.” Mike Fries, CEO of Liberty Global, 2007

YouTube traffic is both big and small: big enough to impress but not yet big enough to overwhelm service provider networks. It is nothing short of amazing that a site launched at the end of 2005 grew to take up 4 percent of all traffic by the beginning of 2007. By Cisco’s estimates, YouTube accounted for 20 percent of online video traffic in North America in 2007, and online video-to-PC amounted to 19 percent of overall North American consumer Internet traffic. In response to this remarkable development, many service providers are accelerating their capacity upgrade plans. But the Internet is not collapsing under the weight of YouTube traffic, nor is it likely to. Even more significant than the traffic it generates is the new era of online consumer behavior that YouTube represents.

What YouTube Really Means

The success of sites like YouTube and MySpace brings to light the social aspect of video. Entertainment is not the sole purpose of video; in addition to delivering information and providing entertainment, video can serve as a centerpiece for social interaction or as a means of expression. The “couch potato” phenomenon may have been overemphasized. Television has always been a platform for social and familial interaction as much as it has been a vehicle for delivering content.

Given the varied aspects of video, it is difficult to say that “content is king.” The throne appears to belong instead to the combination of communications and content.² This combination has shown itself to be powerful enough to have enticed millions of Internet users to do something they previously showed little interest in doing: watching low-quality video on a small screen. YouTube offers more than unique content, it offers a platform for social interaction. YouTube viewers are not watching video despite the computer screen, but because of it – the PC is ideal for interactivity, even if only the simple but effective ability to send a link. Traditional television may begin to seem less desirable than video that can be sent, shared, tagged, clipped, mashed up, and chatted about. Video as pure entertainment will always have its place, but even so it may turn out that to future generations, the home theater silo and its isolated video experience will appear quaint.

The Separation of Video into its Various Aspects

With the advent of multiple video platforms, the video experience has separated into its component aspects. When content is primary, the home theater is the best platform. When the social aspect is primary, the PC is best suited because it offers interactivity and social networking. When the creative or expressive aspect is primary, the PC and the mobile device are best suited.

² Andrew Odlyzko has long been a defender of communications against the “content is king” camp. See “Content is not king”, First Monday, February 2001 and “Finding a Voice: Learning from History”, pages 58-64 in Connected Homes, F. Gil de Bernabe y Varela, ed., Cisco, 2004. See also <http://www.dtc.umn.edu/~odlyzko/doc/recent.html>.

As the video experience migrates to new platforms, the traffic shifts accordingly. This framework can explain many of the shifts in IP traffic patterns that will occur over the next five years, and can be used to think through future scenarios, and to identify contingencies:

- Without Internet-enabled set-top boxes (STBs), there is little incentive for high-definition content to cross the Internet, with the exception of video files downloaded using P2P and then burned to DVD. Conversely, with the advent of Internet-enabled STBs (including gaming consoles), Internet video traffic can be expected to surge.
- Even when Internet-enabled STBs are widely deployed, not all Internet video viewing will migrate to the television screen. Until gaming consoles, next-generation STBs, or advanced remotes bring interactivity to the television experience, any user seeking a social or conversational viewing experience will continue to view video on the PC. Mobile devices are also well suited to sharing short video clips, so a portion of social video viewing traffic will migrate to mobile networks.
- Viewers who are more motivated by content than experience or social interaction will seek out content in the most convenient form, be it from a mobile device, laptop, or TV. As more content becomes available online, usage will migrate from TV to other devices. In European and Asian homes with an average of one television set per household, laptops and mobile devices will serve as additional screens.
- Viewers who are looking for passive diversion rather than social interaction, content, or experience will rely on mobile TV services while away from home and traditional broadcast programming while at home.

Table 1 explores the traffic shifts that will likely result from these device shifts.

Table 1. Video Trends and Traffic Shifts

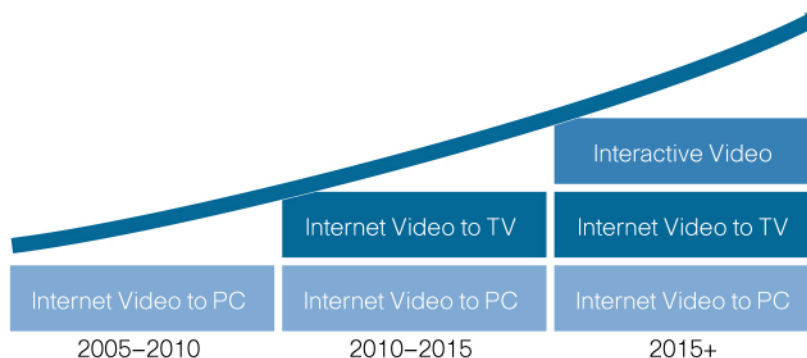
Video Trends, Implications, and Contingencies				
Trend	Network	Today	Tomorrow	Impact
High-definition	Commercial network	Experience is the primary driver of HD traffic, and the HD experience is tied to the home theater. Therefore, the majority of traffic is delivered by the network attached to the home theater, the commercial video service.	The commercial network will still be important in delivering content, especially with advanced features such as multiple angles and dynamic customization.	The main impact of HD broadcast on commercial networks will be in the access portion of the network, especially for IPTV providers. An HD household with multiple sets and DVRs will easily exceed the capacity of DSL.
	Internet	A small population of early adopters is using media gateways and other means (DVD burning) to transfer downloaded high-definition content to the high-definition set.	Devices that directly Internet-enable the home theater will drive significant traffic to the Internet, as viewers turn to the Internet for niche content and other unique content not available through commercial on-demand services.	Extremely high impact. It is primarily due to the heft of HD content that Internet-to-TV traffic will bypass Internet-video-to-PC traffic by 2009 and will exceed 1 exabyte per month in 2011.
On-demand	Commercial network	Commercial on-demand networks are experiencing high growth.	Commercial on-demand services will continue to experience high growth. When content is available on both Internet and commercial on-demand, and when viewers don't require the interactivity or portability of the PC or mobile device, viewers will tend to prefer commercial on-demand for the speed and ease with which they can access the content.	Extremely high impact not only in the last mile, but also in the metro. The transport of video on demand far outweighs the transport of broadcast traffic.

Video Trends, Implications, and Contingencies				
	Internet	Viewers have turned to the Internet to view or purchase missed episodes that are not available through commercial on-demand.	In addition to those who look to the Internet for content not available elsewhere, there will be migration of video traffic to the Internet and mobile networks from viewers who are seeking the convenience of watching on a PC or mobile device.	Some amount of time-shifting traffic will be channeled over the Internet, but to the extent that the content is available through VoD, much of this traffic will remain on the commercial network. In contrast, most place-shifting traffic will travel over the Internet. If place-shifting is offered by service providers in the future, its use will broaden to include close-to-home applications, and it will significantly impact the network.
Conversational viewing	Internet	Because interactivity is required for conversational viewing, the PC is the preferred device, and the Internet is its network. For the most part, conversational viewing is being offered by platforms like Joost, or by PCCW.	Short-term, conversational viewing may cause much video traffic to migrate from the commercial network to the Internet. Long-term, the video portion of this traffic has the potential to shift back to the commercial network, if devices that lend interactivity to the home theater appear on the scene.	The draw of conversational viewing has the potential to be a major driver of long-form video viewing on the PC, and therefore a major driver of Internet video traffic. Mass adoption of conversational viewing is not assumed to take place before 2011 in the forecast, but the potential exists for earlier-than-expected adoption.
Social networking	Internet	Because interactivity is required, the PC is the preferred device.	In the near term, this traffic is likely to remain on the Internet with the PC as the interface, with some shift to mobile devices.	Social networking has already driven much of the short-form video viewing on the Internet today.
User-generated content	Internet	The PC is the preferred device for the creation and editing of video content.	The upstream traffic is likely to remain with the PC as an interface, and travel over the Internet.	Upstream user-generated content traffic is likely to grow, but compared to the downstream video trends, the traffic will be relatively light.
Video capture or video blogging	Internet	Today, video blogs are generally made with a webcam, or taken with a digital camera and transferred to a PC.	Video capture and video blogging content is generally not edited, so there is no need for this traffic to pass through the PC. In the short term, this traffic will remain on the Internet with the PC as an interface, but as mobile phone cameras increase in quality, and as digital cameras are increasingly shipped with embedded wireless cards, the first mile will be 3.5G, Wi-Fi, or WiMAX.	Though the volume would be low compared to Internet video traffic, the impact on mobile networks will be high.

Three Waves of Internet Video Growth

Based on the considerations described in the previous section, Cisco forecasts that there will be three waves of Internet video. The first phase is experiencing a growth of Internet video as viewed on the PC, the second phase will see a rise in Internet delivery of video to the TV, and the third phase will involve a surge in video communications. Each phase will impact a different aspect of the network. The first two phases will be felt primarily in the metro and access networks, while the third will impact the core (Figure 3).

Figure 3. Internet Video Will Generate Three Waves of Consumer Internet Traffic Growth



Source: Cisco, 2008

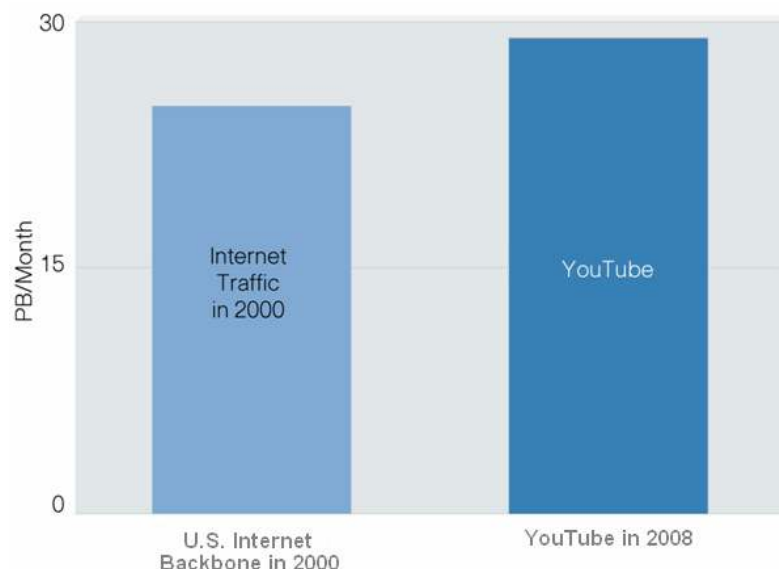
In addition to Internet video, there is very high growth in the IP transport of cable and IPTV video-on-demand services. See the section “There’s More to IP Video than Internet Video,” near the end of this paper.

The First Wave: Internet Video-to-PC

The attraction of a social experience of video has ignited a wave of Internet video. Once consumers are in the habit of watching online video, they are more likely to watch traditional video online as well, a cascading effect that has been dubbed “the YouTube effect.” Even a straightforward, non-interactive, non-social video experience may prove attractive to viewers because (1) the PC is personal and portable; (2) content that is not available through a commercial VoD service may be made available on-demand online by the content provider.

Thanks to the YouTube effect, online video has grown rapidly. Internet video is now approximately one-quarter of all consumer Internet traffic, worldwide. As Figure 4 shows, YouTube alone in 2008 was more than the amount of traffic crossing the U.S. Internet backbone in 2000. Table 2 compares the volume of Internet video traffic with well-known benchmarks.

Figure 4. Internet Video Already Generates More Traffic than the Entire U.S. Backbone in 2000



Source: Public data, comScore, and Cisco estimates, May 2008

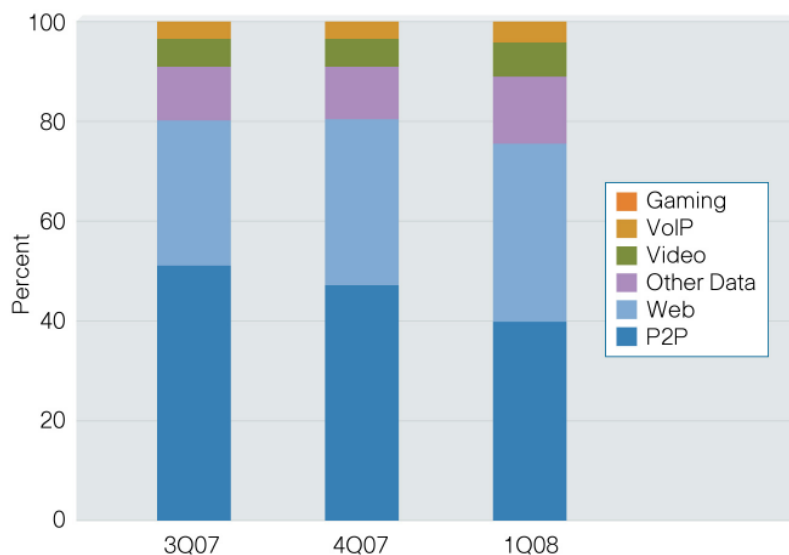
Table 2. Internet Video Traffic Benchmarks

	Terabytes per month
Google (YouTube) – worldwide (Cisco estimate for May 2008)	100,000
P2P Video Streaming in China (January 2008)	33,000
Google (YouTube) – United States (May 2008)	30,500
U.S. Internet backbone at year end 2000	25,000
U.S. Internet backbone at year end 1998	6,000
Xbox 360 movie and TV downloads ³ (Cisco estimate for May 2008)	6,500
Google – United Kingdom (April 2008)	4,300
Google – France (May 2008)	4,200
Fox Interactive (MySpace) – United States (March 2008)	3,300
ABC, ESPN, Disney – United States (March 2008)	3,000
dailymotion.com – France (May 2008)	2,500
Yahoo – United States (March 2008)	2,300
pandora.tv – Korea (January 2008)	2,300
Viacom – United States (May 2008)	1,700
BBC – United Kingdom (January 2008))	1,450
Free.fr video streams – France (January 2008)	200
Fox Interactive and MySpace – United Kingdom (April 2008)	190
Library of Congress book collection	136
Cyworld – video uploads (January 2008)	50
U.S. Internet Backbone at year end 1994	20

Source: Public data, comScore, and Cisco estimates, 2008

Given the impressive figures above, what is generating the majority of traffic, if not Internet video? Figure 5 shows the consumer Internet traffic mix for three service providers. Peer-to-peer is still the dominant type of traffic and ranges from 40 percent to 55 percent of residential broadband traffic, while video ranges from 5 percent to 10 percent.

³ Unlike the other figures in this table, which are based on public data on the number of streams or hours of viewing or gaming, the estimate for Xbox 360 video downloads is based on Cisco's assumption that 10 percent of the Xbox 360 installed base in the United States and Europe is downloading two high-definition movies per month, and two television shows per month.

Figure 5. Consumer Broadband Traffic by Application for Three Consumer Broadband Service Providers

This data is taken from three installations of the Cisco Service Control Engine, as part of the Cisco Visual Networking Index initiative. It is meant as anecdotal evidence, and the traffic splits may not be representative of the entire region.

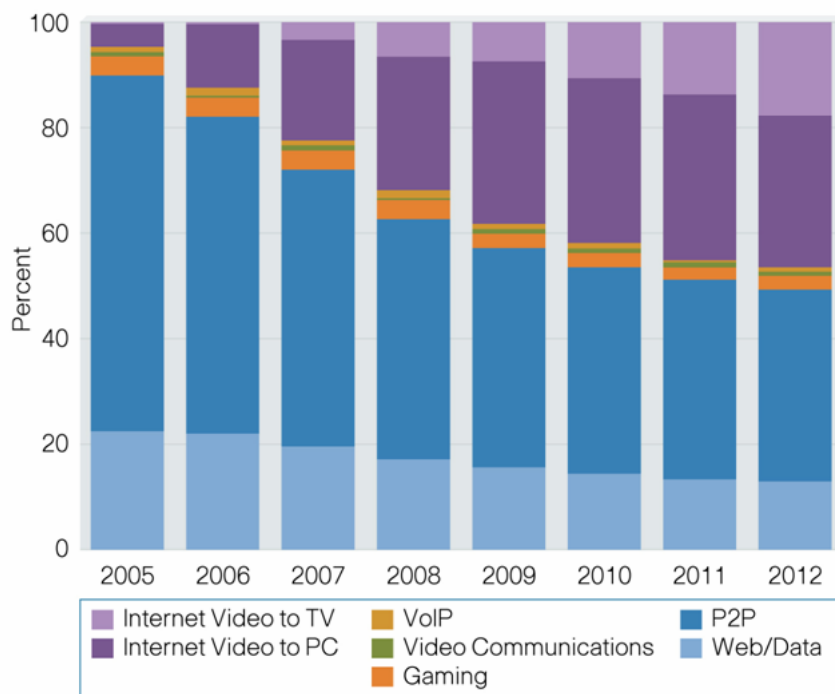
Source: Cisco, 2008

Note that P2P traffic is also being impacted by the exchange of standard- and high-definition video files. Assuming video files account for at least 50 percent of P2P traffic, video is already the dominant type of content in terms of traffic. Driven by video, P2P is expected to grow at a CAGR of 31 percent from 2007 to 2012. Because of the difficulties of estimating specific types of P2P traffic, video-to-PC is treated separately here. Given this definition, Internet video-to-PC does not compare to the volume of P2P seen by service providers today, and will pale in comparison to the second wave of Internet video, stemming from delivery of Internet video to the TV screen.

However, there is an important factor that should be mentioned, which is Internet-TV-to-PC. The delivery of television broadcast content to the PC through P2P distribution has the potential to push PC-based video traffic much higher than the forecast projects. P2P television is not entirely new and has already created a small niche for itself among early adopters, but the population appears to have remained limited. If companies like Joost succeed in reaching a larger population, then PC-based video will continue to dominate Internet video traffic for a longer period than indicated in the forecast.

The Second Wave: Internet Video-to-TV

In terms of bandwidth, the traffic due to video will accelerate dramatically once Internet-enabled set-top devices are deployed by service providers. The viewing of Internet video by way of the STB will make up only a very small fraction of overall viewing in number of views, but because of the long-form and higher-definition nature of the content, Internet video-to-TV traffic will begin to catch up with Internet video-to-PC toward the end of the forecast period.

Figure 6. Cisco's Global Consumer Internet Traffic Forecast

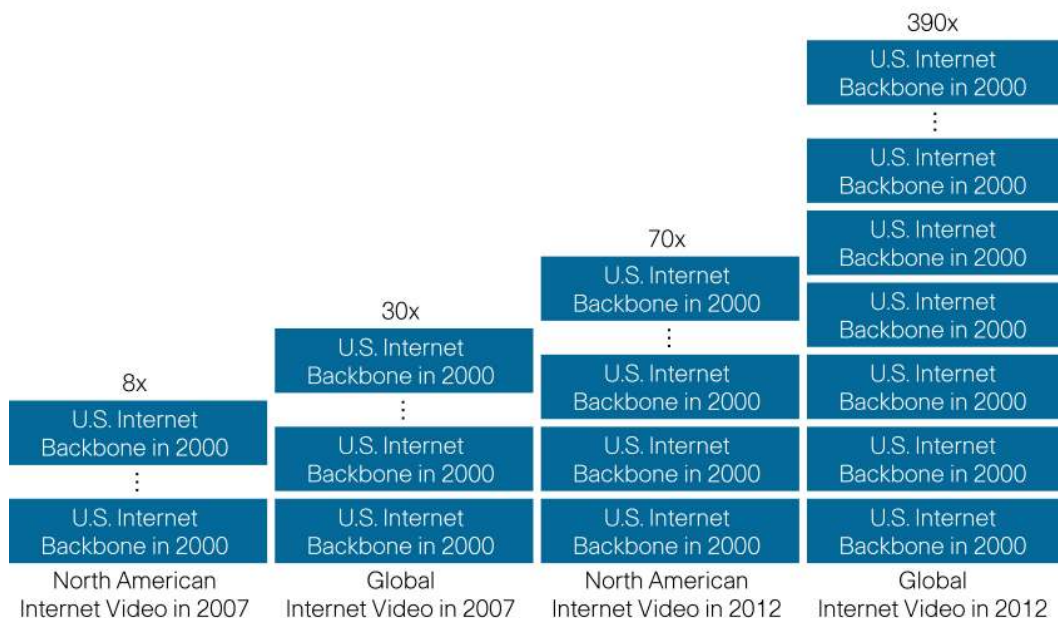
For more details, see Cisco's white paper entitled "Cisco Visual Networking Index – Forecast and Methodology 2007–2012."

Source: Cisco, 2008

Factors and Implications of the Second Wave

The next big thing is really big. The sheer volume of video is the defining factor of the second phase of Internet video traffic growth. Forty hours of high-definition video generate as much traffic as a million email messages. To put the scale of video into perspective, Figure 7 shows the growth of Internet video (both video-to-TV and video-to-PC, so it represents the first two waves of Internet video) in units of the U.S. Internet backbone traffic in 2000. Global Internet video in 2007 was 30 times the 2000 U.S. Internet backbone, and global Internet video traffic in 2012 will be 390 times the 2000 U.S. Internet backbone. The numbers are large, even though Internet video will still be under 50 percent of consumer Internet traffic in 2012.

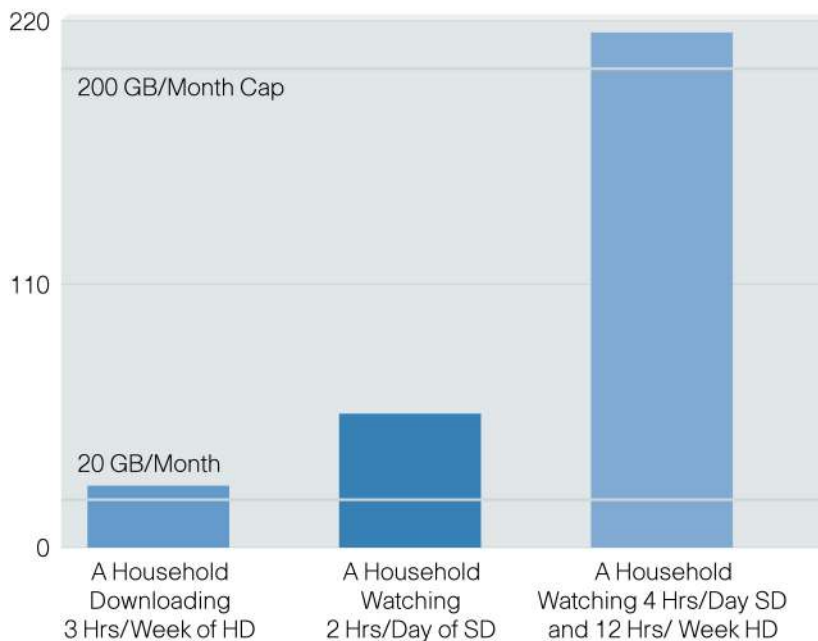
Figure 7. Global Internet Video Traffic Growth In Perspective



Source: Cisco, 2008

Today’s “bandwidth hog” is tomorrow’s average user. P2P bandwidth hogs have not elicited much sympathy from the general public, and service providers have been able to institute usage caps without causing much public outcry. However, a household downloading just 3 hours of high-definition content a week would generate at least 27 GB per month, which already exceeds the bandwidth caps of some service providers. Should Internet television become mainstream, 2 hours per day of standard-definition television viewing via the Internet would put a household at 54 GB per month. A household downloading 12 hours of high-definition video per week and 4 hours of standard-definition video viewing per day would easily exceed the most generous of service provider bandwidth caps, usually around 200 GB per month. Cisco’s IP traffic forecast is based on much more conservative assumptions (generally less than 10 hours of Internet video content per month through 2012), but the forecast may prove too conservative if Internet delivery of television is adopted on a large scale.

Figure 8. How an Average Household May Exceed Service Provider Bandwidth Caps

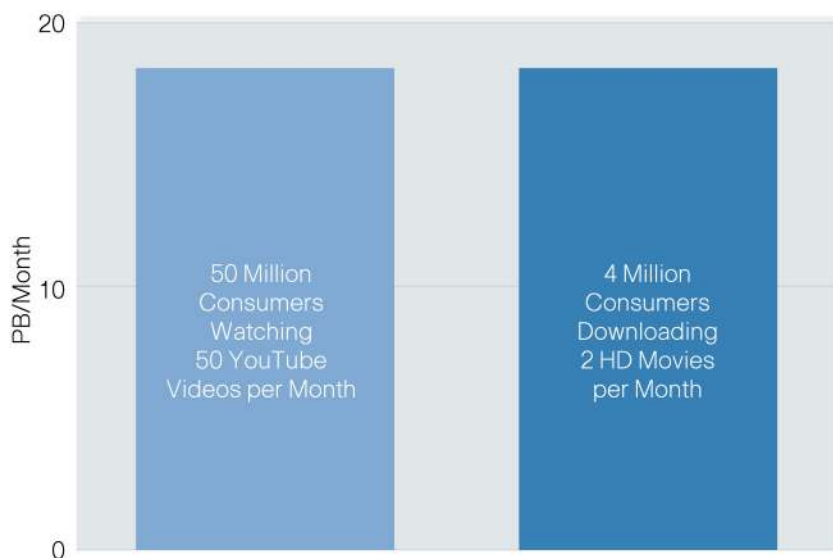


HD = High Definition
SD = Standard Definition

Source: Cisco, 2008

Minority rules. The weight of high-definition video means that, in video as in P2P, a small percentage of users can generate the majority of traffic, which makes forecasting video traffic growth less predictable than browsing or email traffic. This is especially the case with high-definition video traffic. Figure 9 shows that 4 million high-definition video consumers can easily generate as much traffic as 50 million YouTube consumers.

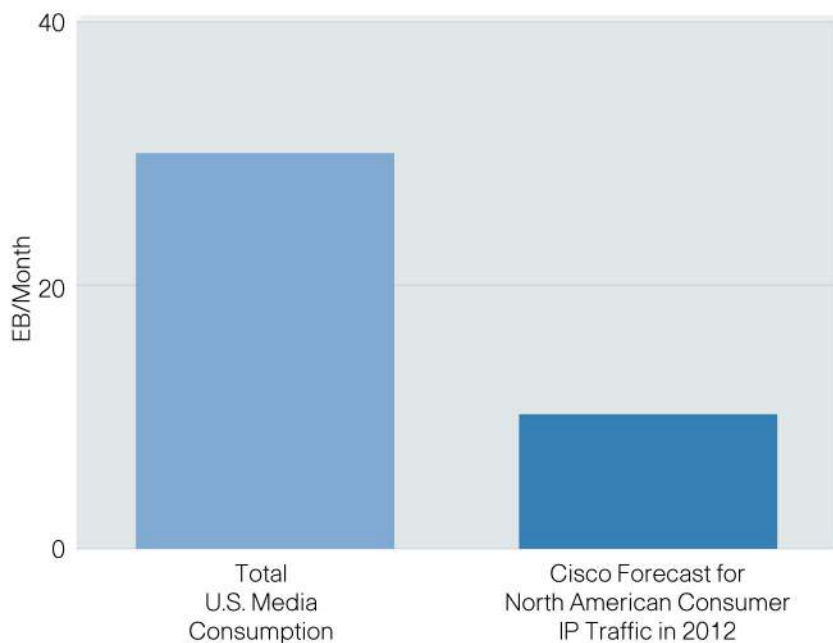
Figure 9. 50 Million YouTube Viewers Equal 4 Million High-Definition Video Consumers



Source: Cisco, 2008

How high can it go? The average U.S. adult consumes the equivalent of nearly 120 GB per month. The total media consumption for the United States is the equivalent of 30 exabytes per month. If all television viewing were on-demand (standard-definition), the sum total of metro IP traffic would approach this figure. Cisco's forecast for North American consumer IP traffic (including all consumer Internet traffic) in 2012 is 10 exabytes per month.

Figure 10. Total U.S. Media Consumption Is 30 Exabytes Per Month



Source: Cisco, 2008

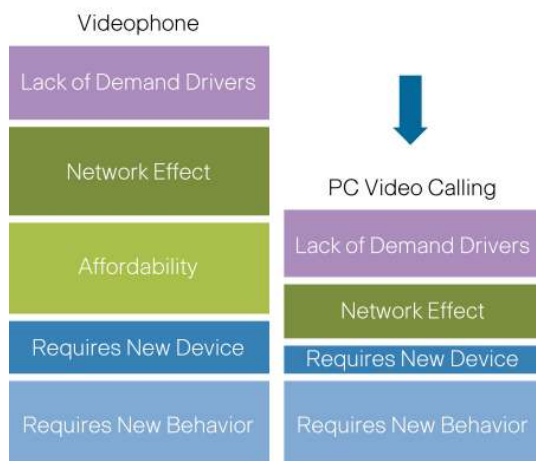
The Third Wave: Internet Video Communications

Beyond 2015, a third wave of video traffic will be generated by video communications.

Video calling has been touted as the next big thing repeatedly over the past several decades, each time with abysmal results. What reasons are there for thinking that video communications might trigger a third wave of video traffic less than 10 years from now?

1. PC-based video calling does not have the same barriers to adoption as the videophone did. If the barriers to adoption for each market are stacked up and placed side-by-side, it becomes clear that PC-based video calling is significantly less encumbered than the videophone was.

Figure 11. PC-Based Video Calling Has Lowered the Barriers to Adoption for Video Calling

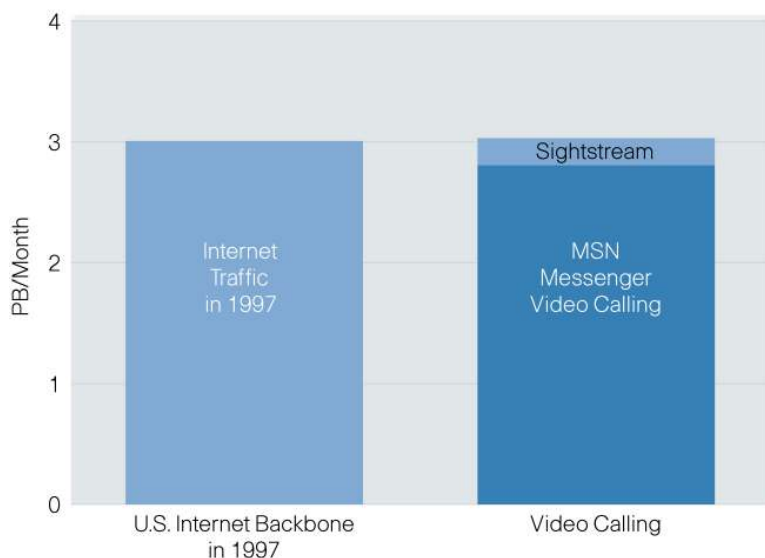


What is different about PC-based video calling?

- The target market for videophones as a consumer service was limited to geographically dispersed families and couples. The potential market has broadened considerably with the advent of a new generation who has large networks of virtual friends and belongs to multiple virtual communities.
- The network effect is still a barrier, but the addition of video to instant messenger networks is beginning to turn the network effect from a barrier to a driver.
- Webcams are inexpensive, easily available, and increasingly embedded within new PCs.
- PC-to-PC video calling is largely free, eliminating the affordability barrier.

For the above reasons, video calling is already generating a non-negligible amount of traffic. As Figure 12 shows, video-calling traffic today exceeds the total amount of traffic crossing the U.S. Internet backbone in 1997.

Figure 12. Internet Video Calling Today Exceeds all U.S. Internet Traffic in 1997



Source: Cisco, 2008

2. The increasing use of video communication in the business arena will accelerate consumer adoption. Consumer and business technologies form a reinforcing loop. Employees may bring video communication technologies home, just as consumers brought instant messaging to work. Communication technologies increasingly move from one realm to the other.
3. Video communication is more than video calling. Video sharing, video monitoring, consumer TelePresence, and telemedicine will join video calling in initiating the third wave of video traffic.

The first webcam was launched in 1991, and the first PC-based video-calling software was introduced in 1992. The diffusion of consumer technology can be slow, and reaching mass penetration can take from 7 years (like the DVD) to 20 years (like the mobile phone, or PC) or more. Because the barriers to video calling appear to be fading, it seems likely that PC-based video communications will reach mass adoption sometime between 2012 and 2015.

Challenges Posed by the Three Waves of Internet Video

The first two waves of Internet video will pose a number of challenges to service provider networks, but service providers have means of responding to these challenges, such as content delivery at the edge, push video distribution, and even P2P distribution.

It is the third wave of video communications that may be the most challenging, in that there are few means of coping with real-time video communications other than to transport it over the core. There is no way to cache real-time communications.

The challenges that accompany Internet video, along with possible responses, are as follows.

- **Flash crowds:** Mark Kortekaas, the CTO of CBS Interactive, identified the normalized traffic pattern exhibited by on-demand viewing as manageable and the bursty traffic pattern associated with live events as problematic. Even when the content is known in advance, and delivered at a content distribution node in the metro, flash crowds have the potential to generate a huge amount of traffic. In the example given by Mark Kortekass, if the 1.5 million New York metro viewers of the popular show *CSI* were to watch an episode online, it would require a 1-Tbps network to deliver the traffic and over 350 terabytes would be served in a single hour.

Possible responses to the flash crowd problem: In theory, one-to-many content should not generate a large amount of traffic, as one copy is sent out to multiple receivers. The flash crowd problem is only a problem because today's Internet traffic is unicast. So the most obvious response to the flash crowd problem is the widespread implementation of IP multicast traffic standards by the industry. However, the complexity of inter-domain multicast implementation has hindered adoption, and adoption does not appear to be accelerating even with the recent traffic growth. A second response is to push the distribution of content even closer to the customer premises through edge delivery. A third option is to deliver the content through a peer-to-peer system, which has a more distributed traffic topology than the client-server topology of video server traffic. A fourth possible response is to continue distributing broadcast traffic through traditional means, but enable PCs and mobile devices to receive it through TV tuner cards.

- **Last-mile bottlenecks:** Most of the concern about last-mile bottlenecks centers not on Internet traffic but on IPTV or cable IP video traffic. This is the most pressing issue for service providers in regions like North America, where the standard broadband line is relatively slow. See the following section for more on the access bottleneck that IP video

service providers will have to contend with. As for the Internet, the last mile is a potential bottleneck in a few ways: the upstream-to-downstream traffic ratio exceeds the upstream-to-downstream capacity ratio, steady streams of traffic over long periods of time (such as video downloads through P2P) challenge the assumption of bursty traffic that underlies overbooking ratios, and the streaming of high-resolution video strains the bandwidth capacity of the access line.

Possible responses to the last-mile bottleneck: One of the above problems is associated with streaming video, and the other two are primarily due to P2P downloads and uploads. For video downloads, one option that service providers are already employing is the enforcement of monthly caps on bandwidth consumption. Right now, bandwidth caps are precision strikes, because generally it is a small number of users (usually P2P users) who generate enough traffic to bypass the cap. However, bandwidth caps are a temporary measure, unless they grow along with traffic, because it will not be long before high bandwidth consumption is no longer restricted to a minority. As for streaming, this is a problem that concerns the content provider more than the connectivity provider. For content providers, the alternative to streaming is to push the most popular content to the user as a download so that it is then available on-demand. In a variation on this theme, the BBC iPlayer has an option for users to schedule overnight downloads of the next day's programming.

- **Is there a core bottleneck?** The backbone of the Internet appears to be coping well with the increase in traffic over the last year, though backbone operators have generally had to accelerate their upgrade plans. To content providers, the Internet backbone is a potential bottleneck, rather than a proven bottleneck. In fact, there is evidence that most bottlenecks seem to be located within an autonomous system, rather than at the exchange between networks.

Possible responses to the potential bottleneck: In order to avoid any potential core bottlenecks and to speed delivery, much Internet video traffic is being pushed to the regional core networks if not all the way to the metro network, traveling along private content-delivery networks for most of the distance. Content-delivery networks have been around since the mid-nineties, but as the nature of web content became more dynamic, the utility of content delivery has remained limited. Unlike dynamic web content, the video content of today is mostly static and is a good candidate for content delivery. In addition to content delivery, direct content peering with major network operators is an option being considered by content providers.

- **Will there be a core bottleneck in the future?** With the advent of video communications, the core may experience dramatic growth. Although video communications have been slow to take hold of the market and are not projected to have mass adoption in the next five years, there is already evidence that video calling has a solid footing among early adopters, and is not going to fade away. It is likely that service providers will see the trend far enough in advance to respond, but if a social networking application that involves live video gains popularity, there is potential for a traffic surge, and there are few responses available other than core upgrades.

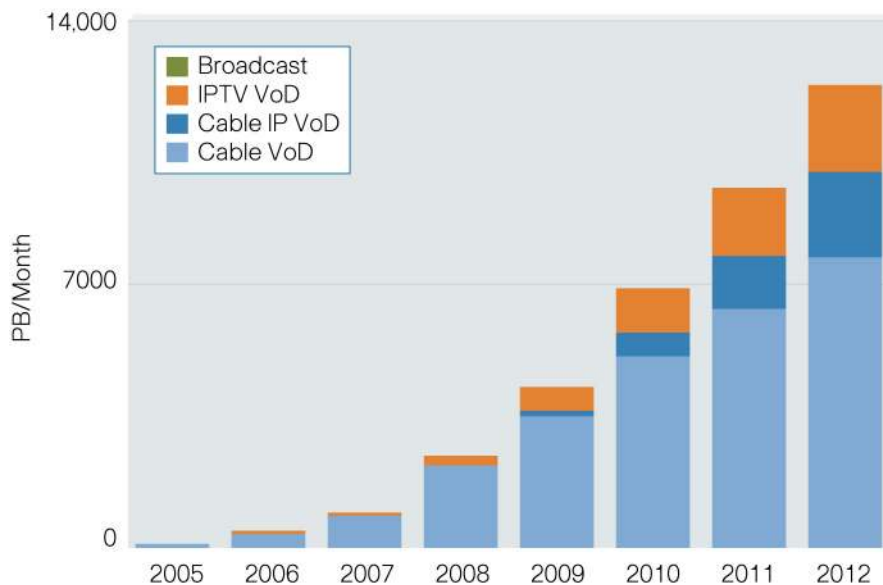
Table 3. Network Implications of Traffic Growth

Trend	Potential Problem	Potential Solution
Internet video (on demand)	Metro and core – growth in average volume	Content delivery systems (CDS), capacity upgrades, advanced compression
Internet broadcast	First mile and data center – flash crowds	P2P content distribution, multicast
	Metro and core – flash crowds	CDS, multicast, P2P content dist.
P2P	Access – upstream bottleneck, uniform traffic pattern	Fewer homes per serving area, lower oversubscription ratios
	Core – growth in average traffic volume	P2P caching
Commercial VoD	Metro – growth in average traffic volume	CDS, capacity upgrades, compression
High-definition content	Access – last-mile IPTV bottleneck	Capacity upgrades
	Metro – growth in VoD traffic volume	CDS, capacity upgrades, compression

There Is More to IP Video than Internet Video

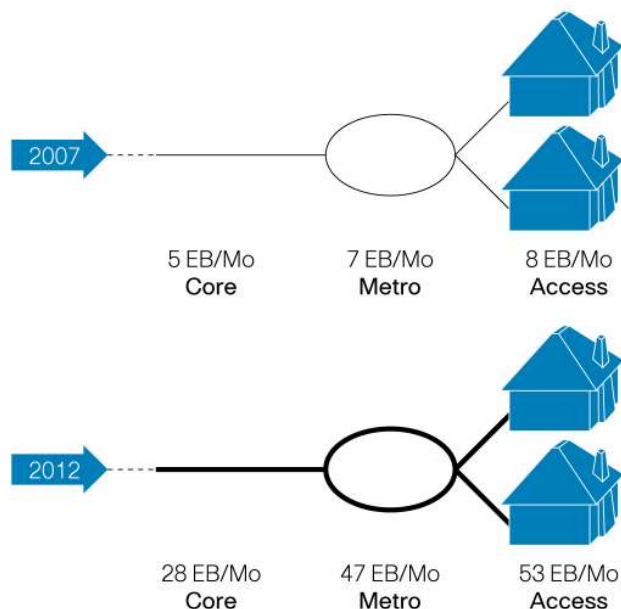
IP traffic growth is not synonymous with Internet traffic growth. With the convergence of traditional services over IP, two distinct types of consumer IP traffic emerge: public and commercial. Much of consumer IP traffic growth is due to the migration of commercial VoD traffic onto IP networks.

According to Cisco's IP traffic forecast, non-Internet IP video will exceed 11 exabytes per month by 2012. A large portion of this will be due to the transport over IP of cable VoD, where the VoD traffic travels over IP in the metro, but the set-top box is not an IP set-top box. VoD traffic that is IP all the way to the customer premises begins to make up a significant portion of the traffic starting in 2009.

Figure 13. Cable and IPTV VoD Traffic Will Exceed 11 Exabytes per Month by 2012

Source: Cisco, 2008

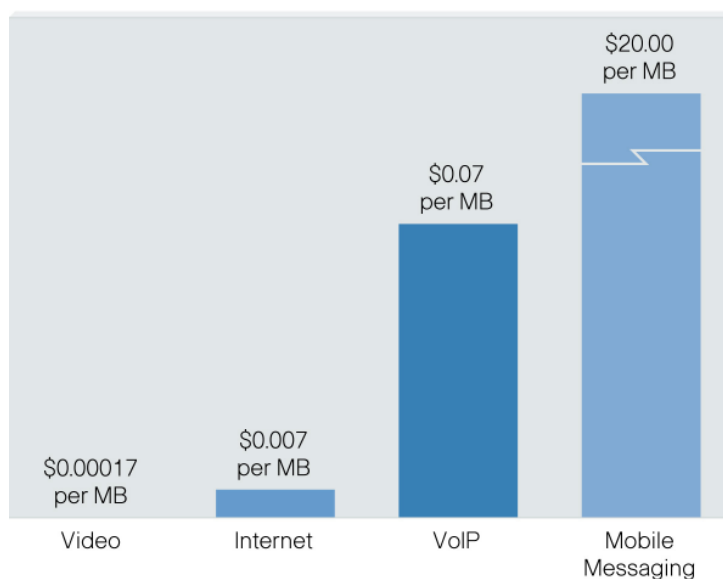
Due to non-Internet IP video, IP traffic in the metro will outpace IP traffic in the core. The sum total of metro IP video traffic in 2012 will be nearly twice the volume of core traffic, as shown in Figure 14.

Figure 14. Core Grows Fivefold, Metro Grows Sevenfold from 2007 to 2012

Source: Cisco, 2008

Video Consumes More Than Its Weight in Bandwidth

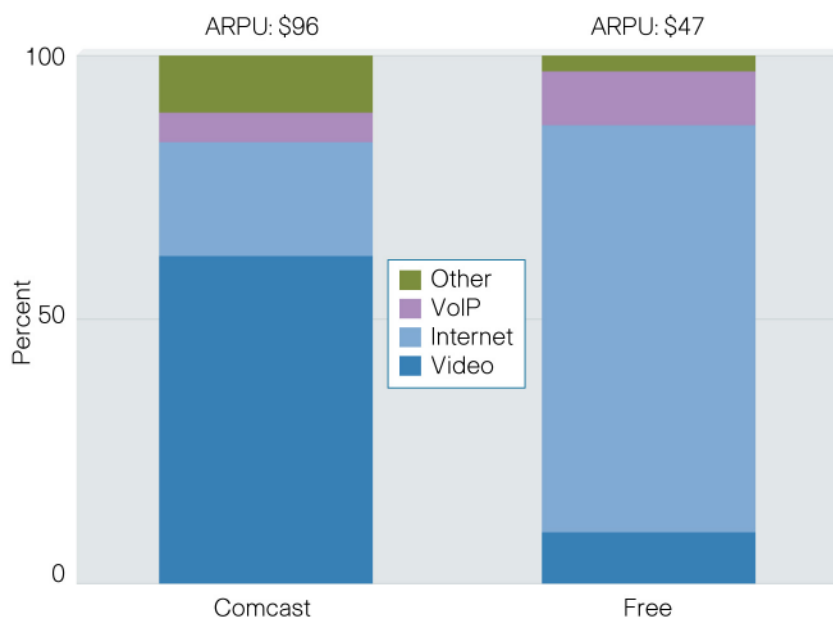
Video brings in a little over 1 percent of 1 cent per megabyte. Compare this to text messaging, which brings in \$20 per megabyte, as shown in Figure 15. Such a comparison illustrates that service providers have charged for (and consumers have paid for) services, not megabytes. Until now consumer willingness to pay for a service has no correlation with the amount of bandwidth that service consumes.

Figure 15. Price per Megabyte

Source: Cisco, 2008

As Vint Cerf said way back in 1994, “Ultimately, somebody has to pay for all the capacity being used.” But a number of disruptive models have appeared on the scene to disturb this equation. Greenfield providers like Iliad’s Free are offering free voice and video with each broadband line. Over-the-top providers like Joost are offering video services free of charge and gaining revenue from advertising. In other words, services have been untied from connectivity. What used to be called “services” have been virtualized and could just as well be called “applications” or even “sites,” with the exception of connectivity services. What seems to be in question at the moment is whether connectivity pricing will be closer to the pricing of three services or that of a single service.

Figure 16. Triple-Play and Convergence Are Creating Divergent Revenue Models



Source: Comcast, Free, 2007

How will the current market turmoil play out?

Scenario 1: \$100 connectivity. In this scenario, service providers would essentially re-create the traditional services model in a converged setting. Consumers would learn a new bandwidth vocabulary the way they have learned PC vocabulary; they would know the difference between best-effort and prioritized traffic, and would be more willing to pay by MB or for various content-type-specific guarantees. Service provider revenues from consumers would decline, but not drastically: consumers would pay US\$70–100 for a pipe that would accommodate all services.

Scenario 2: \$40 connectivity. Service provider revenue streams that come directly from consumers would decline drastically. The service provider would compensate with new revenue streams, from new sources such as:

- Content providers (content delivery)
- Advertisers (targeted advertising, interactive advertising, location-based services)
- Over-the-top providers (personalization and services APIs like BT’s Web21c)

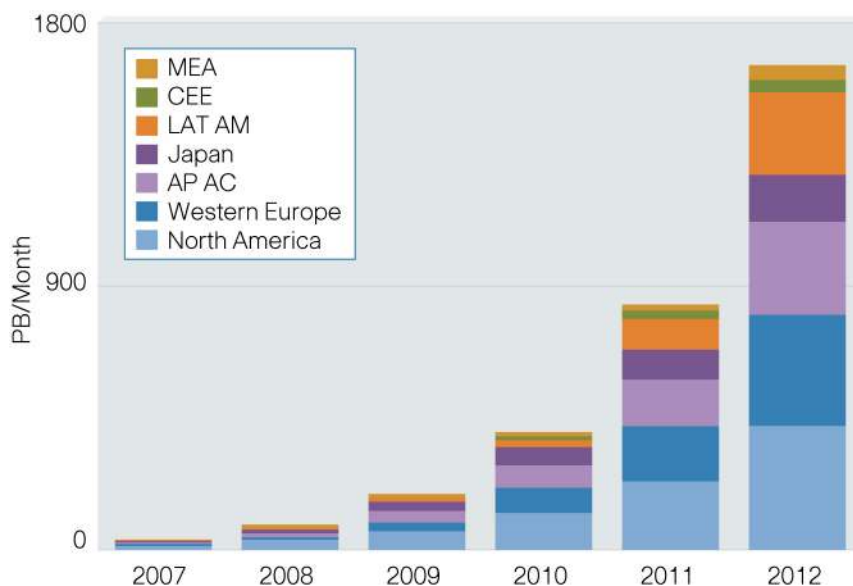
Many of these new revenue streams are already being considered and courted by service providers today, such as multi-platform targeted ad insertion and application platform provisioning. All hinge on the service provider having privileged access to all that flows over a consumer’s broadband pipe, despite any asymmetry in revenue-per-bit.

The Dawn of the Mobile Broadband Substitution Effect?

Mobile operators in many parts of the world are offering mobile broadband services at prices and speeds comparable to fixed broadband. Though there are often data caps on mobile broadband services that are far lower than those of fixed, some consumers are opting to forgo their fixed lines in favor of mobile. This has a familiar ring to it from the mobile voice substitution effect that began in the late nineties and is continuing today.

As a result of the mobile broadband substitution effect, Cisco is projecting very strong growth for mobile data at 120 percent CAGR from 2007 to 2012, which means that traffic will roughly double every year.

Figure 17. Mobile Broadband to Double Every Year Through 2012

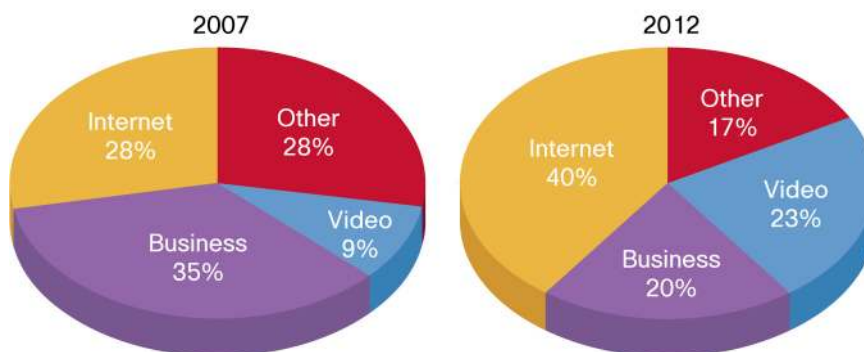


Source: Cisco, 2008

Cisco does not segment mobile data by application, but in the mobile data forecast recently published by Informa Telecoms and Media,⁴ business accounts for 35 percent of mobile data traffic today. By 2012, video and Internet will gain share, with video reaching 23 percent of mobile traffic, and Internet reaching 40 percent.

⁴ Informa's forecast has an unprecedented level of granularity, separating urban and suburban usage patterns from rural, with splits by application, geography, and upstream versus downstream. Cisco's mobile data forecast is based on Informa's mobile broadband connections forecast, but differs from Informa in growth assumptions. Informa estimates that mobile data traffic (including VoIP but not simple voice) amounts to 15 petabytes per month in 2007. Cisco's estimate is close to Informa's at 17 petabytes per month. However, Cisco's estimate for 2012 is six times even the most aggressive scenario from Informa. Despite the conservative nature of the overall IP traffic forecast, in this case Cisco has made some aggressive assumptions regarding the potential for mobile broadband to start to act as a substitute for fixed broadband. For instance, we assume that for Western European laptop mobile broadband users, the average usage per month was 856 megabytes per user at the end of 2007, and will grow to over 4 gigabytes per month by 2012. This is aggressive growth when viewed in the context of current mobile usage, but is still modest compared to the Western European laptop fixed-line usage, which Cisco estimates was 3 gigabytes per user per month in 2007, and will grow to 18 gigabytes per user per month by 2012.

Figure 18. Mobile Data Traffic by Application in 2007 and 2012 (Informa Telecoms and Media)



Source: *Mobile Networks Forecast*, Informa Telecoms and Media, 2008

Beyond 2012, we can expect to see a greater diversity of devices for connecting to the mobile broadband network. Ultra portable laptops and handsets with large-screen capabilities are likely to start blurring the distinction between handset and laptop mobile data.

For More Information

For more information on Cisco's IP traffic forecast, please see the paper "Cisco Visual Networking Index – Forecast and Methodology 2007–2012." Inquiries can be directed to Arielle Sumits and Jaak Defour at traffic-inquiries@cisco.com.

Appendix A: Cisco's Global IP Traffic Forecast

Table 4 shows the summary of Cisco's global IP traffic forecast. For more information, please see the paper "Cisco Visual Networking Index – Forecast and Methodology 2007–2012."

Table 4. Global IP Traffic 2006–2012

IP Traffic 2006–2012								
	2006	2007	2008	2009	2010	2011	2012	CAGR 2007–2012
By Type (PB per month)								
Internet	3,339	4,884	7,394	10,666	14,984	20,662	28,339	42%
Non-Internet IP	895	1,693	3,353	5,630	9,244	12,321	15,179	55%
By Segment (PB per month)								
Consumer	2,641	4,359	7,674	12,003	18,261	24,760	32,183	49%
Business	1,586	2,193	3,008	4,140	5,622	7,479	9,839	35%
Mobility	7	26	65	153	345	744	1,496	125%
By Geography (PB per month)								
North America	1,471	2,419	3,997	5,912	8,542	10,694	14,309	43%
Western Europe	886	1,354	2,267	3,591	5,504	7,646	10,882	52%
Asia Pacific	1,307	1,963	3,151	4,740	7,071	10,152	12,319	44%
Japan	267	373	571	843	1,217	1,637	2,021	40%
Latin America	118	189	332	554	891	1,390	2,020	61%
Central Eastern Europe	116	172	264	414	656	983	1,307	50%
Middle East and Africa	69	107	164	243	347	481	659	44%
Total (PB per month)								
Total IP traffic	4,234	6,577	10,747	16,296	24,228	32,983	43,518	46%

Source: Cisco, 2008

Definitions

Consumer: includes fixed IP traffic generated by households, university populations, and Internet cafés

Business: includes fixed IP WAN or Internet traffic, excluding backup traffic, generated by businesses and governments

Mobility: includes mobile data and Internet traffic generated by handsets, notebook cards, WiMAX

Internet: denotes all IP traffic that crosses an Internet backbone

Non-Internet IP: includes corporate IP WAN traffic, IP transport of TV/VoD, and mobile "walled garden" traffic



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