

Video Disruption in China: Big Market, Big Opportunity for Service Providers

IBSG Service Provider FastFacts

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As consumers take more control of their home entertainment options, service providers (SPs) are ideally positioned to take advantage of the market disruption caused by the explosion of Internet video. The opportunity – and potential for disruption – is even greater in China than in western countries because of sheer numbers: 300 million people use the Internet, and 80 percent of them watch some sort of online video. About 90 percent of the 95 million households with broadband service watch television programs on the Internet. To better understand this important market, recent IBSG Connected Life Market Watch research looked at video trends and service provider opportunities in China. The study yielded several key insights:

Content is still king. A broad range of content remains the most important part of the video viewing experience. Given the fact that governmental content regulation and propaganda is ubiquitous, traditional channels tend to carry similar content. This may drive more demand for video over the Internet as consumers seek more diverse content, including TV programs, news, user-generated contents, movies and so forth.

Internet video is gaining popularity. With more content choices and entertainment features available on the Internet, Chinese consumers spend more time in front of their computer screens than the TV. This is particularly true for those under 40 for whom entertainment-focused internet time exceeds TV time. This trend will continue given government-mandated speed upgrades to encourage broadband penetration.

TV is consumers' preferred device, yet they often choose to watch video on different devices in order to be in control of when, where, and what they watch. About 99 percent of Chinese broadband household respondents watch video on their computers with an average of 3.5 hours per week. The top reasons for watching video on the computer are better content choice, better for multitasking, and more control over when they watch.

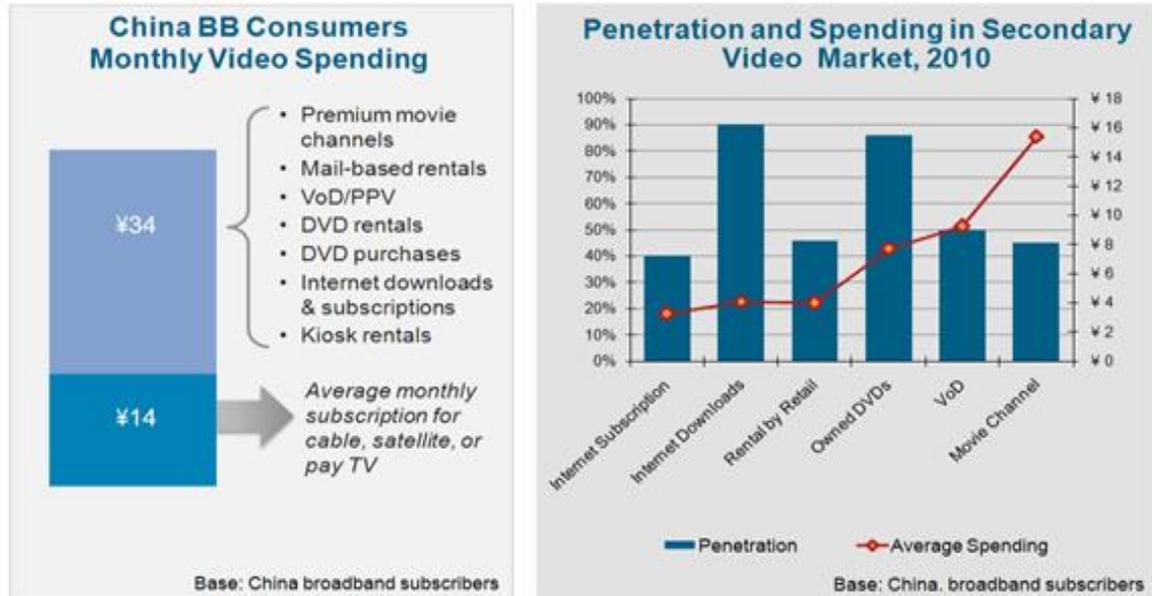
Consumers supplement their basic TV service with many other sources. Consumers use alternative video sources to control when, where, and what they watch. In China, about two-thirds of consumer video spending is for supplemental options, such as premium movie channels, video-on-demand, rentals, DVD purchases, Internet downloads, and so forth. This provides a significant upside for SPs to provide value-added services (e.g. interactive TV services) to increase their revenue potential.

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Figure 1. The Secondary Video Market Is Strong In China, with room for growth.



Source: Cisco IBSG Connected Life Market Watch, 2010

Consumers are ready for new services to bring web video to their TVs. Eighty-three percent of respondents expressed significant or strong interest in a service concept that would make it simple to watch different types of Internet video on TV instead of on the computer: Viewers would use the TV remote to find and select a program, movie, or clip from an Internet site and watch in directly on the TV. The service would be enabled from a device attached to the TV, and users would still need traditional TV service in order to access television channels, video on demand, and other pay TV services.

Internet video could threaten core service provider businesses. Sixteen percent of Chinese broadband subscribers said that they would cancel their pay TV if they had the “web video to TV” service described above. The potential threat would be more significant for premium movie channels, since 25 percent of subscribers would be likely to cancel the service should “web video to TV” be accessible. One way SPs can combat this is to expand their traditional offering to include web video to TV.

SPs are strongly positioned to deliver Internet video. Among Chinese broadband subscribers who expressed interest in web video to TV, 61 percent would prefer to receive the service from either a broadband or TV service provider, mainly because of flexible pricing schemes, service bundling and service quality assurance. However, this preferred position could change quickly if any manufacturer, retailer, or aggregator aggressively launches a web video to TV solution.

Service providers can take several steps today to capture this secondary video opportunity and secure their place in the evolving TV landscape in China:

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1. SPs should aggressively promote VoD, premium channels, and other services that give subscribers more control over their viewing experience. As part of the government's '3 network convergence' policy, SPs should look at ways to upgrade their platforms to provide a new interactive TV experience to the mass consumer market
2. SPs should also develop services such as "web video to TV" that provide consumers with more control and easy access to Internet video content. One specific opportunity is to gain a competitive advantage by offering Web TV as a bundled service with service quality assurances
3. SPs should collaborate with ecosystem partners to stay ahead of changes in the video experience, such as interactivity and TV-based Internet access and expand their TV offerings by adding more social networking and internet-oriented features

For a more complete discussion of these and other service provider opportunities in China, see, "Connected Life Market Watch: Transitions in Consumer Video Entertainment in China," found at:

http://www.cisco.com/web/about/ac79/docs/clmw/CLMW-China_Video_Transitions_IBSG_1104FINAL2.pdf

More Information

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