Connected Life Market Watch:
Transitions in U.K. Consumer Video Entertainment

Cisco Internet Business Solutions Group
October 2010
## Connected Life Market Watch Program: Transitions in Consumer Video Entertainment

### Scope

- United States
- United Kingdom
- Brazil
- China
- Germany

### Approach

#### Market Watch Program

- Cisco IBSG’s recurring primary research program
- Monitors changing consumer behavior to identify key market transitions

#### Methodology

- Broadband consumers
- 20-minute online survey
- 5,500 total respondents
- December 2009 – January 2010

#### Segmentation

- Used proprietary scoring methodologies to identify consumer “technology” segments

Source: Cisco IBSG Connected Life Market Watch, 2010
Transitions in U.K. Consumer Video Entertainment: Executive Summary

- Video Entertainment Today
  - Traditional cable/satellite TV market is saturated
  - Consumers have invested significantly in home entertainment equipment
  - Traditional premium content drives much of market
  - Internet has become key source for entertainment

- Key Transitions: Consumers Are Taking Control
  - Consumer TV viewing behavior is changing (e.g., time shifting, device shifting)
  - Consumers are exploring Internet video as new source of video entertainment

- Impact of Transition
  - Consumers are interested in alternative services
  - New usage patterns can impact traditional TV revenue streams
  - Interest differs by customer segment

- Going Forward
  - Key trends to watch
  - Service provider opportunities

Source: Cisco IBSG Connected Life Market Watch, 2010
Video Entertainment
Today: Situation
U.K. TV Market Saturated, But Some Growth Expected

- Future of public sector broadcasting being debated: How will it be funded?
- Majority of pay TV revenue growth to come from new subscriptions
- Intense competition among broadcasters, satellite, cable, and SPs for viewers/customers

Source: Cisco IBSG Connected Life Market Watch 2010; Screen Digest, 2010
Traditional Content Still Drives Industry

Content is most important part of the experience, even as consumers explore new devices and video sources.

Source: Cisco IBSG Connected Life Market Watch, 2010

Even with Internet-sourced video, consumers are most interested in traditional, professional content.

Base: U.K. Broadband Consumers

Most Important Attribute to Video Experience
Ranked #1 by Consumers, for All Viewing Devices

Interest in Viewing Internet Video on TV
by Type of Content
Consumers Are Investing Heavily in Home Video Experience

Average U.K. broadband HH:

- 2.3 TVs, including 1 HDTV
- Spends £18 per month for pay-TV services
- Spends another £12 on other forms of video watched at home

<table>
<thead>
<tr>
<th>U.K. Broadband Consumers</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Subscribe to Cable/Satellite/Telco TV</td>
<td>65%</td>
</tr>
<tr>
<td>Subscribe to Premium Movies</td>
<td>31%</td>
</tr>
<tr>
<td>Subscribe to TV VoD service</td>
<td>35%</td>
</tr>
<tr>
<td>Have an HDTV</td>
<td>65%</td>
</tr>
<tr>
<td>Have DVR</td>
<td>46%</td>
</tr>
<tr>
<td>Have a gaming console with DVD functionality</td>
<td>33%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010
Consumers Spend More Time on Internet Than Watching TV

- Consumers spend more time in front of computer screen than TV screen.
- Entertainment-focused Internet time does not exceed TV time, but is significant, especially among those under 30.

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
Entertainment Is #1 Reason Consumers Use Internet

- Entertainment leads consumer time-spend on Internet among all age groups
- Broadband consumers spend 24 hours per week on Internet. And, they spend almost 7 of those hours on entertainment
- Internet as entertainment vehicle is not limited to early technology adopters
- Late-market adopters devote more Internet time-spend to entertainment than earlier technology adopters do

Source: Cisco IBSG Connected Life Market Watch, 2010
Base: U.K. broadband subscribers, N=1017
Key Transitions
Consumers Are Taking Control of Video Entertainment Experience

DVRs taught users they could take control of video experience

This increased user control is driving four interrelated trends:

1. Time shifting
2. Device shifting
3. Increased video sourcing options (e.g., Internet)
4. Increased spending control

Together, these are part of larger, viewer-controlled viewing trend

Source: Time Magazine, 2006; Cisco IBSG Connected Life Market Watch, 2010
Traditional TV Experience Is Changing

Consumers Are No Longer Making Appointments with Their TVs

- Consumers are changing their usage patterns
- They are no longer making appointments with their TV
- They want to watch their video entertainment at the time they choose

Real-Time vs. Controlled Viewing

![Chart showing average consumers and DVR owners viewing habits.

Average Consumers (Percentage of Time Spent)
- Viewer-Controlled Viewing: 34%
- Real-Time Viewing: 66%

DVR Owners (Percentage of Time Spent)
- Viewer-Controlled Viewing: 47%
- Real-Time Viewing: 53%

Base: U.K. broadband consumers

Source: Cisco IBSG Connected Life Market Watch, 2010
TV-Content “Walled Garden” Is Cracking

Consumers Are Supplementing TV with Other Video

Weekly Time Spent on Video Entertainment

<table>
<thead>
<tr>
<th>Hours per week</th>
</tr>
</thead>
<tbody>
<tr>
<td>25</td>
</tr>
<tr>
<td>20</td>
</tr>
<tr>
<td>15</td>
</tr>
<tr>
<td>10</td>
</tr>
<tr>
<td>5</td>
</tr>
<tr>
<td>0</td>
</tr>
</tbody>
</table>

- Real-time TV
- Portable devices
- Computer-based
- VoD
- DVDs
- DVR

Weekly Time Spent on Video Entertainment by Age

- Real-time TV viewing
- TV from DVR
- DVDs and physical media
- Video on computer
- Video on portable devices
- Other (e.g., Internet video on TV)

Source: Cisco IBSG Connected Life Market Watch, 2010
Base: U.K. Broadband Consumers
U.K. Consumers Are Aware of Many Choices in Video Entertainment

In average month:

- 48% of broadband consumers use DVDs they have purchased from a store
- More broadband consumers watch Internet TV than VoD (35% vs. 19%)
- Broadband consumers watch more than 3 hours of video from Internet
- 22% of broadband consumers use gaming consoles to watch DVDs
- 12% connect their computers to TV
- 10% watch video on mobile phone

Source: Cisco IBSG Connected Life Market Watch, 2010
Consumers Are Exploring Alternative Video Entertainment

Percentage of Broadband Users that Use Alternative Video Sources

<table>
<thead>
<tr>
<th>Country</th>
<th>Watch Video on a Computer</th>
<th>Watch TV Programs via Internet</th>
<th>Watch Video on a Portable Device</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>75%</td>
<td>52%</td>
<td>40%</td>
</tr>
<tr>
<td>Germany</td>
<td>70%</td>
<td>45%</td>
<td>26%</td>
</tr>
<tr>
<td>China</td>
<td>99%</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>Brazil</td>
<td>95%</td>
<td>67%</td>
<td>83%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010
Today, TV Is Consumers’ Preferred Device for Video Entertainment

Consumers Like Their Video Entertainment on TV

- 64% of U.K. broadband consumers have high-definition television at home
- #1 reason consumers don’t watch more Internet video: they’d rather watch video entertainment on TV screen than on computer screen
- Younger audiences are spending more time watching video on a computer
- Average U.K. broadband consumer spends 54 minutes per week watching video on computer
- Average 18- to 24-year-old broadband consumer spends twice that time, watching 2.3 hours of video on computer per week

Source: Cisco IBSG Connected Life Market Watch, 2010

Device Used to Watch Video Entertainment as portion of total viewing time

- Television 95%
- Computer 4%
- Portable Devices 1%

Base: U.K. broadband subscribers
Consumers Often Choose Alternative Devices, Even When TV Is Available

Average U.K. broadband household has 2.3 TVs, but most consumers still watch video on their computers in order to time-shift and multi-task

- 68% of respondents watch video on computers about 1 hour and 20 minutes each week
  - Most of this time (68%) takes place at home
  - 92% of 18- to 24-year-olds watch video on computer for 2 hours and 30 minutes / wk.

- 38% of respondents watch video using portable devices about 45 minutes each week
  - They are at home 54% of this time

Reasons for Watching Computer Video When At Home

- More control over WHEN I watch (39%)
- Better for multi-tasking (34%)
- Better content choice (24%)
- Device is available to use (23%)
- Portability (20%)
- More interactive experience (12%)
- Other (11%)
- Better video experience (9%)

Source: Cisco IBSG Connected Life Market Watch, 2010
Consumers of All Ages Watch All Types of Internet Video Content

Internet Video Is No Longer Defined Only by Young People Watching YouTube

Watching Internet Video (by Age)

<table>
<thead>
<tr>
<th>Time per week</th>
<th>Percent of broadband consumers</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-24</td>
<td>80%</td>
</tr>
<tr>
<td>25-29</td>
<td>74%</td>
</tr>
<tr>
<td>30-39</td>
<td>60%</td>
</tr>
<tr>
<td>40-59</td>
<td>49%</td>
</tr>
<tr>
<td>60+</td>
<td>39%</td>
</tr>
</tbody>
</table>

Watching Internet Video (by Content)

<table>
<thead>
<tr>
<th>Content</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>TV programs</td>
<td>62%</td>
</tr>
<tr>
<td>User created short clips (YouTube)</td>
<td>60%</td>
</tr>
<tr>
<td>Professional short clips (news)</td>
<td>49%</td>
</tr>
<tr>
<td>Movies</td>
<td>35%</td>
</tr>
<tr>
<td>Sporting events</td>
<td>30%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
### Internet Video Has Different Value Proposition from Traditional TV

#### Reasons for Watching/Downloading Online Video

- **Choice, control, and convenience are driving Internet TV usage.**
- “Snacking” and new non-TV content are key drivers.

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Entertainment for just a few minutes</td>
<td>41%</td>
</tr>
<tr>
<td>Watch content not available on TV</td>
<td>38%</td>
</tr>
<tr>
<td>TV substitute at home</td>
<td>25%</td>
</tr>
<tr>
<td>Stay up to date with news, events</td>
<td>22%</td>
</tr>
<tr>
<td>Share with friends</td>
<td>18%</td>
</tr>
<tr>
<td>Fewer advertisements</td>
<td>17%</td>
</tr>
<tr>
<td>TV substitute away from Home</td>
<td>12%</td>
</tr>
<tr>
<td>Want to save money</td>
<td>11%</td>
</tr>
<tr>
<td>Portability, view in multiple locations</td>
<td>9%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=777
In U.S., Time Spent Watching Internet Video Is Growing

More than Half of Broadband Consumers Watch TV on Internet

- In 18 months ending in December 2009, there was about a 10% increase in number of people who watch TV on Internet
- comScore reports even more aggressive growth, with 10% increase in total online video viewers in last 6 months of 2009
- Time spent viewing online video has grown 17% since July 2008

Source: Cisco IBSG Connected Life Market Watch, 2010; comScore, 2010
Base: U.S. broadband consumers
Nearly 40% of U.K. Consumer Video Spending Is for Supplemental Options

- Consumers supplement their basic TV experience with as many as 7 different sources of video.
- Consumers can exert more immediate control over these *à la carte* options:
  - They have flexibility and can select the secondary video option that best suits the given situation.
  - In many cases, they can adjust their spending incrementally without entirely canceling or abandoning the service.

**U.K. Broadband Consumers’ Monthly Video Spending**

<table>
<thead>
<tr>
<th>Video Type</th>
<th>Average Monthly Spending (£)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Video</td>
<td>£17.70</td>
</tr>
<tr>
<td>Secondary Video</td>
<td>£11.80</td>
</tr>
</tbody>
</table>

- Premium movie channels
- Mail-based rentals
- VoD/PPV
- Store rentals
- DVD purchases
- Internet downloads & subscriptions
- Kiosk rentals

*Average monthly subscription for cable, satellite, or pay TV*

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
Secondary Video Market Is Fragmented, With Opportunity for New Entrants

- Great fragmentation in secondary market (rentals, DVDs, VoD, downloads) makes it easier to displace than primary (e.g., cable/satellite)
- Consumers use multiple methods and few are attached to anyone
- VoD and Internet stream/download are biggest markets after DVD purchase
- High DVD purchase suggests desire to “own” media, which presents opportunity in digital online world

Source: Cisco IBSG Connected Life Market Watch, 2010

Penetration and Spending in Secondary Video Market, 2010

Base: U.K. broadband subscribers, N=1017
Spending in Secondary Video Is Shifting From Traditional Media to Internet

- Secondary video transactions dominated by physical DVD in 2007
- iPlayer (& others) grew online TV free-to-view long form transactions significantly in 2008

Source: Screen Digest, 2010

- DVD retail in decline over time, but still dominates market
- Online TV free-to-view long form revenues all ad-based

U.K. Secondary Video Transactions (m)

- Online TV, free-to-view long form
- DVD rental
- DVD retail

U.K. Secondary Video Revenues (£m)

- Online other
- Online TV, free-to-view long form
- DVD rental
- DVD retail

Source: Screen Digest, 2010
Impact of Transitions in Consumer Video
Consumers Are Ready for New TV Services Such as *Web Video to TV*

- Simple and easy to watch different types of Internet video on your TV instead of on your computer
- Use TV's remote control to find and select program, movie, or clip from an Internet site and watch it directly on your TV
- Enabled through device attached to TV; separate from your TV service
- Still need TV service to access television channels, video on demand, and other services offered by TV service provider

**Consumer Interest in Service that Simply & Easily Enables Internet Video on TV**

- 45% Significant Interest
- 26% Strong Interest
- 19% Strong Interest

Q: How interested would you be in this offering, if it were priced at a level you consider reasonable?

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
**Web Video to TV Service Would Address Many Consumer Pain Points**

- Moving Internet video to TV is important, but not only driver
- Consumers want control of when they choose to watch their video entertainment
- *Web video to TV* addresses many other consumer pain points, from access, to content, to total spending

### Important Drivers of Interest in Web Video to TV

<table>
<thead>
<tr>
<th>Feature</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Control WHEN I watch</td>
<td>90%</td>
</tr>
<tr>
<td>Access breadth of content</td>
<td>80%</td>
</tr>
<tr>
<td>No advanced planning required</td>
<td>80%</td>
</tr>
<tr>
<td>Control viewing (trick-play)</td>
<td>80%</td>
</tr>
<tr>
<td>Reduce spending on other video</td>
<td>80%</td>
</tr>
<tr>
<td>Watch Internet video on TV screen</td>
<td>80%</td>
</tr>
<tr>
<td>Create single entertainment source</td>
<td>80%</td>
</tr>
</tbody>
</table>

Respondents Rank 6+ on 10-point scale

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: Any Interest in *Web Video to TV*
Concept Attracts Average Consumers Who Want To Control TV Experience

Profile of the initial target segment for Web Video to TV:

- Slightly above average TV usage and spending
- Slightly younger and more likely to have children living at home
- Have strong existing alternative TV behavior
- Much more likely to want to control their TV viewing and to choose viewing options that enable that control

Source: Cisco IBSG Connected Life Market Watch, 2010
## Consumers Under 30 Are Less Tied to Traditional TV

<table>
<thead>
<tr>
<th></th>
<th>18-24</th>
<th>25-29</th>
<th>30+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Watch video on computer (hours per week)</td>
<td>2.5 hours</td>
<td>1.4 hours</td>
<td>1.0 hours</td>
</tr>
<tr>
<td>Watch TV via Internet (weekly or more)</td>
<td>44%</td>
<td>25%</td>
<td>13%</td>
</tr>
<tr>
<td>Purchase movies via gaming console (at any time)</td>
<td>21%</td>
<td>19%</td>
<td>12%</td>
</tr>
<tr>
<td>Spending on online video (monthly average)</td>
<td>£1.00</td>
<td>£1.60</td>
<td>£0.44</td>
</tr>
</tbody>
</table>

### Higher Use of Alternative

### Lower Use of Traditional

<table>
<thead>
<tr>
<th></th>
<th>18-24</th>
<th>25-29</th>
<th>30+</th>
</tr>
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<tbody>
<tr>
<td>Watch TV on TV (hours per week)</td>
<td>18 hours</td>
<td>15 hours</td>
<td>23 hours</td>
</tr>
<tr>
<td>Real-time viewing (as percent of total video entertainment)</td>
<td>61%</td>
<td>58%</td>
<td>68%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
Some Groups Are Abandoning Traditional Pay TV

Internet Video Dominant

- 10% already use Internet video for majority of video viewing
- 20% of this Internet-video-dominant group do not subscribe to pay TV
- Another 13% of the Internet-video-dominant respondents would cancel pay TV if Internet video were simply accessible via TV
- This group is younger and more likely to live with roommates/parents and, in general, spends more time on Internet

A smaller group (3%) of consumers have no TV service at all.

They use only their computer and/or portable devices to meet their video entertainment needs.

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
For Some Consumers, Internet Video Is Cannibalizing Traditional Linear TV

- For 75% of consumers, Internet TV viewing has not impacted time spent watching TV
  - 16% watch less on TV since they began watching Internet TV
  - 9% watch more TV on television, supporting theory that Internet can find new user bases and/or help keep users loyal

- There is more cannibalization effect in younger consumers
  - 29% of Internet TV watchers aged 18-24 say they watch less TV on TV since they began watching Internet TV

***Change in Consumer TV Time-Spend After Beginning To Watch Internet TV***

- **More**: 9%
- **Less**: 16%
- **The Same**: 75%

Q. Since you began watching TV programs on the Internet, do you spend more, less, or the same time watching TV programs on a television?

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. Internet TV watchers, N=625
Internet Video Could Threaten Core SP Businesses

Greatest Threat Is in Secondary Video, but New Alternative Services Could Touch Core SP Markets

If you had…

- **Free** access to *web video to TV*
- Easy ability to watch all Internet video content on your TV
- On-demand access to prime-time TV shows, but *not* your regular TV service or your TV lineup as it airs . . .

…Would you make any changes to your current TV service package?

### Potential To Cancel Pay-TV Service

(Percentage of pay-TV subscribers who would cancel)

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong interest in web video to TV</td>
<td>9%</td>
</tr>
<tr>
<td>Watch TV via internet weekly</td>
<td>7%</td>
</tr>
<tr>
<td>Average subscriber</td>
<td>5%</td>
</tr>
</tbody>
</table>

### Potential To Cancel Premium Movie Subscription

(Percentage of premium movie channel subscribers who would cancel)

<table>
<thead>
<tr>
<th></th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strong interest in web video to TV</td>
<td>19%</td>
</tr>
<tr>
<td>Watch TV via Internet weekly</td>
<td>16%</td>
</tr>
<tr>
<td>Average subscriber</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010
Evaluating the Long-Term Threat

Will 20-Somethings’ Attachment to Pay TV Change as They Age?

Forecasting Future TV Behavior

Young Adults (18 – 30)
- Unmarried
- No children
- Living alone
- Early in financial independence

Aging (30+)
- Married, w/ children
- Financially stable
- Family needs
- Less time to follow trends

What’s Likely To Change
- More disposable income
- Investment in home technology
- Time spent at home
- Degree of “busy-ness”
- Household decisions are compromises based on interest and needs of multiple people

What’s Likely To Stay the Same
- General level of technology comfort
- Awareness of options
- Desire for control, choice, and convenience

Market Evolution
- In future, will these customers have same options as in today’s market?
- Will new options make it easier to source video from alternative sources and watch it at home on TV?

Source: Cisco IBSG Connected Life Market Watch, 2010
Going Forward:
Key Trends To Watch
Trends To Watch: Moving Internet Video to the TV

Latest TVs & consumer electronics products make it easier to watch Internet video on TV

- At least 1 HDMI input is now standard on all new digital TVs (*In-Stat*)
- 24% of U.K. broadband consumers have already connected their computer to the TV
- In 2009, more U.K. broadband users viewed TV programs on the internet (62%) than UGC (60%)
- 12% of iPlayer requests are via game consoles (*BBC*)

As Internet video moves to the TV, usage patterns will shift significantly

- Today, TV is the preferred viewing device
- #1 reason consumers don’t watch more Internet video is because they’d rather not watch their entertainment on a computer
- As consumer electronics offers make it easier to access Internet-sourced video on TV, usage patterns could shift rapidly

Source: Cisco IBSG Connected Life Market Watch, 2010
Base: U.K. broadband subscribers, N=1017
Trends To Watch: Quality Can Impact Internet Video Use

Quality Will Play Role in Evolution of Alternative TV

- Only 15% see quality of TV video on Internet as poor today

- This positive perception, however, may be related to low expectations:
  - 28% of Internet TV viewers say that the quality limits them from watching more video on the Internet
  - As content breadth and control capability improve, quality will rise in importance as a competitive differentiator

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. Internet TV Viewers
- Major protections for traditional pay TV include screen preference, business models that enforce time delays, and video quality.

- The challenge is that these protections are not fully in the control of service providers.

- Content distribution policy changes and technology developments can drastically impact consumer behavior.

Source: Cisco IBSG Connected Life Market Watch, 2010

**Reasons Consumers Don’t Watch More Video on Internet**

- Don’t like to watch TV on computer: 38%
- Watch TV programs on TV first: 31%
- Poor quality: 28%
- Too slow: 23%
- No need: 21%
- Like to watch with others: 16%
- Search frustration: 11%
- No obstacle: 10%
- Computer not advanced enough: 9%
- Lack of HD programs: 9%
- Uninteresting content on Internet: 5%
- Other: 4%
- Technology is difficult to use: 4%

Base: U.K. Internet Video Users
### Trends To Watch: TV Screen Becomes New Internet Screen

| As widgets proliferate, consumers may come to recognize TV as an access point to Internet |  
|-----------------------------------|-------------------------------------------------|
| ▪ In January 2009, Yahoo! announced distribution partners for its TV widgets. Today, more than two dozen widgets are available from Vizio, Samsung, LG, and Sony |
| ▪ Three weeks after Verizon FiOS launched updated widgets, they reported that “millions” of Tweets and Facebook gallery photos had been viewed by FiOS TV subscribers on TV |

| 2010 will be learning year for consumers |  
|--------------------------------------|-------------------------------------------------|
| ▪ Today, only 1 out of 3 consumers expresses interest in accessing Internet content from the TV |
| ▪ In aided discussions with specific use cases, interest grows |

| Market impact may not be in competitive differentiation, but in consumer perception |  
|----------------------------------------|-------------------------------------------------|
| ▪ Cisco IBSG expects competitive differentiation in GUI and general ease of use versus exclusive widgets or applications |
| ▪ The significance of TV widgets may not be in the competitive edge they deliver, but in their role in fundamentally changing the way consumers view their TV screen—opening the door for Consumer TelePresence and other services |

Source: Cisco IBSG Connected Life Market Watch, 2010; Company Reports
Trends To Watch: Introduce Social Behavior into TV

“TV is fundamentally a social experience, and the only reason people haven’t engaged socially with their TV screens to date is that they haven’t had a convenient way to do so.”

—Forrester, August 2009

4 Potential Social TV Developments

Applications that….

1. Enhance a live group experience
2. Create a “virtual” group experience, watching TV with people in other locations
3. Foster interaction with the TV programming itself (decide plot lines, vote on reality winners)
4. Create a peer recommendation engine and commentary on viewing

TV Viewing Behavior Is Complex

- People watch TV alone about half the time
- People multi-task while watching TV about 40% of the time

The Value of Social TV Is Unclear to Today’s Consumer

- Only 16% say the desire to watch with others prevents them from watching more Internet TV
- Only 19% of broadband consumers express interest in friend-to-friend social TV service

Source: Cisco IBSG Connected Life Market Watch, 2007, 2010; Forrester, 2009
Going Forward: Service Provider Opportunities
SPs Are Strongly Positioned To Deliver Internet Video to Consumers

- 66% of consumers prefer an SP to deliver web video to TV service
- SPs can address consumers’ concerns, including up-front cost and quality
- SPs should work with retailers to optimize offers that require consumers to buy separate device —56% would buy the enabling device at a consumer electronics or Internet retailer
- This preferred position could change quickly if any manufacturer, retailer, or aggregator launches aggressively

**Preferred Provider for Web Video to TV**

- United Kingdom
  - Broadcast company—14%
  - Broadband service provider 25%
  - TV service provider 38%
  - Other 10%
  - Movie studio—2%
  - Online aggregator—3%
  - TV manufacturer—5%
  - Retail store –2%
  - Video rental—3%
  - Gaming service—1%

Base: Interest in Web Video to TV

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.K. broadband subscribers, N=1017
Service Providers Have Multiple Ways To Monetize Web-Video-to-TV Services

- Consumers are willing to pay directly for web video to TV
  - Range of acceptable pricing for interested consumers is between £5-£7 per month

- Consumers would upgrade their broadband to gain access to web video to TV
  - 42% of broadband consumers would upgrade their broadband service for an additional £5 per month, if web video to TV were available for free with the premium broadband

Source: Cisco IBSG Connected Life Market Watch, 2010
Base: U.K. broadband subscribers, N=1017
CE Manufacturers Do Not Currently Have Edge in Device Choice

- Consumers prefer to enable their web-video-to-TV service through stand-alone service-specific devices such as set-top boxes (from free or pay-TV providers)
- Simplicity and cost are consumers’ key purchase criteria
- Ease of installation was biggest factor for 35% of consumers, with cost (30%) second most important

**Web Video to TV: Preferred Device**

<table>
<thead>
<tr>
<th>Device Type</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Set-top box (pay TV)</td>
<td>27%</td>
</tr>
<tr>
<td>Set-top box (free TV)</td>
<td>22%</td>
</tr>
<tr>
<td>TV</td>
<td>15%</td>
</tr>
<tr>
<td>Stand-alone device</td>
<td>14%</td>
</tr>
<tr>
<td>Game console</td>
<td>3%</td>
</tr>
<tr>
<td>Blu-Ray disc player</td>
<td>5%</td>
</tr>
<tr>
<td>Home media server</td>
<td>6%</td>
</tr>
<tr>
<td>Other</td>
<td>8%</td>
</tr>
</tbody>
</table>

**Device-Selection Criteria** (select all that apply)

- Simplest to install: 35%
- Least-expensive option: 30%
- Limit number of devices in home: 26%
- Use as an entertainment hub: 15%
- Already plan to purchase: 6%
- Latest, most advanced device: 6%
- Other: 11%

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: Interest in Web Video to TV
U.K. Consumers Prefer Purchase Models With No Up-Front Costs

- Given a choice, most U.K. consumers would prefer a “free” device and pay a monthly fee.
- No monthly fee was attractive, but not with a £240 up-front charge.
- This mirrors other U.K. set-top box purchasing offers and behavior.
- Service providers have opportunity to capture market share with bundled offer.

Source: Cisco IBSG Connected Life Market Watch, 2010

Preferred Purchase Model for Web Video to TV—United Kingdom

- Device for £240 and no monthly service fee—31%
- Device for free and £10/month service fee for 2 years—57%
- Device for £120 and £5/month service fee for 2 years—13%
## SPs Have Many Options in Developing Their Advanced Video Strategy

### Consumer Interest in Select Advanced Video Service Concepts

<table>
<thead>
<tr>
<th>Service Type</th>
<th>Description</th>
<th>Interest Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Connected Home</strong></td>
<td>Service that makes it easy to move digital content such as photos, music, and videos from any TV or computer in the home to any other TV or computer in the home</td>
<td>46%</td>
</tr>
<tr>
<td><strong>Select Camera Angles</strong></td>
<td>Feature that enables you to choose from different camera angles to view your show</td>
<td>27%</td>
</tr>
<tr>
<td><strong>Social TV</strong></td>
<td>&quot;Friend-to-Friend TV&quot; feature that enables you to invite friends to participate in interactive chat sessions while you watch TV and to share the same viewing experience</td>
<td>19%</td>
</tr>
<tr>
<td><strong>Interactive TV</strong></td>
<td>Feature that enables you to use your TV to retrieve information and videos about the program you are watching, while you are watching it</td>
<td>33%</td>
</tr>
<tr>
<td><strong>Internet Widgets</strong></td>
<td>Service that provides quick access to a selection of Internet sites directly from your TV</td>
<td>37%</td>
</tr>
</tbody>
</table>

Source: Cisco IBSG Connected Life Market Watch, 2010
Consumers rating interest 6+ on a 10-point scale
Service Provider Next Steps: Preparing for Video Disruption

- Consumer video entertainment is poised for significant disruption
- As incumbents, SPs are strongly positioned, but many factors are outside their control
- To prepare for the disruption, SPs can:
  1. Develop services, such as web video to TV, that provide consumers with more control
  2. Stay ahead of changes in the video experience, such as interactivity and TV-based Internet access
  3. Fully take advantage of monetization options to capture and retain value across the complete portfolio and full customer lifecycle

Source: Cisco IBSG Connected Life Market Watch, 2010