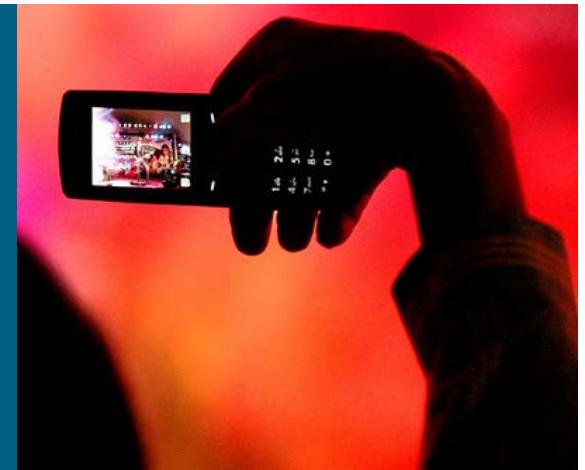




# Tapping Buyer Behavior To Capitalize on Next-Generation Video Opportunities

## A Connected Life Market Watch Perspective



**Cisco Internet Business Solutions Group**  
**March 2012**

# Agenda

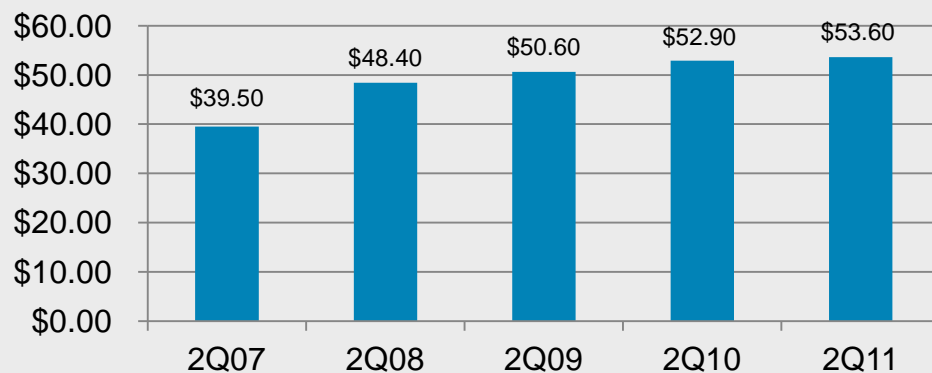
- Market Context: Internet-to-TV Is a Threat and Opportunity for SPs
- Consumer Buyer Behavior: Channel Decisions
- SP Opportunity to Target In-Play Consumers
- Strategic Implications for SPs when Targeting Segments
- Opportunities for Service Providers

# Consumer Spending on Traditional TV Has Flattened

- For the past 5 years, consumer spending for cable TV entertainment has grown, but the rate of growth is flattening
- Competing TV entertainment access platforms and business models have proliferated, leading to market fragmentation
- Nielsen data indicates a drop in traditional TV-set viewing by the youth segment (2/12)
- SPs are concerned that traditional linear TV no longer represents the growth platform it once was

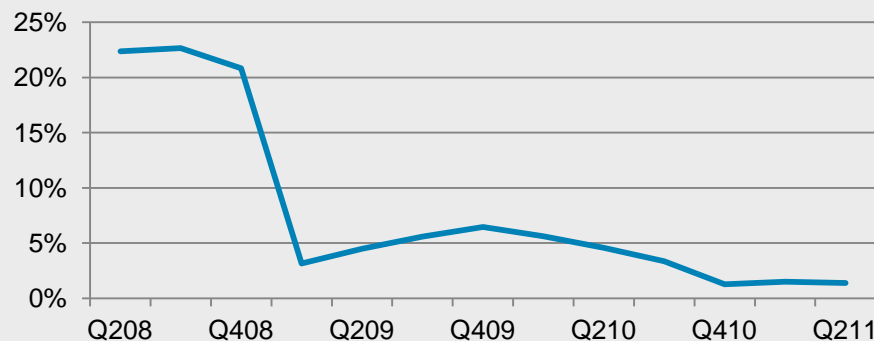
Sources: Cisco IBSG, 2012; Nielsen data, 2/9/12; "Youths Are Watching, but Less Often on TV," *The New York Times*, 2/8/12

## U.S. Cable TV ARPU



Source: ABI Research, Pay TV ARPU and Revenues Market Data, U.S., September 2011

## U.S. Cable TV ARPU—Rolling CAGR



Source: ABI Research, Pay TV ARPU and Revenues Market Data, U.S., September 2011

Definition: TV ARPU is defined as subscription fees from digital, analog, DVR service customers and VoD service revenue.

# Competition for Eyeballs Is Increasing When It Comes to Entertainment

## Trends

- More competition
- Broadband speeds & streaming technology improving
- Internet video increasing in quality
- Consumers consider new viewing options
- Internet TV is growing
- This activity is an \$8B threat to traditional SPs' video business

## Entertainment: Expanding Range of Competitors and Options for Consumers

### Video Entertainment: Illustrative Players

#### Traditional / Linear TV



#### OTT Plays

(Includes subscription, ad, and transactional models)



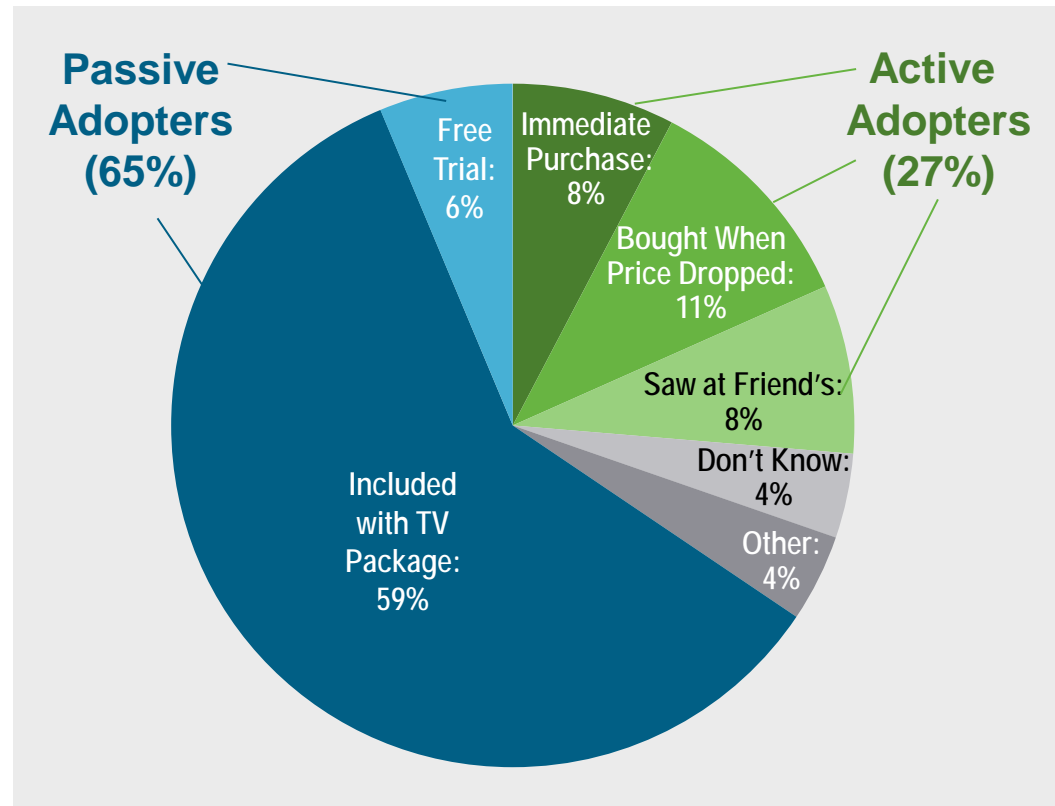
#### Illegal Access

Source: Cisco IBSG, 2012

# SP Opportunity: Lower Adoption Barriers To Influence Buyer Behavior

## SPs Can Apply DVR Adoption Experience to Internet-to-TV

- 65% of DVR owners first adopted a DVR because an SP made it easy
- Similar principle could apply to today's new technology
- By understanding buyer behaviors, needs, and preferences tied to online TV and cloud, SPs can craft defensive—and offensive—strategies for Internet-to-TV

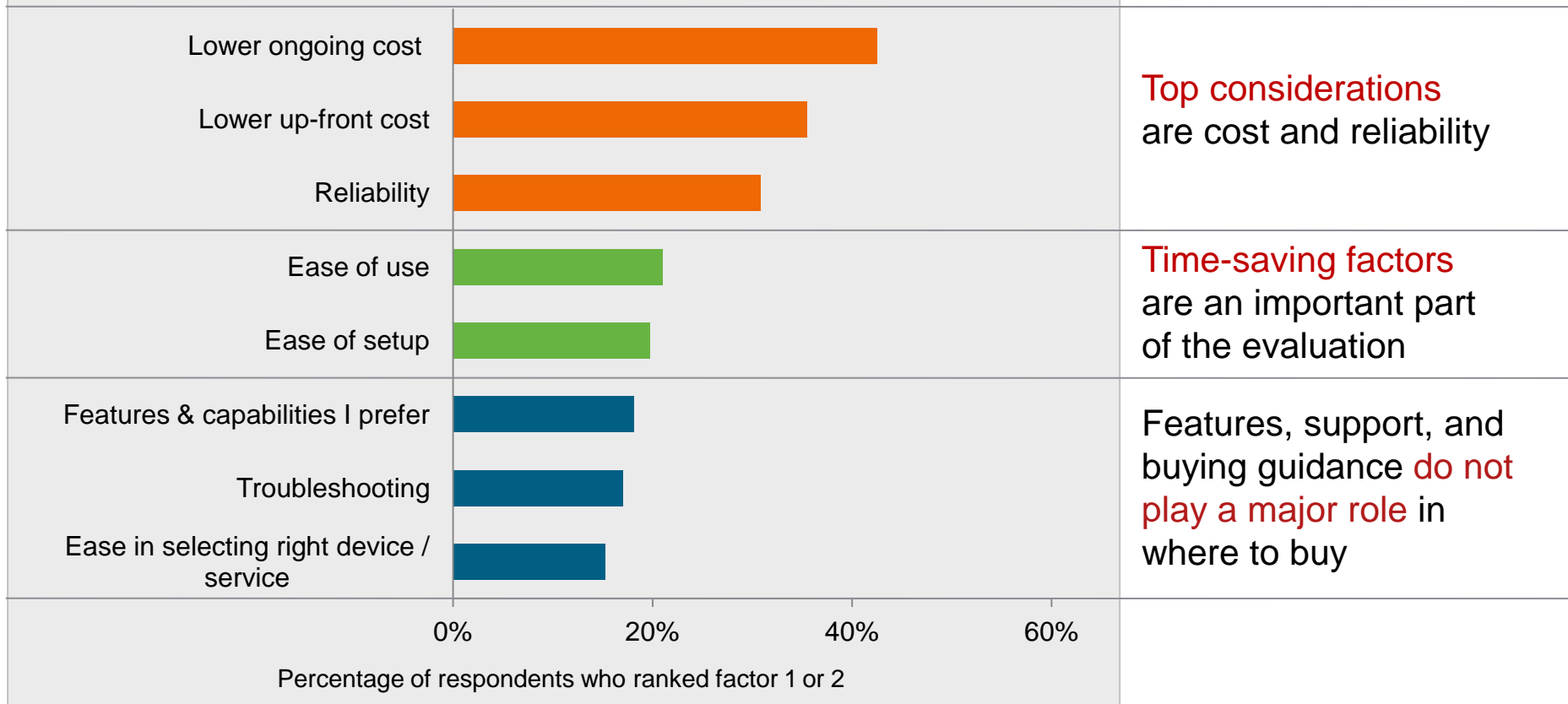


Source: Cisco IBSG Connected Life Market Watch, 2011

Base: U.S. broadband consumers

# Cost and Reliability Are the Most Important Factors in *Where To Buy*

## Consumer Purchase Behavior: Factors that Drive Decision About Where to Buy

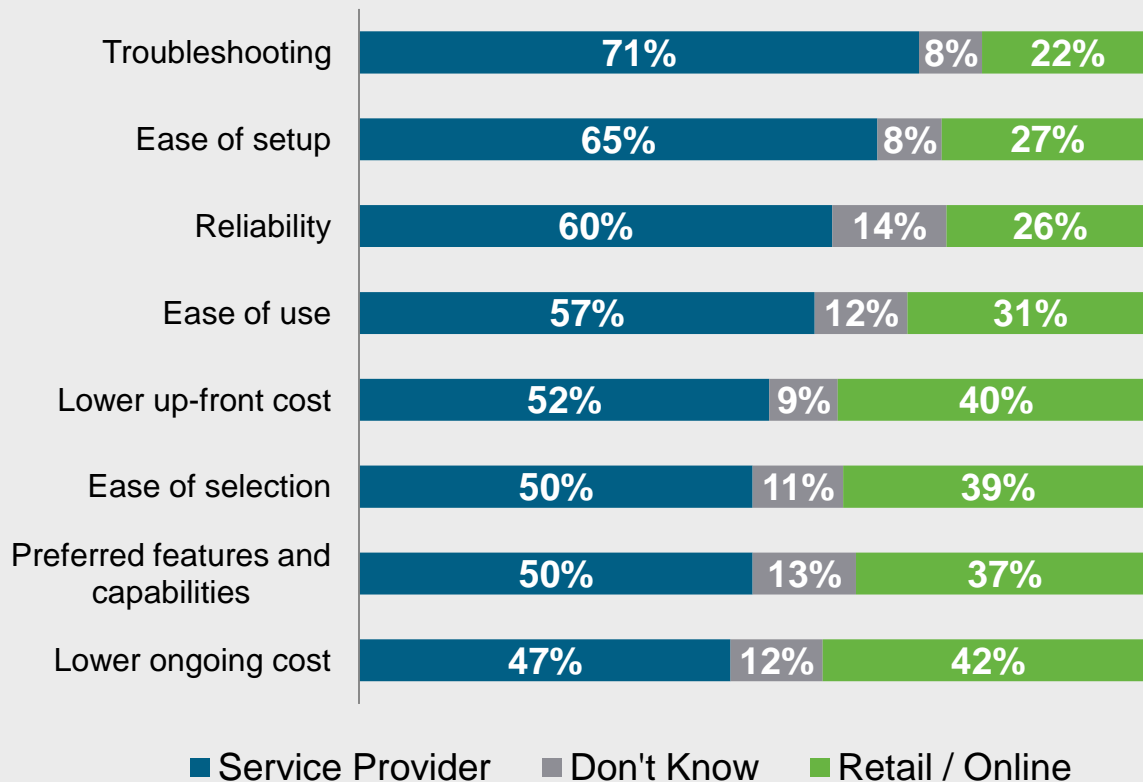


Source: Cisco IBSG Connected Life Market Watch, 2011

Base: U.S. broadband consumers

# Preference for SPs Varies Across Consumers' End-to-End Experience

## Consumer Channel Preference Based on Individual Factors in Consumer's End-to-End Experience



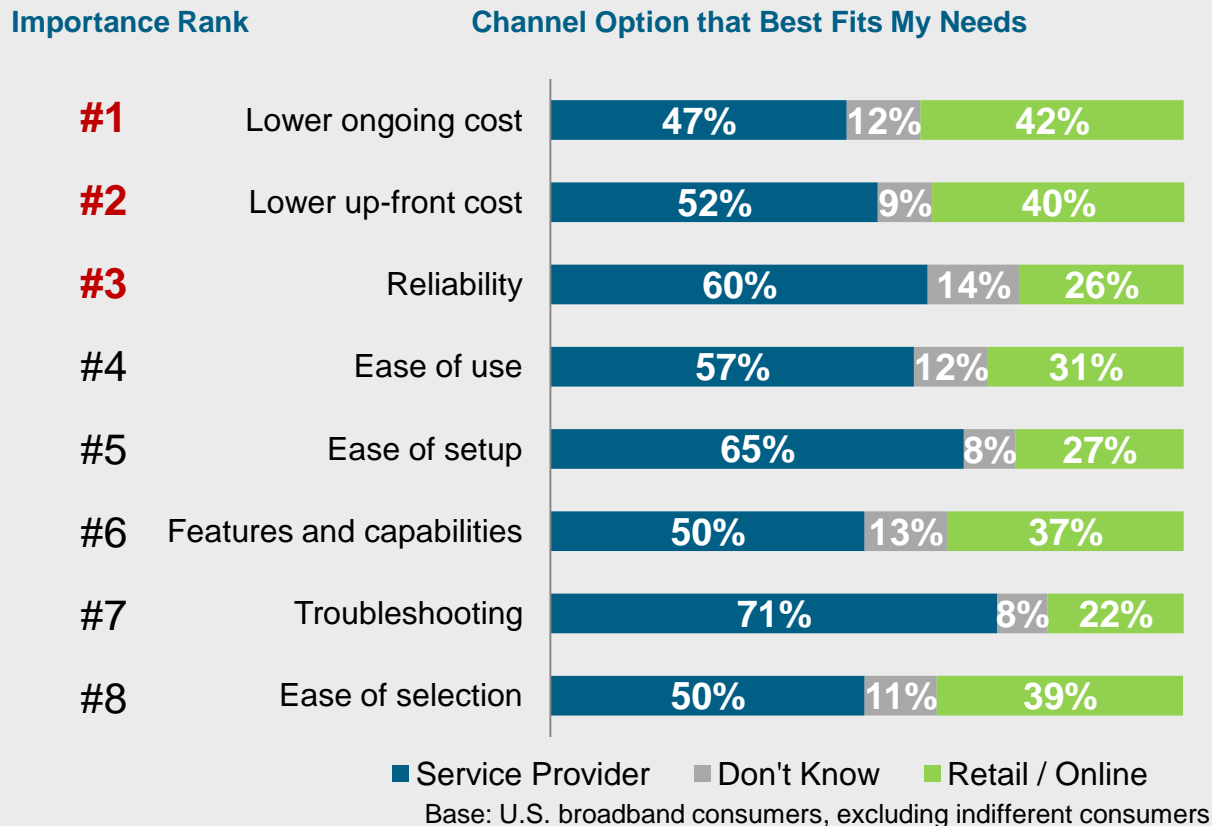
Base: U.S. broadband consumers, excluding indifferent consumers

- SPs have a commanding lead in *troubleshooting, ease of setup, reliability*
  - Twice as many consumers believe SPs better fit their needs in these areas
- SPs still lead in *ongoing cost, up-front cost, features, and ease of selection*, but by a smaller margin

Source: Cisco IBSG Connected Life Market Watch, 2011

# However, SPs Have Smallest Lead in Most Important Decision Criterion

## Consumer Channel Preference: Individual Factors in Order of Importance



- **Ongoing cost** is the most important decision criterion for most consumers
- And it's the factor where SPs and retail / online preference are **most evenly matched**

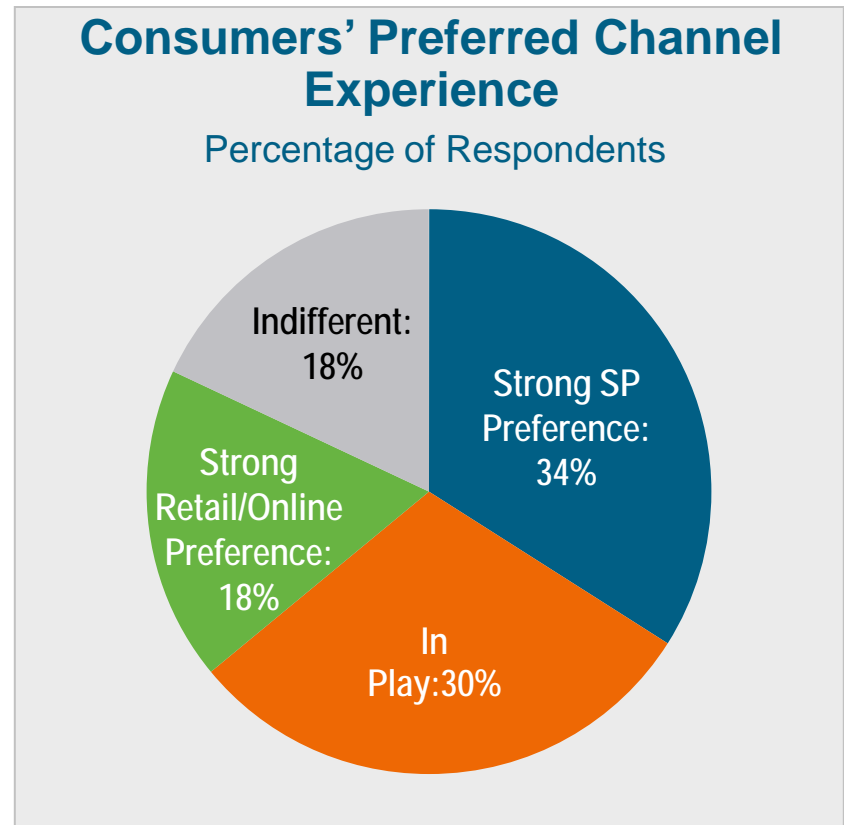
Source: Cisco IBSG Connected Life Market Watch, 2011



# To Expand Customer Potential, SPs Should Target “In-Play” Consumers

**In-play** consumers are SPs’ best segment to target:

- 18% of consumers are highly indifferent and will be difficult to draw into any Internet / TV purchase
- Another 18% show a strong preference for the retail / online experience and may be difficult to attract
- However, a sizable 30% of the market shows openness to consider both SP and retail /online solutions

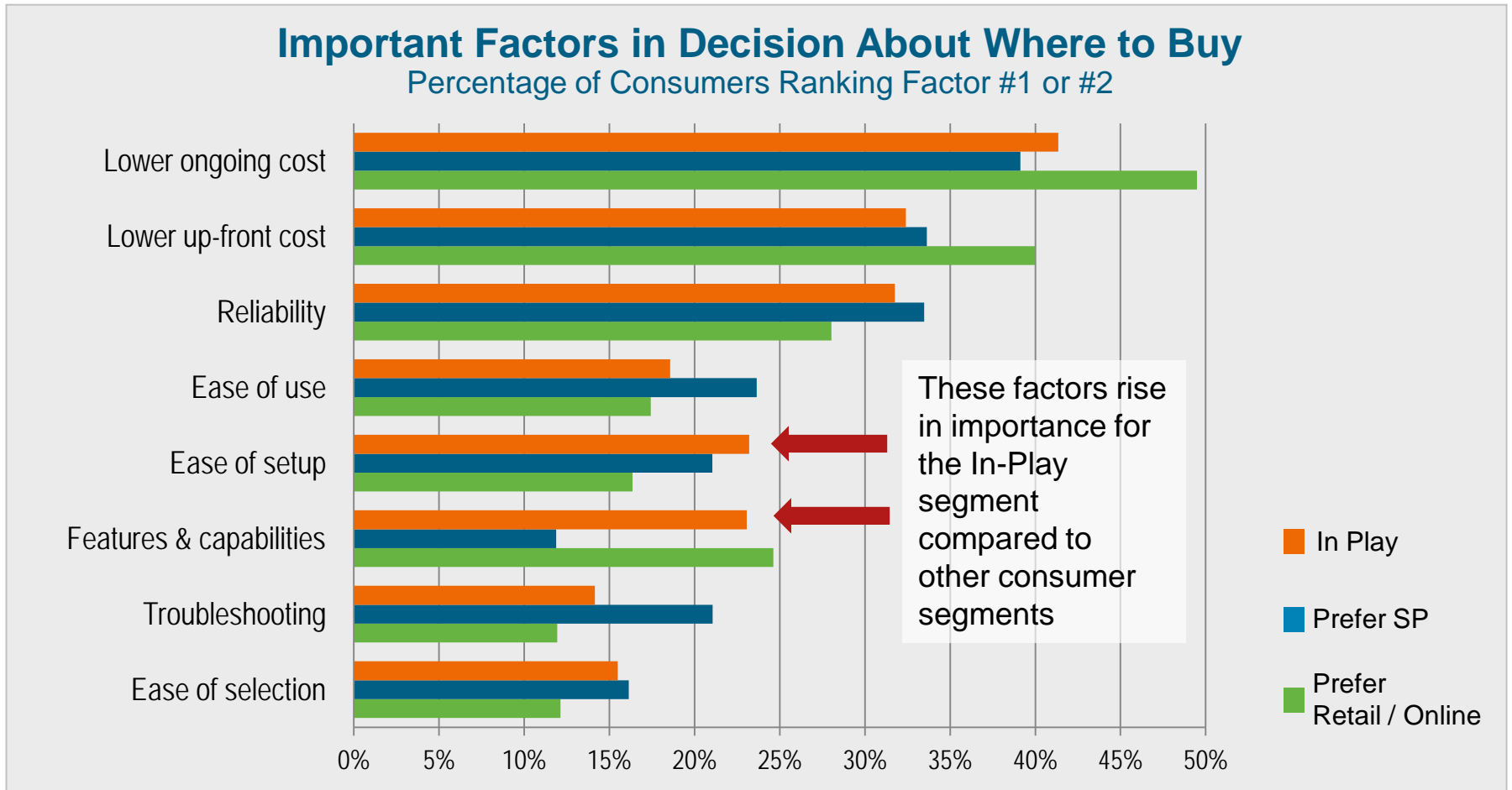


Source: Cisco IBSG Connected Life Market Watch, 2011

Base: U.S. broadband consumers

# In-Play Consumers Value *Features* and *Ease of Setup* More than Other Segments

## Top Factors—Cost and Reliability—Are Similar to Other Segments



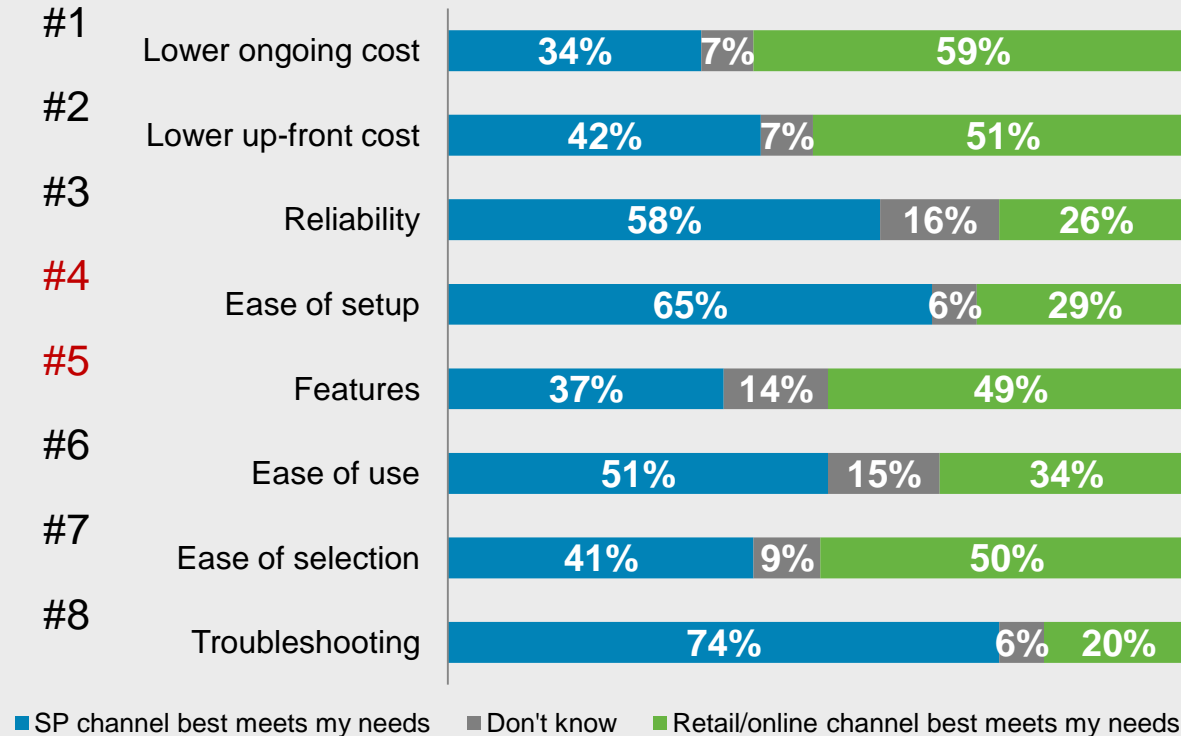
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: "In-Play" U.S. broadband consumers

# In-Play Segment's Priority Buying Factors Favor Retail / Online Channel

## Channel Preference of "In-Play" Consumers Based on Individual Factors in Consumers' End-to-End Experience

### Importance Rank



Red: Criterion ranked higher than for average consumer

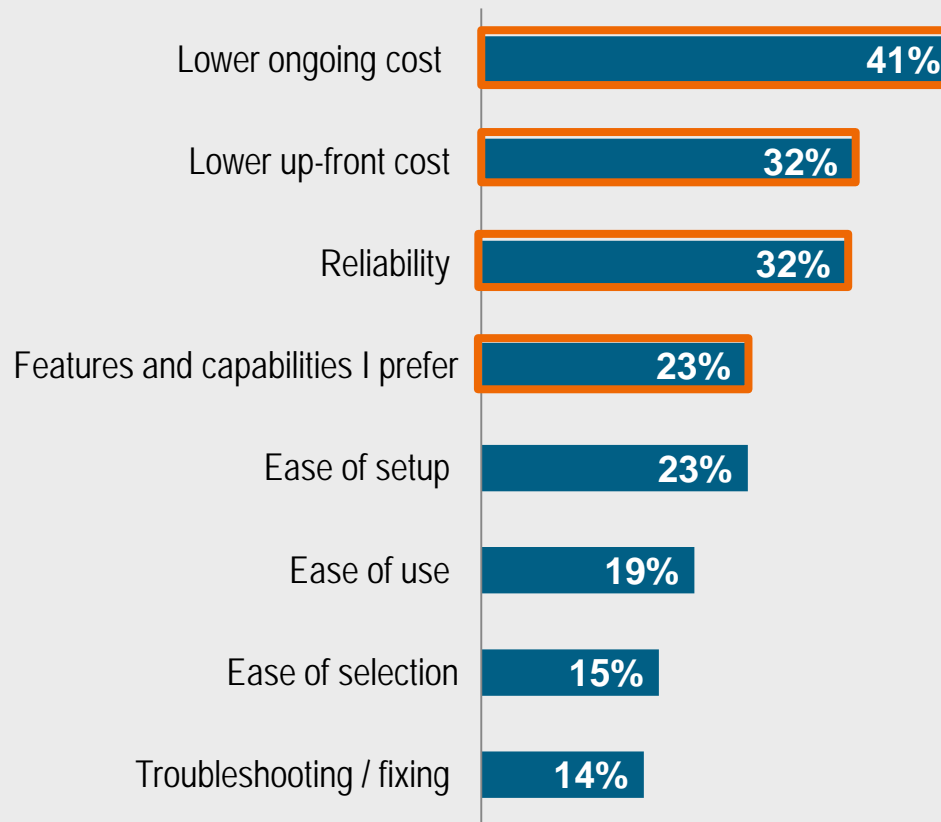
- Retail / online channel demonstrates strong lead in the two factors that most strongly influence "In-Play" consumers' decision about where to buy: **ongoing cost** and **up-front cost**
- SPs can take advantage of their lead in **reliability**—also a strong decision factor—to attract consumers

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: "In-Play" U.S. broadband consumers

# Capturing the 30% of In-Play Consumers Who Are Up for Grabs

## “In-Play” Channel Preference Segment: Device / Service Factors, by Importance Percentage of Respondents



- To win over the “In-Play” segment, SPs need to:
  - Attend to the key basics of **cost** (where SPs today are at a disadvantage)
  - Highlight degree of **reliability** in messaging
- Further differentiate on features—which, compared to all respondents, the In-Play segment values disproportionately
- Message on **ease of setup**

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: “In-Play” U.S. broadband consumers

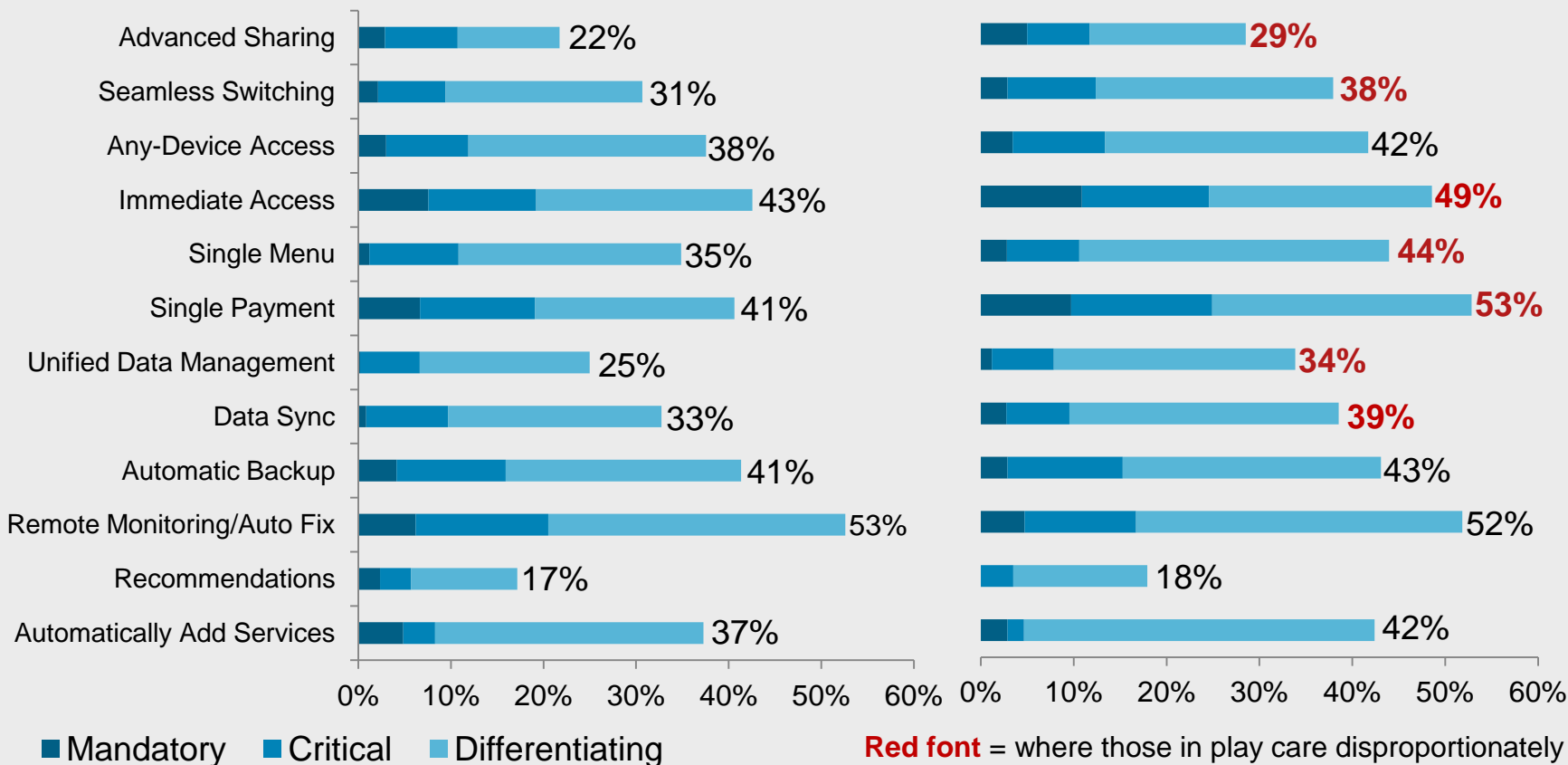
# SPs Can Also Win Over Those in Play by Considering Connected Life Preferences

## Respondents with **SP Channel Preference** and Views on Connected Life Services

(Percent of respondents)

## Respondents Who Are **In-Play** and Views on Connected Life Services

(Percent of respondents)



Source: Cisco IBSG Connected Life Market Watch, 2011

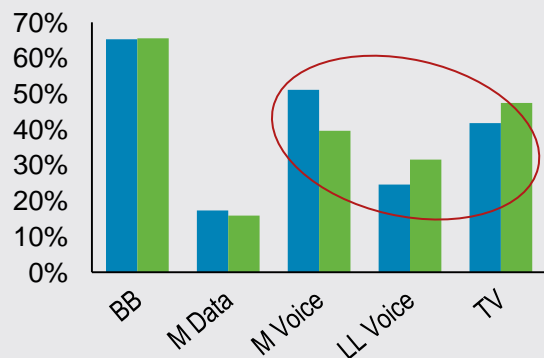
Base: U.S. broadband consumers

# In-Play Segment Is Younger, Tech-Savvy, Cloud-Aligned, and Could Cut Cord

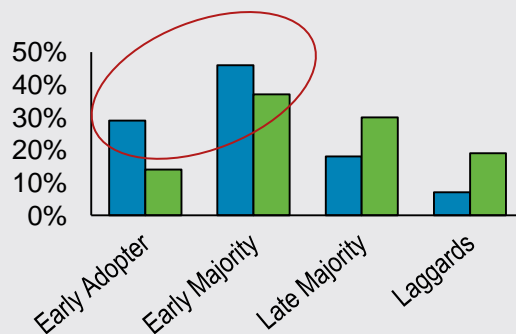
## Segment: In Play

Definition: 318 respondents who show no strong preference for either Retail or SPs

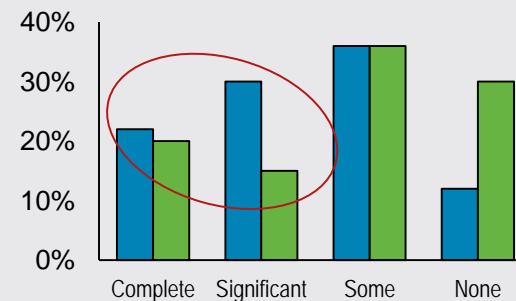
### Stickiness of Core Services



### Tech Sophistication



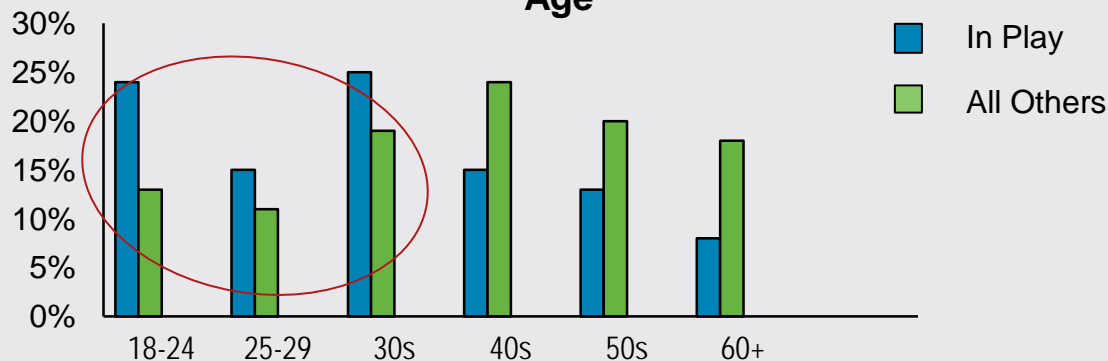
### Cloud Alignment



### In addition, segment:

- Is over-indexed on high income, students, couples with children
- Is over-indexed on laptops, smartphones, DVR, online video service, and Internet video device

### Age



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: "In-Play" U.S. broadband consumers

# Anchor Bundles to Fixed Broadband; Target Innovations to Those in Play

## Strategic Implications:

- Segment is disproportionately likely to “cut cord” for voice and video; critical to find linkages across core services and between core services and value-added services
- Higher income, degree of alignment to connected devices, early adoption, tech sophistication, and affinity for cloud suggest overall high degree of “connected life addressable spending”

## Potential Considerations:

- Anchor consumer bundle more tightly to broadband, and link land-line voice and video
- Link fixed broadband to mobile or nomadic broadband options (“broadband everywhere”) and new services (“video everywhere”)
- Target group with organic or third-party innovations, including cloud-enabled solutions (online video-to-TV)
- Potential for cross-promotion with hardware providers and online services (such as video)

Source: Cisco IBSG Connected Life Market Watch, 2011

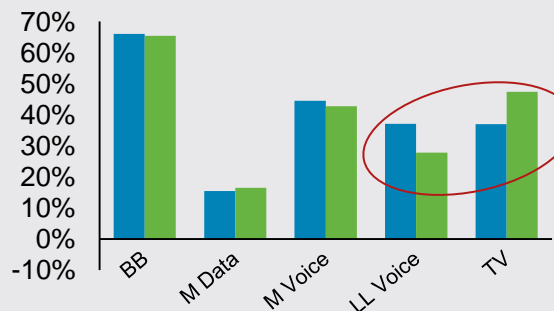
Base: “In-Play” U.S. broadband consumers

# Retail Segment Is Slightly More Mature, Tech-Minded, and Cloud-Aligned

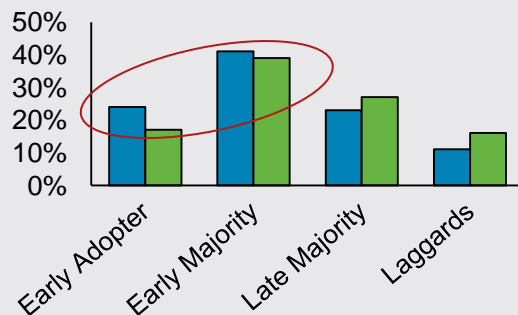
## Segment: Retail-Oriented

Definition: 193 respondents who show strong preference for Retail

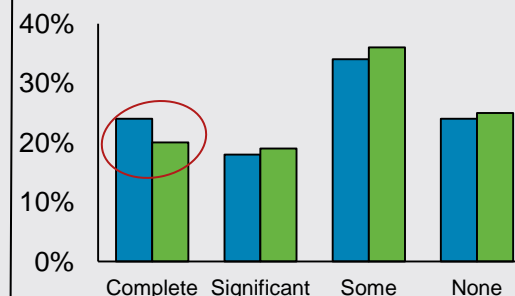
### Stickiness of Core Services



### Tech Sophistication



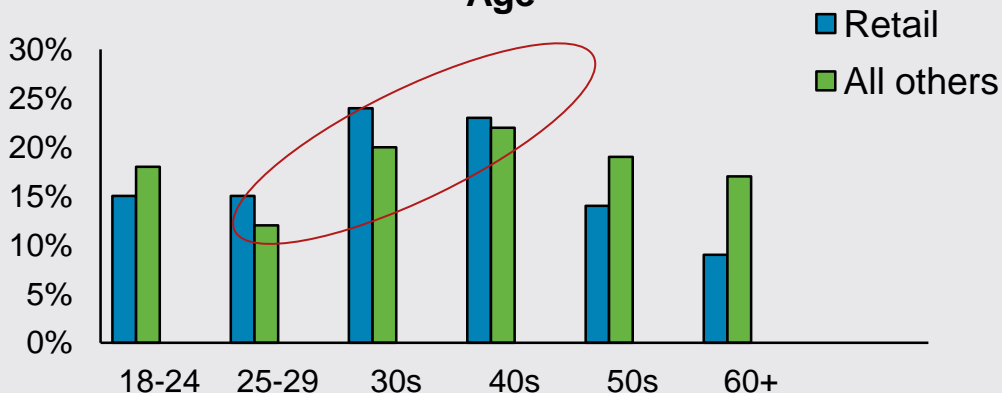
### Cloud Alignment



### In addition, segment:

- Is more likely to be male, student; under-indexed on high-income
- Is over-indexed on laptops, smartphones, online video, and Internet video device; under-indexed on DVR

### Age



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Retail-oriented U.S. broadband consumers



# Retail Segment: Complement Consumer-Sourced Connected Life Solutions

## Strategic Implications:

- High level of stickiness for land-line voice and lower average income levels suggest overall cost focus
- Low stickiness on subscription video, low indexing to DVR, and higher indexing on online video and Internet video device suggest vulnerability to video cord cutting
- Tech sophistication and cloud alignment suggest strong appetite for Connected Life solutions

## Potential Considerations

- Anchor consumer bundle to broadband and voice services with strong “value-centric” messaging
- Opportunity to extend non-linear video solution to segment (such as broadband packages optimized for video) and possible partnerships (for example, Netflix)
- Potential for cloud add-ons such as video / media storage and access

Source: Cisco IBSG Connected Life Market Watch, 2011

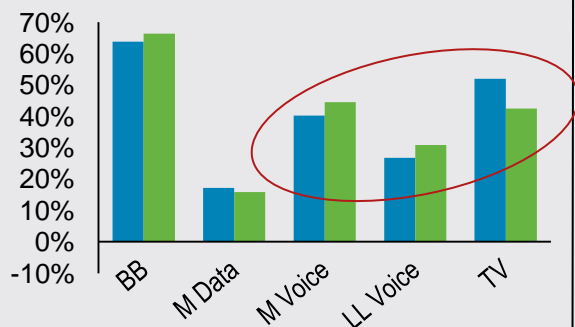
Base: Retail-oriented U.S. broadband consumers

# SP Segment Is Older, Somewhat Cloud-Aligned, and Lags in Tech Adoption

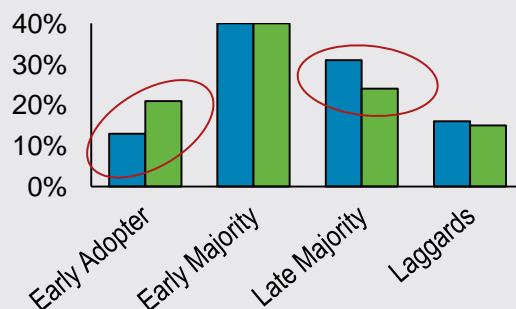
## Segment: Service Provider-Oriented

Definition: 354 respondents who show strong preference for SPs

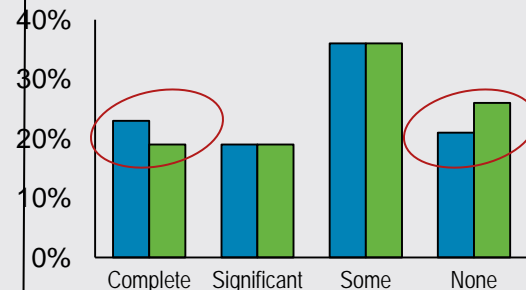
### Stickiness of Core Services



### Tech Sophistication



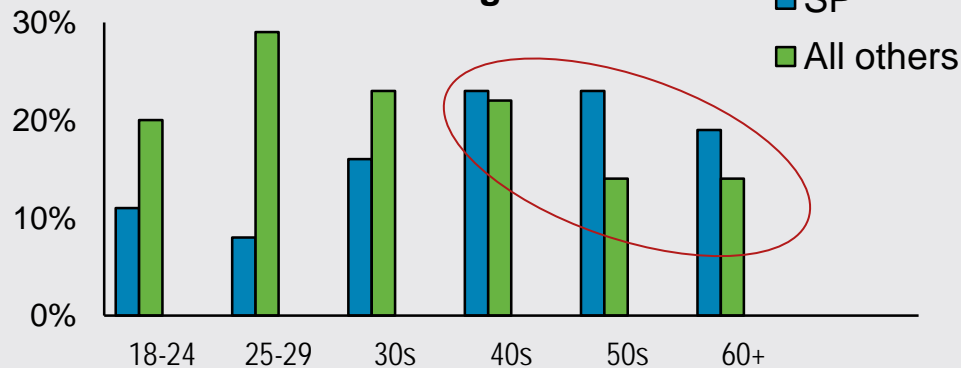
### Cloud Alignment



### In addition, segment:

- Is more likely to be retired, live alone, have high income
- Is less likely to have a laptop, smartphone, online video service, or Internet video device

### Age



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: SP-oriented U.S. broadband consumers

# SP Segment: Anchor on Video and Broadband, Avoid Dramatic Offer Shifts

## Strategic Implications:

- Disproportionately higher stickiness to TV, lower indexing to online video, and slower tech adoption suggest minimizing radical offer migrations
- Relative higher indexing to mobile broadband and higher income suggest lower price sensitivity
- Conservative tech adoption, yet strong cloud alignment, perhaps driven by “convenience and simplicity” value proposition (remote support and single payment)

## Potential Considerations:

- Anchor bundles around video and broadband with voice services more positioned as a pull-through
- Avoid major shifts in offers, which could disrupt customers in this segment
- Focus positioning of offers to this segment around ease of use and convenience rather than value and innovation

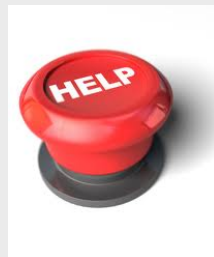
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: SP-oriented U.S. broadband consumers

# SPs Can Promote Hassle-Free, Managed User Experience

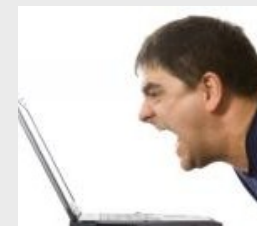
## SP Experience: Managed<sup>1</sup>

- Product choice defined, simple / limited options
- Pre-integrated product
- Installation simple / installation service available from provider
- No need for long manuals / figuring out how to link devices and services
- Support available; single provider



## Retail / OTT Experience: Unmanaged

- Research required for product choice and compatibility; unlimited options
- Installation and integration can be complex
- Long manuals and DIY process to link devices and services
- Support available; not clear who

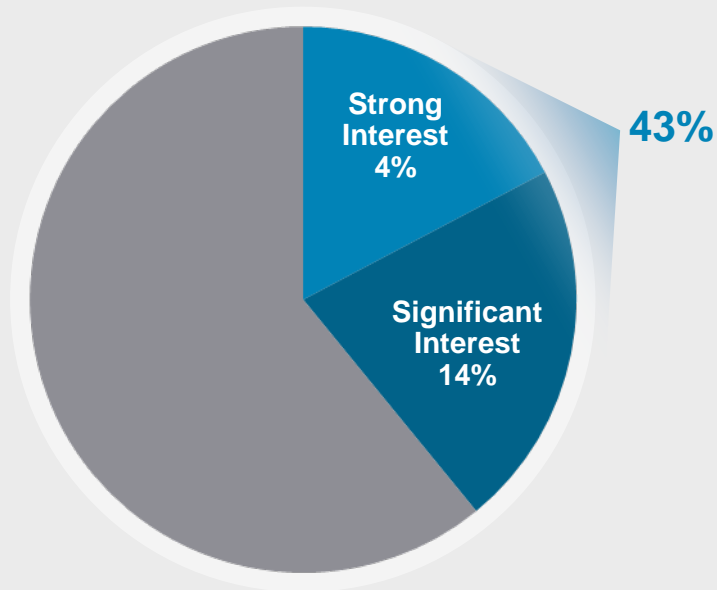


<sup>1</sup> SPs did this with great success in the past—with DVRs, which are now ubiquitous.

Source: Cisco IBSG, 2012

# Consumers Will Pay for a Managed Experience To Minimize Complexity

## Consumer Interest in a Service that Simply and Easily Enables Internet Video on TV



### Question:

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

## Consumers are willing to pay directly for *Internet-to-TV*

- Range of acceptable pricing for interested consumers is between \$7 to \$11 per month for this service

## Consumers will upgrade broadband to gain access to *Internet-to-TV*

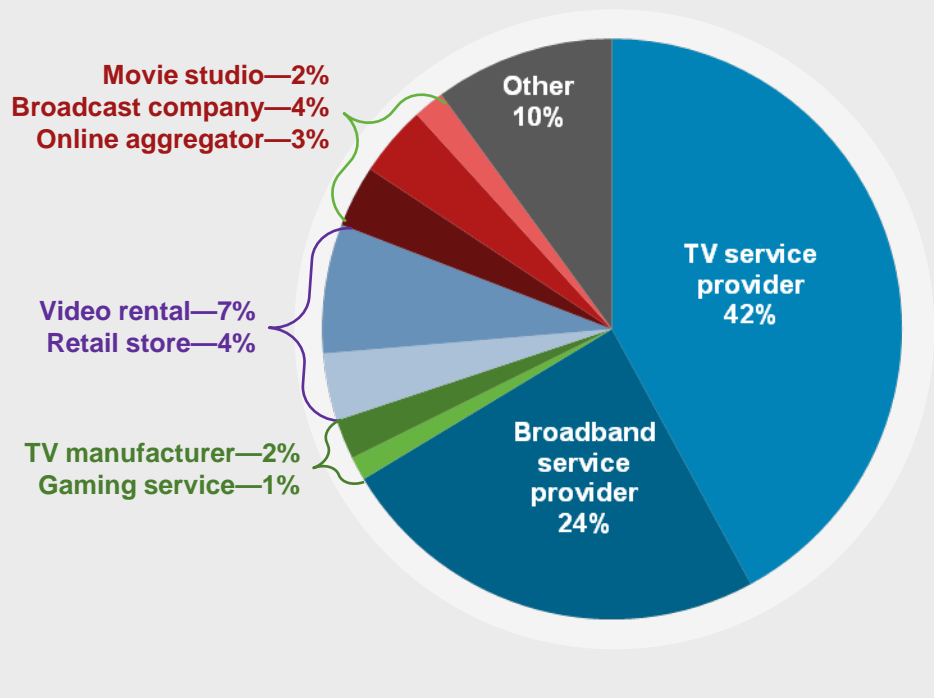
- 39% of broadband consumers would upgrade their broadband service for an additional \$10 per month if web video-to-TV were available for free with premium broadband

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: U.S. broadband consumers

# SPs Are Strongly Positioned To Deliver Internet Video to Consumers—for Now

## Preferred Provider for Web-Video-to-TV United States



- 66% of consumers choose an SP to deliver *Internet-to-TV* service
- SPs can address consumers' concerns, including up-front cost and quality
- To optimize any offer that requires consumers to buy a separate device, SPs should work with retailers
  - 55% would buy the enabling device at a consumer electronics or Internet retailer
- This preferred position reflects the lack of activity in the market by any player, and could change quickly if any consumer electronics vendor, retailer, or aggregator launches aggressively

Source: Cisco IBSG Connected Life Market Watch, 2010

Base: Interested in *Web-Video-to-TV*, U.S.

# In-Play Consumers' Preferences Can Sway Them to SP Internet-to-TV Offers

## SPs Should Design Offers Around Preferred Features

- Focus on developing key features that differentially matter to the In-Play segment
  - Advanced sharing functionality
  - Seamless switching among platforms
  - Unified data management
  - Single menu
- Help the In-Play segment manage their SP experience
  - Single payment
- Continue to differentiate with features that matter across segments
  - Immediate access
  - Any-device access
  - Auto backup
  - Remote monitoring and automatic fix
  - Automatically adding new services

Source: Cisco IBSG, 2012

# SPs Must Also Address In-Play Consumers' Channel Perceptions

- Attend to the key basics of cost and reliability
  - Adopt and communicate pricing strategies that chip away at the high-cost perception of SP channel offers; stress the value associated with SP reliability
- Continue to differentiate on ease of setup (already an SP strength)
  - Continue to make product setup easier, eliminating the need for an installation technician wherever possible
  - Emphasize that live support is only a fingertip away—via live chat, live phone call, or home visit if necessary
- Focus on providing the key features and capabilities most important to In-Play consumers
  - In certain key areas, SPs' features do not match the “bells and whistles” included in retail / online offerings (for example, TiVo is often more feature-rich than SP-provided DVRs)
  - Features and capabilities play an important role for In-Play consumers in their purchase decision (unlike other consumers)
  - SPs must listen closely to ensure their solutions are not outpaced by retail /online offerings

Source: Cisco IBSG, 2012





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