Connected Life Market Watch

Service Delivery and Consumer Cloud: Canada

Cisco Internet Business Solutions Group

September 2011

Connected Life Market Watch Program
Service Delivery and Consumer Cloud

Scope

- United States
- **Canada**
- France
- Italy

Approach

Market Watch Program

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

Methodology

- Canadian broadband consumers
- 20-minute online survey
- 744 total respondents
- April 2011

Segmentation

- Used proprietary scoring methodologies to identify consumer "technology" segments

Source: Cisco IBSG Connected Life Market Watch, 2011

Key Findings

Consumer Cloud & Connected Life

- Connected Life services are more attractive when they include cloud enhancements
- The more engaged consumers are with Connected Life experiences , the more impact cloud services have on their demand for Connected Life services

Consumer Buying Behavior

- SPs hold strong lead as consumers' preferred provider for Internet-to-TV solution and can expand market potential by targeting the 28% of consumers that are "in play"
- Ongoing cost, upfront cost and reliability concerns are the strongest factors in a consumer's decision of *where to buy;* ongoing cost is a key area of concern for SPs

Usage-Based Billing

- 72% of Canadian broadband consumers consider usage-based broadband pricing unfair, but most have not modified usage and have seen no affect on their bill
- For online video usage, most consumers would reduce use before subscriber to a higher tiered plan

Consumer Technology Trends

- Consumers are embracing Connected Life technologies; mobile data use occurs in predominantly fixed locations, and consumers rely increasingly on broadband

Source: Cisco IBSG Connected Life Market Watch, 2011

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Consumer Cloud and Connected Life

Cloud Offers Consumers an Enhanced Connected Life Experience

Cloud-Enabled Enhancements Can Be Applied Horizontally Across Connected Life Services

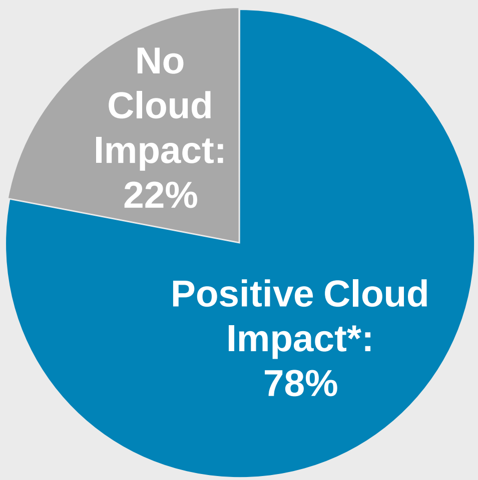
Connected Life	Cloud Enhancements	Answer Consumer Needs
	▪ Unified Data Management ▪ Automatic Backup ▪ Automatic Data Sync	Make my data management easy
	▪ Any Device/Location ▪ Immediate Access ▪ Seamless Switching	Let me access and move my stuff easily across my devices, from anywhere
	▪ One-Time Payment ▪ Single-Menu Access	Let me choose what I want across all services, but pay only once
	▪ Add New Capabilities Automatically ▪ Remote Monitor/Automatic Fix	Make it easy for me to get Connected Life services
	▪ Advanced Sharing ▪ See Peer Recommendations	Help me match my online social behavior to my real-life social behavior

Source: Cisco IBSG, 2011

Cloud Is More Powerful as Complete Experience vs. Single Enhancement

Most Consumers Influenced by More than One Cloud Enhancement

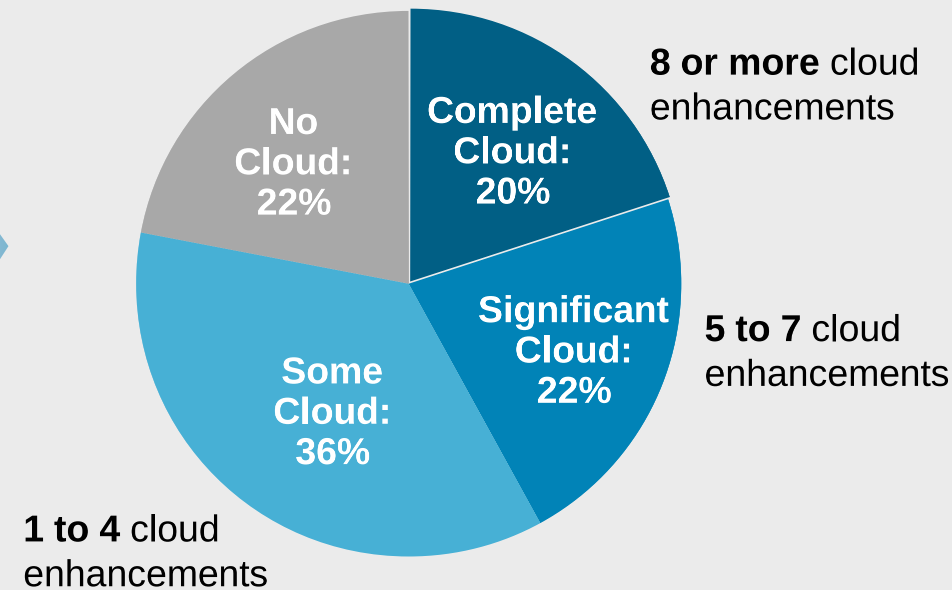
Consumer Response Across All Consumer Cloud Enhancements



* Critical, mandatory, or differentiating

Consumer Segmentation Based on Extensiveness of Cloud Reaction

Percent of consumers positively impacted



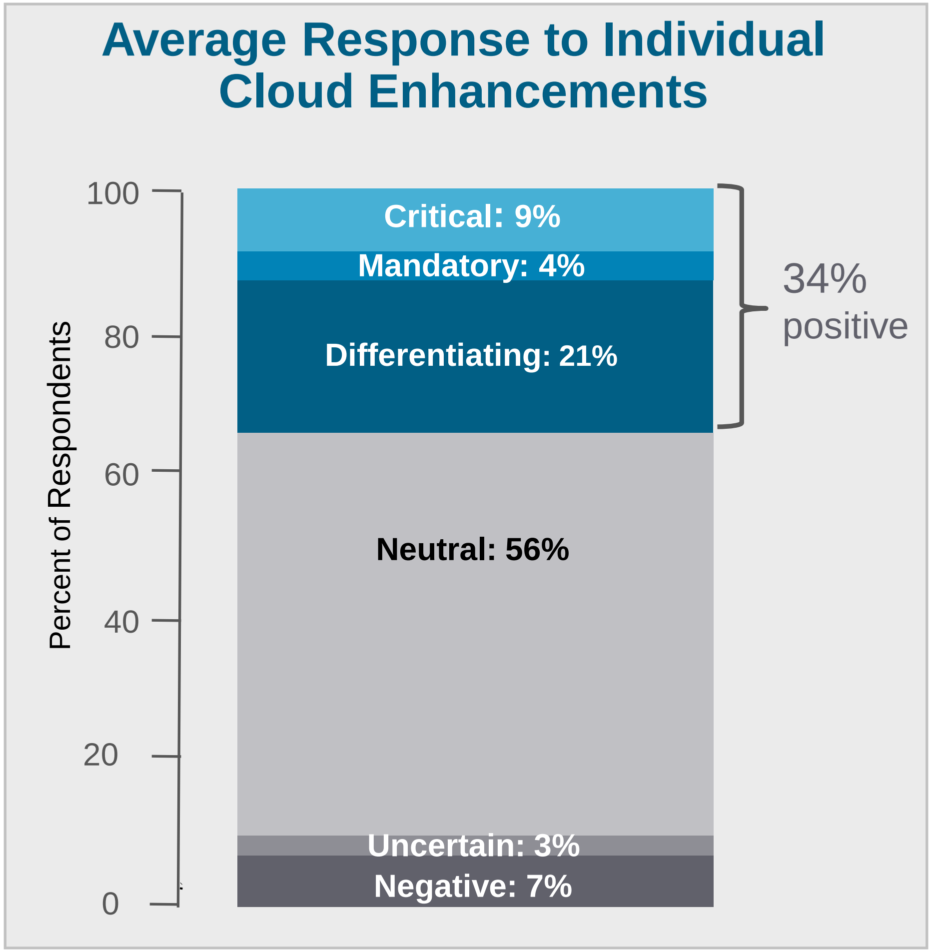
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

Cloud Enhancements Impact Consumers' Reaction to Connected Life

- Each cloud enhancement positively impacts **one out of three** respondents' reaction to Connected Life services
- Kano methodology **validates and informs** consumer interest interpretation

  35% of consumers report interest of 8+ on 10-point scale; closely matching the 34% who find the enhancements critical, mandatory, or differentiating

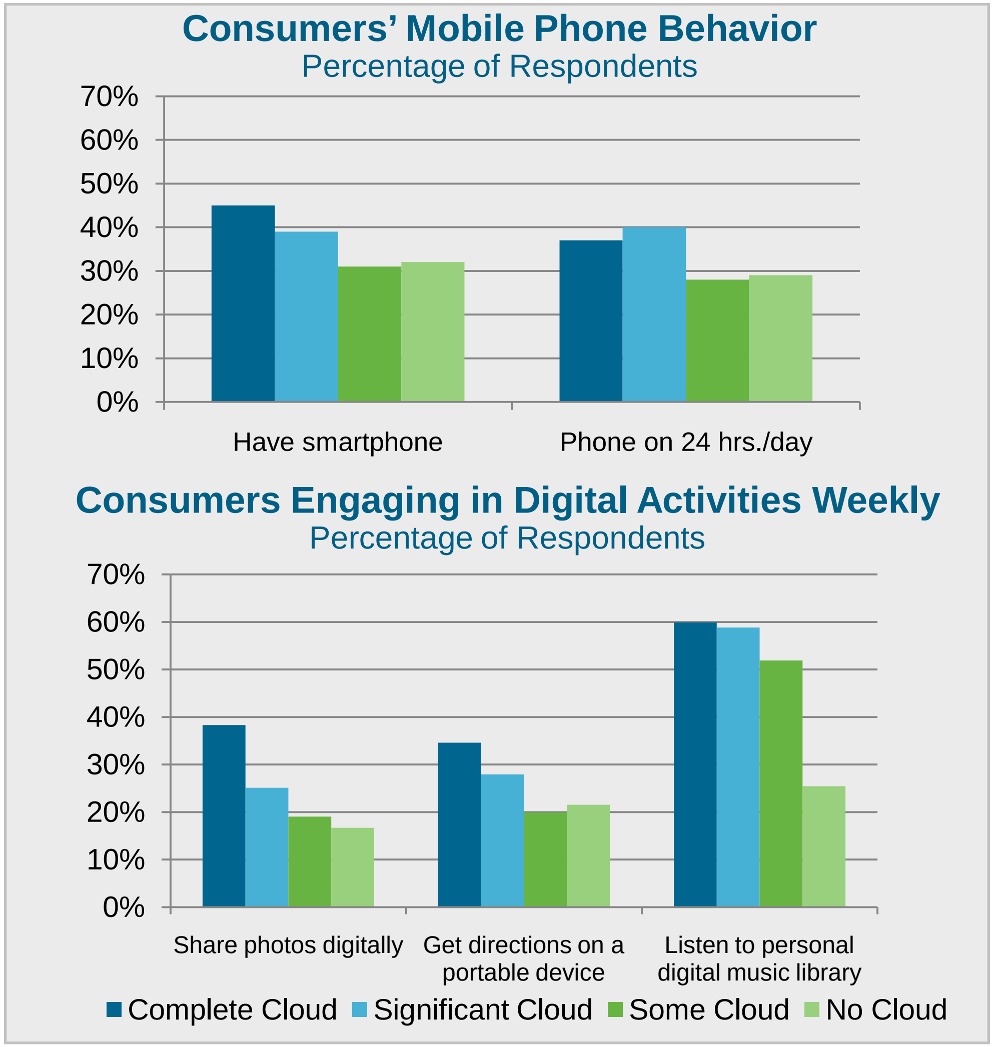


Source: Cisco IBSG, based on Kano methodology, 2011

Base: Canadian broadband consumers

Which Consumers Are Seeking Complete Cloud Experience?

- Complete cloud experience demanded by connected consumers who regularly engage in Connected Life activities
- Consumers with strong demand for complete cloud:
  – Younger (38% under 35)
  – More likely to be female (58%)
  – More likely to be early adopter
- Consumers with no demand for cloud are less engaged in Connected Life
  – No strong buying-channel preferences
  – Likely to be concerned about service contracts

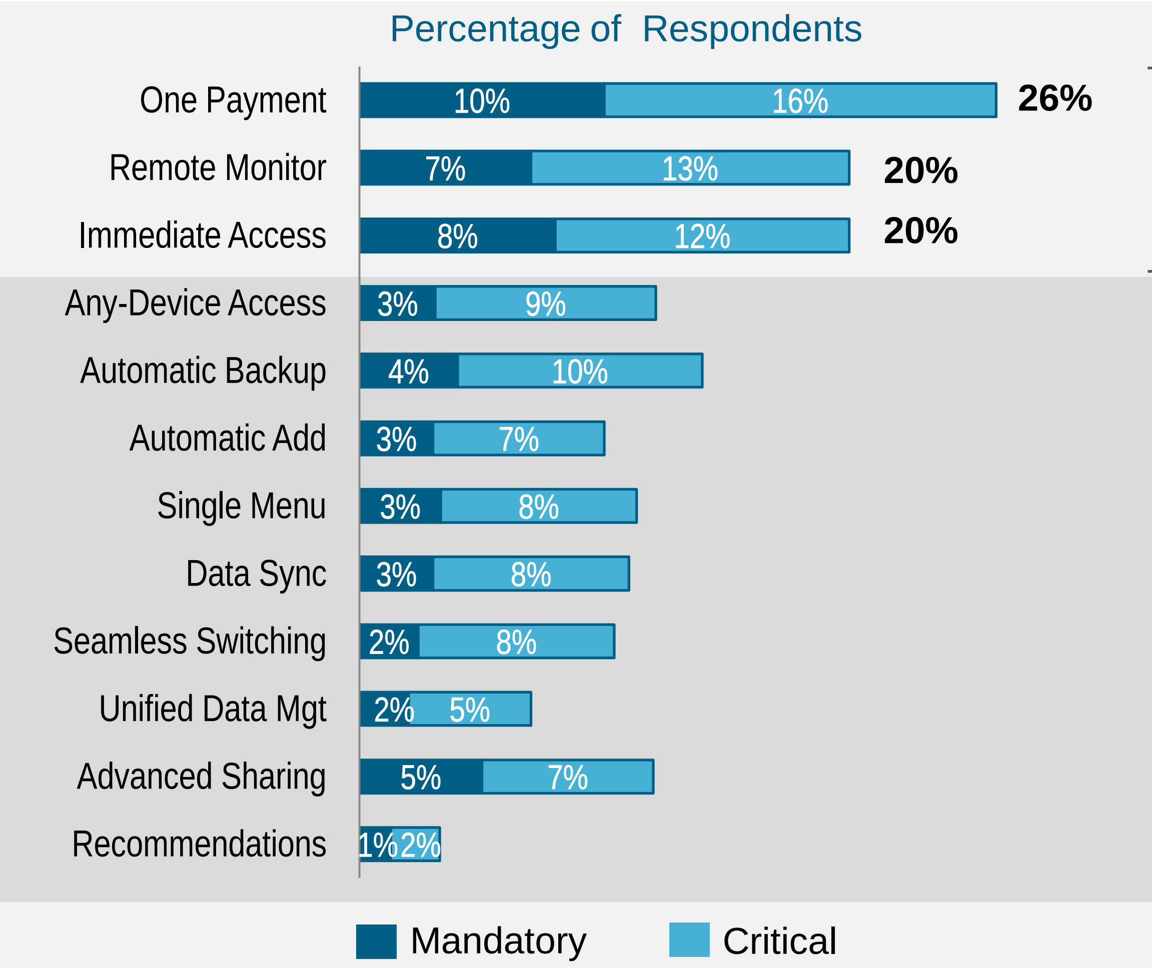


Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

Some Cloud Experiences Have Stronger Impact than Others

Impact of Mandatory and Critical Enhancements on Connected Life Services

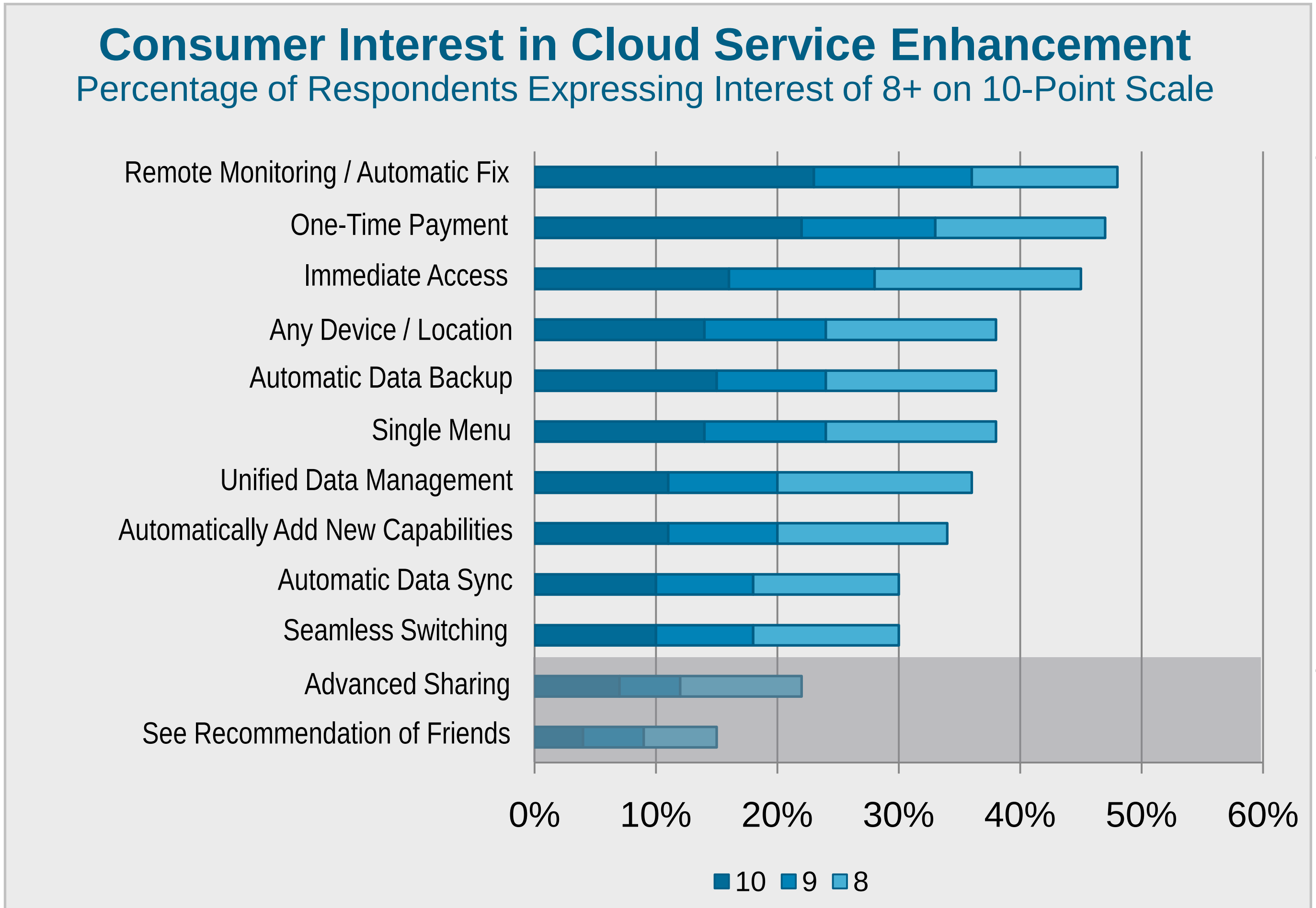


- More than 20% of consumers already expect their Connected Life services to include certain cloud enhancements:
  - Single payment
  - Remote monitor / auto fix
  - Immediate access
- These consumers will react to a Connected Life service negatively if these cloud enhancements are not present

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

Some Cloud Experiences Spark Stronger Consumer Interest than Others

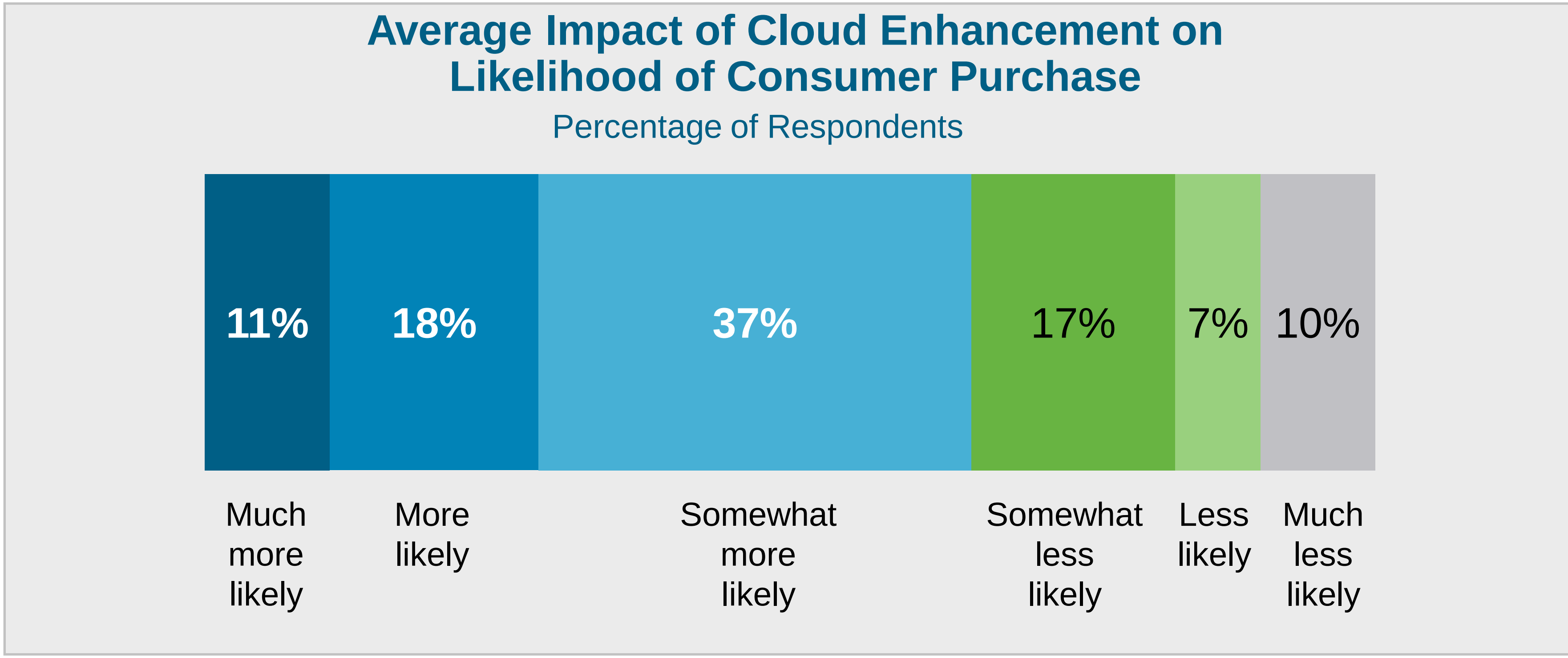


For 10 of the 12 cloud enhancements, **between 30% and 50%** of broadband consumers expressed strong interest

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

Cloud Enhancements Impact Connected Life Buying Behavior



- On average, 66% of respondents have increased likelihood of buying Connected Life service if it has single cloud enhancement
- 29% are "more likely" or "much more likely" to buy

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

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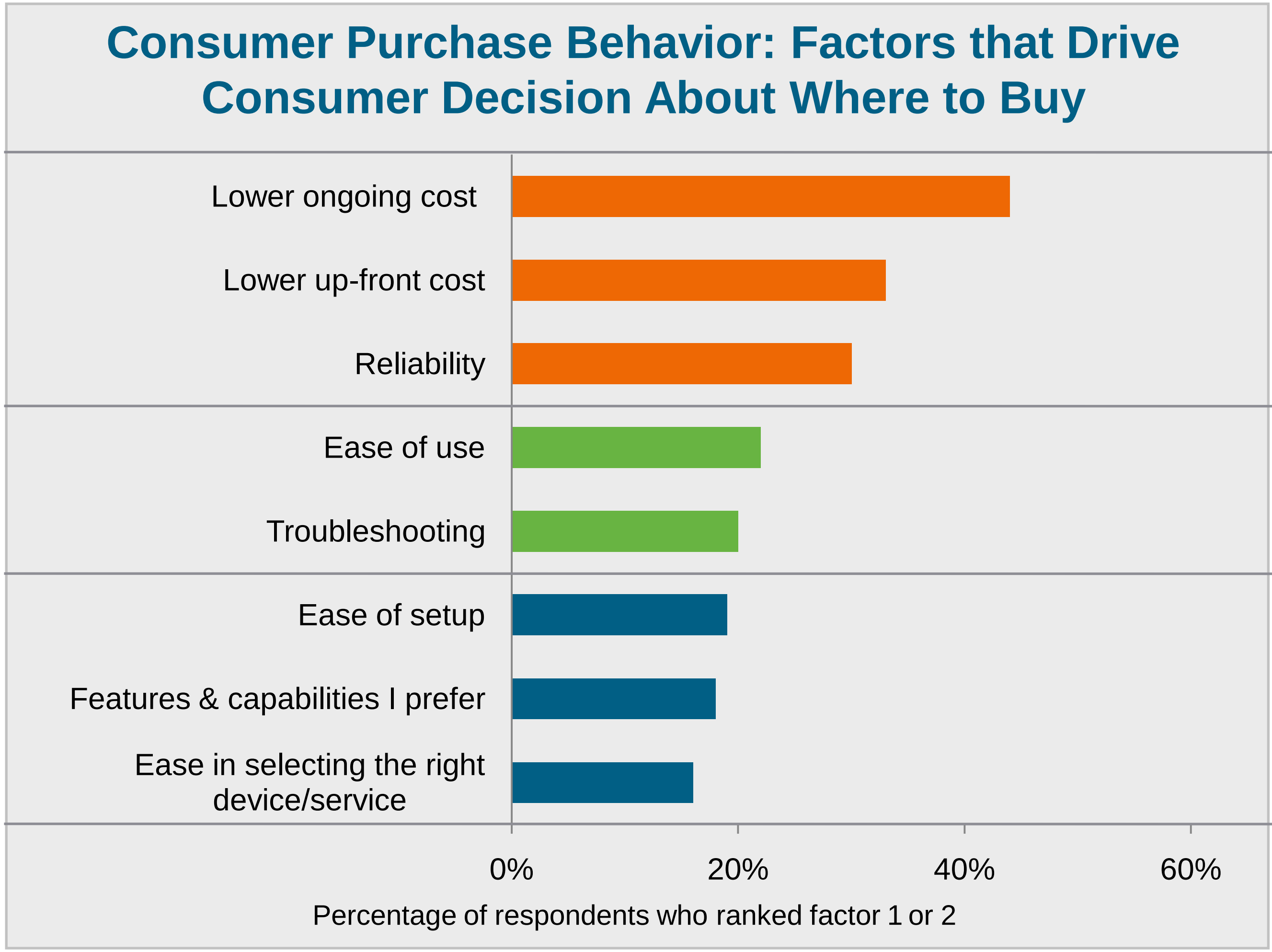
Consumer Buying Behavior

Factors Driving Where To Buy

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



Top considerations are cost and reliability

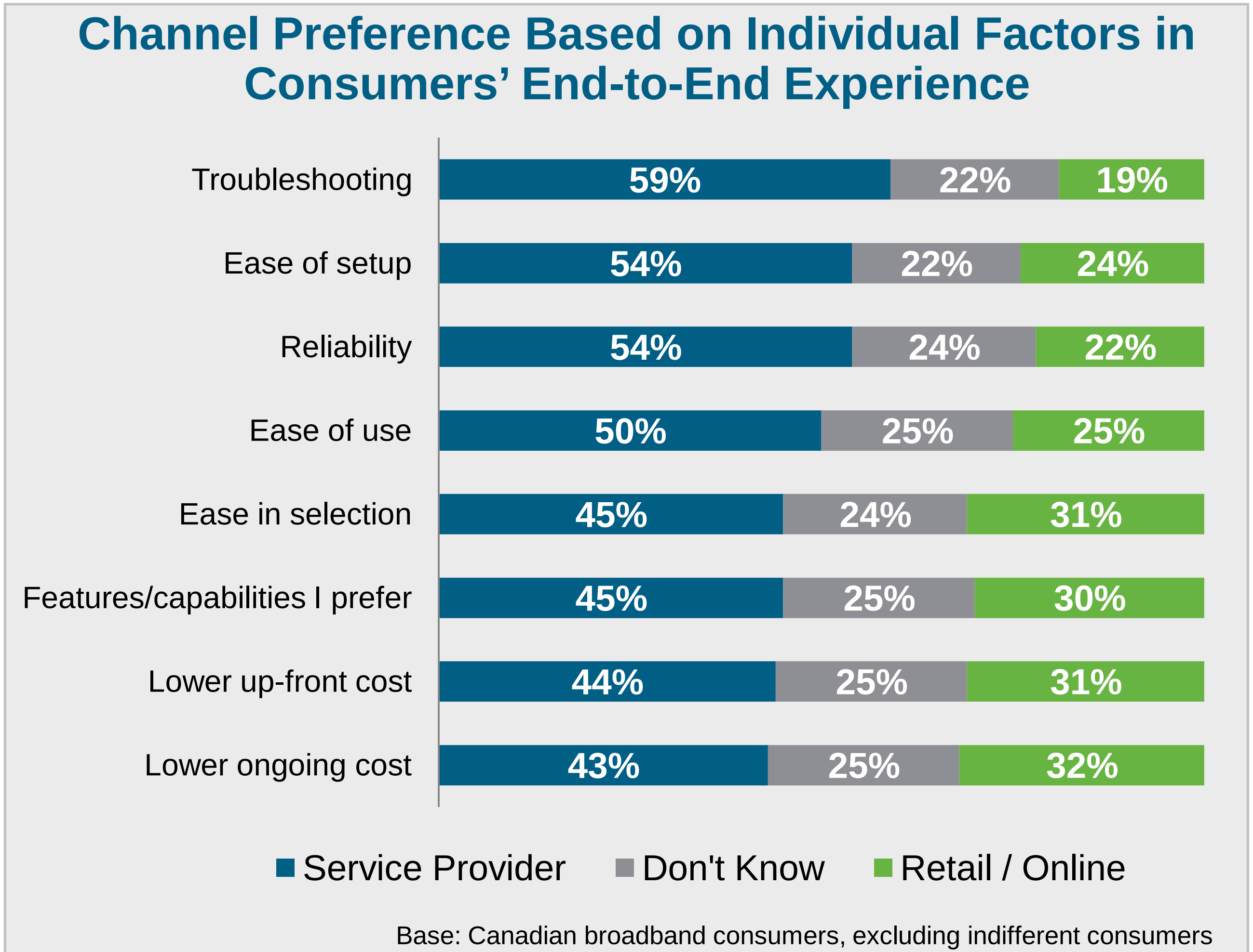
Time-saving factors are an important part of the evaluation

Ease of setup, features, and buying guidance do not play a major role in consumers' decision about where to buy

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

SP Lead Varies Across Consumers' End-to-End Experience

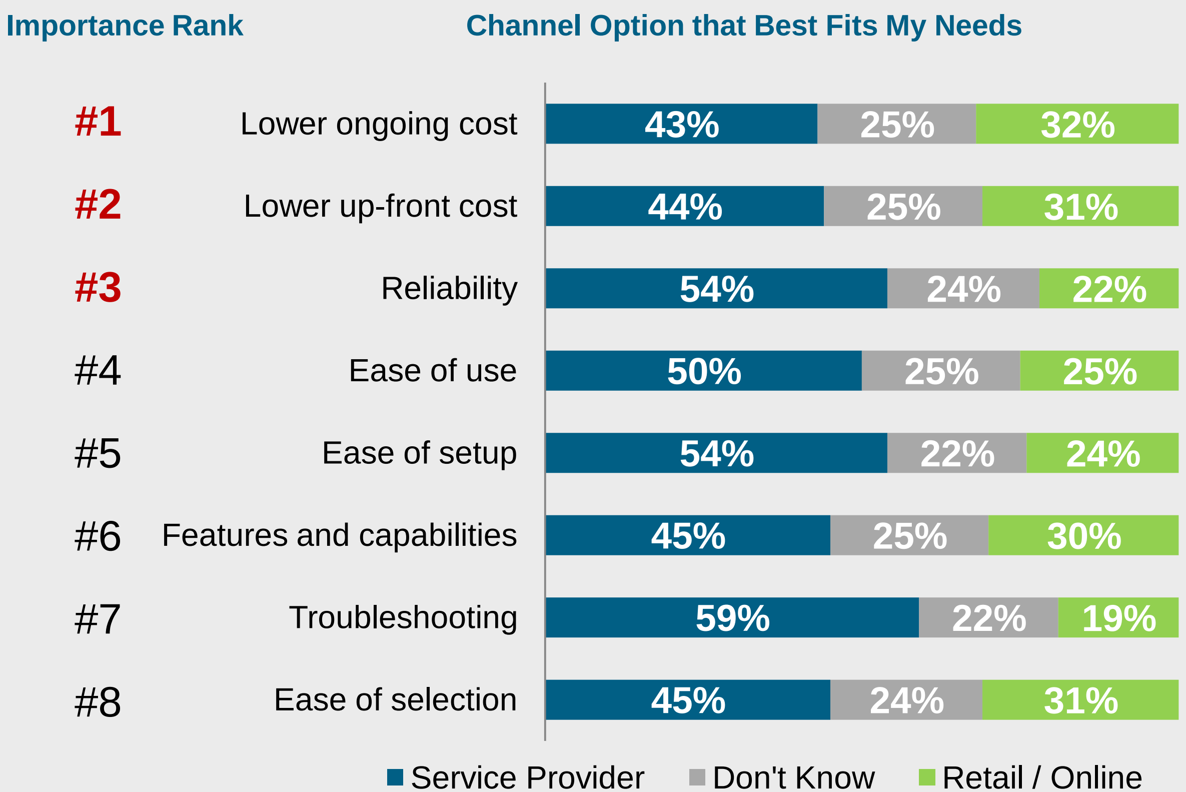


Source: Cisco IBSG Connected Life Market Watch, 2011

- 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

However, SPs Have Smallest Lead in Most Important Decision Criteria

Consumer Channel Preference: Individual Factors in Order of Importance



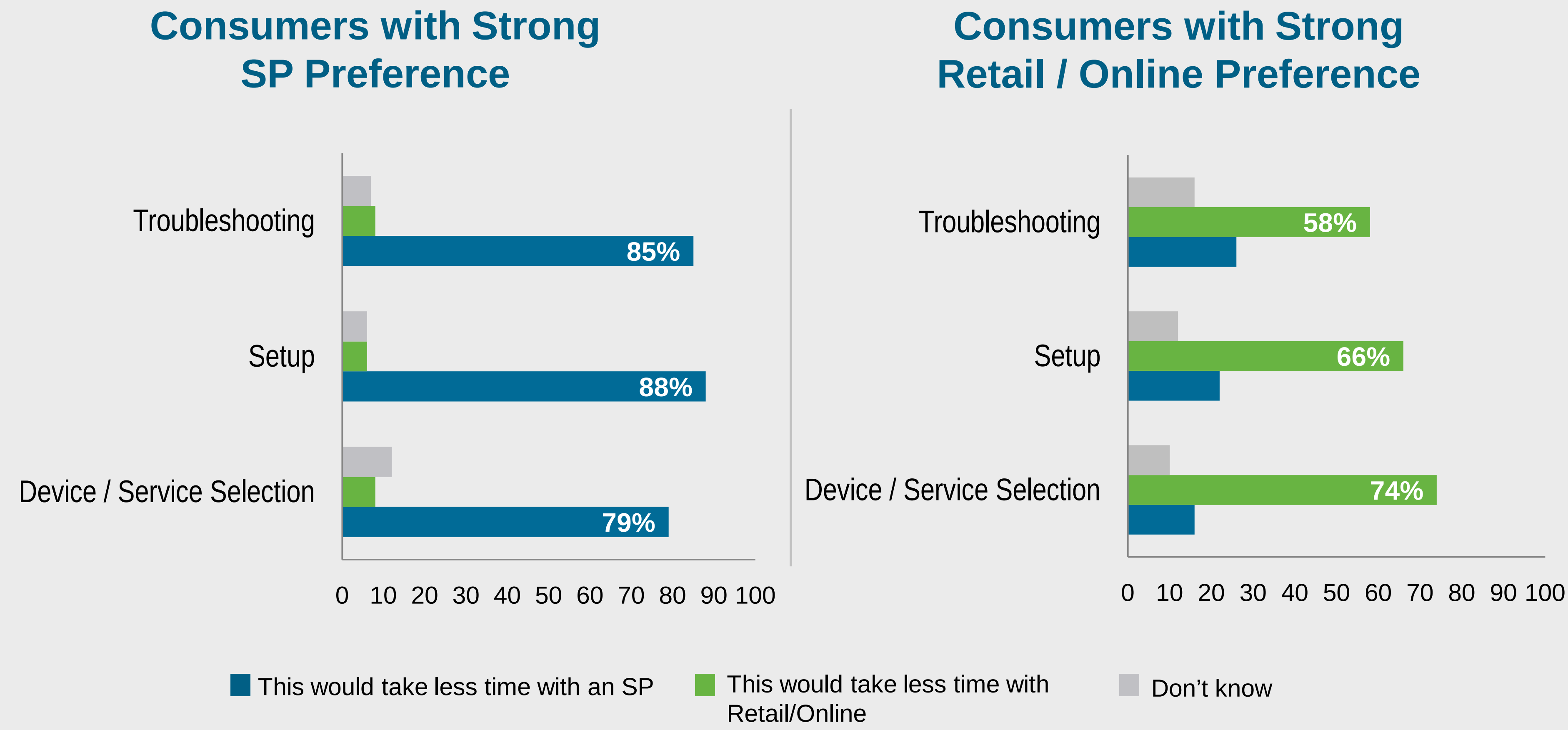
Base: Canadian broadband consumers, excluding indifferent consumers

- Ongoing cost is most important decision criteria for Canadian consumers
- And, it's the factor where SPs have the smallest lead over retail/online channels

Source: Cisco IBSG Connected Life Market Watch, 2011

Consumers With Strong Preference Believe Their Channel Saves Them Time

Saving Time in the Purchase Process: Comparing Retail / Online & SP Options by Customers with Strong Channel Preferences



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian consumers with strong channel preference

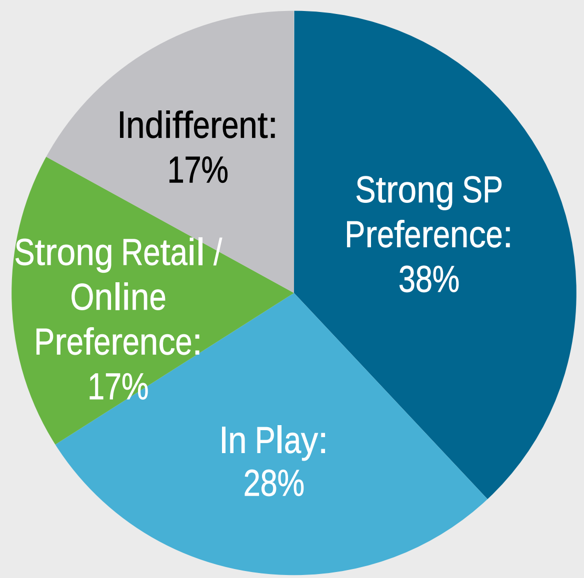
SPs Are Consumers' Preferred Provider for Internet-to-TV Solution

For 8 different factors in the purchase process, consumers were asked which channel option best met their needs:

- **Strong SP:** These consumers believe SP provides a better experience in 6 or more factors
- **Strong Retail/Online:** These consumers believe retail/online provides a better experience in 6 or more factors
- **In Play:** These consumers' channel preference shifted significantly from factor to factor
- **Indifferent**: These consumers selected "don't know" for all 8 factors, likely due to lack of interest in Internet-to-TV solutions

Consumers' Preferred Channel Experience

Percentage of Respondents



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

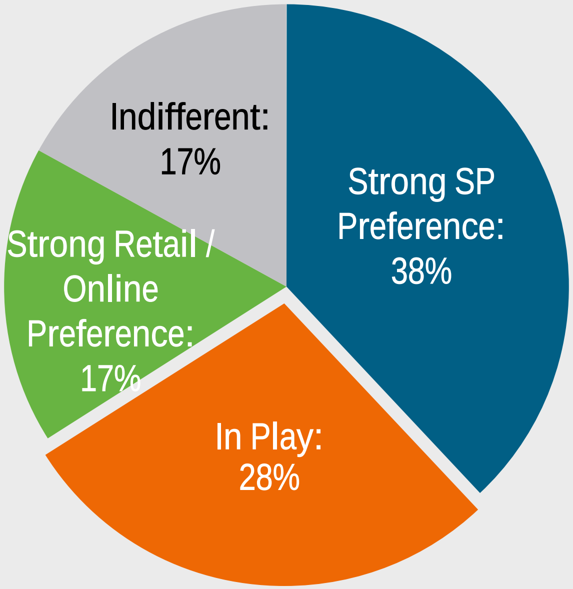
To Expand Customer Potential, SPs Should Target "In Play" Consumers

To increase SPs' customer potential, in-play consumers represent the best segment to target:

- 17% of consumers are highly indifferent and will be difficult to draw into any Internet / TV purchase
- Another 17% show a strong preference for the retail/online experience and may be difficult to attract
- However, a sizable 28% of the market shows openness to consider both SP and/or retail/online solutions

Consumers' Preferred Channel Experience

Percentage of Respondents

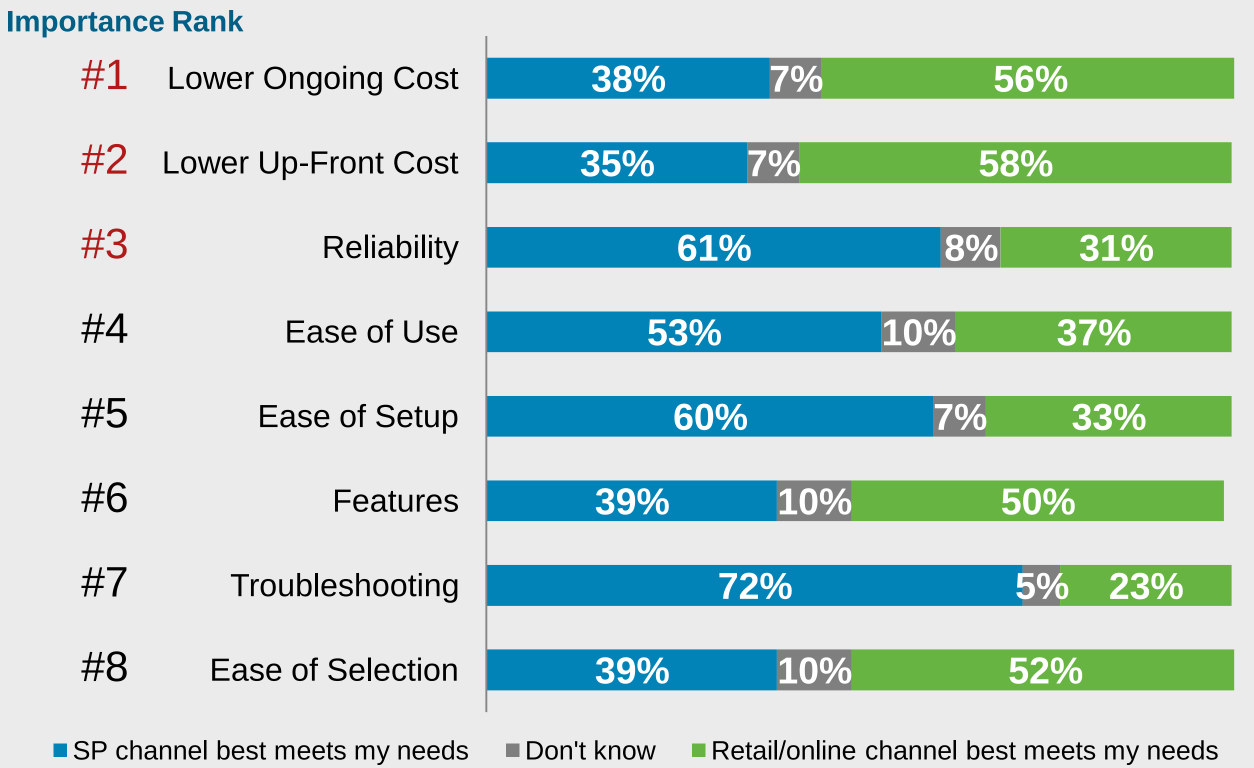


Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian 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



Red: Criteria 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 and troubleshooting to attract consumers
- SPs should consider price as a lever to attract the in-play segment

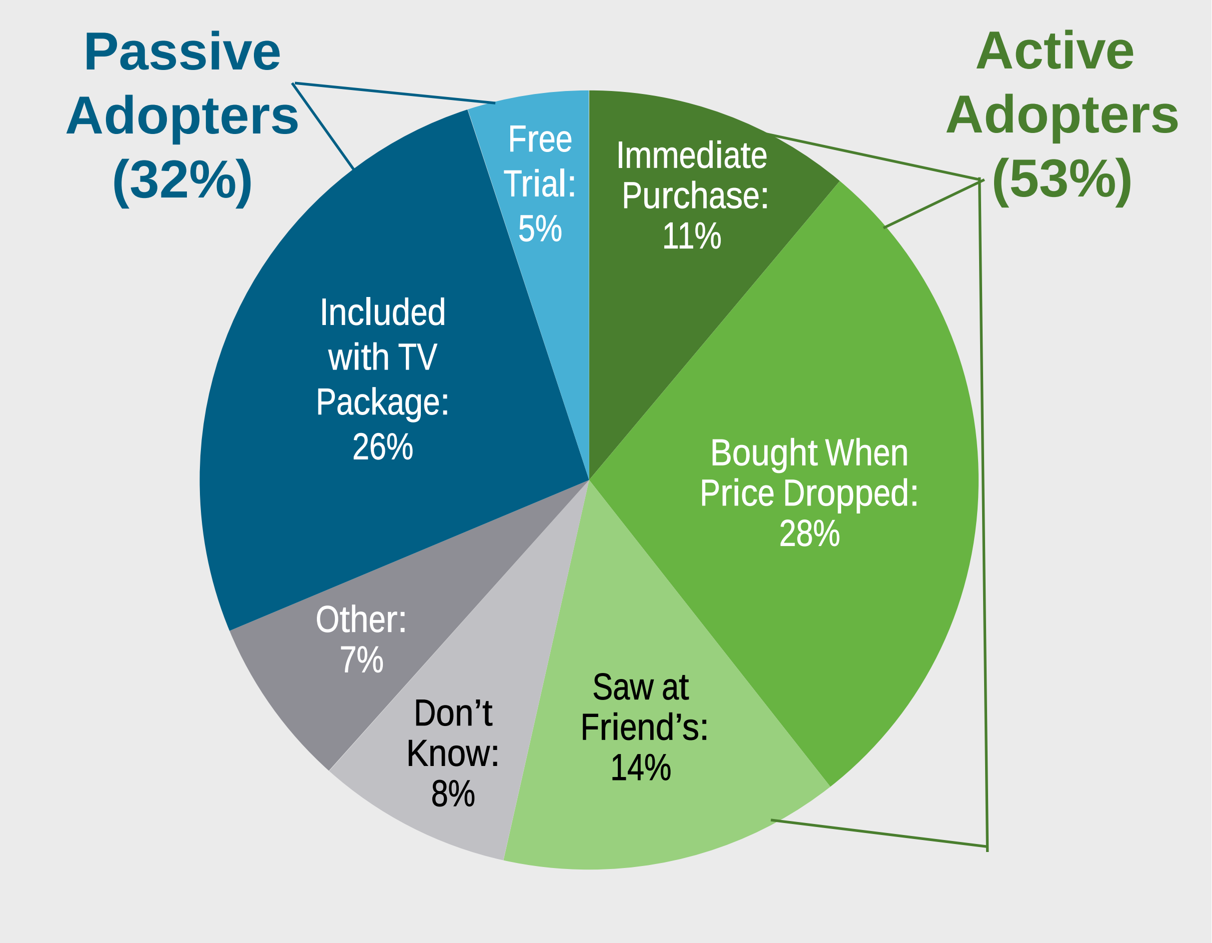
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: “In-Play” Canadian broadband consumers

By Lowering Adoption Barriers, SPs Can Influence Buying Behavior

Example: Consumer Reasons for DVR Adoption

- In Canada, nearly a third of DVR owners first adopted a DVR because SP made it easy (compared with 65% in U.S.)
- It is likely that more aggressive bundling in the U.S. accounts for higher percentage of passive adopters



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

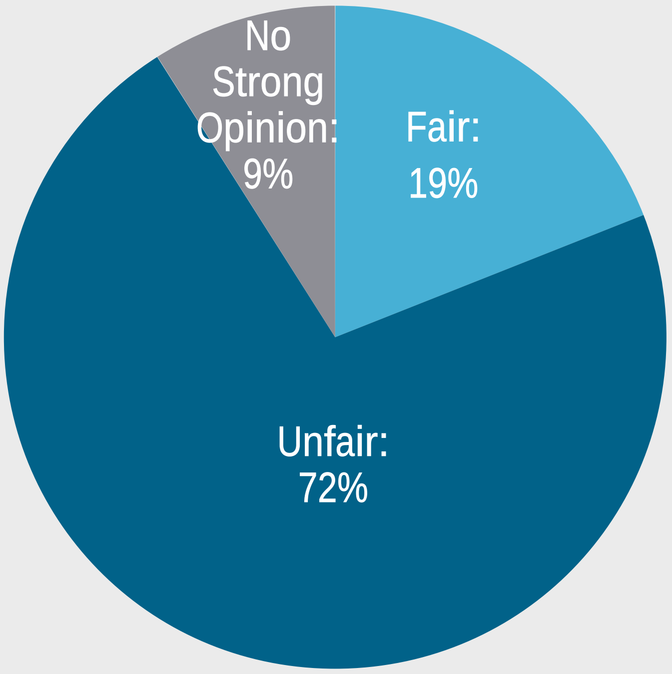
3 Usage-Based Broadband

Consumers Feel It Is Unfair To Pay for Broadband Service Based on Use

- Tiered pricing for fixed broadband based on data usage is now in practice in Canada
- Canadian SPs face higher data usage (driven by video) and usage-based billing attempts to monetize the increased use
- Like their U.S. counterparts who have not yet seen usage-based billing, most Canadian consumers believe it to be unfair

Perceived Fairness of Usage-Based Billing

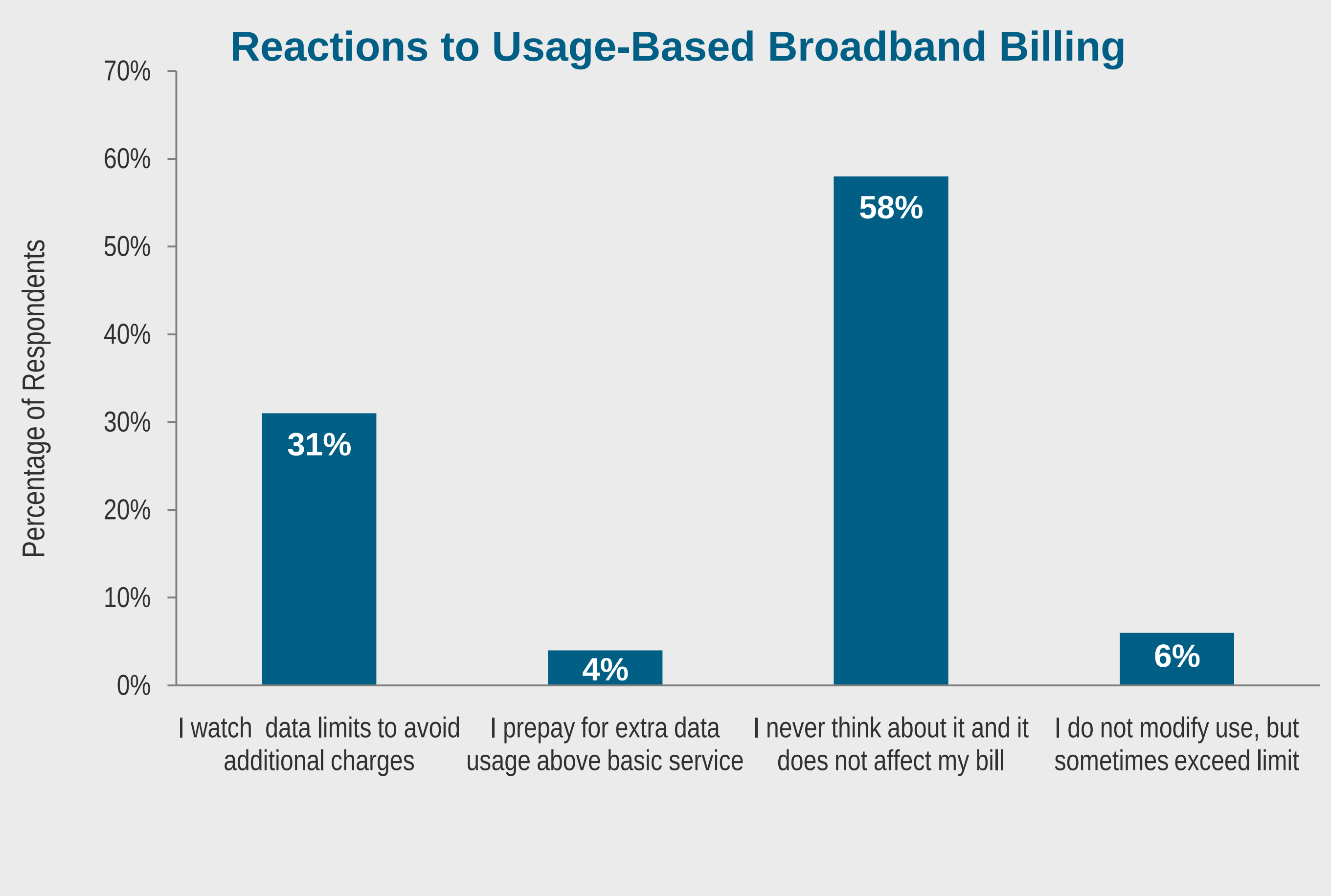
Percentage of Respondents



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

Most Canadian Consumers Have Not Changed Use or Seen Impact on Bill

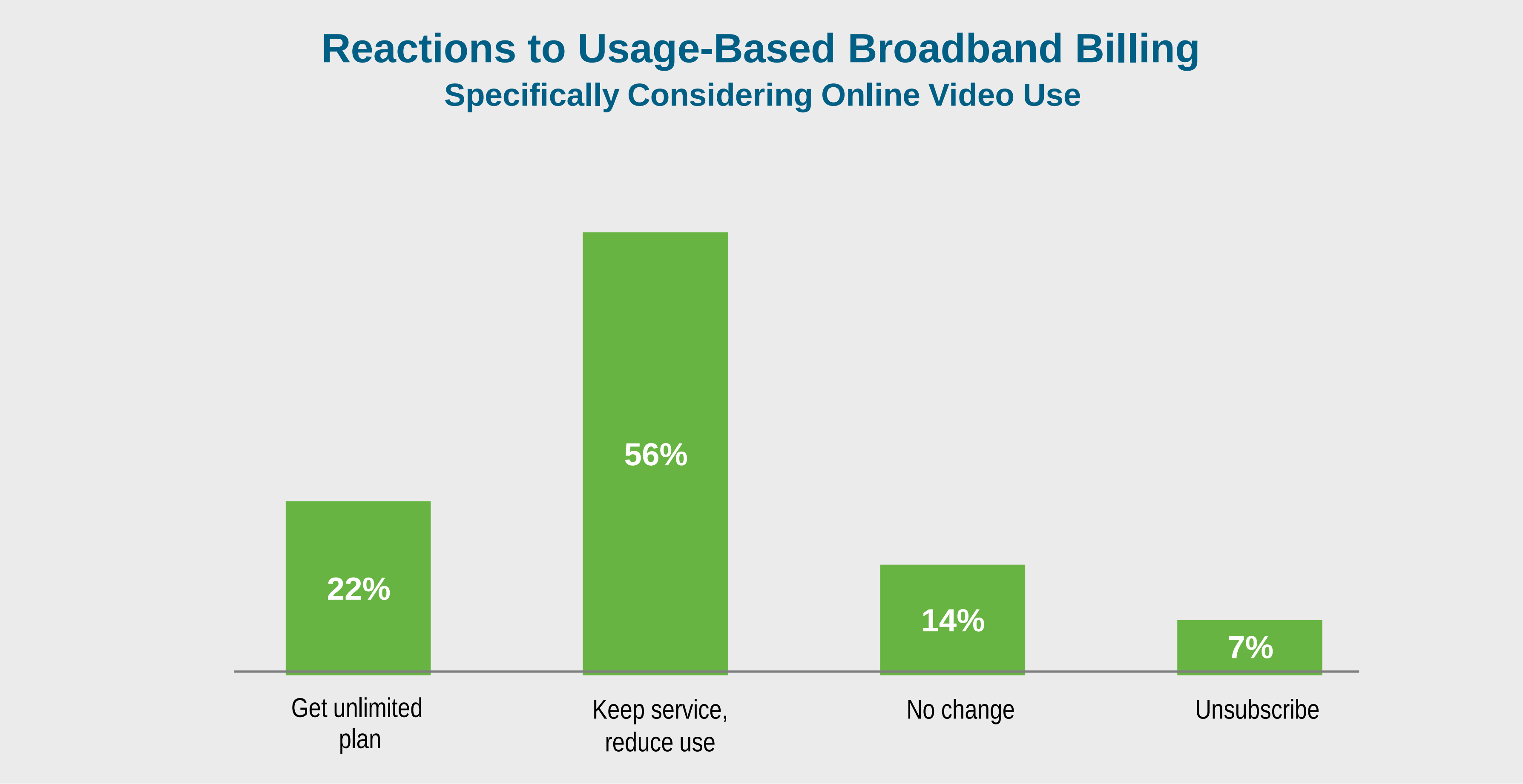


- In response to usage-based billing, most consumers continue to use Internet as they have been and see no impact on bill
- **51% of early adopters and 54% of those with Internet device** watch data limits to avoid additional charges

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

For Video Specifically, Consumers Are More Likely To Reduce Usage



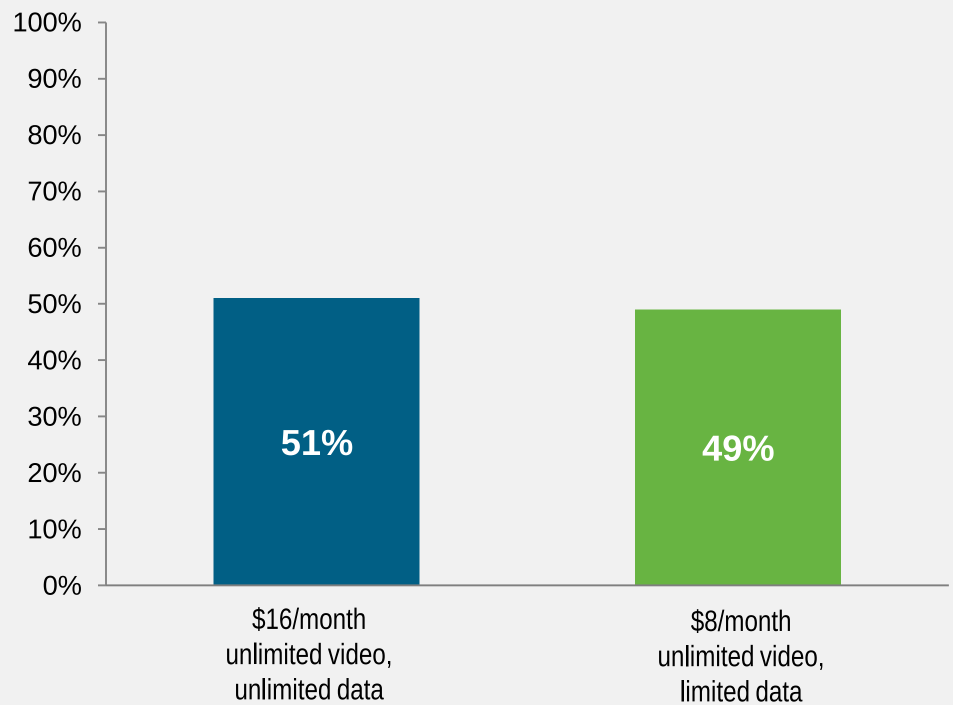
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

For Internet Video / Data Packages, No Clear Winner for Data Pricing

Online Video / Data Plan Preference

Percentage of Respondents



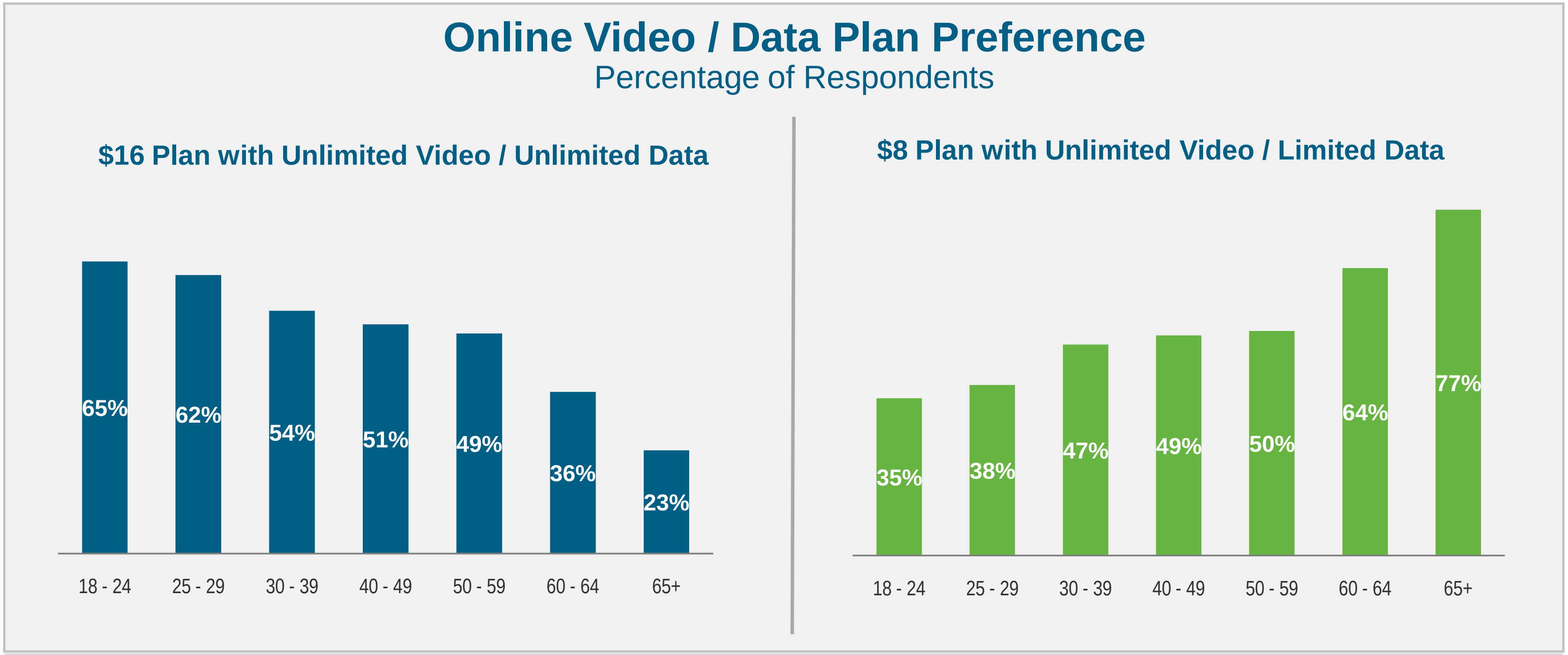
Online Video Service Pricing Options:

- **$16** per month, with **unlimited access** to video library, unlimited video streaming or downloading; **would not count against data limits** set by Internet service provider, OR…
- **$8** per month for **unlimited access** to video library, unlimited video streaming or downloading; **would count against data limits** set by Internet service provider, and could be subject to **additional data fees**

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

However, Very Strong Preferences Exist for Older / Younger Age Groups



Younger consumers skew heavily toward unlimited video / data plan, while older consumers skew heavily toward unlimited video with limited data

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

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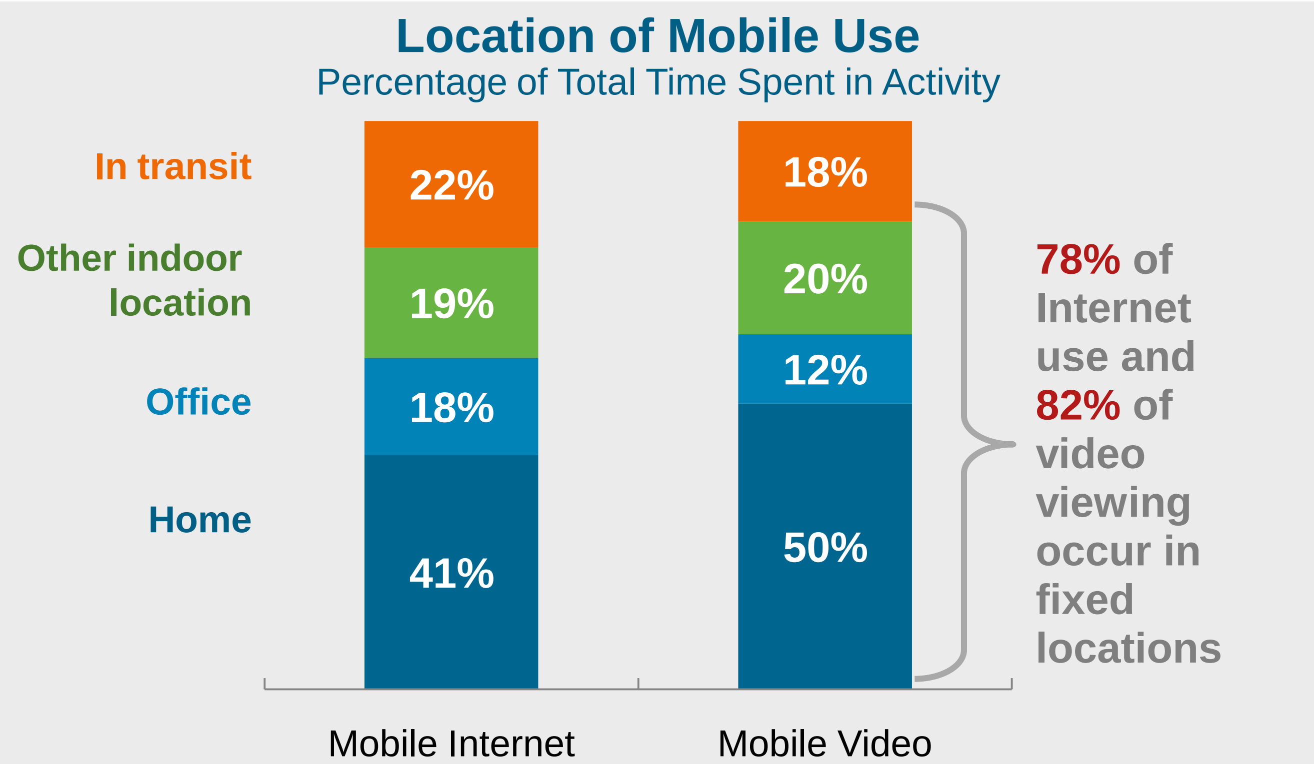
Consumer Technology Trends

Most Mobile Internet & Mobile Video Activity Takes Place in Fixed Locations



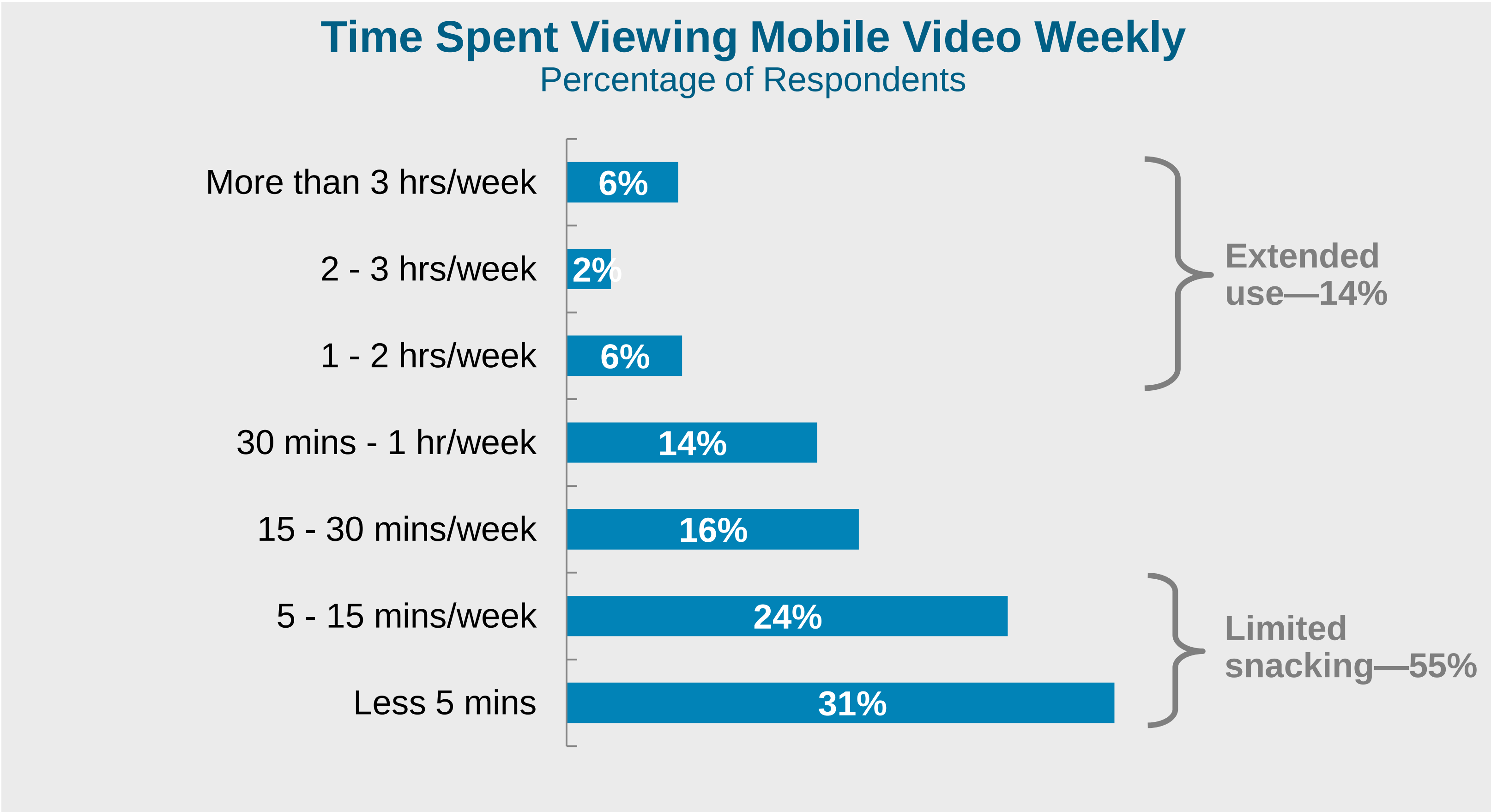
The few late-majority / laggard consumers using mobile Internet and video are more likely to be at home than early adopters, so fixed-location usage could rise as market matures

- About 80% of mobile video and mobile Internet use (via mobile device) is not mobile
- This usage takes place when the user is indoors and stationary, and could be supported by Wi-Fi / femto solutions

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Respondents engaged in activity

Time Spent Viewing Mobile Video



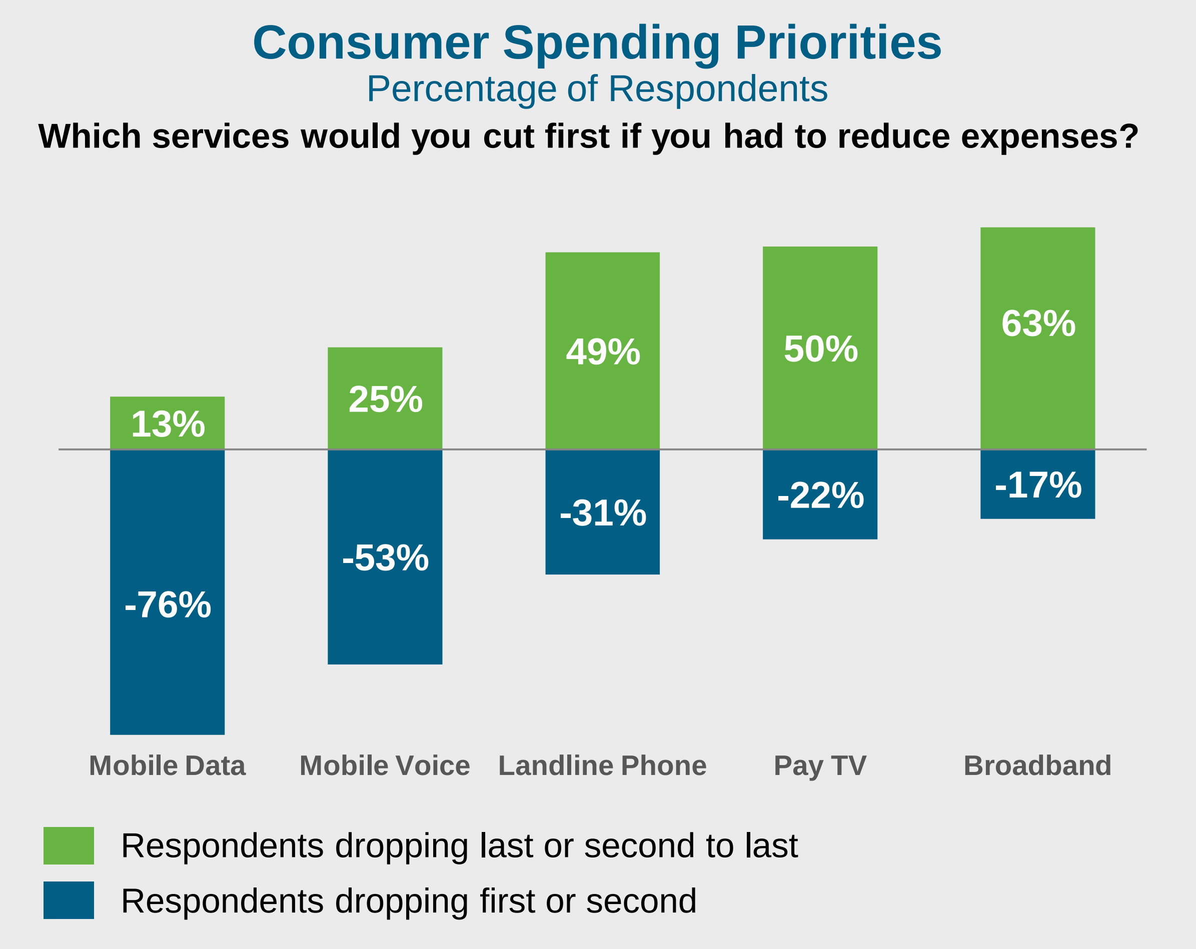
While 55% of mobile video users are mostly "snacking" on video, 14% watch more than 1 hour / week on their mobile phones

Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian mobile video users

Consumer Spending Priorities

- Broadband is considered most critical for majority of consumers
- Mobile data is discretionary
- Landline phones remain important to Canadian consumers, in contrast to U.S. consumers, who protect mobile voice over landline service



Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Canadian broadband consumers

5

Service Provider Implications

Next Steps: Implications for Service Providers

Technology Trends

- As consumers embrace Connected Life services and technologies, SPs will need to carefully manage pricing policies to foster new revenue streams and manage traffic costs without discouraging use

Consumer Cloud Demand

- To increase adoption potential for Connected Life services, SPs should strategically include cloud enhancements with their offerings

Usage-Based Broadband

- SPs should educate consumers so they can tie usage to the value of their broadband service; SPs can use usage-based billing as a tool in managing the OTT threat

Buying Behavior

- Capitalize on preference for SP experiences to increase market share of Connected Life services
- Though SPs hold a strong lead as consumers' preferred Internet-to-TV solution provider, they can expand their market potential by addressing the ongoing cost concerns of the 28 percent of consumers that are "in play"

Source: Cisco IBSG Connected Life Market Watch, 2011

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