Tapping Buyer Behavior To Capitalize on Next-Generation Video Opportunities

A Connected Life Market Watch Perspective

Cisco Internet Business Solutions Group

March 2012

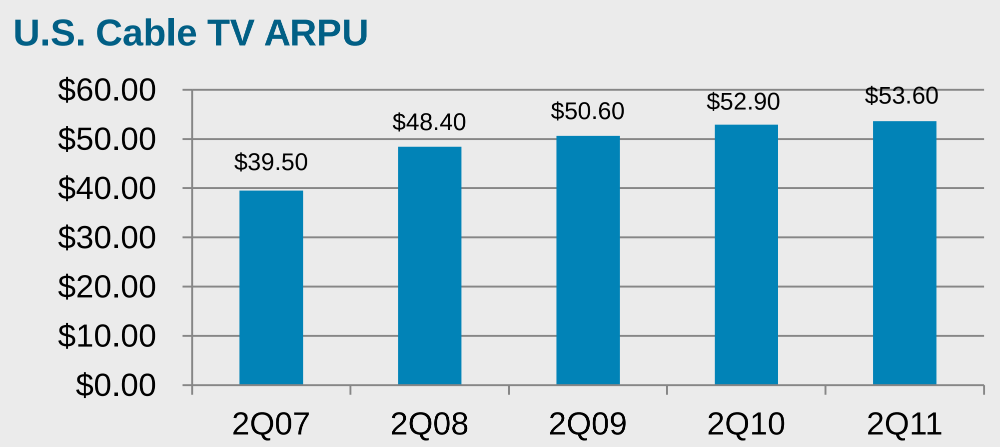
Agenda

- 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

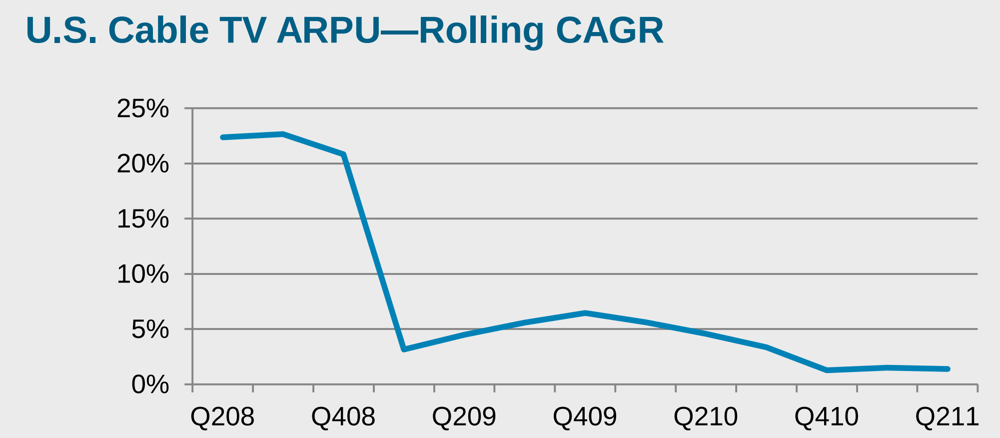
Consumer Spending on Traditional TV Has Flattened

- 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- SPs are concerned that traditional linear TV no longer represents the growth platform it once was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



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



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)

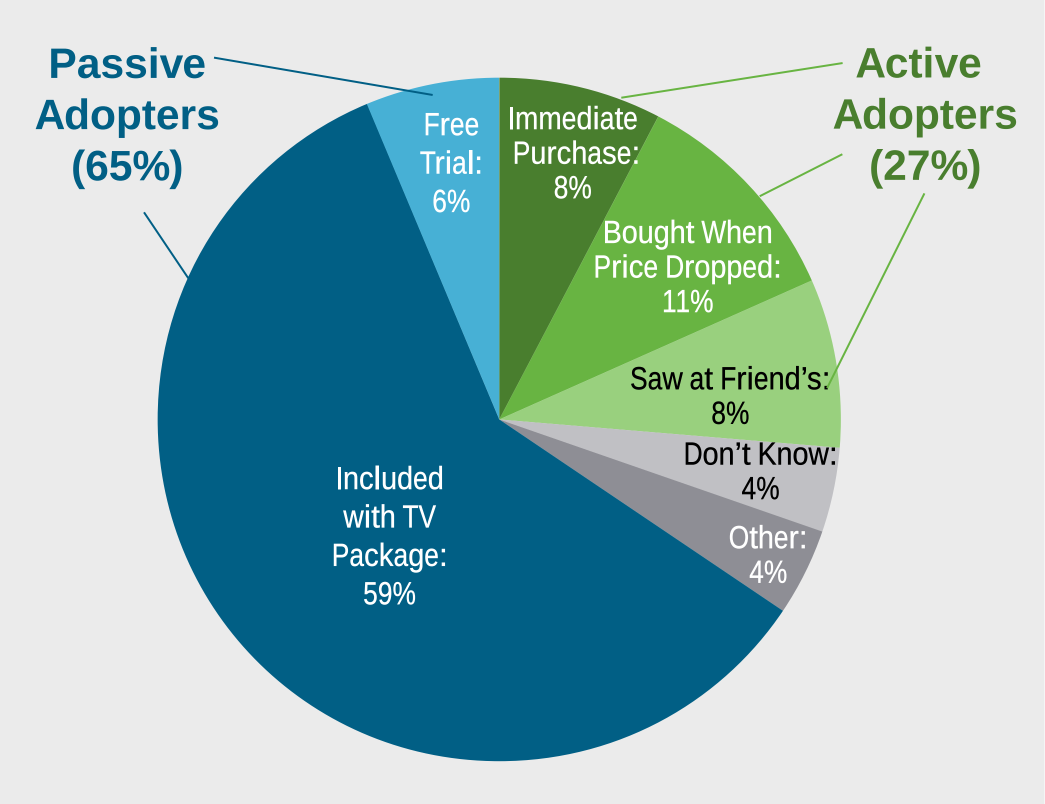
Illegal Access

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

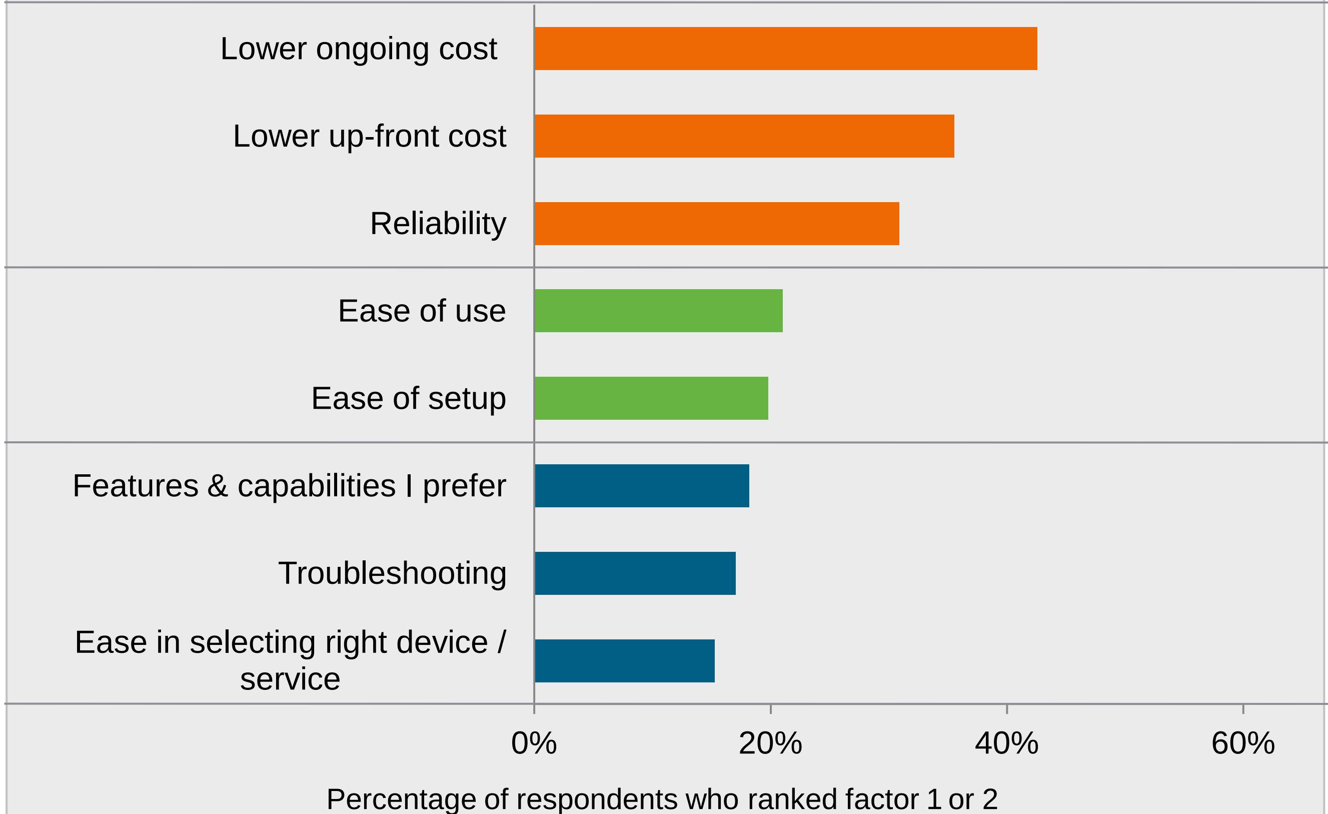


Source: Cisco IBSG Connected Life Market Watch, 2011

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



Top considerations are cost and reliability

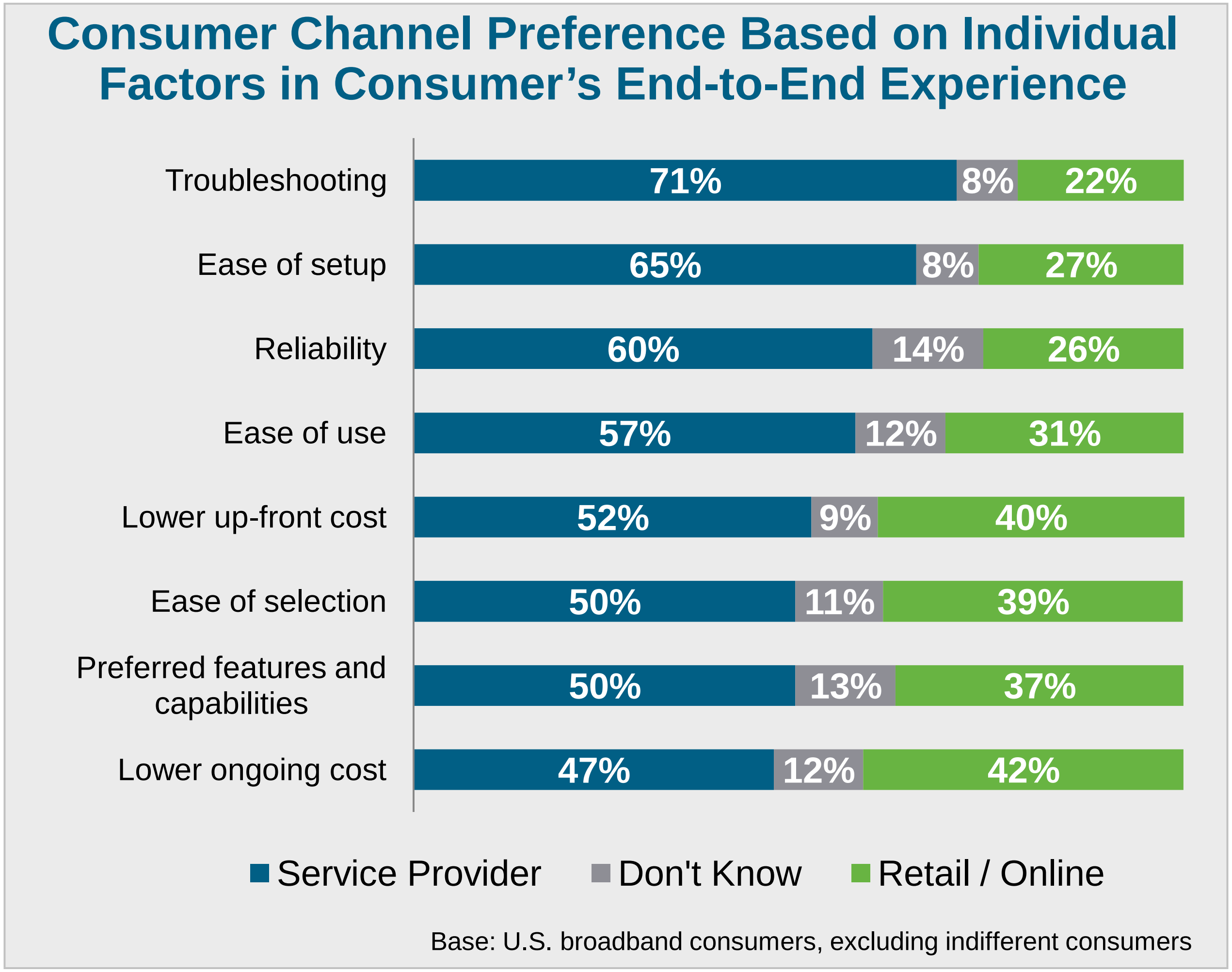
Time-saving factors are an important part of the evaluation

Features, support, and buying guidance do not play a major role in 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

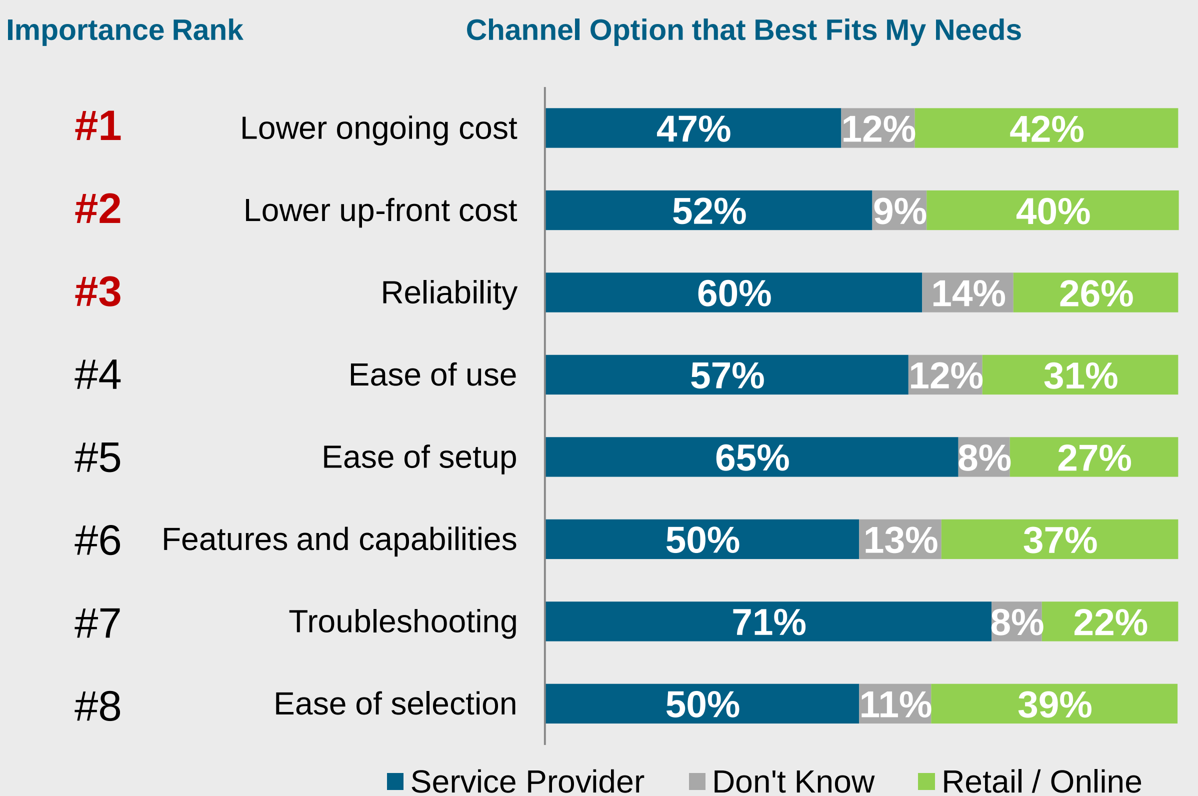


Source: Cisco IBSG Connected Life Market Watch, 2011

- 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 Criterion

Consumer Channel Preference: Individual Factors in Order of Importance



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

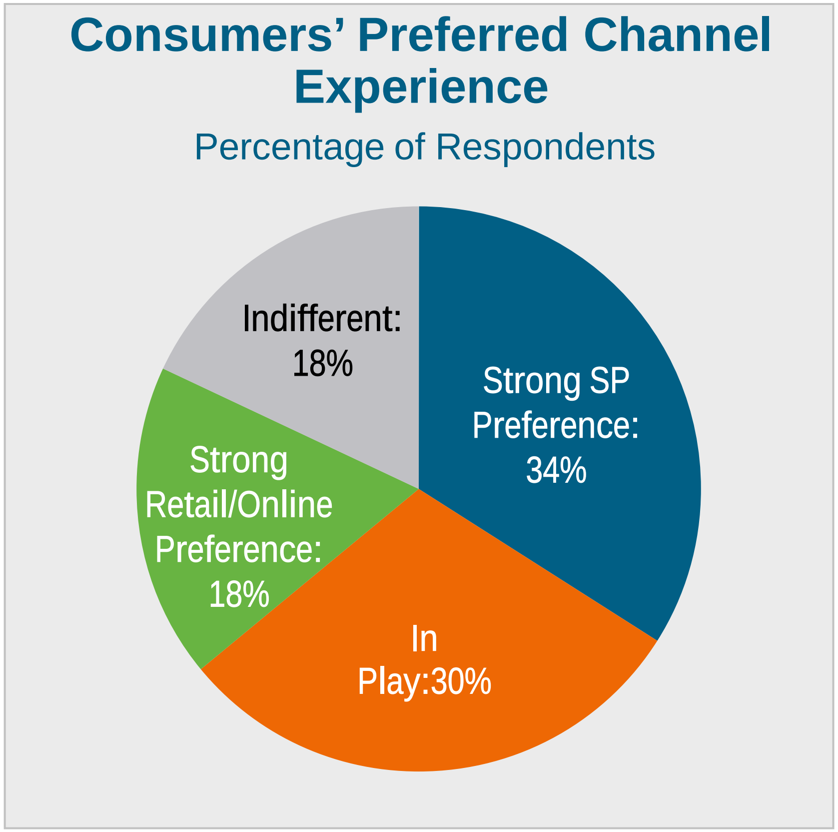
- **Ongoing cost** is the most important decision criterion for most consumers
- And it's the factor where SPs and retail / online preference are **most evenly matched**

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

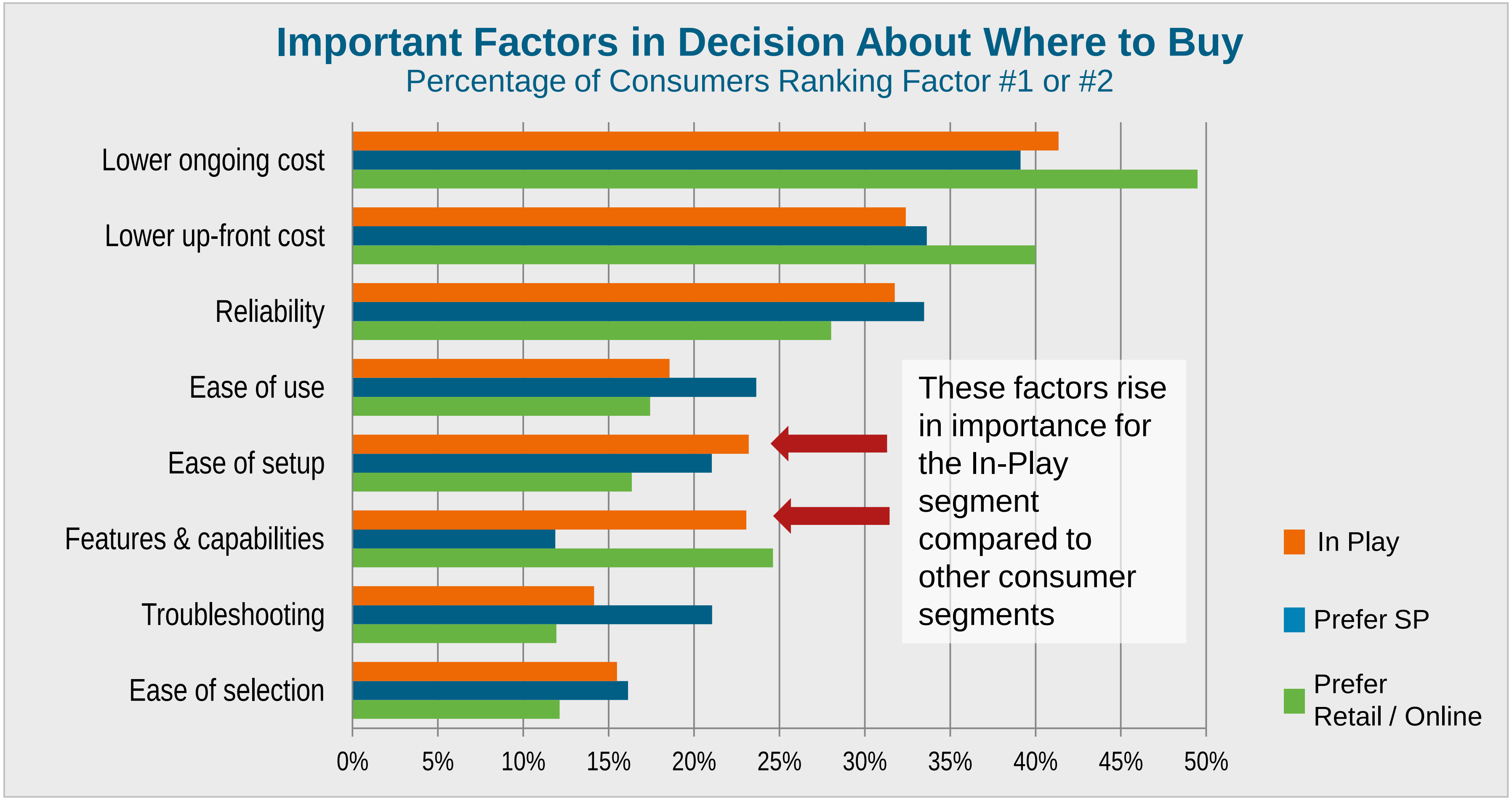


Source: Cisco IBSG Connected Life Market Watch, 2011

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

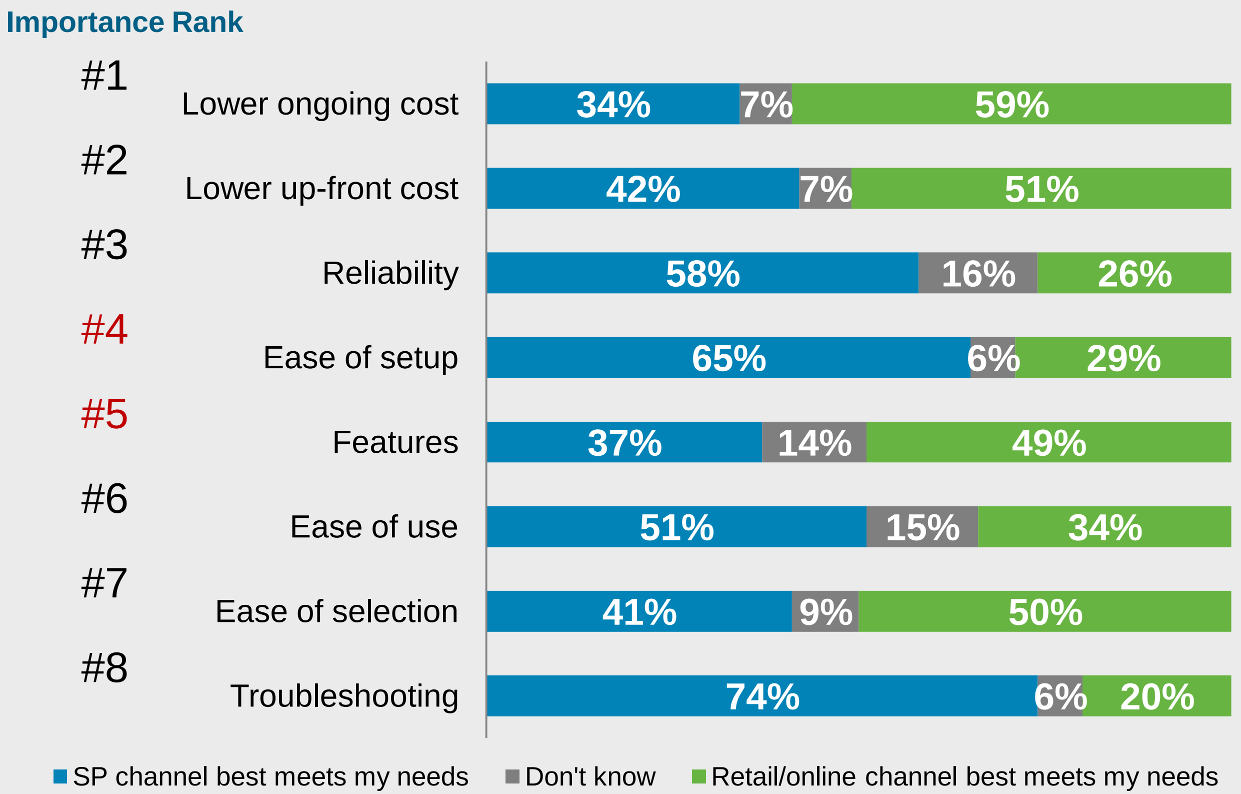


Source: Cisco IBSG Connected Life Market Watch, 2011

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



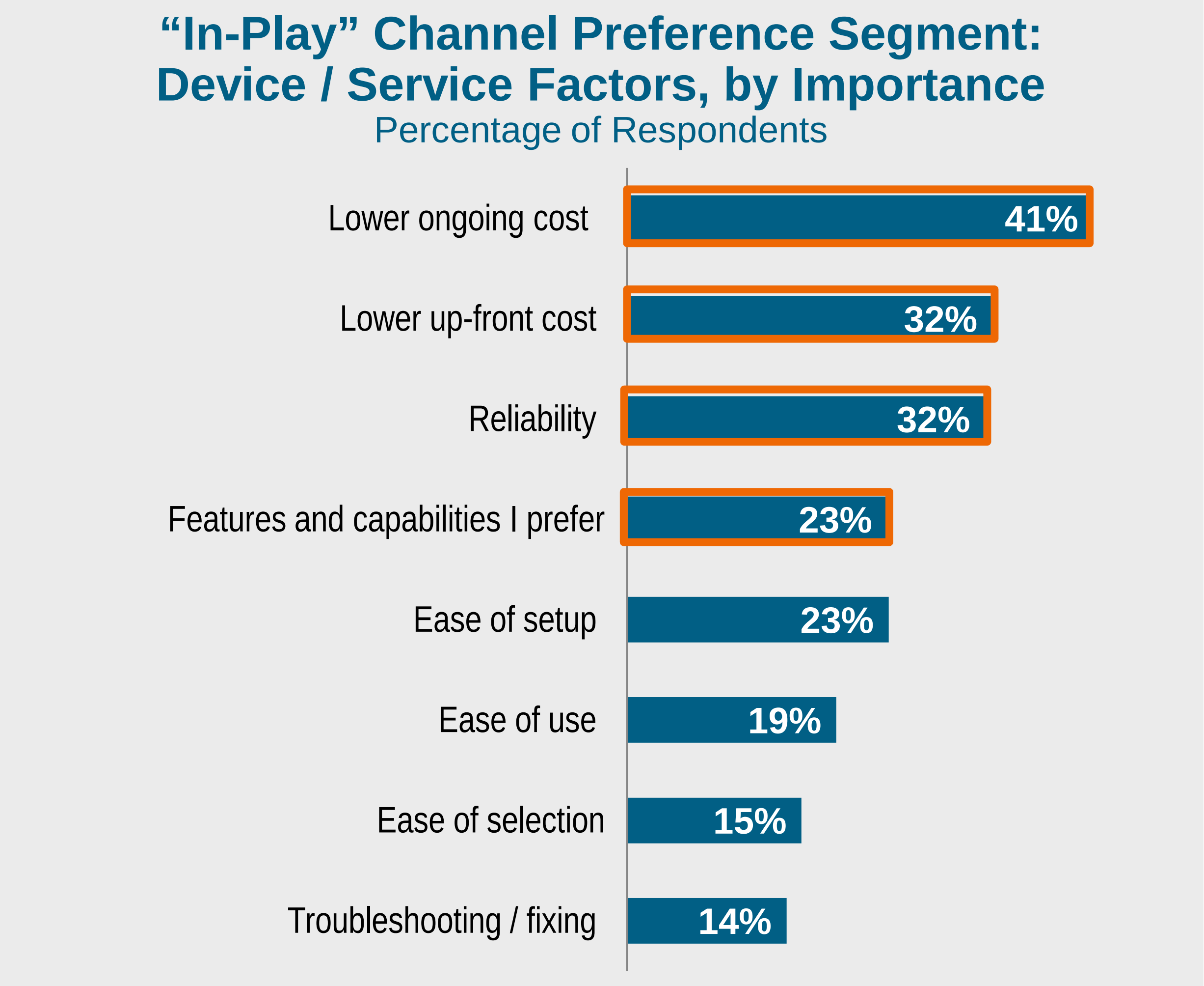
Red: Criterion ranked higher than for average consumer

- 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

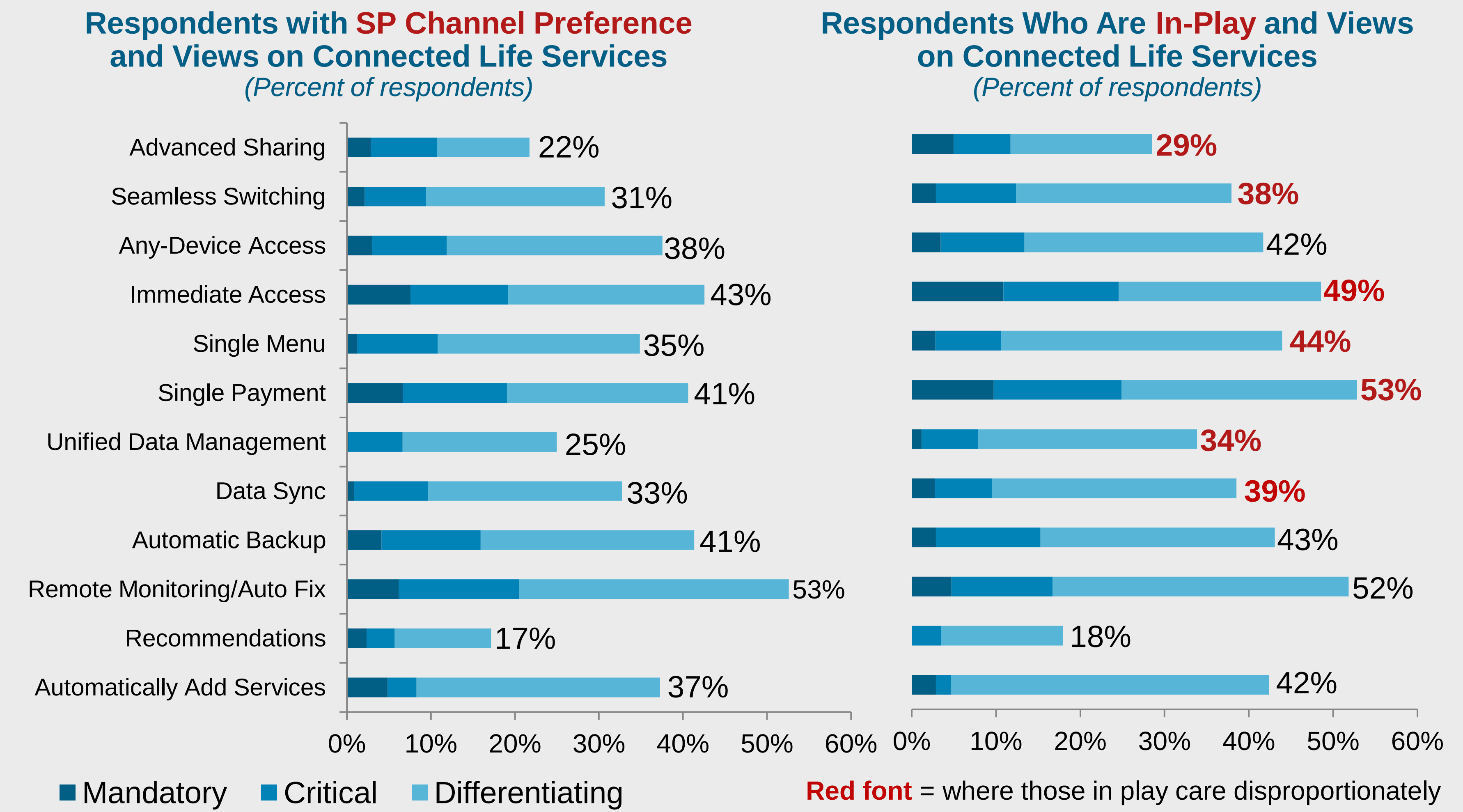


- To win over the "In-Play" segment, SPs need to:
  - Attend to the key basics of cost (where SPs today are at a disadvantage)
  - Highlight degree of reliability in messaging
- Further differentiate on features—which, compared to all respondents, the In-Play segment values disproportionately
- Message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



Red font = where those in play care disproportionately about Connected Life services (by 5%+)

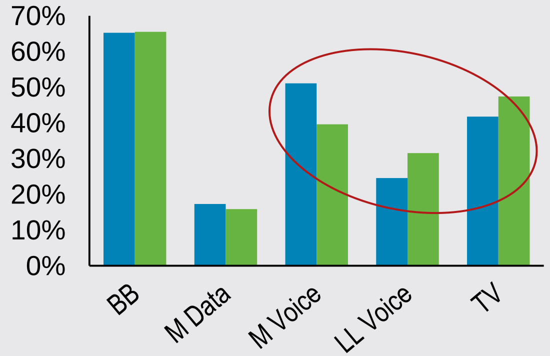
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: U.S. broadband consumers

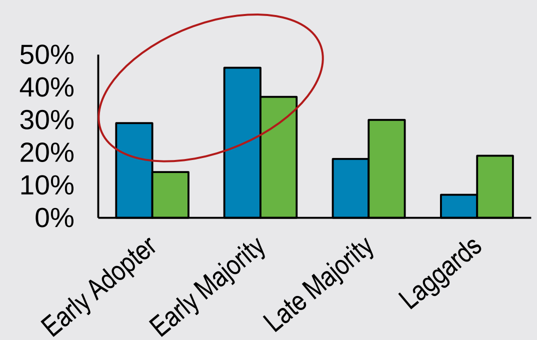
In-Play Segment Is Younger, Tech-Savvy, Cloud-Aligned, and Could Cut Cord

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

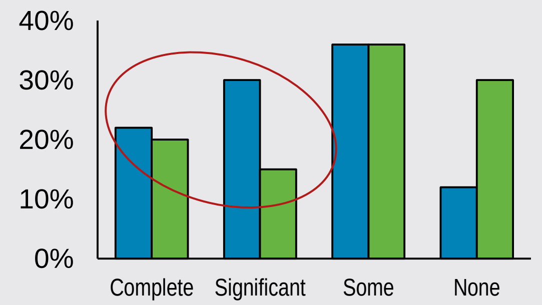
Stickiness of Core Services



Tech Sophistication



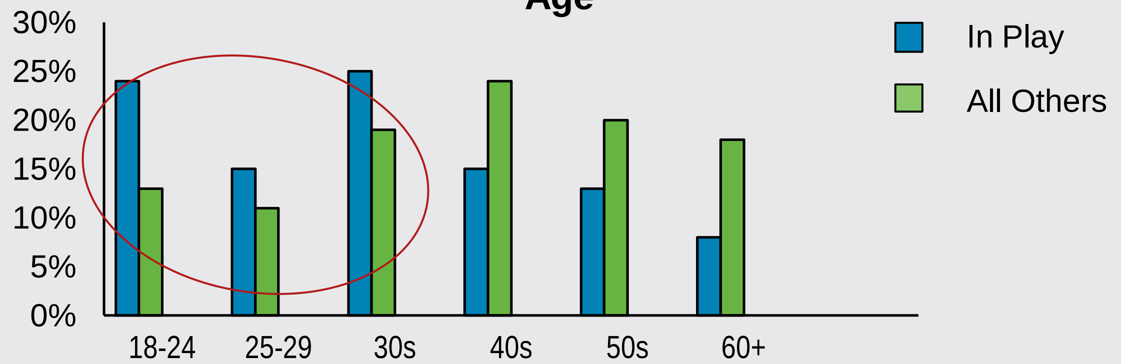
Cloud Alignment



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)

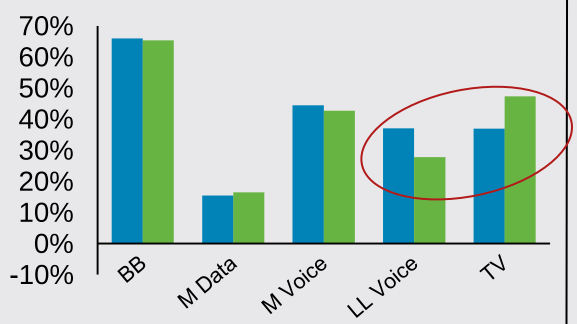
Source: Cisco IBSG Connected Life Market Watch, 2011

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

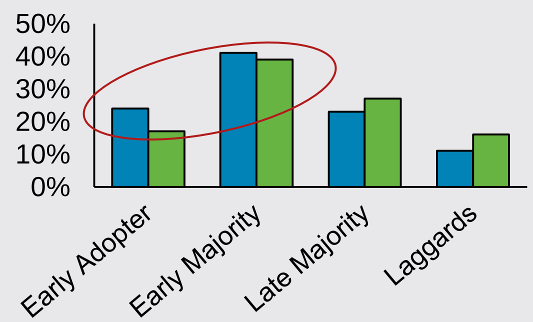
Retail Segment Is Slightly More Mature, Tech-Minded, and Cloud-Aligned

Segment: **Retail-Oriented**
Definition: 193 respondents who show strong preference for Retail

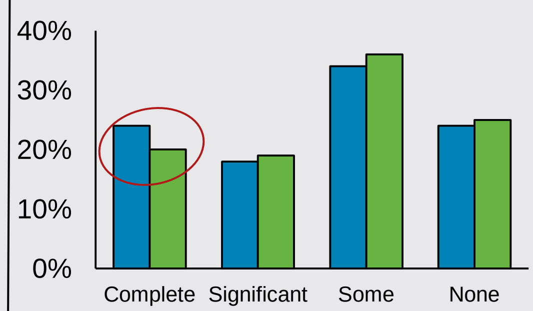
Stickiness of Core Services



Tech Sophistication



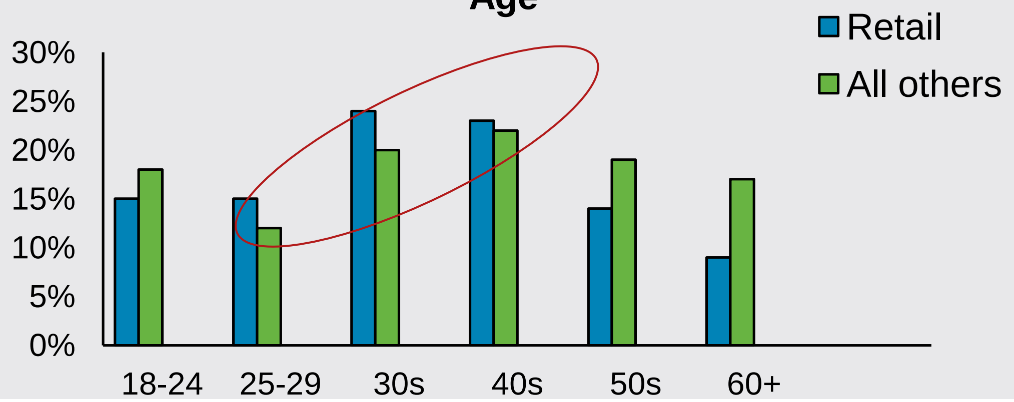
Cloud Alignment



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

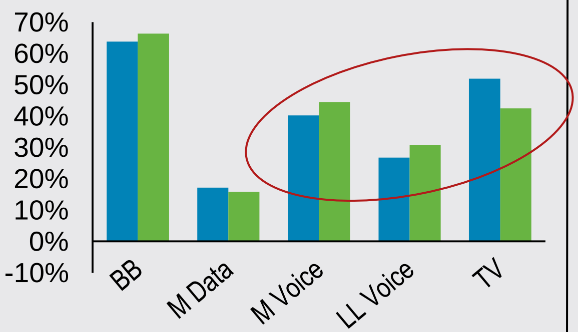
Source: Cisco IBSG Connected Life Market Watch, 2011

Base: Retail-oriented U.S. broadband consumers

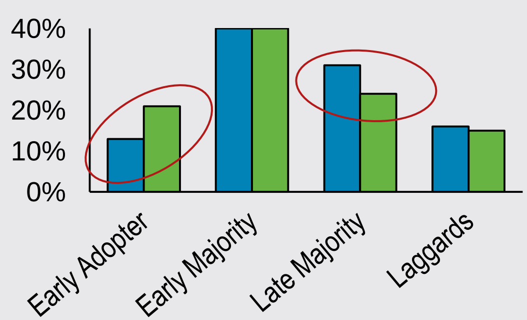
SP Segment Is Older, Somewhat Cloud-Aligned, and Lags in Tech Adoption

Segment: **Service Provider-Oriented**
Definition: 354 respondents who show strong preference for SPs

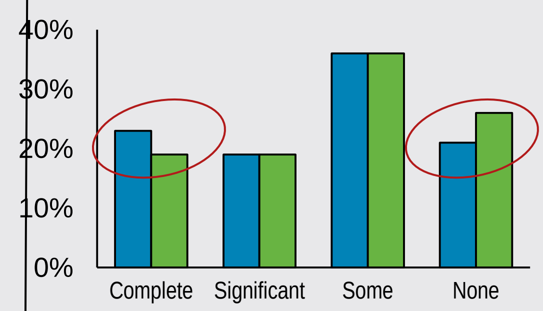
Stickiness of Core Services



Tech Sophistication



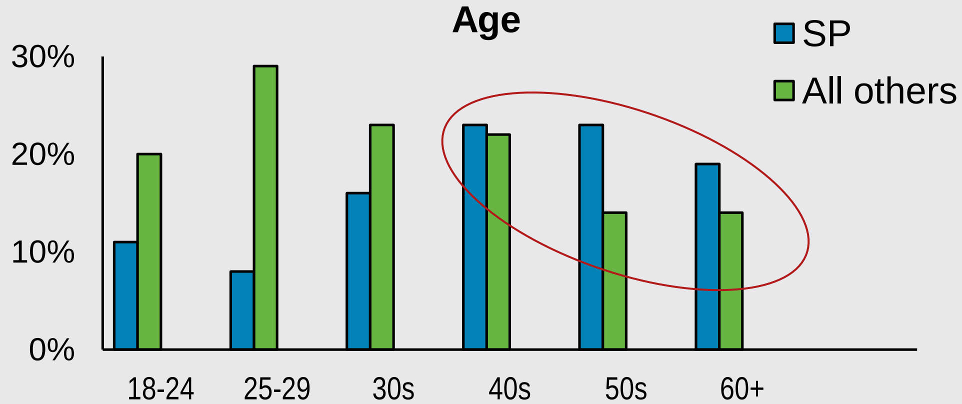
Cloud Alignment



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

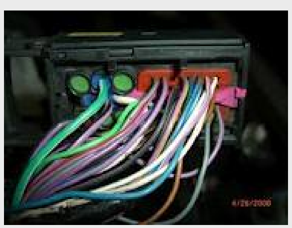
Source: Cisco IBSG Connected Life Market Watch, 2011

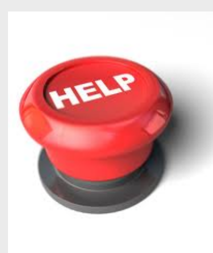
Base: SP-oriented U.S. broadband consumers

SPs Can Promote Hassle-Free, Managed User Experience

SP Experience: Managed[1]

- 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

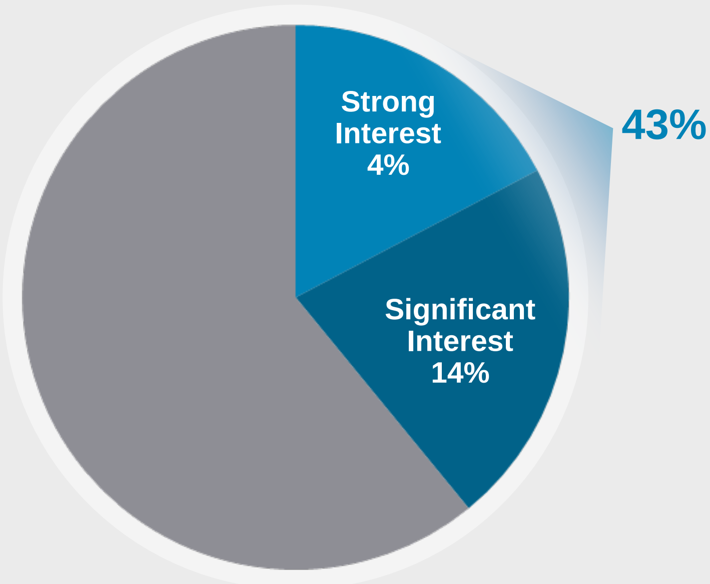
- Research required for product choice and compatibility; unlimited options
- Installation and integration can be complex
- Long manuals and DIY process to link devices and services
- Support available; not clear who



[1] 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

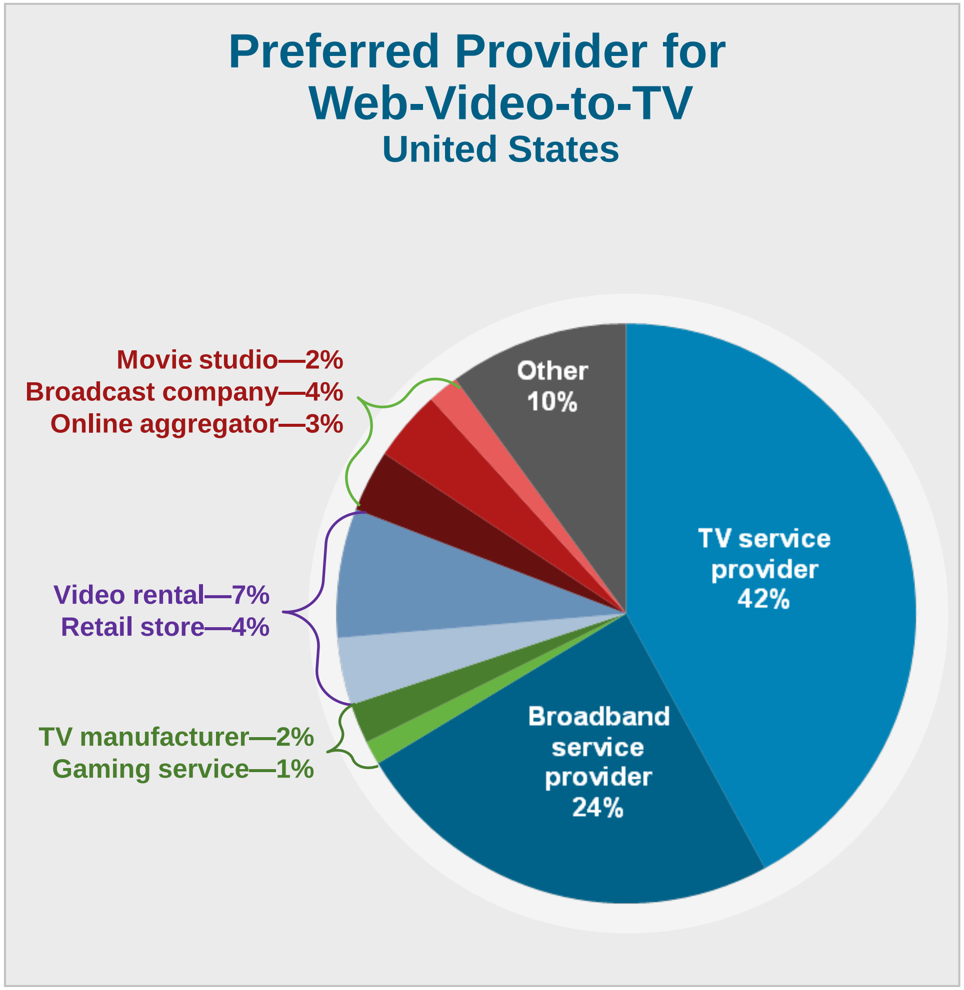
Consumers will upgrade broadband to gain access to *Internet-to-TV*

- 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



- 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

CISCO