

## U. S. Service Providers at a Crossroads

### Will They Lead the Connected Life, or Simply Provide Access?

**Connected Life Market Watch** is an ongoing research platform designed to sense market transitions and identify key inflection points in consumers' behavior and expectations. Its aim is to provide market insights to empower Cisco, its clients, and partners to seize market opportunities and lead market transformation. Cisco's Internet Business Solutions Group (IBSG), the company's global strategic consulting arm, fields new research cycles three times a year, focusing on trends in the service delivery experience, the mobile consumer, and transitions in video entertainment. Data cited in this report is from Cisco IBSG's Connected Life Market Watch surveys fielded in March and August, 2008.

Fast-evolving technology has brought the U.S. broadband consumer to the threshold of the "Connected Life," where near-pervasive broadband availability and a plethora of content and service options enable access to entertainment, information, social networks and collaboration—from anywhere, at any time, on a broad array of devices.

Today there is a dizzying explosion of technologies that promise a Connected Life experience—smart phone applications, streaming video to mobile devices, music and video downloads, home monitoring systems, "nanny cams," and many other services. Ninety percent of the top 20 primetime TV shows are available online within 24 hours of broadcast, and more than a quarter of broadband consumers under the age of 30 watch TV programs on the Internet at least once a week. During the recent U.S. presidential campaign, more than 5 million people viewed Barack Obama's speech on race via YouTube, and hundreds of thousands of voters received text-messages on election day reminding them of where to vote. These trends signal the beginning of a profound transformation in government, business, entertainment, news, and information.

Service providers (SPs) are in a unique position to lead this transformation by becoming "experience providers" that manage and enhance the consumer's experience at every touch point. If they claim their stake in the Connected Life, SPs can do more than participate in this emerging consumer market, they can lead and accelerate it.

The assets they bring to this task are many. As incumbent providers of voice, data, and entertainment services, they already have a trusted relationship with virtually every household in America. Service providers have demonstrated their ability to accelerate technology adoption and jump-start it into the mass market. They are in a strong position to bring down the major obstacles that often delay consumer adoption of new technology solutions, such as high up-front costs, uncertainty of what to buy, fear of obsolescence, and concerns about system complexity and ongoing support.

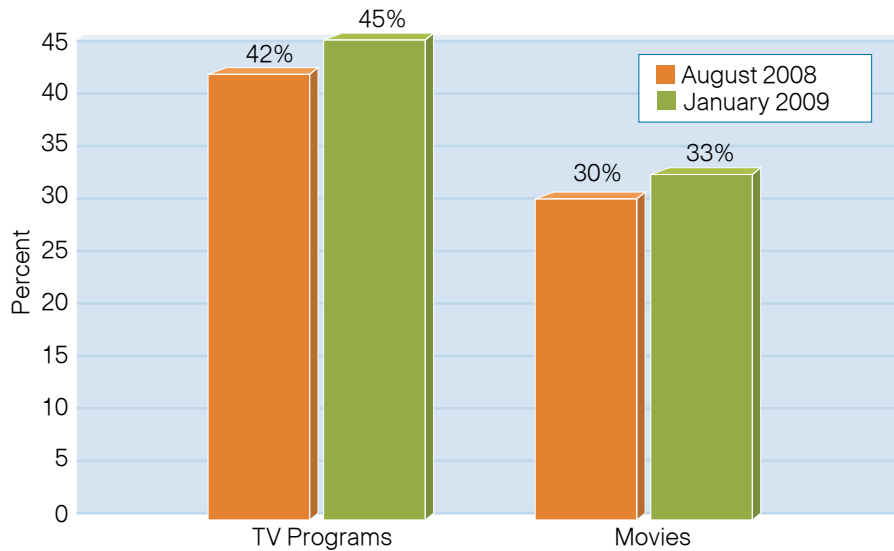
For example, when it was first launched, the digital video recorder (DVR) was primarily a device decision, with TiVo gaining a following among early technology adopters. Then satellite providers entered the market in a big way, followed quickly by cable providers. These service providers reduced up-front purchase costs, eliminated installation hassles, and offered “try-and-buy” promotions to reduce risk. Through these actions, service providers propelled DVR use well beyond the early technology adopter segment and into the mainstream market. Nearly 60 percent of U.S. broadband consumers with a DVR today originally adopted their DVR service because a service provider made the decision easy. Eighty-two percent of these SP-driven DVR adopters paid nothing for the DVR upfront, and two-thirds of them took advantage of the SPs full-service installation capabilities. By shifting DVRs from a device decision to an easy, low-risk service decision, cable providers catalyzed the DVR market. Between 2004 and 2006, cable and satellite providers alone added 12 million new DVR households, helping to grow the total market from six percent to 20 percent of U.S. households. By the end of 2006, service providers had a market share of more than 75 percent of the U.S. DVR market. That momentum has continued, leaving TiVo, a stand-alone device provider, permanently behind.

## The Time to Act Is Now

**Technology is ready.** Technology companies and early adopters have talked about potential Connected Life solutions for years, but now the technologies are advanced enough to actually deliver on the promise of the Connected Life. For example, business travelers can actually have a video chat with their families from a hotel room a half a world away. Consumers can remotely program their home DVR using a mobile phone. Parents can take a photo of their children and automatically update the digital frame at the grandparents’ house. Connected Life technologies are not just emerging—they are here.

**Consumers are ready.** Broadband subscribers under the age of 60 in the United States spend more time on the Internet than they spend watching television. Across all age groups, they spend more than 25 hours a week online, with nearly 7 hours spent on entertainment. The number of broadband consumers watching TV or movies from the Internet weekly increased noticeably in just the four months between August 2008 and January 2009. A third of broadband subscribers have invested in multimedia-capable mobile phones, enabling them to watch streaming video from virtually anywhere.

Figure 1. Four-Month Increase in Use of the Internet to Watch Traditional Content



Percentage of U.S. broadband subscribers watching TV and movies from the Internet at least weekly.

Source: Cisco IBSG Connected Life Market Watch, 2008 and 2009; Nielsen Media and Broadcast Web Sites

**The market is ready.** Connected Life solutions are popping up everywhere, momentum is increasing, and the market is primed for mass adoption of Connected Life services. In this dynamic and extremely fragmented market, service providers, device manufacturers, content providers, and retailers are all vying for position. These different Connected Life players address different, yet sometimes overlapping consumer needs. This fragmentation creates a window of opportunity for service providers to take leadership; they are the only Connected Life players with the ability to bring the technology and service pieces together in a way that makes sense to consumers.

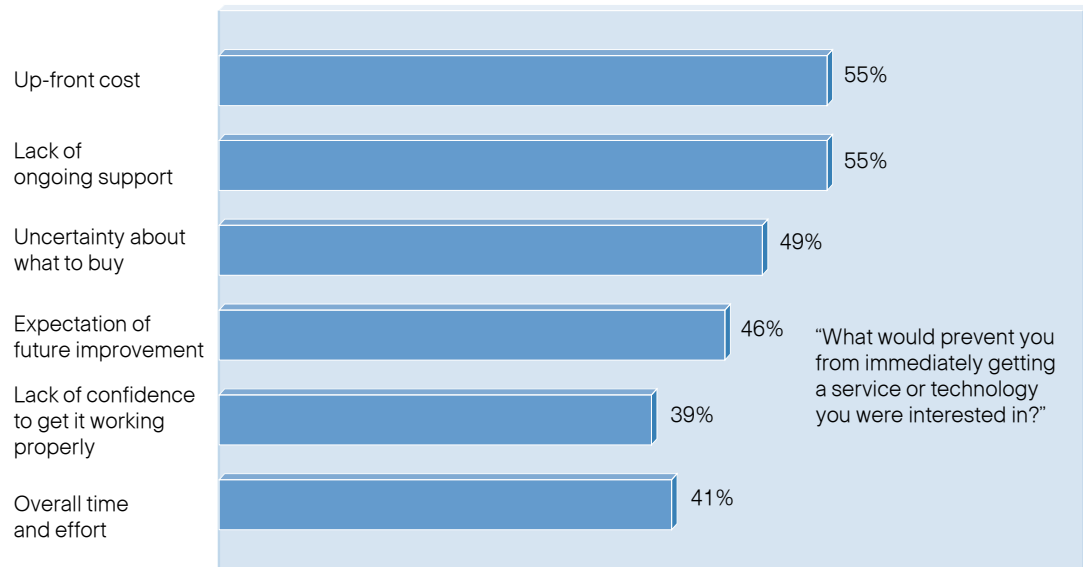
Today, the question is not if consumers are ready for the Connected Life, or even when it will happen. The question is, who will lead the way?

## The Service Provider Advantage: Delivering Experiences, Not Just Technology

Mass-market consumers are less interested in technology than in the experiences that technology delivers. They don't just buy an MP3 player, they buy the ability to access their music anywhere, anytime. They are not particularly interested in DVR technology itself, they want the time-shifting ability it provides.

But there are hurdles standing between consumers and these experiences. Many different devices and services provide disconnected pieces of the Connected Life: advanced TV, online gaming, cross-platform entertainment, music and movie downloads, remote video surveillance, mobile social networking, and more. Consumers are interested in these capabilities, but they are concerned about cost and ongoing support; they have no idea how to sort out their options, and they worry about obsolescence as technology continues to evolve.

Figure 2. Service Providers Can Drive Technology Decisions by Minimizing Barriers to Adoption



Base: U.S. Broadband Consumers

Service providers can help consumers navigate these barriers. But more important, they can help them bring together all the various components of the Connected Life so they can play music from an MP3 player on their home entertainment system, or watch streaming Internet video on their TV set, or check their home monitoring systems from their cell phone. Service providers are in an ideal position to integrate the components, manage the experience, reduce the hurdles to adoption, and meet their customers where their needs are.

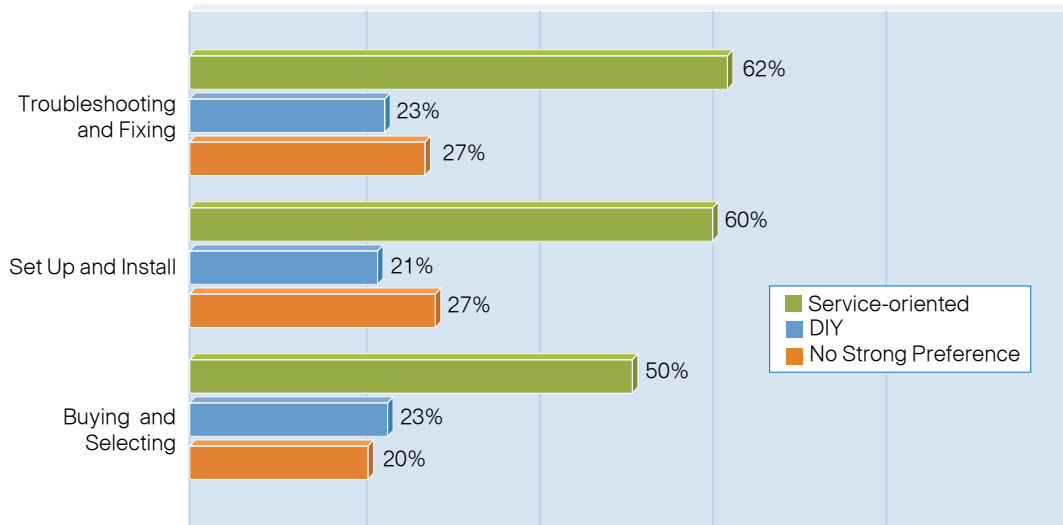
## Target the Experience to Specific Customer Segments

To effectively manage and improve the Connected Life experience, service providers need to address a complicated customer landscape, with varying—and even contradictory—needs, concerns, and preferences.

Cisco’s *Connected Life Market Watch* research in March and August, 2008, explored the importance of the *complete experience* in a consumer’s technology decision: learning about a solution, choosing the components, comparing offers and evaluating support. Some consumers prefer a do-it-yourself (DIY) device-oriented solution, and others prefer a managed solution delivered by a service provider. The research found that about 30 percent of U.S. broadband users have a strong preference for a service provider solution, leaving 70 percent who either strongly prefer DIY solutions (26%) or who have no strong preference (44%). Service providers need to focus on the key obstacles that are most important to all types of consumers, and find ways to expand their reach to include the 70 percent who are not already inclined to value an SP-provided solution.

Service providers’ managed service messaging tends to focus on saving time and hassle; while this value proposition resonates strongly with SP-oriented customers, it has little impact on the larger broadband customer base.

Figure 3. The Service Provider Value Proposition Hits the Target with SP-Oriented Customers



U.S. broadband subscribers believing that they will save time on various tasks with an SP solution

To expand their reach into the DIY and no-strong-preference customer segments, SPs need to adjust their messaging and practices to address the top concerns of these groups: up-front costs, ongoing support, and, for the DIY segment, the expectation of future improvements. For those with no strong preference the third most important barrier is uncertainty about what to buy. In addition to offering pricing plans and options that reduce up-front cost, service providers can broaden their appeal by offering comprehensive service packages, with options to upgrade technology as improvements occur, and by putting together product and service building blocks in a way that consumers can understand.

Service providers should identify and focus on providing solutions that are ready to be propelled from an early-adopter phase into the mass market. An example of this is an Internet-to-TV bridging capability. Despite strong mass market interest, existing Internet-to-TV devices are only being embraced by the earliest technology adopter. However, consumers have a real need and interest in this capability. They have invested heavily in multiple video platforms for the home: televisions, desktop computers, laptop computers; game consoles, portable gaming devices and various mobile platforms. Nearly half of U.S. broadband consumers are interested in bridging the video islands in their homes, yet only 4 percent have an Internet-to-TV video device of any kind. If service providers can provide consumers with a video bridging experience that is easy, low-risk, and affordable, they have the opportunity to accelerate mass adoption in this market, just as they accelerated DVRs into the mass market.

## Enhance Consumer's Experience Throughout the Experience Lifecycle

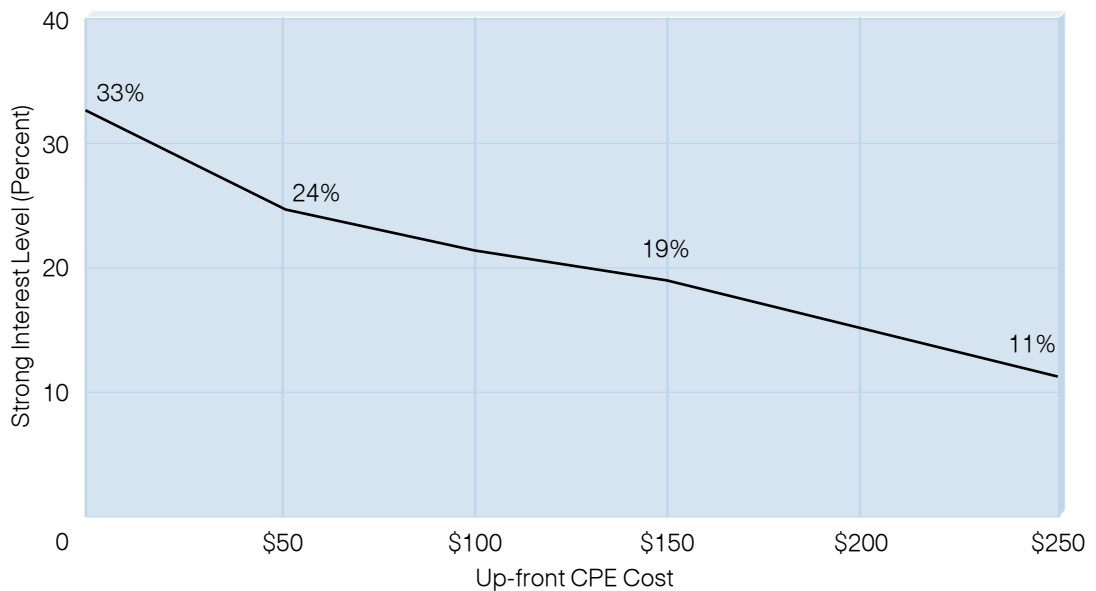
Service providers are the only Connected Life players that enjoy an enduring relationship with the customer. This relationship often spans multiple services and products, giving SPs the opportunity to manage and improve the customer's experience at every stage. For the consumer, the greatest obstacles occur not at the purchase decision, but at other points in the experience lifecycle—learning about the service, choosing the specific components, comparing offerings, set up and installation, and identifying sources for long term support. Service providers are uniquely positioned to make the consumers' experience simple and easy at each stage of this lifecycle—from awareness and education through support.

Providing a complete experience to the consumer that is simple and satisfying at each stage will come with more costs than a one-size-fits-all approach. With more monetization options than other Connected Life players, service providers have more tools to balance this investment. Web players and aggregators are very dependent on usage-driven advertising. Consumer electronics manufacturers are very dependent on the already thin margins they make on the one-time device spend. Service providers, on the other hand, have many options, beginning with subscription and usage revenue,

contracts, and device charges. Throughout the lifetime of the service, they can also bring in third-party revenue from advertising and solution partnerships. They can create business models that appeal to consumers by reducing certain costs, and still deliver on the bottom line by extracting value at multiple points through the experience lifecycle.

All of these options give service providers a unique ability to bring down consumer barriers, such as high up-front device costs, in order to accelerate adoption of new technologies.

**Figure 4.** With a \$19.99 Subscription Fee, Consumer Interest in Advanced TV is Stronger for Plans with Lower Up-front Costs



Base: U.S. broadband consumers

It is important that service providers remain flexible as consumers assemble their own Connected Life experiences across retailers, device manufacturers, and over-the-top content providers, and service providers. While service providers may not own every aspect of the solution, they alone can create a platform that brings together and enhances the overall experience. They can mask complexity, and offer flexible and reliable installation options.

Service providers can also build upon their strength in ongoing support. They can offer a range of support options to meet the needs of a wide range of customers, from tech-savvy do-it-yourselfers to time-constrained mainstream consumers who just want their solution to work easily and predictably.

If service providers guide consumers by providing a map of how the SP solution fits with and supports all the other components, they can unlock Connected Life adoption.

## Service Providers Are Poised to Capture and Lead

With Connected Life solutions ready to explode into mass adoption, service providers are in a unique position to capture and accelerate this market. They have strong assets in their favor, including trusted relationships with a broad customer base, a proven ability to jumpstart and accelerate technology adoption, and flexible revenue options to help them extract value at every stage.

To truly capitalize on this opportunity, service providers will need to remain flexible. This can mean creating different pricing/packaging options that appeal to different consumers. It can also mean extending their reach by partnering with retailers, device manufacturers and over-the-top players to deliver a value proposition that resonates with the widest range of consumers.

The time is now. The opportunity is theirs to lose.