Point of View

Winning in Next-Generation Television

Survey Results Highlight Unique Opportunity for SPs To Deliver the Future of Video to Consumers

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The Internet is coming to a TV near you—and not merely as a source of amusing YouTube videos. Television as we know it is undergoing one of the greatest transformations since the migration from black and white to color—or perhaps from antennas to satellite and cable distribution. People are turning to the Internet to view all kinds of video, from news clips, to TV shows, to full-length movies. Increasingly, consumers are also looking for ways to directly or indirectly connect their television sets to the Internet to merge this formerly computer-centric activity with the familiar TV viewing experience. Bringing the Internet to TV not only opens up a vast new source of content to the living room, but also the promise of a host of new applications and services to radically change the television-viewing experience.

Recent customer research by the Cisco Internet Business Solutions Group (IBSG) found that although the average U.K. household has 2.3 televisions, respondents spend more time on the Internet than watching TV. Of that time on the Internet, the most frequent use is entertainment. Not only is Internet video a competitor to the traditional television business model, but the success of applications such as BBC iPlayer and Hulu in the United States serves only to drive even more video-related traffic to service provider (SP) networks. As a result, SPs are forced to invest in upgrading their networks as they watch content providers go straight to consumers, cutting SPs out of their traditional source of distribution revenues.

Television is no longer limited to the box in your living room. "TV Everywhere" or "n-Screen" across multiple devices such as PCs, mobile phones, and TV is finally becoming a reality. The cloud is becoming a viable means to deliver video (broadcast, catch-up, and video on demand, or VoD) to a multitude of devices. Examples of iPlayer on the iPhone, TiVo on the PC, and Sky Player on the Xbox demonstrate how television has quickly expanded beyond the traditional TV set. We are also seeing a bewildering array of hybrid TV solutions attempting to provide the industry ideal of a "converged entertainment experience." There is no shortage of choices with technologies like canvas, widgets, and applications on the TV, along with Blu-ray players, game consoles, and bridging devices (such as Roku and Apple TV)—all aiming to be the successful answer to the converged entertainment experience. All of these solutions have different capabilities, content offers, standards, and limitations, however. The poor consumer is left scratching his head as to what it all means.

Many people are trying to take the converged entertainment experience beyond video to create "Social TV"—exporting social-networking and communications applications from the computer to the television. Already a number of device providers such as Samsung and application providers such as Yahoo! are attempting to merge social networks like Facebook with television. Other offerings allow photo and video sharing (and even video conferencing) from Skype and others on TV.

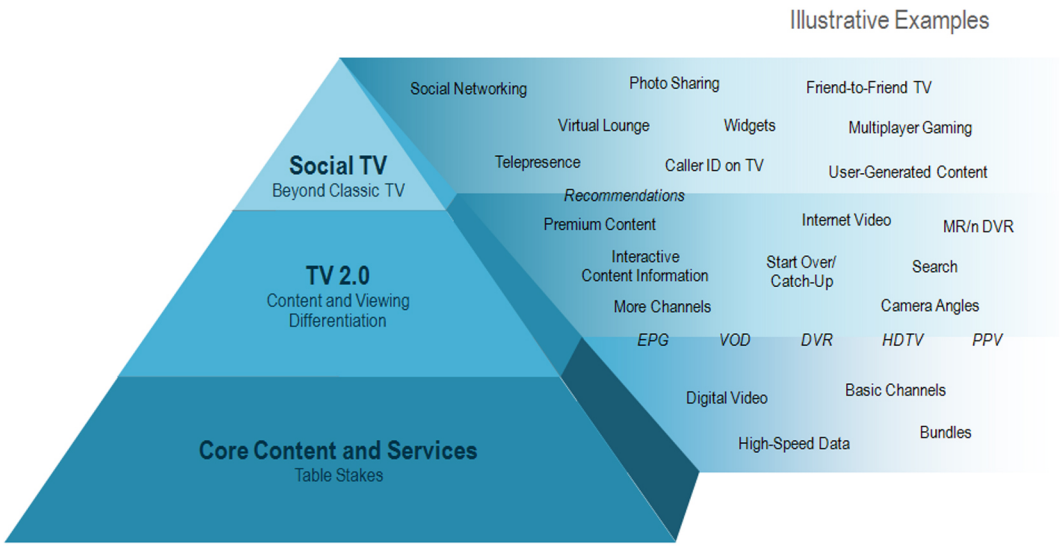
Industry pundits optimistically talk about the wonderful world of "next-generation television," but industry players are struggling to understand what these significant market transitions mean to their businesses. SPs or content distributors (telcos and cable and satellite companies) are

trying to understand what exactly those opportunities are, and how they should be thinking about them. They are also trying to align the technology promise and hype with what customers really want. Last and most important, they are trying to understand how they can make money from all this—especially given that the tried-and-true advertising and subscription models are rapidly breaking down.

Defining Next-Generation Opportunities

Cisco IBSG has developed a simple framework (see Figure 1) to evaluate and assess the different opportunities around television that exist now and in the future.

Figure 1. Next-Generation Television Services Framework



Source: Cisco IBSG, 2010

Core Content and Services. This layer includes basic services, content, and packaging (for example, digital channels or bundles) that are now basic table stakes for any video offer.

TV 2.0. This layer includes applications and solutions that enhance and differentiate the TV-viewing experience, including premium content and start-over/catch-up TV. Many of these services (such as VoD, DVR, high-definition television, or HDTV) were initially novel, but over time they are migrating down to the base layer to become basic services.

Social TV. Applications and solutions in this layer move beyond traditional TV content and experience to use television as a platform for new customer experiences. Photo sharing, social networking, and telepresence are examples of solutions that employ the unique attributes of the TV and its location in the household to provide new experiences beyond TV viewing and PCs.

The laws of gravity apply here, too, as once novel and leading-edge services over time migrate down to the core layer. This has happened with bundles and digital channels, and increasingly with VoD, HDTV, and other services once defined as "TV 2.0" that are finding their way to the core layer. A significant point of differentiation to note in this framework is between the top two layers. TV 2.0 describes solutions that enhance the content or viewing experience. This layer has been the traditional strength of content companies and SPs. Contrast this to the new layer of

"Social TV," which extends far beyond the classic TV paradigm to use the TV as a platform for new forms of social interaction and communication. In many cases, TV content is secondary to the solution or even irrelevant, since TV's strength is its ability to deliver these new services via a great device in a community setting.

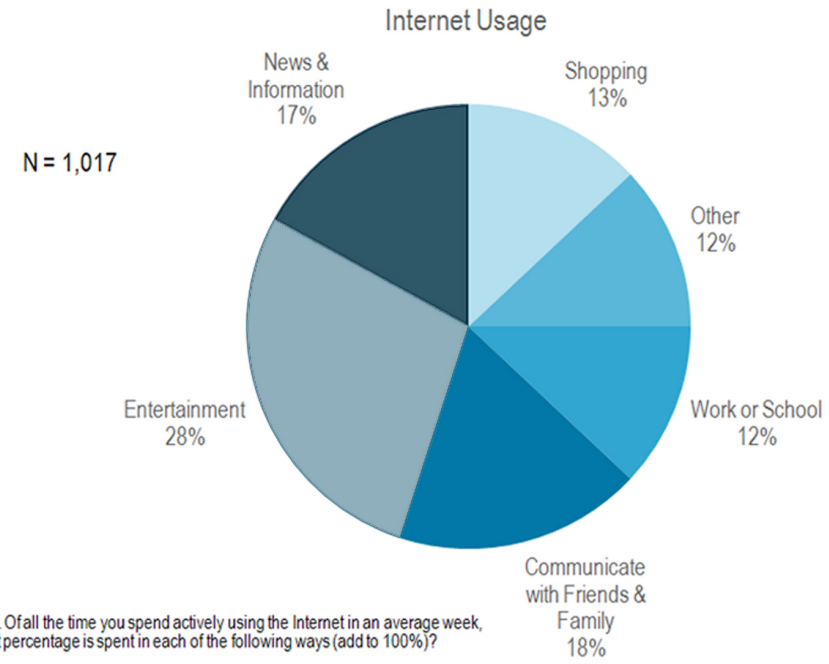
Give the People What They Want

While there is much discussion and optimism about what some of these next-generation solutions might be for the television, information or research on what customers actually want is limited. Cisco IBSG undertook primary research with broadband-enabled consumers in the United Kingdom and other countries to understand their habits, needs, preferences, and potential interest in some of these new services.

We identified seven key messages from consumers that are critical to understanding how next-generation television might evolve:

1. Homes Are Becoming Sophisticated and Connected Digital Oases. It is probably no surprise that consumers have lots of TVs in their homes—an average of 2.3 per broadband household in the United Kingdom. But surprisingly, in almost every household, one of these sets is HDTV (0.9 per household). In addition, these households are becoming sophisticated electronic homes, with more than 50 percent of respondents reporting they have at least one mobile phone, digital camera, MP3 player, game console, or webcam—and, of course, one or more computers. With all these digital connected devices at their disposal, it is no surprise that consumers spend almost the same amount of time on the Internet (average of 21.4 hours per week) as watching TV (20.0 hours per week), with wide variations depending on age. Entertainment is now the most important use of the Internet (28 percent of time online), serving as either a substitute or a complement to traditional TV viewing (see Figure 2).

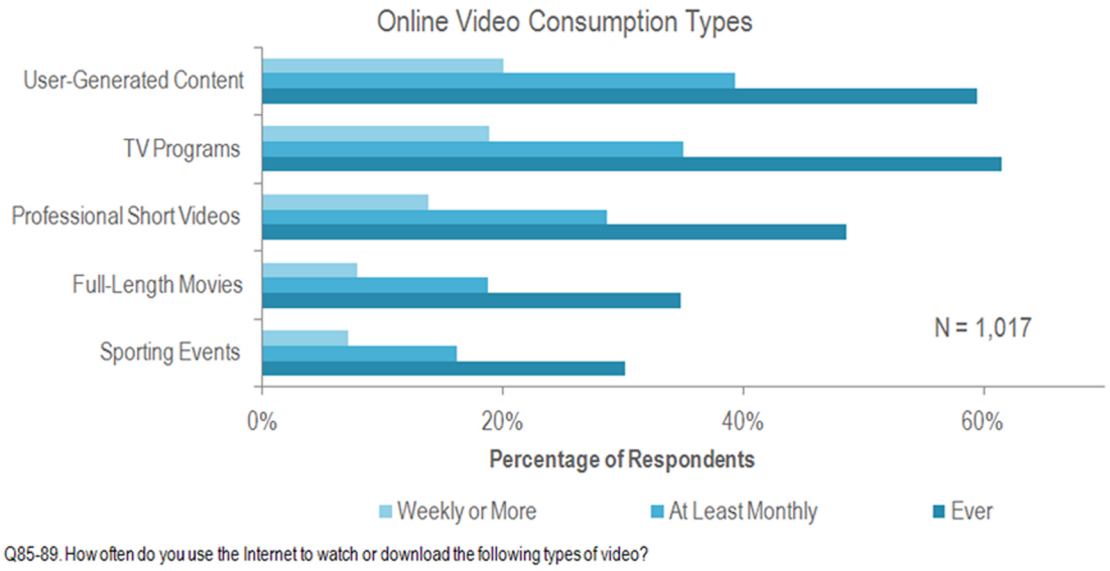
Figure 2. Consumers' Primary Use of the Internet Is for Entertainment



Source: Cisco IBSG, 2010 (survey base of U.K. broadband users)

2. Online Video Viewing Is Real. Our research found that people of all ages already regularly view video on the Internet. More than three-quarters of respondents indicated they watch some form of Internet video on a weekly basis, consuming an average of 1.25 hours per week. While user-generated content is still important, TV programs, movies, and professionally produced videos are rapidly becoming the most popular (Figure 3). "Snacking" (grabbing a few minutes of entertainment) and accessing content unavailable on TV were the most frequent reasons people gave for watching Internet video (40 percent and 37 percent of respondents, respectively). One-quarter of respondents, however, see Internet video as a substitute for TV at home.

Figure 3. Movies and Professionally Produced Video Are the Most Frequently Watched Types of Online Video



Source: Cisco IBSG, 2010 (survey base of U.K. broadband users)

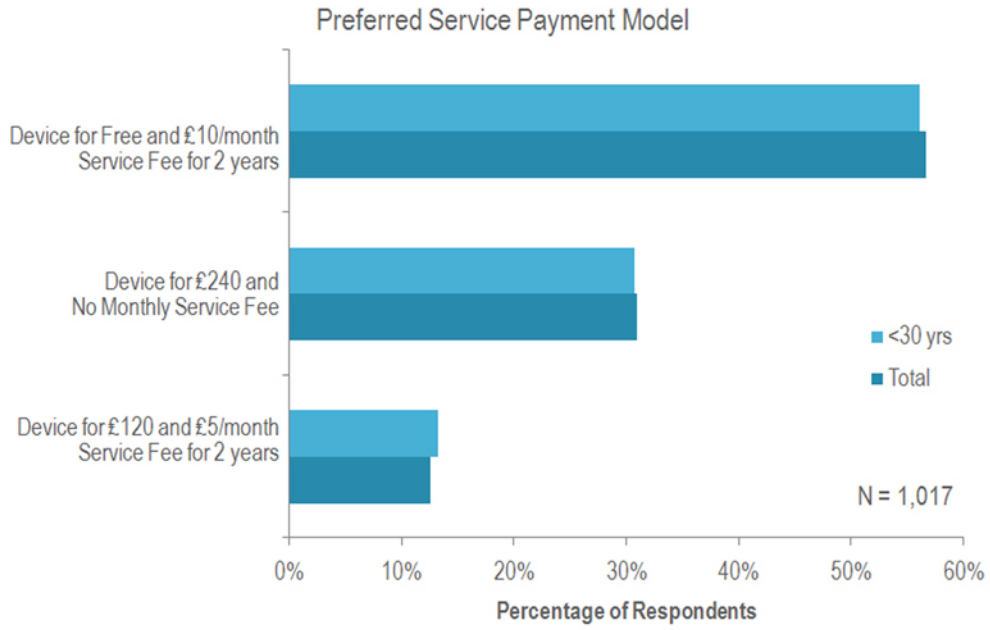
3. People Want To Watch Online Video on Their TVs. Although people are increasingly watching Internet video on a regular basis, they would prefer to watch it on their TVs rather than their computers. Respondents preferred the higher-quality viewing experience to which they are accustomed with television. Desire does not seem to match reality, however. Only 25 percent of all respondents reported actually having watched an Internet video on their TVs. Younger people seem to have discovered more ways to bridge the computer and TV, as this number increases to 40 percent for people under 30 years old.

4. The Key to Next-Generation Television Is Hybrid Solutions. There seems to be healthy demand for watching Internet video on television—but limited execution. Our conversations with consumers indicate they do not know how to make this a reality. The good news is that consumers are interested in a service that would allow them easily to watch all types of available Internet video on their TVs. Among all broadband households, we found an interest level of 4.9 (on a 10-point scale) for such a service, increasing to 5.9 for people under 30 years old. The good news for traditional SPs is that consumers consider SPs to be their preferred providers of this hybrid service. Consumers prefer the familiar model of a subsidized device with a low up-front charge and an ongoing monthly fee. Thirty-eight percent of respondents viewed this

service as an extension of their TV subscriptions, whereas 25 percent of respondents would prefer to buy it as part of their broadband subscription.

Integration with the set-top box was overwhelmingly the preferred delivery device (48 percent of all respondents), followed by the TV (15 percent) and a stand-alone media adapter (13 percent). Consumers did not perceive other devices such as home media servers or game consoles to be viable hybrid devices, expressing only single-digit levels of interest. The traditional telecom and pay TV model of a subsidized device with a monthly service fee remains firmly planted in consumers' minds. Remarkably, more than two-thirds of respondents preferred this heavily device-subsidized model to buying the device up front with no ongoing fee (see Figure 4), irrespective of age, even though the total cost of ownership (TCO) was the same.

Figure 4. Consumers Overwhelmingly Prefer a Traditional Device-Plus-Subscription Model to Other Models

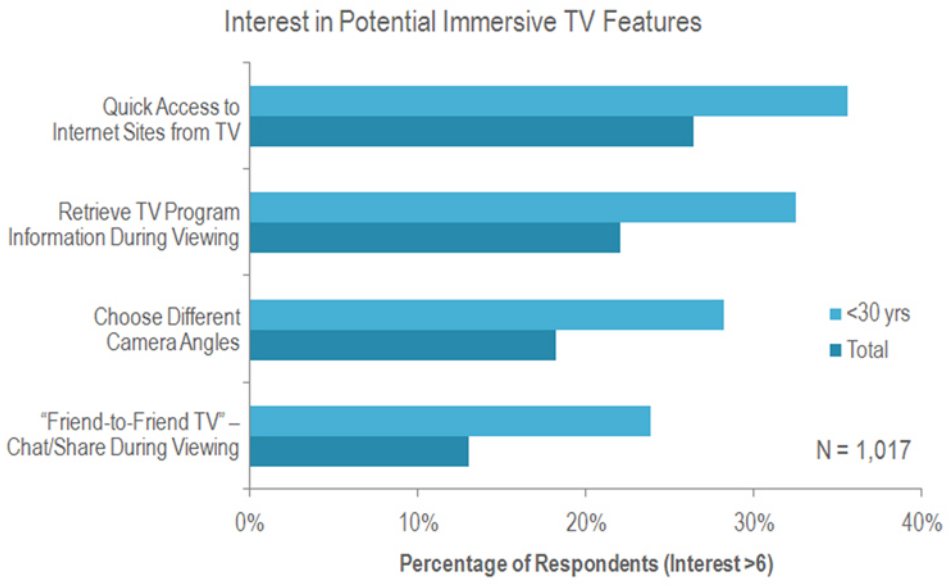


Q110. Which of the following options would you prefer for the web video to TV service?

Source: Cisco IBSG, 2010 (survey base of U.K. broadband users)

5. Web Information Can Enhance the Viewing Experience. Consumers see value in enhancing the television viewing experience with some of the capabilities of the web, but in an unobtrusive, simple way. Respondents favored quick access to Internet sites from the TV and a simple means to retrieve TV program information during viewing (see Figure 5).

Figure 5. Consumers Favor Quick Access to the Internet and Simple Means of Retrieving TV Program Information While Viewing



Source: Cisco IBSG, 2010 (survey base of U.K. broadband users)

6. People Want Social Interaction Around the TV, Not on It. Consumers currently show limited appetite for friend-to-friend chat and sharing during television viewing. Only 12 percent of respondents were interested in this feature as part of an immersive TV package, with a slight increase to 24 percent for those younger than 30 (see Figure 5). Similarly, respondents expressed limited interest in using their TVs to readily access video from social-networking and user-generated content sites. In focus groups, consumers told us they had limited interest in social networking on their TVs for the following reasons:

- **Privacy:** They are uncomfortable using social networking sites such as Facebook with others in the same room, near the TV.
- **Community:** Social networking is an individual activity, whereas watching TV is a group or communal activity.
- **Distraction:** Using social networking sites while watching TV detracts from the enjoyment of TV programs.

7. Television Is Not Just Another Screen. In essence, respondents to our survey and focus groups told us there is something unique about the TV—it is more than just another screen. The more relaxed environment and communal nature of television viewing sets it apart from the computer screen in the home. Successful next-generation services will be those that exploit these characteristics by fostering a communal or social experience (for example, enabling photo sharing or telepresence), rather than simply trying to replicate the more individual-use nature of the computer on a television screen.

The Road to Success

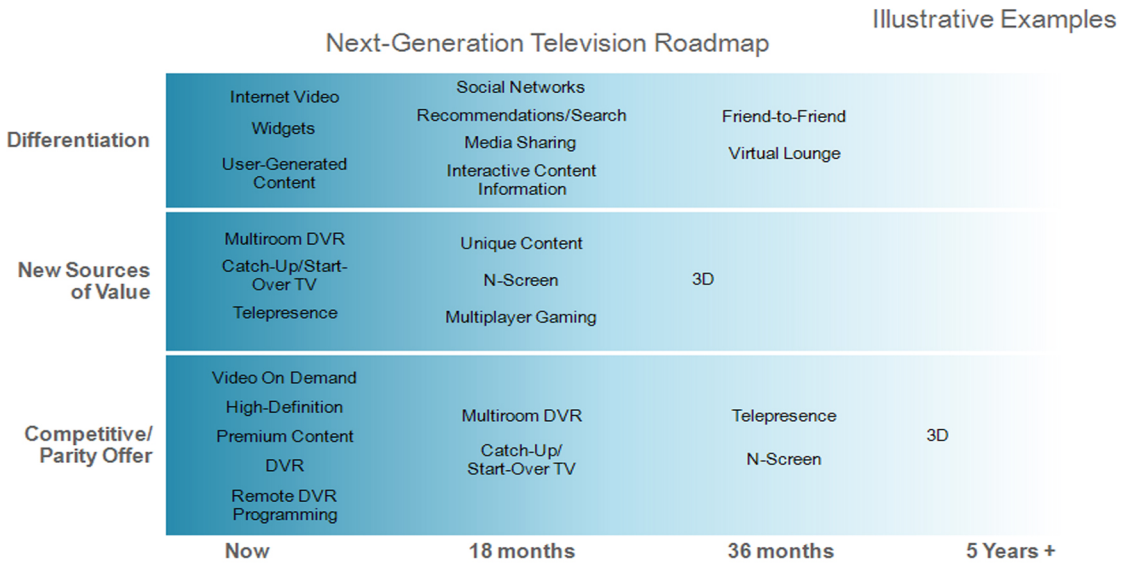
Predicting the future is never easy. We believe our research and experience can shed some light on how the features and services of next-generation television might evolve. The market research gives us a good indication of consumers' expectations and potential appetite for new services. Market observations and our work with service providers around the globe provide some indication of which experiments are working (or not) in the marketplace.

In developing the potential roadmap for next-generation television, we transpose the future TV 2.0 and Social TV features and services described in Figure 6 into a timeline for adoption and making money. The roadmap features three different categories of offers:

- **Competitive Offer.** The bundle of features required to deliver a TV service that is at least at parity with competitors in the market. These base features will grow over time as customer expectations rise and competitive pressures mount to expand the definition of a competitive offer.
- **New Sources of Value.** New and supplemental features that can create value in their own right. Initially, customer uptake may be low, but would be expected to increase over time to become much more mainstream. Eventually, competitive pressures may force these services to become part of the competitive bundled offer.
- **Market Differentiation.** For the most part, this group of features may not generate additional revenue, but on their own, offer a means for providers to differentiate themselves in the marketplace. These features can provide a unique customer experience through innovation, exclusivity, and time to market. While customers may not be willing to pay for these features, they may be willing to change providers or increase their overall spending to access these unique and differentiated services.

Figure 6 shows one possibility of how the three- to five-year roadmap for next-generation television features and services might evolve over these three categories. This list is by no means exhaustive. No doubt there are features today that we have overlooked, and future features that we cannot even now imagine. We do believe, however, that the roadmap helps in understanding the role of new features—sources of new value or means of differentiating service without any direct monetary gain. It also demonstrates the dynamic nature of the roadmap. Services considered new sources of revenue today may one day become part of the bundled competitive offer. Likewise, non-revenue-generating differentiators may one day become new sources of value in their own right.

Figure 6. The Strategic Nature of Next-Generation Television Services Will Evolve over Time



Source: Cisco IBSG, 2010

While many of these features may be technically feasible today, our research and experience with customer preferences indicate many of them are not market-ready. Providers must assess at which point along the execution of the roadmap it makes sense to develop, test, and ultimately launch these new features. For this reason, constant experimentation and a portfolio approach to product development will be essential to hitting market demand at the right time.

New Ways of Making Money

Making money in traditional payTV is still viable. Consumers are still willing to pay for traditional cable, satellite, and IPTV subscriptions, supplemented with advertising revenue. Making money with next-generation television will be more difficult. Channel proliferation, audience fragmentation, alternative content, new technologies, and the free Internet model are making it increasingly hard to profit from traditional, tried-and-true, business-to-consumer (B2C) subscription and advertising models. If service providers are to be successful with next-generation television, they will need to find new ways of monetizing these new services.

Cisco IBSG believes there are new and emerging opportunities for SPs in alternative models, most notably in two-sided, business-to-business-to-consumer (B2B2C) models. In these models, SPs derive income by helping third parties and intermediaries provide better services to their end customers. For example, SPs could build content distribution networks (CDNs) to reduce delivery costs for content providers and improve the customer experience. In this case, the SP collects money directly from the content provider instead of the consumer. The content provider in turn collects money from the end consumer. In some cases, consumers may be willing to pay directly for the improved service options enabled by SPs. Equally, SPs could exploit the vast customer, network, and contextual information available to them to vastly improve targeted advertising. Again, the SP collects money for the value-added information from the advertiser, who in turn extracts value from the end customer.

These two-sided business models are typically anathema to the traditional SP business model and culture. Some revolutionary thinking and changes in operations and organization will be required to execute these models. But we believe they will be increasingly important tools in the overall portfolio of means to make money from next-generation television. Two complementary whitepapers from Cisco IBSG provide detailed reviews and analyses of SP opportunities with two-sided business models.[1, 2]

Moving to Next-Generation Television

Clearly, people will not leave the comfort of their current TV service and subscription delivery model overnight. But we are beginning to see signs of an appetite for next-generation television. Consumers are viewing alternative sources of video online, trying to connect their TVs to the Internet, and are hungry for new types of interactions on the television. Viewers definitely seem to want these new experiences, but they are struggling with how to make it all work. Consumers want SPs to show them how to make next-generation television an easy extension of their current TV or broadband service.

The basic TV offer is rapidly evolving and beginning to incorporate some of these next-generation elements. In assessing new opportunities, providers need to differentiate services that provide enhancements and alternatives to the TV viewing experience (TV 2.0) from those that use the TV as a platform to deliver other applications and services (social TV). Some of these opportunities will provide new sources of value in their own right; others will distinguish themselves through their offers—important in an increasingly competitive video marketplace. Rising customer expectations and intense competition will continue to relegate these seemingly new and innovative services to the basic competitive offer over time.

Delivering compelling features and services through constant experimentation and careful alignment with market demand will be one of the key pillars of success in next-generation television. Providing a compelling, integrated, easy-to-use, end-to-end customer experience will be the other pillar of success and an important competitive differentiator. We believe that SPs are well-positioned to deliver against these two pillars and win in next-generation television. Our customer research and experience supports this belief—consumers are looking to service providers to deliver the future of video to them. SPs will require new perspectives, new business models, increased speed to market, and new forms of partnering and collaboration if they are going to win against the numerous device, OTT, and content companies vying to profit from next-generation television.

For more information about next-generation television, please contact:

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About the Survey

Connected Life Market Watch is an ongoing research study that Cisco IBSG undertakes in various countries around the world to better understand consumer needs, behaviors, and attitudes regarding the rapidly evolving digital world. This particular study was undertaken in

the United Kingdom in December 2009. The study was an online survey of 1,017 British broadband households.

Endnotes

1. "Internet Video: New Revenue Opportunity for Telecommunications and Cable Providers," Marco Nicosia, Cisco Internet Business Solutions Group, July 2010. A focused look at the ways service providers can increase revenues from consumers and business customers by improving the quality of video delivery. *http://www.cisco.com/web/about/ac79/docs/pov/Internet_Video_POV_0728FINAL.pdf*
2. "Exploring Two-Sided Business Models for Service Providers: Creating Profitability Through Innovation," Henky Agusleo and Jeremy Uy, Cisco Internet Business Solutions Group, August 2010. An analysis of the incremental service opportunities available to innovative service providers offering a range of next-generation video and value-added services. *http://www.cisco.com/web/about/ac79/docs/pov/TwoSided_Model_POV_0804.pdf*

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More Information

Cisco Internet Business Solutions Group (IBSG), the company's global consultancy, helps CXOs from the world's largest public and private organizations solve critical business challenges. By connecting strategy, process, and technology, Cisco IBSG industry experts enable customers to turn visionary ideas into value.

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