CONSUMERLAB

ERICSSON

TV AND MEDIA 2014

Changing consumer needs are creating
a new media landscape

An Ericsson Consumer Insight Summary Report
September 2014

CONTENTS

Methodology

● Quantitative
● Qualitative

BASE: 9 MARKETS
(Used for showing trends)

Brazil, China, Germany, South Korea, Spain, Sweden, Taiwan, UK, US

BASE: 23 MARKETS

Brazil, Canada, Chile, China, France, Germany, Greece, Indonesia, Ireland, Italy, Malaysia, Mexico, Portugal, Russia, Singapore, Spain, South Korea, Sweden, Taiwan, Turkey, UAE, UK and US

Quantitative

Main sample: ~23,000 online interviews (1,000 per country) with people aged 16–59 in 23 markets. All respondents have a broadband internet connection and watch TV/video on a weekly basis. Almost all use the internet on a daily basis. This sample is representative of over 620 million people, or almost 50 percent of consumers aged 16–59 in the studied countries.

Additional sample: ~3,400 online interviews with respondents aged 60–69 who fulfill the same recruitment criteria and live in the same countries as those from the main sample. This sample is only used for the age comparison illustrated in Figure 7. It is representative of around 30 percent of the consumers aged 60–69 in the studied countries (ranging from 77 percent in Sweden to 5 percent in Mexico).

Qualitative

22 in-depth interviews in San Francisco, London and Stockholm. These respondents all had multiple devices and a broadband internet connection and watched on-demand content in and outside their homes.

Expert interviews

Nine in-depth expert interviews with media industry professionals.

THE VOICE OF THE CONSUMER

Ericsson ConsumerLab has close to 20 years' experience of studying people's behaviors and values, including the way they act and think about ICT products and services. Ericsson ConsumerLab provides unique insights on market and consumer trends.

Ericsson ConsumerLab gains its knowledge through a global consumer research program based on interviews with 100,000 individuals each year, in more than 40 countries and 15 megacities – statistically representing the views of 1.1 billion people.

Both quantitative and qualitative methods are used, and hundreds of hours are spent with consumers from different cultures.

To be close to the market and consumers, Ericsson ConsumerLab has analysts in all regions where Ericsson is present, developing a thorough global understanding of the ICT market and business models.

**All reports can be found at: www.ericsson.com/consumerlab**

EVOLUTION OF TV

The TV landscape is changing from one where traditional TV providers and physical media dominate and the consumer experience is inflexible. Nowadays, new aggregators enable consumers to decide what they want to watch and pick-and-mix their own services, something that 5 out of 10 consumers prefer over the traditional TV bundles.

USER-CENTRIC
services and TV bundles

This disruption puts the user at the center. It will be up to brands and service providers to build compelling consumer experiences and explore new business models that target the needs of the user.
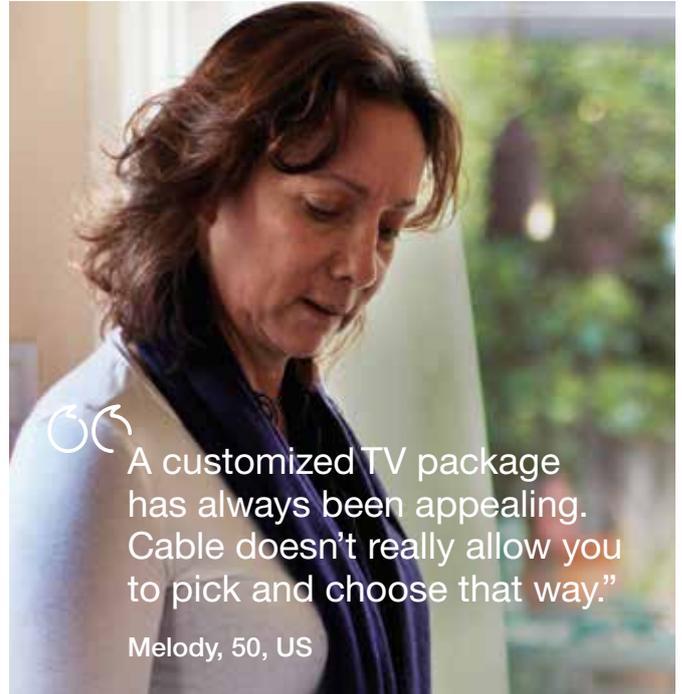
> "A customized TV package has always been appealing. Cable doesn't really allow you to pick and choose that way."
>
> Melody, 50, US

KEY FINDINGS

Streaming is closing in on linear TV

> 75 percent of people watch any type of streamed video several times a week or more, compared to 77 percent who watch scheduled broadcast TV several times a week or more.

Subscription-based Video-On-Demand (S-VOD) accelerates binge viewing

> 56 percent of S-VOD users prefer all TV series episodes to be available at once so that they can watch at their own pace, compared to 45 percent of non S-VOD users.

Increased willingness to pay for anywhere access

> Since 2012, the number of people that are prepared to pay for accessing TV content on any device has increased by 25 percent. Smartphone viewing time has in the same period increased by 15 percent, despite significant mobile access and business model barriers.

Digital Video Recorders (DVRs) are disassembling linear TV channels

> TV channels are increasingly considered a source from which consumers can harvest programs and movies, for example using a DVR. This mindset is part of a technology-independent transition towards on-demand viewing.

Consumers want 4K

> For 60 percent of consumers, HD quality is a very important aspect of their optimal TV/video experience, and 4K/Ultra High Definition (UHD) is important to 43 percent. Increasing video quality expectations are part of an ever evolving consumer-driven viewing experience.

Time to change the structure of TV services

> Traditional TV providers are facing challenges. The average Net Promoter Score (NPS) for over-the-top (OTT) on-demand services in the US is 39, much higher than that for traditional TV providers at 12. In the future, consumers will not accept paying for inflexible managed TV packages in order to get access to the content they love.

CONTENT IS KING

In the past, the TV was the only place where video content could be accessed. Today, almost any content can be consumed on its own merits, on any platform.

People have a tendency to think about content in terms of being either premium content, such as their favorite TV show, or secondary content such as older movies. Their viewing can similarly be split up into special occasion viewing and everyday viewing.

Figure 1 illustrates content in the context of these four factors. The highest assigned value is on premium content that is viewed on special occasions.

Binge viewing
The ability to binge watch TV appeared when people could buy box sets of TV series. However, the high cost of these box sets limited binge viewing. With the introduction of S-VOD services such as Netflix, people began to binge watch like never before. 5 out of 10 consumers prefer all episodes of a TV series to be released at once, enabling them to watch at their own pace. Easy access, as well as the absence of incremental cost, has broken down viewing barriers. There are several ways to binge. Some viewers do not discover a TV series until mid-season, so they will watch episodes back-to-back to catch-up before the season is over. Other viewers prefer to watch an entire season at their own pace, which means they have to wait until the whole season has been made available.

Scheduled broadcast TV services
Consumers often divide scheduled broadcast TV into two parts. The first part is live TV, e.g. sports and events. The second part is non-live TV, e.g. movies and programs. Live TV can be seen in the right hand side of Figure 1, whereas the declining role of non-live TV can primarily be found in the left-hand side. One reason why people keep their traditional TV package is that the large number of TV channels provides them with access to a variety of programs from which they can record and time shift specific pieces of content. Non-live TV channels are becoming more of a resource from which consumers harvest content, for example with the help of a DVR.

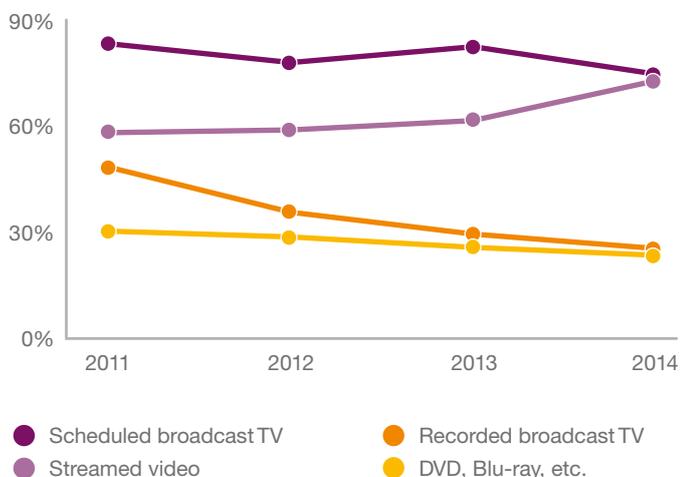Figure 1: Role of different content types and content services
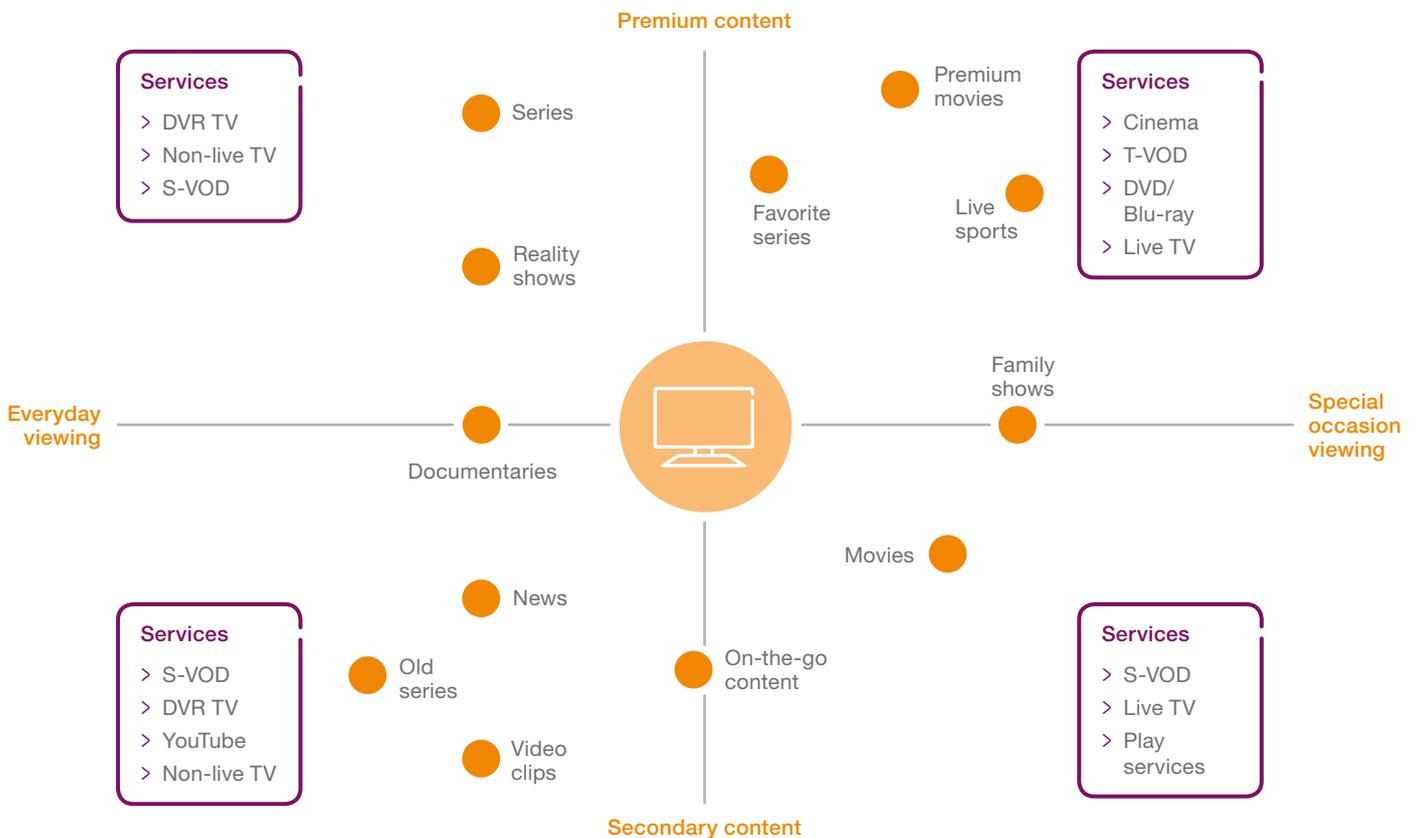
Source: Ericsson ConsumerLab, TV and Media 2014

THE SERVICE SHIFT

Changing service usage

Figure 2 shows the ongoing shift in consumers' viewing habits. Although 77 percent of people watch scheduled broadcast TV, almost as many watch streamed video several times a week or more, at 75 percent. A lot of recorded and physical media viewing is shifting towards easy-to-use, convenient streaming, using on-demand services that allow cross-platform access to content.

Figure 2: Percentage of people watching different media types on more than a weekly basis

Legend:
- Scheduled broadcast TV
- Streamed video
- Recorded broadcast TV
- DVD, Blu-ray, etc.

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 9 markets

STREAMED VIDEO is almost as popular as scheduled broadcast TV

Subscription-based VOD (S-VOD) services

These on-demand services allow the consumer to access a lot of content at a low fixed rate, making it a key component in many consumers' viewing habits, as seen in Figure 3. When consumers try the S-VOD service, they usually realize its benefits and quickly integrate it into their basic viewing behavior.

Figure 1 on the previous page shows that S-VOD services rarely cater for the consumers' full viewing habits, lacking live and more premium content, e.g. sport, premium movies and favorite TV series.

Figure 3: Percentage of consumers currently using each on-demand service in the US

Legend:
- S-VOD service*
- T-VOD service*
- S-VOD and T-VOD service*
- Ad-sponsored service*
- Other service
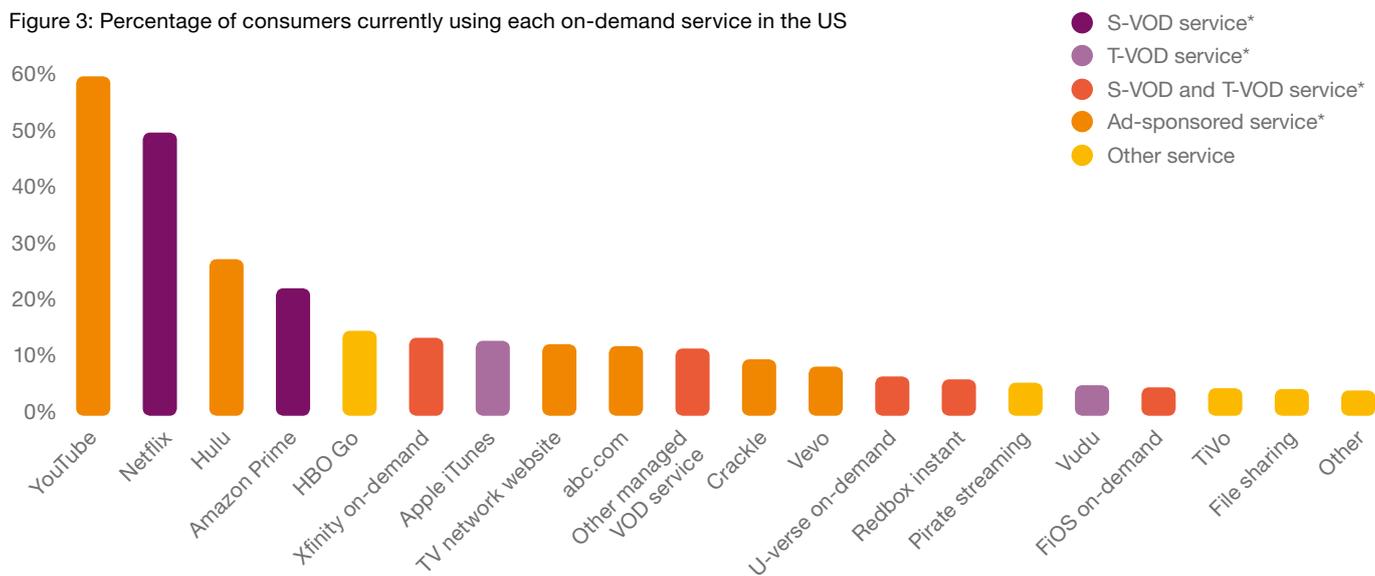
* If a service offers multiple payment models, the color coding refers to the predominant one.
Source: Ericsson ConsumerLab, TV and Media 2014. Base: USA (those who watch any type of streamed or downloaded video service at least monthly)

Transaction-based VOD (T-VOD) services

T-VOD services, especially standalone services, are currently not a part of most consumers' daily viewing habits. Only 14 percent included T-VOD as a cost in their monthly TV budget, compared to 27 percent that include some kind of S-VOD cost in their budget.

Figure 4 compares T-VOD with S-VOD and a trip to a movie theater. It shows that T-VOD services don't really have a clear role among consumers, as it is negatively impacted by factors such as rental time limit and cost. The wide content catalog of S-VOD services further reduces consumers' willingness to pay for T-VOD services.
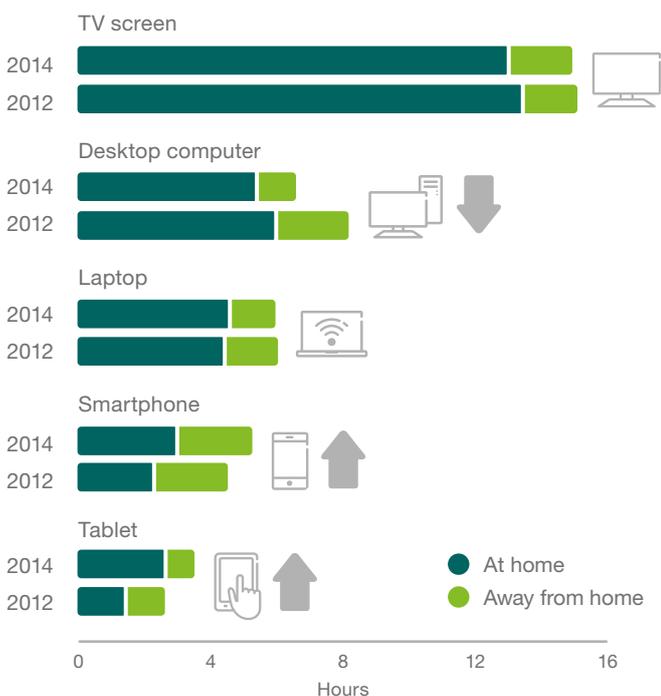
Figure 4: Comparison of consumer benefits and drawbacks for movie theater, T-VOD and S-VOD

Source: Ericsson ConsumerLab, TV and Media 2014

MOVIE THEATER
- > First release movies
- > Important social event
- > In time with social buzz and discussions

- > Expensive (but different budget)
- > No trial and error exploration

T-VOD
- > Not the latest movies
- > No social buzz and discussions
- > Expensive pay-per-view
- > Limited rental time
- > No trial and error exploration

S-VOD
- > Some first release TV series
- > Watch as much as you want
- > Trial and error exploration

- > Only older movies
- > No social buzz and discussions

CONTENT ON THE GO

Figure 5: Average hours spent watching video on each device per week (those who have and use each device)

TV screen
2014
2012

Desktop computer
2014
2012

Laptop
2014
2012

Smartphone
2014
2012

Tablet
2014
2012

- ● At home
- ● Away from home

0   4   8   12   16
Hours

Figure 5 shows that the average number of hours consumers spend watching content on a TV screen hasn't changed over the years. The time spent watching video on smartphones and tablets has increased, but has decreased for the fixed desktop computer.

Mobile content and viewing habits

Figure 6 shows that consumers mainly watch user-generated content, e.g. YouTube, on their smartphones, with scheduled TV being the second most popular content.

Figure 6: Content viewing frequency per content type on the smartphone, globally

YouTube or similar services
Scheduled TV
Live TV or events
Streamed on-demand content
Downloaded content

0%   20%   40%   60%   80%   100%

- ● At least daily
- ● Weekly
- ● Monthly
- ● Less often
- ● Never
- ● Don't know

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 9 markets (those who have and use respective device)
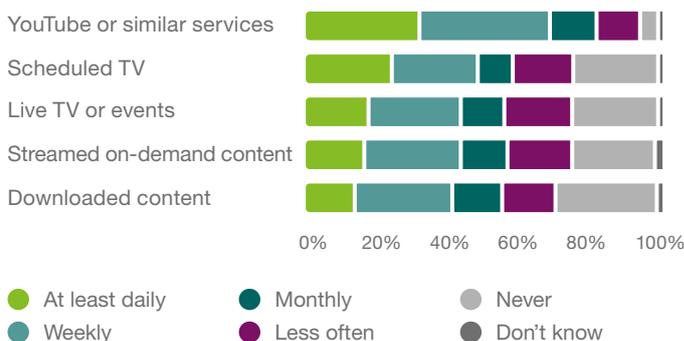
Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

Figure 7: Showing weekly TV and video viewing habits across the day, among different age groups
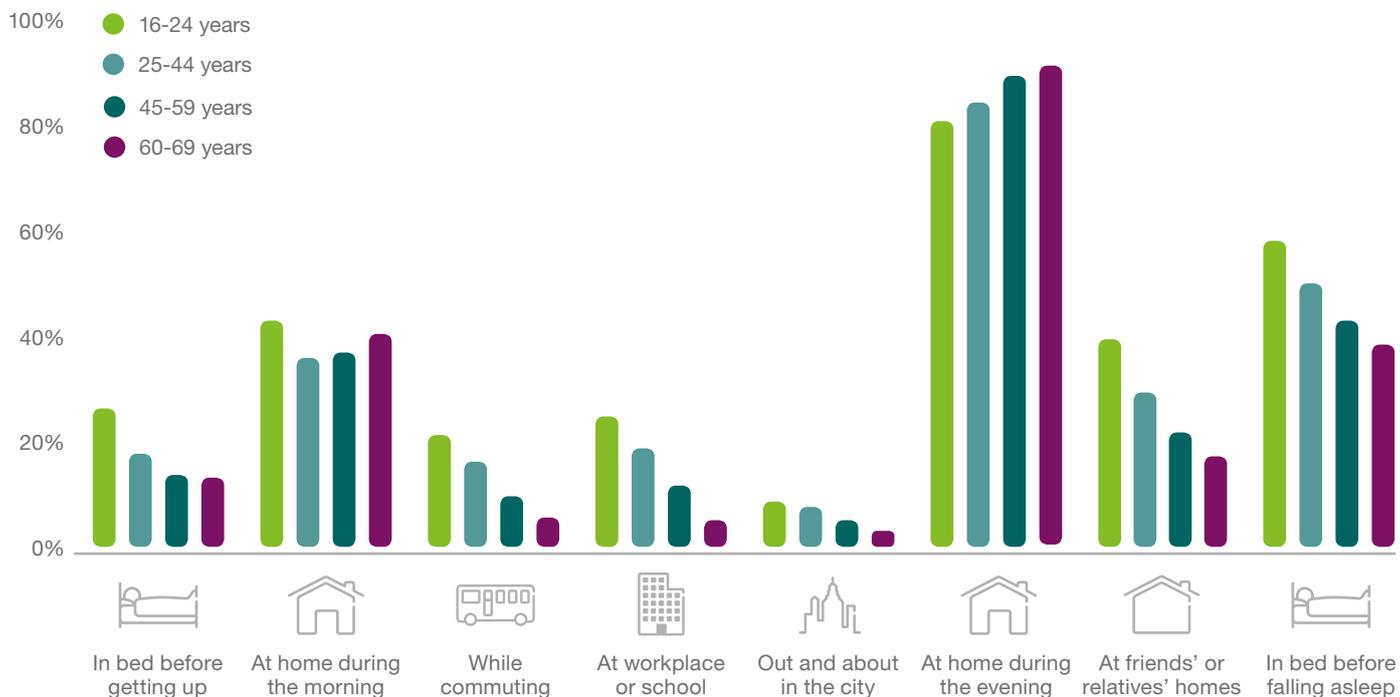
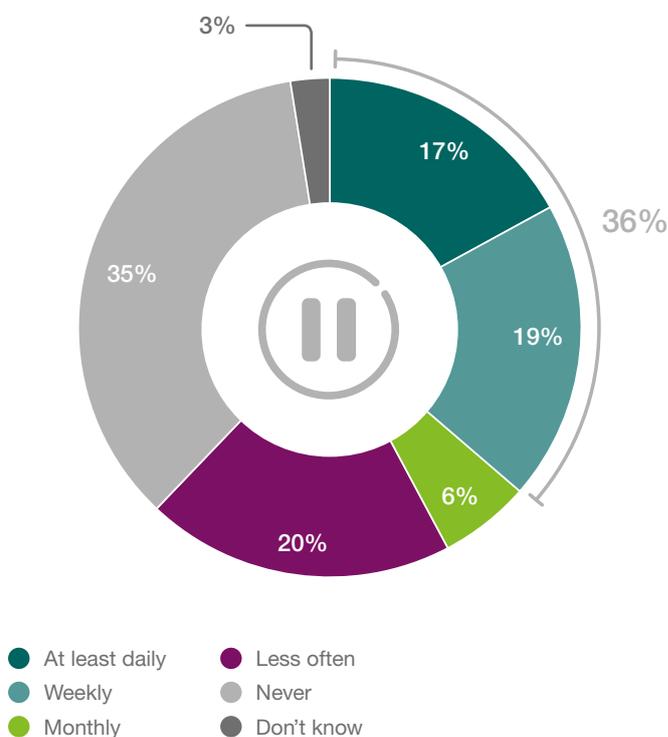Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

Figure 7 examines TV and video viewing habits across the day for different age groups. It shows that younger consumers generally have more extensive video usage outside the home, while older respondents' viewing is more centered on the home. Accessing content anywhere is increasingly important. Since 2012, the number of people that are prepared to pay for this has increased by 25 percent.

Place shifting

New services enabling seamless access to video content have given rise to a new behavior called place shifting – where consumers start watching a video on one device and then continue watching it on another device in a new place. Figure 8 shows that as many as 36 percent of consumers place shift on a weekly basis.

Increasing mobile video viewing doesn't necessarily mean that mobile cellular data usage increases. The Ericsson Mobility Report June 2014 compared monthly mobile video data traffic on Wi-Fi and cellular networks for smartphone users in the US and UK, and showed that heavy and medium video users proportionally consume much more video over Wi-Fi than cellular networks, compared to light video users. This highlights the importance of supporting mobile video viewing habits with matching mobile data business models.

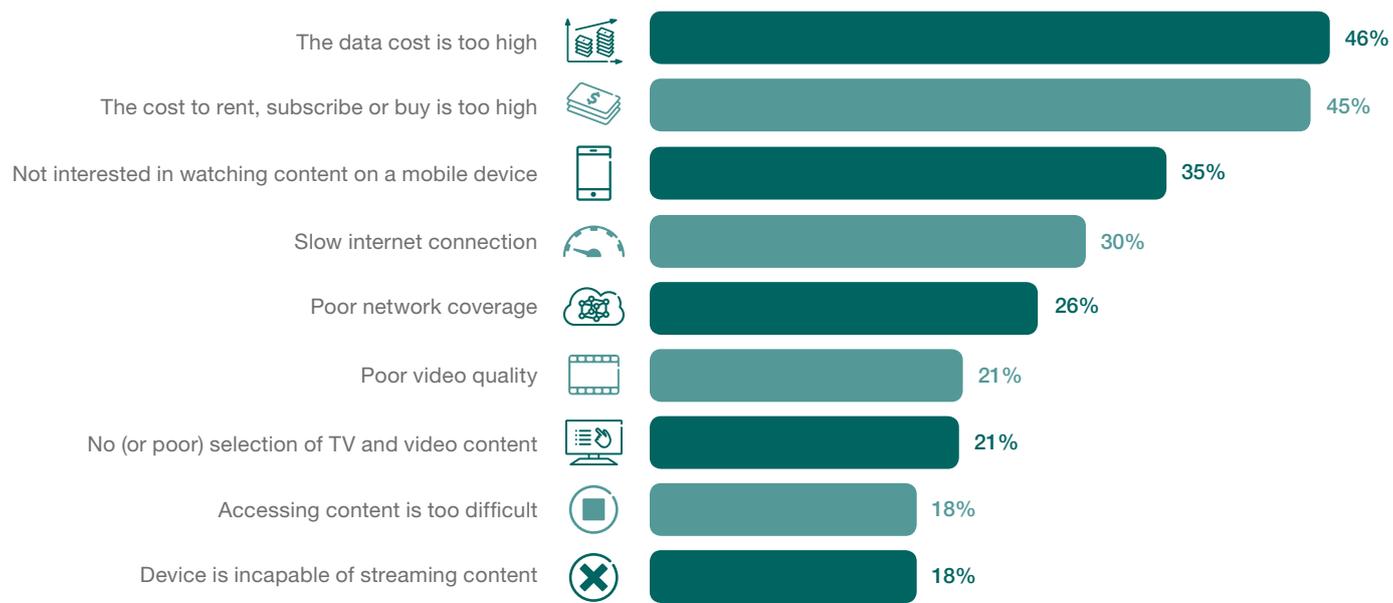Figure 8: Percentage of consumers who place shift

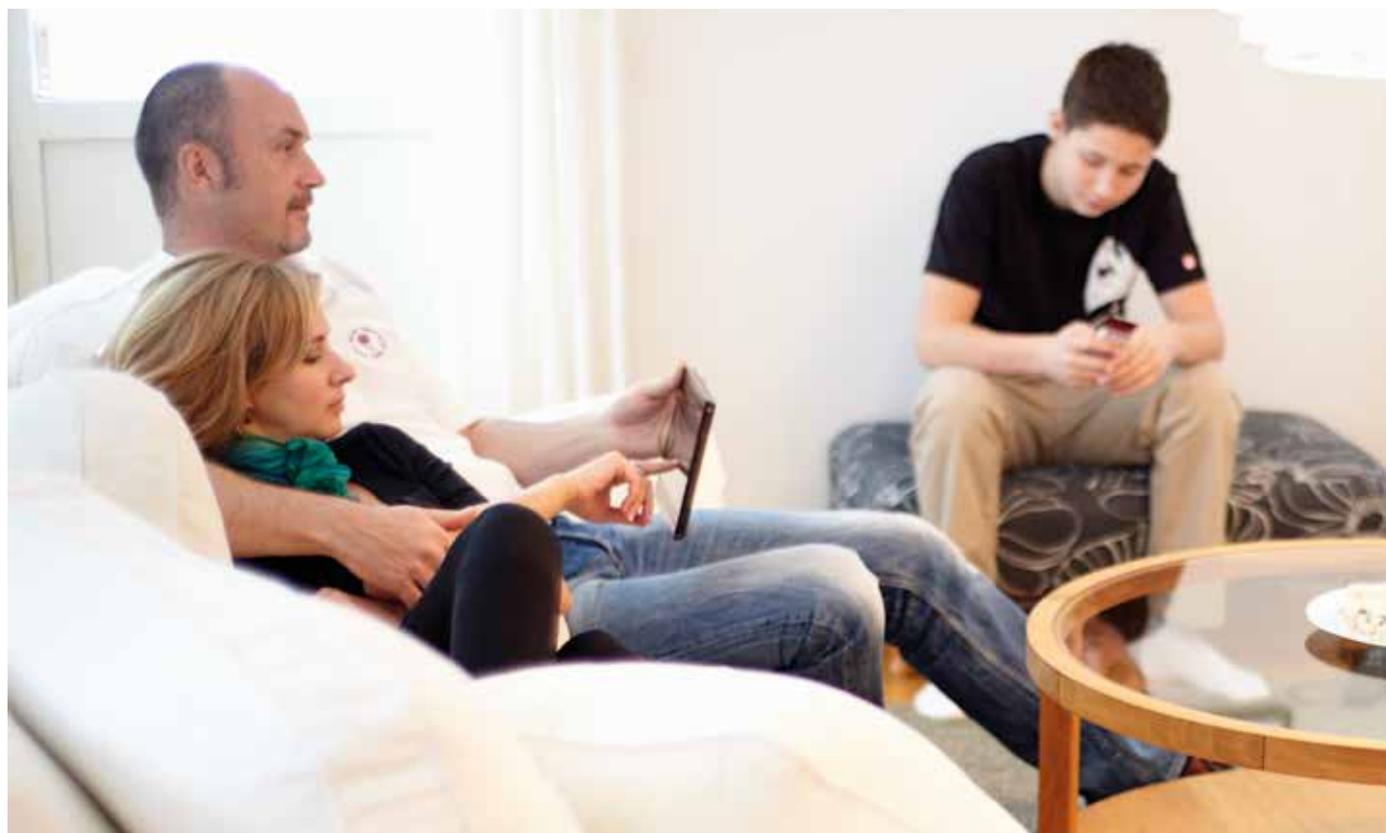Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

Figure 9 highlights that the top two main barriers for watching TV and video content on mobile devices while away from home are both cost-related.

This is a contributing factor to why the majority of viewing time is spent inside the home, as seen in Figure 5 previously.

Figure 9: Mobile viewing barriers when outside of the home (showing top two answers on a seven-point scale)

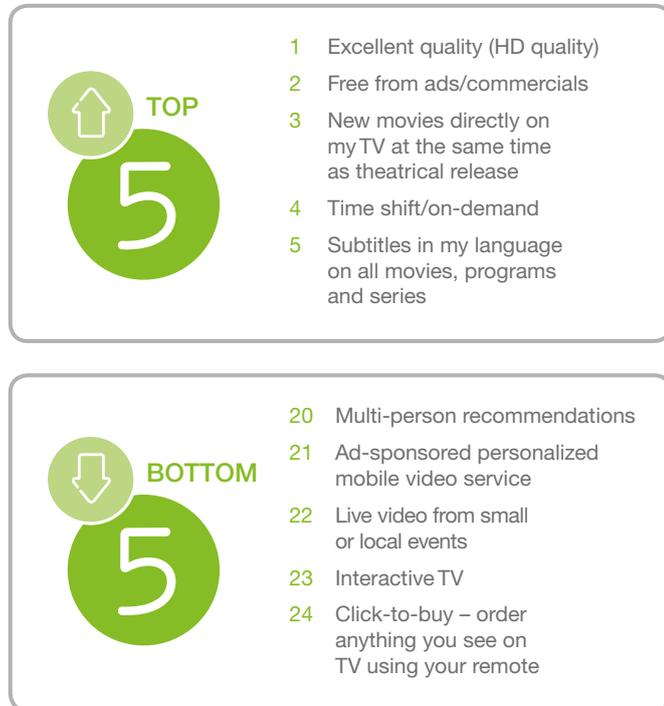| Barrier	%
The data cost is too high	46%
The cost to rent, subscribe or buy is too high	45%
Not interested in watching content on a mobile device	35%
Slow internet connection	30%
Poor network coverage	26%
Poor video quality	21%
No (or poor) selection of TV and video content	21%
Accessing content is too difficult	18%
Device is incapable of streaming content	18%

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

IMPORTANT TV FEATURES

Figure 10: Most and least important TV and video features (showing top two answers on a seven-point scale)

TOP 5

1. Excellent quality (HD quality)
2. Free from ads/commercials
3. New movies directly on my TV at the same time as theatrical release
4. Time shift/on-demand
5. Subtitles in my language on all movies, programs and series

BOTTOM 5

20. Multi-person recommendations
21. Ad-sponsored personalized mobile video service
22. Live video from small or local events
23. Interactive TV
24. Click-to-buy – order anything you see on TV using your remote

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

TV and media content is a core element in consumers' ideal TV solution. It is also something that consumers are willing to pay for on a continuous basis, whereas other features are expected to be included in the overall package. Features that increase accessibility and experience are also favored, as seen in Figure 10, but features that add functionality outside the core experience are generally considered less important.

Video quality – HD and 4K/UHD

Improved quality is perceived to be a natural part of the TV and video evolution. As video quality improves, so do consumers' quality expectations. More than 60 percent of consumers consider HD quality to be very important, and already, 43 percent think 4K/UHD is important. The interest in 4K/UHD quality will increase further as UHDTV screens become more common.

Consumer investments to improve quality tend to focus on hardware such as new TV sets. Today, 1 in 3 is willing to pay for 4K/UHD quality, even though very little content is readily available yet.

The perception of image quality varies a lot depending on the type of video content and which device/screen it is consumed on. Image quality isn't that important for content such as news, reality shows and lifestyle programs. It is more important for TV series and non-prioritized movies, but still not worth paying extra for. For content such as live sports and favorite movies, quality is considered crucial and consumers are willing to pay more for it.
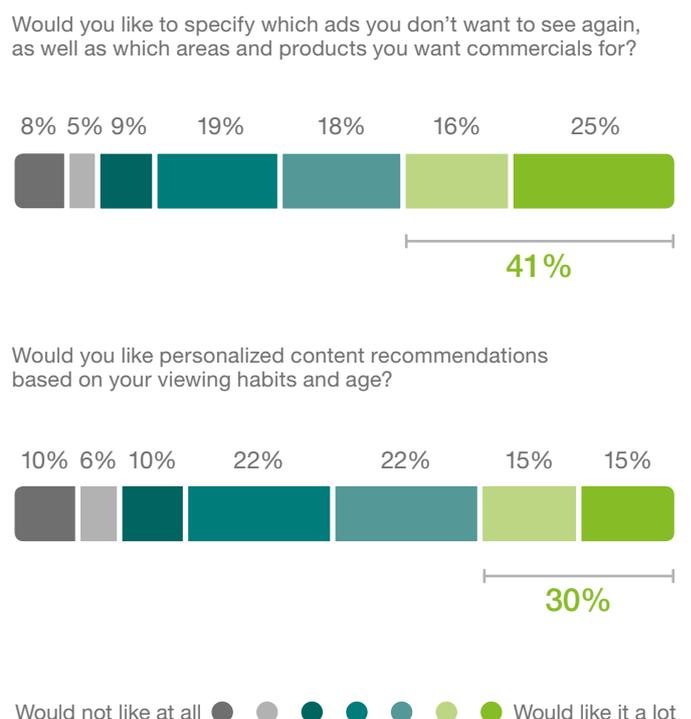
Personalized ads and information

More than 50 percent of respondents think that removing commercials is very important, and almost 30 percent are willing to pay to get rid of them. Consumers also want the ability to opt-in or opt-out of ads.

TV and video ads need to become more relevant and less intrusive. By personalizing ads based on the needs of the individual, they are more likely to be perceived as helpful.

Figure 11 shows that 41 percent of respondents would like to actively specify which ads they do and don't want. 30 percent would like to get tailored TV and video service offerings, as well as receive personalized content recommendations based on personal information
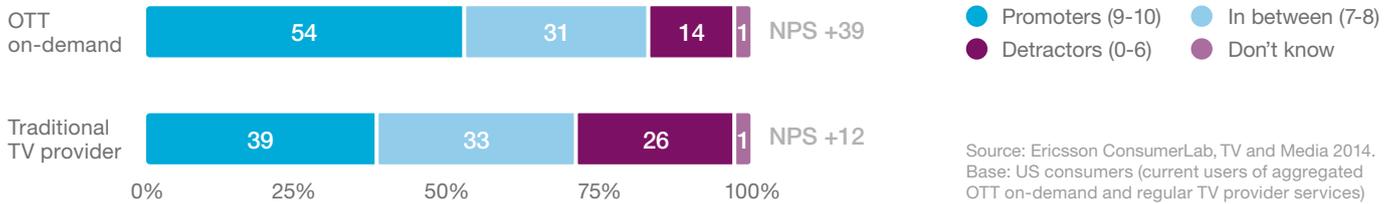
Figure 11: Percentage of consumers who would be willing to provide personal information in order to receive tailored services

Would you like to specify which ads you don't want to see again, as well as which areas and products you want commercials for?

8%	5%	9%	19%	18%	16%	25%

41%

Would you like personalized content recommendations based on your viewing habits and age?

10%	6%	10%	22%	22%	15%	15%

30%

Would not like at all ● ● ● ● ● ● Would like it a lot

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

THE CHANGING TV RECIPE

Figure 12: Consumers' satisfaction with their current TV and video service providers

Legend:
- Promoters (9-10)
- In between (7-8)
- Detractors (0-6)
- Don't know

OTT on-demand: 54 | 31 | 14 | 1 — NPS +39

Traditional TV provider: 39 | 33 | 26 | 1 — NPS +12

Source: Ericsson ConsumerLab, TV and Media 2014.
Base: US consumers (current users of aggregated OTT on-demand and regular TV provider services)

Measuring service satisfaction

Consumers today have little patience for device, access or geographical restrictions. Their perceived value of a service is relative to other available services, what these offer and how much they cost. OTT services are thereby redefining consumer expectations.

Figure 12 shows consumers are much more likely to recommend their OTT on-demand service provider than their traditional TV provider. The average Net Promoter Score (NPS) for OTT on-demand services in the US is 39, compared to a score of 12 for the average TV provider.

The difference in scores can partly be explained by looking at consumers' satisfaction with key TV and video attributes. Consumers are much more satisfied with the prices offered by OTT on-demand service providers and their ability to ensure access to content from any device and place. The selection of content is also perceived to be somewhat better for the OTT

on-demand service provider. Both TV providers and OTT on-demand services score equally high when it comes to perceived video and audio quality.

Figure 13 shows the global correlation between four key TV and video aspects, and the likelihood that consumers will recommend their TV and video service. Availability of content and video quality have the largest impact, followed by service price and cross-device/place access. The cross-device/place aspect has a much higher impact among users of on-demand services.

The changing TV and video budget

The average US TV viewer spends USD 85 per month on managed TV, on-demand video and buying and renting DVDs. In 2010, 21 percent of this budget was spent on physical media, but by 2014 it had shrunk to 8 percent. However, on-demand spending has more than doubled between 2010 and today.

Figure 13: Correlation between key factors of satisfaction with TV services and the likelihood of service recommendation

- Available content: 0.56
- Video quality: 0.56
- Price: 0.40
- Cross-device/place access: 0.34

Method: Pearson correlation using values between 0 and 1, only looking at 4 specific factors.
Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets (current on-demand and regular TV provider service users)

Mixing payment models

Figure 14 shows that the most popular payment model amongst consumers is the fixed monthly fee. 33 percent are interested in paying this way for broadcast movies and TV series, and 27 percent want to pay for new releases of on-demand movies and TV series. Meanwhile, the least appreciated mode of payment for almost all types of content is paying per item.

Creating links between different content windows and different services could increase individual usage and motivate differentiation, as seen in Figure 15. By offering cross-service features and/or offering several business models within the same service, consumer needs could be better targeted. This could help promote new habits as well as reduce piracy and churn.

Aggregating the atomized media experience

Today's media experience consists of many components, including services, devices and sources of content. This atomized experience will soon cover all TV and media aspects, except linear TV.

Managing these separate elements can be a big problem for consumers, unless they can get help to achieve a user-friendly aggregated experience. As TV operators begin offering set-top boxes with built-in OTT services, and smart TVs and internet add-on boxes become more intelligent, this problem will diminish step-by-step.

If people can access most content through on-demand OTT services, the need for traditional linear TV will decrease. A key rationale for people to keep on paying for a linear TV package is the convenience and ease of use. Live TV, especially sports, will continue to bring high value to their audiences. Offering complete freedom to opt in and out of personalized ads, as well as full customization of linear content, would also add consumer value.

Figure 14: Preferred payment models per content type
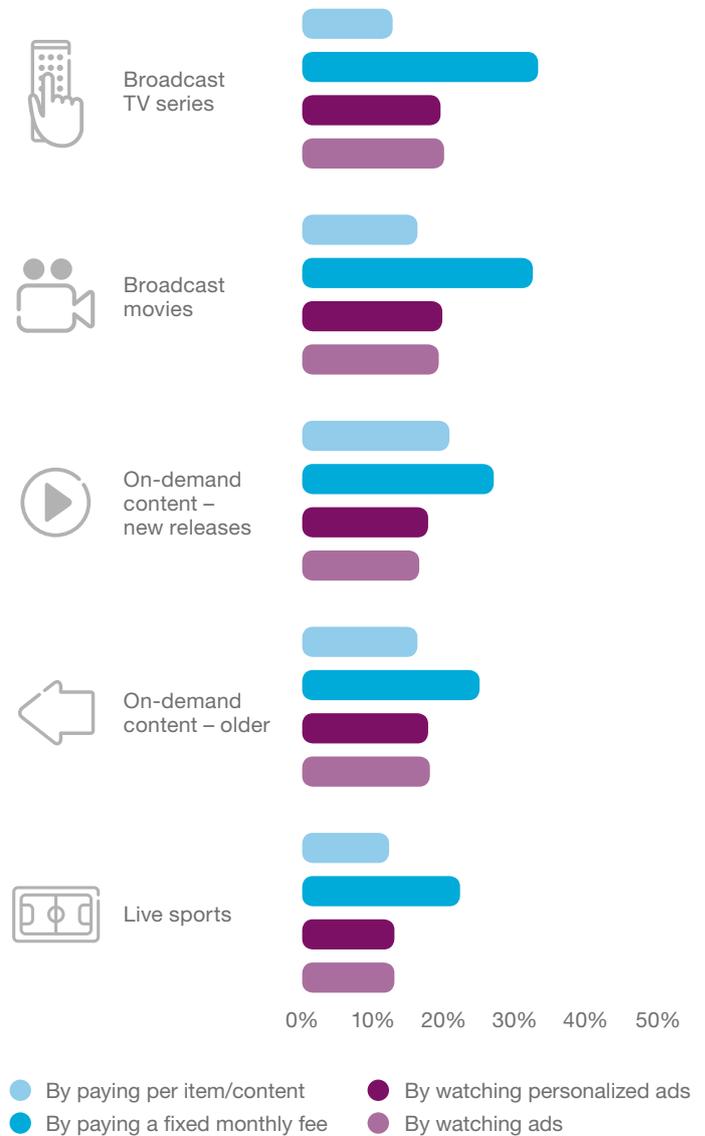
Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets

Figure 15: Creating new links between content windows

Watching old TV series in S-VOD recommends new seasons in T-VOD

CINEMA	DVD AND T-VOD	PAY TV AND S-VOD	FREE-TO-AIR
First release	3-6 months later	10-28 months later	28 months later

Movie ticket includes T-VOD and S-VOD access across devices

Source: Ericsson ConsumerLab, TV and Media 2014

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Our services, software and infrastructure – especially in mobility, broadband and the cloud – are enabling the telecom industry and other sectors to do better business, increase efficiency, improve the user experience and capture new opportunities.

With more than 110,000 professionals and customers in 180 countries, we combine global scale with technology and services leadership. We support networks that connect more than 2.5 billion subscribers. Forty percent of the world's mobile traffic is carried over Ericsson networks. And our investments in research and development ensure that our solutions – and our customers – stay in front.

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