



Media Cloud Watch Study

Consumer Internet Video Behavior and Trends

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In 2012 Cisco IBSG conducted a video behavior survey of 1,152 US consumers

Goals of the Survey:

Understand how consumers watch video: habits, preferences, and the devices used.

Understand what consumers watch: television (TV) shows, broadcasts, and movies watched on a TV set either live/linear or recorded on a DVR or viewed from a DVD or Blu-ray player.

Understand how consumers watch Internet video: By "Internet video" we mean digital premium videos (not DVDs or Blu-ray discs) that come from online sources.

Understand consumers view of digital locker capabilities.

Methodology:

Surveyed 1,152 US consumers with broadband connectivity between the ages of 13 to 75+ in 2012.

Definitions:

Internet Video:

Internet video can be downloaded, meaning that you download the entire movie or TV show before you watch it. Internet video can also be streamed, meaning that you watch the TV show or movie while it is being sent from an online source, without having to download it first. Internet video can be viewed on multiple devices, including a TV, PC, tablet computer, or mobile phone. We did not ask about progressive downloads as most consumers don't understand that concept.

Professionally Produced Video:

Professionally-produced video includes the following:

- TV shows
- Professional sports
- Special broadcasts, such as concerts
- Movies
- Documentaries
- Online "mini-episodes" of TV shows

Please exclude amateur videos and home videos, such as you might see on YouTube.

Finally, please focus on video you watch for entertainment (i.e., not for work or school).

Executive Summary

Internet Video Consumption

- Consumers use multiple sources to create their unique video experience
- Pay TV & Internet video are co-existing; 62% of consumers use both and only 3.2% are cord-cutters today
- The vast majority of PayTV consumers are savvy videophiles who, however, are increasingly taking control of their video entertainment experience

Internet Video Drivers

- The video market has evolved through disruptive innovation, which has been driven primarily by improvements in consumer convenience and price
- Convenience and price have also been key factors driving the rapid adoption of Internet video
- In the future, improvements in content and quality will drive further increases in Internet video usage

Service Provider Recommendations

- SPs should develop compelling, convenient video offerings to combat the threat presented by Internet video and gain additional share of the video market
- Service Providers should leverage their existing assets to differentiate. These include:
 - Content relationship/ownership, on-net quality, convenience and quality of experience through TV platform, and existing services to build value add services

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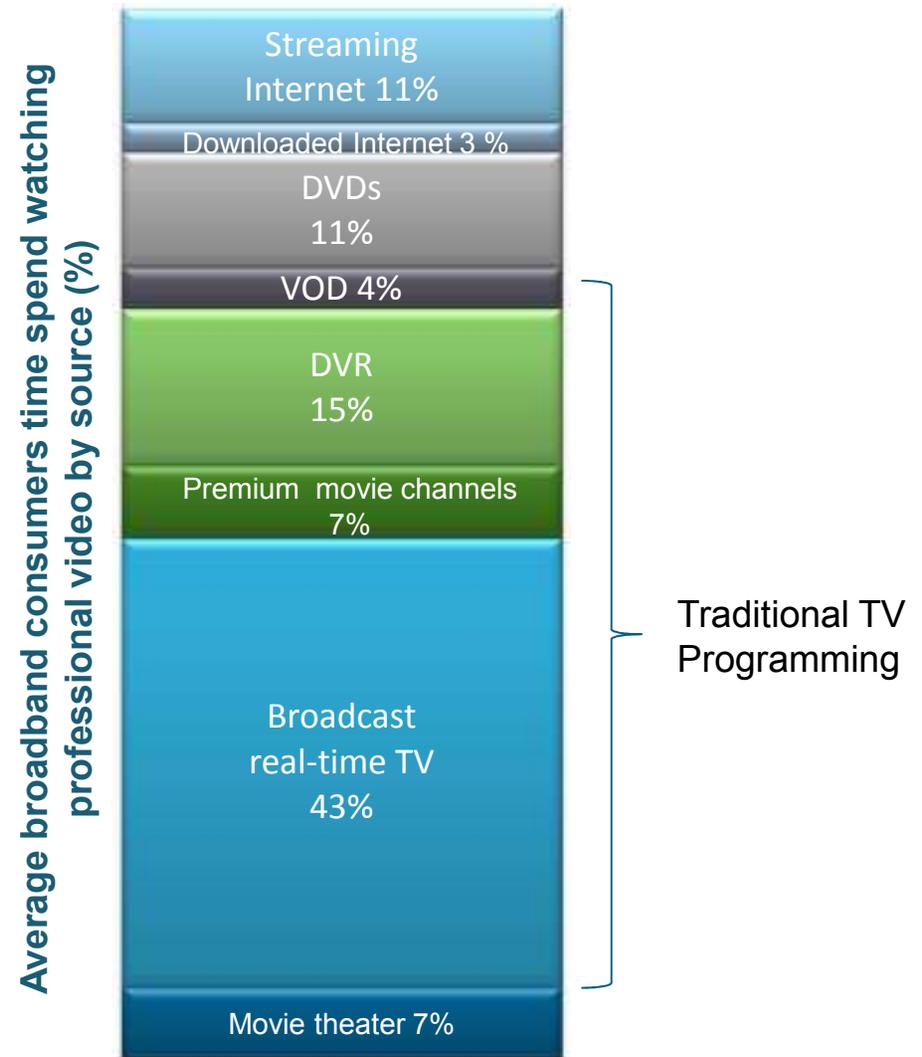
Consumers create their video experience uniquely, using many options every day



Consumers make choices every day – sometimes multiple times a day – regarding where and how they will watch their TV shows, movies and other video entertainment.

Consumers divide their time across many professional video options

- Consumers use multiple sources to create their unique video experience
 - The average broadband consumer divides his time across more than 5 video sources.
 - Each video source may have multiple providers competing for time share
- Today, Internet video and traditional TV co-exist
 - Traditional TV programming is dominating with nearly 70% of time spending



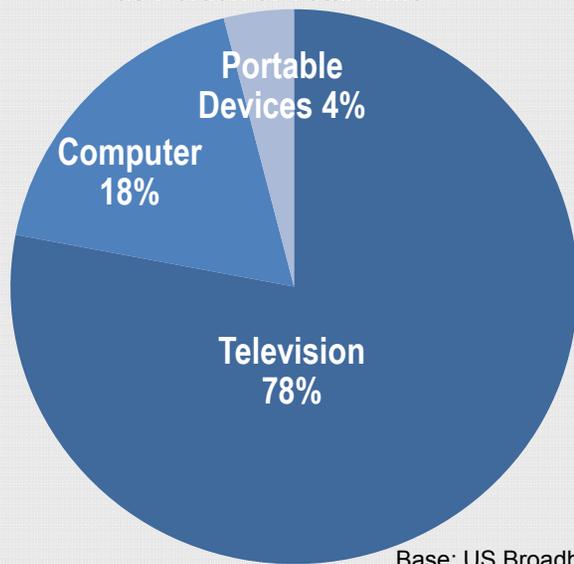
Source: Cisco IBSG Media Cloud Survey, 2012

Base: US Broadband consumers

Today, the TV screen significantly leads as primary viewing device and SPs are collecting a dominant share of spend

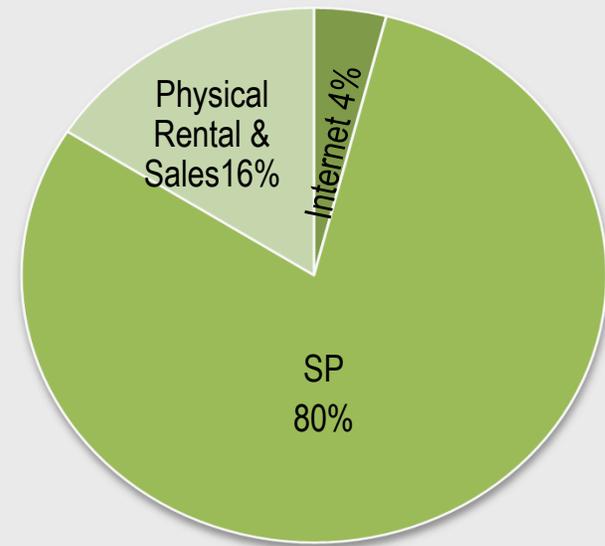
Nearly 80% of professional video is watched on a TV

Device Used To Watch Video Entertainment
as Portion of Total Time



SPs are capturing 80% of consumers' non-theater video spend

Share of Monthly Video Entertainment Wallet



Based on 2012 estimates. SP spend includes Pay TV subscription spend including premium movie channels and VOD. Internet spend includes subscription and transactional spend. Physical rental and sales includes DVD purchases, kiosk rentals, in-store rentals, and mail-based physical rentals.

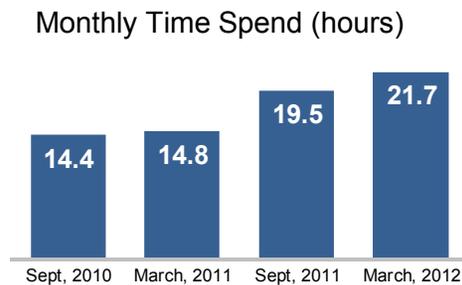
Source: Cisco IBSG Connected Life Market Watch, 2012

Source: Cisco IBSG, PWC, Screen Digest, Kagan



However, Internet video is growing rapidly

Time Spend



As Internet video matures, consumers are spending more time watching

Source: comScore,

Spend



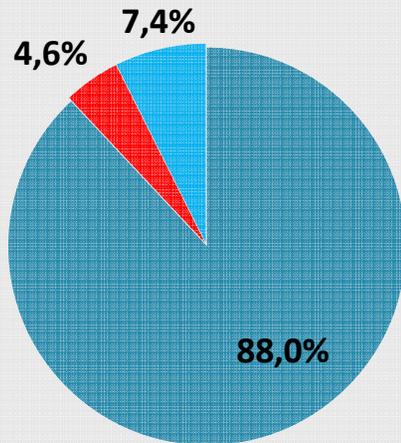
US consumers monthly spend on Internet video has more than doubled since 2009

Source: Cisco IBSG Analysis, PWC, and Kagan

While, Internet video spend at \$3.22 is still only 5% of the \$61.29 consumers are spending on Pay TV, internet spending has grown at by 107% since 2009 while Pay TV spend has grown by only 9% in the same time.

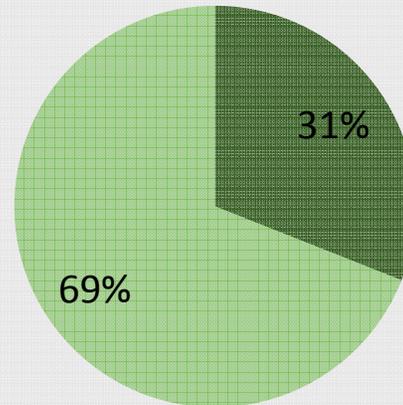
For now, Pay TV & Internet video are co-existing

Among Internet Video Watchers



- Pay TV/Watch Internet Video
- No Pay TV/ Internet Video Cord Cutter
- Never Pay TV/Internet Video Watcher

Among Pay TV Users



- Pay TV /Don't Watch Internet Video
- Pay TV/Watch Internet Video

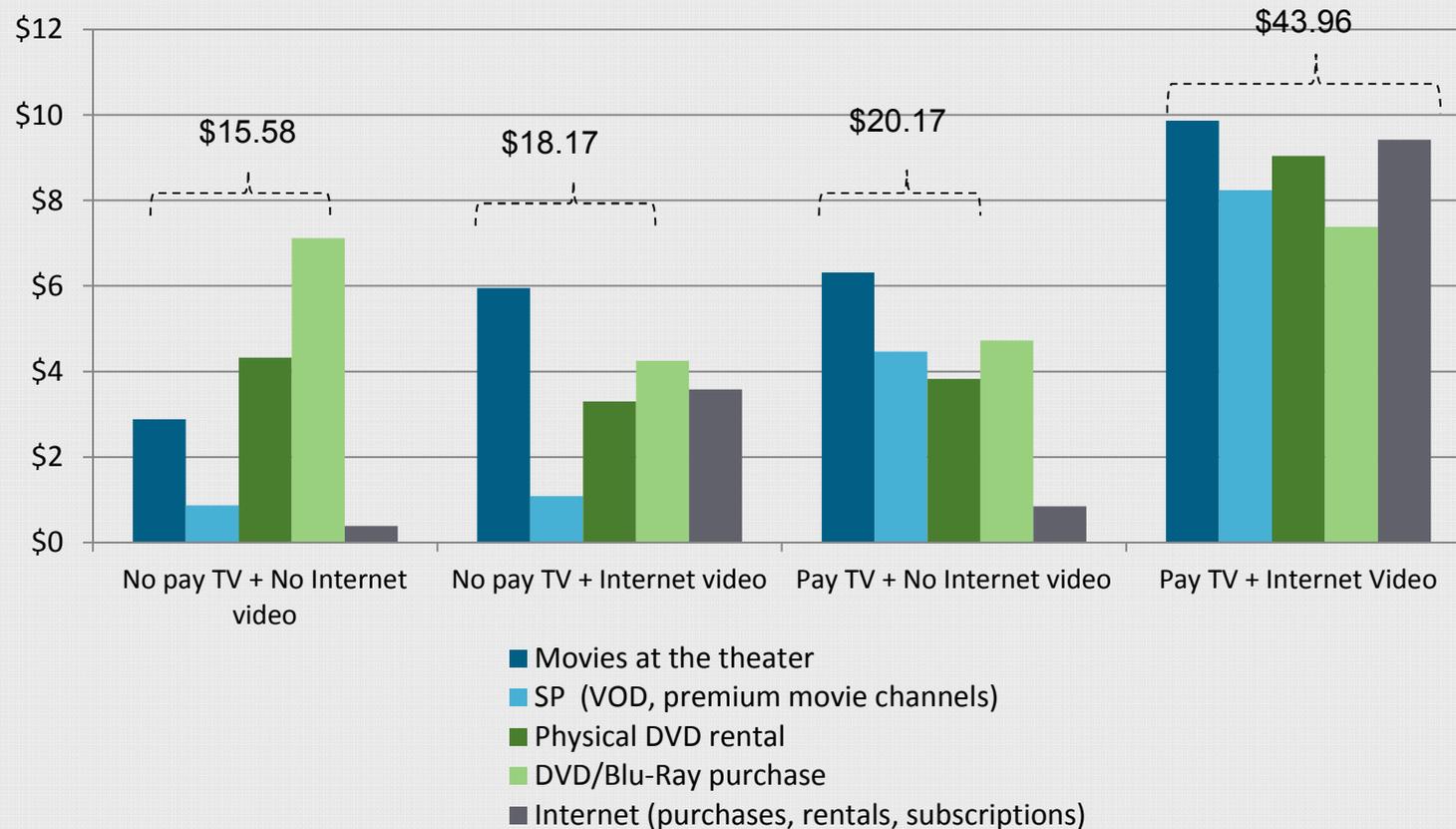
- Internet video & Pay TV are co-existing
 - 88% of Internet video watchers use Pay TV
 - 69% of Pay TV watchers use Internet video

Source: Cisco IBSG Media Cloud Survey, 2012

Base: US Broadband consumers

In fact, Internet video users who subscribe to Pay TV are *videophiles* and spend more on all types of video

Monthly Spend on Select Secondary Video



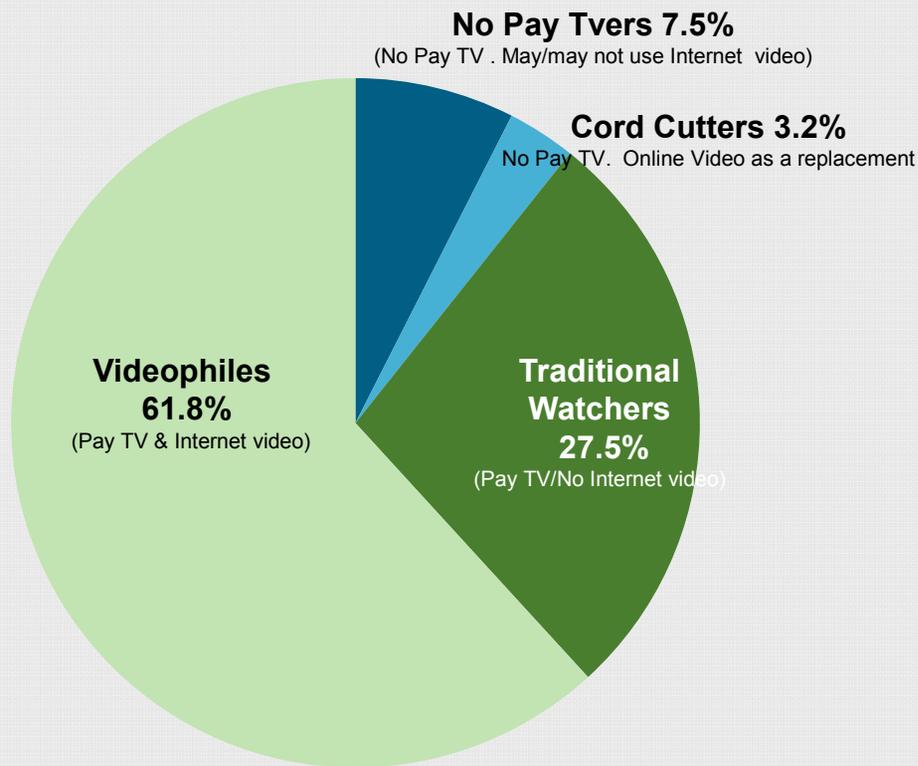
Source: Cisco IBSG Connected Life Market Watch, 2012

Base: US Broadband consumers

More than 60% of consumers fall into this category

Videophiles = Pay TV subscribers and Internet video Watchers

Broadband Consumers by Video Segment



**small sample size*

Videophiles

Age: 37 years
 Weekly Prof Video: 18 hours
 Internet video: 2.2 hours
 Early adopter: 15%
 Tech laggard: 11%
 Have children: 32%
 Employed/Self employed: 55%
 Male/Female: 50:50
 HH Income: \$70.9

Traditional Watchers

Age: 51 years
 Weekly Prof Video: 19 hours
 Internet video: 0 hours
 Early Adopter: 3%
 Tech laggard: 33%
 Have children: 25%
 Employed/Self employed: 51%
 Male/Female: 39:61
 HH Income: \$58.6K

Cord Cutters

Age: 39 years
 Weekly Prof Video: 18 hours
 Internet video: 5.8
 Early adopter: 11%
 Tech laggard: 8%
 Have children: 19%
 Employed/self employed: 65%
 Male/Female: 62:38
 HH Income: \$60.5K

No Pay Tvers

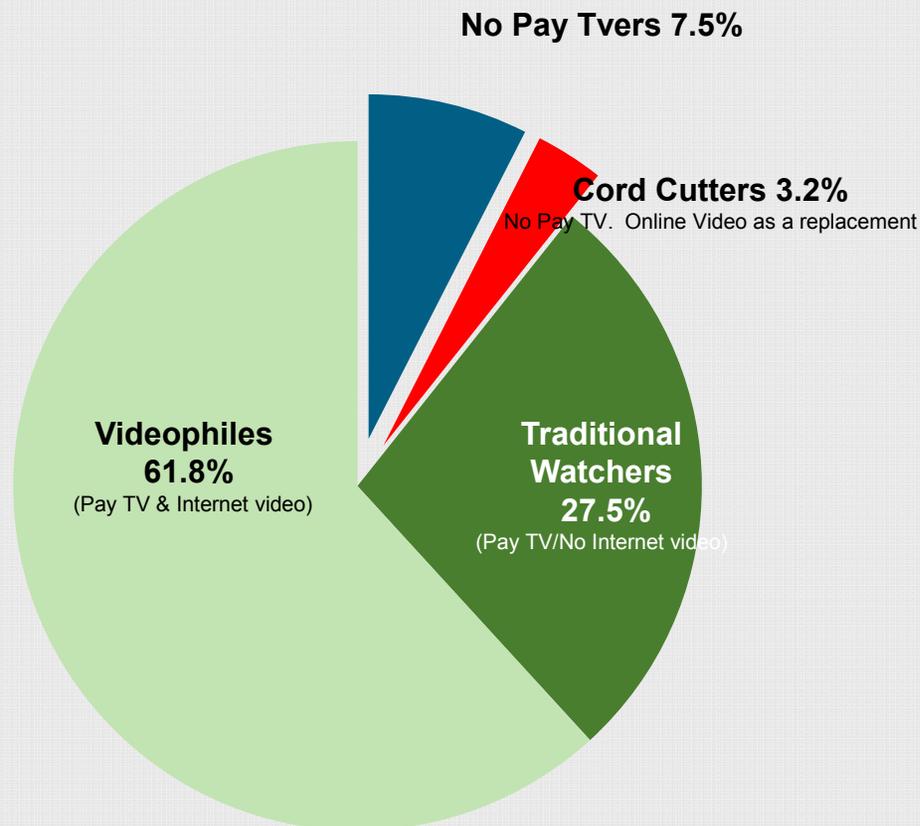
Age: 42 years
 Weekly Prof Video: 15 hours
 Internet video: 2.0 hours
 Early adopter: 15%
 Tech laggard: 22%
 Have children: 15%
 Employed/self employed: 42%
 Male/Female: 50:50
 HH Income: \$47.1K

Source: Cisco IBSG Media Cloud Survey, 2012

Base: US Broadband consumers

Today, only a few have cut the cord

Broadband Consumers by Video Segment



Source: Cisco IBSG Media Cloud Survey, 2012

- Today, 11% don't subscribe to Pay TV, but most never did
- Only 3.2% are *cord-cutters* who use Internet video to replace Pay TV
 - They are over 24
 - Their Internet video time spend is average or above at 2+ hours
- Of the *No Pay TVers*
 - 60% do use Internet video
 - Some of these use the internet sparingly
 - Others are young (below 24) and likely never previously subscribed

Frugality & a lack of reliance on *live* TV may lead some to cut the cord



Who Are Cord Cutters

- They are not significantly young because the young without Pay TV were likely *never* subscribers
- Each week, they spend nearly 6 hours watching Internet video. 92% watch TV shows on the internet at least once a week.
- They are more likely to be:

Male	↑	62% v 48%
Living alone	↑	41% v 18%
Employed	↑	65% v 53%
Using P2P	↑	19% v 6%
- They are less likely to:

have children	↓	19% v 28%
be a tech laggard	↓	8% v 18%
be interested in Digital Locker from an SP	↓	14% v 25%

Why Cord Cutters Drop Pay TV

- While reasons may vary by different sub-segments of cord cutters, across the whole group cord cutting appears to be driven by **frugality** and a **lack of reliance on live TV**
- Cord cutters spend less than half what the average consumers spends on secondary video (from movie theaters to DVDS) as despite similar HH income (\$61K to \$65K).

Cord cutter	\$16,55
Average consumers	\$34,60
- While cord cutters watch the same amount of professional video each week as the average consumer, (about 18 hours/week), they devote more than 60% less time to Live TV viewing.

Percentage of Video Watching Devoted to Live TV vs Other Modes



However, videophiles, the largest PayTV customer segment, are savvy video consumers who are taking control of their video entertainment

Consumers today are *taking control* of their video entertainment

- More access to different content sources
- More time-shifting
- More device-shifting
- More place-shifting

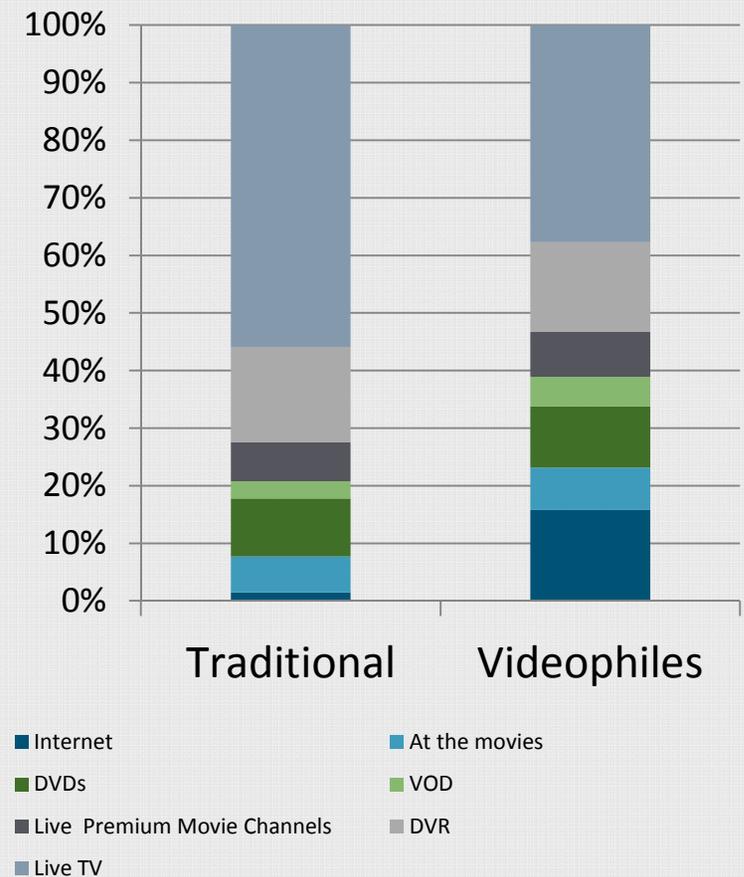
Videophiles represent 60% of Pay TV providers customer base

These are sophisticated users, well versed in all their video options.

They spend 1/3 less time watching live TV than the rest of the Pay TV base

And, they regularly use all their video options – especially Internet video

Percent of Weekly Time Spend Watching Professional Video (by Type)

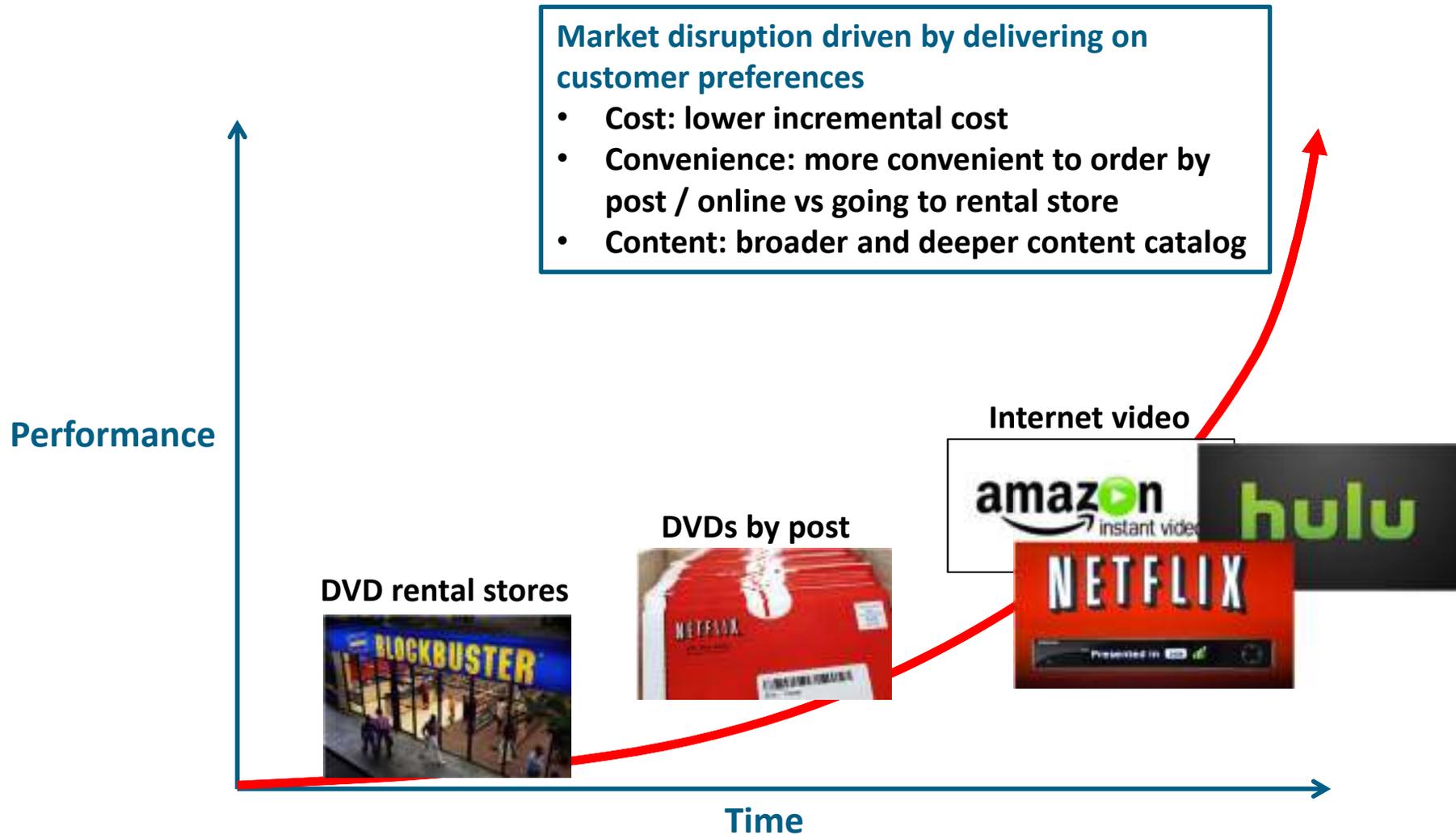


Source: Cisco IBSG Media Cloud Survey, 2012

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The home video market has evolved through disruptive innovation, delivering key customer requirements

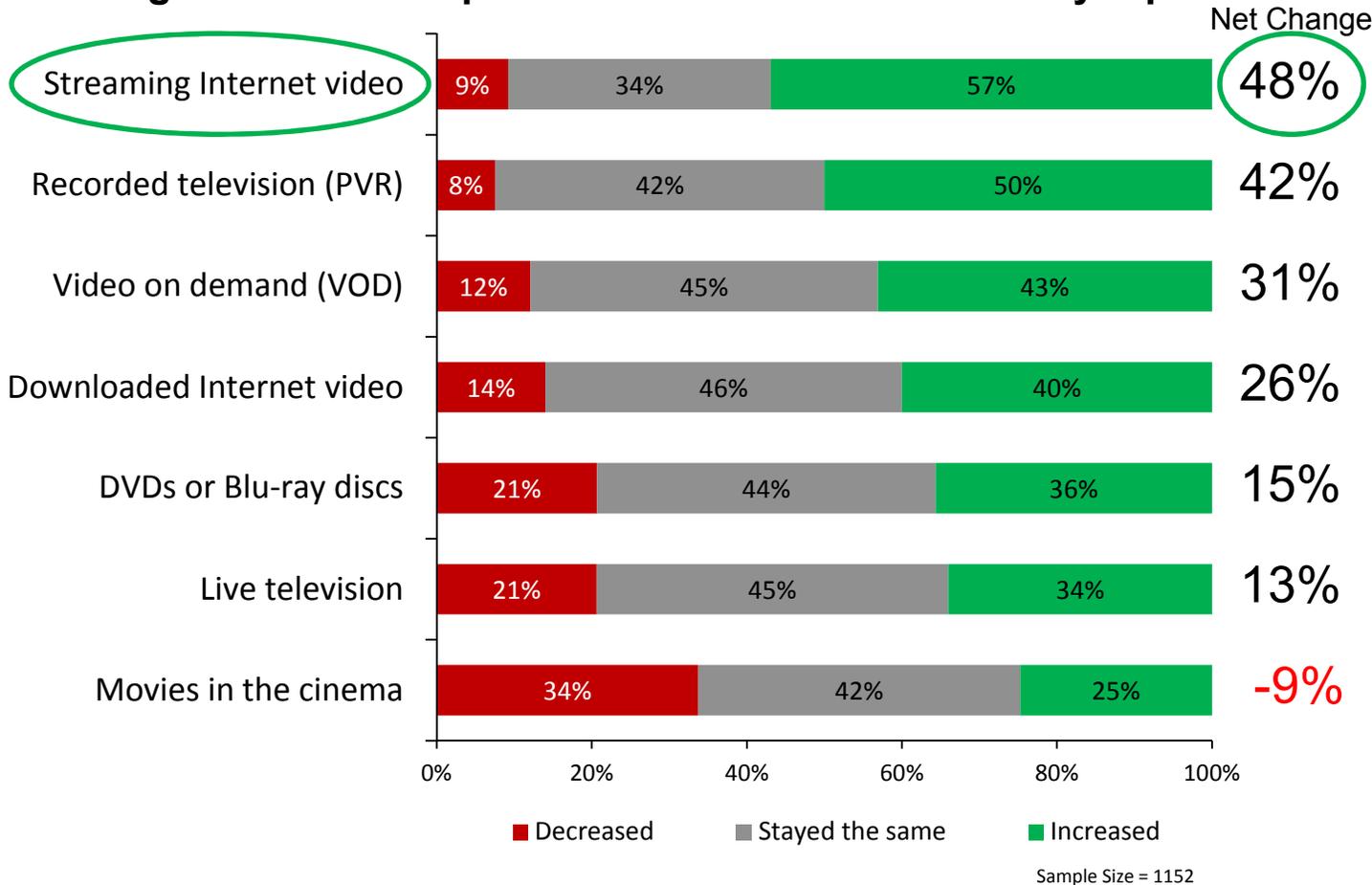


Innovators have achieved success through addressing existing offering weaknesses, particularly increasing convenience

	Examples	Category	Offering benefits	Offering weaknesses
1) DVD rental stores	Blockbuster	Convenience	<ul style="list-style-type: none"> Large numbers of stores 	<ul style="list-style-type: none"> Need to go to store Stores not near everyone
		Incremental cost	<ul style="list-style-type: none"> Low rental cost 	
		Quality		<ul style="list-style-type: none"> Degraded DVD quality over time
		Content	<ul style="list-style-type: none"> Newer title availability 	<ul style="list-style-type: none"> Limited title range
2) DVDs by post	Netflix	Convenience	<ul style="list-style-type: none"> Order from home Recommendation engine 	<ul style="list-style-type: none"> Delay in obtaining DVDs Limited devices
		Incremental cost	<ul style="list-style-type: none"> "All you can eat" 	
		Quality		<ul style="list-style-type: none"> Degraded DVD quality over time
		Content	<ul style="list-style-type: none"> Good title range 	
3) Internet video	Netflix iTunes Amazon	Convenience	<ul style="list-style-type: none"> Select and instantly view Easy purchase (iTunes) Multiple devices Search and discovery 	
		Incremental cost		
		Quality		<ul style="list-style-type: none"> Low picture/sound quality
		Content		<ul style="list-style-type: none"> Limited early release
4) Next gen Internet video	Service Providers?		Increased quality and content range vs existing offerings?	

Streaming Internet video has seen the greatest increase in use over the past 2 years

Change in amount of professional video watched – 2 yrs past



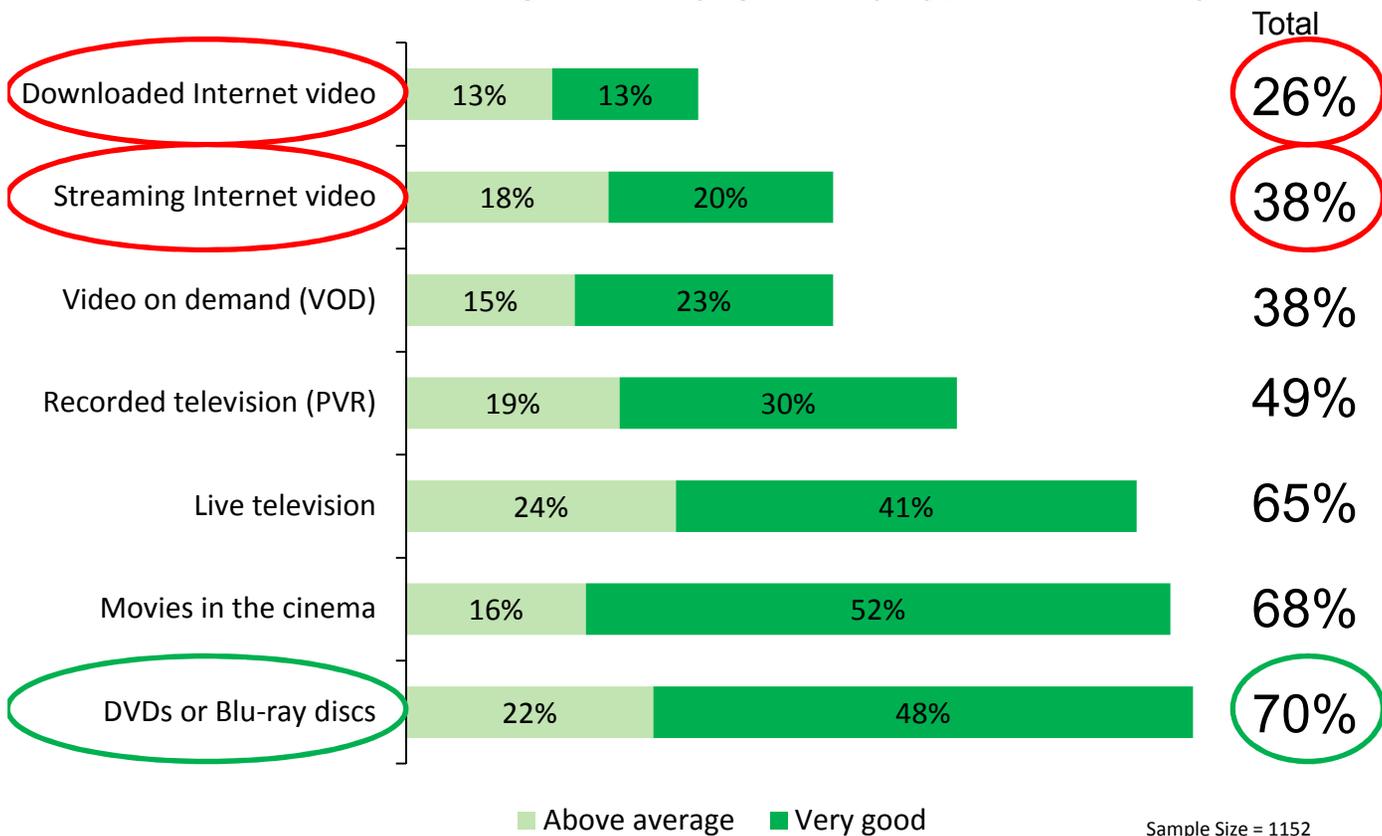
- Streaming video sees greatest increase in amount watched in past 2 years
- Movies in cinema appears under threat as 9% more consumers decreased viewing than increased

Q : How has the amount that you watch of the following kinds of professionally-produced video changed over the past two years?

Source: Cisco IBSG Media Cloud Survey, 2012

Internet video provides a lesser viewing experience compared with other video entertainment options

% of consumers rating professional video experience above average or very good by type of delivery



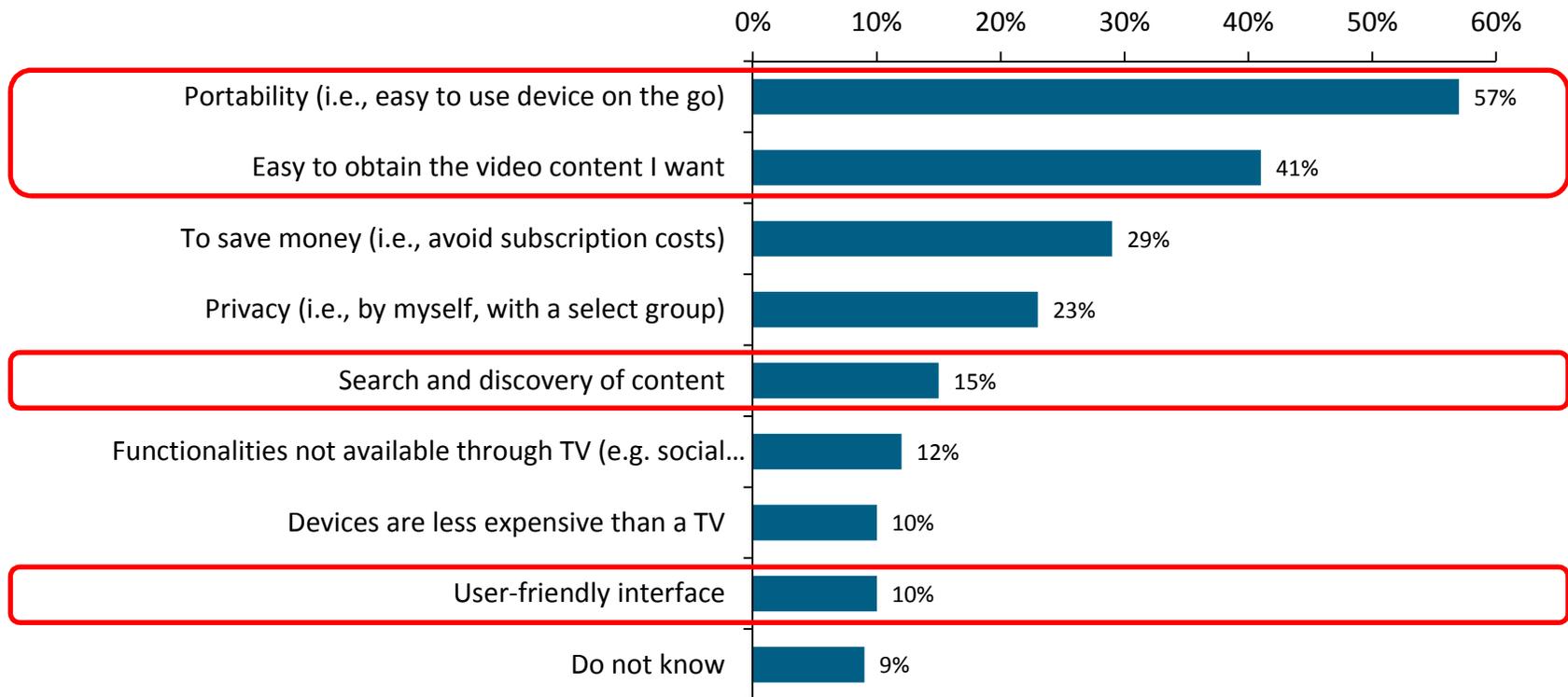
- DVDs or Blu-ray scores highest in terms of above average experience with 70% scoring it above average or better
- Movies in cinema scores second highest with 68% scoring it above average or better
- Live TV also scores high at 65% above average or better
- Both VOD and Streaming Internet video score at 38% above average or better with Streaming Internet being more widely adopted than VOD

Q : Overall, how would you rate your typical experience watching the following kinds of professionally-produced video?

Source: Cisco IBSG Media Cloud Survey, 2012

However, Internet video offers consumers greater convenience than the alternatives

Advantages of watching Internet video on devices other than on TV



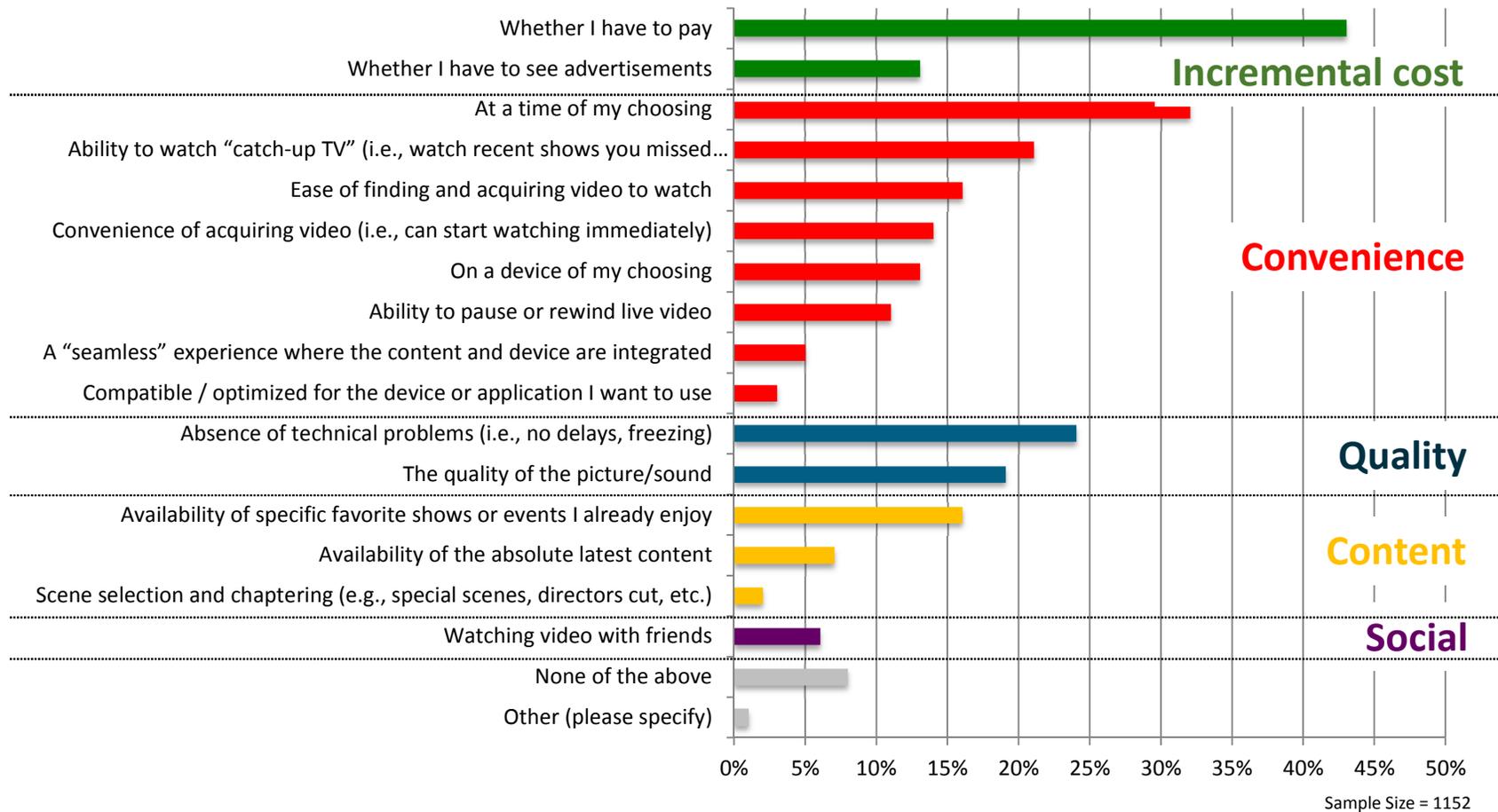
Q : What do you think are the main advantages of watching Internet video on devices other than on a TV set?

US Broadband Users; n= 809

Source: Cisco IBSG Media Cloud Survey, 2012

The most important factors driving consumers' video choices are cost, convenience, quality and content

Most important factors influencing how and where to watch video content



Q: When it comes to watching video, which of the following factors are most important to you in deciding how and where to watch?

Source: Cisco IBSG Media Cloud Survey, 2012

Although Internet video offers cost and convenience advantages, improvement opportunities exist

Internet video benefits



Low cost for good enough content

Cost effective option, including advertising funded



Convenience
Ability to watch at time/place of choice, and on many devices

Potential improvement areas



Convenience

Ability to watch video content on desired devices, especially main TV



Content

Availability of compelling content, especially early release

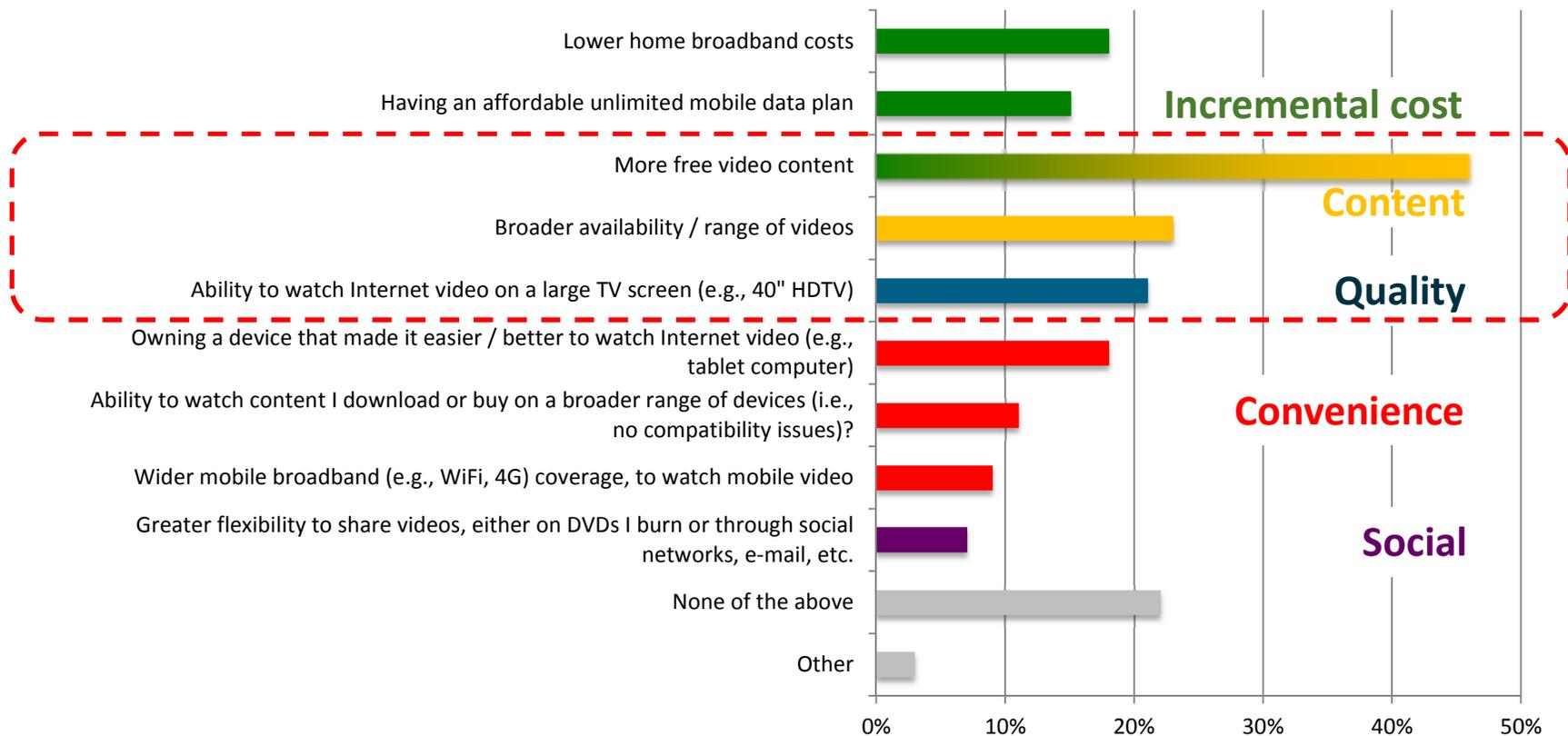


Quality

Improved latency, buffering, picture and sound

Content and quality are likely drivers of future Internet video usage; with convenience having driven initial adoption and related needs largely satisfied

Factors to drive more Internet video usage



US Broadband Users; n= 1152

Q : What would encourage you to watch / obtain more professionally-produced Internet video? Select up to three

Source: Cisco IBSG Media Cloud Survey, 2012

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Internet video poses both threats and opportunities for traditional Pay TV SPs

- Consumers have **diverse video needs** and therefore use multiple options every day
- Along with content and quality, **convenience** is a key driving criteria and has driven the fast adoption of Internet video

- **Threat:** Internet video can co-exist and its current impact on pay TV subscription seems minimal, but time and spend shifts are occurring and the dollar impact can be sizable

- **Protect:** Pay TV providers must act to provide compelling convenient TV experiences that matches & goes beyond OTT players capabilities

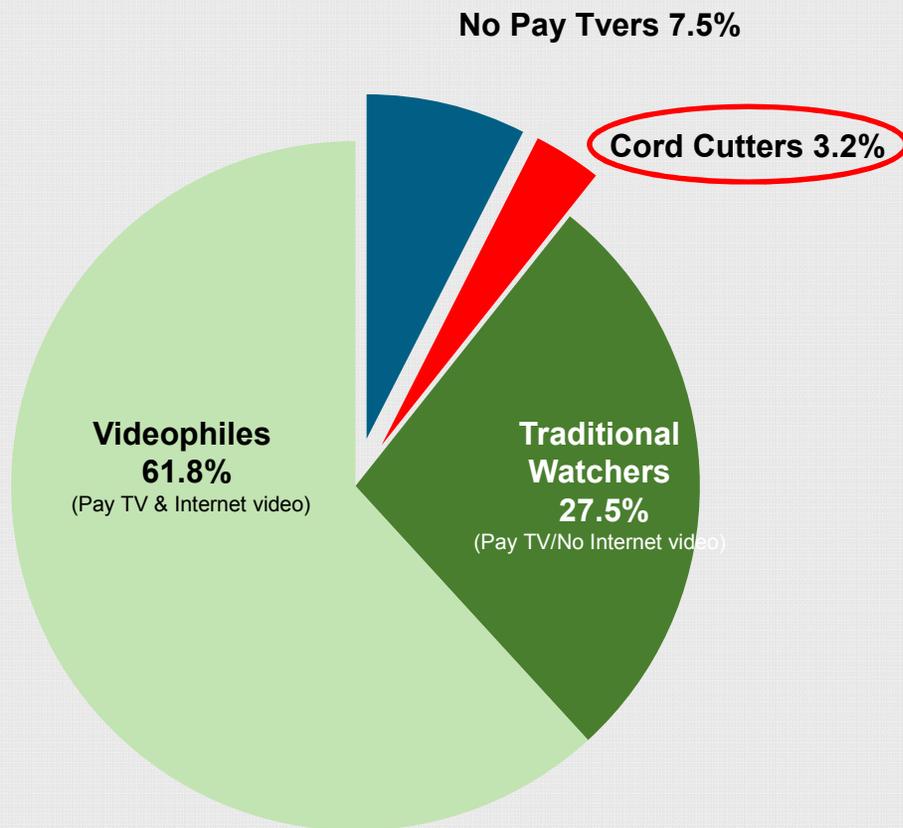
- **Opportunity:** Internet video is becoming a main secondary video channels taking share from others (eg., DVD rentals/sales) posing opportunities for any new player

- **Grow:** SPs can increase presence in other secondary video categories by embracing Internet video and providing superior video experience

- **SP Advantage:** Service Providers have the assets to differentiate
 - **Content:** Content relationship and content ownership
 - **Convenience:** Existing TV platform with STB and EPG
 - **Quality:** Own Internet access network with on-net CDN
 - **Value Add Service (Digital Locker):** Existing relationship and information (B2B & B2C)

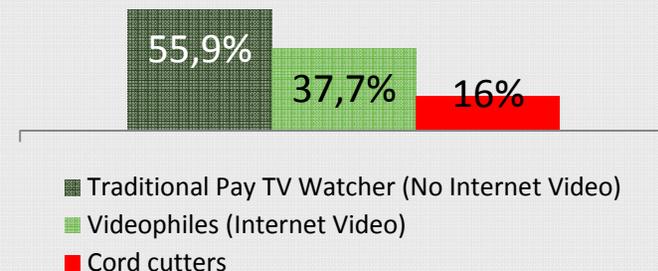
Threat: Cord-cutting due to Internet video may be minimal for now, but the impact can be sizable

Broadband Consumers by Video Segment



- Traditional Pay TV and OTT players can co-exist – as different platforms have for decades – but dollars will shift
- Even at small percentage, financial impact from cord-cutting can be sizable
 - 3.2% cord-cutting from \$94 Billion TV subscription market in NA translates into \$3 Billion loss
 - Higher percentage is expected for cord-shaving
- Decreases in live TV viewing likely can increase risk of cord cutting

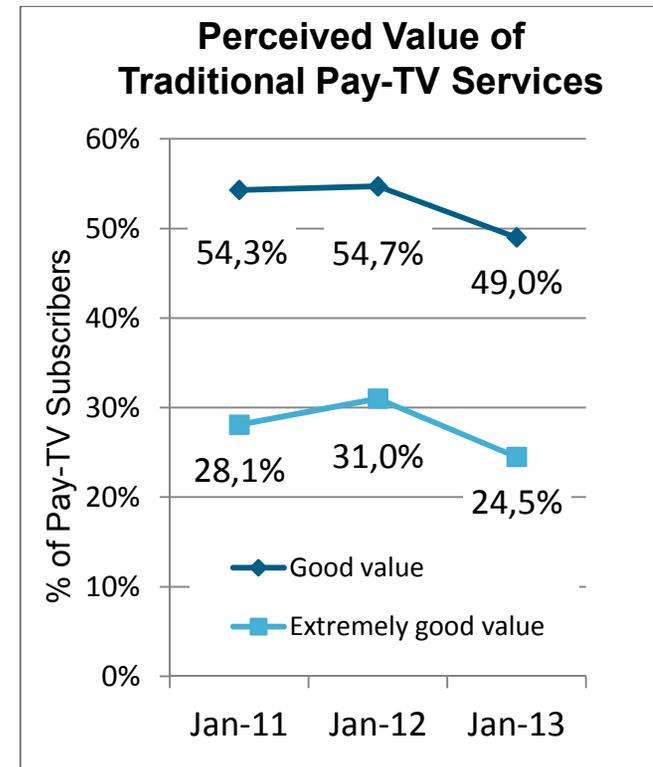
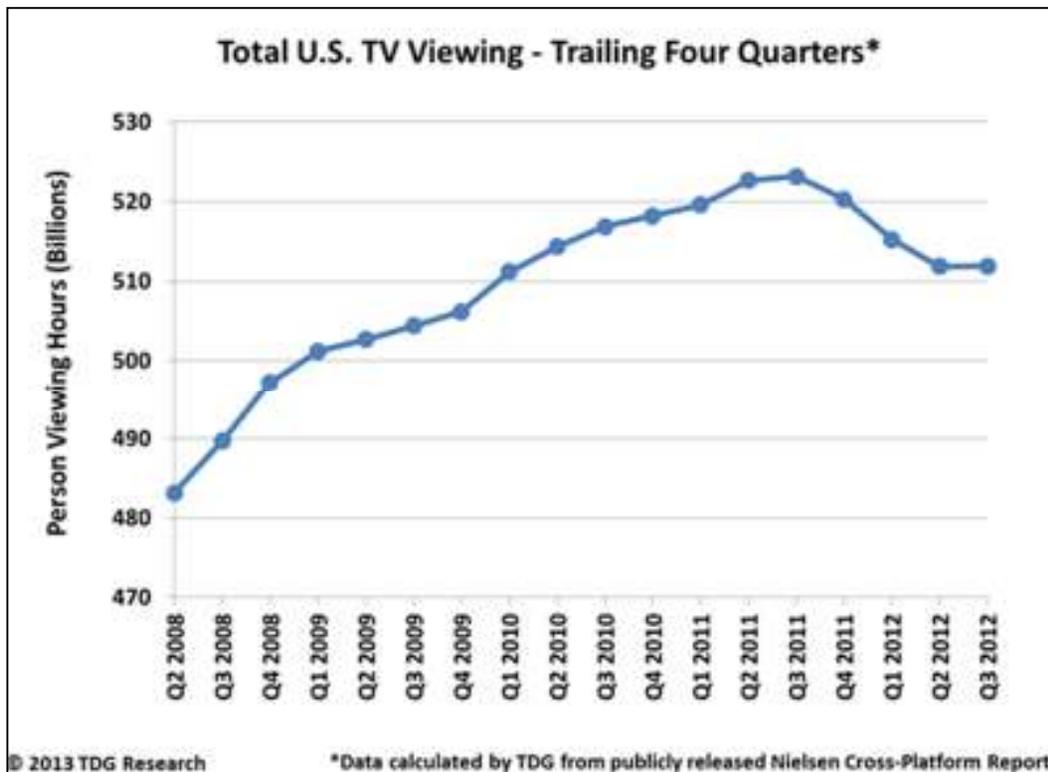
Percent of Weekly Professional Video Time Spent Spent Watching Live TV



Source: Cisco IBSG Media Cloud Survey, 2012; PWC

Base: US Broadband consumers

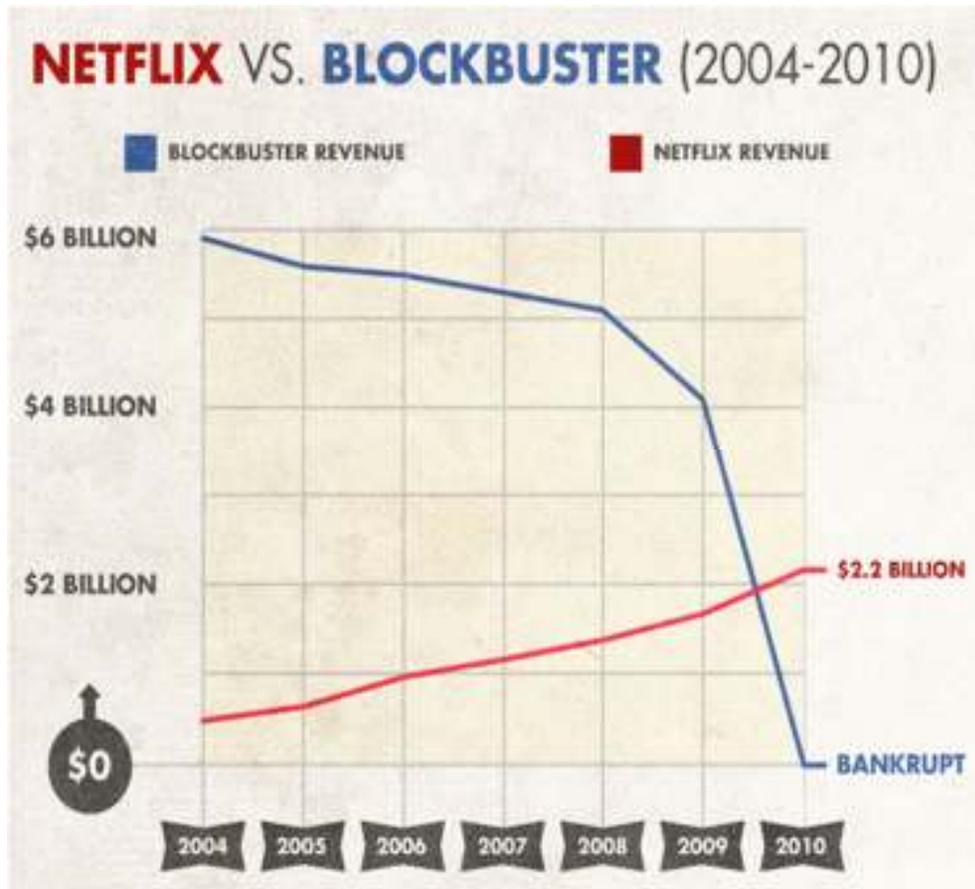
Threat: Growth of Internet video may lead to continued decline of TV viewership and perceived value of pay TV



- Both TV viewing time and Pay-TV perceived value have declined over last year. Also, level of attention in TV viewing is declining - nearly half of the population does devote their full attention on viewing TV, instead multitask during their TV viewing
- Continued decline in TV viewership will eventually lead to decline in advertising revenue and perceived value of pay-TV which would result in lower pay-TV price or more cord-cutting.

Source: TDG Research, 2013

Threat: When content is equal, consumers will move usage and spend for convenience and price

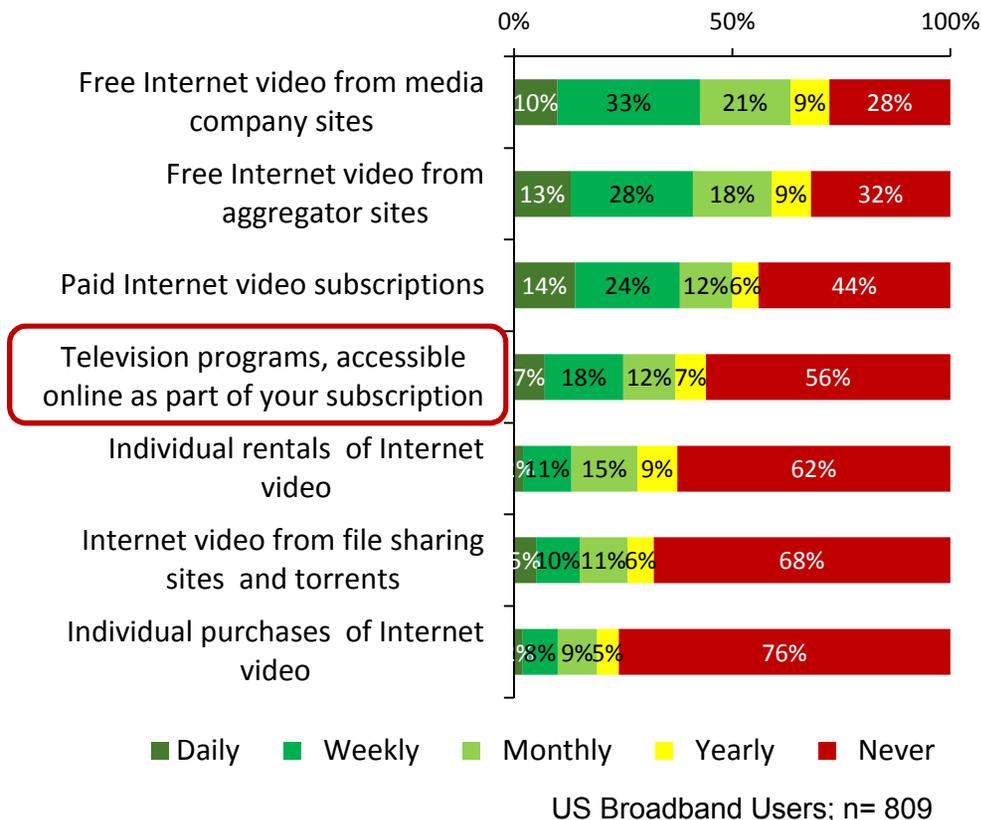


Source: Infographic, 2011

- With matching content, convenience and lower price of Netflix service almost eliminated the way consumers used to rent movies
 - Back in 2000, Blockbuster declined several offers to purchase Netflix for \$50 Million
- Internet video players are continuing efforts to match (and at times exceed) traditional video content offerings – and consumer dollar and time spend are following
 - “Netflix’s deal with Walt Disney Co. to stream new releases, including those from Pixar and Marvel, signals online viewing has become mainstream and poses a major threat to traditional pay TV.” - Bloomberg News
- In 2011, Netflix became the number 2 video subscription service behind Comcast

Protect: SPs have a number of ways to add more convenience to their pay TV subscription service

Frequency of watching Internet video by source types



Q : How often do you watch Internet video from the following sources? (professionally –produced video)

- Consumers do utilize TV subscription based online video service which may be keeping cord cutting in check.

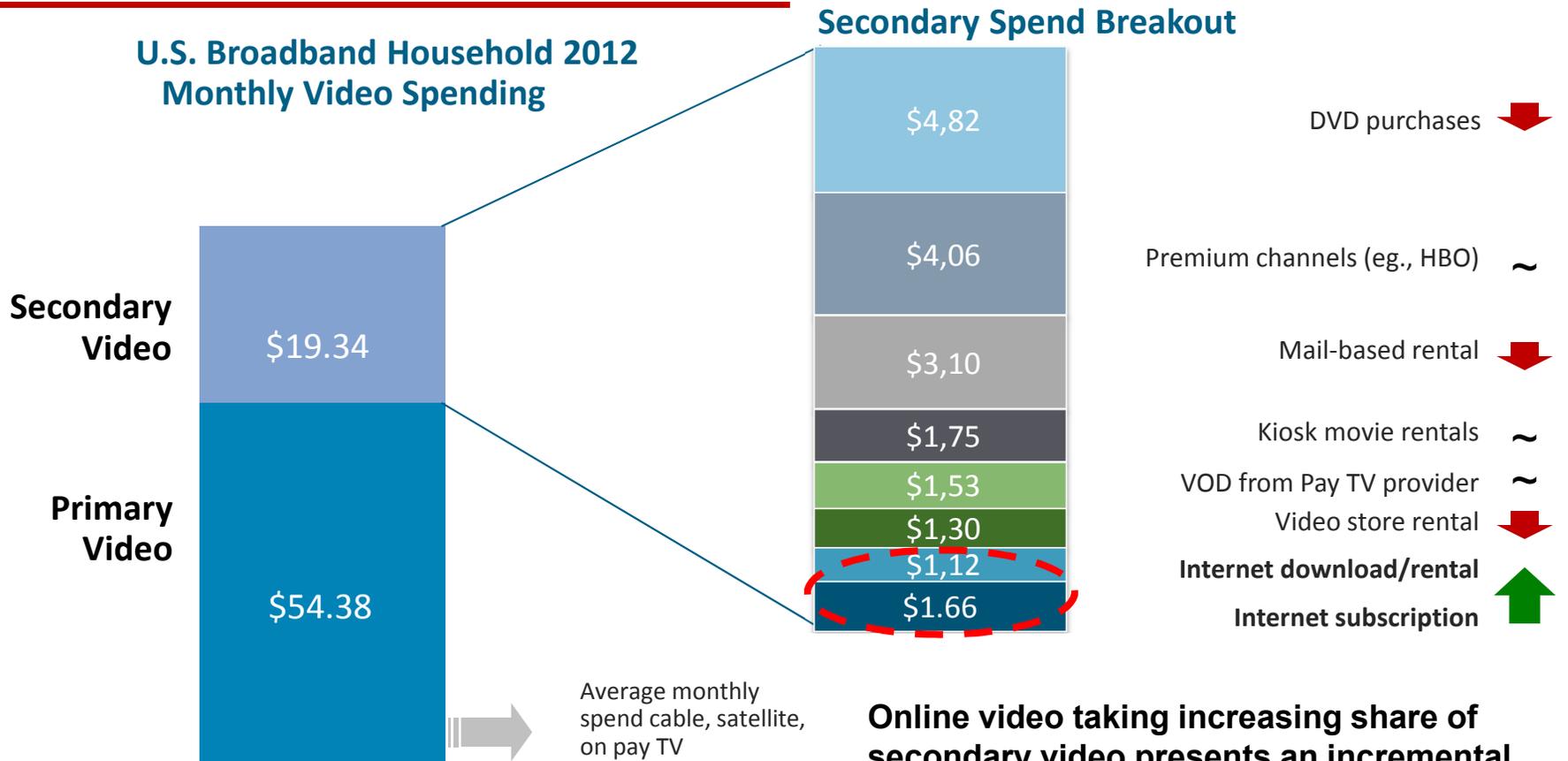
*Cord-cutting is not taking place in the way many observers expected. **One of the factors blurring the picture is that some distributors are making their content available legally for a comprehensive array of devices and locations as well as the traditional TV set, thereby embracing new platforms rather than resisting them.***

Price Waterhouse Cooper, 2011

- SPs can improve on the convenience of current pay TV experience
 - Hybrid STB to enable TV-to-web and web-to-TV experience
 - More contents and functionalities on time shifted services
 - VOD, PVR, nPVR
 - More and better interactivity on broadcast experience

Source: Cisco IBSG Media Cloud Survey, 2012

Opportunity: Spending shift in the secondary video presents opportunities for SPs

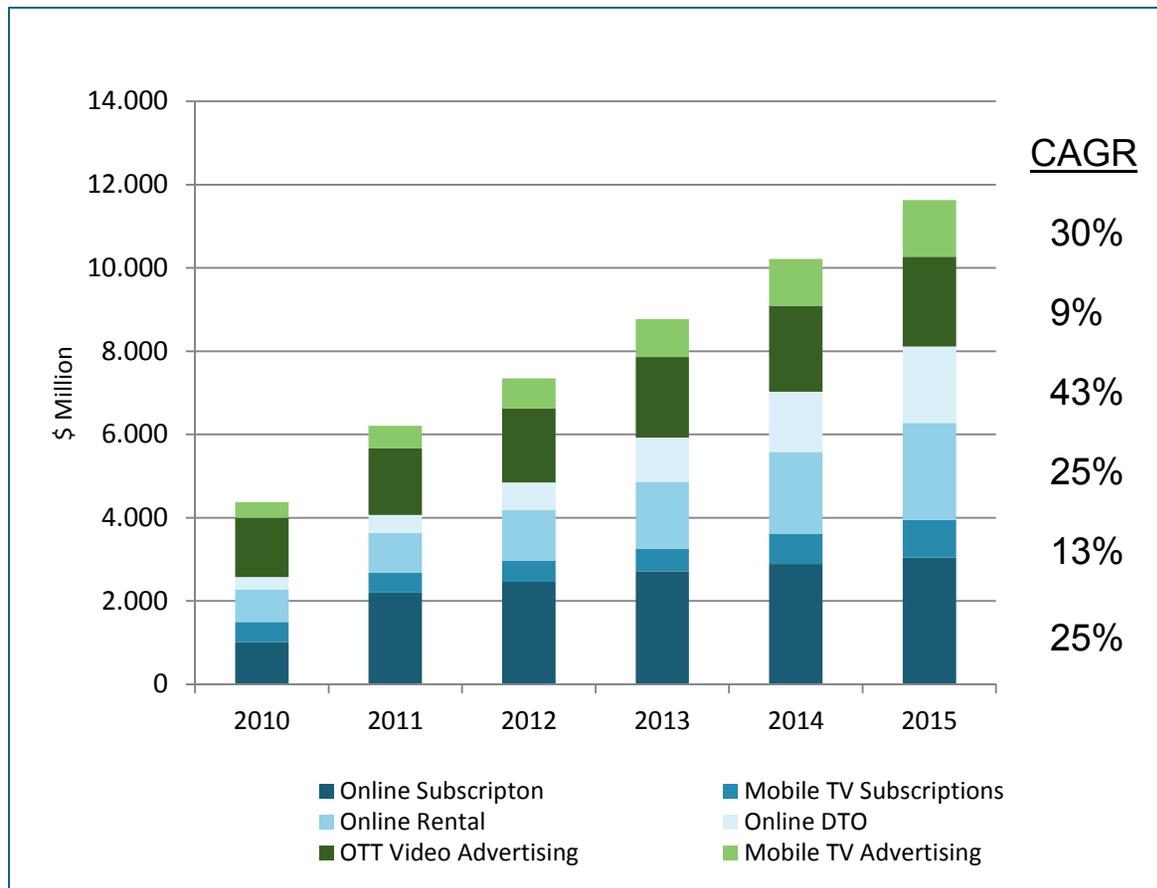


Online video taking increasing share of secondary video presents an incremental revenue opportunity from a market that used to be un-addressable for service providers - physical sales and rental market

Source: Cisco IBSG Connected Life Market Watch, 2012

Grow: US online video market is large for all business models

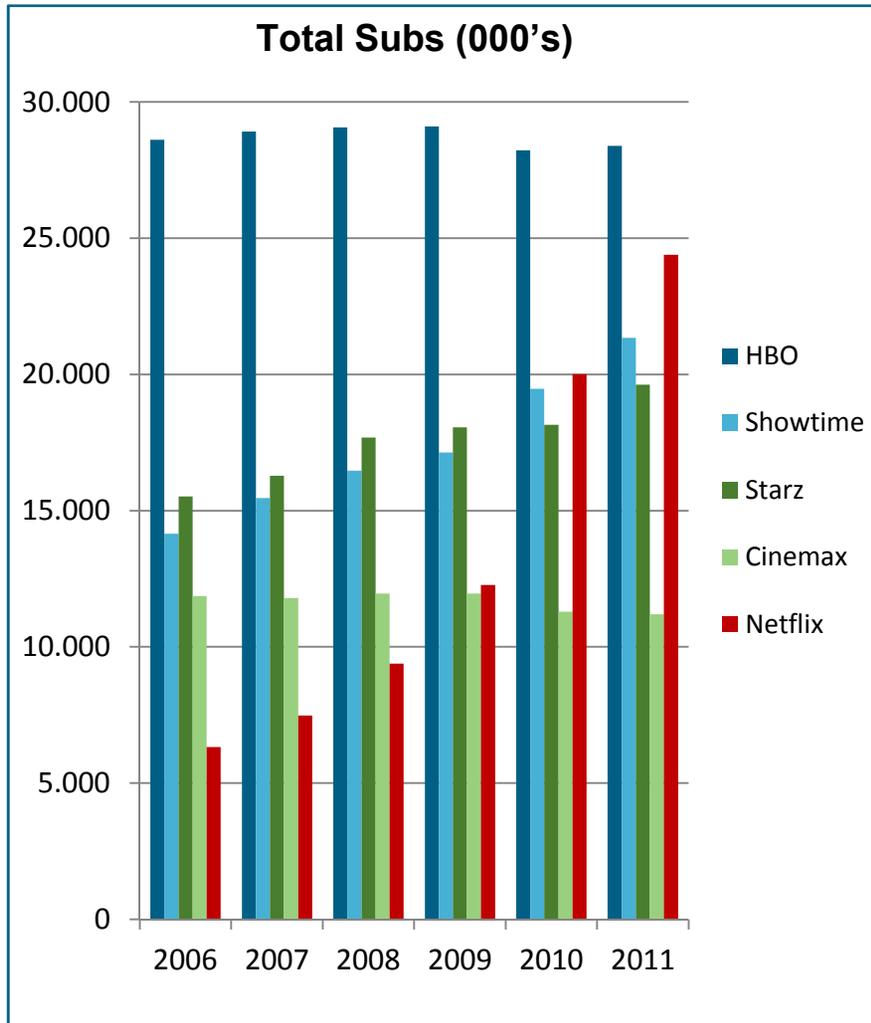
US Online Video Market Opportunity (2010 – 2015)



- By 2015, the US online video market will near \$12 B
 - Consumer spending will account for an increasing share of the market, growing to 70% by 2015 (\$8.4 B)
- Online video users who also subscribe to Pay TV are videophiles - spending more on all types of video
 - Already SP customers
 - High spending on secondary video

Source: Kagan, 2011, Strategy Analytics, Q4 2011, PWC Global Media and Entertainment Outlook, June 2011

SP Advantage: US market requires significant investments for content and SPs may have an edge



	2008		2011	
	Revenue	Content Costs	Revenue	Content Costs
AMC	\$456.5M	\$102.9	\$610.9M	\$167.8M
Bravo	\$460.2M	\$214.0M	\$591.7M	\$249.4M
HBO/Cinemax	\$3,665M	\$1,427M	\$4,348M	\$1,573M
Starz/Encore	\$1,111M	\$629M	\$1,293M	\$651M
Netflix	\$1,364M	\$211M	\$3,205M	\$2,406M

AMC, Bravo, HBO, Starz revenue are total domestic revenues
Netflix 2011 numbers are for their global operations

- Netflix is spending much higher proportion of revenue on content costs
- Netflix is also spending on delivery (caching on SP CDN, building own CDN)

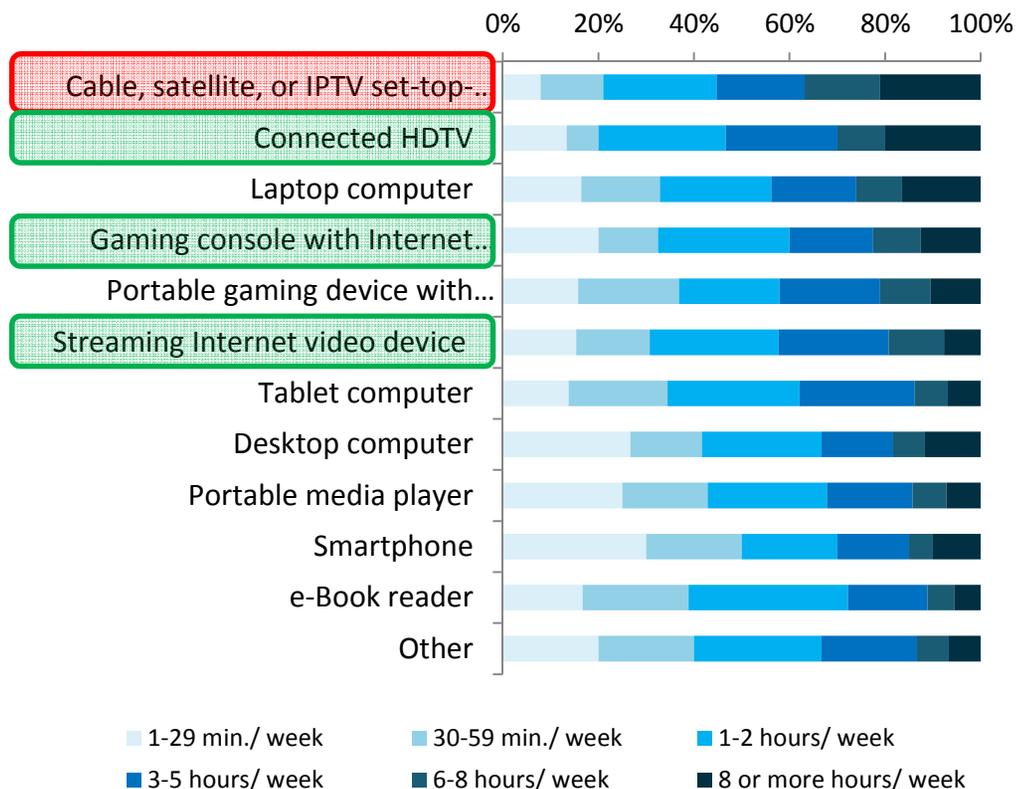
Pay TV SP Advantage

- Leverage existing content distribution relationships and level of scale, and own networks for some SPs
- Network assets make SPs easier to deploy CDNs for content delivery

Source: Kagan 2012, Hulu, IBSG Analysis

SP Advantage: Pay TV SPs have assets to deliver more convenient video experience

% of Internet video device users by time/week watching Internet video by device types



Q : How much Internet video do you watch on each of the following devices? (professionally –produced video)

Pay TV SP Advantage

- Internet video is being used via many devices. However, connection to TV is the most significant convenience factor
- Pay TV SPs have the ability to integrate into an existing single device (STB) while supporting other devices
 - No up-front cost and with installation support
 - EPG integration
- Single bill for all video services

XFINITY® TV, at home and on the go

XFINITY® TV is no longer limited to your TV set. Now you can watch On Demand online and on your mobile devices.

- 1 View TV listings
- 2 Watch On Demand online
- 3 Manage your DVR online
- 4 View channel lineup

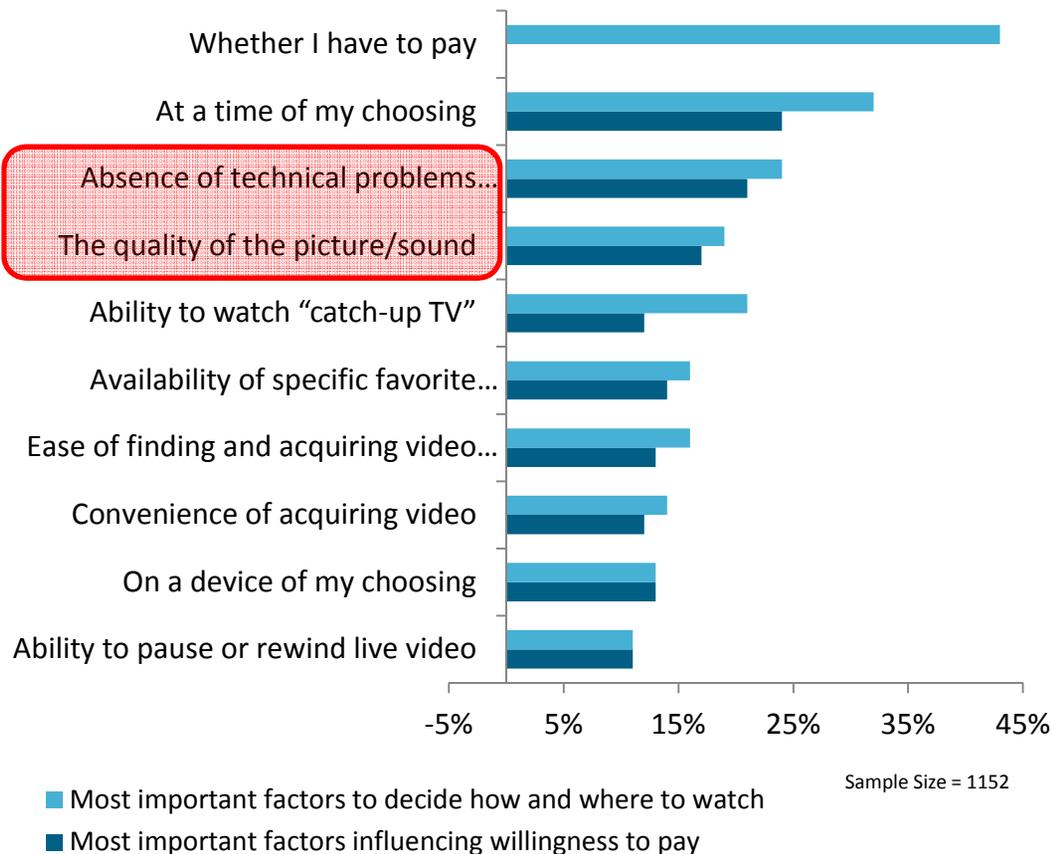
DISH ANYWHERE™

Access to live TV, On Demand and DVR recordings with Sling

Source: Cisco IBSG Media Cloud Survey, 2012

SP Advantage: Quality is also an important part of video viewing experience where SPs can advance

Most important factors influencing how and where to watch, and willingness to pay



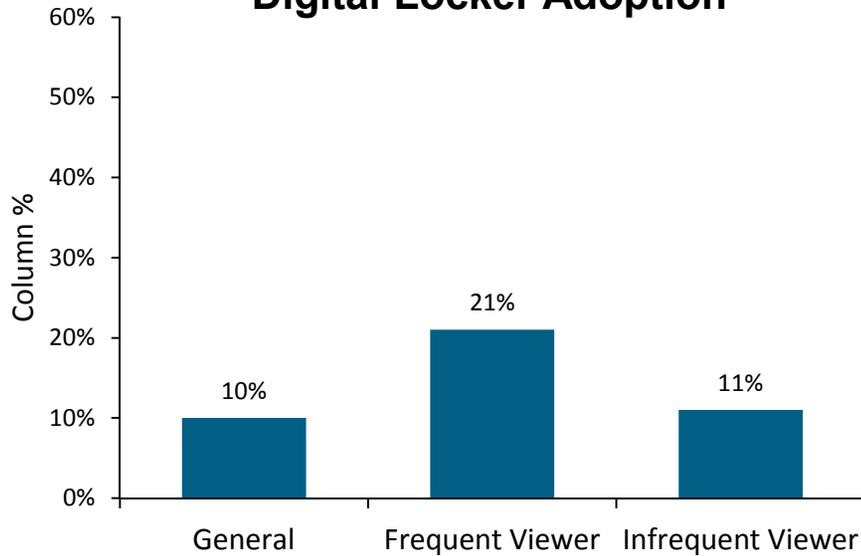
Pay TV SP Advantage

- Along with price, content and convenience, quality is one of the most important criteria in video viewing experience
 - Latency, buffering, etc.
 - Picture & sound
- With own Internet access network, SPs can deliver higher quality Internet video experience
 - On-net CDN to position contents closer to users
 - Potential for dedicated bandwidth for video (special video service using IP)

Source: Cisco IBSG Media Cloud Survey, 2012

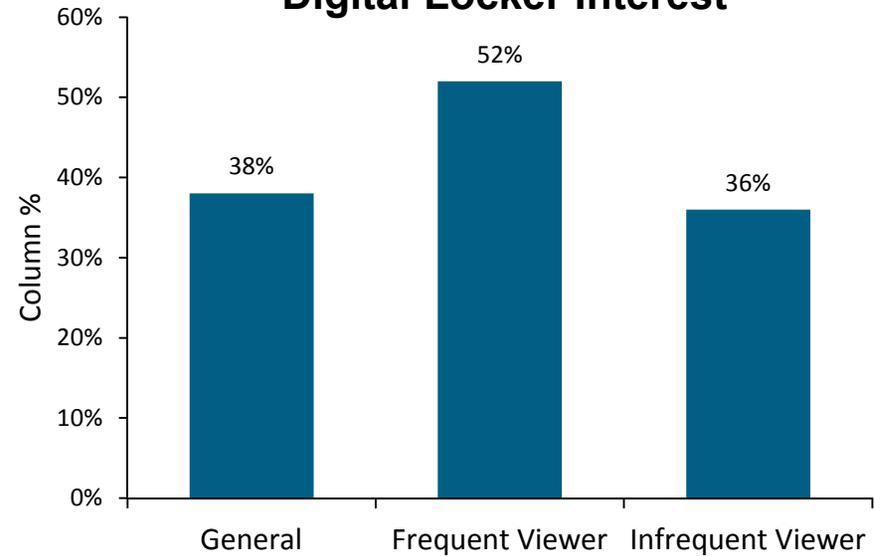
SP Advantage: SPs can gain new spend with new value-add services (Digital Locker)

Digital Locker Adoption



Respondents saying yes to the question: Q. Do you already use a digital locker, such as Apple iCloud or UltraViolet?

Digital Locker Interest



Respondents responding 7 and higher to the question: Q. How interested would you be in using a digital locker?

NOTE: Frequent online video viewer watches 4 hours or more per week, infrequent watch up to 1 hour per week

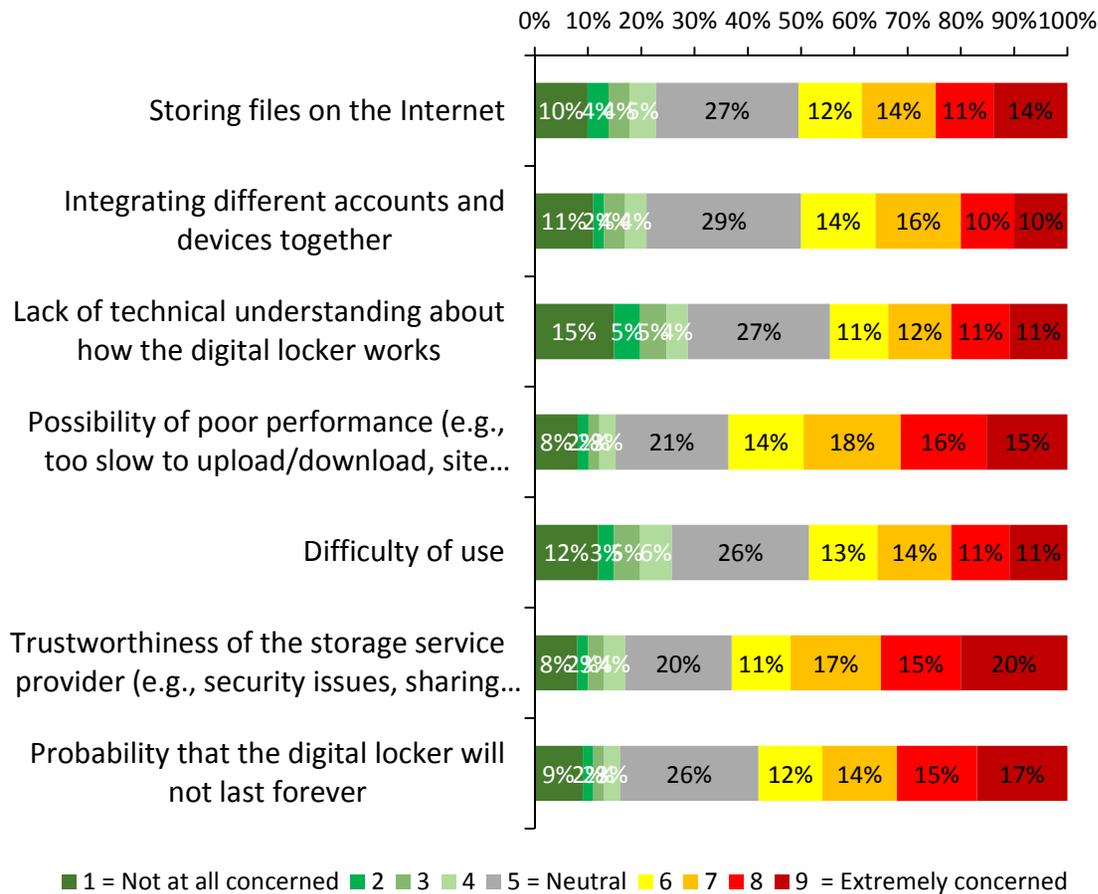
Digital Locker: Imagine a service that enabled you to store all of the professionally-produced, digital videos that you own, purchase, or rent in one space on the Internet. This space would be secure, and accessible only by you....

SP Opportunity: Digital Locker presents SPs an upside revenue potential by allowing SPs to participate in Electronic-Sell-Through (EST). 32% of Pay-TV Subscribers who use Internet video would be interested in purchasing Digital Locker from their SP

Source: Cisco IBSG Media Cloud Survey, 2012

SPs can differentiate by addressing key digital locker concerns - trust, performance, and sustainability

Digital Locker Concerns



Pay TV SP Advantage

- Own network and existing customer relationship with subscriber information (authentication)
- Integration into an existing single device (STB) while supporting other mobile devices
- Existing billing relationship w/ video/data subscription to provide electronic sell through (EST)
- Provider of cable, premium channels and VOD; also existing content distribution relationships

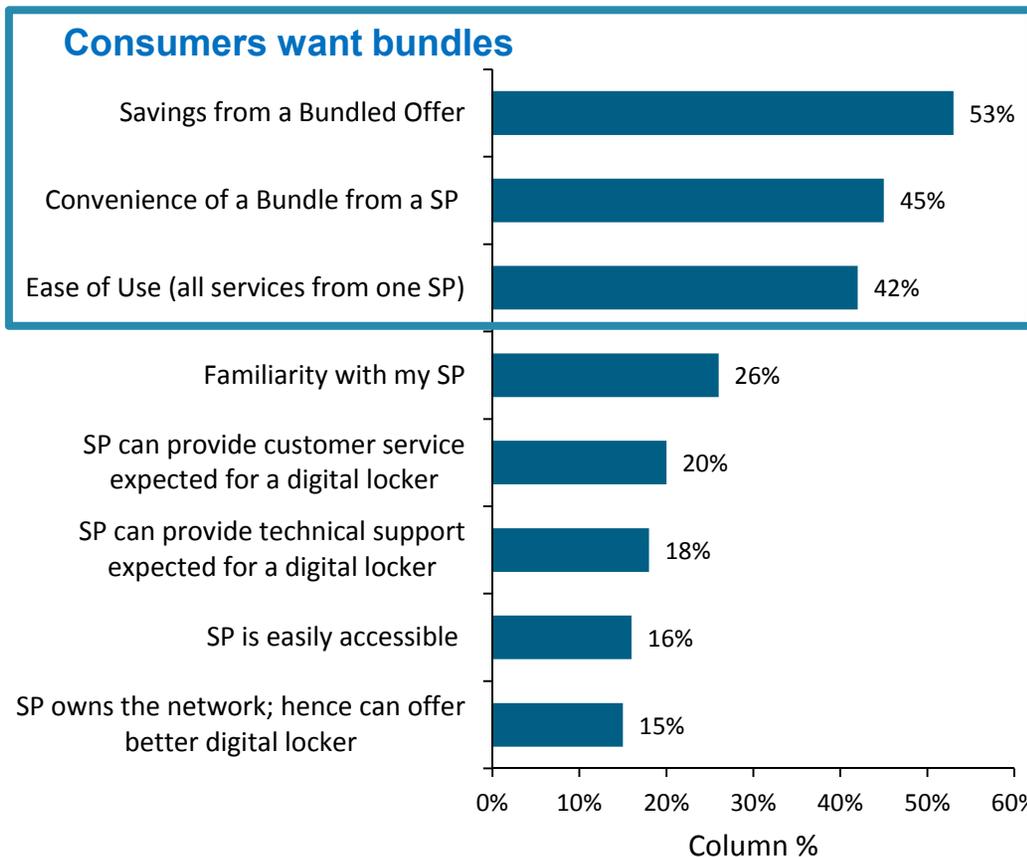
Q. How concerned would you be about the following aspects of the digital locker service?

Sample Size = 1152

Source: Cisco IBSG Media Cloud Survey, 2012

Service providers may also improve positioning by bundling a digital locker service with current services

SP Advantage as Digital Locker Provider



Q. What do you think would be the advantages of subscribing to the digital locker service through your current telephone/cable/broadband Internet service provider?

Sample Size = 718

- Potential SP bundle to use one service to drive sale of another**
- Free delivery (streaming and downloading) of contents from digital locker:
 - For subscribers of both broadband and digital locker
 - Digital locker content purchased from the SP
 - Only on-net delivery is free for contents not purchased from the SP
 - Quality guarantees on
 - On-net access to digital locker
 - Digital locker access on dedicated channel/bandwidth
 - EPG to integrate all digital locker content

Source: Cisco IBSG Media Cloud Survey, 2012

Executive Summary

Internet Video Consumption

- Consumers use multiple sources to create their unique video experience
- Pay TV & Internet video are co-existing; 62% of consumers use both and only 3.2% are cord-cutters today
- The vast majority of PayTV consumers are savvy videophiles who, however, are increasingly taking control of their video entertainment experience

Internet Video Drivers

- The video market has evolved through disruptive innovation, which has been driven primarily by improvements in consumer convenience and price
- Convenience and price have also been key factors driving the rapid adoption of Internet video
- In the future, improvements in content and quality will drive further increases in Internet video usage

Service Provider Recommendations

- SPs should develop compelling, convenient video offerings to combat the threat presented by Internet video and gain additional share of the video market
- Service Providers should leverage their existing assets to differentiate. These include:
 - Content relationship/ownership, on-net quality, convenience and quality of experience through TV platform, and existing services to build value add services



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