TV & VIDEO – CHANGING THE GAME
Conventional managed TV offerings such as those provided by subscription TV (STV) and commercial free-to-air (FTA) providers face increased competitive pressures from over-the-top (OTT) TV and video service providers. There can also be internal tensions for an integrated provider that offers both managed and OTT service offerings.

In all cases other than when independent content producers launch their own OTT offerings to the consumer (forward integration in the value chain), OTT service providers refrain from substantially investing in original content productions, although some inroads have been made in this area.

In addition, OTT service providers mostly choose to acquire the rights to distribute content in release windows subsequent to those of STV and FTA providers. Assuming that “content is king” still holds true, STV and FTA providers should therefore be expected to enjoy a competitive advantage over the OTT service providers where it matters the most.

However, new competitive capabilities are emerging which are becoming increasingly important – and OTT service providers seem to be better equipped to explore them to a greater extent than conventional service providers have so far. One example is the ability to provide more flexible, individual, on-demand (time shifting) and any screen (format shifting) TV and video experience while at the same operating an economically-sustainable business.

To increase the understanding of these new competitive capabilities, Ericsson ConsumerLab has with its own research and analysis been able to identify some important insights which confirm consumers’ changing needs and expectations.

Consumers now want to tailor their TV and video experiences much more freely than what is currently possible with mainstream conventional managed TV offerings. TV and video have become much more personal – and for a broad range of consumers, not just so-called digital natives. However, this does not mean that mass-market “appointment-television” is no longer relevant – rather that it is simply no longer competitive enough.

Recognition of the changing TV and video consumer landscape must also be reflected in future policies. These must assure that continued transformation of the TV and video sector is not held back by outdated regulation or goes against consumers’ needs and expectations.

ConsumerLab shares its findings with the purpose to stimulate an informed public debate about strategic commercial and policy issues imperative for the future of audiovisual creative industries.

Read more about ConsumerLab: www.ericsson.com/consumerlab
Monetizing à la carte TV

One of the fastest-growing consumer trends (see figure 1) within TV and video is the increasing importance for consumers of being able to access an individualized offering.

Consumers expect conventional managed TV and video offerings and services to become as flexible as new OTT and online alternatives:
- in terms of being able to pick and mix specific content
- in terms of offering different payment models
- in terms of offering a vast and updated selection of content

The Ericsson ConsumerLab TV & Video Consumer Trend Report 2012 shows the importance of being able to access the specific content and services one is interested in, instead of accepting standardized non-personal bundles. More than half the respondents consider this to be a very important part of the TV experience (6 or 7 on a 7-graded importance scale). That’s a staggering 45 percent increase since 2010.

Consumers are increasingly annoyed by the inflexibility of the bundles. Almost 20 percent of those who plan to reduce or eliminate their traditional TV packages say that it’s a result of not finding any suitable packages or being able to customize their own (base: core seven markets). For detailed methodology description, see page 11.

The OTT and online (PC, tablet, smart TV and smartphone over internet) ways of consuming TV and video have altered the way we watch, influencing what consumers expect of their traditional TV services. More than half (57 percent) of the respondents strongly agree to the statement “the computer and the internet is a natural part of my TV and video consumption and habits.” New legal and illegal streaming and downloading services – as well as amateur content productions and user-generated content – have all allowed consumers to start “snacking” content; having the option to only pay for/choose specific TV series, movies or amateur creations.
This freedom of choice highlights the inflexibility of the traditional TV packages (STV and FTA) that provide less flexible or a more limited range of options. For instance, the traditional packages force consumers to upgrade to the largest or the most expensive package in order to be able to access a specific premium sports channel or a specific TV series. Such extensive bundles come with an all-or-nothing choice, including paying more for more irrelevant content that is bundled in to increase the perceived value of such offerings (see the low score of “a lot of TV channels” in figure 2).

The online and the OTT way of consuming content strives to facilitate and speed up the purchase act, offering instant gratification. Several services allow consumers to quickly pay for a single movie through their phone – and getting access to it directly generates additional value. Traditional subscriptions can take months to change or weeks to order and install, not to mention traditional paper billing.

In some cases, consumers are left with no lawful digital choice, as in the case of having the option to access the latest theatrical releases on TV. More than 30 percent of consumers (figure 2) are interested in this type of service feature.

In other words, an untapped demand exists for premium video on demand (VOD) – that is, VOD services competing with theatrical released films – but unfortunately unlawful access is far too often the choice made by consumers who, for one reason or another, consider a visit to a movie theater impractical; for example, living far away from the nearest theater. These circumstances do not justify unlawful access but prove the point that more enforcement will not solve the problem either – instead, more relevant legal digital services must be allowed to emerge.

The importance – as shown in figure 1 – of on-demand is increasing, and it is now considered the feature that most respondents are willing to pay for (figure 2). Almost 60 percent (base: core seven) of the respondents say that they watch streamed or downloaded movies or TV shows on a weekly basis (base: core seven).

In this “new” way of watching content when one chooses allows consumers to more actively decide their own TV and video habits, choosing what and when to watch. Many go as far as saying that on-demand has made the way they watch TV and video more efficient. But on-demand won’t eliminate the need for scheduled or live TV. Consumers want a mix of live, scheduled and on-demand content.

Right now, this individualized mix of content is too hard to achieve, but many users try. The typical consumer in the 2012 study used almost five (4.75) different methods for watching TV and video. Using several different methods to access TV and video requires more time and adds complexity, making it less user friendly.

Consumers are looking for a super-simple individualized TV experience that will allow them to instantaneously pick and mix their preferred choices of content and choose their preferred way of paying for it. Those who watch a lot of movies might prefer a monthly subscription model, while those who only watch the occasional movie might prefer to pay once for each movie.

It should be possible to incentivize viral marketing, rewarding existing customers when they invite (“I think you would like to see this as well”) new customers and invite friends to share the virtual sofa and buying them the “movie ticket” or the rights to watch a live event. These are just some examples that would allow consumers to exercise more freedom. Extending offers with additional unwanted channels and two year contracts might reduce the immediate churn, but as shown above, it hardly leads to more satisfied consumers. These types of business practices limit both existing and prospective consumers alike to stick to old habits in the fear of making costly mistakes and hence not encouraging exploration by trial and error.

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More consumers are starting to integrate other devices and screens in addition to the traditional TV screen into their weekly viewing behaviors. The problem is that many of the existing TV and video services and business models don't support this new way of multi-screen viewing.

Figure 3 shows the average amount of hours spent every week watching TV and video on different devices. The large TV screen is still the most heavily used device – but other screens such as the laptop and the smartphone are starting to make up a significant part of the viewing behavior for those who have them.

With format shifting to mobile devices, consumers are starting to watch more and more content outside of their homes. Almost 50 percent of the time spent watching through smartphones is being done outside the home, as more features and services begin to support multiscreen and mobile viewing behavior.

Given that copyright law does not (and should not) restrict consumers to make lawful private copies, one way to facilitate format and place shifting and hence allow paid large TV-screen service continuation outside homes is by storing content in a private cloud rather than on a hard disc in a set top box. Hereby usage and value of the content service will increase even further. A private cloud comes with the additional benefit of providing "roaming" or portable TV and video services while abroad. Because the consumption of and access to a private cloud is not public, the STV and FTA service providers do not have to clear rights for additional foreign territories to launch it.

Enabling consumers to easily watch content when, where and how they want triggers mobile consumption of TV and video. During ConsumerLab’s research fieldwork in the US, many of the less technology-savvy respondents said that they first discovered different on-demand options like streaming or VOD services as they became naturally integrated into their new TV or Blu-ray players. This allowed them to easily start using more advanced services without requiring any knowledge about how to install or setup any complicated equipment or gadgets.

**FIGURE 3: AVERAGE AMOUNT OF VIEWING HOURS PER DEVICE, BOTH IN-HOME AND OUT-OF-HOME. BASE: THOSE WHO HAVE AND USE THE RESPECTIVE DEVICES, ALL 12 MARKETS.**

(Source: Ericsson ConsumerLab TV & Video Consumer Trend Report 2012.)
After having adopted VOD and streaming behavior on their large TV screen, consumers also noticed that they could access all or parts of that content through other internet-connected devices such as the tablet and the smartphone. These “super-easy” platform-independent services (for example, Netflix) allowed these people to start using those previously “too complicated” viewing options.

Examining consumers’ habits of paying to access on-demand content through different devices (figure 4) shows a clear trend. Consumers are more used to paying for on-demand content on larger screens like the PC, laptop and the TV screen than on the smaller ones (like the smartphone or the portable video player). One of the research focus areas for the 2012 TV and Video study was mobile video consumption. The habits of paying for content on different devices were discussed during the interviews. The decreased habit of paying for on-demand content on the smaller screens can be explained by three different factors:

- Smaller screens and the viewing situation (for example while traveling on a train) provide a somewhat restricted experience. A noisy environment also affects the experience, therefore the willingness to pay.
- Consumer expectations that one should not have to “pay again for the same content.” A lot of the consumers pay for content services on the larger screens (for example, TV screen). There is a general reluctance to pay for the same content again just to be able to see it on the mobile devices.
- Competition with other services. Watching mobile TV and video isn’t the only service available on the mobile phone. Consumers use a variety of other services while out and about. If they are forced to pay a second time in order to access content on the mobile phone, they will more likely use other services and apps on their phones for entertainment.

Figure 3 shows the number of hours spent watching TV and video on different devices. It shows that the majority of the time watching content on different mobile devices is spent inside the home. Talking to consumers in the US, many of them stated that they had started watching TV and video on their smartphones, laptops and tablets instead of on the secondary TVs in the home (for example in the kitchen and bedroom). The reason was that the mobile devices were already connected, allowing them to access content through the internet without any effort, while the secondary TVs did not have this connection.

Some USTV providers also allow their customers to watch, at no additional cost, most of or all the content in their subscriptions through the Wi-Fi connection in their homes. This is an appreciated feature, but consumers are frustrated that the same content while away from their homes is being blocked.
DIGITAL CULTURAL INCLUSION

The world of culture, including TV, film, video and music, is changing. This technology-induced change not only improves people’s viewing experience, it also changes the ways in which consumers conceptualize culture and entertainment.

As consumer expectations change, fresh opportunities are being created – but these very changes can also become threats to conventional media business models. The scene is now set for creators and service providers to offer game-changing services that will set the scene for a new age of culture and entertainment.

This new age has already begun to take shape. Consumers who previously had very basic – that is passive, mass-market, one-way oriented – culture and entertainment consumption behaviors are now taking a ‘shortcut’ to advance their behavior, by actively selecting, engaging and interacting, through easy to use on-demand services.

In the Ericsson ConsumerLab TV & Video Consumer Trend Report 2011, less than 9 percent of the consumers (in China, Germany, Spain, Sweden, Taiwan, UK and the US) reported that they used a separate box (for example Apple TV, Boxee box) to access and view internet-based, on-demand content on their TV screens. One year later the number had increased to almost 15 percent: a 67 percent increase, not including smart TVs. What makes this even more interesting is that we can see the same growth levels amongst the older population, even amongst 55-59 year olds, and even higher growth amongst certain late adopter segments like traditional parents, where the growth is almost 10 percentage points in the same time period.

Late adopters are rapidly changing their viewing preferences. In 2011, slightly less than 25 percent agreed with the statement that they want to decide when to watch something rather than following a schedule. In 2012 the number had increased by more than 17 percentage points.

However, there are some hurdles that need to be overcome, especially in the film sector. One such barrier, perhaps the most crucial one, is the practice of media chronology or windowing. This is a well-established incumbent exploitation behavior where economic rights holders use time-windows and technology to sell their content over and over again at different price points to different consumers with different willingness to pay. As such this approach provides economic rights holders with the possibility to maximize their revenues.

The problem with windowing and especially in the first release window – the movie theater – is that it no longer fits with the way different consumer segments expect to consume culture and entertainment. Let’s take the example of theatrical releases.

From a consumer point of view, accessing culture and entertainment via theatrical releases comes with following restrictions:

> The physical availability is restricted to certain locations, to certain days, certain times of the day and the amount of available seats. Consumers living in rural areas without convenient access to movie theaters are not at all culturally included in the physical world, whereas digital (managed and OTT TV and video) services can promote cultural inclusion.

> Physical screen limitations (number of screens per theatre/city) restrict the range of titles available at any given time, which excludes non-block-buster types of film, such as independent creations, regional and local productions. This limits cultural diversity.
Theatrical releases come with significant costs for young families, such as costs for a baby-sitter and for transportation.

International timing of theater releases, or for that matter of TV productions, where time-gaps exist, create strong consumer incentive to illegally download (due to cultural exclusion across borders) because neither digital nor physical lawful alternatives are present in the non-released markets.

Arguably, another restriction is the absence of availability of lawful digital alternatives to theatrical releases, resulting from contractual arrangements between theater owners and rights owners. Here, the former group puts requirements on the latter to restrict competition and hence also restricts the supply to alternative distributors, including digital platforms.

In today’s globalized society, it is no longer acceptable from a consumer point of view to delay a digital release of a film or TV show in a market many months after its first original release. Consumers know about and expect culture and entertainment such as film, TV and music to be available instantly.

As social media use expands without regard to countries’ borders, so does discussion about culture and entertainment. National copyright laws designed to reward territorial discrimination are ill-suited to a connected world. Consumers begin discussing new episodes of their favorite TV shows as soon as they are aired. In fact, consumers are increasingly discussing the TV and video content they are watching using social media such as Facebook and Twitter. The ConsumerLab TV and Video Consumer Trends report 2012 shows that as many as 42 percent of those who chat and use social media while watching TV, communicate online about the TV shows they are currently watching. There is therefore little or no acceptance of having to wait. Once TV shows and movies are available somewhere, consumers expect them to be accessible everywhere.

Furthermore, consumers do not only view their TV and video consumption in terms of money. Rather, they think of it in terms of time budgeting. They view their leisure time as limited and valuable and they are happy to pay in order to watch exactly what they want, when they want and where they want.

Another clear finding from the Ericsson ConsumerLab TV & Video Consumer Trend report 2012 is that consumers want to watch their TV and video content on the largest possible screen. This means that consumers with convenient access to a movie theater are likely to choose that option, provided that it is reasonably priced. There is however a significant portion of the population where movie theaters are not a viable choice.

Imagine then, a young family with kids, turning on their 50 inch flat screen TV, selecting a “still at the movies” film from the on-demand library and leaning back in the comfort of their own couch. How much would they be prepared to pay for that convenience? Scandinavian consumer research indicates a willingness to pay up to EUR 25 for this level of convenience and access to fresh content. (http://filmthinktank.org/fileadmin/thinktank_downloads/scandiTTrevise_2011.pdf)

Recent research from Ericsson ConsumerLab shows that 38 percent of all respondents are interested and 32 percent feel they are prepared to pay for getting theatrical releases directly to the home TV screen (figures 1 and 2).

When we look deeper into the data, it becomes apparent that the interest in theatrical releases on the TV is significantly higher amongst parents. In fact it is 15 percent higher than amongst non-parents across all 12 studied markets. This is yet another strong indicator that there should be a business case for abandoning the practice of windowing.

When creators and service providers start offering new game-changing services where consumers are given ubiquitous access to culture and entertainment, regardless if they live in rural areas, are young or old, have large families, or if they are metropolitan first homers, not only will it open up new previously untapped business opportunities, but it will also be a clear indication that the digital era has finally been embraced by entertainment and culture.
UNLAWFUL ACCESSING OF TV AND VIDEO (FILE-SHARING)

One key finding in the Ericsson ConsumerLab TV & Video Consumer Trends 2012 study is that a dominant share of consumers don’t want to consume content illegally. They have no intrinsic wish to become pirates – but sometimes they don’t have any legal alternatives, or at least no attractive legal alternatives.

Attractive in this context means that consumers get easy access to a wide content catalog with timely updates, a choice of various payment models (pay-per-view, subscription, advertising, pre-paid), reasonably priced and available on the device(s) of choice.

When looking specifically at illegal alternatives, the key driver for using illegal downloading, that is “lack of attractive legal alternatives,” is somewhat strengthened by the consumer view that illegal downloading is a victimless crime. This points to the need for further educational campaigns on the importance of intellectual property. It is however not the key consumer issue – that is the inability to access the content of choice legally.

Figures 5 and 6 show the usage levels of on-demand content sources in the Spanish and US markets respectively, over two years. Considering that a large part of the “other” option is made up of illegal streaming alternatives in Spain, contributes to a rather daunting
picture. Illegal content downloading and services dominate the on-demand viewing in Spain, whereas lawful on-demand makes up the main part in the US.

There are several reasons for this difference. In the US for example, there is a wide and rich variety of advanced but simple to use legal on-demand services available. In Spain, legal on-demand services typically offer less content, old releases and in some cases are not as easy to use.

The above data suggests that those who turn to digital piracy do so because their desired on-demand content is simply not available through legal sources. Appropriate legal services are easy to use and offer safe, quality-guaranteed content. Most people prefer paid-for means, as long as they offer a wide selection of new and old content, are attractively priced and are easy to view through the screen of their choice.

So looking at the big picture, we can conclude two things:

- the triggers must be strong enough and the barriers low enough for legal alternatives to win over the illegal counterparts
- this will not be particularly difficult, because consumers will stay legal if they can.

The three largest barriers to consuming on-demand content are “cost,” “poor selection of content” and “not being able to access the on-demand content on the main TV-screen.” See figure 7 below:

The new generation of smart TVs, Blu-ray players and add-on boxes such as Apple TV and Boxee makes it simple to access on-demand content through the TV, without having to do any research. Those new devices, built-in features and apps have actually enabled basic-TV viewers to take a simple shortcut into more advanced on-demand habits – sometimes even triggering mobile consumption of TV and video because the content is accessible through any internet connected device.

The emergence of easy to use legal on-demand services has made internet video piracy less attractive. This is because:

- files take time and knowledge to find
- downloading takes a long time
- files require managing
- there is a risk of downloading corrupt files
- there is a risk of downloading viruses
- files take up storage space
- there are no subtitles
- there is a fear of legal repercussions.

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FIGURE 7: BARRIERS TO ON-DEMAND TV AND VIDEO USAGE.
BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN.
(Source: Ericsson ConsumerLab TV & Video Consumer Trend Report 2012.)
The fieldwork for the 2012 ConsumerLab TV and Video report was carried out in two phases.

The first phase was qualitative at-home interviews in the US and Sweden, focusing on consumers who had decreased or reduced the amount of money spent on traditional TV subscriptions. During this part of the study the focus was to better understand drivers, barriers and consumption habits for those kind of consumers.

The second part was designed to reach out to a more general TV and video sample, measuring opinions and behaviors quantitatively in 12 markets, building upon the insights and trends from previous years. In total the 2012 study was representative of more than 460 million consumers across the different markets. The Core seven markets are: the US, UK, Spain, Germany, Sweden, China and Taiwan.

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