Changing consumer needs are creating a new media landscape

An Ericsson Consumer Insight Summary Report
September 2014
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EVO\L\U\T\I\N\O\N\ 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.

Key Findings

Streaming is closing in on linear TV
> 75 percent of people watch any type of streamed on-demand 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.
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.

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 on-demand 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

90%
60%
30%
0%

2011 2012 2013 2014

Scheduled broadcast TV
Recorded broadcast TV
Streamed on-demand video
DVD, Blu-ray, etc.

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

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

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 5: Comparison of consumer benefits and drawbacks for movie theater, T-VOD and S-VOD**

**MOBILE 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 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

<table>
<thead>
<tr>
<th>Content Type</th>
<th>At least daily</th>
<th>Monthly</th>
<th>Less often</th>
<th>Never</th>
<th>Don’t know</th>
</tr>
</thead>
<tbody>
<tr>
<td>YouTube or similar services</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Scheduled TV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Live TV or events</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Streamed on-demand content</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Downloaded content</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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

- 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

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 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.

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

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

<table>
<thead>
<tr>
<th>TOP 5</th>
<th>BOTTOM 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Excellent quality (HD quality)</td>
<td>20. Multi-person recommendations</td>
</tr>
<tr>
<td>2. Free from ads/commercials</td>
<td>21. Ad-sponsored personalized mobile video service</td>
</tr>
<tr>
<td>3. New movies directly on my TV at the same time as theatrical release</td>
<td>22. Live video from small or local events</td>
</tr>
<tr>
<td>4. Time shift/on-demand</td>
<td>23. Interactive TV</td>
</tr>
<tr>
<td>5. Subtitles in my language on all movies, programs and series</td>
<td>24. Click-to-buy – order anything you see on TV using your remote</td>
</tr>
</tbody>
</table>

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

Source: Ericsson ConsumerLab, TV and Media 2014. Base: 23 markets
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.
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 15: Creating new links between content windows

Figure 14: Preferred payment models per content type

By paying per item/content
By watching personalized ads
By paying a fixed monthly fee
By watching ads

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