

CONSUMERLAB



TV AND VIDEO

An analysis of evolving
consumer habits

An Ericsson Consumer Insight Summary Report
August 2012

CONTENTS

A NEW ERA	3
TODAY'S HABITS	4
WILLINGNESS TO PAY	6
CORD CUTTERS AND CORD SHAVERS	8
GOING LEGAL	10
THE FUTURE	11
METHODOLOGY	11

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Ericsson ConsumerLab has more than 15 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 most of the regions where Ericsson is present, which gives a thorough global understanding of the ICT market and business models.

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A NEW ERA



We have entered a new era in television. On-demand packages delivered via Over The Top (OTT), cable or IPTV are being embraced by people around the world.

These new technologies and services not only improve people's viewing experience – they also change the fundamental ways in which we approach entertainment.

As consumer expectations of TV change, fresh opportunities are being created. The scene is now set for any entertainment or communications provider to take the mantle and offer game-changing services that could launch us into a new age of entertainment.

KEY FINDINGS

- > **Social TV is exploding** – 62 percent of consumers use social media while watching TV. This has increased by 18 percentage points since 2011.
- > **Consumers are not cutting their traditional TV subscriptions on a large scale** – in fact only 7 percent have canceled their TV packages since 2011.
- > **HD quality remains key** – 41 percent of consumers are willing to pay for HD quality. The importance of high-quality images increases on devices with bigger screens such as TVs and tablets.
- > **Mobile devices are an important part of the TV experience** – 67 percent use tablets, smartphones or laptops in their everyday TV viewing, both for video consumption and to enable a social media experience while watching TV.
- > **TV anytime and anywhere is finally a mass market service** – 60 percent of consumers watch video on-demand on a weekly basis. New, easy-to-use services trigger mobile viewing habits.





TODAY'S HABITS

Figure 1: Traditional TV and video services used on at least a weekly basis

BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN

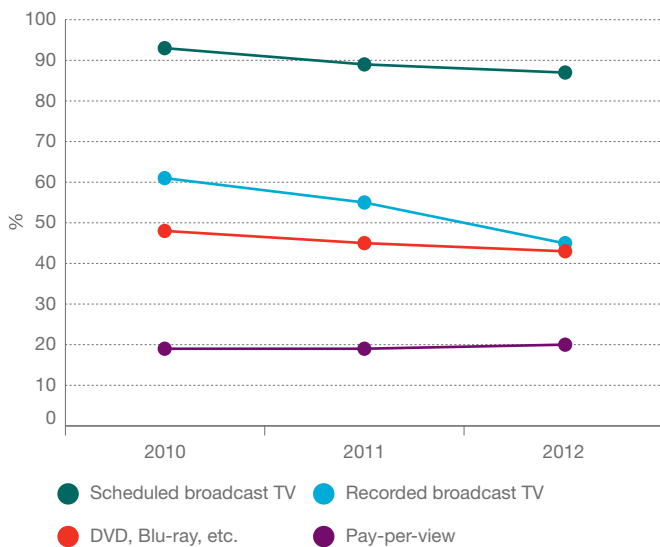
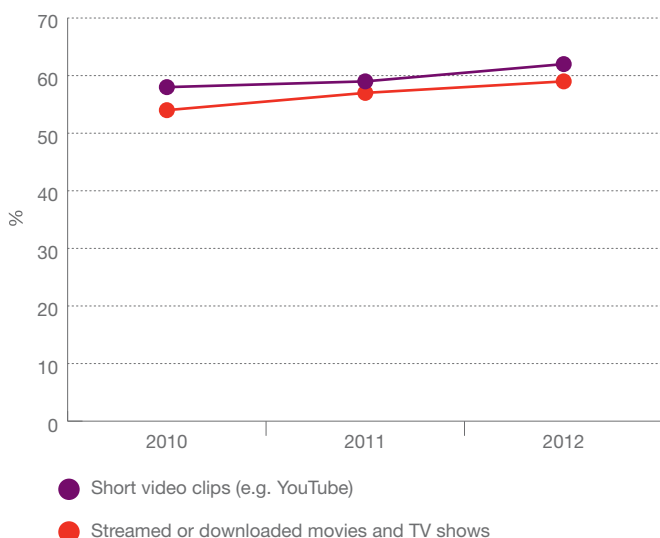


Figure 2: On-demand TV and video services used on at least a weekly basis

BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN



Figures 1 and 2 show weekly consumer TV and video habits. They show that scheduled broadcast TV is still the dominant form of content consumption, despite a slight decrease over recent years. The weekly amount of recorded broadcast TV watching (e.g. DVR) has decreased substantially – from 61 to 45 percent. Consumption of on-demand content, on the other hand, is showing a steady increase. Today almost 60 percent of people use on-demand services on a weekly basis.

The content which consumers are most likely to want to pay for is on-demand TV and video content. Available titles need to be up-to-date and relevant to the user's interests in order to maximize consumption. The biggest barriers to consuming on-demand are:

- > Cost
- > Not finding the content that the user is looking for
- > Not being able to watch the content on the household's main TV screen

Consumers are beginning to move away from purely linear TV viewing and slide into new on-demand behavior. This is rarely a conscious decision. For example, a consumer might purchase a new device (e.g. an Apple TV or a smart TV) with built-in on-demand services which they were previously unaware of. If this new service offers their chosen content in an easy fashion, then they will most likely start to use it and then gradually slip into new viewing behavior patterns.

Shortcut users

The easy-to-use nature of smart TVs and other new entertainment devices is enabling many consumers to take a 'shortcut' straight to more sophisticated behaviors. These consumers previously engaged in less advanced viewing but have progressed without the need to learn extra technical skills.

Some shortcut users engage in more advanced viewing than high-tech online video pirates who are impeded by an increasing number of complicated issues relating to legality, device dependencies and accessibility.

One TV, many devices

The average home entertainment setup is moving away from using separate screens in each room. A growing number of households instead use a large main TV supplemented by a number of mobile devices that provide access to services from all over the home. Tablets in particular have grown to become a popular device for viewing content in the home, despite the fact that the technology is relatively new.

This is partly due to the favorable conditions for mobile viewing within the home. Another reason is that many consumers are looking to modernize their TV experience, yet are unwilling to invest in more than one new TV or add set-top boxes to their old TV sets in order to access new services.

The rise of on-demand services

The increased use of on-demand services is competing with linear TV for consumer attention. People once used linear TV for most viewing situations. Today its use is becoming focused on background viewing and live TV.

On-demand services cater mainly for focused viewing situations, usually on impulse, but sometimes planned. This way of watching is gradually changing as on-demand services are beginning to enable background viewing as well.

Social TV

62 percent of people use social networking sites and forums while watching TV on a weekly basis and this number is growing. Of these people, 40 percent will be discussing what they are currently watching on TV over social networks.

Women are more likely to use social forums while watching TV. 69 percent of women engage in this behavior, compared to 62 percent of men. However, of those, the men are more likely to discuss the things they are currently watching. This may be linked to the desire to discuss live sports as they happen.

Mobiles and laptops are the devices most commonly used to discuss TV content and are now also becoming part of the home TV setup. They not only allow social interaction, but also enable internet multitasking during viewing. This phenomenon is not just limited to young people – 30 percent of those aged 45-59 engage in social TV behavior at least weekly as well. This is compared to the overall figure of 40 percent.

The main drivers for social TV behavior include:

- > Not watching alone
- > Gaining a community feeling – connecting with others
- > Validating self against public sample
- > Curiosity of opinions of others
- > Seeking additional information
- > Wanting to influence or interact with content
- > Gratification of being acknowledged by others
- > The need to further analyze and discuss

Figure 3: Activities engaged in at least once per week while watching TV or video content

BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN

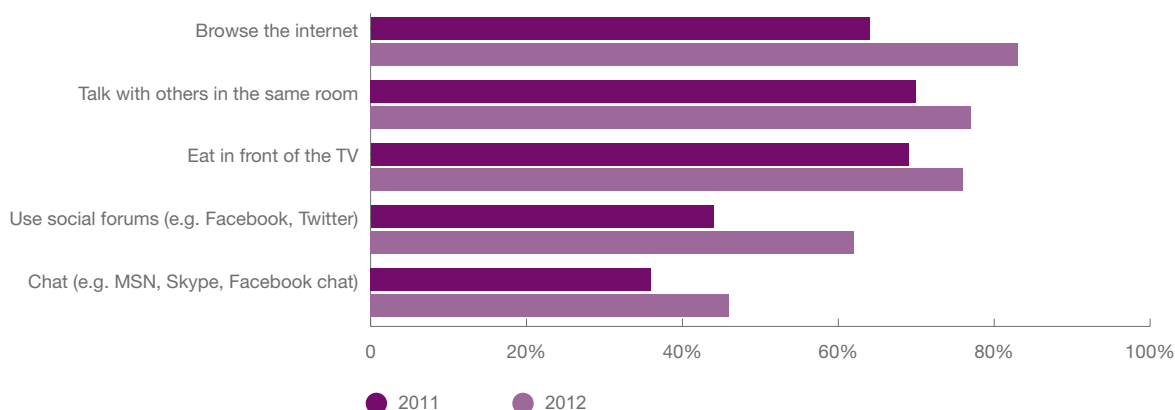


Figure 4: How often people discuss TV or video on social networks while viewing

BASE: USE SOCIAL FORUMS/BLOGS WHILE WATCHING TV OR VIDEO AT LEAST SEVERAL TIMES PER MONTH (US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN)



WILLINGNESS TO PAY

Cherry picking

Today, cable and satellite TV are perceived by many consumers as being expensive, especially in the US where monthly subscriptions can cost USD 200 or more. One of the primary reasons for this perception is that people simply do not use most of their channels.

Consumers do not only view their TV consumption in terms of price. Rather, they think of it in terms of time budgeting. They view their leisure time as limited and valuable and would be happy to pay in order to watch exactly what they want, when they want.

Today many consumers are still willing to pay the high cost of cable in order to access a handful of their favorite channels and live events, and to get internet access. Ideally, these people would like to ‘cherry pick’ a limited number of channels and live events for their package and pay accordingly. Figures 5 and 6 show that the importance and willingness to pay for individualized and on-demand content has increased a lot.

Over The Top value

Subscription-based OTT services are often perceived as reasonably priced or even cheap when compared to traditional TV packages. This is partly because they offer choice and flexibility. The value gained through OTT services increases the perception that traditional TV subscriptions are expensive. Some services for example, offer unlimited access to TV programs and movies for just USD 7.99 per month.

Service interruptions

Interruptions to linear broadcast can result in consumers giving up the service either partly or altogether. Many people that manage without TV for a while quickly realize that they do not need their traditional TV setup.

REASONS TO STAY

There are still several strong drivers for people to keep their TV subscriptions. These include:

- > Live viewing – the experience of watching sports and big events as they happen
- > Easy background and relaxation viewing – hassle-free entertainment and no need to make decisions
- > Collective viewing experience – watching the same thing as most others do, so it can be discussed when meeting in person
- > Online socialization – many online social TV discussions require you to see the content as it is being broadcasted in order to participate

Figure 5: How important are different TV and video services?
Top 2 answers on a 7-point scale

BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN

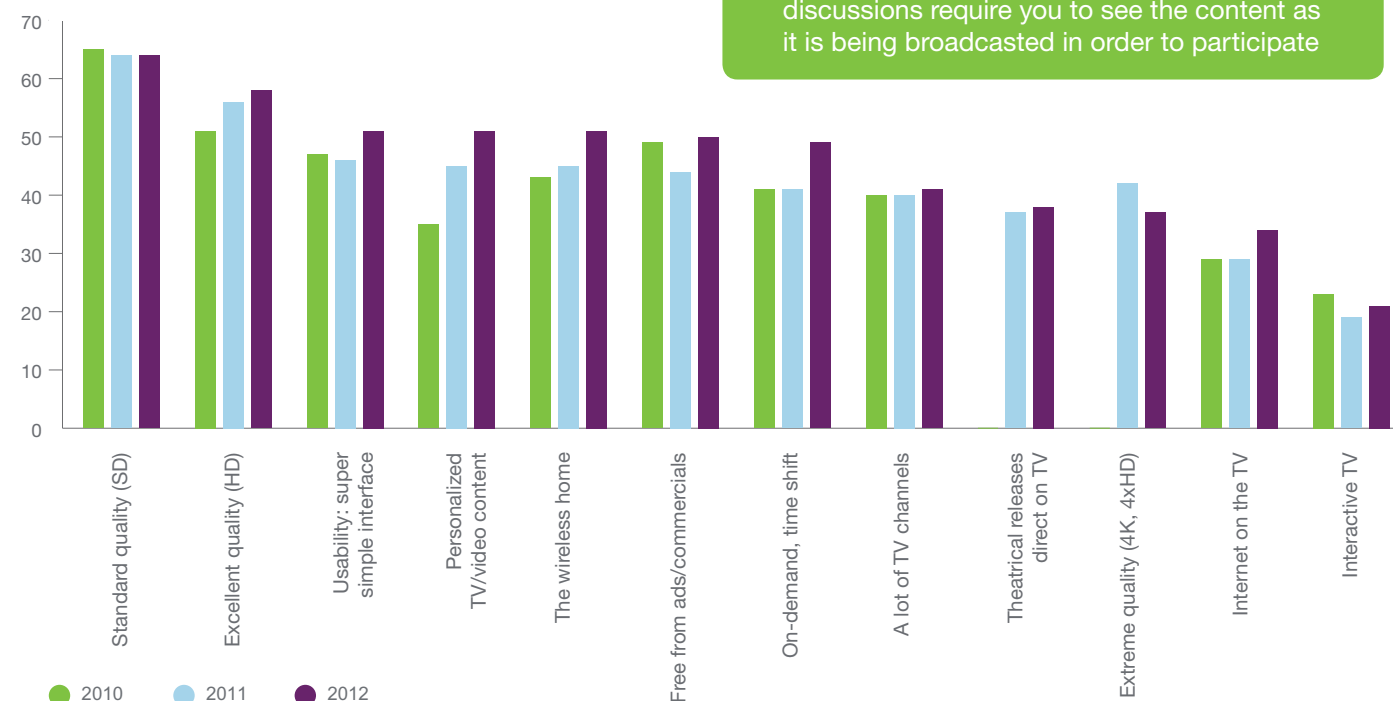
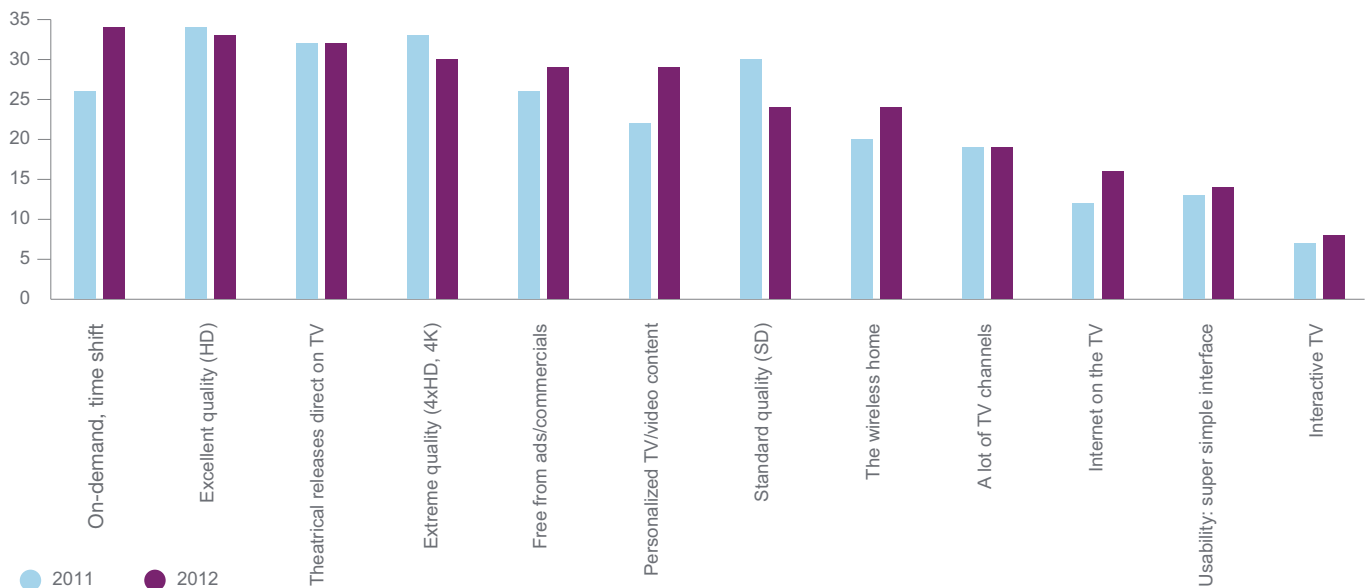


Figure 6: Willingness to pay for TV and video services – percent that consider service worth paying for. Top 2 answers on a 7-point scale

BASE: US, UK, GERMANY, SPAIN, SWEDEN, CHINA AND TAIWAN



High definition – high importance

Figures 5 and 6 show that HD quality is important for the overall TV experience – especially for viewers with larger screens. This importance is growing and there is a high willingness among consumers to pay for such services.

Mobile viewing

Out of the home, mobile video viewing is an emerging behavior. Consumption is still limited and sporadic, with no distinct usage patterns having been formed.

TV and video content viewing on mobile devices mainly happens in the home. Out-of-the-home mobile viewing is limited in absolute numbers. However, the share of out-of-the-home viewing conducted specifically on smartphones has increased by 5 percentage points to almost 50 percent in just one year. Consumers now expect to be able to view content which they have paid for on any device. Situations suitable for mobile viewing include protracted periods of inactivity where a stable connection is available, such as long train journeys.

There are several barriers to mobile viewing. These include the fact that limited away from home usage periods are more suited for activities such as social networking and playing games.

Other barriers include:

- > Poor connectivity
- > Limited battery capacity
- > Limited data in phone plan
- > Some content not available on public networks
- > Poor viewing experience due to screen size
- > Consumers prefer to relax at home while viewing

Mobile phone focus

Paying extra to view content on mobile phones is not popular among consumers. This is partly because of the smaller screen size, and partly because consumers expect their purchased content to be available on all platforms. Consumers prefer to use mobile phones for activities with little or no associated costs.

OTT drives mobile video habits

Consuming OTT content through home TVs drives mobile viewing. A user discovers an OTT service through their TV and develops viewing habits based around that service. Eventually they discover that the service is also accessible on mobile devices. They realize that the service is platform independent and can easily be migrated onto mobile devices. This is not only a huge opportunity for OTT players but also for traditional TV providers, as long as the consumer experience remains very simple and mobile access is included in the overall service.



The way I use Netflix outside of my home is that I take it with me on the go on my iPad and use it when I go see my children in different practices.”

Female, 44, Chicago

CORD CUTTERS AND CORD SHAVERS

People who reduce spending on their TV package or cancel it altogether are known as cord shavers and cord cutters, respectively.

Figure 7 shows that globally, 22 percent have increased their TV spending while only 15 percent have reduced or eliminated it.

TV subscription spending in China increases

There are large regional differences. Figure 8 shows data for China and the US. In the US, there are more people who have reduced or canceled their packages than people who have increased their spending. China shows the opposite trend, with almost 40 percent having increased their TV subscriptions.

Market maturity and economic factors play an important part in these differences. Cable has been available in the US for many years. People are now looking for ways to reduce their TV spending and realizing that they do not need hundreds of channels. In China, cable has become more widely available due to economic growth and people are just discovering the choice it offers.

It is important to note that on-demand services are not the cause of people reducing their spending – they merely enable them to do so.

Figure 7: Global subscription changes, 2011-2012

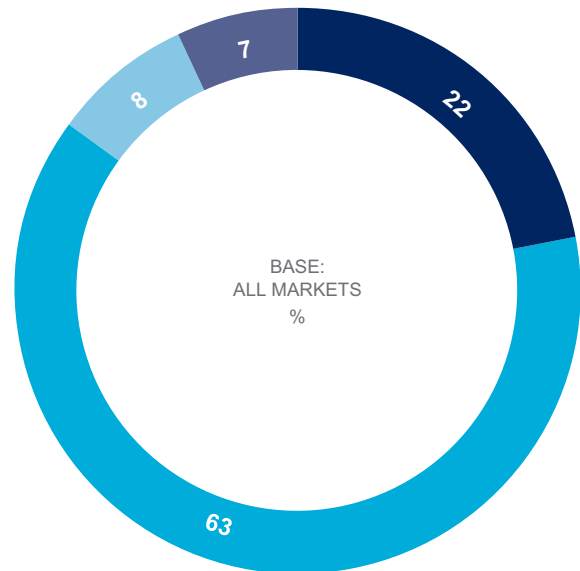
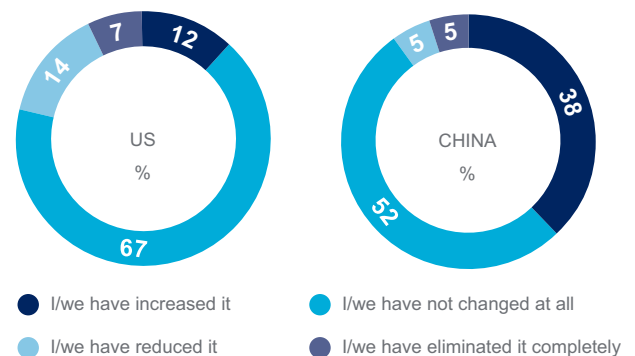


Figure 8: Regional subscription changes, 2011-2012 – US and China



REASONS FOR REDUCING SPENDING



Respondents saying they have reduced or eliminated TV subscription:

US 21%, China 10%, Brazil 15%, Chile 15%, Germany 11%, Italy 22%, Mexico 18%, South Korea 11%, Spain 17%, Sweden 18%, Taiwan 12%, UK 15%

Respondents saying they have increased their TV subscription:

US 12%, China 38%, Brazil 35%, Chile 37%, Germany 15%, Italy 12%, Mexico 24%, South Korea 28%, Spain 15%, Sweden 12%, Taiwan 22%, UK 14%



They raised their rates and I was like ‘you’re going to raise your rates and I don’t even watch it now? I’m going to drop it down!’”

Male, 33, USA

Cord shaving behavior

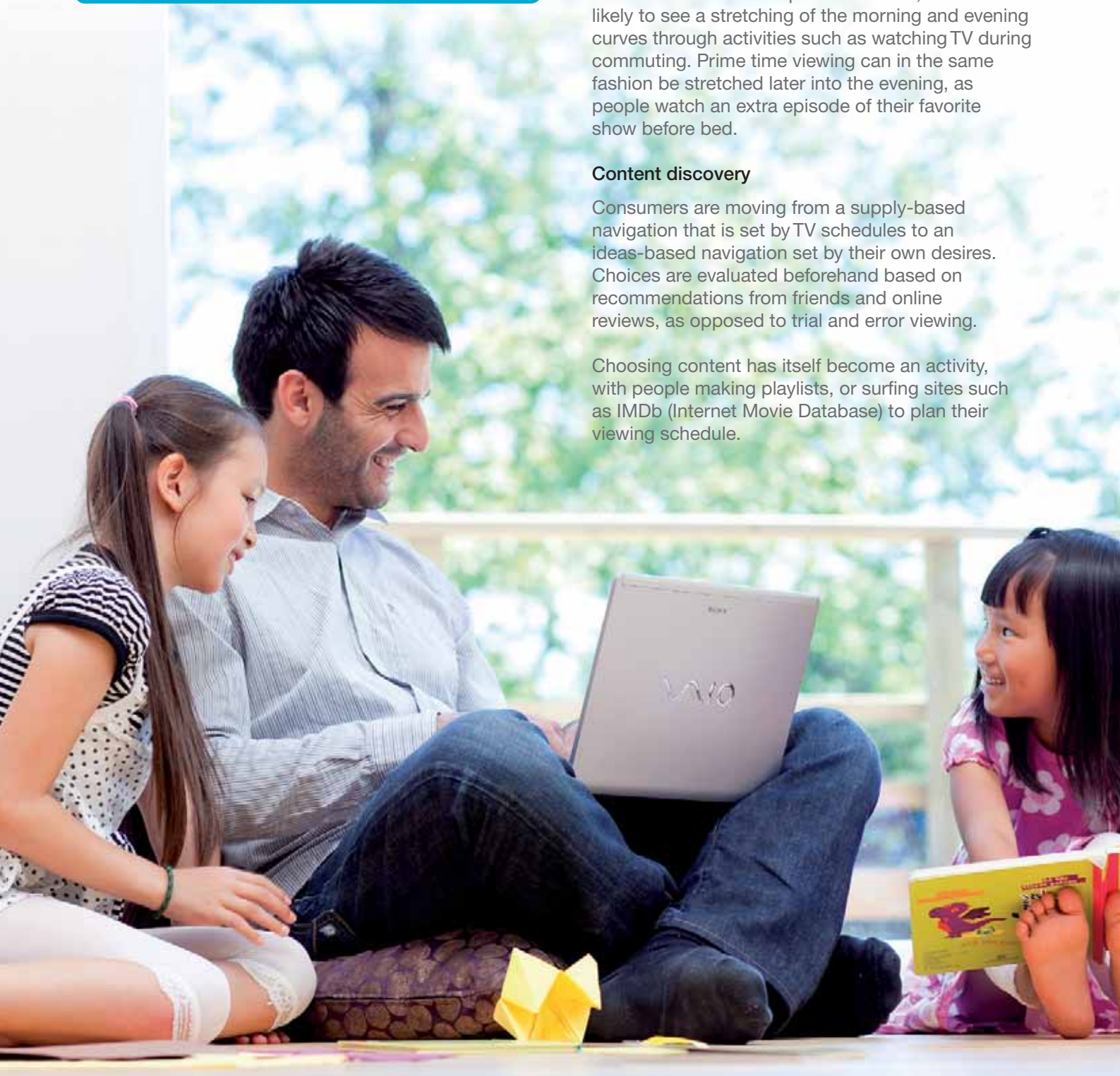
Consumers reducing their spending is changing overall viewing patterns and leading to more focused viewing of single content titles. People will, for example, watch several episodes of the same TV series or program instead of zapping between different types of content. Increased on-demand usage could potentially even out TV viewer numbers throughout the day. Historically, the figures created a curve that had a small peak in the morning, followed by a huge peak in the evening.

As on-demand consumption increases, we are likely to see a stretching of the morning and evening curves through activities such as watching TV during commuting. Prime time viewing can in the same fashion be stretched later into the evening, as people watch an extra episode of their favorite show before bed.

Content discovery

Consumers are moving from a supply-based navigation that is set by TV schedules to an ideas-based navigation set by their own desires. Choices are evaluated beforehand based on recommendations from friends and online reviews, as opposed to trial and error viewing.

Choosing content has itself become an activity, with people making playlists, or surfing sites such as IMDb (Internet Movie Database) to plan their viewing schedule.



GOING LEGAL

Figures 9 and 10 show the usage levels of on-demand content sources in the Spanish and US markets respectively, over two years. Illegal content downloading makes up a large part of Spain's overall on-demand viewing, whereas in the US it makes up a much lower proportion.

The level of legislation and enforcement explains some of these differences. However, there are other more important differences. In the US for example, there are a wide variety of advanced legal on-demand services available. In Spain, legal on-demand services typically offer less fresh content and in some cases are not as easy to use.

THE VALUE OF CONVENIENCE

As discussed on page 4, the emergence of easy to use legal services has made internet video piracy less attractive. This is because:

- > Files take time 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

Figure 9: On-demand services used in Spain

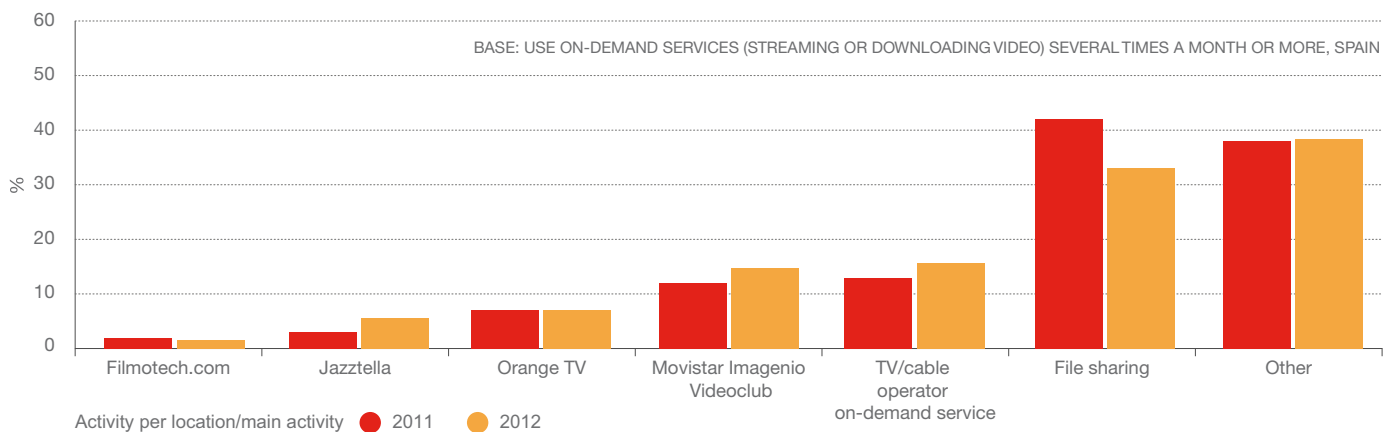
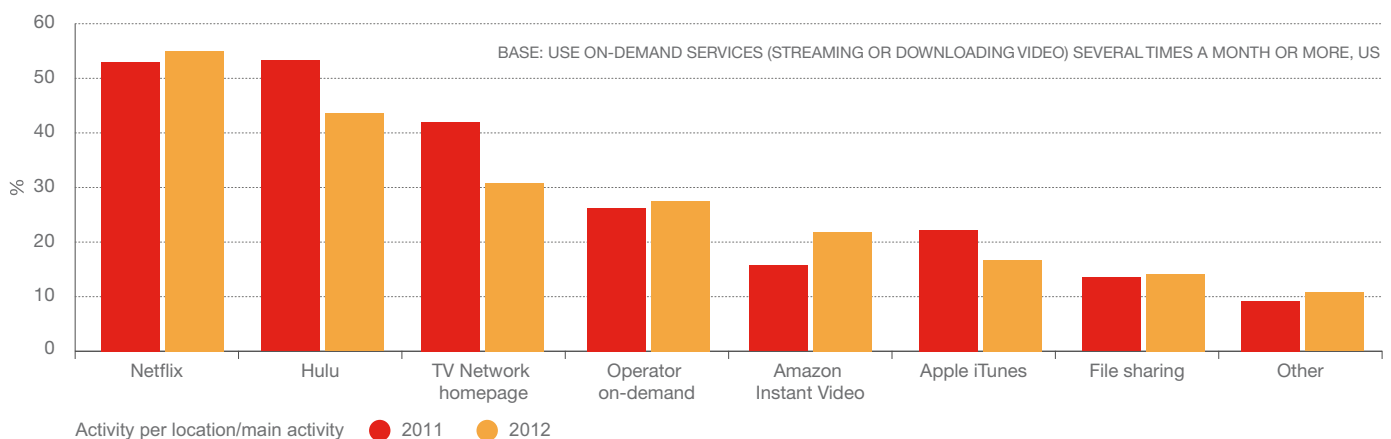


Figure 10: On-demand services used in US



Legal alternatives

The data in figures 9 and 10 suggests that those who turn to piracy do so because their chosen content is simply not available through legal sources. 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.



Finding Netflix was like a godsend! Netflix lets me be me!"

Female, 35, Chicago

THE FUTURE

One service – any content

Today, consumers have access to a multitude of different on-demand services as well as linear TV channels. These sources offer a good service, yet consumers are struggling to merge them together. People are eagerly looking for an aggregated service which can bring all content into one experience.

There is an opportunity for current aggregators from many different service areas to take this new role, whether it be a social networking brand, an existing on-demand service or a traditional TV provider. Whoever takes this mantle will need to expand their business to support all ways that consumers watch TV. These include:

- > On-demand
- > Live TV
- > Premiers
- > Background viewing

This ideal aggregated TV and video service would need to help consumers discover new content in a reliable and inspiring way, integrating social aspects and recommendations. An example of this is the way that many online music aggregators currently help subscribers to discover new artists.



Methodology

SCREENING REQUIREMENTS: HAVE BROADBAND ACCESS AND WATCH TV/VIDEO AT LEAST WEEKLY

CHICAGO (MAY 2012)

- > 10 qualitative, in-home interviews
 - 7 people reduced spending
 - 3 canceled their package

STOCKHOLM (MAY 2012)

- > 4 domestic interviews
 - 3 people reduced spending
 - 1 canceled their package

○ **Qualitative:**
14 in-home interviews (10 in Chicago, 4 in Sweden)

● **Quantitative:**
12,000 online interviews (1,000 per country) in US, UK, China, Spain, Sweden, Brazil, Taiwan, South Korea, Germany, Mexico, Chile, Italy

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Our offering comprises services, software and infrastructure within Information and Communications Technology for telecom operators and other industries. Today more than 40 percent of the world's mobile traffic goes through Ericsson networks and we support customers' networks servicing more than 2.5 billion subscribers.

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