

TV 2.0: Winning the Battle for Viewers

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Internet video will transform the traditional linear TV experience through a dramatic expansion in the quantity and type of content available on TVs. As a result, service providers need to focus on providing a superior user experience to capture and engage viewers. By doing so, the opportunities for network operators should far exceed the revenue risk posed by Internet video.

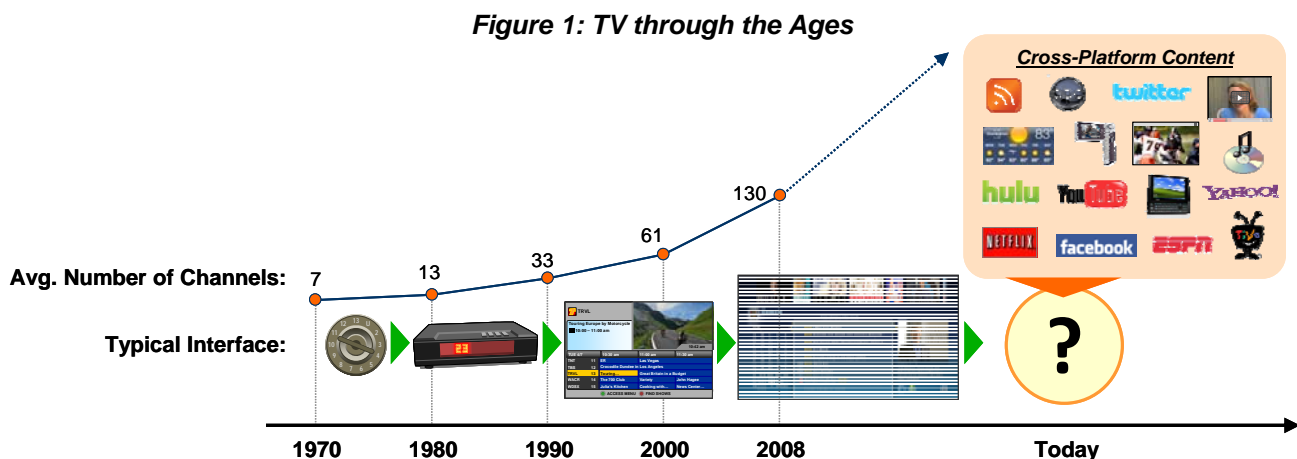
TV 2.0: Introduction

The dynamic is inevitable. The Internet has come to mobile phones and now it's coming to TVs. While mainstream adoption will take time, the long-term trend is clear. The availability of Internet content, user-generated content, interactive applications and other cross-platform content on TVs will transform the television experience. We refer to this transformed experience as TV 2.0.

Many players are staking out positions but a clear winner has yet to emerge. Service providers have a unique opportunity to capitalize on this transformation by supplementing core video with cross-platform content and revamping interfaces to enable users to navigate and interact more effectively. However, this strategy requires collaboration with device, content, and software developers to be successful.

TV 2.0: Clear, but Incipient, Trend

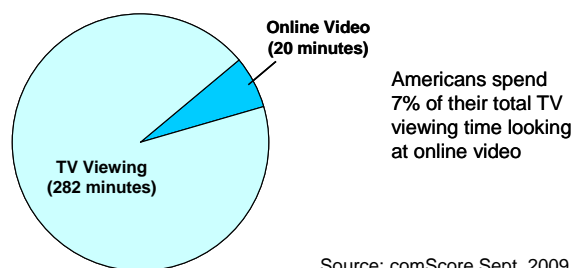
TV has undergone a number of changes since the 1970s. Until very recently these changes were limited to quantity (the number of channels available) and quality (the transition to color and then to HD). Since 2000, a subtle shift began to occur towards greater user control of the viewing experience. More recently, it has included the incorporation of user-generated and Internet content. This trend is accelerating and expanding to widgets, social networking, and other interactive content. Ultimately, changing content sources and types will drive the emergence of new business models.



Source: Nielsen 2009,
CSMG analysis

Despite a large and growing audience for online/Internet video, viewing time remains far below that of traditional TV. According to comScore, a record 168 million Americans viewed 26 billion online videos in September 2009. However, viewers watched online video for an average of only ~20 minutes per day – far below the 282 minutes of total TV viewing per day.

Figure 2: Online Video Remains Marginal



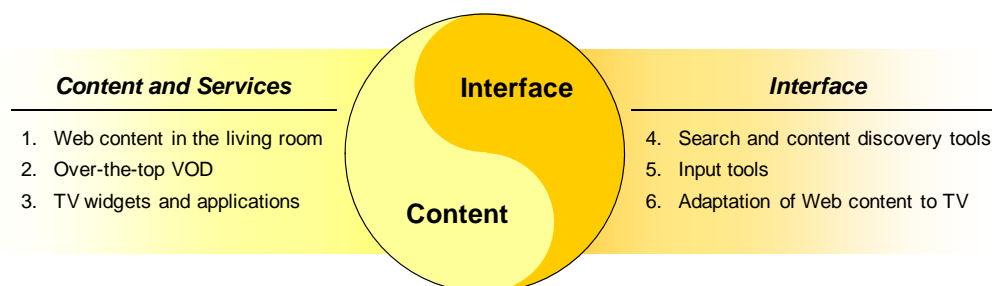
Additionally, as service providers know, online video has not yet significantly impacted revenues or driven cord cutting. Multichannel subscriptions grew another 2-3% annually, surpassing the 100 million mark in 2009. Subscription revenue represents more than 80% of service providers' video related revenue. By contrast, ads and VoD, which are most likely to be impacted by online and cross-platform video, drive less than 10% of service providers' video related revenue.

So why should service providers be concerned? The value of linear TV is declining. Online and cross-platform video create viable substitutes for certain segments of subscribers. Moreover, subscribers are reaching the point where there are more channels than they need or value. As evidenced by recent drivers of share shift in the mobile sector (e.g., iPhone, BlackBerry, etc.), pay TV provider selection, satisfaction and churn will increasingly be driven by factors such as ease of use and superiority of experience.

TV 2.0: Key Developments

TV 2.0's emergence will be driven by mutually reinforcing interplay between expanding content and interfaces evolving to support the new content. Content and service partnerships will redefine what consumers expect from TVs and user interface improvements will evolve to enable consumers' to access and interact with new content and services.

Figure 3: Interlocking Dynamics



We have identified six major industry developments that illustrate the evolution of TV 2.0.

1) Web Content in the Living Room

The defining characteristic of the TV 2.0 shift is the integration of Internet content into the TV. For example, both TiVo and Verizon FiOS offer non-traditional video content previously accessible only via PC – including User-Generated Content (UGC) and RSS video podcasts – alongside traditional linear TV content. TiVo has added hundreds of new RSS video podcasts to supplement TV listings, VoD libraries, and existing Web content (e.g. YouTube). Verizon FiOS TV has begun offering streaming Web video from blip.tv, Dailymotion,

and Veoh in its VoD library. Interfaces for adapting Internet content to the TV remain rudimentary but, as they improve, they will enable users to quickly and easily access the entire spectrum of long-tail content.

Although these new types of content may only marginally impact VoD and premium channel revenue today, service providers' ability to integrate cross-platform content will ultimately be critical to maintaining market share. To differentiate their offers, service providers should embrace online video partnerships and develop, with both device and software providers, approaches to seamlessly integrate Web content.

2) Over-the-Top Video on Demand (VoD)

The most immediate impact of cross-platform content on service providers is the potential for VoD revenue declines due to the rapid expansion in hardware options to provide over-the-top VoD. Manufacturers of HDTV sets (e.g., Samsung, Panasonic, Vizio), Blu-ray players (e.g., Sony), third-party boxes (e.g., Roku), and gaming consoles (e.g., Xbox) have increasingly partnered directly with content aggregators (e.g., Blockbuster, Amazon, Netflix, Vudu) to provide VoD services and interactive features over-the-top. Costs of upgrades and set-up challenges may dissuade some subscribers from adopting these options; however, service providers cannot ignore the threat.

As large consumer electronics makers enable their video hardware to deliver new types of content, service providers face increasing pressure to avoid being cut out of delivery models. In the future, leading providers of video content and services will house extensive libraries of streaming VoD content for viewers who prefer time-shifted content on-demand. Service providers will have little choice but to develop more compelling VoD and Web content bundles which may in fact provide opportunities for revenue uplift.

3) TV Widgets and Applications

TV-based widgets provide viewers with two-way interactive information and media (e.g. personalized news, sports, weather, social media), and can be either bound directly to on-screen content or operate on a standalone basis. Service providers, hardware manufacturers, and Web 2.0 players have been actively seeking to add interactive features and applications to the TV viewing experience. Offerings in this space have not yet gained significant traction with users but capabilities and offerings have been developing rapidly.

Popular social networking sites are among the most notable interactive widgets currently being bundled into video offerings. Facebook and Twitter are now directly accessible from the TV via both Yahoo! Widgets and Verizon FiOS. By integrating real-time social media with traditional video content, widgets such as Twitter can enhance the live TV viewing experience and potentially counteract the trend toward time-shifted video. These widgets could also enhance content discovery by leveraging user ratings and opinions, thus increasing viewing time and overall satisfaction.

Figure 4: FiOS Pairs Video with Relevant Tweets



Source: Verizon

Successful service providers may find that optimal deployment of widgets has three main implications: 1) increased market share due to increased value users derive from widgets, 2) increased advertising revenue through sidebars and overlays that keep viewers' attention during commercials, 3) enablement of interactive advertising. To maximize their chances of success, service providers should establish developer ecosystems with attractive revenue sharing models and APIs. Companies with closed or proprietary approaches will lag behind those that share the costs of developing widgets and actively leverage outside creativity.

4) Search and Content Discovery Tools

With the proliferation of long-tail Internet video and interactive cross-platform content, leading-edge users are suddenly swimming in content. Today's interfaces are not optimized for the emerging universe of fragmented content, applications, and features. Traditional user navigation, which emphasizes linear TV listings, has become a bottleneck to delivering the full value of cross-platform video to users. Content and service providers need to redesign navigation to tightly integrate multiple content types and add advanced search and content discovery tools to enable users to effectively navigate the flood of content.

Third-party DVR providers have begun the work of integrating the interface. TiVo offers a universal search feature which spans all content types – TV listings, VoD, DVR, and Web content. Windows 7 Media Center boasts a sleek user experience optimized for navigating multiple types of content from a centralized interface (but remains PC-centric and difficult to integrate into the living room experience).

Figure 5: TiVo Allows Seamless Search across Content Types



Source: TiVo

More robust search and recommendation engines are critical to breaking the interface bottleneck to enable users to derive value from cross-platform content. The latest content discovery tools (e.g., Netflix which offers state of the art collaborative filtering, and Pandora which represents the state of the art in expert systems driven recommendations) guide users by predicting which content a user will like.

To help users and increase usage, service providers should start by implementing universal search with results that show predicted preference. Over time they can develop an interactive recommendation mode that combines the latest collaborative filtering, expert systems, and social networking inputs. Because developing a compelling interface is a challenging art involving many trade-offs (e.g., managing multi-user households, balancing choice versus ease of use, optimizing for the 10 foot environment, etc.) providers that lead and get the mix right will enjoy sustainable differentiation driving market share and revenue.

5) Input Tools

Input tools need to evolve to keep pace with the expanding offering. Today, content is exploding in three dimensions: quantity, diversity of type, interactivity. This sudden fundamental shift, and in particular the increase in interactivity, calls for much more robust input tools.

Early adopters are navigating cross-platform content and using widgets with new QWERTY remotes and “air-mouse” functionality. Examples of leading edge input tools include Vizio’s QWERTY remote, the Hillcrest Loop remote, and an iPhone application that combines QWERTY and airmouse functionality. Future implementations may even usefully leverage voice input or emerging approaches such as gestural navigation.

Figure 6: Lenovo’s Multimedia QWERTY and Trackball Remote



Source: Lenovo

Smartphone economies of scale are already reducing the cost of accelerometers and QWERTY keyboards and component prices will drop further as they are incorporated more widely into consumer electronics. Service providers need to form ecosystems with STB makers, CE players, and others to determine how they can best incorporate these capabilities into a holistic solution (and minimize wasteful overbuilding of each others’ capabilities).

6) Adaptation of Web Content Interfaces for TV

As Internet video content has begun to move cross-platform, Web 2.0 players have begun to adapt their interfaces for consumption on TVs. Hulu Desktop, a standalone program which enables users to view videos without a Web browser, features a simplified menu system, and is compatible with a remote control. YouTube XL optimizes videos for the TV and includes only essential navigation items.

Figure 7: YouTube XL Is Optimized for TV



Source: YouTube

With YouTube, Hulu, and other video websites growing in popularity, versatility in the user experience is increasingly becoming table stakes. As more users want the option to watch video at their computers, on their TVs, and on-the-go, non-traditional content providers will adapt by optimizing their interfaces for multiple platforms (just as many have already done for the mobile environment).

To take advantage of this trend, rather than suffer from it, service providers need to ensure that their platforms strike a balance between being easy to develop for (through openness and robust APIs) and maintaining control to ensure quality and capture value from Internet content.

Conclusion

Although service providers, content players, and device manufacturers have made tremendous progress in recent months, opportunities to capitalize on emerging video formats, internet content and access to personal media from the TV are plentiful. Much work remains before comprehensive, easy-and-enjoyable-to-use cross-platform content solutions are widely available to consumers.

To mitigate risks and preserve value in their current video business, service providers must both embrace new types of content and redesign the user experience. Interface, search, recommendations, and input are critical areas for improvement to manage the expanding set of available content. Integrating these solutions into current pay TV platforms can facilitate much broader adoption and use of cross-platform content. Only after this vision has been achieved can we expect the TV 2.0 “revolution” to occur.

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