

# What consumers want from TV/video solutions

How consumer behavior, trends, drivers and barriers, as well as industry regulations, impact the consumption of TV/video content

white paper

# Overview

Traditional TV distributors, as well as telecom service and content providers, are failing to satisfy consumer demand for TV/video services. If they do not respond and adapt to what consumers want, they will either lose their place in the value chain or have a diminished role in it and ultimately be relegated to the role of a niche provider of passive TV/video content.

The two primary reasons behind the failure to satisfy consumer demand are:

- unattractive services; too many offerings are short on content or outdated, the content is in the wrong format, the services are confusing or laborious to use, the services don't let consumers watch TV/video the way they want and providers charge too much for their services or content;
- lagging regulations; regulations have not kept pace with advances in technology, giving rise to an uneven playing field. In

many instances, existing regulations prevent operators from creating compelling offerings.

To successfully provide appealing TV/video solutions, the telecommunications industry, as well as providers and distributors of TV/video content, needs to base services and offerings on consumer wants, needs and behavior. This includes reviewing and revising the regulations that control and limit the offerings on the market.

This white paper examines the topic of TV/video services as seen from a consumer perspective. It backs up the problem statement with Ericsson ConsumerLab research about consumer behavior, including how and why consumers watch TV/video, the emergence of "digital natives," and other industry trends. It then proposes how regulators and players in the industry can address these behaviors and satisfy consumer demand.

# Unsatisfied consumers seek alternatives to conventional content and service providers

Traditional TV distributors, as well as telecom service and content providers, are failing to satisfy consumer demand for TV/video services. Consumers will not accept just any TV/video offering. Instead, they actively seek and select solutions, such as alternative technologies and distribution channels, which best match their behavior, needs and expectations.

IPTV, mobile TV, computers, file-sharing and other new technologies give consumers access to new capabilities, services and options. At present, however, no single service or interface offers all the options or gives consumers the full control they need. To fill the void, more and more consumers are creating personalized, “home-brewed” solutions by mixing a variety of technologies, solutions and distribution channels that fit their habits and requirements. For example, after arriving home from a day at work or school, a consumer may switch on the TV (broadcast content) to check for any interesting programs or to simply relax. Then, they might decide to watch a movie they have downloaded to their computer (on-demand content). Later in the evening,

## **Managed TV**

Managed TV describes traditional TV/video solutions, which primarily comprise digital terrestrial and satellite solutions, as well as linear and interactive solutions, such as solutions provided via telecom and cable operators. Terrestrial and satellite are linear, while the latter are either linear or on-demand. All managed-TV solutions offer end-to-end control or guaranteed quality of service.

## **Unmanaged TV**

Unmanaged TV describes the consumption of TV/video content via open-access, best-effort, internet connections provided by telecom and cable operators. The distribution platform allows interactive, on-demand services, but lacks the end-to-end mechanisms needed to guarantee quality and control. End-users pay to access the internet and for their set-top box (for instance, a PC). The content is financed either directly by consumers or advertising, or indirectly by managed-TV offerings, which pay for a release window in the managed channel. Redistribution to internet channels takes into account the former source of revenue.

the consumer might watch videos on YouTube (streamed, on-demand video content).

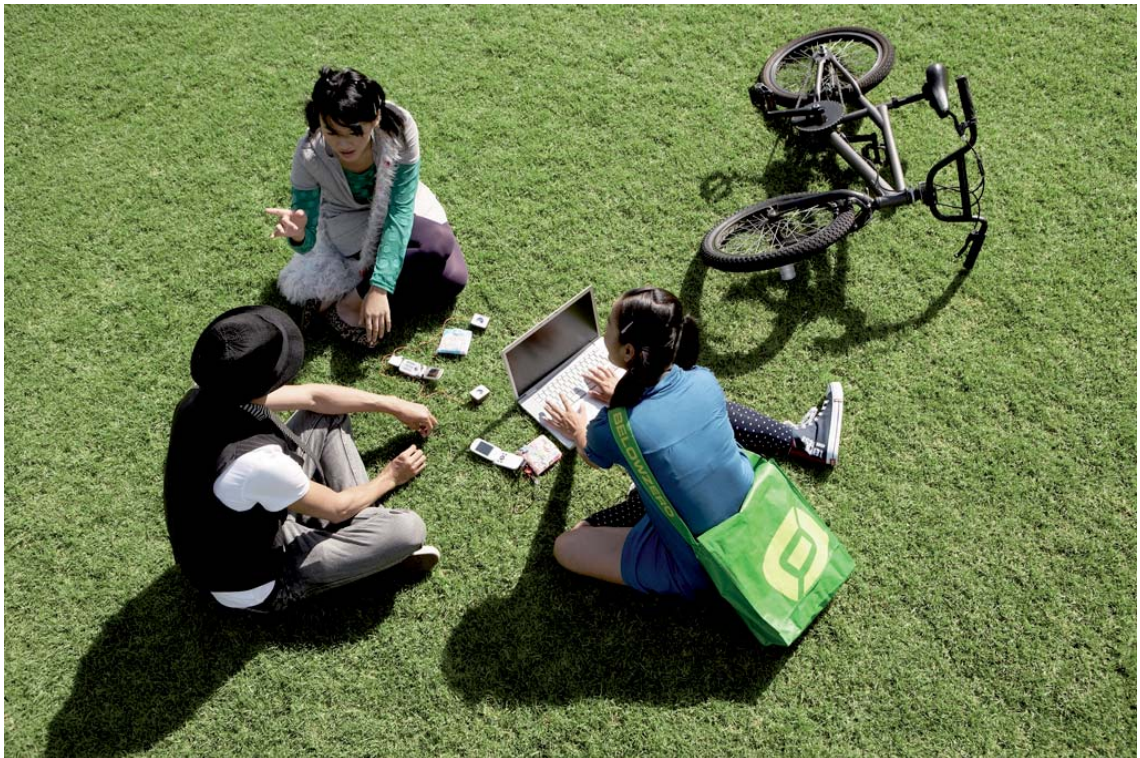


Figure 1: Digital natives are used to having computers and digital media as part of their everyday life and their habits reflect a clear mix of these worlds. They are also fully mobile, which puts new demands on technology, services and content.

## Digital natives

The unique habits of the digital native consumer group are here to stay and destined to become mainstream. A digital native is someone born into the digital era, who has always had computers and digital media as a natural part of their everyday life (Figure 1). Digital natives are used to having a lot of options and expect to have access to content at any time. A lot of digital natives also tend to develop “mixed-service” habits to meet their needs. Most don’t care if the services or methods they use are legal or not.

The emergence of the digital native presents a clear business opportunity for the telecoms

industry, but it also highlights the need for urgent and significant change. If mainstream technologies and offerings, existing broadcast business models and the regulatory environment do not change to support consumer habits and requirements, then managed TV/video will lose its place in the value chain or have a diminished role in it. This will ultimately see the industry relegated to the role of a niche provider of passive entertainment and live broadcasts.

## Why people watch TV/video

There are many reasons why people watch TV/video. One reason is that its content plays an important and complex role in social interactions. People have always talked about different kinds of content and it has become an important part of social contact. While there have always been ways to share

### The social role of content

Many daily conversations center on what “was on TV last night.” Members of some social groups need to have watched a particular show or series to participate in the group’s discussions. Similarly, members of other social groups, such as students, like to interact by sharing songs, video clips, pictures and other content using websites such as YouTube. This interaction becomes a social event, but because of the restrictions on some types of file-sharing, some consumers shun protected media.

content, such as exchanging DVDs and so on, today identical content can be watched by multiple parties, which is true “sharing”.

Given the important role which content plays in everyday life, social pressure is strong; so strong that if users cannot access desired media via legal means, they may feel compelled to turn to alternative sources.

Other reasons for consuming TV/video include:

- ❖ entertainment;
- ❖ backdrop/company; some people leave their TVs on in the background to fend off loneliness;
- ❖ babysitter; TV/video has become a helping hand for managing children;
- ❖ relaxation; to unwind after a long day;
- ❖ information; news.

## How people watch TV/video

The way people watch TV/video has changed, including what they demand and expect from solutions and technologies that offer content. Traditionally, people have watched TV/video in a “broadcast-based” way, but with the introduction of new services and distribution channels, more and more consumers are beginning to watch TV/video content when they want.

Broadcast TV/video content is sent or distributed at a certain time through a certain media; consumers see what is offered at that very moment. If consumers want to watch a

particular program, they have to adjust their own schedule to fit the broadcast schedule. By recording a program, consumers transform it into on-demand content. Broadcast TV/video is ideal for relaxing and live events, allowing consumers to share the same experience, to “talk the same language” when they discuss it.

On-demand content allows consumers to decide when they want to watch something, meaning they are not forced to fit in with a TV schedule, and to some extent what they want to watch, depending on the range of content offered.

## New requirements for TV/video content

The adage “content is king” is particularly relevant to the TV/video sphere, with recent research conclusively showing consumers want quality content. Even so, consumers embrace some TV/video services, but reject others. Why? One answer is that providers and policy-makers don’t know enough about consumers and what they want or need.

Today’s consumers are increasingly demanding more and developing new habits

and behavior, based in the conventional world of TV, as well as the internet world. This behavior involves several kinds of media, a large selection of channels or content and a variety of platform technologies, such as YouTube, DVDs, video-on-demand (VoD), broadcast TV and mobile TV. Such an array of platforms also allows consumers to decide how, when, where and what they want to watch, as they can access, play and pause

content at any time of the day, often from any location. This explains consumer interest in on-demand, time-shift and to some extent, place-shift features. This ability has created

new habits, such as unmanaged TV/video with on-demand watching and puts new demands on future solutions.

### The importance of usability

Usability becomes even more important as more new advanced features, services and options are offered to consumers. The classical setting and role of TV/video is associated with relaxation and as an entertainment experience, such as a good movie. Good usability helps

maintain this relaxed state or mood; poor usability interrupts it and “ruins” the experience. Poor usability and other interruptions are major obstacles that keep consumers from using a service.

### Lagging regulations create an uneven playing field

TV/video has evolved dramatically in recent years. New technologies, such as IPTV and the internet and the content industry, have given consumers a wealth of attractive TV/video content. Telecom, TV/broadcast regulations and copyright legislation have not kept up with a raft of rapid technical developments, giving rise to an uneven playing field (Figure 2).

Social development commonly occurs when new technologies emerge that are designed to help consumers better meet their needs. Unfortunately, because regulations lag behind, the managed-TV industry has been prevented from using such new technologies. Other content providers are also held back by other kinds of regulation or the lack of it.

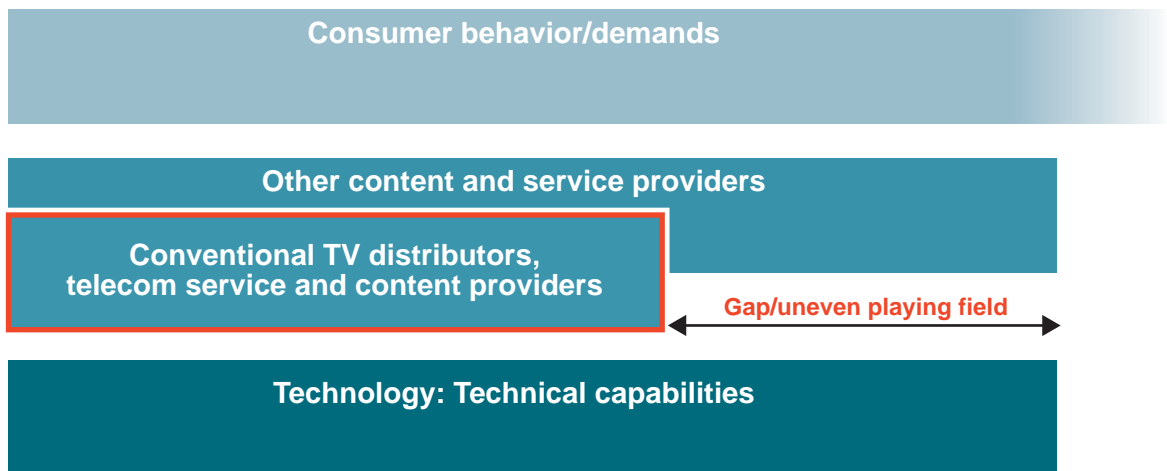


Figure 2: Unlike consumer behavior/demands, regulations have not kept pace with advances in technology, giving rise to an uneven playing field. In many instances, existing regulations prevent operators from creating compelling offerings.

# Giving consumers what they really want

The assertion of this white paper is that TV/video services, indeed all consumer services, should always adopt a consumer-based approach. The design and realization of new services should be based on real knowledge of consumer behavior, needs and demands. Why? Because consumers will always choose the solution that best fits their needs.

All future TV/video solutions should be based on solid research about what consumers really want and the end product should meet these demands. An even playing field is central to this, but even without one,

the managed TV/video and telecom industry should do its utmost to provide attractive consumer services, closing the gap as much possible with service providers who are able to exploit the capabilities of new technologies.

To successfully satisfy consumer needs, the industry must:

- ❖ base future services on the findings of actual consumer behavior research and real consumer needs;
- ❖ adapt regulations and technology to create an even playing field;
- ❖ build and offer user-friendly services.

## Adapting regulations to consumer needs

Regulators can create an even playing field by giving all distributors a fair and equal set of rules. All distributors should be allowed to benefit from the same technology-neutral, platform-agnostic and device-agnostic rules and conditions. Distributors should also be given fair and non-discriminatory treatment to compete by providing a wide range of legal and fairly priced content. Growing the amount of competitive legal solutions that align with end-user needs will help ensure the future of TV/video.

The most important business issues requiring

regulatory attention are the prerequisites for distributing legal, interactive, network-based media. This can be broken down even further (Table 1).

The evolution and promotion of interactive distribution networks calls for more symmetry in the regulatory environment across distribution networks, for example, by focusing on services not technology regulation. The promotion of industry standards for digital rights management, conditional access (DRM/CA) encryption and set-top box interfaces will give end-users a range of new choices.

**Table 1. Necessary prerequisites for legal media distribution**

Wide-ranging and timely availability of separate TV programs and individual movies (VoD) for on-demand distribution.
Technology-independent and device-independent terms and conditions that focus on value proposition (streaming, download-to-own and so on).
Non-discriminatory access to content over a wide range of competing distribution networks.
Fair and reasonable royalty levels that make legal alternatives competitive with physical formats.

## The threat of illegal services

A recent consumer study, *IPTV and New Home Consumer*<sup>1</sup>, highlights the importance of providing flexible, simple-to-use services. The study’s findings clearly show that it is crucial to provide services specifically designed for end-users.

When determining why somebody chooses a specific service or solution, a variety of key aspects, such as motivation, barriers, and the overall experience, must be considered. Motivation encompasses perceived positive aspects; that services fit consumer lifestyles, tastes and habits. Barriers can include price, restricted accessibility, poor usability and lack of security. The overall experience includes quality, customization and so on.

The following figures describe a typical consumer’s decision to use legal content, such as TV programs, DVDs or VoD, or illegal content, such as streaming or downloading pirated programs/movies. The height of the columns in Figures 3-5 is not exact, but rather indicative of how users value different features when comparing two or more services.

Figure 3 shows that certain consumers perceive the total sum of an illegal service to have greater value than its legal counterpart. It comes as no surprise that consumers prefer the illegal option, given it is seen as a “better” solution, offering more content, better access, lower price and to some extent, the option to decide when, where and how a program is viewed.

Figure 4 shows a typical example of how the establishment has dealt with “illegal” threats to date, by outlawing some options and imposing hefty fines on those caught using them. “Outlawing” refers to moral factors. This is a relatively small percentage of the total value, because consumers do not consider this aspect to be all that important, or in the case of some pirates, not at all important. This does not mean consumers are immoral, but they do have a different mindset than content providers; for example, consumers consider previously broadcasted TV programs to be in the public domain.

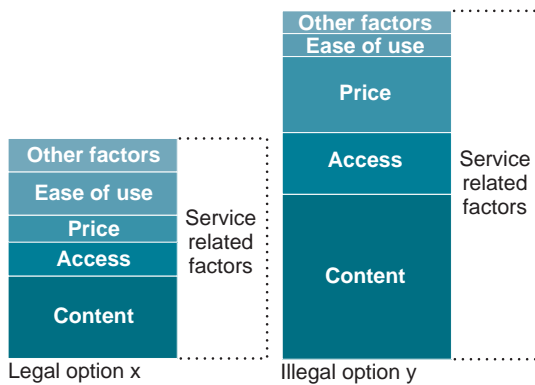


Figure 3: Perceived value of two services

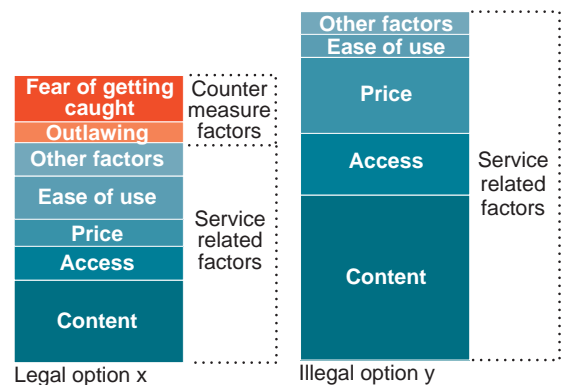


Figure 4: Total perceived value of two services and the effect of legislation and anti-piracy laws

<sup>1</sup>Research in UK, Italy, Estonia, Sweden and Brazil by Rönblom & Erlandsson study 2008

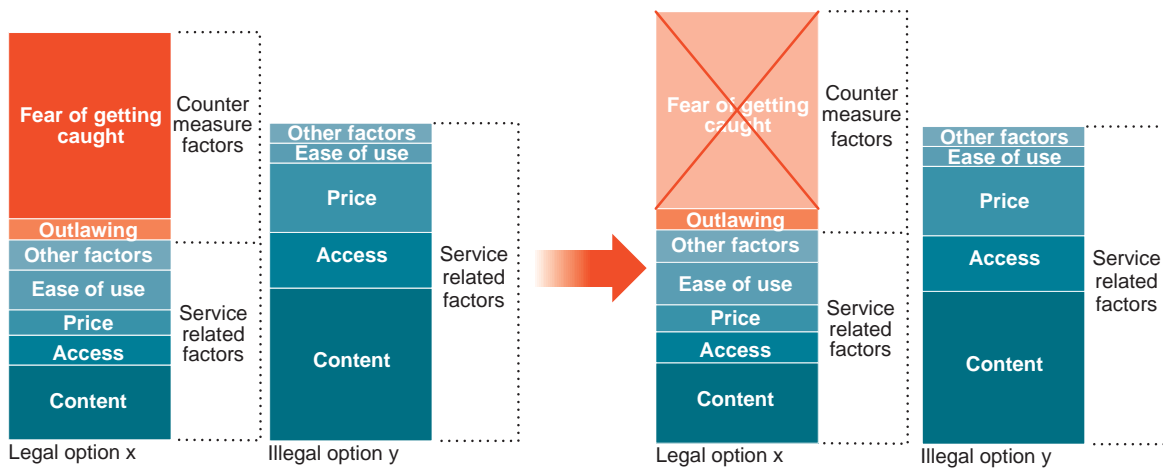


Figure 5: "Fear of getting caught." The effect of IPRED legislation (left) and how it might backfire (right).

Figure 5 shows that of the introduction of the IPR Enforcement Directive (IPRED) added a significant "fear of getting caught" element to the equation. For example, file-sharing traffic in Swedish networks decreased by about 30 percent the first week after this law took

effect in Sweden. This approach, however, will only work as long if the fear element is present. If the file-sharing traffic were encrypted, for example, this element and its effects would vanish.

# Conclusion

The best way to keep consumers satisfied is to give them what they really want. This calls for a true consumer approach, based on research about behavior and demands. This approach should also serve as a basis to the long-term plan to regulate the playing field, by allowing traditional TV/video providers to compete fairly with other content and service providers.

The best way to fight piracy is to make legal options more appealing than illegal ones. What is it about non-conventional services that consumers find so compelling? Consumer behavior research reveals three main factors:

- price;

- scope of content; virtually everything is available; one advantage in favor of legal services, on the other hand, is that providers can guarantee the quality of their content;
- access to content; consumers want to be able to consume content when, where and how they like, according to their habits and needs.

If existing legal alternatives were able to give consumers the same services or options as the illegal ones, the usage of illegal services would be greatly reduced.

In some cases users are forced to turn to illegal services to be able to watch what they want, when they want to.

*The goal should be to offer user-centered high-quality services that motivate consumers to stay legal; not a system or service that “forces” them to stay legal.*

# Glossary

CA	conditional access
DRM	digital rights management
IPR	intellectual property rights
IPRED	IPR Enforcement Directive, a European Union directive in the field of intellectual property law
IPTV	Internet Protocol Television
VoD	video on demand