



Internet **Home** Alliance

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## iPTV Demand Study

February 2006

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# Executive Summary

## Current Cable or Satellite TV Service

- **About one-in-two consumers are 'very satisfied' with their current cable or satellite TV service.**
- **A plurality of consumers selected their current cable TV service to take advantage of high-speed Internet service.** The availability of high-speed Internet service even trumped price.
- **A plurality of consumers selected their current satellite TV service for attractive pricing.** Better program choice also proved to be a popular rationale.
- **Only about 7% of consumers are likely to switch their cable or satellite TV provider in the next 12-months.** Consumers unlikely to subscribe to the IPTV solution we tested are more likely than those who will probably or definitely subscribe to say they will not switch. This makes sense because they tend to be the consumers most satisfied with their current provider.
- **About two-in-five consumers are 'very satisfied' with their particular TV channel package.** Among the specific aspects of TV channel packages we tested, the program guide receives the biggest accolades, followed by the ease of channel selection.
- **At the conceptual level, all of the alternative TV channel package selection methods we tested generated more consumer enthusiasm than the conventional tiered package method.** The a' la carte and flat rate channel selection options virtually tied for the top-spot, with the hybrid method a close third.
- **Consumers likely to subscribe to the IPTV solution we tested are more likely than those who might or are unlikely to do so to find any of the non-conventional TV channel package options 'very desirable.'** Clearly, they are looking for innovative TV channel selection methods.

# Executive Summary

## DVR Functionality

- **About one-in-four consumers owns a DVR provided by their service provider, while another 13% own a standalone unit.** The total self-reported ownership numbers appear to be a bit inflated based on secondary info and our own recent State of the Connected Home Market research; nonetheless, the numbers among MMCs seem reasonable.
- **Most consumers are ‘very satisfied’ with the DVR attributes we examined, including ease of use overall.**
- **Among the current and potential DVR functionality we examined, digital recording—the most essential feature—generated the greatest enthusiasm among consumers.** Other features considered ‘very desirable’ by a majority of consumers include: stream control, multi-room viewing and DVD selection.

## iPTV Functionality

- **A majority of consumers consider high-definition TV channels ‘very desirable.’**
- **Nearly one-in-two consumers consider high-def TV channels a competitive advantage—better than what is available today from their service provider.** Relative advantage is typically the most important factor in assessing the market potential of a new product, service or feature. It has the greatest power to predict in-market success.
- **The type of program guide we tested—one that allowed for Google-like searching—is also considered by a substantial percentage of consumers to be superior to what they have today.**

# Executive Summary

## iPTV Functionality (cont'd)

- **Most consumers consider the premium VoD service we tested 'very desirable.'** As presented, this service would allow consumers to choose from a library of commercial-free programming 24-hours a day.
- **The standard VoD service, containing regular TV broadcast commercials, fared relatively well,** with about two-in-five consumers showing a strong interest in it.
- **Subsidized VoD, however, scored poorly.** With this proposed service, programs would contain 'commercial wraps'—entertaining advertisements at the beginning and end of the main content you can't fast-forward through.
- **None of the telephone-related features we examined in the context of the Integrated Video Service (IVS) are especially compelling to prospective consumers.**
- **The two most popular features in this regard—Caller ID management and video phone functionality on the TV—were deemed 'very desirable' by about one-in-four consumers.** Theater mode, which would allow consumers to silence all phones in the house for uninterrupted TV viewing, and the e-Internet phone, followed closely in popularity.
- **The most desirable Internet-related feature we tested is general educational programming.** As presented, this feature would allow consumers to access and interact with educational lessons on topics of interest, ranging from school lessons to practical information, such as cooking and home repair.
- **Localized educational programming and general educational programming virtually tied for the top-spot on the list of features deemed better than what consumers have today.**

# Executive Summary

## IVS Evaluation

- **About one-in-two consumers feel the Integrated Video Service (IVS) concept tested is a ‘terrific idea.’** Both the non-telephony and telephony versions of the concept produced the same results in terms of likeability and estimated demand, indicating that the telephone-related features add little value.
- **Men are more likely than women to consider IVS for people like them (or, compatible with their lifestyle) and to think of more use occasions.**
- **In terms of the IVS concept without telephony, about one-in-three consumers indicate they would likely take steps to find out more about concept and about one-in-four would likely subscribe at a ‘reasonable price’ if it were offered by a company they trusted.** The estimated demand figure represents the total addressable market (TAM)—the maximum percentage of consumers who would subscribe given ideal market conditions. Such conditions include perfect awareness and distribution, a static competitive milieu and the assumption that consumers interested in subscribing had the ability to pay.
- **In terms of the IVS concept with telephony, close to two-in-five consumers indicate they would likely take steps to find out more about the IVS concept and about one-in-five would likely subscribe at a ‘reasonable price’ if it were offered by a company they trusted.** These figures are marginally better than those for the concept without telephony.
- **When asked (open-ended) about why they are unlikely to subscribe to the IVS concept with or without telephony, most consumers indicated they have no need for it.**



# Executive Summary

## IVS Evaluation (cont'd)

- **On average (median), consumers expect to pay about \$90 for the IVS concept without telephony.** On average (median), consumers reported spending \$70 monthly on local and long-distance telephone, along with Internet services. They also reported paying average (median) monthly bills of \$60 for cable or satellite TV service, including any equipment fees. Accordingly, on average (median) consumers spend about \$130 per month on communications/home entertainment services. In this context, a price expectation of \$90 per month represents a reasonable estimate for the IVS concept without telephony.
- **On average (median), consumers expect to pay about \$100 for the IVS concept with telephony.** This figure represents about a 23% discount on consumers' average (median) monthly bill of \$130 for telephony, Internet and cable or satellite TV services. (Please note that when this question was asked, respondents were reminded of the relevant self-reported monthly costs.)
- **MMCs appear to have lower price expectations than LECs.**
- **Given consumers' expected prices, the two versions of the IVS concept yield similar demand estimates—both generate a total addressable market (TAM) figure of around one-in-four consumers.**
- **The key drivers of adoption are TV program selection/package options and price.** With the exception of basic DVR functionality and premium VoD services, most consumers consider the potential features we tested 'nice to have,' but not essential.

# Executive Summary

## IVS Evaluation (cont'd)

- In terms of preferred IVS providers for the concept without telephony, most consumers indicated they would like to see Comcast offer the service, among others. When asked to identify just one potential provider, a plurality chose Comcast. Verizon and DirecTV round out the top-three brands. Interestingly, although AT&T was mentioned as a favored provider by 37% of consumers, when asked to single-out one provider, none selected this brand.
- The preferred provider results for the IVS concept with telephony are similar to those for the concept without it. Comcast is once again the top-choice, though Time-Warner edges out Verizon and DirecTV for the second-spot when it comes to singling out one brand.

## Market Profile

- Demographically-speaking, likely adopters of the IVS concept are likely to be white, college-educated men age 35 or older.
- Most households likely to adopt the IVS concept are dual-income households with annual incomes of \$75K or more.
- As might be expected, most likely adopters are 'very comfortable' with technology and about two-in-five are self-described innovators or early adopters—more than twice the national average.

# Executive Summary

## Market Profile (cont'd)

- **Likely adopters of the IVS concept are more likely than non-adopters to...**
  - Use an Internet-based telephone service like Skype or Vonage;
  - Subscribe to a premium satellite TV service;
  - Subscribe to an on-screen programming guide;
  - Have access to pay-per-view programming;
  - Own an HDTV television set; and
  - Own a standalone DVR (not part of a cable/satellite TV box).

## Background & Methodology

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# Background & Methodology

The entertainment ecosystem represents the area where the interests of primary and mass market consumers most often coincide. (The term 'primary market consumers' is the Internet Home Alliance equivalent of 'early adopters' of new home technology, while the term 'mass market consumers' refers to members of the 'early/late majority' or 'laggards.')

It is in this ecosystem where market entrants are likely to encounter the greatest short-term successes. Based on the recently-completed Digital Entertainment Needs Assessment project, we know a substantial percentage of online households want the type of functionality IPTV can deliver, including time-shifted TV programming (65%), TV programming in multiple rooms in the house (63%) and the ability to surf the Web on their TV while watching a broadcast program (34%). The central question now is: What combination of features/functions will maximize the reach of IPTV?

The main purpose of this proposed project is to optimize the features/functions of a hypothetical IPTV service. More specifically, this study will build on previous research on this topic to accomplish the following:

- Assess target consumers' satisfaction with their current cable or satellite TV services;
- Evaluate the desirability of basic and advanced DVR functionality;
- Determine consumers' IPTV feature preferences, including TV channel package structures, current and advanced TV viewing features such as multiple camera angles, DVR functionality, TV-Web cross-functionality, and TV-telecommunications cross-functionality; and
- Profile likely adopters of IPTV according to distinguishing attitudes, interests, behaviors and demographics.

For the purposes of this survey, we called the hypothetical IPTV service IVS—the integrated video service. We tested two versions of IVS, both with and without telephony features.

# Background & Methodology

The target sample size for this study was 1,200. We captured 1,210 completed surveys from Jan. 10<sup>th</sup> - 23<sup>rd</sup> 2006. A sample size of 1,210 yields results with a margin of error of +/- 2.9%. This means the results come within plus or minus 2.9% of the results that would have been obtained given a census of all qualified individuals.

The sample was further divided between so-called leading-edge consumers and mass market consumers. These segments were defined accordingly:

## **Leading-edge Consumers (LECs)**

- Households where at least one parent is employed full-time and HH income is \$75K or more
- Must own home
- Must subscribe to cable/satellite TV, have broadband access to the Internet from home & a DVR (digital video recorder)
- Must have a high interest in media entertainment in the home
- 50/50 male/female split on head-of-household

## **Mass Market Consumers (MMCs)**

- Households where at least one parent is employed full-time and HH income is \$25K or more
- Must own home
- Must subscribe to cable/satellite TV, have dial-up (or better) access to the Internet from home
- Must have a high interest in media entertainment in the home
- 50/50 male/female split on head-of-household

## Background & Methodology

Within these segments, we established quotas based on geography, and over-sampled the AT&T (formerly, SBC) territories to determine if the company's customers differed significantly from those in other regions of the country. No statistically meaningful geographic differences ultimately emerged.

## Conclusions & Recommendations

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# Conclusions & Recommendations

## Current Cable or Satellite TV Service

- **Consumers are largely satisfied with their current cable or satellite TV services.** In general, consumers gave high marks to their cable or satellite TV service overall. Only about 7% of consumers volunteered they would likely switch providers in the next 12 months. The area of greatest dissatisfaction is ‘value for the money.’ Many consumers believe they are paying too much for watching only about 20 channels and/or utilizing only a limited number of services. (An earlier FCC study found that households watch, on average (median), 17 channels.) This perspective clearly carried over to the evaluation of the IVS concept, as adoption appears to be driving primarily by TV channel/package selection and price. Over and above all the special features we tested, what consumers want most is a better value for what they’re currently getting. One potentially powerful way to position the IVS concept is as a better—more flexible and equitable—version of consumers’ current cable or satellite TV service. Features like a’ la carte channel can serve as important proof points.

## IVS Evaluation

- **A’ la carte and flat-rate channel selection are considered ‘very desirable’ by most consumers.** In this and other recent studies we have conducted on iPTV, a’ la carte and flat-rate channel packages better suit consumers’ needs than conventional tiered-package configurations. Because consumers invariably watch, on average, only about 20 channels, they feel their current cable or satellite TV service is overpriced. After all, they are paying for channels they never watch. The channel package alternatives we presented as part of this research are consistent with consumers’ sense of value, particularly the a’ la carte option. Given the FCC’s recent ruling that allows service providers to disaggregate current tiered packages, the a’ la carte approach is now a viable approach.

# Conclusions & Recommendations

## IVS Evaluation (cont'd)

- **Most consumers expressed an interest in a number of DVR features, namely, digital recording (basic functionality), stream control, multi-room viewing and DVD creation.** About three-in-four consumers indicated basic DVR functionality is 'very desirable,' making this a critical component of any successful IPTV effort. Although this and other research we have conducted in this area suggests DVR functionality in and of itself is not a primary driver of the IVS concept, it is now a widely expected feature requirement. Prospective IPTV providers should regard DVR functionality as a threshold component, with advanced features like multi-room viewing broadly appealing enhancements. DVR functionality represents the next competitive arena once consumers' TV channel package selection and pricing requirements have been met. As a point of comparison, only two other speculative features we tested garnered a top-two box 'desirability' score among a majority of consumers—high-definition channels and premium video-on-demand.
- **Most of the advanced IPTV features tested have a marginal incremental impact on likely adoption.** The number and variety of desirable advanced features differs greatly from respondent to respondent. At one point, we tried to pinpoint common feature bundles only to find that even the most common bundle accounted for less than 10% of the sample. This finding indicates that a relatively narrow feature set that optimizes choice and value for consumers is vital to make this service a success.
- **Telephony features do little or nothing to enhance the value of the IPTV concept.** Estimated consumer demand for the IVS concept with and without telephony is the same. This means consumers regard Caller ID on the TV, theater mode and other telephone-related features as 'nice to have,' but not essential. Consumers expressed the greatest interest in enhanced video functionality. The implication here is that the IVS concept's TV channel package options will be the main driver of adoption.

# Conclusions & Recommendations

## IVS Evaluation (cont'd)

- **The IVS concept could be successful with a minimal feature set.** Based solely on consumer preferences, it appears the IVS concept could be successful with the following minimal configuration:
  - A' la carte and/or flat-rate pricing for TV channel packages;
  - Basic DVR functionality, along with stream control and multi-room viewing;
  - Premium and/or standard VoD services;
  - High-definition channels;
  - Searchable program guide (the on-screen guide equivalent of Google);
  - Parental controls;
  - Video customization;
  - Video guide thumbnails;
  - General and local education programming;
  - TV on the PC;
  - Web access from TV;
  - Caller ID management; and
  - Single-bill option for TV programming, Internet access and telephone service.

To assess the relative value of these features in the context of specific pricing scenarios, the project sponsors should consider a follow-up quantitative study that incorporates a choice-based conjoint (CBC) or similar exercise. Regardless of the configuration, however, consumers want the flexibility of selecting from a menu and paying only for what they use. The fact they can't do this now is their main complaint against existing cable and satellite TV services.

# Conclusions & Recommendations

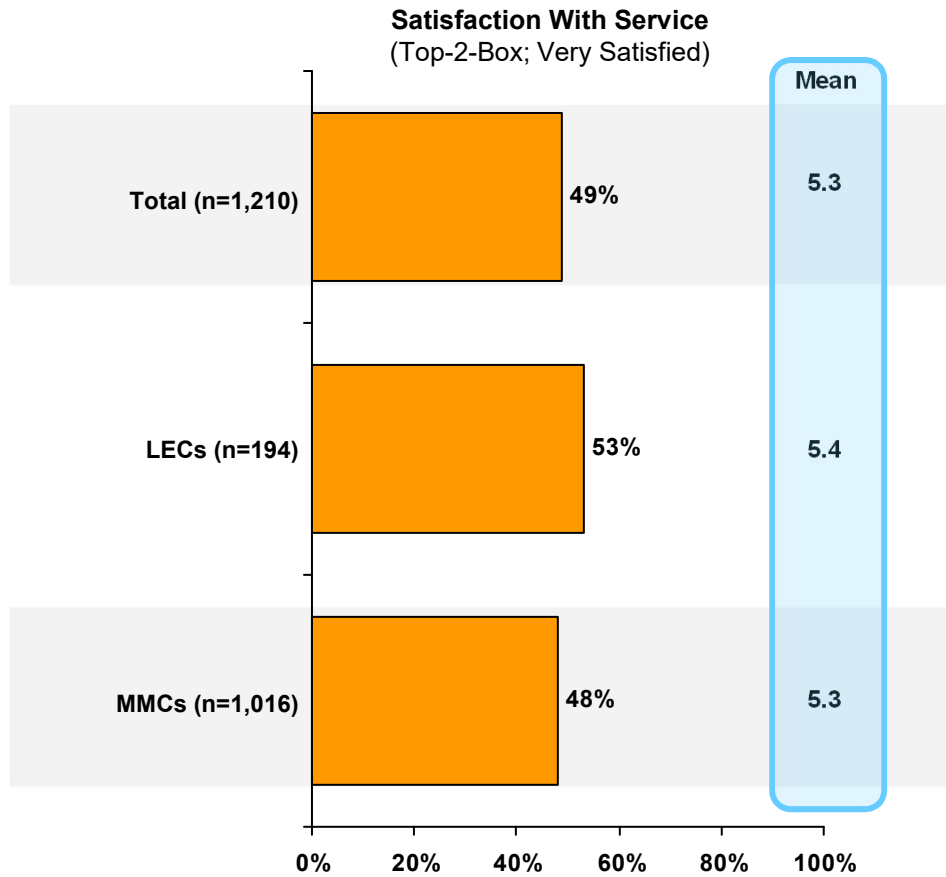
## Market Profile

- **The most likely adopters of the IVS market are traditional early adopters of consumer electronics: relatively affluent married men in their 30s.** Although LECs and MMCs are about equally impressed with the IVS concept, the former are considerably more likely to adopt given their current product ownership profiles and self-reported purchase behavior. This segment is technologically-savvy and in households that can maximize advanced features such as multi-room DVR viewing.

## Key Findings

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- **Key Findings**
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    - Satisfaction with Service
    - Main Reason for Cable TV Service
    - Likelihood to Switch
    - Satisfaction with TV Channel Package
    - Number of TV Channels Typically Watched
    - TV Channel Package Preference
  - DVR Functionality
  - IPTV Functionality
  - IVS Evaluation
  - Market Profile

# Current Cable & Satellite TV Service

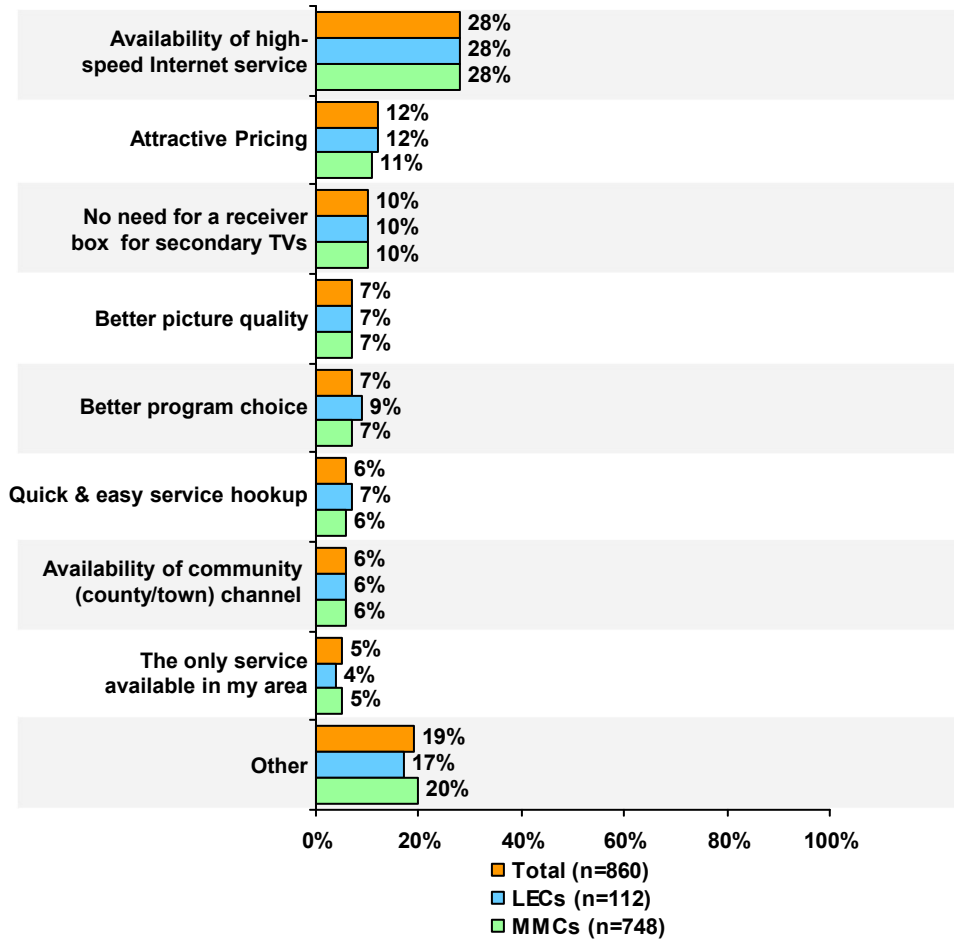


**About one-in-two consumers are 'very satisfied' with their current cable or satellite TV service.**

- As might be expected, consumers unlikely to subscribe to the IPTV solution evaluated as part of this study are more likely than those who might subscribe to be 'very satisfied' with their current service provider.

# Current Cable & Satellite TV Service

Main Reason for Cable TV Service

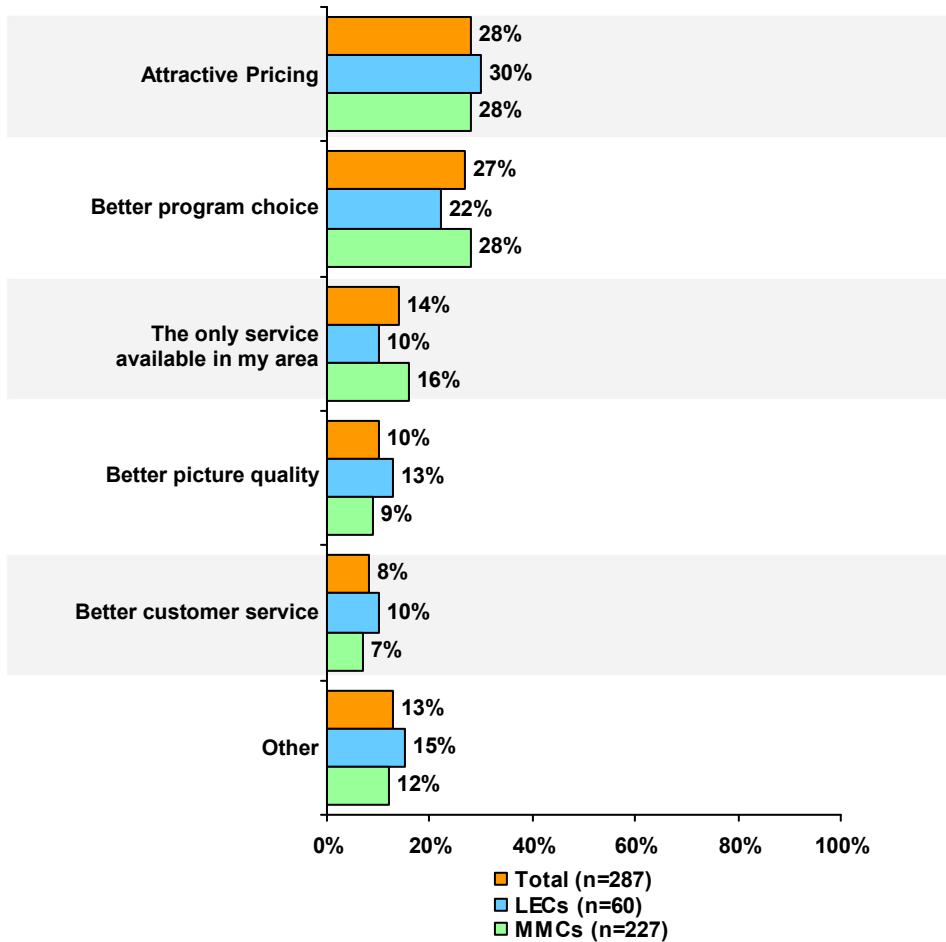


A plurality of consumers selected their current cable TV service to take advantage of high-speed Internet service.

- The availability of high-speed Internet service even trumped price.
- No differences between LECs and MMCs emerged along this dimension.

# Current Cable & Satellite TV Service

Main Reason for Satellite TV Service

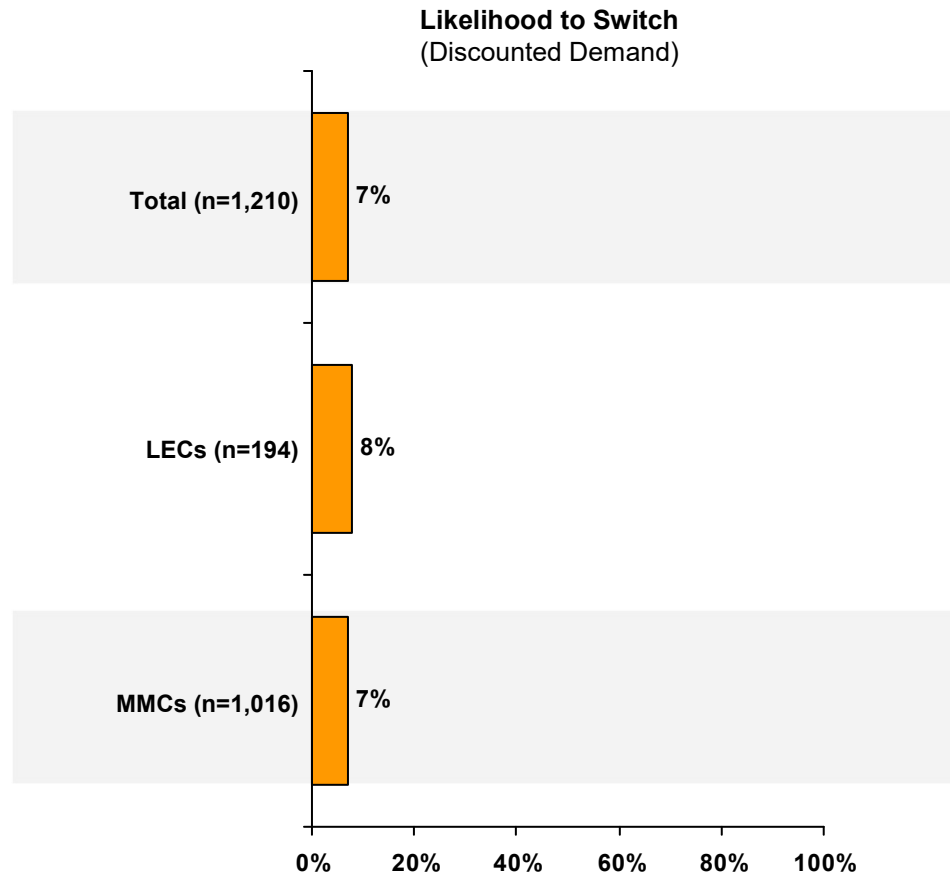


A plurality of consumers selected their current satellite TV service for attractive pricing.

- Better program choice also proved to be a popular rationale.



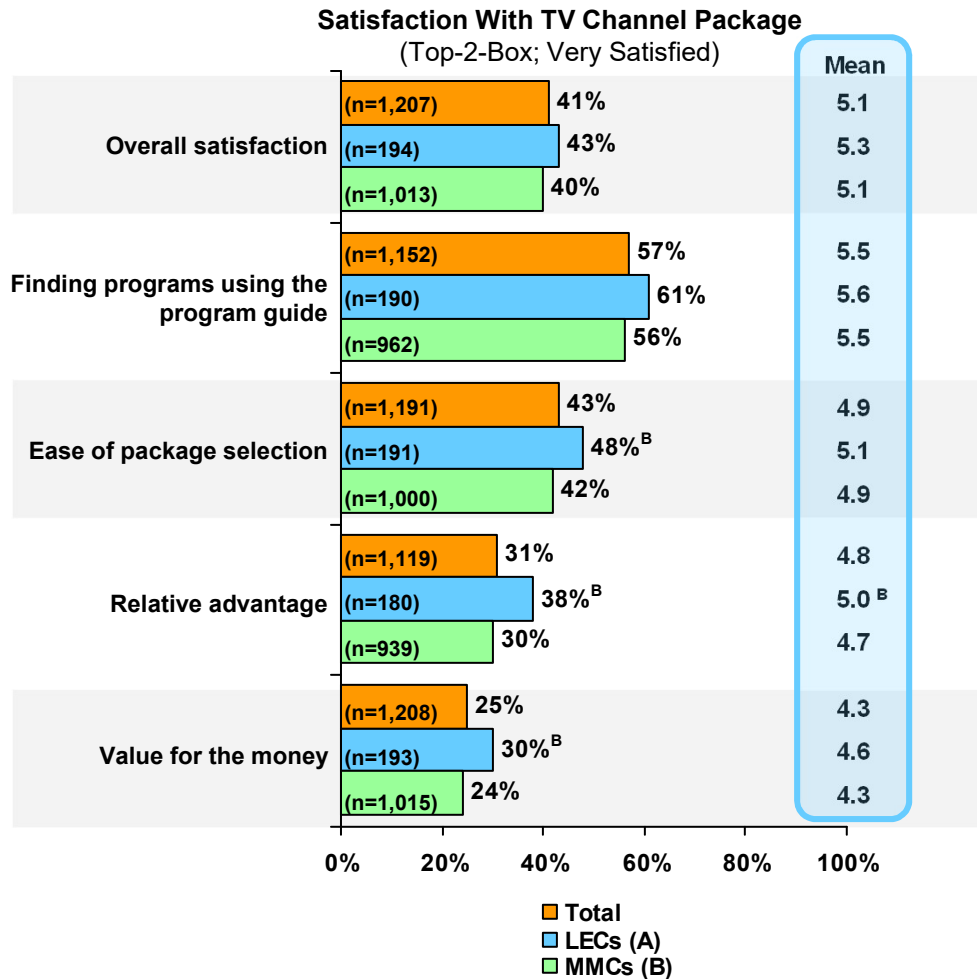
# Current Cable & Satellite TV Service



Only about 7% of consumers are likely to switch their cable or satellite TV provider in the next 12-months.

- Consumers unlikely to subscribe to the IPTV solution we tested are more likely than those who will probably or definitely subscribe to say they will not switch. This makes sense because they tend to be the consumers most satisfied with their current provider.

# Current Cable & Satellite TV Service



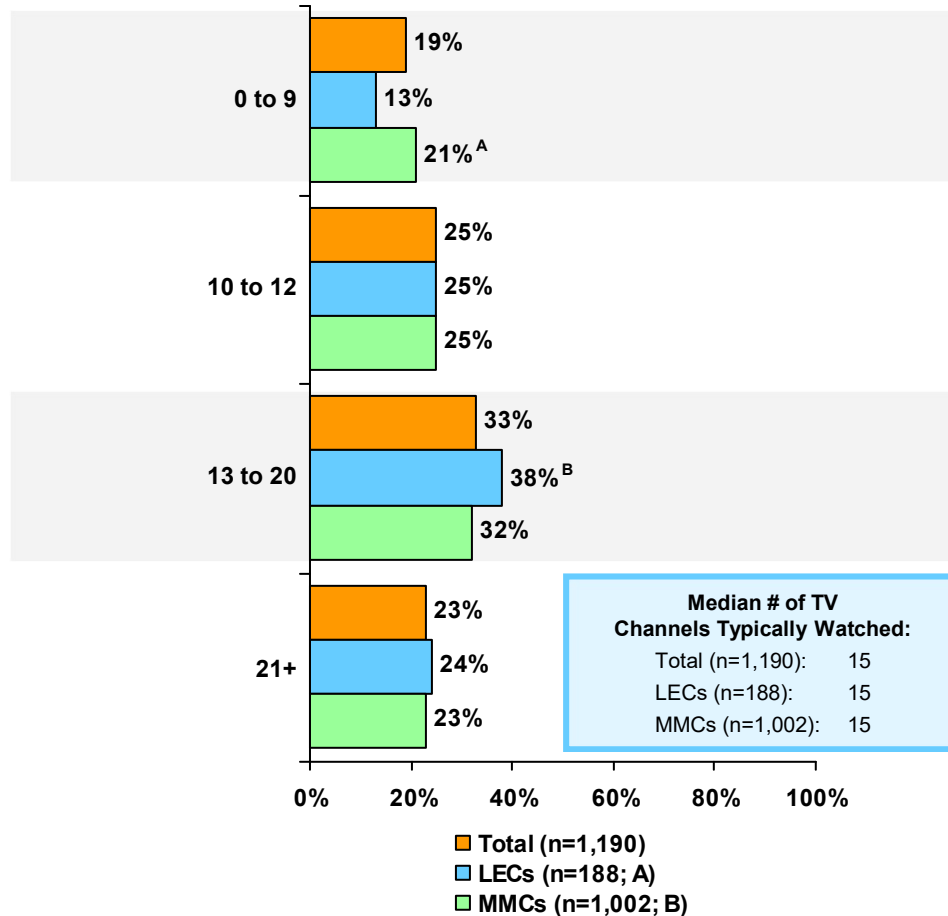
About two-in-five consumers are 'very satisfied' with their particular TV channel package.

- Among the specific aspects of TV channel packages we tested, the program guide receives the biggest accolades, followed by the ease of channel selection.
- Relatively few consumers consider their current TV channel package superior to existing alternatives, indicating an IPTV offer could make an impact here.
- Fewer still consider their TV channel package a 'good value for the money.'

Q&A-E; Letters denote statistically significant differences among segments.

# Current Cable & Satellite TV Service

Number of TV Channels Typically Watched

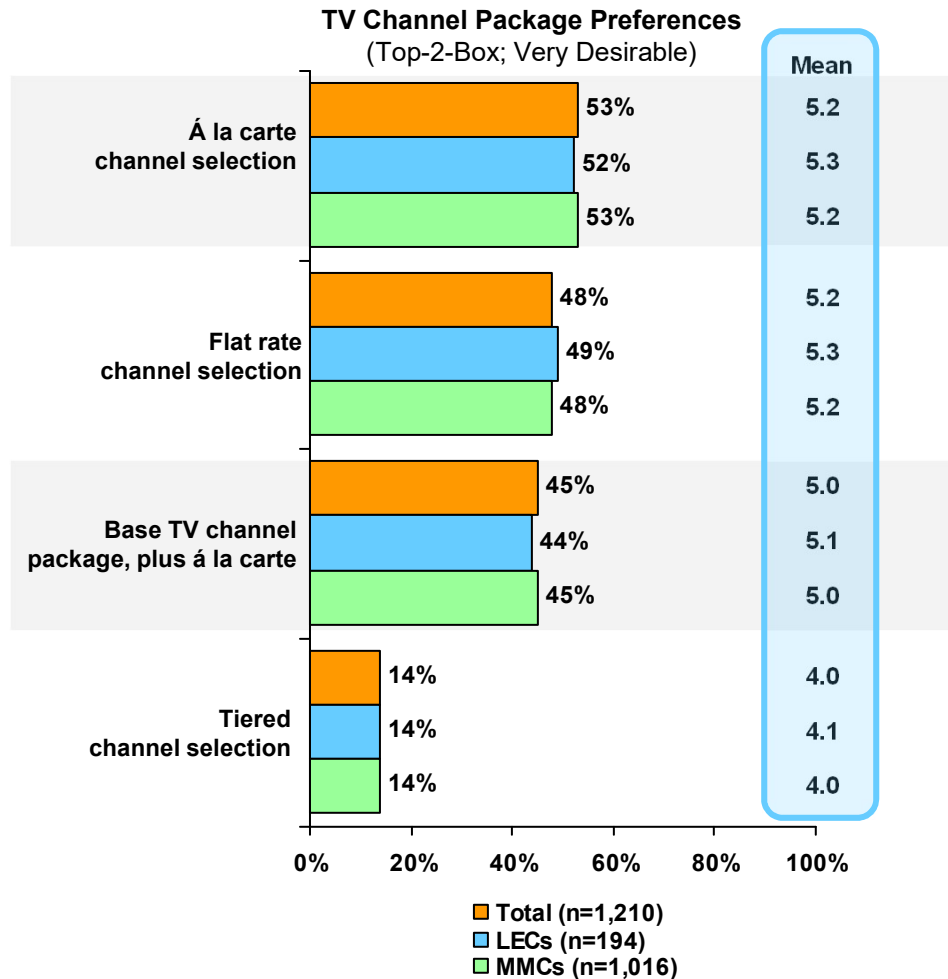


On average (median), households typically watch about 15 channels on a regular basis.

- This number is similar to the number the FCC arrived at through its own study—about 20 channels.
- No differences between LECs and MMCs emerged along this dimension.

Q&AA; Letters denote statistically significant differences among segments.

# Current Cable & Satellite TV Service



At the conceptual level, all of the alternative TV channel package selection methods we tested generated more consumer enthusiasm than the conventional tiered package method.

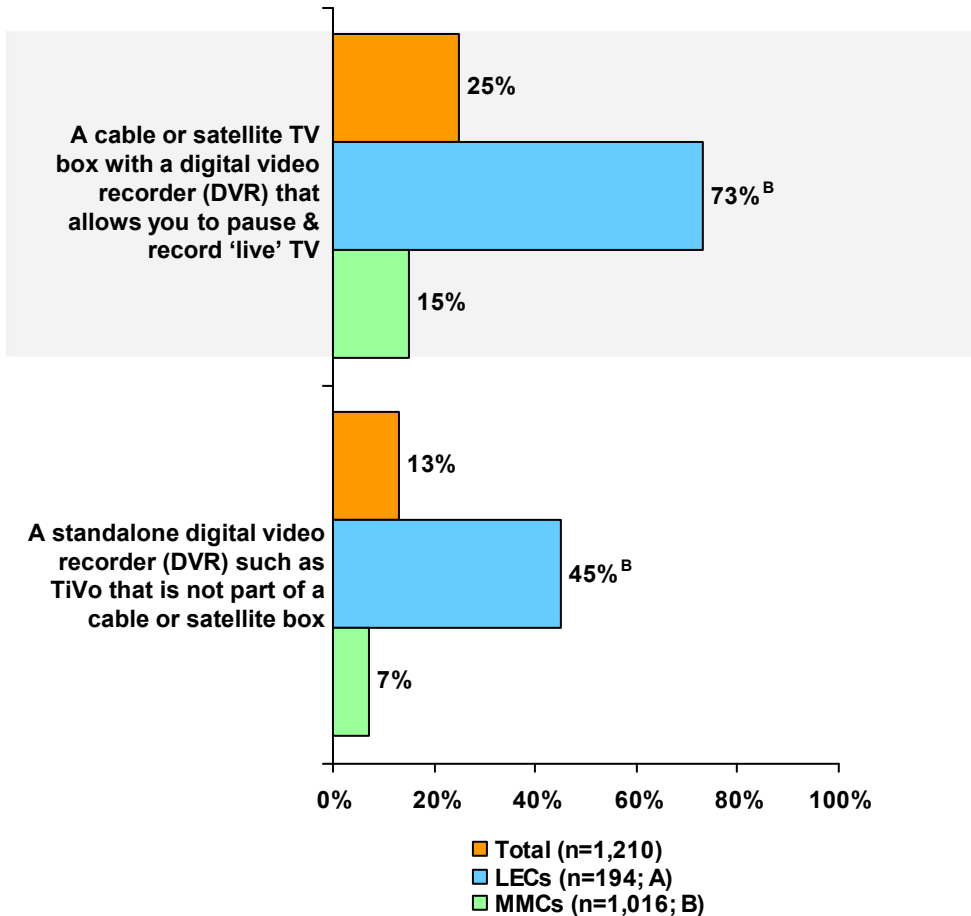
- The a' la carte and flat rate channel selection options virtually tied for the top-spot, with the hybrid method a close third.
- Men, who traditionally have narrower channel interests than women, found the a' la carte method more desirable than females.
- Men are also more comfortable than women with the conventional tiered approach to channel selection.
- The flat-rate and hybrid TV channel options are about equally appealing to males and females.
- Consumers likely to subscribe to the IPTV solution we tested are more likely than those who might or are unlikely to do so to find any of the non-conventional TV channel package options 'very desirable.' Clearly, they are looking for innovative TV channel selection methods.

## Key Findings

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- **Key Findings**
  - Current Cable/Satellite TV Service
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    - DVR Ownership
    - Satisfaction with DVR Functionality
    - Desirability of Current & Potential DVR Functionality
  - IPTV Functionality
  - IVS Evaluation
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# DVR Functionality

DVR Ownership

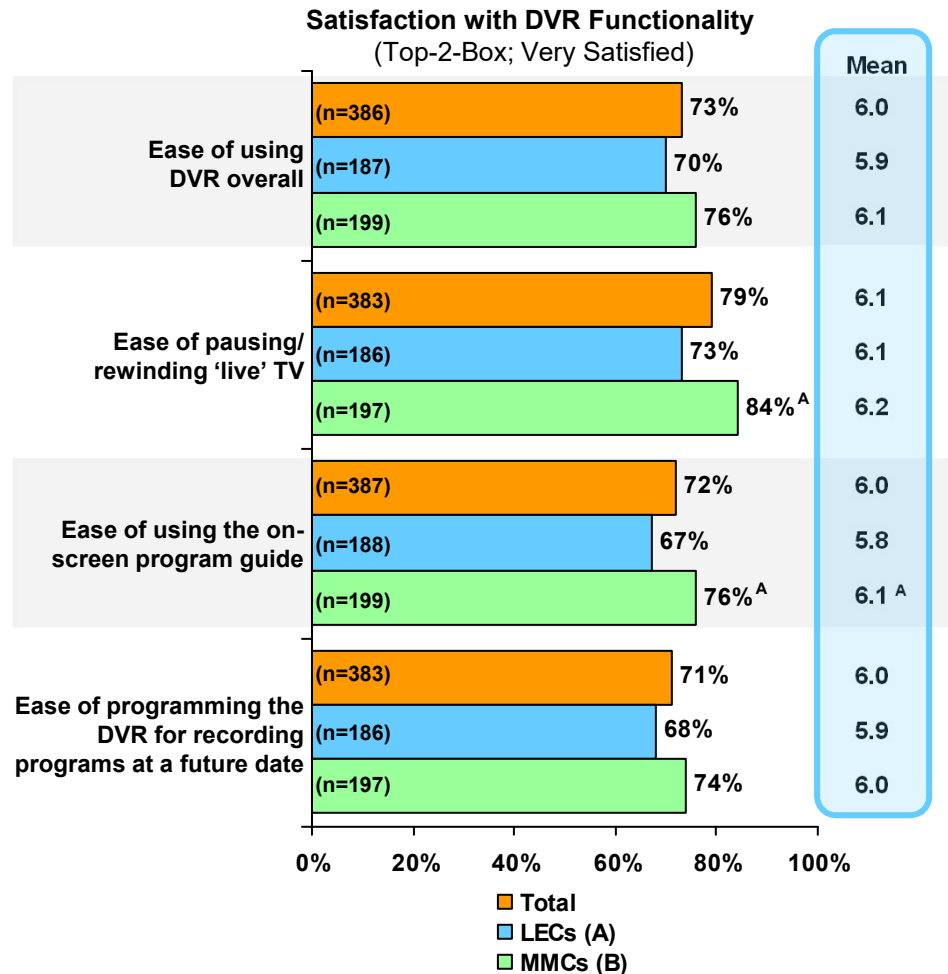


About one-in-four consumers owns a DVR provided by their service provider, while another 13% own a standalone unit.

- The total self-reported ownership numbers appear to be a bit inflated based on secondary info and our own recent State of the Connected Home Market research. Nonetheless, the numbers among MMCs seem reasonable.
- That said, households with annual incomes of more than \$50K are more likely than those with lower incomes to report owning one or more advanced video devices and/or having access to new services like video-on-demand.

QN3-4; Letters denote statistically significant differences among segments.

# DVR Functionality



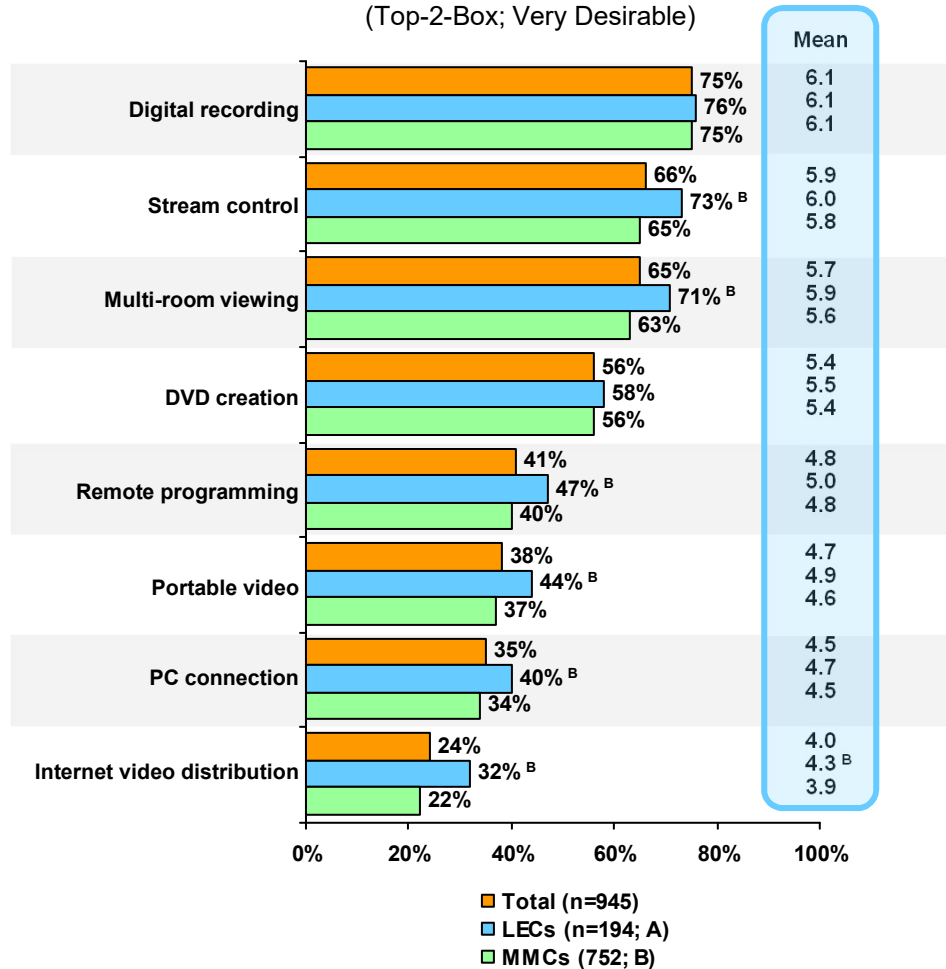
Most consumers are 'very satisfied' with the DVR attributes we examined, including ease of use overall.

- There is a general age-related pattern in terms of ease-of-use. Consumers under 55 years-old tend to be more satisfied than older consumers with the ease of use of various DVR functions.
- Women are largely more satisfied than men along many of these dimensions, including ease of use overall.

Q13A; Letters denote statistically significant differences among segments.

# DVR Functionality

Desirability of Current & Potential DVR Functionality  
(Top-2-Box; Very Desirable)



Among the current and potential DVR functionality we examined, digital recording—the most essential feature—generated the greatest enthusiasm among consumers.

- Other features considered ‘very desirable’ by a majority of consumers include: stream control, multi-room viewing and DVD selection.
- As might be expected given their broader viewing habits, women are more likely than men to find digital recording and multi-room viewing ‘very desirable.’
- Men, on the other hand, are more likely than women to have a strong interest in connecting a DVR to a PC to display digital photos, play digital music stored on the computer, or stream video stored on the computer.

Q13A-H; Letters denote statistically significant differences among segments.

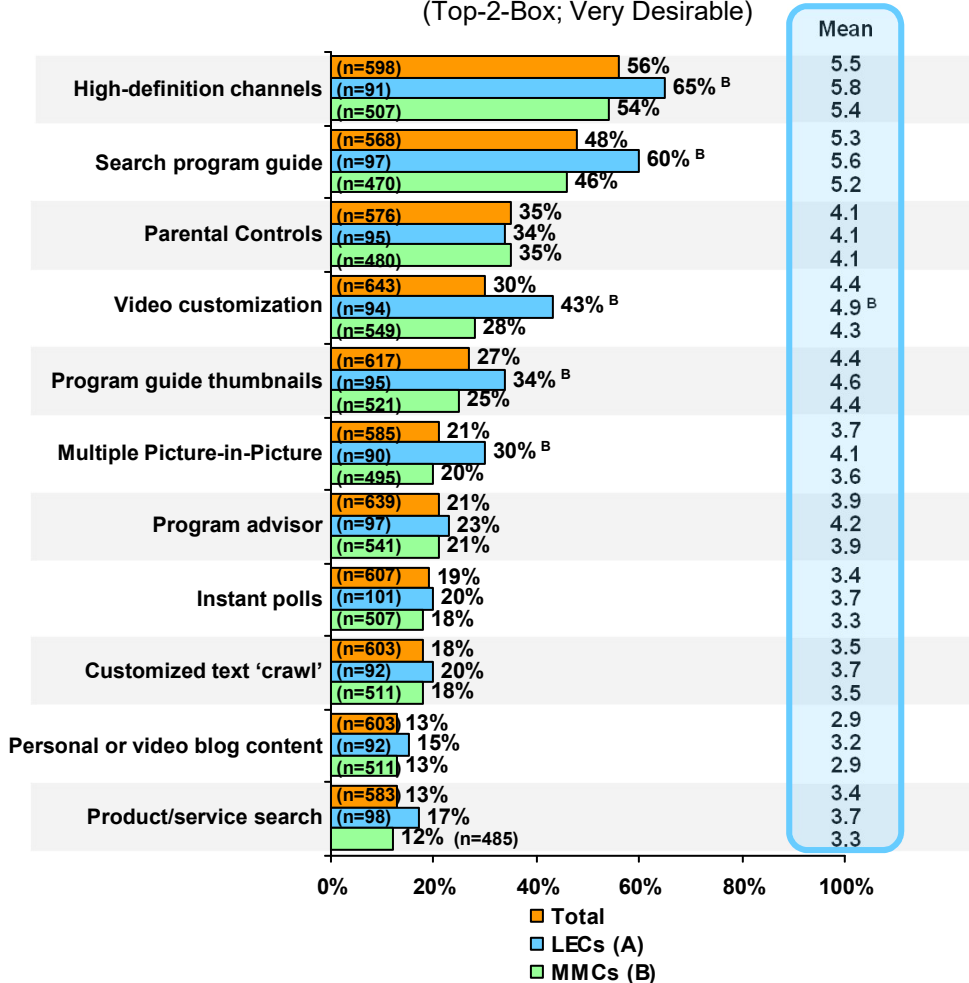


## Key Findings

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- **Key Findings**
  - Current Cable/Satellite TV Service
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    - Video-Related Functionality
    - Video-Related Functionality: Video -On -Demand (VoD)
    - Telephone -Related Functionality
    - Internet-Related Functionality
  - IVS Evaluation
  - Market Profile

# iPTV Functionality

**Desirability of Video-Related Functionality**  
(Top-2-Box; Very Desirable)



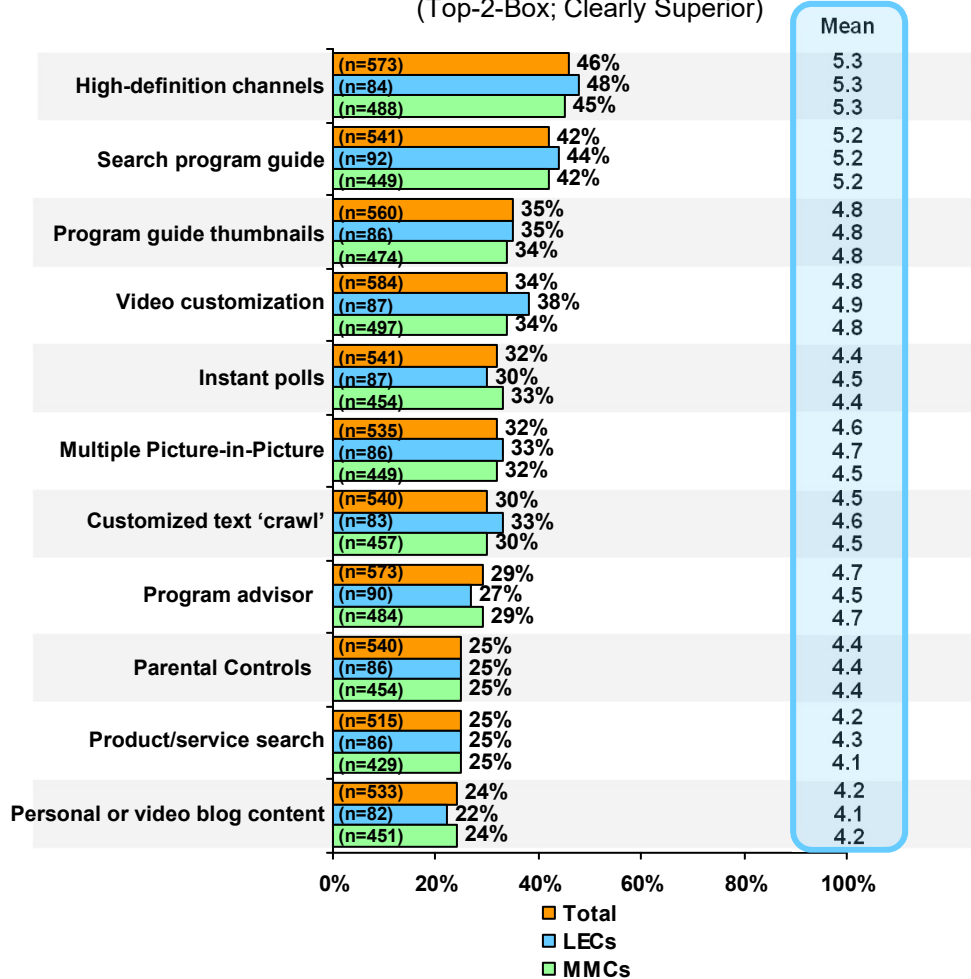
A majority of consumers consider high-definition TV channels 'very desirable.'

- Women are more likely than men to have a strong interest in program search guides and parental controls.
- Speaking of parental controls, consumers age 25 to 44 years-old appear to be the prime segments.
- Men, on the other hand, are more likely than women to find the customized text 'crawl' 'very desirable.'

Q14A-Q23, Q23DA; Letters denote statistically significant differences among segments.

# iPTV Functionality

Relative Advantage of Video-Related Functionality  
(Top-2-Box; Clearly Superior)



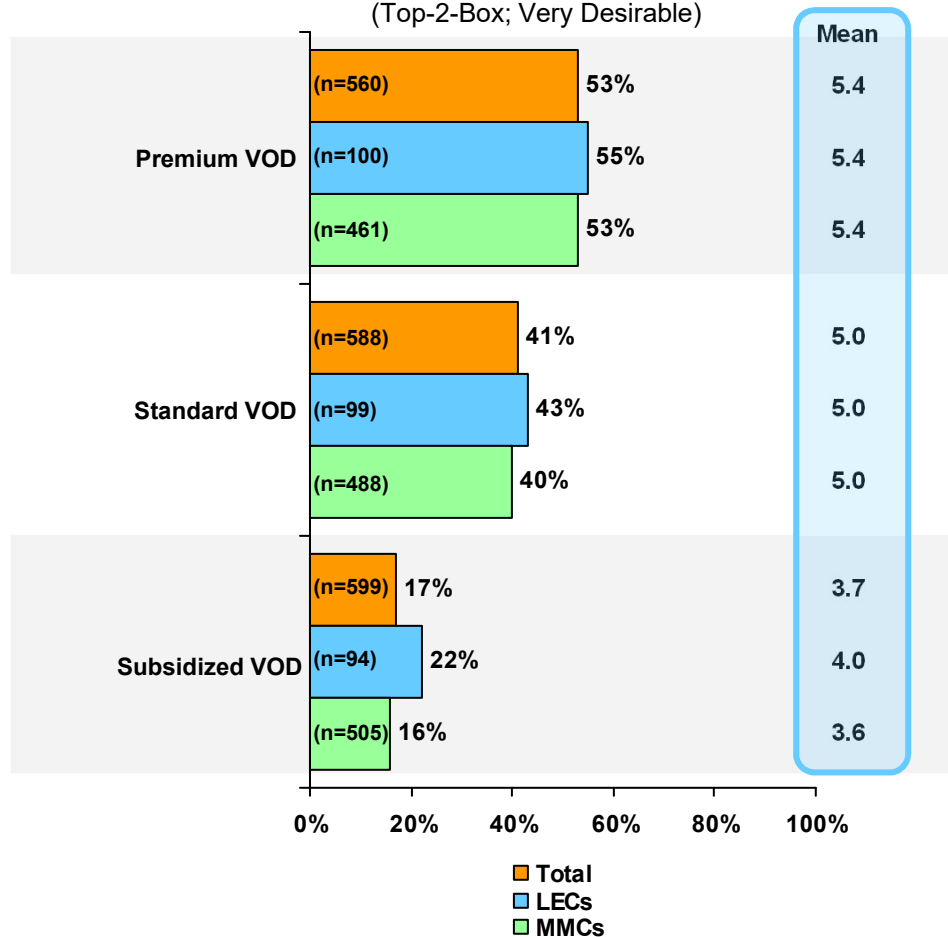
Nearly one-in-two consumers considers high-def TV channels a competitive advantage—better than what is available today from their service provider.

- Relative advantage is typically the most important factor in assessing the market potential of a new product, service or feature. It has the greatest power to predict in-market success.
- The type of program guide we tested—one that allowed for Google-like searching—is also considered by a substantial percentage of consumers to be superior to what they have today. Consumers age 45 to 54 years-old took a special interest in this proposed feature.
- Women are more likely than men to regard both parental controls and product/service search functionality distinct improvements on existing alternatives.
- Two-parent households are more likely than singles to consider standard video-on-demand (VoD) clearly better than what they have today. (Note that, in contrast to premium VoD, standard VoD includes regular broadcast TV commercials.)

Q14B-Q23, Q23DB; Letters denote statistically significant differences among segments.

# iPTV Functionality

**Video-Related Functionality: Desirability of Video-on-Demand (VOD)**  
(Top-2-Box; Very Desirable)

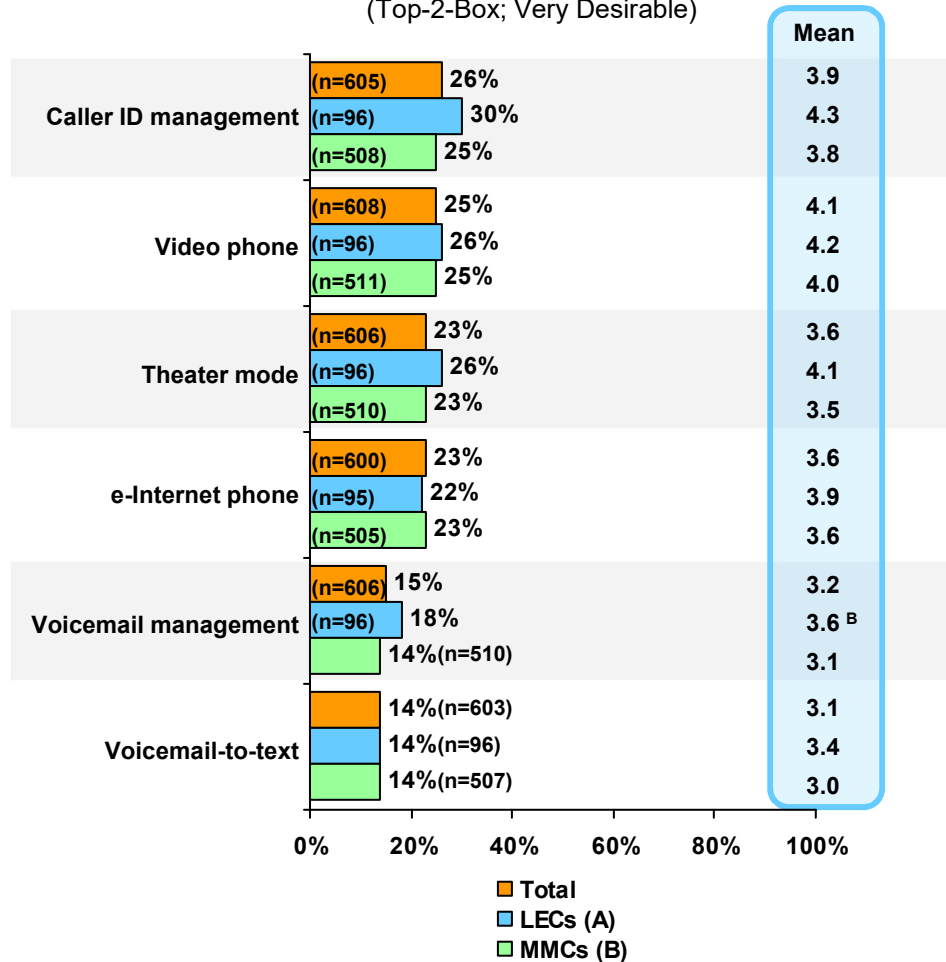


Most consumers consider the premium VoD service we tested ‘very desirable.’ As presented, this service would allow consumers to choose from a library of commercial-free programming 24-hours a day.

- The standard VoD service, containing regular TV broadcast commercials, fared relatively well, with about two-in-five consumers showing a strong interest in it.
- Subsidized VoD, however, scored poorly. With this proposed service, programs would contain ‘commercial wraps’—entertaining advertisements at the beginning and end of the main content you can’t fast-forward through.
- In general, consumers age 45 and older appear to be more amenable to standard VoD with commercial interruptions than younger consumers.

# iPTV Functionality

**Desirability of Telephone-Related Functionality**  
(Top-2-Box; Very Desirable)



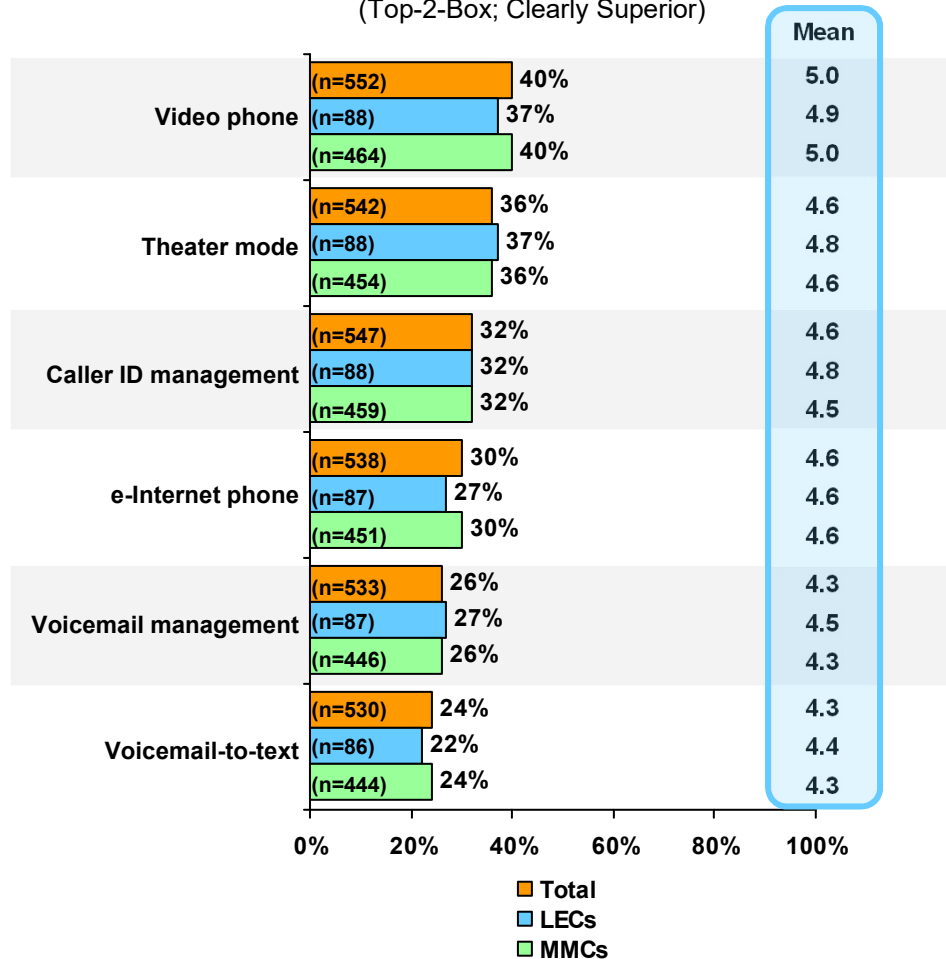
None of the telephone-related features we examined in the context of the Integrated Video Service (IVS) are especially compelling to prospective consumers.

- The two most popular features in this regard— Caller ID management and video phone functionality on the TV—were deemed ‘very desirable’ by about one-in-four consumers.
- Theater mode, which would allow consumers to silence all phones in the house for uninterrupted TV viewing, and the e-Internet phone, followed closely in popularity.
- The voicemail features tested scored poorly, indicating little incremental gain is likely to be had by incorporating these features.
- Interestingly, singles appear more likely than two-parent households to take a strong interest in Caller ID management.

Q24A-Q28A; Letters denote statistically significant differences among segments.

# iPTV Functionality

Relative Advantage of Telephone-Related Functionality  
(Top-2-Box; Clearly Superior)

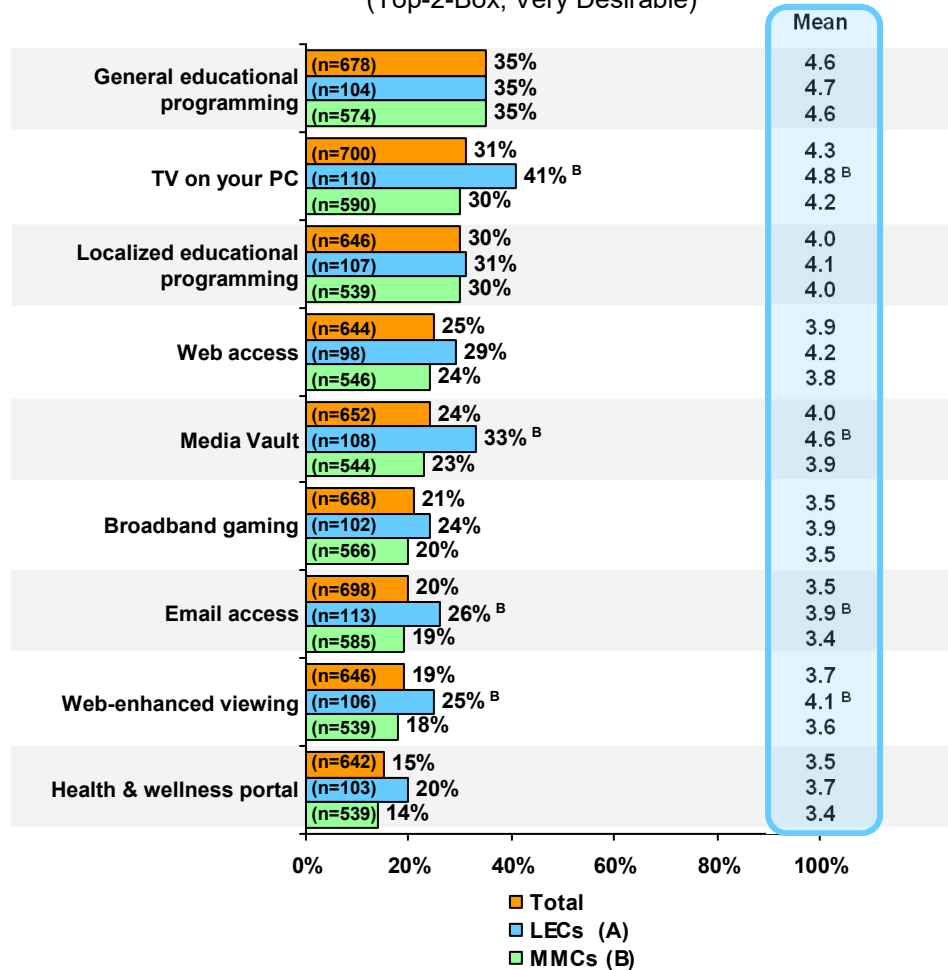


The video phone concept topped the list of telephone-related features considered better than existing alternatives.

- Despite the fact Caller ID management is considered the most desirable feature, consumers did not consider it as advantageous as other features. Speculatively, consumers may feel this way because there are ready substitutes for Caller ID management and no widely available alternatives for the video phone and theater mode features.
- Consumers age 55 to 64 years-old are more likely than heads-of-household younger than 45 to regard Caller ID management over the TV as clearly better than what they have today.

# iPTV Functionality

Desirability of Internet-Related Functionality  
(Top-2-Box; Very Desirable)



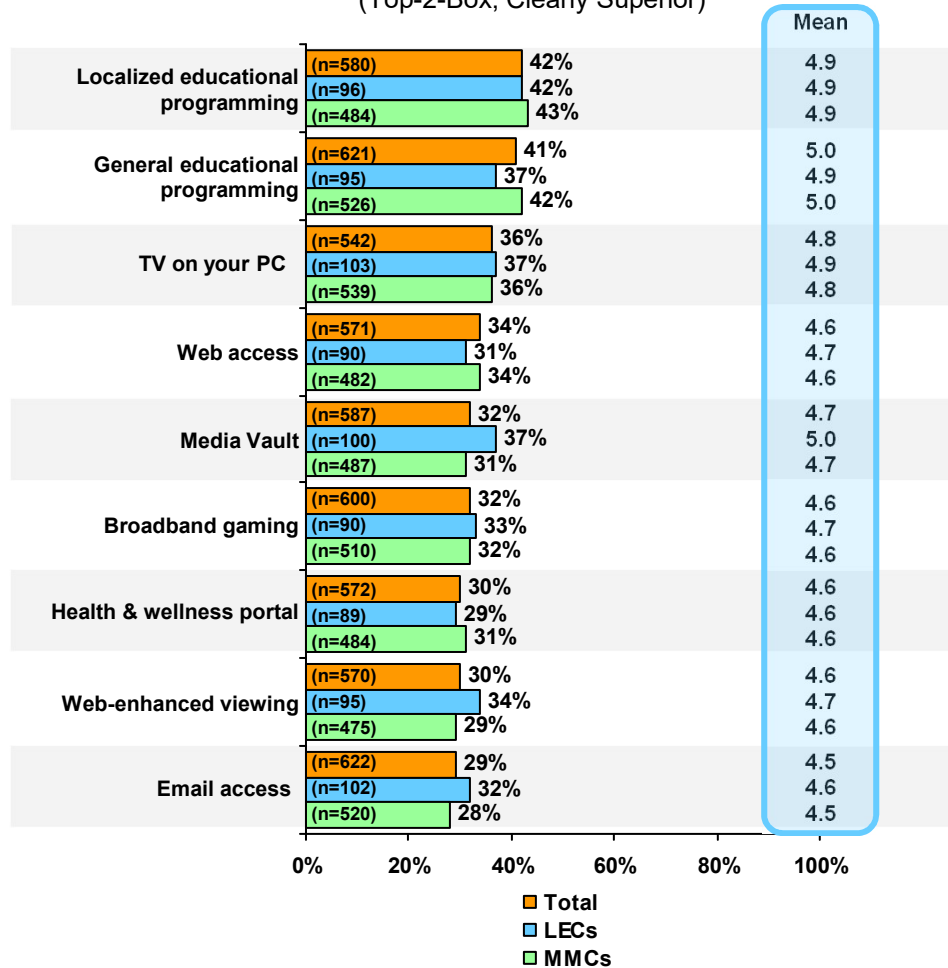
The most desirable Internet-related feature we tested is general educational programming. As presented, this feature would allow consumers to access and interact with educational lessons on topics of interest, ranging from school lessons to practical information, such as cooking and home repair.

- As might be expected, households with children tended to respond more favorably than households without them to the educational programming concept.
- Although men and women are equally enthusiastic about general educational programming, the latter are more excited about localized educational programming. Women are also more likely than men to find the health & wellness portal concept 'very desirable.'
- Men, on the other hand, find the notion of Web-enhanced TV viewing more appealing than women, presumably with an eye toward sports events.

Q29A-Q36A; Letters denote statistically significant differences among segments.

# iPTV Functionality

Relative Advantage of Internet-Related Functionality  
(Top-2-Box; Clearly Superior)



Localized educational programming and general educational programming virtually tied for the top-spot on the list of features deemed better than what consumers have today.

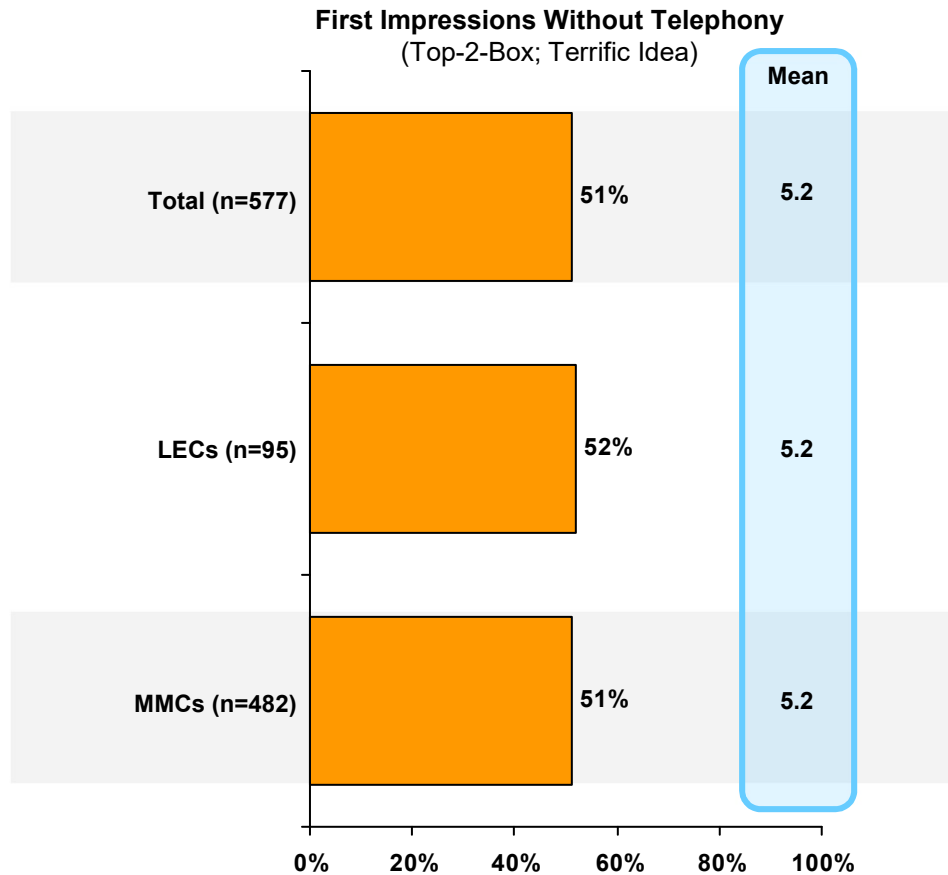
- Women are more likely than men to consider a number of tested features superior to existing alternatives, including: localized and general educational programming, Web access via the TV, and the health & wellness portal.
- In contrast, men are more likely than women to have an affinity for the Web-enhanced TV viewing option, rating it higher (on average) than women in terms of its relative advantage.
- Consumers age 55 to 64 years-old are more likely than their younger counterparts to consider both TV on the PC and the health & wellness portal better than what they have today.



## Key Findings

- Executive Summary
- Background & Methodology
- Conclusions & Recommendations
- **Key Findings**
  - Current Cable/Satellite TV Service
  - DVR Functionality
  - IPTV Functionality
  - **IVS Evaluation**
    - IVS Without/With Telephony: First Impressions
    - IVS Without/With Telephony: Success Factors
    - IVS Without/With Telephony: Interest & Estimated Demand
    - IVS Expected Pricing: With/Without Telephony
    - IVS Demand at Expected Price
    - IVS Programming Preferences
    - Preferred Providers of IVS
    - Most Preferred Provider of IVS
  - Market Profile

# IVS Evaluation



About one-in-two consumers feel the Integrated Video Service (IVS) concept tested is a ‘terrific idea.’ As revealed later, both the non-telephony and telephony versions of the concept produced the same results, indicating that the telephone-related features add little value.

- Men are more likely than women to consider IVS for people like them (or, compatible with their lifestyle) and to think of more use occasions.

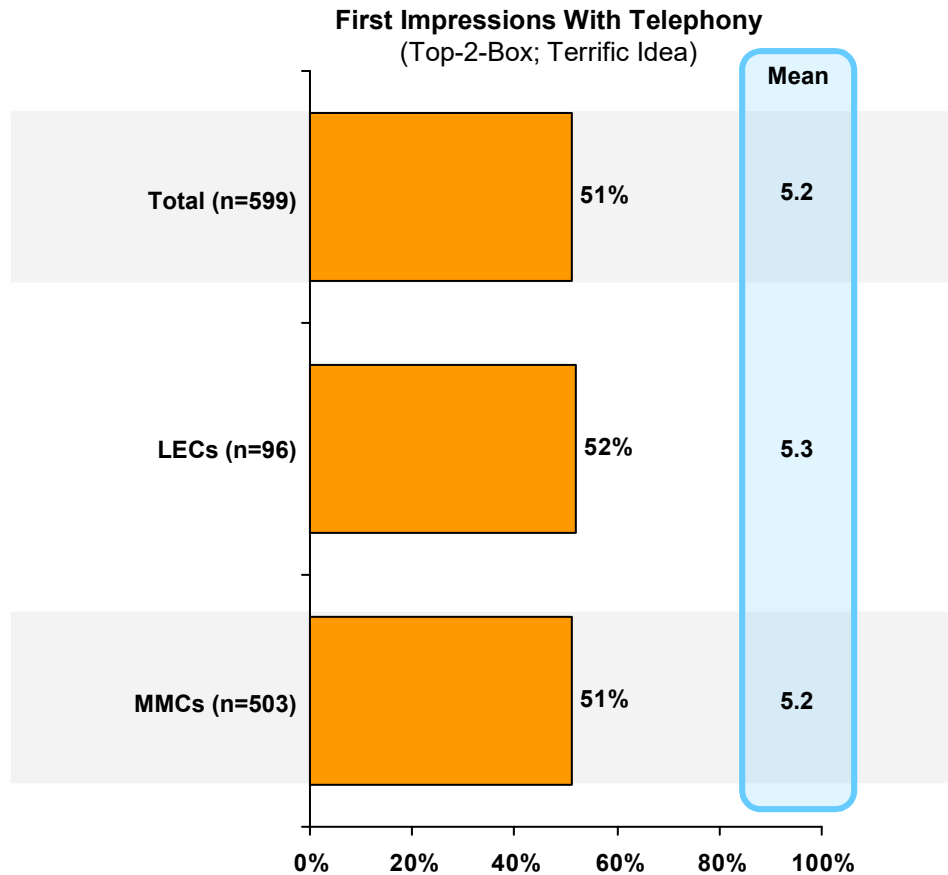
### Positive First Impressions

*“I am for anything that gives me more choices and flexibility.”*  
*“You get the latest video services like DVR functionality, video-on-demand and high-definition TV channels in one place.”*

### Negative First Impressions

*“I’m not sure if I want the internet on my TV. It could be too much going on when all I want to do is relax and be entertained.”*  
*“What assurances do I have that the price will stay reasonable?”*

# IVS Evaluation



The version of IVS with telephony features scores the same as the version without them in terms of first impressions.

- As with the alternate version of IVS, men are more likely than women to consider IVS for people like them (or, compatible with their lifestyle) and to think of more use occasions.

## Positive First Impressions

*"The customization of offerings may create a more low-cost phone/internet/cable service for me."*

*"I think having access to the Web/email/IM on the same screen as the TV would be useful sometimes. It would give me something to do while commercials are playing on live TV."*

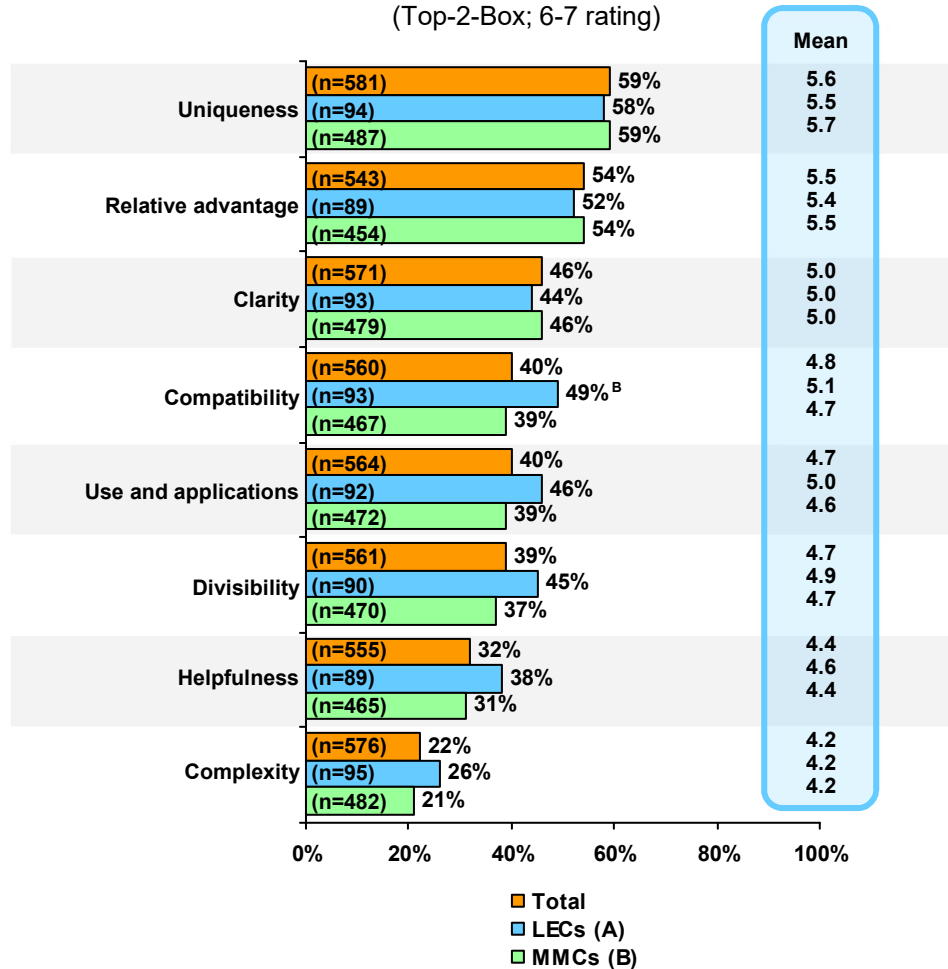
## Negative First Impressions

*"It is not important to merge my phone and TV at all."*

*"[This concept is] only positive if the price is right; I only want to pay for the services I use."*

# IVS Evaluation

Success Factors Without Telephony  
(Top-2-Box; 6-7 rating)



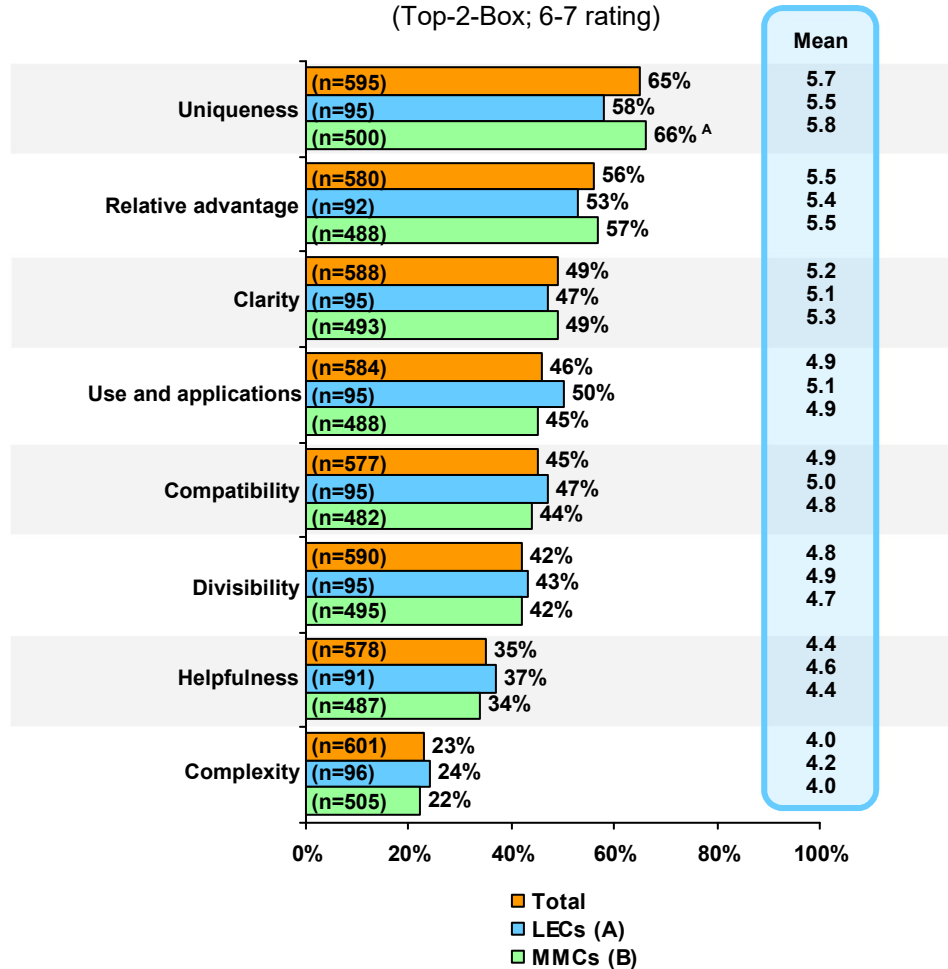
Most consumers consider the IVS concept without telephony both unique and an improvement over existing services.

- The concept’s relative advantage score indicates it resonates strongly with both leading-edge and mass market consumers. Concepts with scores like this can be very successful because the transition from an initial niche segment to the broader market tends to occur at a fast rate.
- Leading-edge consumers—the likely evangelists of this service—are more likely than their mass market counterparts to consider the service compatible with their lifestyle. Still, the strong scores along other dimensions among the mass market segment auger well for this concept.

Q42-Q50; Letters denote statistically significant differences among segments.

# IVS Evaluation

Success Factors With Telephony  
(Top-2-Box; 6-7 rating)



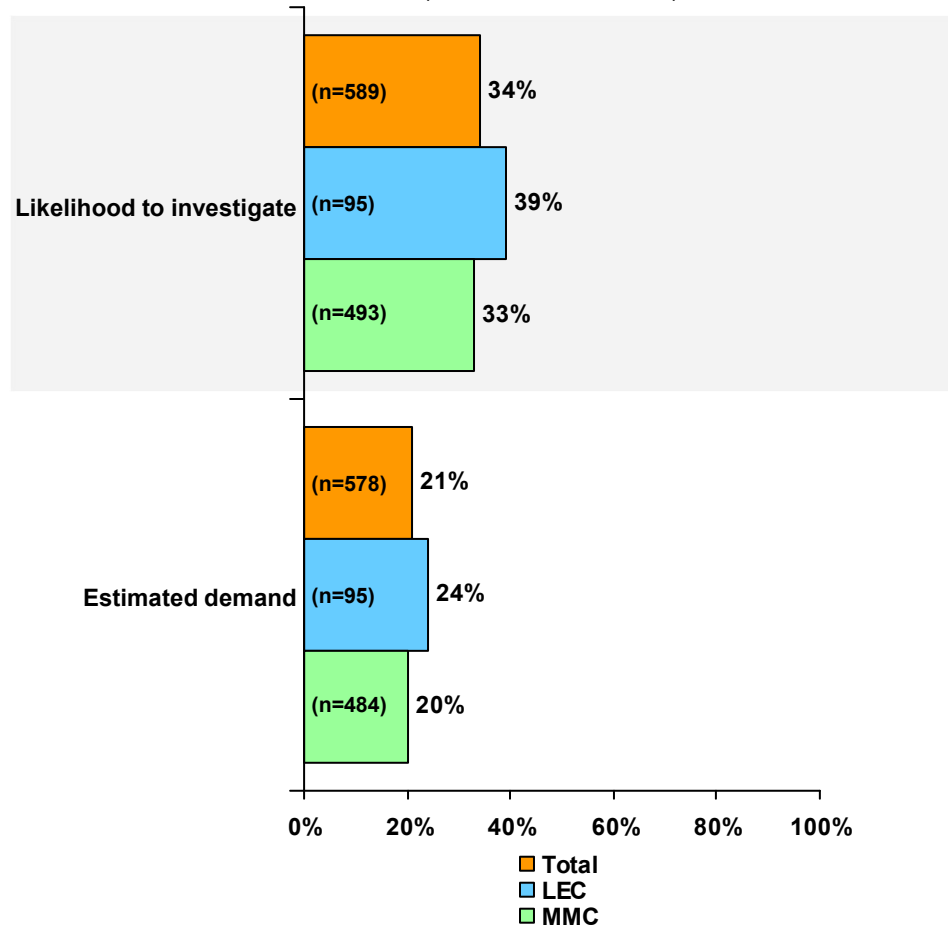
Most consumers consider the IVS concept with telephony both unique and an improvement over existing services.

- The concept with telephony is considered ‘very unique’ by a greater percentage of consumers than the one without it; however, this is not an especially strong predictor of in-market success.
- More importantly, the relative advantage score is roughly the same, indicating that telephony offers little incremental advantage.

Q42-Q50; Letters denote statistically significant differences among segments.

# IVS Evaluation

Interest and Estimated Demand Without Telephony  
(Discounted Demand)

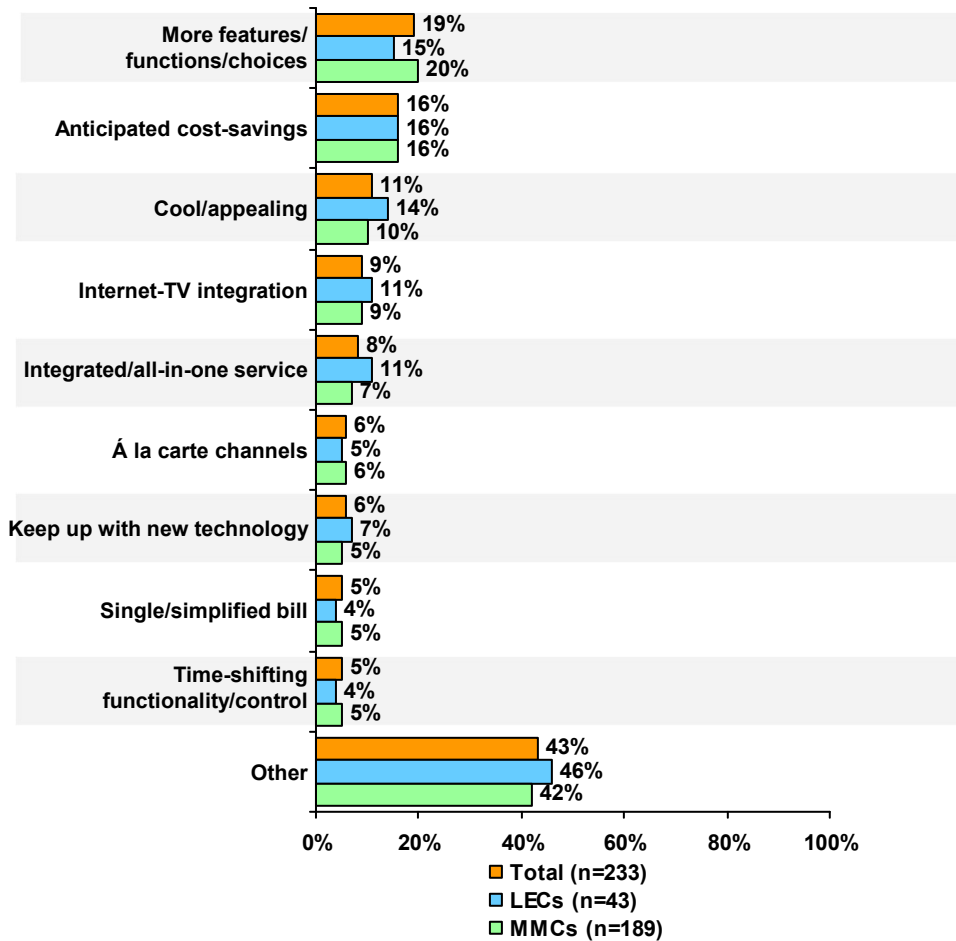


About one-in-three consumers indicate they would likely take steps to find out more about the IVS concept and about one-in-four would likely subscribe at a 'reasonable price' if it were offered by a company they trusted.

- The estimated demand figure represents the total addressable market (TAM)—the maximum percentage of consumers who would subscribe given ideal market conditions. Such conditions include perfect awareness and distribution, a static competitive milieu and the assumption that consumers interested in subscribing had the ability to pay.
- Please note that likely adopters are profiled later in this report.

# IVS Evaluation

Purchase Drivers Without Telephony

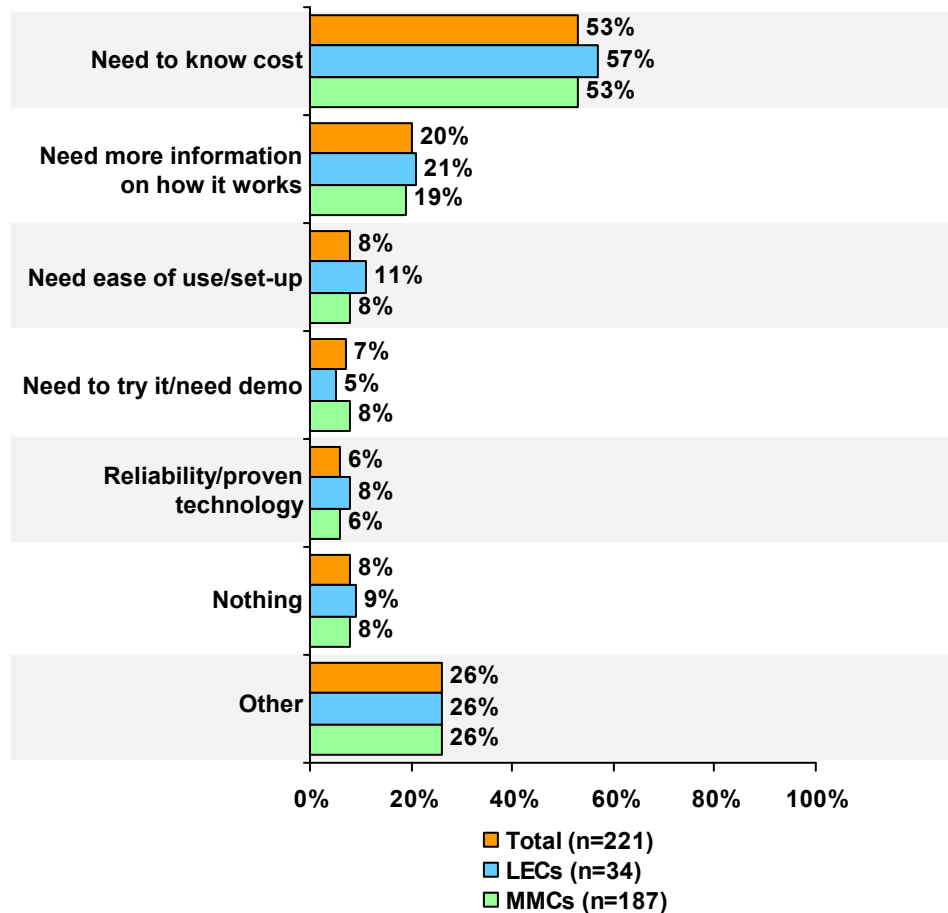


When asked (open-ended) about their purchase rationales, a plurality of consumers cited 'more features/functions/choices,' followed closely by 'anticipated cost-savings.'

- Consumers age 25 to 44 are more likely than those 55 years-old or older to cite Internet-TV integration as a purchase rationale.

# IVS Evaluation

Suggestions to Increase Purchase Consideration Without Telephony



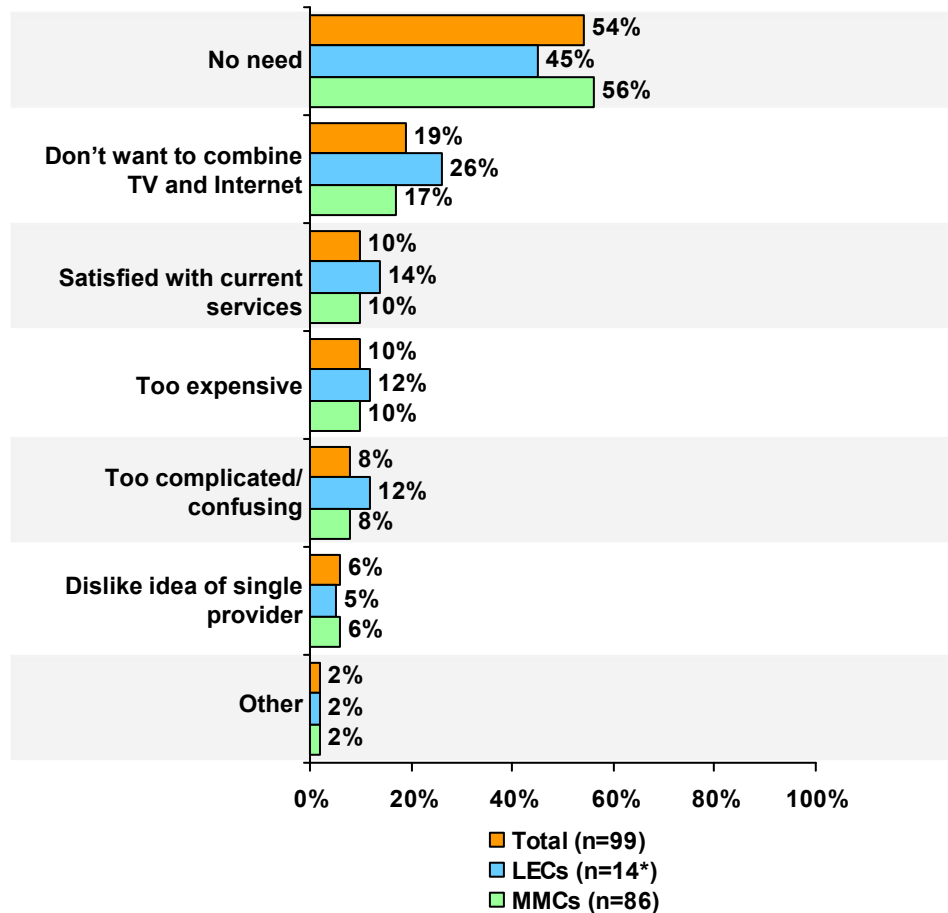
When asked for suggestions that would improve the desirability of the IVS concept without telephony, most consumers offered up price.

- The second most often-mentioned item is ‘more information on how the concept would work.’ All others are relatively minor wants/needs.
- Consumers age 25 to 34 are more likely than younger or older consumers to cite more information about how the service would work.
- Women are more likely than men to say they would need to see the benefits/usefulness of the service.



# IVS Evaluation

Purchase Barriers Without Telephony



When asked (open-ended) about why they are unlikely to subscribe to the IVS concept without telephony, most consumers indicated they have no need for it.

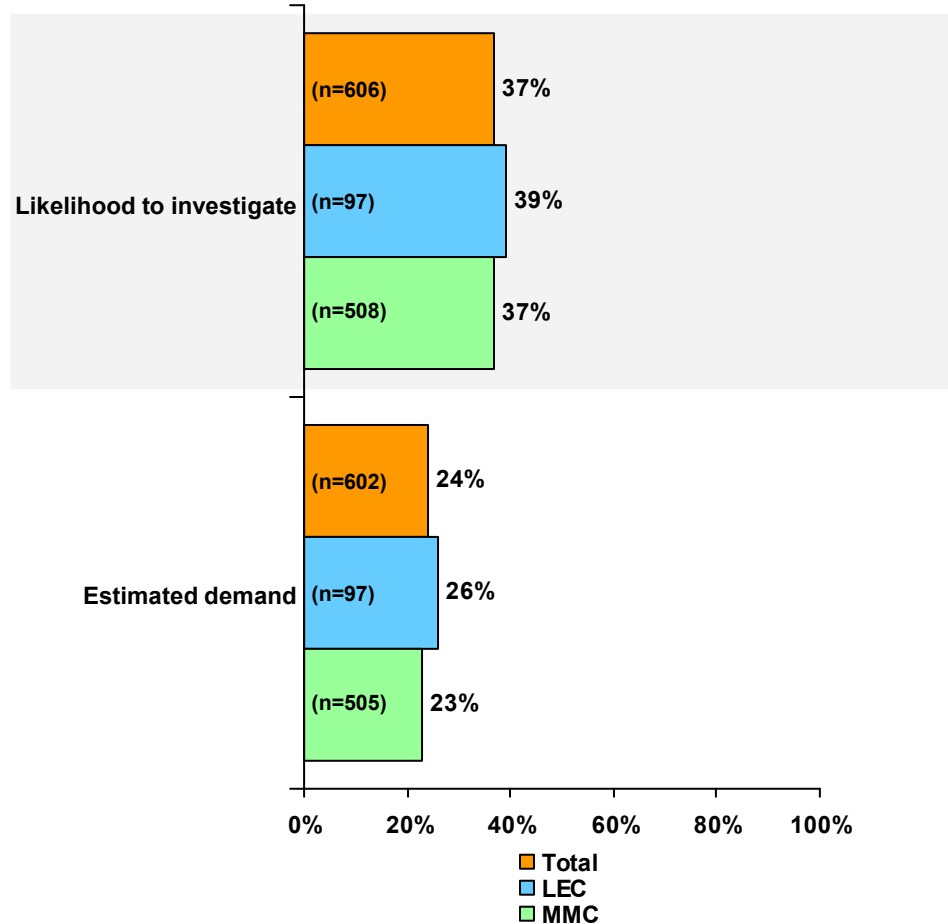
- Considerably fewer, though still a sizeable percentage, say they do not want a combined TV and Internet service.
- Women appear more likely than men to cite price as a rationale for not seriously considering the concept. It is probably safe to assume in this case that price is a proxy for value, indicating.

Q56; \* CAUTION: Small sample size, please view data as directional in nature.



# IVS Evaluation

Interest and Estimated Demand With Telephony  
(Discounted Demand)

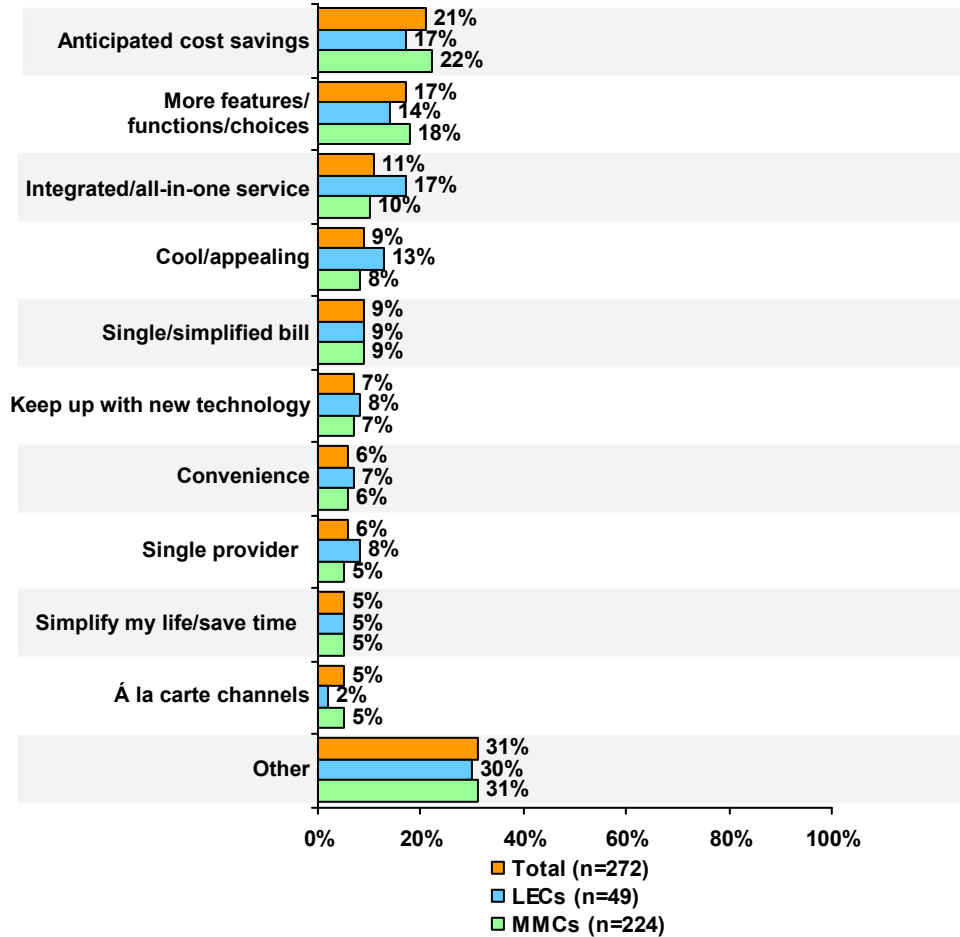


Close to two-in-five consumers indicate they would likely take steps to find out more about the IVS concept and about one-in-five would likely subscribe at a 'reasonable price' if it were offered by a company they trusted. These figures are marginally better than those for the concept without telephony.

- As in the case of the IVS concept without telephony, the estimated demand figure represents the total addressable market (TAM)—the maximum percentage of consumers who would subscribe given ideal market conditions. Such conditions include perfect awareness and distribution, a static competitive milieu and the assumption that consumers interested in subscribing had the ability to pay.
- Please note that likely adopters are profiled later in this report.

# IVS Evaluation

Purchase Drivers With Telephony

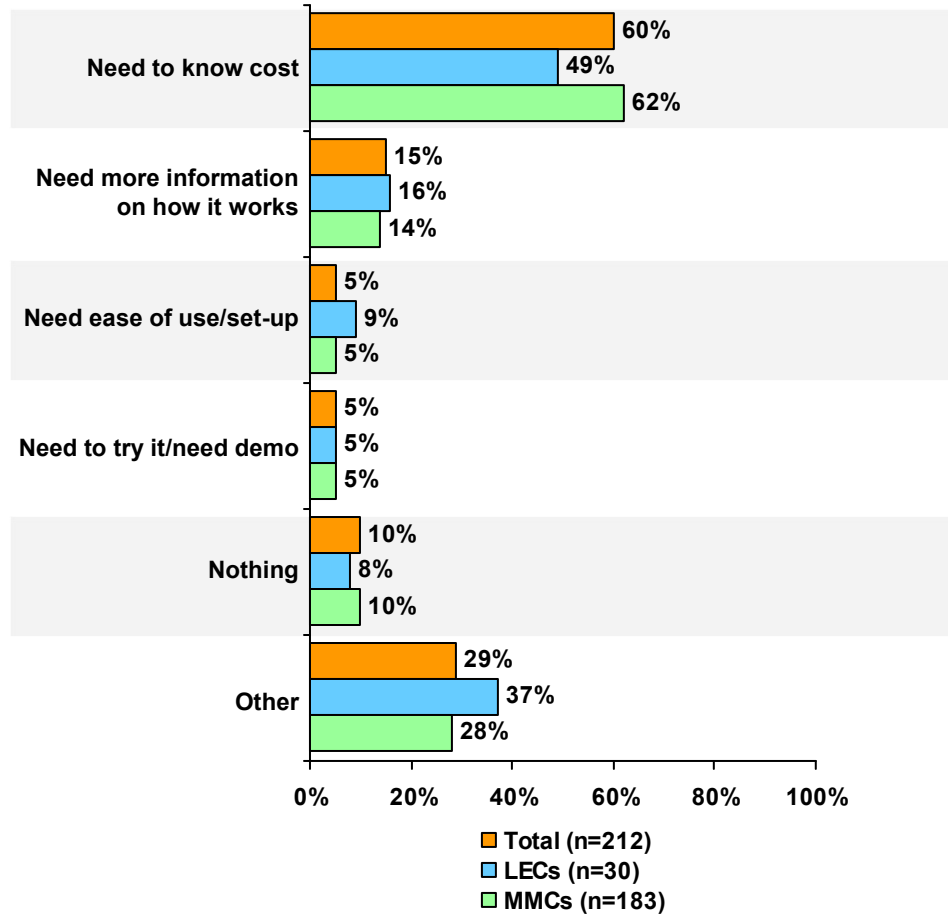


When asked (open-ended) about their purchase rationales, a plurality of consumers cited ‘anticipated cost-savings,’ followed closely by ‘more features/functions/choices’—reversing the order of the purchase drivers for the concept without telephony.

- The ‘integrated/all-in-one’ aspect of the service merits mention by only about one-in-ten consumers.

# IVS Evaluation

Suggestions to Increase Purchase Consideration With Telephony

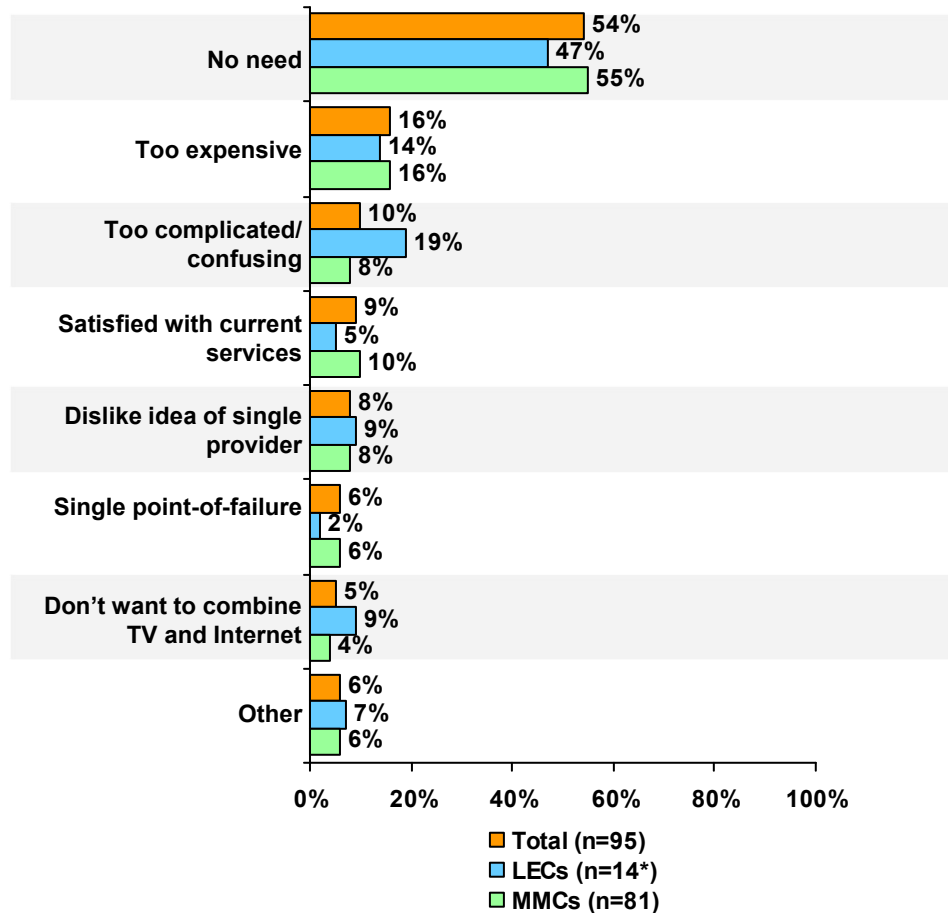


When asked for suggestions that would improve the desirability of the IVS concept with telephony, most consumers offered up price.

- The second most often-mentioned item is 'more information on how the concept would work.' All others are relatively minor wants/needs.

# IVS Evaluation

Purchase Barriers With Telephony



When asked (open-ended) about why they are unlikely to subscribe to the IVS concept with telephony, most consumers indicated they have no need for it.

- The second-most often-mentioned rationale for not subscribing to the service is the anticipated cost. Again, this response is likely a proxy for value, indicating the concept does not promise to resolve any urgent problems.

Q56; \* CAUTION: Small sample size, please view data as directional in nature.

# IVS Evaluation

	Total (n=599)	LECs (n=96)	MMCs (n=503)
Monthly Price Expectations Without Telephony		A	B
<b>Too Expensive</b>			
0-\$99	30%	22%	<b>32%<sup>A</sup></b>
\$100-\$149	29%	27%	29%
\$150-\$174	18%	20%	18%
\$175+	23%	<b>31%<sup>B</sup></b>	21%
Median price	\$125	\$150	\$120
<b>Too Cheap</b>			
0-\$19	23%	20%	23%
\$20-\$39	31%	25%	32%
\$40-\$50	29%	29%	29%
\$51+	17%	<b>26%<sup>B</sup></b>	16%
Median price	\$30	\$40	\$30
<b>Bargain</b>			
0-\$44	30%	22%	<b>32%<sup>A</sup></b>
\$45-\$69	27%	25%	27%
\$70-\$99	21%	25%	20%
\$100+	22%	<b>28%<sup>B</sup></b>	21%
Median price	\$60	\$75	\$59
<b>Expected Price</b>			
0-\$59	26%	21%	27%
\$60-\$99	29%	25%	30%
\$100-\$139	25%	28%	24%
\$140+	20%	26%	19%
Median price	\$90	\$100	\$85

On average (median), consumers expect to pay about \$90 for the IVS concept without telephony.

- On average (median), consumers reported spending \$70 monthly on local and long-distance telephone, along with Internet services. They also reported paying average (median) monthly bills of \$60 for cable or satellite TV service, including any equipment fees. Accordingly, on average (median) consumers spend about \$130 per month on communications/home entertainment services. In this context, a price expectation of \$90 per month represents a reasonable estimate for the IVS concept without telephony.
- MMCs appear to have lower price expectations than LECs.
- Please note that when this question was asked, respondents were reminded of the relevant self-reported monthly costs.

Q57A-Q57D Letters denote statistically significant differences among segments.

# IVS Evaluation

	Total (n=609)	LECs (n=98)	MMCs (n=511)
Monthly Price Expectations With Telephony		A	B
<b>Too Expensive</b>			
0-\$99	22%	18%	23%
\$100-\$149	34%	29%	35%
\$150-\$174	17%	17%	16%
\$175+	27%	<b>36%<sup>B</sup></b>	26%
Median price	\$130	\$150	\$130
<b>Too Cheap</b>			
0-\$19	20%	20%	21%
\$20-\$39	27%	24%	27%
\$40-\$50	32%	34%	32%
\$51+	21%	22%	20%
Median price	\$40	\$40	\$40
<b>Bargain</b>			
0-\$44	23%	22%	23%
\$45-\$69	20%	21%	20%
\$70-\$99	28%	24%	28%
\$100+	29%	33%	29%
Median price	\$75	\$75	\$75
<b>Expected Price</b>			
0-\$59	19%	21%	19%
\$60-\$99	26%	23%	26%
\$100-\$139	28%	24%	29%
\$140+	27%	32%	26%
Median price	\$100	\$100	\$100

On average (median), consumers expect to pay about \$100 for the IVS concept with telephony.

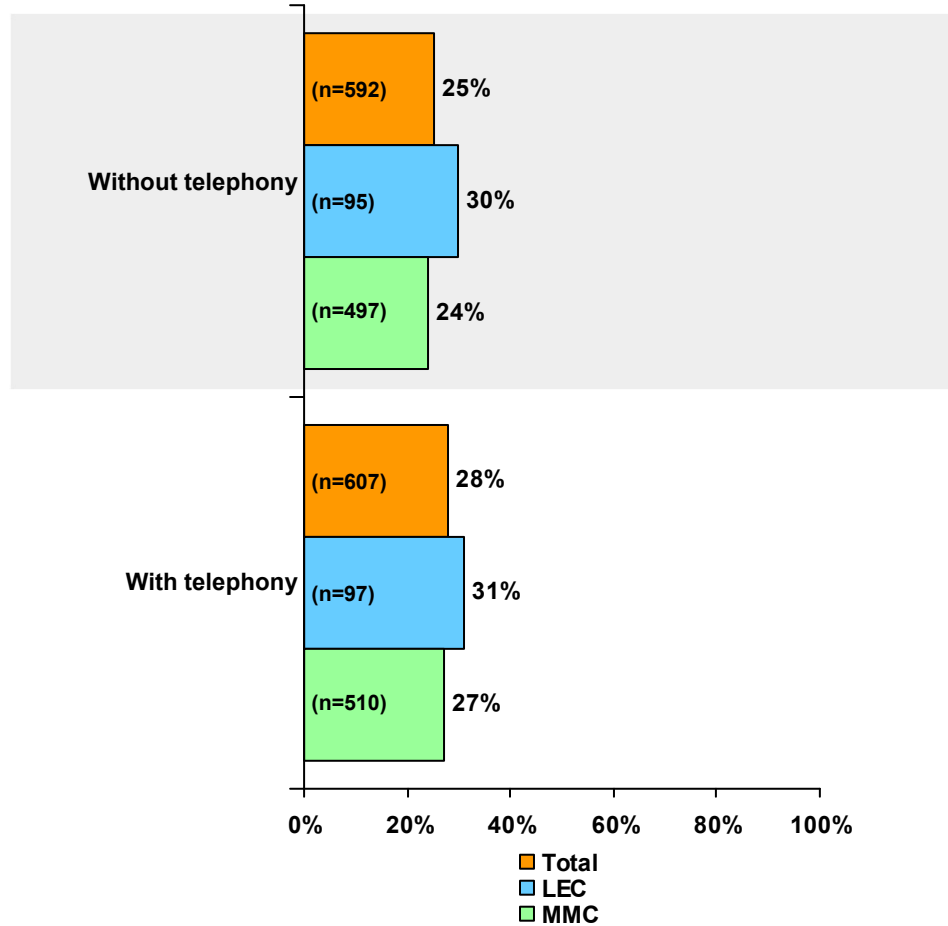
- This figure represents about a 23% discount on consumers' average (median) monthly bill of \$130 for telephony, Internet and cable or satellite TV services.
- Please note that when this question was asked, respondents were reminded of the relevant self-reported monthly costs.

Q57A-Q57D Letters denote statistically significant differences among segments.



# IVS Evaluation

Estimated Demand at Expected Monthly Price  
(Discounted Demand)

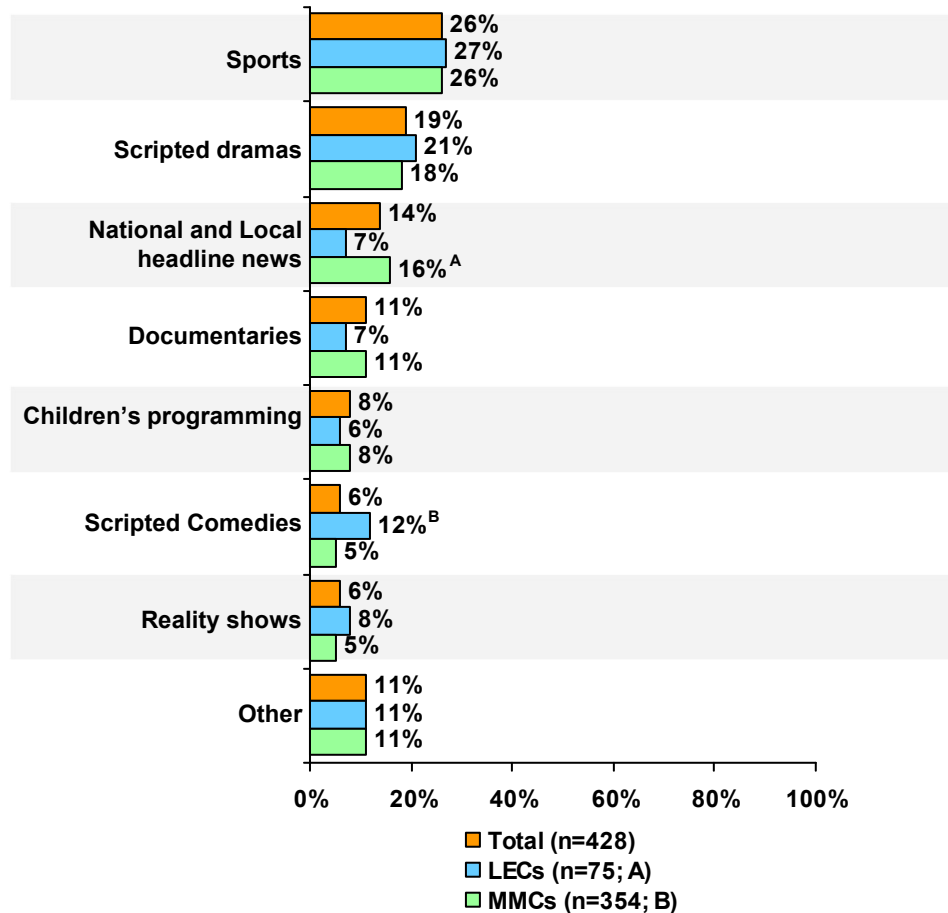


Given consumers' expected prices, the two versions of the IVS concept yield similar demand estimates—both generate a total addressable market (TAM) figure of around one-in-four consumers.



# IVS Evaluation

Programming Preferences Without Telephony



Consumers express the greatest desire for sports programming, followed by scripted dramas and national & local news.

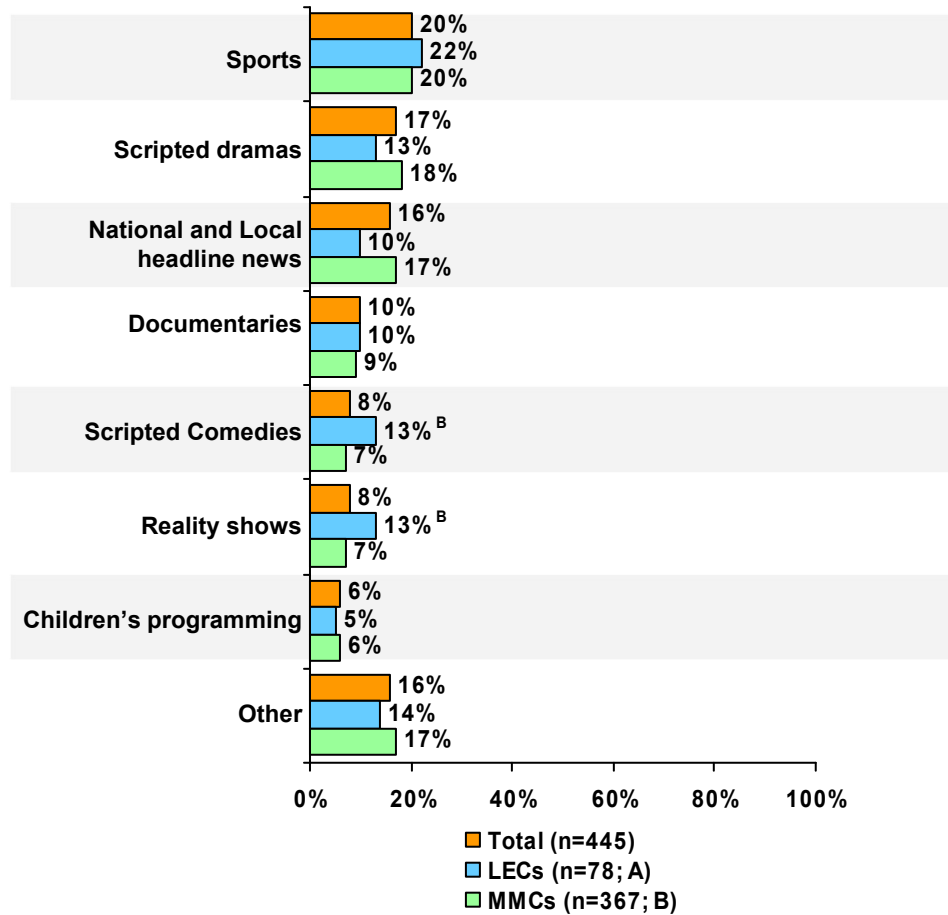
- Men are more likely than women to preference sports.
- In contrast, women are more likely than men to favor scripted dramas and children's programming.

Q58A; Letters denote statistically significant differences among segments.



# IVS Evaluation

Programming Preferences With Telephony



Consumers exposed to the IVS concept with telephony indicated the same programming preferences as those who evaluated the basic version of the concept.

- As with the alternative concept, men are more likely than women to preference sports, and women are more likely than men to favor scripted dramas and children's programming.

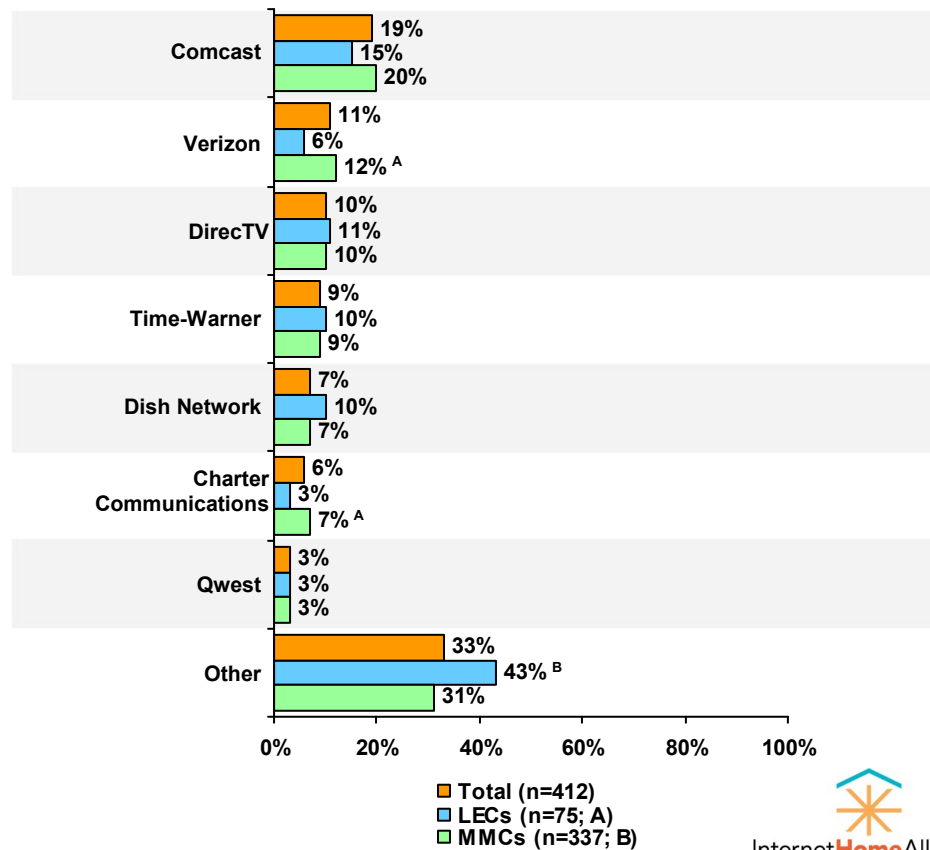
Q58A; Letters denote statistically significant differences among segments.

# IVS Evaluation

In terms of preferred IVS providers, most consumers indicated they would like to see Comcast offer the service, among others. When asked to identify just one potential provider, a plurality chose Comcast. Verizon and DirecTV round out the top-three brands. Interestingly, although AT&T was mentioned as a favored provider by 37% of consumers, when asked to single-out one provider, none selected this brand.

	Total (n=412)	LECs (n=75)	MMCs (n=337)
<b>Preferred Providers Without Telephony</b>		<b>A</b>	<b>B</b>
Comcast	57%	56%	57%
Verizon	45%	41%	46%
DirecTV	43%	<b>52%<sup>B</sup></b>	41%
AT&T	37%	<b>45%<sup>B</sup></b>	35%
Time-Warner	36%	<b>48%<sup>B</sup></b>	34%
Dish Network	33%	<b>41%<sup>B</sup></b>	32%
Qwest	26%	31%	25%
Google	26%	<b>38%<sup>B</sup></b>	24%
Sprint	21%	24%	20%
Yahoo!	20%	24%	20%
Cox Communications	20%	<b>27%<sup>B</sup></b>	19%
SBC Communications	20%	20%	20%
BellSouth	19%	24%	19%
Cablevision	19%	21%	19%
MCI or MCI Worldcom	17%	21%	16%
Charter Communications	16%	14%	17%
Other-Major media company like Disney, Paramount, Sony, etc.	14%	16%	13%
Adelphia	12%	15%	12%
Vonage	11%	10%	11%
T-Mobile or VoiceStream	10%	<b>17%<sup>B</sup></b>	9%
Cable One	8%	12%	7%
Mediacom	7%	4%	7%
US Cellular	5%	7%	4%
Other	11%	12%	11%

Most Preferred Providers Without Telephony



Q59, Q60; Letters denote statistically significant differences among segments.

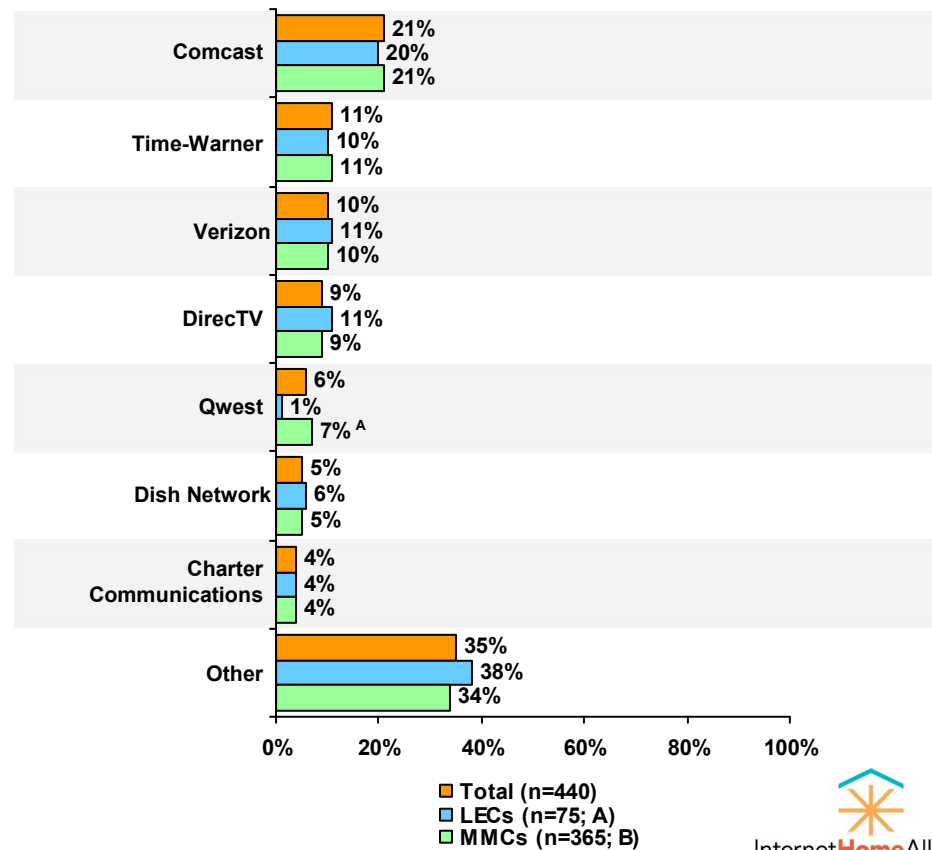


# IVS Evaluation

The preferred provider results for the IVS concept with telephony are similar to those for the concept without it. Comcast is once again the top-choice, though Time-Warner edges out Verizon and DirecTV for the second-spot when it comes to singling out one brand.

	Total (n=440)	LECs (n=75)	MMCs (n=365)
<b>Preferred Providers With Telephony</b>		<b>A</b>	<b>B</b>
Comcast	56%	53%	57%
Verizon	42%	45%	41%
DirecTV	38%	39%	37%
AT&T	37%	41%	36%
Time-Warner	37%	38%	36%
Dish Network	28%	31%	27%
Qwest	27%	25%	27%
Google	26%	28%	26%
Sprint	22%	21%	22%
Cox Communications	22%	19%	22%
Yahoo!	22%	23%	21%
BellSouth	19%	14%	19%
Cablevision	18%	18%	18%
SBC Communications	15%	15%	15%
Vonage	15%	14%	15%
MCI or MCI Worldcom	14%	14%	14%
Charter Communications	14%	13%	14%
T-Mobile or VoiceStream	13%	13%	14%
Other-Major media company like Disney, Paramount, Sony, etc.	13%	15%	13%
Adelphia	12%	13%	12%
Cable One	9%	5%	10%
US Cellular	8%	5%	9%
Mediacom	7%	4%	8%
Other (NET)	12%	6%	13% <sup>A</sup>

Most Preferred Providers With Telephony



Q59, Q60; Letters denote statistically significant differences among segments.

## Key Findings

- Executive Summary
- Background & Methodology
- Conclusions & Recommendations
- **Key Findings**
  - Current Cable/Satellite TV Service
  - DVR Functionality
  - IPTV Functionality
  - IVS Evaluation
  - **Market Profile**
    - Demographic Profile – Personal Characteristics
    - Demographic Profile – Employment & Income
    - Technology Profile – Early Adopter Attitudes & Behaviors
    - Technology Profile – Telecommunications/TV Services

# Market Profile

## Demographic Profile: Personal Characteristics

	Total	Likely Adopters	Likely Non-Adopters
<b>Age (QB)</b>		<b>A</b>	<b>B</b>
18 - 24	2%	2%	3%
25 - 34	24%	25%	18%
35 - 44	33%	35%	36%
45 - 54	27%	26%	27%
55 - 64	14%	12%	16%
Base	(n=1,210)	(n=518)	(n=206)
<b>Gender (QC)</b>			
Male	51%	<b>56%<sup>B</sup></b>	43%
Female	49%	44%	<b>57%<sup>A</sup></b>
Base	(n=1,210)	(n=518)	(n=206)
<b>Marital Status (QD)</b>			
Married or living with a partner	80%	82%	77%
Single (NET)	20%	18%	23%
Single, never married	12%	13%	14%
Separated, divorced, or widowed	8%	5%	9%
Base	(n=1,210)	(n=518)	(n=206)
<b>Level of Education (Q69)</b>			
High school graduate	8%	7%	6%
Some college or technical school/CEGEP	25%	25%	26%
College or technical school/CEGEP graduate	46%	47%	44%
Post graduate studies (Masters/Doctoral)	21%	21%	24%
Base	(n=1,210)	(n=518)	(n=206)
<b>Ethnicity (Q70)</b>			
Caucasian/White	90%	87%	<b>95%<sup>A</sup></b>
African American/Black	3%	<b>4%<sup>B</sup></b>	0%
Hispanic	2%	2%	2%
Asian/Pacific Islander	4%	5%	2%
Other	1%	2%	1%
Base	(n=1,199)	(n=511)	(n=205)

Demographically-speaking, likely adopters of the IVS concept are likely to be white, college-educated men age 35 or older.

QB-QD, Q69, Q70; Letters denote statistically significant differences among segments.

# Market Profile

## Demographic Profile: Employment & Income

	Total (n=1,210)	Likely Adopters (n=518)	Likely Non- Adopters (n=206)
<b>Employment (QE-QFA)</b>			
DUAL-INCOME FULLTIME HH (NET)	51%	53%	55%
2 FT w orkers, neither self-employed	31%	34%	28%
2 FT w orkers, both self-employed	5%	4%	9%
2 FT w orkers, one self-employed	15%	15%	18%
SINGLE FULL-TIME INCOME HH (NET)	37%	36%	35%
1 FT w orker, not self-employed	29%	29%	27%
1 FT w orker, self-employed	7%	7%	8%
DUAL PART AND FULLTIME HH (NET)	12%	11%	10%
1 PT w orker, 1 FT w orker, neither self-employed	5%	4%	4%
1 PT w orker, 1 FT w orker, FT self-employed	1%	2%	1%
1 FT w orker, self-employed, 1 PT w orker, self-employed	2%	2%	2%
1 FT w orker, not self-employed, 1 PT w orker, self-employed	4%	3%	4%
<b>Income (QG)</b>			
Less than \$50K	15%	14%	15%
\$50,000 - \$74,999	31%	31%	30%
\$75,000 - \$99,999	23%	21%	21%
\$100K or more	31%	34%	34%

Most households likely to adopt the IVS concept are dual-income households with annual incomes of \$75K or more.

# Market Profile

## Technology Profile: Early Adopter Attitudes & Behaviors

	Total	Likely Adopters	Likely Non-Adopters
<b>Comfort Level With New Home Technology (Q61)</b>			
% Very comfortable (6-7 rating)	79%	<b>89%<sup>B</sup></b>	63%
Mean average rating	6.2	<b>6.5<sup>B</sup></b>	5.6
Base	(n=1,207)	(n=518)	(n=206)
<b>Adoption of New Home Technology (Q62)</b>			
Buy new home technology soon after it's available, almost regardless of price, because technology is so central to your life	5%	<b>10%<sup>B</sup></b>	1%
Buy new home technology within the first year, after the technology has proven itself a bit, though prices may still be a little high	23%	<b>28%<sup>B</sup></b>	15%
Wait to buy new home technology until the technology has definitely proven itself and prices have started to drop	53%	50%	50%
Wait to buy new home technology until the technology has become an established standard and prices are reasonable for most people	18%	12%	<b>29%<sup>A</sup></b>
Rarely, if ever, buy new home technology	1%	0%	5%
Base	(n=1,186)	(n=516)	(n=200)

As might be expected, most likely adopters are 'very comfortable' with technology and about two-in-five are self-described innovators or early adopters—more than twice the national average.

Q61-Q62; Letters denote statistically significant differences among segments.





# Market Profile

## Technology Profile: Telecommunications/TV Services Used

Likely adopters of the IVS concept are more likely than non-adopters to...

- Use an Internet-based telephone service like Skype or Vonage;
- Subscribe to a premium satellite TV service;
- Subscribe to an on-screen programming guide;
- Have access to pay-per-view programming;
- Own an HDTV television set; and
- Own a standalone DVR (not part of a cable/satellite TV box).

	Total (n=1,210)	Likely Adopters (n=518)	Likely Non- Adopters (n=206)
<b>Current Telecommunications Services Used (QL)</b>			
High-speed (NET)	100%	100%	100%
High-speed cable modem Internet service	65%	68%	63%
High-speed DSL Internet service	37%	34%	38%
Cellular telephone service that involves a monthly bill (not pre-paid)	88%	89%	90%
Traditional LOCAL landline telephone service	84%	82%	87%
Traditional LONG-DISTANCE landline telephone service	67%	67%	67%
Dial-up Internet service	4%	4%	3%
<b>Use of Internet-Based Telephone Service (Q1A)</b>			
Yes	12%	15% <sup>B</sup>	9%
No	88%	85%	91% <sup>A</sup>

	Total (n=1,210)	Likely Adopters (n=518)	Likely Non- Adopters (n=206)
<b>Current TV Services Used (QM)</b>			
Cable (NET)	76%	76%	76%
Digital cable TV service	42%	44%	42%
Basic cable TV service	32%	31%	31%
Premium cable TV service	24%	25%	22%
Satellite (NET)	29%	31%	25%
Premium satellite TV service	19%	22% <sup>B</sup>	13%
Basic satellite TV service	12%	13%	12%
<b>TV Products/Services Available in HH (QN)</b>			
A cable or satellite TV on-screen programming guide	69%	75% <sup>B</sup>	66%
A pay-per-view service that allows you to purchase and watch movies at scheduled times	56%	61% <sup>B</sup>	50%
A video-on-demand service that allows you to purchase and watch movies at your convenience	41%	45%	38%
A high-definition (HDTV) compatible TV set	33%	38% <sup>B</sup>	26%
Total DVR (NET)	33%	39%	32%
A cable or satellite TV box with a digital video recorder (DVR) that allows you to pause and record 'live' TV	25%	30%	26%
A standalone digital video recorder (DVR) such as TiVo that is not part of a cable or satellite TV box	13%	16% <sup>B</sup>	8%
None of the above	12%	6%	13% <sup>A</sup>

QL, Q1A, QM, QN; Letters denote statistically significant differences among segments.

