

# Q4 2012 Video Discovery Trends Report:

Consumer Behavior Across Pay-TV, VOD, OTT and Next-Gen Features

## Introduction

What do consumers want from their pay-TV providers? How do consumers really view their pay-TV providers? What are consumers' views on new trends and features for improving their viewing experiences? These are three of the many questions Digitalsmiths set out to answer with the *Q4 2012 Consumer Survey and Video Discovery Trends Report*. By distilling consumer opinions and behaviors on a quarterly basis, Digitalsmiths tracks trends and continues to improve its personalized video discovery platform based on actual consumer needs and wants, and also gives pay-TV providers an unbiased perspective on industry and consumer trends today.

This survey sheds new light on the cord-cutting debate and offers key insights into consumers' TV viewing habits and their relationships with service providers. It also reveals huge missed revenue opportunities for pay-TV providers. The overall picture painted by these results shows not only the need to create a better video discovery experience for consumers, but also the opportunity to deliver a solution that meets both the needs of the consumer and positively impacts revenue. The right solution presents consumers with personalized recommendations that include traditional linear TV, VOD and premium content; this also allows pay-TV providers to increase average revenue per user (ARPU) without increasing rates. Let's face it, other than the big changes around DVR/recording and the addition of new channels, the overall cable/satellite experience has stayed the same for far too long. Due to more competition facing pay-TV providers than ever before, coupled with more tech savvy generations, it's time for change. These survey results prove this loud and clear.

*Digitalsmiths conducts this survey on a quarterly basis and publishes a report evaluating and analyzing key trends across the pay-TV industry. The importance of this survey is to track consumer trends over time, providing pay-TV providers real, unbiased feedback regarding consumers' behaviors, perception of the industry and views of new technology hitting the market.*

**Consumers Surveyed:**

Over 2,000

**Geographic Regions:**

United States, Canada

**Ages of Respondents:**

Must be 18+ years of age

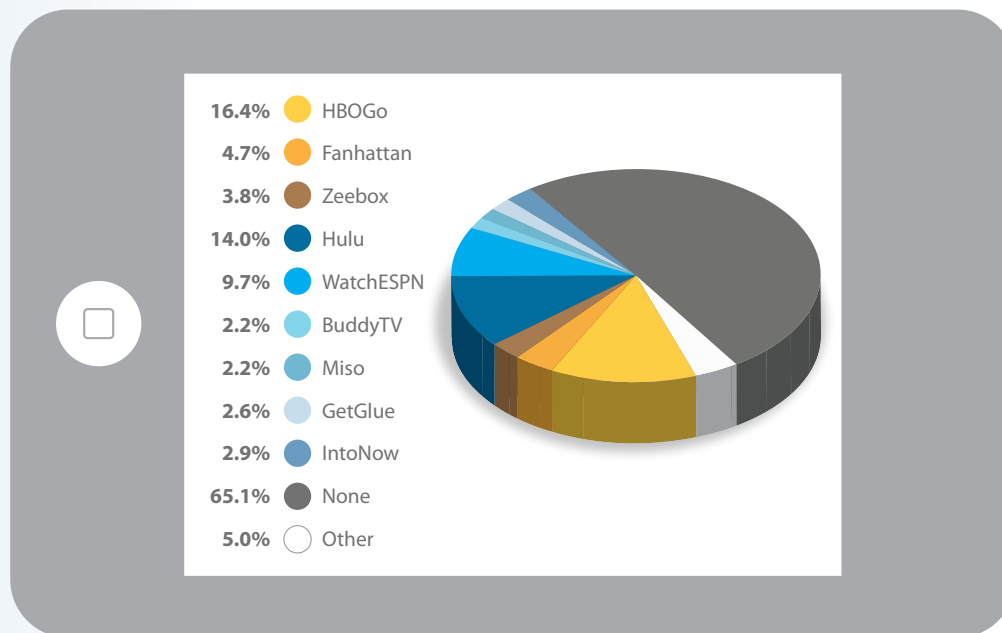
## The Pay-TV Providers: From the Eye of the Consumer

With all the noise about cord-cutting and threats posed by alternative services for watching TV shows and movies, we wanted a better understanding of consumers' perceptions of their pay-TV providers. When questioned about the value received from their pay-TV provider, 81% were satisfied or very satisfied. However, this does not mean that there isn't work to be done. Of these respondents, 38% potentially want to make changes in the next six months. So, what does this mean for pay-TV providers?

➔ Pay-TV providers have no choice but to invest in new technology to improve the discovery and viewing experience in order to keep existing subscribers and save their "on-the-fence" subscribers. According to our numbers, OTT solutions aren't an enormous threat with 65% of respondents not using them at all; however it's important to keep a close eye on the services being offered, and understand why and how consumers use those services.

### APPS

Do you have any of the following TV or 2nd screen apps downloaded on your iPad/tablet (choose all that apply):

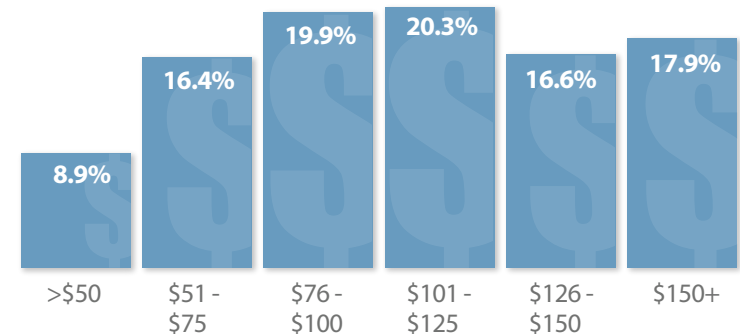


➔ Consumers are begging for a better experience. Over 50% of the respondents said they would consider keeping their existing cable/satellite service if it was easier to find something to watch on TV. Now more than ever, consumers are faced with hundreds of channels, but the grid/channel guide has yet to be improved. In other words, providers offer more content, but they haven't changed the discovery experience at all. Due to the cumbersome process of scrolling through hundreds of channels, consumers find difficulty seeing value in their viewing options.

➔ However, a fine line exists in improving the experience without it costing the consumer. With 44% paying more for their monthly bill than 12 months ago, a fee increase isn't the answer. Premium channels was the number one service added, beating out non-TV sources such as phone and internet; however, it was also the top service cut with 20% more cut versus added. This proves consumers are willing to pay more to find something they "want" to watch, but don't see value in the premium channel services offered today. Therefore, pay-TV providers must improve the overall experience in order to keep current subscribers and capitalize on the upsell opportunity with the 60% of consumers who plan to stay with their current provider. This is a win-win: generating new revenue for pay-TV providers and allowing consumers to be able to find what they "want." Improvements must be implemented the "right" way, however.

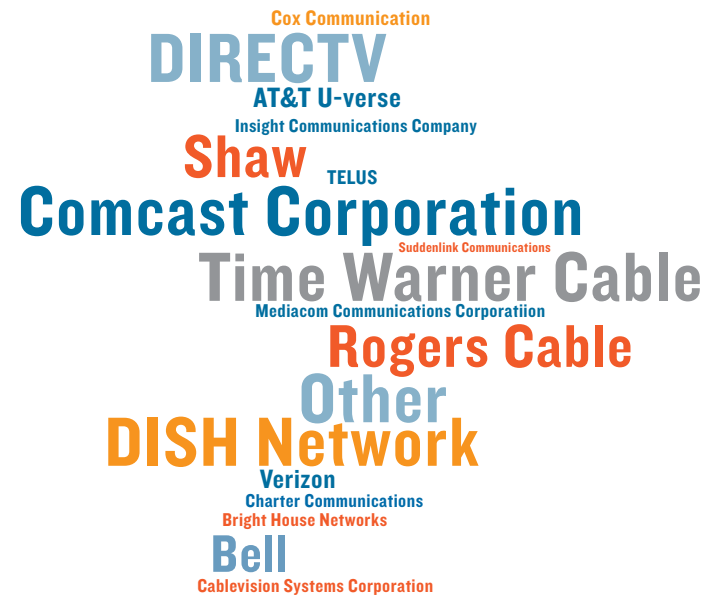
**TOTAL MONTHLY BILL**

How much is your total monthly bill from your cable/satellite provider for all major services used such as tv, internet, phone? (not including video-on-demand/movie purchases)



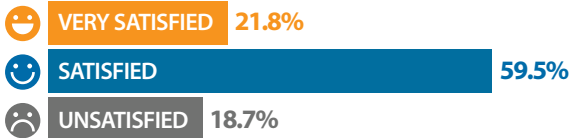
**PROVIDER**

Who is your current cable/satellite service provider?

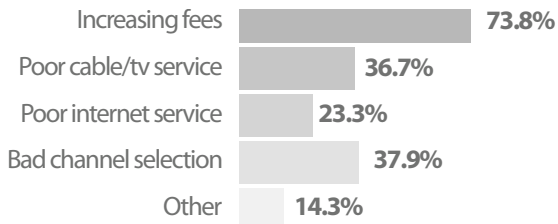


**VALUE**

How would you rate the level of value you are receiving from your cable/satellite service provider?



If unsatisfied, why do you feel you're not getting enough value from your provider? (choose all that apply)



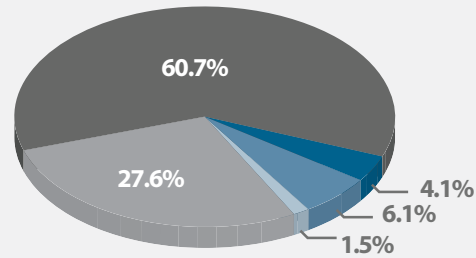
**BILL AMOUNT**

Is your cable/satellite bill less now than what you were paying 12 months ago?



**PLAN TO CHANGE PROVIDERS**

Do you plan to change cable/satellite providers in the next six months?



- 60.7% ● NO, plan to STAY with current cable/satellite provider
- 27.6% ● MAYBE
- 1.5% ● YES, planning to SWITCH to an online app or rental service instead of a cable/satellite service
- 6.1% ● YES, planning to CHANGE cable/satellite providers
- 4.1% ● YES, planning to CUT cable/satellite service

If yes, would you consider keeping your existing service if your provider released new functionality that made it easier for you to find something to watch? (For example, if you had shows recommended to you based on your interests so it is easier to find something you "want" to watch on TV)

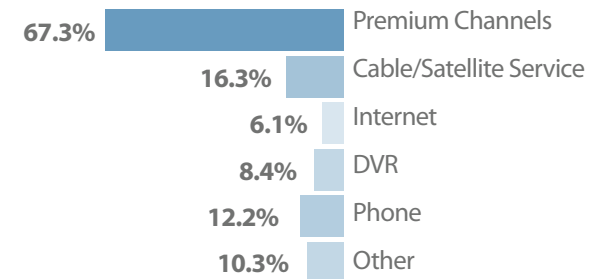


**SERVICE ADJUSTMENT**

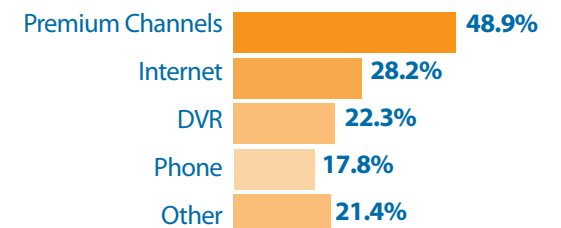
Have you adjusted your level of cable/satellite service in the last 12 months?



If Decreased, what service(s) did you cut?



If Increased, what service(s) did you add?



## Consumer TV Viewing Habits

In addition to understanding how pay-TV providers are viewed by the average consumer, knowing how consumers watch TV is key in improving the experience. These survey results confirm many industry assumptions while debunking others. Consumers watch less TV than one might have guessed, but the inordinate amount of time they spend channel surfing comes as no surprise. Over 50% of consumers surveyed spend over 10 minutes a day channel surfing, and almost 25% spend over 20 minutes. In these 20 minutes, the consumer does not enjoy his or her pay-TV service or engage with content and/or advertising. The bulk of consumers also watch the same 4-8 channels out of the hundreds for which they pay, which negatively impacts the consumer's perceived value of their pay-TV service.

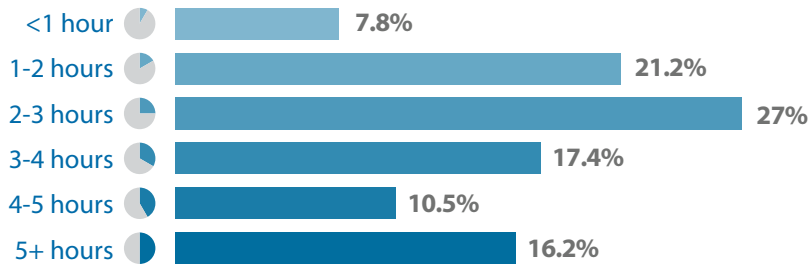
Another surprising survey result was that over half of respondents spent less than 10% of their TV viewing time watching recorded/DVR'd content, which means most consumers channel surf or scroll through the guide in order to find something to watch when they turn on the TV. Therefore, pay-TV providers have a huge opportunity to influence the decisions of their subscribers.

These stats on TV viewing habits further strengthen the case for improving the video discovery experience. By delivering a better discovery experience, pay-TV providers will decrease the amount of time spent channel surfing and increase the consumer-time spent engaged with the content. Additionally, these discovery experiences expose consumers to content they will enjoy outside of their normal 4-8 channels. This helps them re-discover the value of pay-TV services, resulting in improved satisfaction levels.

The bulk of consumers **watch the same 4-8 channels** out of the hundreds for which they pay.

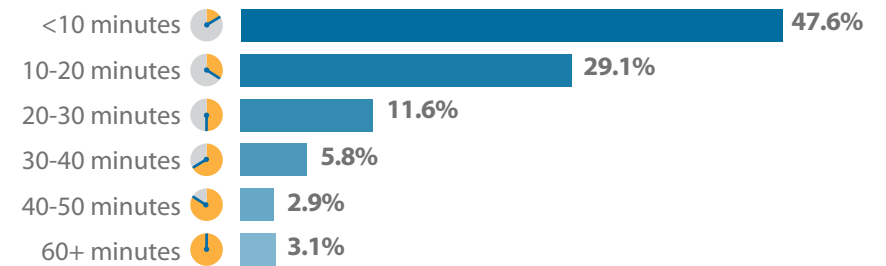
### WATCHING TV

How many hours a day do you watch TV?



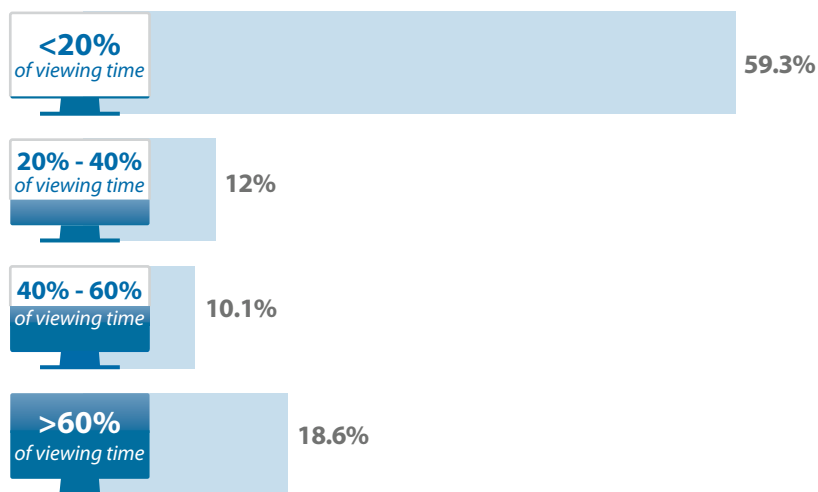
### CHANNEL SURFING

How much time a day do you spend searching (channel surfing) or scrolling through the guide looking for something to watch?



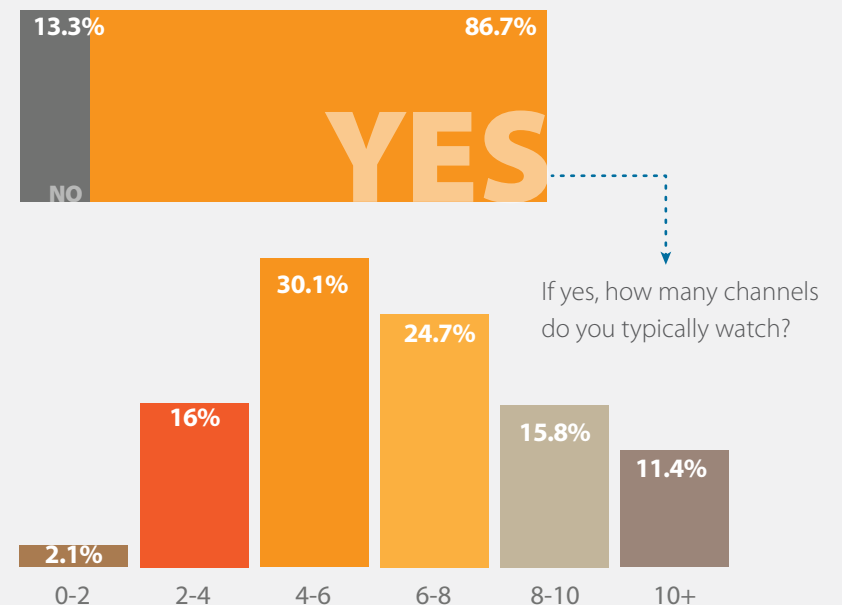
### WATCHING DVR

In an average week, what percentage of your TV viewing time is spent watching shows that you have recorded/DVR'd?



### VARIETY

Do you feel you watch the same channels over-and-over again?



## The Missed Revenue Opportunities

While the survey results show that the cord-cutting phenomenon is not as severe as some have claimed, pay-TV providers should still be concerned about the threat OTT services pose. Based on our results, most consumers don't look to OTT solutions as a replacement for cable, but as a supplement which cuts into pay-TV providers' bottom lines, especially in the form of lost VOD revenue.

Despite pay-TV providers' heavy investments in their VOD catalogs and the marketing of these services, VOD revenues continue to disappoint. When asked how many VOD purchases made from their service providers' catalogs every month, 78% of respondents said zero and only 10.5% made two or more purchases. This is not to say, however, that a portion of consumers never watch movies on-demand.

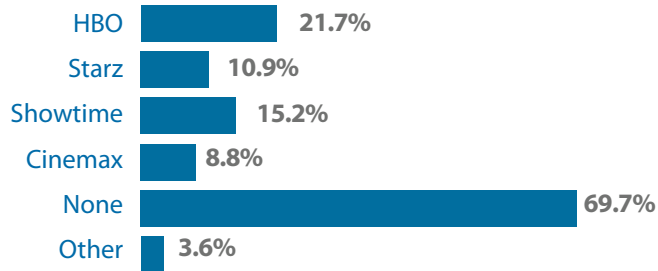
Roughly half of consumers surveyed used Redbox, Netflix, Vudu, Amazon, Blockbuster, iTunes or another similar service. Of those using these services, over half watched/purchased 1-3 movies per month. Every month, therefore, pay-TV providers miss out on roughly \$3 - \$15 per subscriber across half of their subscriber base, representing millions in lost revenue. By improving the video discovery experience, the number of subscribers purchasing movies on-demand from their pay-TV providers will dramatically increase over the ratio shown by these survey results. For example, if half of a provider's 1 million subscribers made two monthly VOD purchases at \$3 each, the provider would generate an additional \$36 million annually.

Why do consumers go elsewhere to watch movies on-demand? When asked, respondents cited convenience, selection, price and ease of finding a movie. In a separate question asking respondents if they thought finding a movie they would enjoy in their providers' VOD catalogs is easy, half answered no. The fact that some consumers think driving to a Redbox kiosk or renting movies online and waiting for them to arrive is more convenient than renting a movie from their couch-es speaks to the urgent need to improve the experience, and reveals the massive revenue opportunity pay-TV providers are missing. Later in the report, we address how this problem can be improved in parallel with other issues uncovered by the survey.



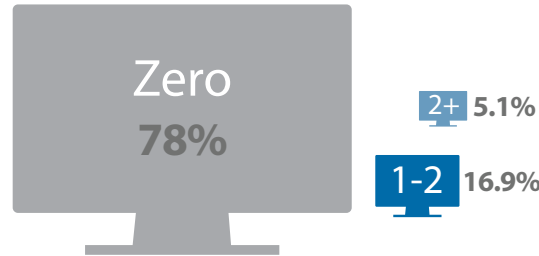
### PREMIUM CHANNELS

Do you pay for any of the following premium channels? (choose all that apply)



### VOD

How many Video-on-Demand (VOD) purchases do you make on average each month? (Movies purchased from on-demand stations on TV. Does NOT include Netflix, Redbox, iTunes, etc.)



### VOD CATALOG SEARCH

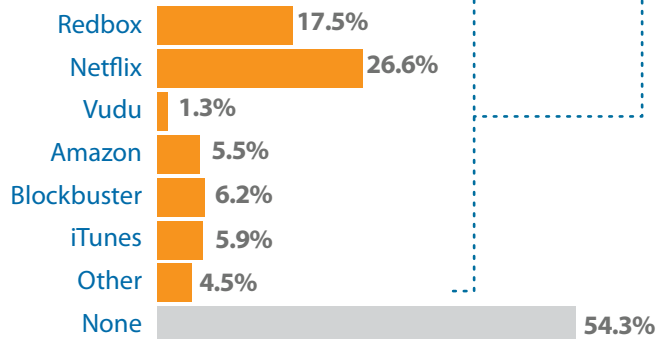
Do you feel it's easy to find a movie you will enjoy in the VOD catalog provided by your cable/satellite provider? (accessed from your guide)



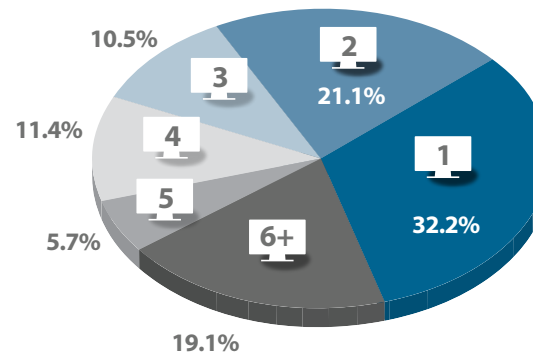
49% say NO

### MOVIE RENTAL SERVICES

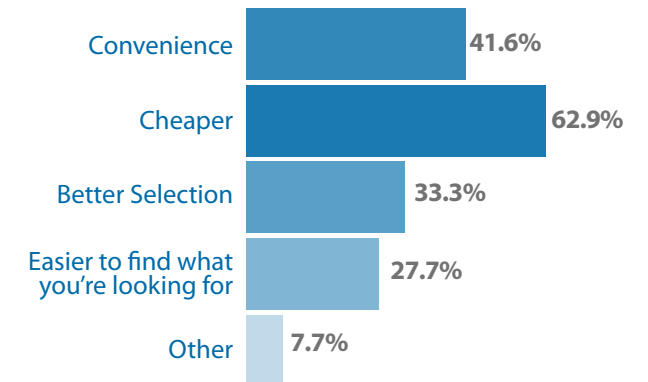
Do you use any other movie rental services? (choose all that apply):



How many rentals/purchases do you make each month using these services?



Why do you use these movie rental services over the VOD options available through your cable/satellite service? (choose all that apply)



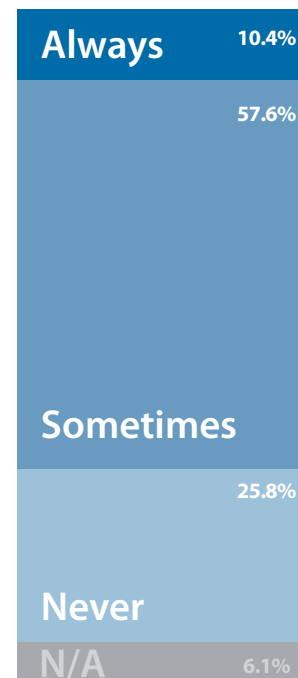
# The Answer to Consumer Demand for a Better Experience: A Personalized Video Discovery Platform

With 67% of respondents stating that they get frustrated “always” or “sometimes” when trying to find something to watch, it is evident the consumer experience needs to change. However, the main challenge to overcome is how can pay-TV providers improve the discovery experience without it being a capital expenditure.

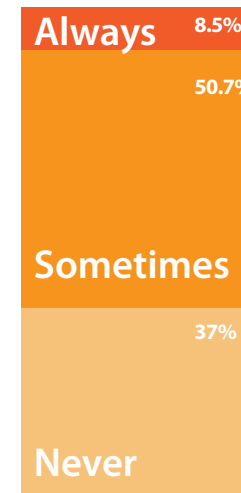
A personalized video discovery platform makes it easier for consumers to find relevant content. By filtering all available live TV and on-demand options by consumers’ preferences, relevant, revenue-generating content once buried in the linear guide and VOD catalog surfaces. Most of these are relatively new concepts presented to consumers, but were well-received by respondents. The following pages break down each feature, how consumers responded to it, and how it improves the overall video discovery process.

## FINDING SOMETHING TO WATCH

How often do you get frustrated when trying to find something to watch on TV?



Do you ever have trouble finding something to watch that multiple members of your household will enjoy?



## Personalized Search

Sixty-one percent of respondents said they do not use their providers' search functionality; however, of those 61%, 57% would use search if the feature were easier to navigate.

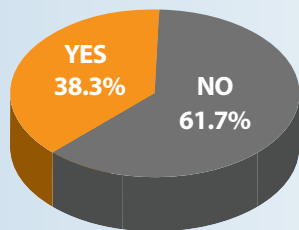
Before implementing a search solution, it's important to think about the level of data needed to guarantee the accuracy of a search feature. From a consumer's perspective, nothing is more frustrating than inaccurate search results. To ensure the highest level of accuracy, the search functionality should rely on deep intelligence about the video content including scene-level and asset-level data.

## Mood-Based Discovery

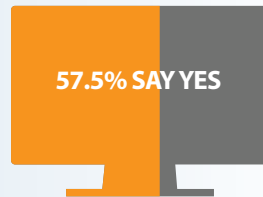
Sixty-two percent of consumers stated they would like the ability to find TV shows/movies based on their mood. The right discovery solution allows consumers to filter available content by categories such as, "mood," "theme," "subject," "setting," and "time-period". Looking at the survey results for search, recommendations and mood-based discovery, it's evident consumers clearly want more than one option to find content.

### PERSONALIZED SEARCH

Do you ever type in a TV show, movie title, or topic into a search box to find something to watch?

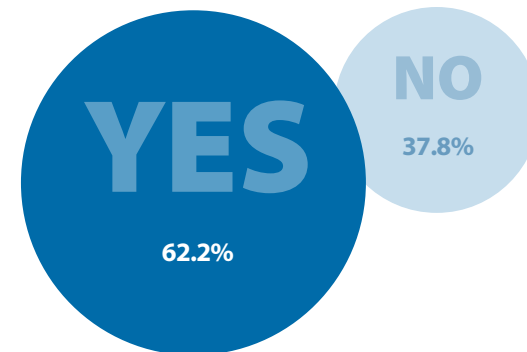


If no, would you use search functionality if it was easy to use?



### MOOD-BASED DISCOVERY

Would you like the ability to find something to watch based on the mood you're in? (For example, search shows/movies if you're in the mood for a light-hearted comedy)



## Personalized Recommendations

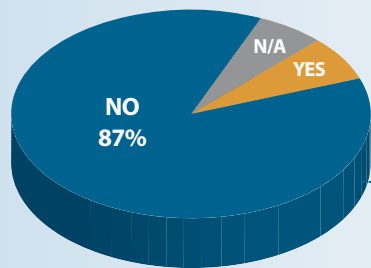
Eighty-seven percent of respondents stated their cable/satellite provider does not recommend TV shows/movies to them. In addition, almost half of those respondents said they would like recommendations based on their interests, past viewing habits, etc. When asked about the channel guide, 63% prefer recommendations that match their personal preferences or interests. Again, it is time to improve the discovery experience. However, in order to be seen as helpful and not an annoyance to consumers, recommendations must be personalized, and powered by implicit and explicit viewer data similar in usage to the search function.

Not only the single consumer demands a better discovery experience, but also a group or a family; 58% have trouble finding something for the group to watch. Therefore, implementing a personalized search and recommendations platform that blends profiles, and easily adds new ones helps to recommend relevant content for mom *and* dad or mom, dad *and* son. The right solution filters all sources of available video content, blending linear, VOD, premium and online content catalogs by a user's or group's viewing preferences, therefore recommending the most relevant TV shows, movies and live events, regardless of channel.

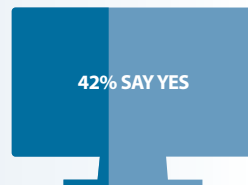
**Eighty-seven percent** of consumers stated that their cable/satellite provider does not recommend TV shows or movies to them.

### PERSONALIZED RECOMMENDATIONS

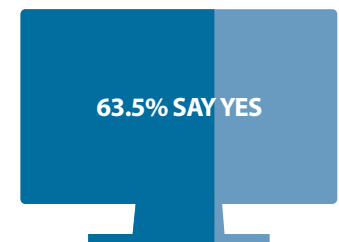
Does your cable/satellite provider make personalized recommendations to you? (When you turn on the TV, are you presented with recommendations based on your interests, past viewing habits, etc.)



If no, would you like the option to see personalized recommendations based on shows available at a particular time, regardless of channel?



Would you like your channel guide to show you what's on/available based on your personal preferences/interests first including all content (movies, live events, TV shows, etc.?)



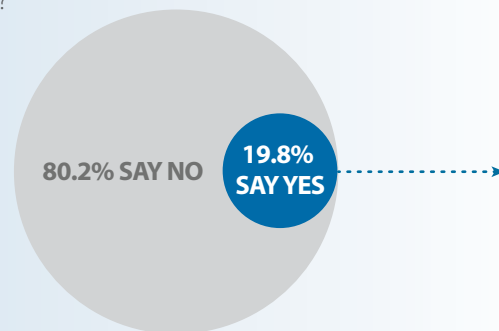
## Social Trending

At 69%, the bulk of respondents don't post on social networks, such as Twitter and Facebook, about the TV shows/movies they watch. In addition, social buzz regarding TV shows/movies does not influence their decision to watch content. These numbers might come as a shock to some due to all the hype surrounding social networks in general. However, this does not shock Digitalsmiths for a few reasons. First, we feel this will remain low until an intergration is done within the cable/satellite platforms that enables consumers to update their status or tweet straight from their TV. Secondly, the demographic using social networks must catch up with the much larger TV subscriber demographics.

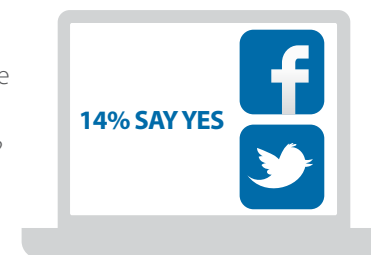
However, do not let these numbers affect the social efforts on your priority list. We believe you will see a dramatic increase in the adoption of social features when pay-TV providers offer a video discovery platform with a seamless integration into users' social networks.

### BUZZ

Do you ever choose to watch a TV show or movie because of all the buzz it's getting on Facebook, Twitter, and other social networks?



Do you post about what you're watching on social networks such as Twitter, Facebook, etc?



## Business Rules

The remaining question is how can pay-TV providers increase ARPU *and* generate new revenue to pay for new video discovery features?

Personalized video discovery platforms must support the ability to create rules that strategically control the output of search results, personalized recommendations, and browsing experiences in order to meet the pay-TV provider's business needs and revenue goals. This functionality allows providers to up-sell and cross-sell premium content and services on a personalized, targeted level.

Here are a few examples of how DigitalSmiths Seamless Discovery® Business Rules Engine has been leveraged to drive revenue:

- ➔ **Premium Content Promotion:** A rule can be created to target frequent viewers of "The Ultimate Fighter," the weekly series on FX, with a sponsored recommendation for an upcoming UFC Pay-Per-View event.
- ➔ **Video On Demand Promotion:** A rule can be created to deliver sponsored recommendations for "Sherlock Holmes: A Game of Shadows" to subscribers who are fans of Robert Downey, Jr., the film's starring actor.
- ➔ **New Series Promotion:** A rule can be created to promote the Discovery Channel's new show "Gold Rush: The Jungle" to frequent viewers of similar shows, such as "Deadliest Catch," the Discovery Channel series on Alaskan king crab fishermen.

## Key Takeaways

- ➔ The hype surrounding cord-cutting is mostly just that: hype. Most consumers don't plan to disconnect their pay-TV services anytime soon. However, pay-TV providers must implement improvements to the consumer experience quickly in order to save on-the-fence consumers and stay ahead of the OTT competition.
- ➔ Over 50% of respondents spend more than 10 minutes channel surfing every day but watch only 4-8 channels. Also, with 67% stating they get frustrated "always" or "sometimes" when trying to find something to watch, it is evident the video discovery experience needs to change in order to improve consumer engagement and satisfaction.
- ➔ Pay-TV providers lose millions in VOD revenue to other movie rental services. By implementing a personalized video discovery platform that makes it easier and more convenient for consumers to find VOD titles they'll enjoy, providers can not only reclaim, but also increase VOD revenue. To give consumers the experience they want, providers need to offer alternatives to the linear channel grid for finding content. The ideal platform blends live TV and VOD catalogs and surfaces relevant TV shows and movies based on consumer's viewing preferences.
- ➔ In addition to making consumers happier, a personalized video discovery platform with business rules functionality generates new revenue streams for pay-TV providers, ensuring this technology will not be a capital expenditure, but a revenue generator. It's a win-win!

[\*Click here to learn more about Digitalsmiths Seamless Discovery® platform.\*](#)

## About Us

Guided by the belief that consumers should not have to work to find relevant content—the content should find them—Digitalsmiths provides the industry's most comprehensive video discovery platform, offering personalized search, recommendations and browsing, social trending, mood-based recommendations, and a business rules engine for all connected devices. Built for service providers, content providers and consumer electronics manufacturers, Digitalsmiths Seamless Discovery® enables personalized discovery experiences that instantly connect consumers to the most relevant movies, TV shows and live events available, at any time, on any screen.

Digitalsmiths serves customers across all media channels and devices including Cisco, Warner Bros., Paramount, Technicolor, Turner Sports, the NBA, the PGA and NASCAR. Digitalsmiths is privately held and backed by .406 Ventures, Aurora Funds, Chrysalis Ventures, Cisco and Technicolor.