

Q3 2013 Video Discovery Trends Report:

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

Introduction

Each quarter, Digitalsmiths seeks out real consumer opinions to uncover key trends facing the media/entertainment industry today. The genuine, unbiased perspective and feedback are influential in driving continuous improvements to Digitalsmiths Seamless Discovery®, the industry's leading personalized video discovery platform.

As consumers' viewing habits and devices continue to evolve, additional services are becoming available to meet their needs. The question is, how are these behaviors and industry advancements driving Pay-TV providers to enhance the consumer experience, and how quickly? The Q3 2013 survey offers valuable insights on several of the industry's hottest topics and trends including:

- ➔ **Is cord-cutting still the issue or is the threat actually stemming from cord-trimming and cord-cheating?**
- ➔ **Are Pay-TV providers' Video on Demand (VOD) offerings gaining traction against the stiff competition from Over-the-Top (OTT) services and other third-party video services?**
- ➔ **What types of content are consumers watching on their tablets, smartphones and gaming devices, and how often?**
- ➔ **What are the most popular, heaviest used second screen applications?**
- ➔ **Is TV Everywhere gaining awareness and usage?**
- ➔ **What do consumers want from Pay-TV services to enrich their overall experience?**

The survey was conducted in Q3 2013; however, Digitalsmiths analyzed the results in Q4. Coincidentally during the analysis period, many topics included in this report were in the news, spanning numerous articles on the cord-cutting phenomenon and TV Everywhere. Key announcements and external news pertinent to the survey results are interspersed where relevant.

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.

Survey Demographics

Survey Size:

Over 3,177 Consumers

Geographic Regions:

United States, Canada

Ages of Respondents:

18+ Years of Age

**This survey was conducted by a leading third-party survey service. The results were analyzed by Digitalsmiths.*

Pay-TV Providers: Cord-Cutting, Cord-Thinning and Cord-Cheating

The Q3 survey findings continue to support a positive trend for Pay-TV Providers, showing that only 2.9% of respondents plan to cut their cable/satellite service in the next six months, a slight decrease from Q2 results. However, a threat still persists with 6.9% planning to change providers and 2% planning to switch to a third-party app or service. Even more alarming are the respondents who are on the fence, answering “maybe,” rose to 34% — an increase over Q2 survey results.

Cord-thinning, the act of cutting one or more Pay-TV services, is a trend continuing to rise, according to Q3 2013 survey results. Nearly 17% said they decreased or removed services, a relatively significant increase from Q1 2013. Of the services thinned, “reduced level of cable/satellite service” increased the most to 45.2%, but a consistent trend we’re seeing is that premium channels are the highest ranking service cut. Though premium channels are getting

cut, they still remain the top ranked services added, with HBO leading the pack.

Of the 17.2% of consumers who increased their cable/satellite services, premium sports packages saw a huge jump quarter over quarter. Premium sports packages might be a timely figure since the NFL season was beginning around the time of the survey, but the results on premium content speak to the importance of marketing these programs and boosting

these services in guides and video discovery platforms. There is still huge revenue potential through upselling subscribers, since 62.7% of respondents do not pay for premium channels and a larger audience does not pay for sports packages.

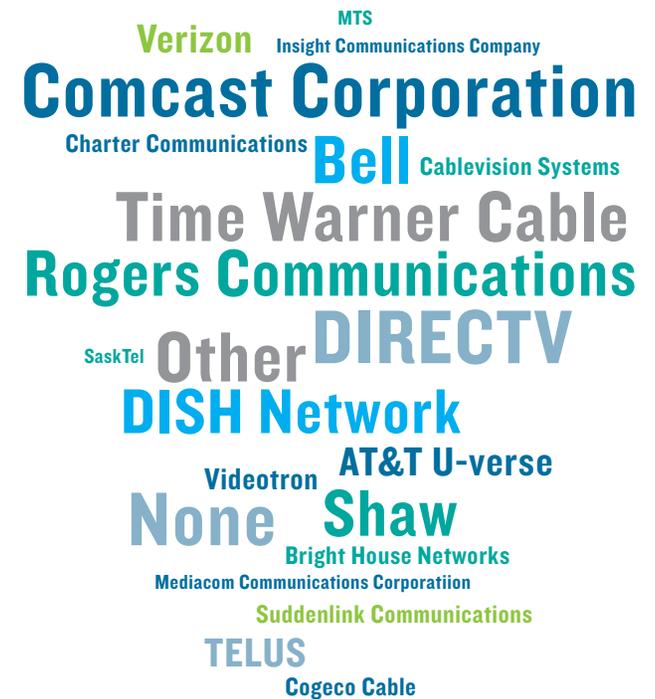
Overall, satisfaction remained steady at 58.6%, but still far from impressive. Respondents who are unsatisfied rose slightly, totaling 21.5%. When asked about dissatisfaction issues, the top reason was increasing fees while others cited were poor cable/satellite service, poor Internet service and poor customer service. In addition, of those respondents planning to cut, change or switch to other apps/third-party services, 40.4% said they would reconsider staying if their provider released new functionality that made it easier to find something to watch.

TREND: DECREASED OR REMOVED SERVICES

Q1 2013	Q2 2013	Q3 2013
13.4%	14%	16.9%

PAY-TV PROVIDER

Who is your current cable/satellite service provider?



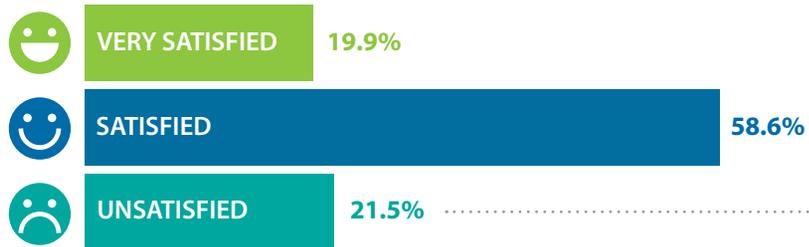
While survey results on cord-cutting and cord-thinning prove customer retention should remain a focus among Pay-TV providers, the latest growing trend is cord-cheating. A topic Digitalsmiths introduced in Q2 2013, cord-cheating refers to the continuing trend by consumers to seek on-demand video content from third-party services and OTT services as an alternative to their traditional Pay-TV provider. The services behind the cord-cheating phenomenon span a variety of delivery models, including streaming subscription services such as Netflix and pay-per-rental services like Redbox kiosks.

Actual numbers substantiating the size of the cord-cheating phenomenon will come later in this report; however, ironically while drafting this document, even more interesting news was released regarding these services. The Wall Street Journal reported that Netflix is in talks with two Pay-TV Providers, Comcast and Suddenlink. It will be interesting to see how this plays out over time.

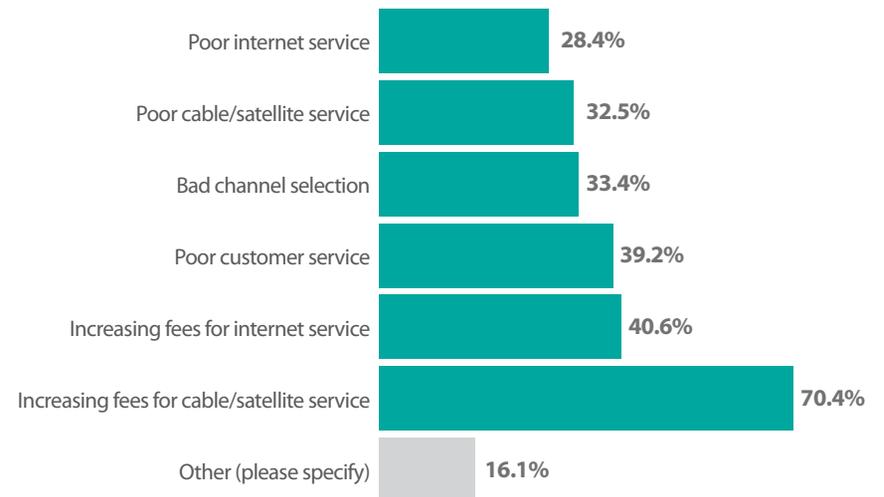
As OTT and Pay-TV providers partner, it creates an even greater opportunity to provide a desirable video discovery solution that allows consumers to search and receive recommendations across catalogs and blend the results of the OTT providers content with Pay-TV providers content. These partnerships could ease the discovery process by eliminating extra steps. Viewers who cannot find interesting, relevant selections when searching the OTT provider’s catalog would no longer need to launch their Pay-TV provider’s service separately to find movies and programs they want to watch.

VALUE

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

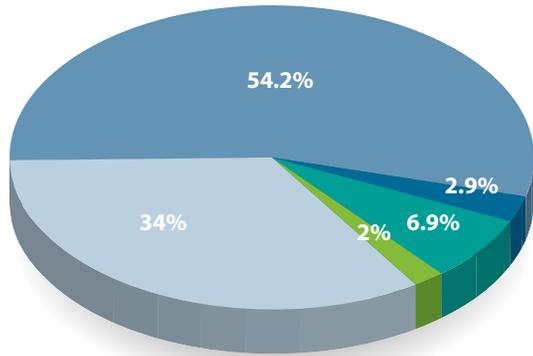


► If **UNSATISFIED**, why do you feel you’re not getting enough value from your provider? (choose all that apply)



PLAN TO CHANGE PROVIDERS

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



- 54.2% ● NO, plan to STAY with current cable/satellite provider
- 34% ● MAYBE
- 2% ● YES, planning to SWITCH to an online app or rental service instead of a cable/satellite service
- 6.9% ● YES, planning to CHANGE cable/satellite providers
- 2.9% ● 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?



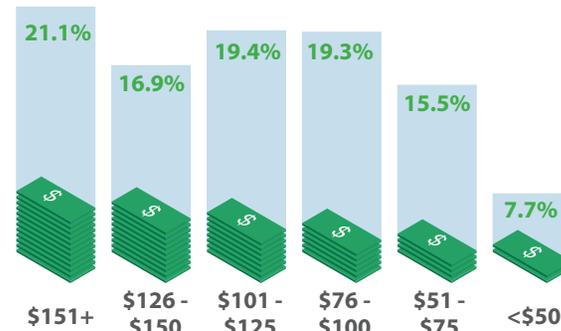
For example, if you had shows recommended to you based on your interests so it is easier to find something you "want" to watch on TV.

BILL AMOUNT

How does your current cable/satellite bill compare to what you were paying 12 months ago?

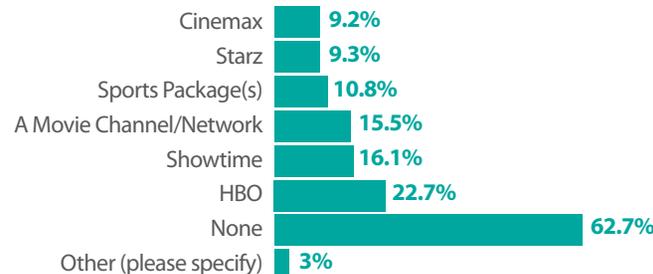


How much is your total monthly bill from your cable/satellite provider for all major services used such as TV, internet, phone? (not including video-on-demand/movie purchases?)



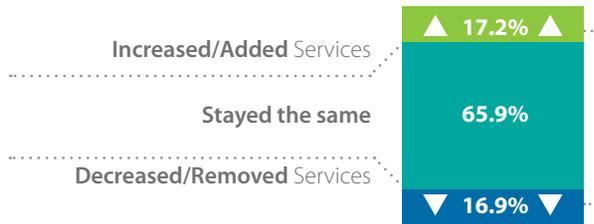
PREMIUM CHANNELS

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

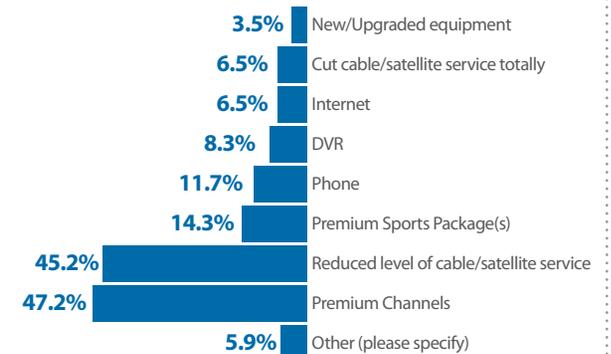


SERVICE ADJUSTMENT

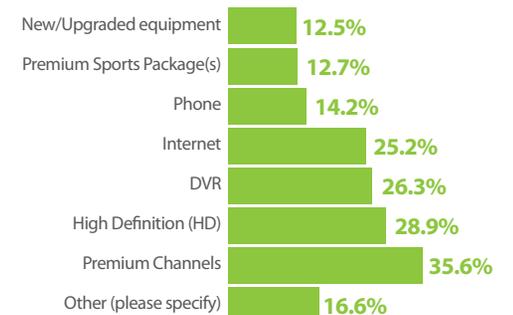
Have you adjusted your level of cable/satellite service in the last 12 months?



If DECREASED, what service(s) did you cut? ▼



If INCREASED, what service(s) did you add? ▲



Consumer TV Viewing Habits

Compared to Q2 2013 results, there is a significant decrease in the number of consumers watching 3+ hours of TV a day. This quarter, the majority of respondents, just over half, watch 0 to 3 hours of TV a day.

Similar to overall TV viewing, consumers are watching less live TV accessed from their channel guide. Fifty-four percent of respondents watch two hours or fewer of live TV from their channel guide, a decrease quarter over quarter. The question remains, is the current guide/grid experience driving this behavior?

TREND: REPETITION

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

Q1 2013	Q2 2013	Q3 2013
85.5%	86%	88.9%

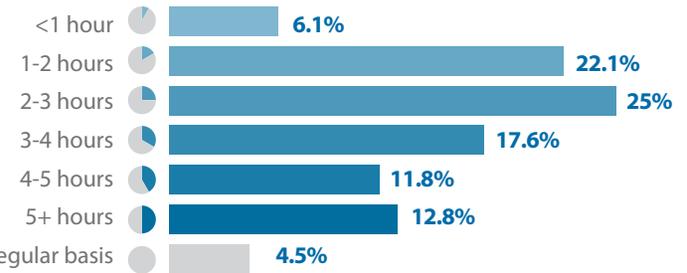
Also alarming is the growing number of respondents who feel they watch the same channels over and over. For three consecutive quarters, survey results have shown an increase in this behavior, with Q3 results showing 88.9% of respondents watch the same channels repeatedly.

In addition, 80.2% of survey respondents watch only 10 channels or fewer. These results clearly demonstrate that much of the content Pay-TV providers pay a premium to offer subscribers is not being leveraged to its greatest potential.

In addition, the number of respondents who have difficulty trying to find something to watch grew from 32.5% in Q2 to 36.8% in Q3. All of these stats point to the possibility of a growing dissatisfaction and disengagement by consumers. What can Pay-TV providers do to reverse this trend and increase the number of channels watched? One answer is to offer a video discovery solution that pushes personalized content to the consumer, allowing for the content to find the viewer rather than them continually searching for programs.

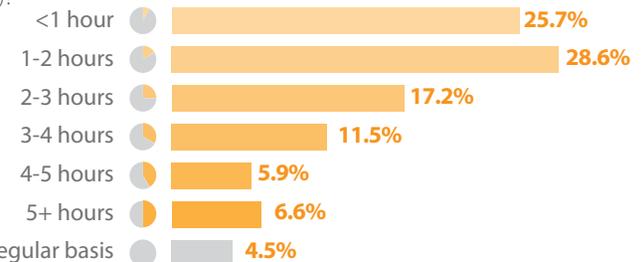
TV VIEWING

On average, how many hours a day do you watch TV?



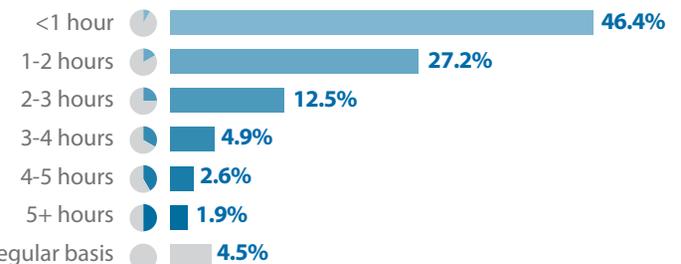
VIEWING LIVE TV

On average, how much of your daily TV watching is of live TV accessed from your channel guide (not DVR'd or recorded shows)?



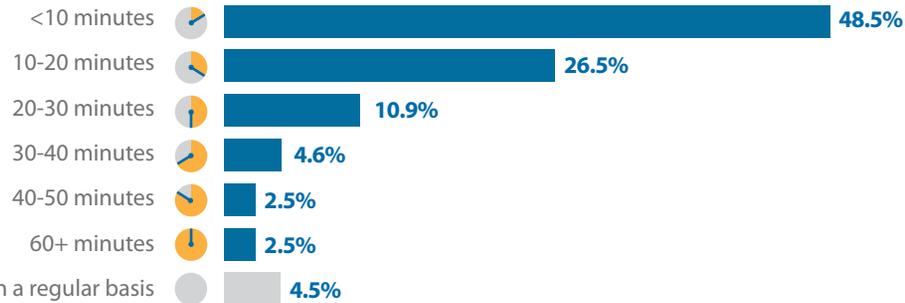
VIEWING RECORDED TV

On average, how much of your daily TV viewing time is spent watching shows that you have recorded/DVR'd?



CHANNEL SURFING

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

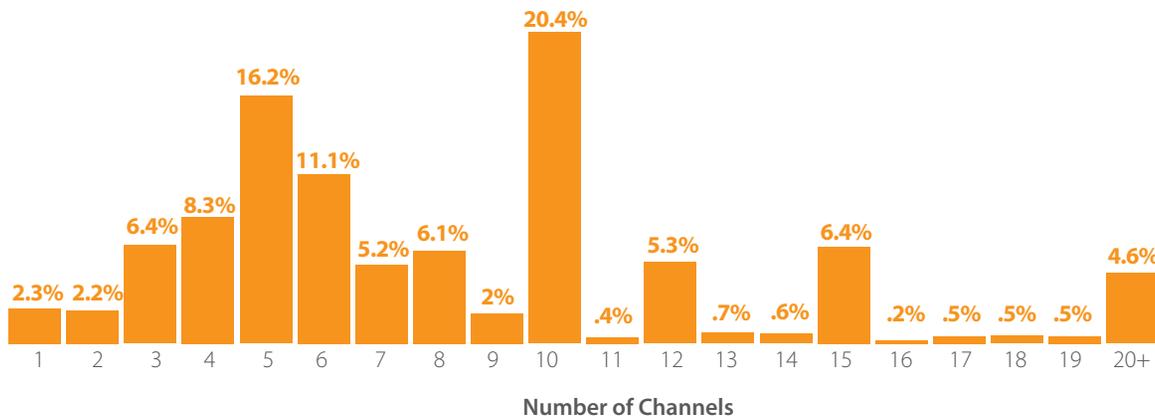


VARIETY OF CHANNELS

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

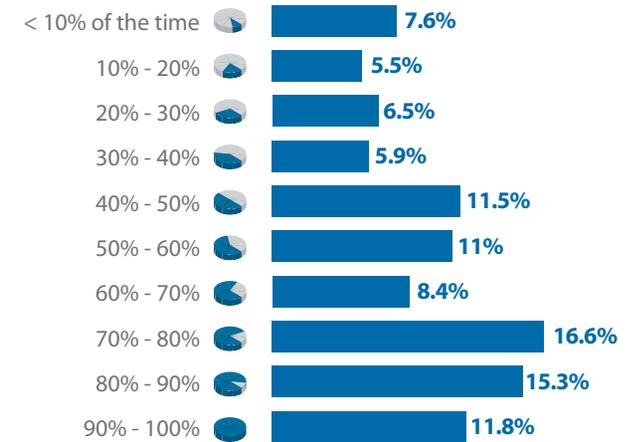


Of the channels offered to you, how many channels do you typically watch, on average?



WHAT TO WATCH

How often do you know what you're going to watch when sitting down to watch TV?

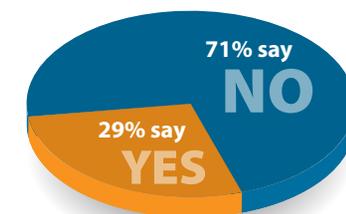


Do you feel it is easy to find something you "want" to watch on TV?



NUMBER OF CHANNELS

Do you feel overwhelmed by the number of channels available to you, and listed in your guide?



Video On Demand and Over-the-Top Trends

The future of Pay-TV providers' VOD revenue is looking a smidge brighter, according to survey results. For the second quarter in a row, respondents are ordering more movies from their Pay-TV provider, with 27% stating s/he orders one or more movies per month. While this may be a small portion of the overall audience, when multiplied by millions of subscribers, there is a significant revenue impact. However, there is clearly still work to be done to keep these numbers increasing.

TREND: PAY-TV VOD PURCHASES PER MONTH

	Q1 2013	Q2 2013	Q3 2013
0 RENTALS	78.5%	73.8%	72.9%
1 RENTAL	10.7%	11.2%	13.3%
2 RENTALS	5.4%	5.6%	6.7%
3 RENTALS	2.1%	3.4%	2.7%

When respondents were asked if it's easy to find a movie they will enjoy in the VOD catalog provided by their cable/satellite provider, 25.7% said "no," a slight increase over Q2 2013 survey results. Could this be a contributing reason for the continuing threat DigitalSmiths refers to as cord-cheating? This rapidly growing trend we began tracking in Q2 2013 comes from increased competition from the OTT and other third-party video services.

Once again, Q3 2013 survey results illustrate a huge spike in usage of these platforms, with 48.2% using subscription OTT services for video content, and 57.2% of this group is spending between \$6 and \$11 a month. Subscription services saw a tremendous boost in usage since Q2, and Netflix alone saw an even higher increase in adoption than all other services.

The pay-per-rental services also experienced higher quarter-over-quarter growth, with 28.7% using these third-party services and 51.6% of respondents spending \$3 to \$11 per month. Again, Redbox Kiosks is the clear leader in this space, but iTunes and Amazon also saw an increase in adoption.

VOD PURCHASES PER MONTH

How many VOD purchases does your household make on average, each month? (Movies purchased from on-demand stations provided by your cable/satellite provider. Does NOT include Netflix, Redbox, iTunes, etc.)



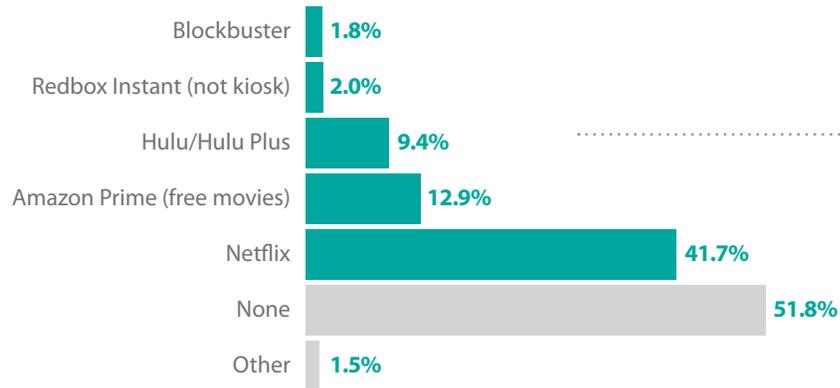
VOD CATALOG

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

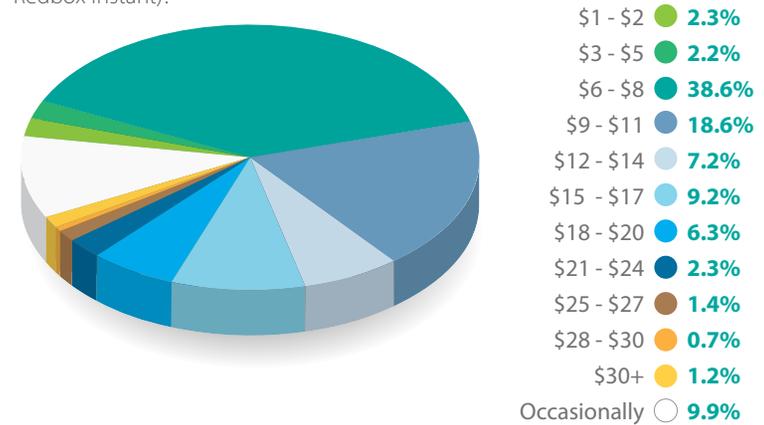


MONTHLY SUBSCRIPTION SERVICES

Do you use any of these monthly subscription services for movies or TVs? (choose all that apply):

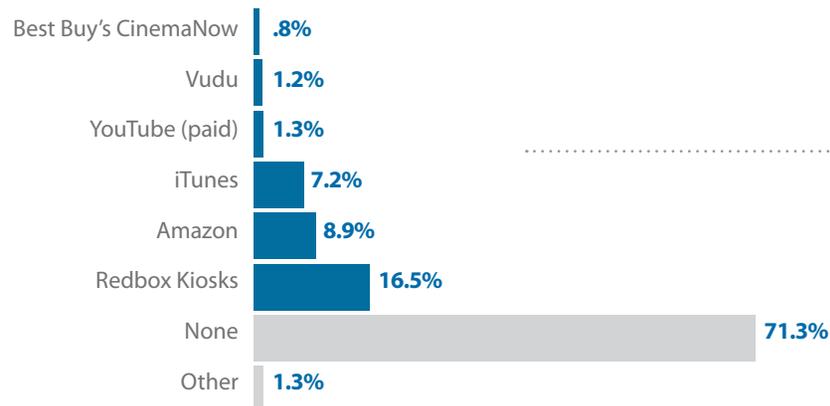


How much do you spend each month on subscription services (Netflix, Hulu, Blockbuster, Redbox Instant)?

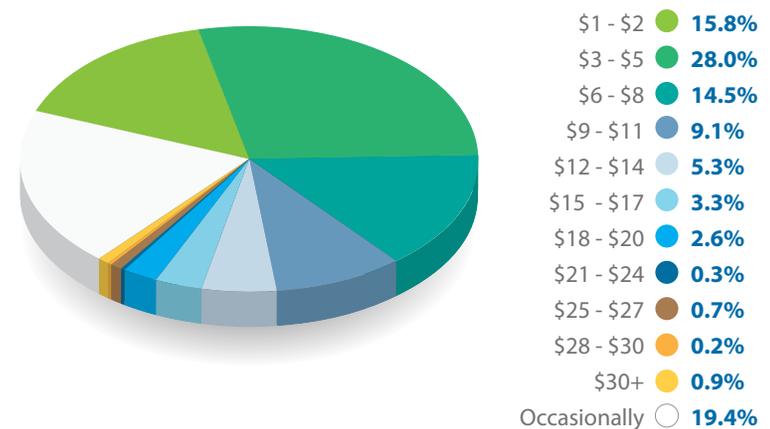


PAY-PER-RENTAL SERVICES

Do you rent from any of these pay-per-rental services including purchases ONLY on Amazon, Best Buy's CinemaNow, iTunes, Redbox kiosks, Vudu? (choose all that apply)



How much do you spend per month renting movies from these pay-per-rental services?

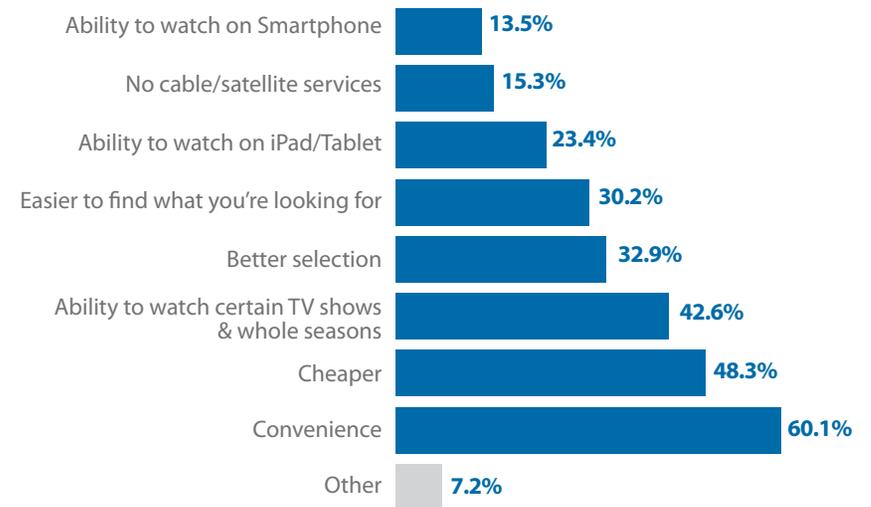


The real question Pay-TV providers need to focus on is why consumers are looking elsewhere for their video needs:

- ➔ **Convenience, Convenience, Convenience!** - Sixty percent of survey respondents cited convenience as the top reason for using third-party video services for the second quarter in a row. The most alarming fact is that 61.4% of survey respondents who use Redbox Kiosks at retail stores do so because of convenience. This perception contradicts the reality of the cost in time and money of driving to the store, possibly waiting in line, and then having to go back again to return the rental. This is a far greater time investment than simply accessing a VOD title directly from one’s TV.
- ➔ **Consumers Seek Cheaper Options** - Second to convenience and a consistent finding quarter over quarter, 48.3% of respondents believe third-party video services are “cheaper,” which clearly demonstrates Pay-TV providers must find a way to offer more competitive pricing to put a stop to this increasing missed revenue opportunity. Obviously, it is not an option to slash prices without a plan to recapture revenue elsewhere, but Pay-TV providers will be forced to become creative in generating new revenue channels to keep up with the threat from these third-party video services. To combat this price issue, one option available through an advanced video discovery platform is for the Pay-TV provider to offer a personalized collection of \$2.99 movies to subscribers Monday through Thursday, when they typically do not explore VOD rentals. The promotion could be set up to automatically expire on Thursday at midnight.
- ➔ **One Catalyst for Change, Connected Devices** – The Q3 2013 survey results show an increase to 23.4% of respondents choosing third-party video services due to the ability to watch content on an iPad/tablet. Connected devices are evolving the space in such a way that consumers now want to be able to view video content on multiple connected devices, and outside the home. It’s crucial for Pay-TV providers to offer these tablet options but equally important is making subscribers aware of these services through a combination of innovative digital marketing and more traditional methods. Similar to video viewing, awareness is built through marketing across multiple channels.

WHY USE OTT SERVICES

Why do you use these 3rd-party rental and/or monthly subscription services like Amazon, iTunes, Netflix, Vudu, CinemaNow, Blockbuster, Redbox, YouTube? (choose all that apply):



- ➔ **Discovery-Conscious Consumers** – “Better selection” responses increased to 32.9% and “Easier to find what you’re looking for” rose to 30.2% from Q2 2013 survey results. Making VOD options more prominent within the application, and implementing a personalized video discovery platform could solve the frustration resulting from today’s unsatisfying discovery experience, enabling consumers to find titles which were once buried and previously overlooked. In an era of intuitive touch screens and voice navigation, scrolling through a long list of titles and having to go to numerous screens via a remote control is not the answer.

Connected Devices: Access Everywhere

The Q3 2013 survey results show a notable increase in the ownership of connected devices. Forty-three percent of respondents own a tablet/iPad and 62.7% own a smartphone. In addition, 51.4% own a gaming device that supports the ability to purchase and watch video content.

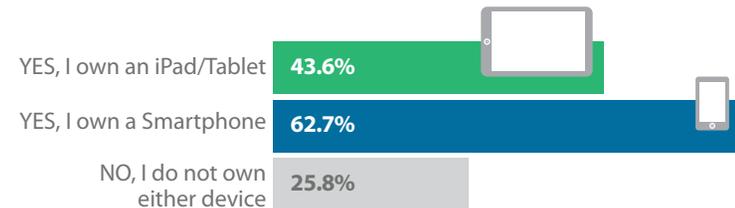
The real question for Pay-TV providers is, how are consumers using these devices for viewing video content today? Below is a snapshot of these key trends:

- ➔ The top three pieces of content viewed on iPad/tablets are episodic reruns of TV shows/previous seasons of TV, movies and movie previews/trailers.
- ➔ Viewing video content on an iPad/tablet is relatively low, with 45.7% watching two hours or fewer each week.
- ➔ The top three pieces of content viewed on smartphones are movies, news and movie previews/trailers.
- ➔ Viewing video content on smartphones is lower than iPads/tablets overall, with 53.9% of respondents stating they rarely or never watch content on their smartphone.
- ➔ Of gaming device owners, 83.9% do not purchase movies/TV shows directly from the device.

It's no secret that connected device adoption is increasing, and manufacturers are committed to developing enticing features and services that allow consumers to more easily explore available video content. Pay-TV providers' apps — like the Time Warner Cable TV Everywhere App that can now be accessed on Xbox, Samsung Smart TVs and Apple devices — are making great strides by launching access to their services via all connected devices. This demonstrates Pay-TV providers are moving towards providing consumers numerous points of access to its services, across multiple devices.

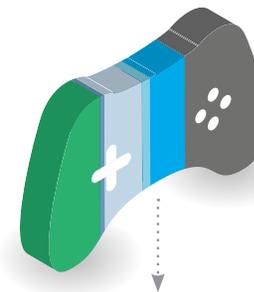
TABLET & SMARTPHONE OWNERS

Do you own an iPad/tablet, or a Smartphone? (choose all that apply)



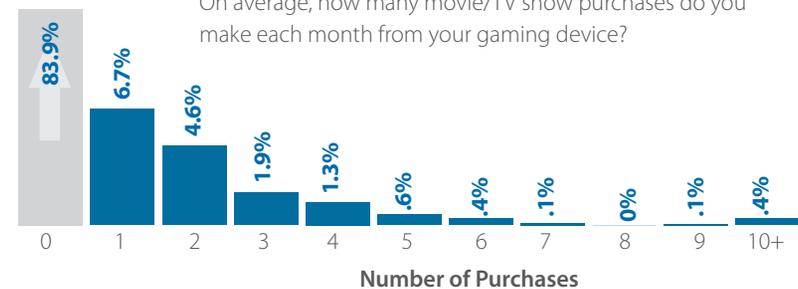
GAMING CONSOLES

Do you own any of the following gaming stations? (choose all that apply)



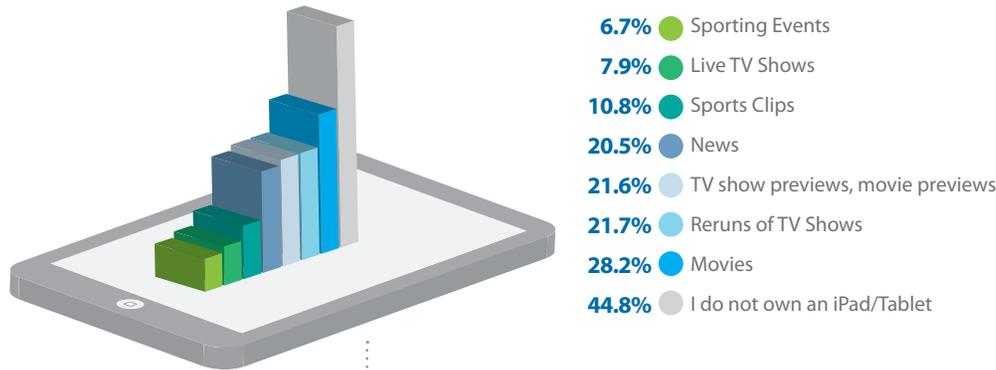
- 31.2% ● Nintendo Wii
- 2.5% ● Nintendo Wii U
- 22.3% ● Sony PS, PS2, PS3
- 4.7% ● Sony PSP
- 21.3% ● Xbox 360
- 48.6% ● None
- 1.6% ○ Other

On average, how many movie/TV show purchases do you make each month from your gaming device?

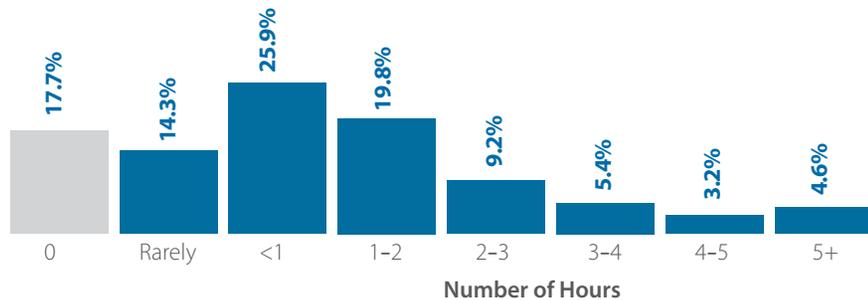


VIDEO CONTENT ON IPADS/TABLETS

Do you watch any of the following video content on your iPad/tablet? (choose all that apply)

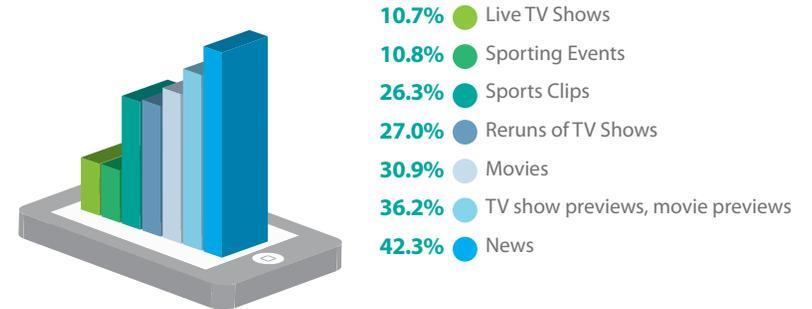


On average per week, how often do you watch TV shows, movies, or video content on your iPad/tablet?

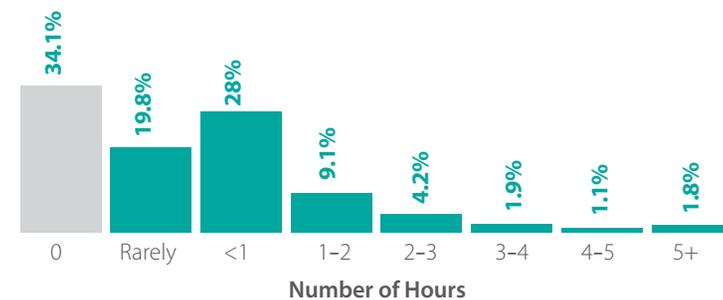


VIDEO CONTENT ON SMARTPHONES

Do you watch any of the following video content on your Smartphone? (choose all that apply)



On average per week, how often do you watch TV shows, movies, or video content on your Smartphone?



The Big Unknown: Pay-TV Providers' Apps

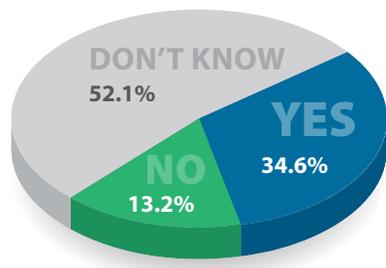
And the "big unknown" continues. For the second quarter in a row, 52.1% of respondents answered "I do not know" when asked if their cable/satellite provider offers a TV Everywhere app. On a positive note, this is a slight increase in respondents' awareness of their provider's TV Everywhere app. However, overall adoption is still a bit grim with only 19.6% of respondents stating they have their provider's app downloaded on their iPad/tablet and/or smartphone.

The results show that awareness might be slightly increasing; however, there is still an uphill battle when it comes to actual adoption and usage. Of the respondents who have the app on their tablet and/or smartphone, 57.4% stated they "rarely" or "never" use it.

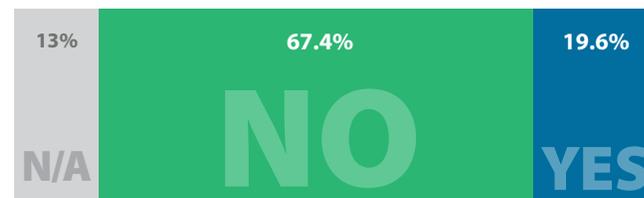
Previous reports have emphasized the importance of continued marketing efforts by Pay-TV providers, and we still believe this is the answer. Again, Pay-TV providers should focus heavily on new approaches to target digitally focused consumers, spanning email, social, online marketing and other creative solutions like alerts and interstitial pages within their Pay-TV platform.

APP ON YOUR TABLET

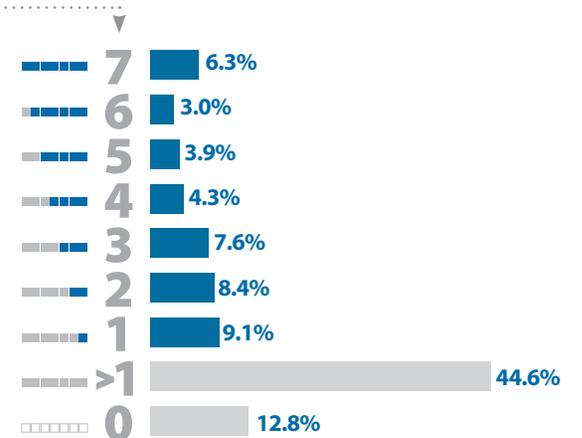
Does your cable/satellite provider offer an app(s) that allows you to watch TV/movies on devices such as a smartphone or an iPad/tablet?



Do you have your cable/satellite service provider's app downloaded on your iPad/tablet or Smartphone?



If **YES**, how often do you use your cable/satellite provider's app (days per week)?



Third-Party Apps: The Most Popular and Most Used

The overall growth of iPads/tablets and smartphones is obviously a catalyst for the increase in video-oriented apps being developed. Emerging second screen apps, or companion apps, are continuing to provide consumers more viewing options. The real question becomes, which apps are the most popular and how often are these apps being used? DigitalSmiths' categorizes these into three categories: Social TV Apps, TV Network Apps and Content Discovery Apps.

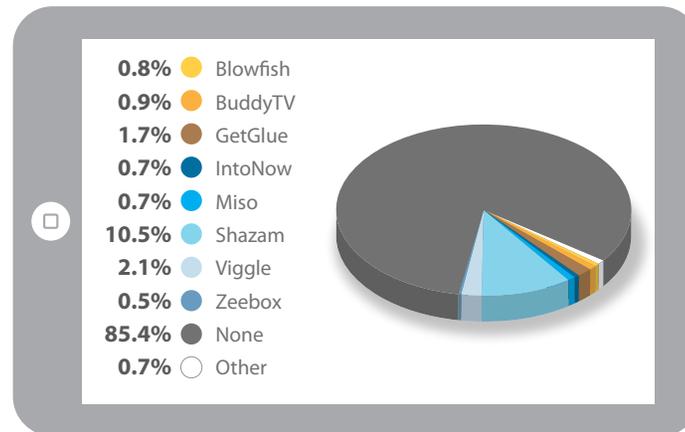
TV Network Apps were the clear winner for the most downloaded apps among the three categories. However, the Content Discovery Apps were used the most often, with 14.5% using these apps daily. The frequent usage of Content Discovery Apps speaks to the desire consumers have to easily find something to watch. Think how much happier Pay-TV subscribers might be if they had access to similar functionality right from their TV or TV Everywhere App.

Social TV Apps

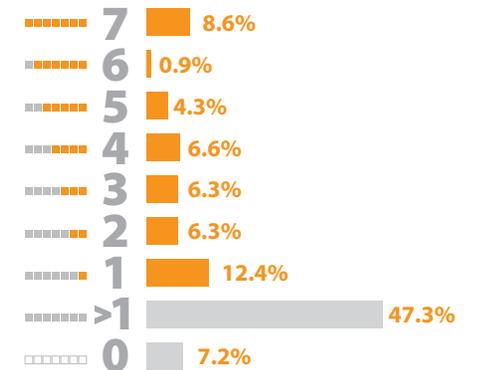
Of tablet and smartphone owners, 14.6% have downloaded one or more Social TV App(s), with Shazam being the most popular among survey respondents. Of those who have downloaded social apps, only 8.6% use them daily and the largest group, 12.4%, uses them once a week.

Step back and look at the amount of respondents using Social TV Apps versus their Pay-TV Provider's TV Everywhere App, and the survey results show the Pay-TV providers have a slightly larger and growing audience. However, with 14.6% of respondents leveraging these third-party Social TV apps and 30.8% of respondents choosing to watch a TV show/movie because of the buzz it's getting on social networks, it is evident Pay-TV providers need to incorporate social features in their apps to keep subscribers using their offerings rather than leaving for third-party apps.

Do you have any of the following Social TV Apps downloaded on your iPad/Tablet? (choose all that apply)



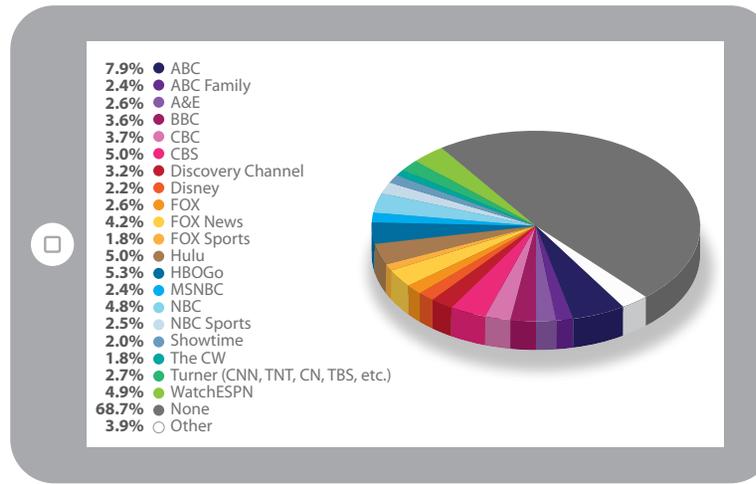
How often do you use these Social TV Apps? (days per week)



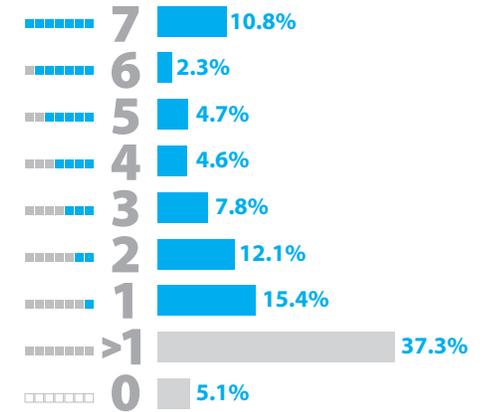
TV Network Apps

Of tablet and smartphone owners, 31.3% have downloaded one or more TV Network App(s), with ABC being the most downloaded for the third quarter in a row. The majority of respondents, 27.5%, use these apps only one or two days a week, but the survey results show 10.8% use these daily.

Do you have any of the following TV Network Apps downloaded on your tablet? (choose all that apply)



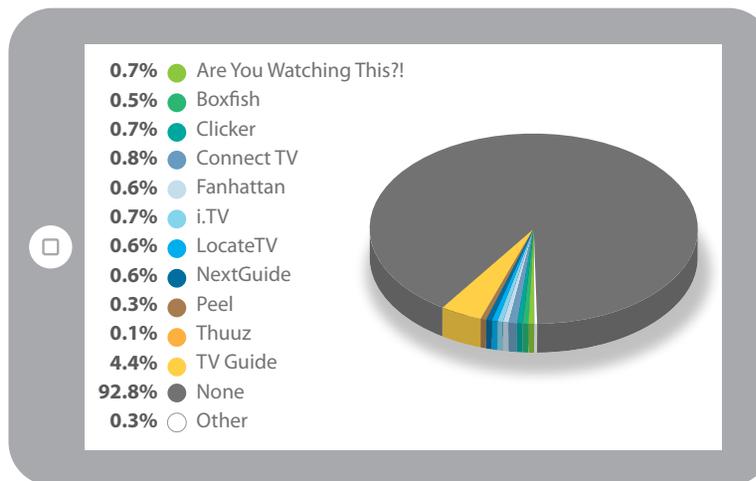
How often do you use these TV Network Apps (days per week)?



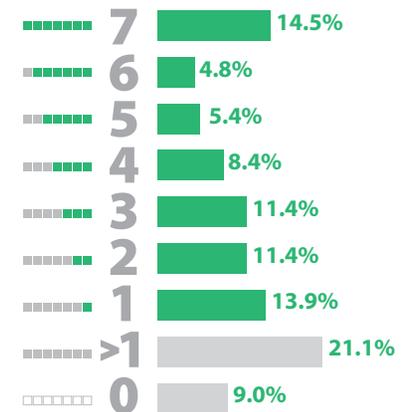
Content Discovery Apps

Of tablet and smartphone owners, 7.2% have downloaded one or more Content Discovery App(s), with TV Guide leading the pack as the most downloaded for the third quarter in a row. However, these apps suffered the largest decline quarter over quarter. The majority of respondents, 14.5% use these apps daily, but a close second at 13.9% use these apps one day a week. Compared to Social TV Apps and TV Network Apps, Content Discovery Apps are used the most frequently by survey respondents throughout a given week.

Do you have any of the following Content Discovery Apps downloaded on your tablet? (choose all that apply)



How often do you use these Content Discovery Apps (days per week)?



Next-Generation Features: Personalized Video Discovery

Pay-TV providers around the world are making strides to improve the video guide experience, and one key area is video discovery. Digitalsmiths works closely with the leading North American Pay-TV providers to develop the best personalized video discovery solution to improve the overall consumer experience. As these implementations continue, it's important to see if a trend emerges that establishes whether consumers find these initiatives engaging and worthwhile.

Supporting this desire for improved discovery, the survey revealed a consistent metric. The study found that 63.9% of respondents get frustrated "always" or "sometimes" when trying to find something to watch. Similarly, 71.2% of respondents have trouble "always" or "sometimes" when attempting to find programs that multiple members of the household will enjoy, an increase for the third quarter in a row. The survey results dive deep into what next-gen video discovery features consumers will find helpful, and which can be critical to improving overall engagement with their Pay-TV services.

Search

For the third quarter in a row, a positive increase in the survey results showed that a growing 45.7% of respondents use the search functionality offered by their Pay-TV providers. This usage of search functionality is a relatively significant increase over Q2 2013 results. The consistent upward trend validates that the efforts Pay-TV providers have underway are important to ensuring consumers receive the highest quality, most positive search experience possible.

Why is search not more widely adopted?

- ➔ 34.0% said they only watch a few channels, so they don't need to search
- ➔ 22.6% said they do not know how to use the search feature
- ➔ 21.9% said search is not offered by their provider
- ➔ 20.3% are simply not interested in this feature
- ➔ 17.4% said it takes too much time

Similar to TV Everywhere solutions, 44.5% of respondents seem to be unaware of the search functionality offered by their providers. By answering "search is not offered by my cable/satellite provider" and "I do not know how to use the search feature," it is evident there is an overall awareness issue, since many of the leading North American Pay-TV providers offer search capabilities.

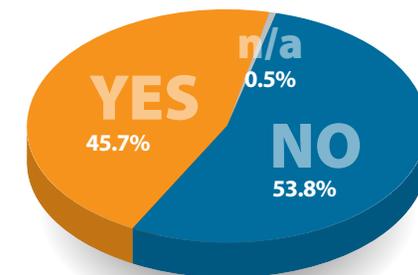
There could be multiple reasons for the audience answering "I only watch a few channels, so no need to search." While some viewers might be happy with this behavior, others might be dissatisfied with their Pay-TV provider's services and pricing, since they only leverage a small portion of the channel lineup offered to them.

TREND: USE OF SEARCH FUNCTIONALITY

Q1 2013	Q2 2013	Q3 2013
34.1%	37.6%	45.7%

SEARCH

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



If NO, why don't you use the search functionality offered to you? (choose all that apply)

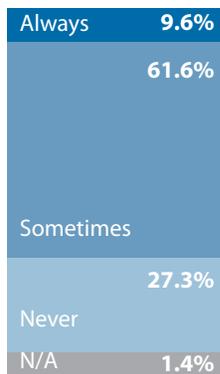


FINDING SOMETHING TO WATCH

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?



Recommendations

For the fourth quarter in a row, the majority of respondents, 80.2%, watch 10 or fewer channels in the lineup. In addition, 88.9% of respondents said they watch the same channels repeatedly. Offering personalized recommendations is one of the many ways to influence consumers to watch content outside of their normal 10 channels, while also ensuring the content is relative to what s/he prefers to watch.

A whopping 78.3% of respondents said their cable/satellite provider does not offer video recommendations. In addition, 41.4% of this group answered they would like to receive recommendations, an increase over Q2 2013 survey results. Some positive news is that of those respondents who do get

recommendations today, 89.1% feel these are "always" or "sometimes" accurate.

Further justifying the need for personalized recommendations, 53% of respondents answered they would like to have their channel guide show

TREND: CHANNEL GUIDE RECOMMENDATIONS

Would you like your channel guide to show you what's on/available based on your preferences/viewing interests first?

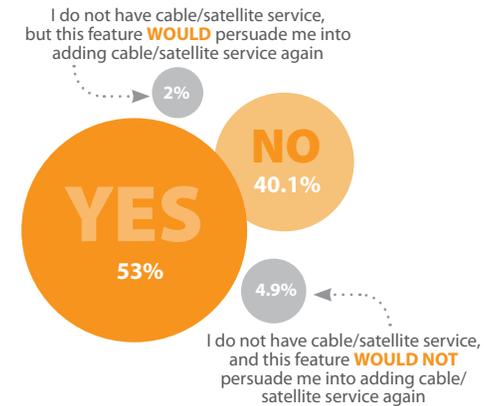
Q1 2013	Q2 2013	Q3 2013
46.7%	49.9%	53%

them what's airing based on their viewing interests or preferences first, a positive increase and consistent trend since Q1 2013.

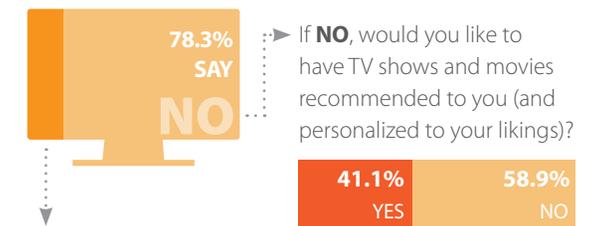
Thanks to solutions like Apple Genius and Pandora, which learn a consumer's preferences over time and makes recommendations accordingly, consumers are seeing such offerings more and more and will ultimately look to their Pay-TV providers to deliver similar personalized experiences.

RECOMMENDATIONS

Would you like your channel guide to show you what's on/available based on your preferences/viewing interests first?



Does your cable/satellite provider make recommendations of TV shows and Movies to you based on your interests, past viewing habits, etc. (personalized to you)?



If **YES**, do you feel the recommendations are accurate/relevant?

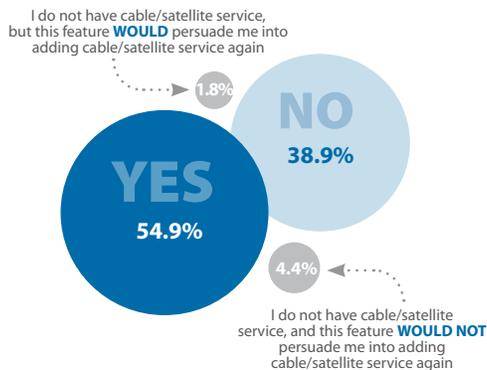


Mood Discovery

Fifty-four percent of respondents would like the ability to find something to watch based on the mood they're in, an increase over Q2 2013 survey results. Mood Discovery provides consumers the flexibility to easily find something to watch based on the mood of the video content — for example, whether it's amusing, dark or witty and/or from the 80's. Furthermore, consumers could find something to watch that fits categories such as Hilarious Underdogs, Inspiring Transformations or Dark Revenge. While Mood Discovery may not be the only method to discover content, it provides yet another avenue for consumers to explore their available choices.

MOOD

Would you like the ability to find something to watch based on the mood you're in?



Social Discovery

Social media, social marketing and social buzz are quickly becoming integrated into TV applications and continue to be a priority for many Pay-TV providers. However, the question remains, do consumers use social networks to discover video content? Only 15.4% of respondents post about what they're watching on social networks; however, this trend is slightly increasing quarter over quarter.

While only 15% are putting their viewing habits on Twitter and/or Facebook, it seems to be influencing people's viewing behaviors. Thirty percent of respondents surveyed said the buzz a TV show or movie receives affects their choice of something to watch. This is a growing trend since the Q1 2013 survey results.

TREND: POST TO SOCIAL MEDIA

Q1 2013	Q2 2013	Q3 2013
11.5%	12.8%	15.4%

As a result of growing viewership stemming from social efforts, Pay-TV providers could benefit tremendously from a solution that seamlessly blends consumers' viewing preferences with social data sources. Leveraging existing sources of social buzz and cross referencing this data against existing linear and on-demand video choices can often further engage consumers and provide additional value to existing Pay-TV services.

While there are several things to consider when providing social video recommendations, Digitalsmiths has identified a challenge in intersecting these two worlds. This issue centers on the mismatch between a viewer's personal video interests and that of the video preferences and activities of their social circle. While correlations exist, the dearth of posting event data may weaken the value of this information as a standalone source.

In order to combat these obstacles, Digitalsmiths recommends Pay-TV providers consider leveraging their own subscriber data to complement the data delivered by social media sources. Blending data results from platforms like Twitter with recommendation choices from a video discovery solution can provide the best of both worlds.

By mining through similar viewer profiles within a Pay-TV provider's subscriber base, a video discovery platform can suggest content from viewers with similar taste profiles and then use the buzz of the social world to boost choices trending within a viewer's social circle. For example, knowing that 65% of the subscribers who watch ABC's "Scandal" and "CSI Las Vegas" also watch "Revenge," the Pay-TV provider could alert the other 35% to consider watching this show.

TREND: WATCHING DUE TO SOCIAL MEDIA BUZZ

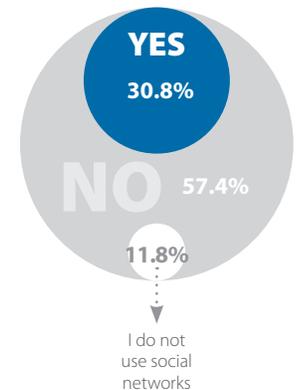
Q1 2013	Q2 2013	Q3 2013
18.6%	22.2%	30.8%

SOCIAL BUZZ

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



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?



Sports Discovery

The survey results showed an increase in respondents who pay for premium sports packages, which could be a result of the NFL season beginning at the time the survey was taken. Regardless, sporting events continue to be one of the most watched categories of video content available today.

The 32% of respondents stating they “always” or “sometimes” have trouble finding and/or miss their favorite sporting events is evidence that consumers’ frustration with video discovery extends to sports programming. With an increasing number of channels airing sports content — many of which are not on networks commonly searched by viewers — it is becoming increasingly difficult for viewers to find their favorite teams or sporting events.

While the discovery of sports content might not cause subscribers to cancel their subscription, Digitalsmiths believes Pay-TV providers could use this as a key differentiator in their service offerings, deepening consumer engagement and loyalty. The opportunity to ease sports discovery is not only significant for attracting new customers, but it is also important for keeping a competitive advantage; simply look at the number of DIRECTV subscribers who might choose their service solely for its NFL’s Sunday ticket.

Digitalsmiths believes Pay-TV providers need to ensure sports recommendations are part of their personalization video discovery offerings. Leveraging consumers viewing preferences and behaviors to identify favorite teams and sporting events and pairing them with third-party data sources, such as Thuuz Sports, enables Pay-TV providers to create unique, enticing features. For example, such features could allow subscribers to know what channel their team is on, keep up with the scores and time, get information on which game is predicted to be the most exciting, and be alerted when a big play happens.

SPORTS

Do you have trouble finding your favorite sports teams games, or do you ever miss sporting events because it’s on a channel that is far down in your channel guide?



Key Takeaways

➔ **Cord-Cutting not so much, Cord-Cheating is here to stay**

Forty-eight percent of respondents are using OTT services, such as Netflix, Hulu, and Redbox Instant for video content. In addition, 28.7% use third-party, pay-per-rental services such as Redbox Kiosks, Amazon, iTunes, etc. This is an extremely high audience swaying away from their Pay-TV provider's services, resulting in lower subscriber engagement and lost revenue. It's important to examine the reasons consumers are leveraging these services over VOD offerings to see what new functionality can be implemented to make Pay-TV services equally as enticing. These reasons include convenience, lower cost, the ability to watch content on an iPad/tablet, and better selection.

➔ **"I watch the same channels over-and-over again"**

The Q3 survey results showed not only a decrease in the amount of TV respondents are watching, but also a consistent quarterly trend of only watching a few channels. Eighty percent of respondents watch 10 channels or fewer; therefore, when the average cable bill (according to the NPD Group) is \$86 a month, it might be tough for consumers to see the value for only a few channels. By surfacing, or recommending, video content based on viewing preferences, consumers could find content they want to watch on channels they were unaware even existed. In turn, this can help increase viewer engagement and loyalty to their Pay-TV services.

➔ **Connected Devices are on the Rise**

Forty-three percent of respondents own an iPad/tablet, 62.7% own a smartphone, and 51.4% own a gaming device that supports the ability to purchase and view video content. As this trend increases, TV viewing habits will continue to change. It is imperative for Pay-TV providers to keep a pulse on the content consumers are watching on connected devices to ensure their own offerings are maximized to support these viewing behaviors.

- **iPads/Tablets** – Video viewing is still relatively low according to survey respondents, but the top content viewed are episodic runs of TV shows, movies and movie previews/trailers.
- **Smartphones** – According to respondents, video viewing on smartphones appeared to be even lower than iPads/tablets, but the content varied. The top three types of content viewed on smartphones were movies, news and movie previews/trailers.
- **Gaming Consoles** – Video viewing is the lowest on gaming consoles, with only 16.1% of respondents making one or more purchases per month. However, this is a growing trend and one we'll continue to watch closely as gaming device features and the third-party video services they support continue to improve.

➔ **Awareness is Slightly Up, but TV Everywhere Apps Reaching 'Everyone' Remains a Challenge**

Q3 2013 survey results showed awareness of Pay-TV providers' TV Everywhere Apps is on the rise, but there is still a large amount of work to be done. Adoption continues to be low, with only 19.6% of respondents stating they have their Pay-TV provider's app downloaded. In previous reports, we have stressed the importance of marketing these TV Everywhere offerings, specifically the enticing features in which they offer. Heavy marketing efforts continue to influence and be a key driver of adoption and one we cannot stress enough.

➔ Apps, Apps Everywhere

Second screen apps and companion apps continue to emerge as a result of the connected-device phenomenon. DigitalSmiths separates these into three categories: Social TV Apps, TV Network Apps and Content Discovery Apps. With 31.3% of survey respondents using one or more TV Networks Apps, this category is the clear leader in terms of adoption, or downloads. However, with 14.5% of respondents using the Content Discovery Apps daily, this category is the clear winner for usage. Pay-TV providers need to closely monitor these apps and what they do well to ensure TV Everywhere offerings include the enticing features the third-party apps deliver.

➔ Personalization: The Key to the Future

A consistent metric we're seeing quarter-over-quarter is the large population of respondents who get frustrated "always" or "sometimes" when trying to find something to watch. DigitalSmiths believes the viewer should not have to work to find the content, but rather the content should find the viewer. Personalizing the viewing experience offered by Pay-TV providers is coming to fruition in North America and around the world. However, it's important to consider a personalized video discovery platform which tackles the main obstacles faced by Pay-TV providers in three significant ways:

- **Eases Video Data Management** – Powerful, personalized video discovery applications require hundreds of data sources such as images, reviews, ratings, statistics, awards, cast, directors, schedule data and merchandising all hidden in their own silos. It's important to have a solution that takes multiple structured and unstructured video-related data sources and ingests, aggregates, reconciles, stores and regularly updates them, providing a master collection of metadata. This capability offers service providers a deep video metadata library and foundation that increases the contextual data of each video asset.
- **Offers Comprehensive, Cross-Platform Personalized Video Discovery Applications** – Consumers have varying ways of looking for something to watch, making it important to offer multiple personalized video discovery capabilities. For example, personalized search and recommendations, social discovery, mood discovery, sports discovery, voice navigation and more should be available across all connected devices.
- **Incorporates the Pay-TV Providers' Business Goals** – It is important to evaluate platforms that provide fully integrated business management solutions, allowing video service providers to strategically control the outputs of each personalized video discovery feature delivered to viewers. This additional layer of customization can be used to boost revenue-generating content such as VOD titles, develop strategic product offerings, deliver targeted promotions to different subsets of consumers, and up-sell/cross-sell premium content and services, creating new possibilities for enhancing and monetizing personalized video discovery experiences.

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

About DigitalSmiths

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, social discovery, mood discovery, sports discovery, and a business console 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 Time Warner Cable, Cisco, Warner Bros., Paramount, Technicolor, Univision, Turner Sports, the NBA, the PGA, NASCAR, zeebox, and i.TV. DigitalSmiths is privately held and backed by .406 Ventures, Aurora Funds, Chrysalis Ventures, Cisco, and Technicolor.

© DigitalSmiths, 2013, All rights reserved.

