

Online and time-shifted viewing rises significantly among American consumers

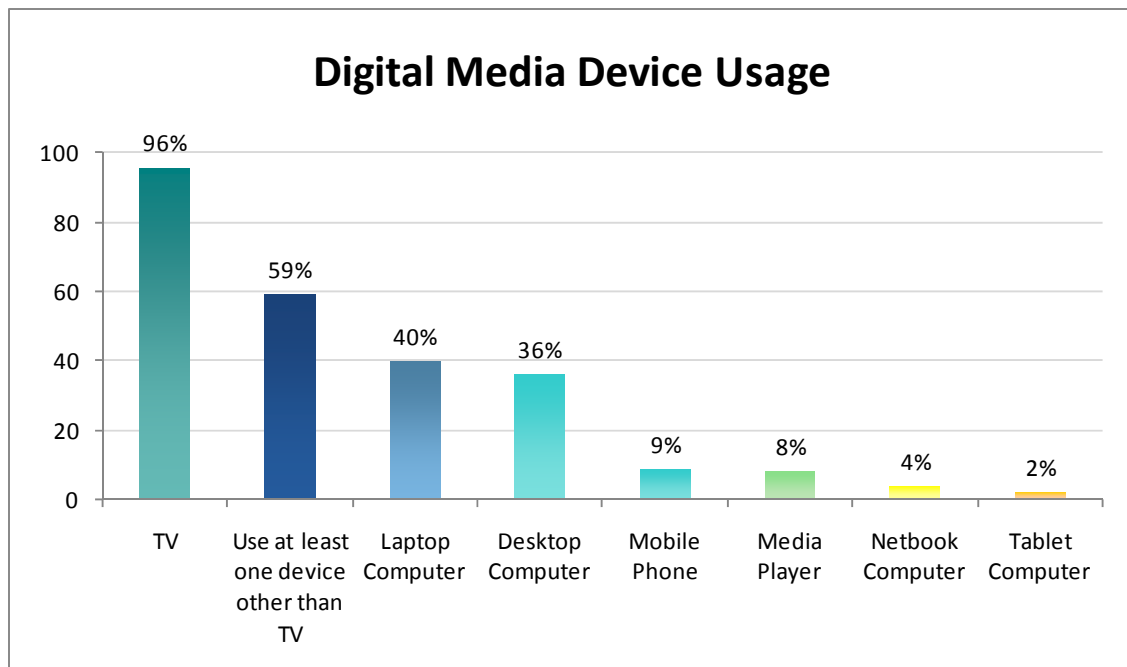
American consumers increasingly are viewing digital media content on devices other than a television. In addition they are accessing programming sources other than live television more than ever before.

The explosion of online content and increased use of mobile devices and time shifting devices like DVRs is rapidly changing viewing habits. The July Morpace Omnibus study finds that 59 percent of all consumers watch at least some video on devices other than a TV and only 52 percent of all viewing is of live TV.

Both technological innovation and the increasing availability of online content are driving consumers toward alternative media consumption habits.

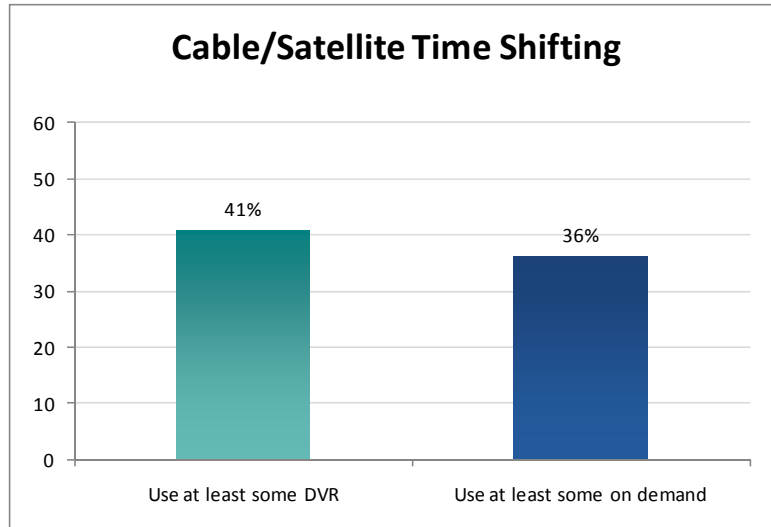
One-half of American consumers watch at least some Internet/online programming. Desktop and laptop computers are the most commonly used devices to view online media but more mobile devices are also used with 9 percent viewing video on a mobile phone.

This data tells us that content providers need to find alternative ways to offer digital video to consumers and that some of the “new media” forms are increasingly going to have greater influence on viewing and entertainment trends.



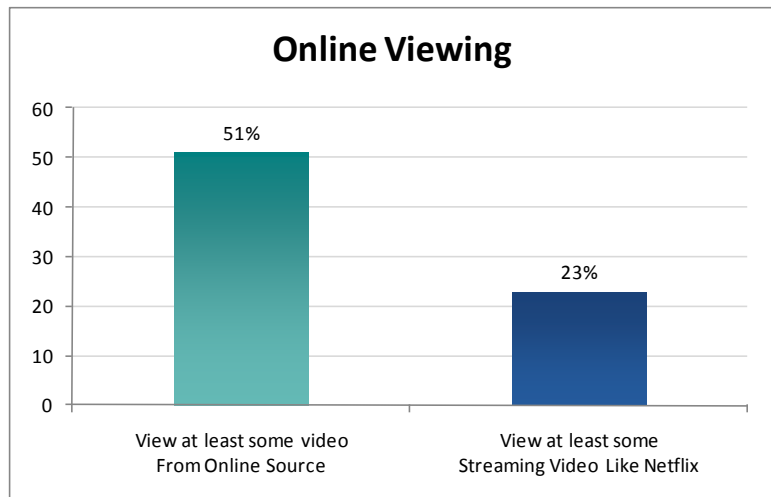
Time Shifting Behavior

The July Omnibus shows that 36 percent of consumers view at least some programming using a Video On Demand service from a cable/satellite provider. Also, 41 percent are using a DVR to record scheduled programming of their choice and time shift this content at their convenience.

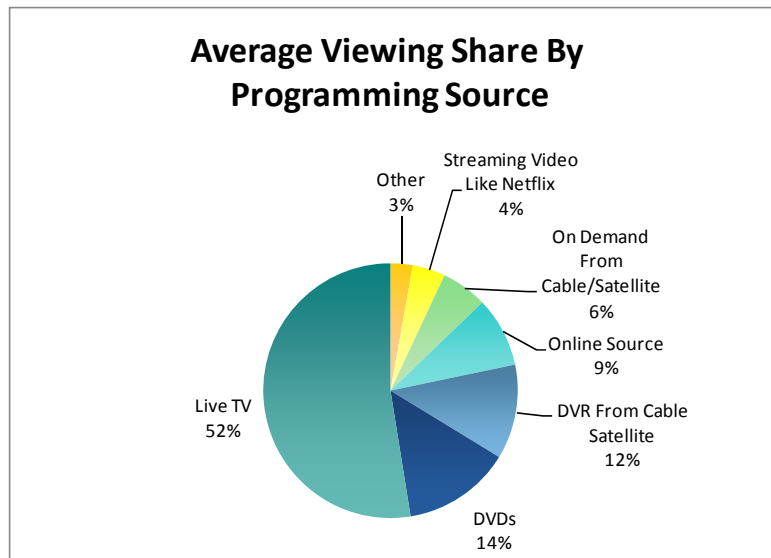


Online and Streaming Video

More than one-half (51 percent) of consumers view at least some video programming online; while 23 percent use a streaming video source such as Netflix. This doesn't include the percentage of consumers who use Netflix just for the mailed DVDs. This wave of the survey did not associate the programming source with the particular device used but, presumably, most of the online viewing is presently using a computer. However 16 percent of respondents state their television is connected to the Internet to allow viewing online content.



The survey also reveals what share of total viewing comes from which programming sources. Only 52 percent of total viewing is of live TV programming. Nearly one-half of all viewing uses alternative and time shifted sources. Viewing DVDs is the largest share at 14 percent, followed by DVR at 12 percent and "on demand" at 6 percent. Online programming makes up 9 percent of total content viewed.

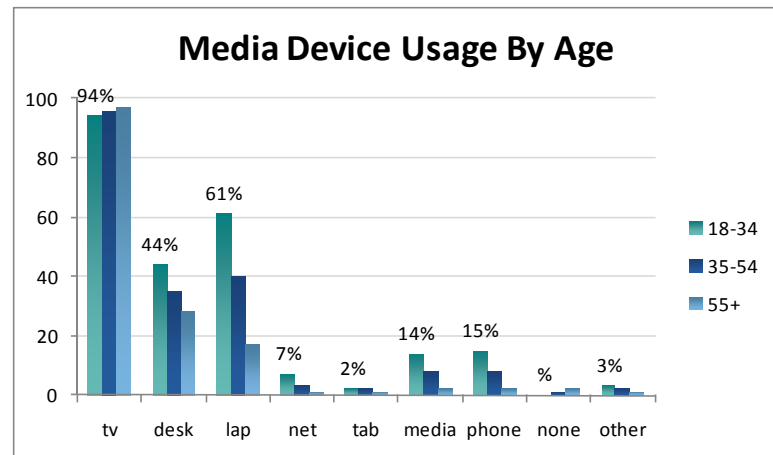
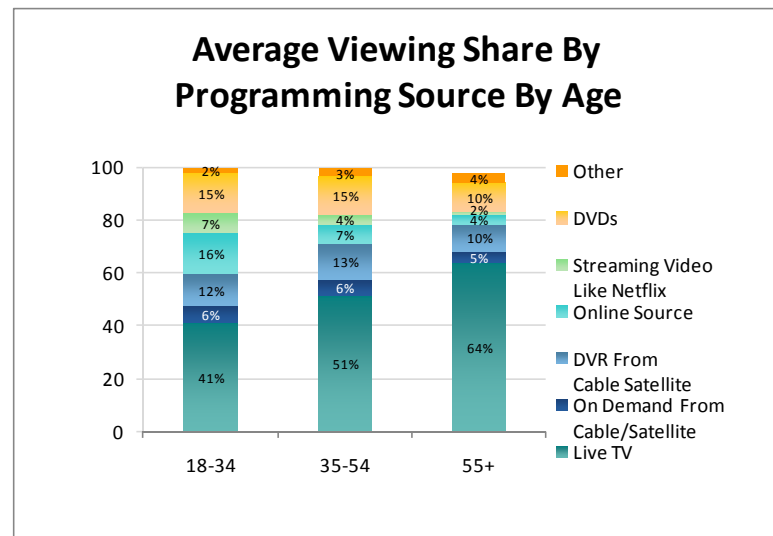
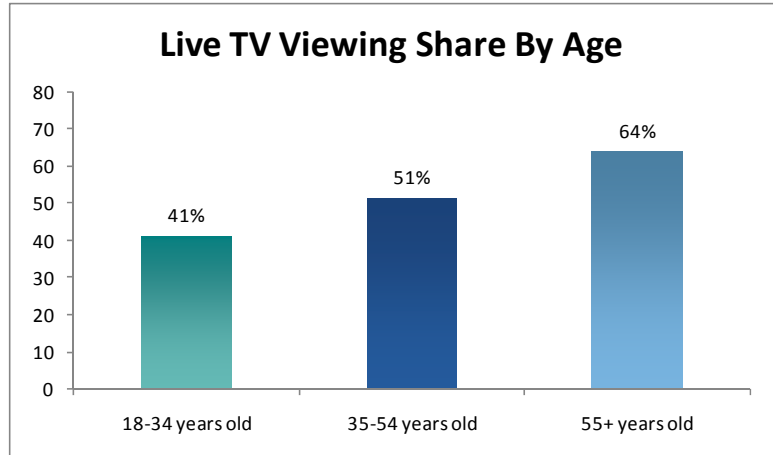


Some demographics

As expected, younger consumers are leading this trend towards viewing digital content on additional devices and the move towards less TV being viewed live. Younger consumers, defined in our Omnibus study as 18-34 year olds, watch less live TV and are significantly more likely to be using computing and mobile devices to access video content.

While their time shifting of cable and satellite programming does not stand out, these 18-34 year old consumers are more likely to view online video and streaming video like Netflix.

Also telling is the profile of consumers making the most of alternative digital media. Consumers who view the least amount of live programming, or those who more commonly view content on time-shifted cable or satellite programming, are more likely than others to view such content with online and mobile devices.



Percentages shown above represent 18-34 year old consumers

Conclusions and Implications

Television viewing and media consumption habits are changing rapidly. Time-shifting of live TV programming is becoming the norm. The desire for entertainment of choice anytime and anywhere is also driving consumers, especially savvy younger viewers, to online programming sources. And both technological innovation and the increasing availability of online content are driving this change.

Amidst all these changes and technological advancements with digital media, we still haven't seen what devices and applications that deliver this content will gain widespread acceptance with consumers. There is no "killer app" taking the industry by storm. More importantly, the business model to make television and movie content available online is still evolving.

Other implications:

There is a growing momentum of consumers accessing online programming sources.

Just what content are consumers hungry for the most and how will providers monetize potential solutions? Will consumers who have grown used to free online content be willing to pay for it? How do consumers want to watch online programming? Do they want to view it on a PC, or possibly have it delivered to a mobile device; or do they want it delivered to their living room television set?

Pay TV operators are scrambling to deliver online content that consumers want to their subscribers.

Consumers are also seeking ways to bring online content to their high-definition, big-screen living room TV. Is this a cord cutting scenario or will over-the-top solutions co-exist with traditional pay TV? Will the pay TV distributors leverage their content rights and control of the set-top box to keep control? The successful solution will make this work seamlessly headed in both directions and develop a content model that works for both programmers and consumers.

Google TV or Apple TV could be a game-changer.

These heavyweights might enter the market but are still working out their content rights and business model. What happens there will drive what services and pricing they are able to offer the consumer? Will either of these be what consumers are looking for?

The integration of TV and the Internet is likely to have a significant impact on future product developments and enhancements.

Are consumers looking for just entertainment on the big screen or will they want email access and a browser? What about interactive applications, social networking, and gaming?

There's a lot in play right now. The opportunities and impact will be large, and all the players are making moves. Over the next several months it is possible that some devices will develop compelling benefits that will particularly stick with consumers. If and when that happens, it is likely that the way consumers view digital content will be forever altered.

For further insights or to explore research opportunities to fill additional needs in the marketplace with innovative products, contact Jay Heyboer, Morpace Vice President, Technology at 248.737.3222 or jheyboer@morpace.com.

Total of 1,000 consumers were surveyed July 15-20 as part of the Morpace Omnibus.