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EU Developments in Digital Living

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Parks Associates attended multiple conferences in the latter half of 2010, and we were encouraged by the industry developments throughout the continent. Here is a summary of some of our recent observations, which culminated with the recent **CONNECTIONS™ Europe Summit**, which Parks Associates hosted on November 15-16, 2010. Visit www.connectionseurope.com for more information on this and future Europe events.

European Service Providers Embracing the Connected Home

The operators in attendance at the Connected Home World Summit in London were from many different European markets - from Greenland, Estonia, Italy, Germany, France, and Russia to countries in between. We came away with the following takeaways from the panels and keynotes:

There are very different takes on the economics of deploying the "God Box"/über-box, which would bring in the functionality of the residential gateway (modem, routing, remote manageability, etc.) along with multiple set-top boxes (tuners, transcoding, server capability, etc.). For reasons related to cost, lifecycle differences in CPE, and the risk of one point of failure, many operators are taking a conservative approach in deploying fully integrated customer premise equipment hardware. At the same time, Intel (which was represented at the event by Brendan Traw) has had early success with some service providers, including Telecom Italia and Liberty Global, in delivering a high-powered gateway that takes on much of the functionality of the über-box.

- The effort formerly known as Project Canvas and now known as YouView is making progress, and we can expect to see set-top boxes and then connected televisions with the implementation in 2011.

- There are some interesting thoughts about whether the concept of TV Everywhere is simply a nice-to-add feature or a true revenue generator. Our own research finds a good percentage of consumers willing to pay a \$5 premium per month for access to their cable channels on different IP-connected devices, and Irdeto, which delivers content protection solutions, indicates that one of its European service provider customers is getting a good take rate on a TV Everywhere service at a €5-6 premium.
- Irdeto's representative also spoke of the evolution of digital rights management, indicating the renewability in DRM - that is, its ability to be updated as new threats emerge - will be a critical trend. It's one of the key reasons that Irdeto acquired Cloakware.
- A speaker from Vodafone shared the company's key connected home strategies, which includes the deployment of both residential gateways (with a port for a 3G modem) and femtocells in the U.K., French, and Spanish markets. In terms of value-added services, they have found good success with delivering an online backup service, which is one of the key value-added services Parks Associates identified in the *Customer Support in the Digital Home: Europe* study. Finally, they have embraced at least some basic home control applications with remote home monitoring through the mobile phone. This is an area that we're watching closely. Energy, home control, and health applications as value-added services will be important for operators to investigate in the next few years.
- Operators are mainly very pleased with the capabilities that DLNA provides to them, particularly in applications such as media servers and multidevice entertainment servers.
- Several service providers spoke of their concern about the high number of video formats that will need to be supported.
- A speaker from A1 Telekom Austria also spoke of the importance of its online backup service as a value-added service (as did a speaker from Telefónica). A1 Telekom Austria offers 1 GB of storage for free but also will upsell tiers. The company developed its own UI and Media Manager software so different devices (TV, PC, mobile, etc.) can access and share content. The sharing of content is a critical element as well. You can push digital content such as photos to your parents (or other presumably less tech-savvy people) by simply entering in their telephone number into the interface on the TV or the PC.

Urban Myths and Truths for the European Cable Industry

During the CTAM EuroSummit'10 in Budapest, we talked about some urban legends and myths on the panel "TV Retakes Center Stage":

1. **Urban Legend 1:** "Online Video Cannibalizes Traditional TV Viewing" – not true according to our data. Also, the speakers from Liberty Global and Virgin Media had their own data showing an increase in television viewing.
2. **Urban Legend 2:** "People simply won't 'cut the cord'" – not yet, anyway. However, our data indicate consumers who are active in watching online video through connected devices or configurations (game consoles and PC-to-TV connections) are three times more likely to be a cord-cutting threat. Given the expected worldwide penetration of connected CE devices, which is on a steady climb upward, operators can choose to work with connected CE and take advantage of it or try to fight it (and probably lose). A speaker from

Solon (a consultancy in Munich) indicated 36% of the TVs sold in Germany in the first half of 2010 were Web-connectable. That is similar to what we're seeing in the U.S. (where close to one-third of TVs sold were Internet-capable). When we get to 2015, household penetration of connected TVs worldwide will be at more than 200 million, not to mention the tens of millions of households with connected Blu-ray players, game consoles, set-top boxes, and other IP-video-receiving devices.

3. **Urban Legend 3:** "Consumers don't care about home networking": This is not true due to what we are already seeing with the popularity of in-home networking. After all, we already know that more than 250 million households (well over one-half of global households with broadband) have some kind of home network. Our data indicate strong interest in whole-home DVR, and high percentages of consumers in Western Europe are willing to pay a premium for such a feature. Verizon indicates that significantly higher than 25% of its FiOS TV customers are taking its Home Media DVR, paying a premium of \$4 per month. So there are new revenue streams to be created from home networking, and our estimate for the number of connected devices on global home networks is seven billion by year-end 2015 – that's an average of eight nodes per networked households, and it will include consumer electronics, mobile and portable devices, routers and femtocells, and nodes for home, health, safety, security, and energy monitoring. Cable operators need to be considering more of a holistic approach to the connected home.
4. **Urban Legend 4:** "There's no premium to be charged for TV Everywhere" – Not true – our data show that 16% of consumers in U.S. broadband households are willing to pay up to \$5 additionally per month, and it was noted at the Connected Home World Summit conference that operators are deploying TV Everywhere at a €5-6 premium.
5. **Urban Legend 5:** "The connected TV causes little concern because it's all about video ... and we do it best" – Not true – yes, cable operators will have an advantage over many online video services because of the high-quality video formats that they can deliver to the consumer. However, interest in connected TV applications will go beyond video, so cable operators need to consider features such as social networking, family calendaring, gaming, music, and other services that complement the television experience. They should also consider the ways in which they can leverage their networks, their billing relationships, and tools such as device discovery and management to ensure a high-quality entertainment experience across devices, even those beyond the set-top box. They can use dynamic provisioning and configuration tools to bring more devices into the video experience and use this to reduce customer support calls and build a more valuable service.

Connected TVs in the managed video realm - announcements from Widevine and ADB

There were a several of recent announcements that point to an expanded role for connected TVs beyond "over-the-top" video. The connected TV can serve as a gateway for managed video services. Companies such as Verimatrix, Clearleap, thePlatform, Cisco, Motorola, ActiveVideo Networks, Alcatel-Lucent, Nokia Siemens, and Ericsson have all made recent announcements in this area.

Now, ADB has joined the fray, offering a solution called the Virtual Gateway. This software

solution distributes multimedia capabilities throughout the home. Some use cases that ADB highlights are a user's ability to enjoy pay TV, music, and videos from wherever they are in the home. Subscribers can use their gaming consoles to tune to a pay-TV channel, watch recorded programs, or access music tracks and videos stored on their DVR and play them on their smartphones.

Also, Widevine continues to make announcements regarding its adaptive streaming solution. The company has signed a global agreement with LG Electronics (LG) to distribute Widevine's live and on-demand adaptive streaming, virtual DVD controls, and digital rights management (DRM) on LG connected products. Widevine's DRM and adaptive streaming software are already included in 2009 models of LG Blu-ray players and home theaters shipped in the United States. This agreement enables LG to expand distribution to more devices, on a worldwide basis.

Widevine's video optimization and DRM platform will now be included on a variety of additional LG products, including connected TVs. Widevine's video optimization technology ensures that consumers using LG products receive an excellent viewing experience for both live and on-demand content. Widevine's DRM keeps premium content secure, regardless of the LG device to which it is delivered.

Connected TV Hardware and Working with Pay-TV Services

Although retail-available "connected TV" devices such as HDTVs, Blu-ray players, and game consoles have been widely touted in 2010 for their "over-the-top" video and content potential, U.S. and European pay-TV operators are not standing still in their efforts to marry their offerings with Web content. There have been a number of announcements in 2010 regarding "OTT" and U.S. European operators. We are seeing a growing number of service providers make their content available on connected TV platforms:

- Orange (France) and LG Electronics (France): Content includes Orange Sport Info, 24/24 Actu (news service) to Liveradio, and other content such as TV programs, videos, music, and practical information.
- TeliaSonera and Philips (Nordics): TeliaSonera International Carrier has announced that its Media Distribution Service (MDS) was chosen by Philips for its technology platform for premium VoD.
- DISH Network and Google TV (U.S.): The DTH satellite provider offers a \$179 Google TV package for subscribers to provide the Logitech Revue smart TV set-top box adapter.
- Canal Digital and TiVo (Nordics): The Nordic DTH operator will license TiVo's middleware and user interface to serve as Canal Digital's next-generation platform, seamlessly integrating linear satellite and terrestrial TV channels, Canal Digital's video-on-demand service, and a variety of current and future "OTT" services.
- Cox Communications and TiVo (U.S.): The two companies will offer TiVo Premiere with integrated Cox On DEMAND service to Cox subscribers. Customers will need a CableCARD for access to Cox services.
- Virgin Media and TiVo: Virgin Media will distribute the HD/3D set-top box with 1 TB of storage and an internal modem to provide both HD video and other online video.

- ViaSat and LG Electronics: OnDemand is to appear on connected TVs manufactured by LG Electronics for the Nordic region. The MTG-owned pay-TV provider has signed an agreement with LG that will see Viasat content made available on all LG sets enabled with the 'NetCast' functionality.

The "Netflix of Europe"? LOVEFiLM streaming content available on PS3

LOVEFiLM's streamed content (about 5,000 titles) has been available on Sony BRAVIA® and Samsung Internet @ TV HDTVs and Blu-ray players in the U.K, and now this content is available on PlayStation 3, expanding LOVEFiLM's potential footprint to about three million homes. LOVEFiLM offers a subscription service starting from £5.99 (€6.80) a month. PlayStation users will be able to access the service via the console's XMB menu system. Lovefilm is set to launch on the console in November 2010.

About Parks Associates

Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services. Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes new media, digital entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, consumer electronics, energy management, and home control systems and security.

Each year, Parks Associates hosts executive thought leadership conferences CONNECTIONS™, with support from the Consumer Electronics Association (CEA)®, and CONNECTIONS™ Europe.

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About the Author

Kurt Scherf studies developments in home networks, residential gateways, digital entertainment services, consumer electronics, and digital home technical support services. Kurt is the sole author or contributing author/analyst to more than 80 research reports and studies produced by Parks Associates since 1998.

Kurt joined Parks Associates following a career in political research and multi-tenant dwelling management. He earned his BA from The University of Iowa.

INDUSTRY EXPERTISE: Home Networks & Residential Gateways, Home Networking Media (Wi-Fi, UWB, HomePlug, HomePNA, MoCA, etc.), Media Center PCs, Set-top Boxes, Networked Consumer Electronics, Consumer Storage, Media Server Hardware and Software, Consumers and Digital Entertainment, Television Services, Broadband Video, Digital Home Customer Support.



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