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As many of you know, it is not customary for TDG to offer December predictions for the New Year, at least not publicly. Why, then, would 2009 be any different?

The market spaces that TDG covers – broadband video and the ‘connected consumer’ – are undergoing frequent and dramatic shifts, many of which are having an immediate impact on key tactical and strategic considerations. Companies active in these spaces are in need of a well-reasoned, objective voice to speak on the short-term prospects of these industries.

For these reasons, TDG's analysts and consultants put ‘pen to paper’ and scratched out some of their anticipations for 2009. We hope you find them thought-provoking and insightful.

All the best to you and yours in 2009!

Michael Greeson
President, TDG

TDG's 2009 Predictions*

- 2009 will be a turning point for the delivery of web video to the television. By the end of the year, some 40 million households around the world will be regularly watching web video on their televisions and, as a consequence, watching less regular broadcast television. These OTT or net-to-TV video services will begin siphoning revenue from traditional PayTV services in the form of movie rentals, premium channel subscriptions and, last but not least, advertising revenue.
- Several leading video providers will rethink their entire distribution strategy, resulting in some abandoning broadcast altogether for web-only delivery. The financial effects will finally be felt by cable, satellite and Telco TV as the year progresses, leading many to incorporate a walled garden of net-based video offerings into their own programming.
- Primary net-to-TV video services that require expensive proprietary Internet set-top boxes will hit adoption ceilings well below internal expectations (a reality which is being better understood as 2008 comes to a close). Companies such as Vudu will follow the lead of Netflix, incorporating their content libraries and technologies into third-party hardware.

- Nintendo will launch an Over-the-Top (OTT) streaming video service in the United States and Europe providing movies, TV shows, and web video content over the Internet and directly to the TV. Although the Wii today supports only 480p resolution, it is sufficient to provide DVD-quality video playback, thus allowing the 30+ million Wii users to watch Internet video conveniently on their televisions.
- When combined with Microsoft's Xbox LIVE Experience and Sony's Playstation Network, Nintendo's move will help make game consoles an important video delivery platform for Internet-connected console owners, thus supplementing (and in some cases supplanting) the venerable set-top box and traditional PayTV services.
- OTT movie services which require consumers to purchase a dedicated, proprietary hardware will shift to a subsidy-based model, thereby reducing or eliminating the 'box barrier' which has traditionally haunted such offerings and thus enhancing the chance that these services will survive for another year.
- Blockbuster's net-to-TV on-demand movie offering (with its proprietary 2Wire set-top box and download-only model) will fail to attract more than 150,000 users during 2009. Blockbuster will be forced to rethink its service model again and will end up adding video streaming to its offerings. 2009 will be yet another year that Blockbuster trails Netflix when it comes to innovation.
- Vudu will be acquired, likely by a CE company looking to launch their own video service or an existing video distributor looking to go Over-the-Top to reach the TV. In the long-run, the value of Vudu is its intellectual property, not its hardware, so whoever acquires Vudu will have immediate intentions of embedding the technology in third-party devices (as previously discussed).
- In terms of online video advertising, 2009 revenue will be flat but will not decline. Ad buys continue to roll in even as the economy worsens. It is traditional media outlets that will take it on the chin in 2009, not online video ads. Marketers will tread lightly in Q1'09 with their online buys, but demand will improve starting in Q2. Search will continue to be a "must buy," but we expect to see significant growth in "conversational marketing" campaigns.
- CPMs for online video will take a hit, but TDG anticipates a growing amount of experimentation among media buyers with, for example, a growing number of sponsored and integrated video campaigns making the scene. As satellite and cable operators continue to drag their heels and dabble with online video, broadband video publishers will benefit. Scale, scale, scale in broadband video will be key.
- 2009 will also bring tremendous improvement in the quality of web-based video content and a growing shift away from 2-3 minute 'video snacks' and toward long-form content. The 2007 Writers Guild of America strike over new media residuals had the unintended consequence of rocketing a number of actors and actresses to new heights of creative success (e.g., Felicia Day). Whether or not Hollywood decides to go through with the pending SAG strike is debatable, but an increasing number of artists will take notice of the creative control web publishing and distribution allows them. Actors, writers, and producers are wising up to the potential the web offers the Hollywood professional.

- By year-end 2009, two-thirds of home network owners will use their network to share media (music, photos, or movies) with non-PC devices such as their TVs and stereos. This constitutes a major shift from prior usage characteristics traditionally dominated by non-media, data-centric activity.
- The latest addition to the PC device landscape – netbooks – will fail to make a dent in the U.S. marketplace. Inexpensive, lightweight, yet highly-functional laptops and robust web-connected (heavily subsidized) mobile phones will continue to satisfy consumer needs and thus leave little unfulfilled demand. The only legitimate chance netbooks have for success is if mobile service providers chose to virtually give away the devices in exchange for service commitments – that is, expand their subsidies to cover netbooks and thus eliminate/minimize upfront costs. Should this happen, diffusion will still be disappointing during 2009.
- Several TV and set-top box manufacturers will incorporate widget-based applications into the viewing experience, enabling consumers to access specific web-based apps with relative ease. The most successful widget-enabled TV applications will be the same types of applications that first achieved critical mass on the Internet and on mobile devices – that is, information and communication-based activities including access to real-time news, weather, and sports. Mundane, yes, but indubitably valuable to consumers.

These are just a few of TDG's thoughts regarding the evolution of consumer technology during 2009. Want to know more? Visit our website (www.asktdg.com) and check out our most recent TDG Opinions and dBriefs.

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About TDG:

TDG is a market planning and research firm dedicated to keeping our clients In Front of the Curve.™ Since 2004, TDG has helped more than 250 technology leaders, media companies, and service providers to understand and manage the quantum shifts now impacting how consumers access, navigate, distribute and consume media – whenever and wherever they may be.