TV is at the Heart of Connected CE Strategies

Consumer electronics manufacturers see Web connectivity as an opportunity to attract customers and generate recurring revenue streams.

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There is no question that the marriage between consumer electronics devices and broadband content will be a key trend in 2008. For providers and aggregators of broadband video content, a "go-to-TV" strategy solves at least one of the early challenges they have faced – consumers' reluctance to watch content on the PC. The providers hope that a more seamless video-on-demand experience will increase consumption of broadband video and other broadband services.

For consumer electronics manufacturers, Web connectivity allows them to differentiate on content and services. It also opens the door for them to receive recurring streams of revenue, either by profit sharing with the content delivery services or via ad-supported content. Of course, there is also a third revenue stream – enhanced customer support – which I'll discuss later.

DEALS BETWEEN CE VENDORS AND CONTENT PROVIDERS

Before the Consumer Electronics Show even opened, several CE and content convergence efforts were already underway. For example, on January 3, Netflix and LG Electronics announced that they would work together to develop a set-top box to allow consumers to stream video and other content directly to an HDTV. This device would be an ideal fit with the Netflix Instant Watching feature that now comes standard with the DVD rental service.

My only question about the Netflix-LG deal is, why develop a separate set-top box? We're quickly heading toward "black box overload" in the living room. Apple and VUDU are also pursuing this separate set-top route, but why not include the connectivity in something like a DVD player? If I'm a Netflix subscriber, I'm still going to rely on DVD rentals for the vast majority of my video entertainment – Netflix has about 90,000 DVD offerings and only about 6,000 Instant Watching broadband video offerings.

HP's MediaSmart TV provides access to CinemaNow content. CinemaNow reports about 1.5 million users (we assume that is cumulative), and the company also announced an agreement with Macrovision shortly before CES. The companies are integrating technologies that will allow manufacturers of DTVs, network-attached storage devices, and set-top boxes to acquire premium content. So, we assume that HP will not be the only CinemaNow-capable CE manufacturer in the near future.

Microsoft's Xbox LIVE Marketplace offers more than 3,500 hours of premium content, including high-definition video, from 35 studios and networks. On January 6, Microsoft announced that ABC (Disney) and MGM will be joining the lineup of content available through the service. Parks Associates data indicate that 17 percent of Xbox users pay to download the high-quality video available at the LIVE Marketplace, making it the most-successful CE and content marriage to date.

Sony's BRAVIA Internet Video Link service provides content from Yahoo!, AOL, Sports Illustrated, blip.tv, Condé-Net's Style.com, Men.Style.com, Epicurious and Concierge.com channels, as well as three Sony channels – Sony Pictures' Crackle, The Minisode Network and Inside Sony Pictures. At CES, Sony announced that CBS content will also be available.

> **Adding Web connectivity to their products allows consumer electronics manufacturers to differentiate on content and services, and to receive recurring streams of revenue from profit sharing, advertising and enhanced support.**

EXPERIMENTING WITH NEW SERVICES

Although CE vendors have focused on video-on-demand strategies, CES brought a number of announcements from the other major CE manufacturers that included both video and non-video appli-

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cations. This looks to be the beginning of a "throw-it-against-the-wall-and-see-if-it-sticks" period for the CE industry, as they integrate the basic components of Internet and home networking into their devices, add some broadband features and see what gains traction. Here is a sampling of related announcements:

Panasonic's VIERA HDTVs will leverage Tru2Way (formerly OCAP) technology to access interactive digital cable video services, including video-on-demand and interactive program guides, without a set-top-box. The company also introduced a Tru2Way set-top box and portable DVR. In addition, VIERA PZ850 televisions with VIERA CAST will allow access to Picasa Web Albums and YouTube video from Google.

Samsung demonstrated its InfoLink RSS service with applications from USA Today that include access to customized news, weather, and other information. Sharp's AQUOS Net brings Internet content and remote diagnostics to the television set. AQUOS Net includes powerline networking, so it looks like it is bringing content from the PC instead of from an Internet-based service, at least as of now.

The remote diagnostics capability on Sharp's product is intriguing. Consumer electronics companies are facing a challenge in providing support to their increasingly complex devices, and remote support with features such as automated diagnostics and troubleshooting will be critical. Now Sharp is bringing this capability to some of its televisions. It'll be interesting to see whether other manufacturers do the same.

The marriage of content, services, and CE devices such as TVs and DVD players is in its formative stage, and the market is very fluid right now. We see manufacturers taking an interest in the ability to sell services and applications above and beyond the set-top box, but it is still unclear how these services will be monetized. For online content services, we keep hearing that ad-supported content will be the ticket, but nobody has really been specific about this. Enhanced customer support (remote management, diagnostics and troubleshooting, for example) can save on customer support costs and can also be a revenue generator. We fully expect manufacturers to follow Sharp's lead.

THE END OF CABLE TV?

We're frequently asked whether these new CE and content initiatives presage the demise of traditional entertainment providers such as cable, satellite or IPTV services. As of now, we'd argue "no."

Incumbent video providers still have the advantage, based on their network capacity, in sending lots of high-definition content (both linear and on-demand) to the home. I expect that this year we will see them pushing content owners to experiment more broadly with content availability – such as matching the VoD release dates of certain movies to the DVD window. So far, Hollywood hasn't bent over backward in support of VoD. However, if I'm a content producer, my best allies in the next few years could very well be the service providers that operate networks with large capacity and established security, that can pipe their content to a growing number of devices (such as mobile phones), that have the network infrastructure to ingest vast quantities of content and deliver it in a high-quality format, that have well-established billing practices, and that are developing ever more sophisticated advertising strategies.

What's more, opportunities for incumbent video providers don't end with commercial content. I was impressed with the Cisco demos at CES showing "hypersyndication" of user-generated content into an operator's TV lineup. This lets operators ingest YouTube or similar content into their networks and provide it as a stand-alone channel.

Game over? Not exactly. It's just another example of what makes this industry so interesting to follow.

ABOUT THE AUTHOR

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More than 3,500 hours of premium content can be downloaded from the Xbox LIVE Marketplace.