



In This Issue | July 2013

Why Hasn't the Hybrid Model Caught On in The U.S.? page 1

Why an Android Shoe May Be on the Horizon page 2

Android and Cloud Gaming Consoles: A Temporary Disruption page 3

Why Hasn't the Hybrid Model Caught On in the U.S.?

From the outside, all the pieces seem to be in place for an evolution in how U.S. consumers sate their immense thirst for TV. The U.S. economy is still dogged by stubbornly high unemployment. Wages for all but an elite sliver have hardly budged. Technology, meanwhile, has created ways for the consumer to get their 40-hour-a-week-fix of televised entertainment at a fraction of the cost of traditional cable using a combination of free, over-the-air (OTA) broadcasts and all-you-can-stream services like Netflix.

In Europe, this model is well established and appears to satisfy a significant swath of TV customers. Consumers can access a suite of free-to-air channels in high definition and compliment it with internet content from YouTube, Lovefilm, Sky, Netflix and others. Hybrid set-top boxes that blend internet and OTA delivery are thriving, driven by firms such as Amino.

So why has the U.S. market proven so reluctant to embrace this hybrid model? Four possible reasons spring to mind:

1. *Old habits die hard.* Roughly 90 percent of TV homes in the U.S. subscribe to a pay TV service—a number that has held steady throughout a deep and traumatic recession and (crucially) the rise of cheaper streaming alternatives. It may simply be inconceivable to many U.S. consumers that alternatives exist. Paying for (and griping about) cable, satellite or IPTV service may simply be deemed an American past time.

2. *Streaming content menus remain unattractive.* Netflix and Amazon boast a wide-range of content choices, but quantity doesn't equate to quality. The push to develop original programming is a tip-off that Netflix in particular is concerned about staking a claim to more than just a library full of documentaries and children's titles. While Netflix has won over critics with its original series "House of Cards", that may prove to be an outlier and in any event, it's not enough. Netflix (and Amazon and others) will need a succession of hits before they prove to be a worthy competitor to a content brand like HBO.

3. *Indoor antenna technology still needs improvement.* If a powerful indoor antenna could be merged into a box capable of consistently delivering crystal-clear HD video with plug-and-play ease, that would be one thing. But that's not the case today. In areas where broadcast signals are strong, indoor antennas are usually up to the task, but it's up to the consumer to play

Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please contact us at the information below.

PUBLISHER

Myra Moore | President
Digital Tech Consulting
214.915.0930
Fax 214.915.0931
dtcreports.com

CONTRIBUTING ANALYSTS

Shelby Cunningham
Greg Scoblete
Stewart Wolpin

Continued on Next Page

cartographer and find out if they're located in the right spot. As one set-top box maker said when explaining why they discontinued using terrestrial tuners in their product: it's too much a crap shoot.

4. *The set-top boxes aren't attractive enough.* Boxee is the standard-bearer in this market and its sales have thus far been modest. DTC estimates that they will ship roughly 105,000 units this year, far behind media players from Apple TV and Roku. Though Boxee did win profile-raising distribution at Wal-Mart, its cloud DVR service has only been available in limited markets and both professional and consumer reviews have been tepid.

Americans are famous for keeping many European trends at arm's-length. Hybrid TV, it seems, is no different.

Why an Android Shoe May be on the Horizon

When the home phone was freed from the boring clutches of Ma Bell by Judge Harold Green in the early 1980s, product designers went wild. Phones started popping up in all manner of bizarre forms: Mickey Mouse phones, football phones, fish phones, shoe phones.

While not at the "cartoon character" phase, the Android operating system appears to be fostering an experimentation era leading toward the "connectedness" of just about everything – no matter how wacky. Google isn't the first company to promote its OS across many device categories but it's the first to do so to boost its advertising revenues. The more connected devices, the more time spent on the internet and the Google search engine. The old motivation was to make money from licensing the OS, but Google isn't interested in intellectual property as a revenue source but as a way to enable as much internet connectedness as possible. Thus, the development-cost barriers to market are lowered, which has resulted in, most prominently Google TV, available both in set-top box form from companies such as Netgear, Sony, Vizio and Hisense. And, prominent TV suppliers, such as LG, Vizio, Hisense and Sony are building it in to a growing number of smart TVs.

But Android has migrated beyond phones, tablets and TVs with Android-powered products such as tablet e-readers (Kindle Fire and Nook HD) and low-cost laptop computers (Chromebook). And less obvious Android forms are now working their way into new categories of product such as wrist watches/fitness monitors, kitchen appliances, digital cameras, video game consoles, and landline telephones. Add to this list the more improbable devices such as headphones, Google 3D goggles, and the on/in-your-face Google Glass.

The glasses received some satirical judgment with a not-too-flattering "Saturday Night Live" parody, as well as reasonable concerns about the device's intrusion on privacy. This may not bode well for the product's future prospect, but there are enough Android-based experimental products to serve the ultimate goal – identify and propagate as many connected products as possible. There have certainly been some past failures, such as the first iteration of Google TV, which was introduced in October 2010 and Nikon's Android camera, which was slashed by \$100 within a year of its introduction.

But Android has been wildly successful in the areas that matter now – smart-phones and tablets. A few failures on the way to near-ubiquitous connectedness is a small price to pay for Google, which won't directly collect revenue from licensing the use of its OS. That's OK. Licensing revenue would likely be a drop in the bucket compared to internet advertising revenue – especially if everyone is always connected.

New Report Available

DIGITAL TERRESTRIAL TV STBs: WORLDWIDE SHIPMENT FORECAST

(2011-2017 | 1st EDITION)

DVB-T and DVB-T2, ISDB-T, and ATSC STBs are all forecasted in this report. The report includes units-shipped estimates from 2011-2017 and the regional units-shipped for the forecast period. For more information, please visit dtcreports.com

Android and Cloud Gaming Consoles: A Temporary Disruption

There are three constants in the video gaming world – Nintendo, Microsoft and Sony. They make up the core solar system and at any given time there may be a number of alternative game systems orbiting around them. Currently, there are more than the usual number of hopefuls looking to cause some interruption with the big guys' hold on the gaming solar system.

Some believe that the stars are properly aligned for some gamers to try out a new, less-expensive type of console. Gamers are waiting for a new generation of consoles that won't hit store shelves until late 2013 and this may present an opportunity for suppliers of new, lower-cost consoles to convince the hard-core console gamers to give their products a try. Their level of success will depend, in large part, on how well these new systems can appeal to a certain type of gamer. The most notable new consoles are the low-cost Android-based and cloud gaming consoles.

Android devices such as the Ouya and GameStick bring Android games to the TV through a console more affordable than those offered by the big three. But what differentiates these consoles, apart from price, from what is currently available? By using the more open Android platform there is a way to encourage Indie developers to generate new types of games, as well as to provide a platform for the most popular smartphone games. Although this type of console and its games may appeal to a certain type of gamer, it's unlikely that it will cause any significant erosion in the traditional console market, which excels in studio-produced, cinematic gameplay.

Cloud gaming subscription services have created their own devices to move the cloud gaming arena from the PC to the TV, hoping to bring in traditional console gamers. Valve's Steam Box is basically a mini PC that hooks up to the TV.

But thanks to Smart TVs, you don't even need a specialized Cloud box or game console to play games through the cloud. Many TV makers rolled out their own services over the last year in order to let owners play the hot console games without owning a game system (for example, the recently announced LG Smart TV GameNow service that allows you to play popular console games such as Batman: Arkham City on a LG TV). The infrastructure of the Cloud is such that a specialized device isn't needed, or won't be needed for long. Other devices such as dedicated gaming tablets and hardware that gives regular tablets the ability to act as a gaming handheld have popped up over the last year, but without much fanfare.

These new devices may give hardcore gamers something new to play with while waiting for the PS4 and the Xbox One. They may provide an alternative to the super-charged high-end consoles but it seems unlikely that they will pose any significant interruption to the big threes' orbit.

MISSING REVENUE?

Have you suspected that you may be leaving revenue on the table when evaluating how to use your intellectual property in the emerging-technologies markets? It's important to understand the market potential of your IP and once you've designed a licensing program, you want to make sure that you know who is using your IP and that they are accurately reporting sales. Such critical issues deserve tailored market-research expertise concentrated in quantifying technology use and potential revenue. DTC's more than 10 years of experience in helping companies manage their IP has resulted in the foundation of solid market-forecast models that account for both products and services that

use very specific and sometimes obscure technology. DTC's intellectual-property services are put to work in a number of varied situations. Our clients have employed our expertise: To forecast potential revenues for technology IP they own; conduct due diligence for IP acquisitions; identify companies using their technology; to apply our critical technology market and licensing knowledge to help in developing sound licensing terms.

For more information about DTC's technology IP services and client case studies, please contact Myra Moore at 214.915.0930, or myra@dtcreports.com.