The Speed of Life*

2009 Consumer Intelligence Series

Impact of economic downturn on media habits and acceptance of advertising on personal media devices: Greater demand for brands to deliver value, enable customization/personalization

Consumer discovery sessions conducted January 8, 2009

"Usually, I like to have the latest and the greatest (technological gadgets), and now, it's just like 'you can get by.' It's nice to have, but it's not essential right now."

– age 30 to 44

Series Overview

As part of our global consumer research program, PricewaterhouseCoopers' Entertainment, Media, and Communications practice is conducting a series of consumer discovery sessions to elicit candid feedback and gain new understanding of consumer attitudes and behaviors in a rapidly changing media landscape. This research combines facilitated online community discussions with face-to-face consumer discovery sessions. This integrated approach yields powerful business insights that help our clients identify and capitalize on emerging trends.

In December 2008, we conducted discussions with an online panel of more than 750 consumers, aged 18-60, to explore the impact of a recessionary economic environment on brand relationships with media and communications companies.[1] In January, we held a series of consumer discovery sessions in Las Vegas to follow up on those findings, coinciding with PwC's presence at the International Consumer Electronics Show. These discussions included both male and female consumers and were segmented into three age groups: 18 to 29, 30 to 44, and 45 to 60. The following is a summary of our January findings.

Summary: Consumers depend on their Internet and mobile devices, but economic pressures increase demand for cost-effective, customizable products and services.

When it comes to entertainment, media communication and technology services, the consumer choice is clear: the Internet and mobile devices are top priorities. But even these are not immune to the effects of a weak economy. Consumers are actively seeking ways to personalize and customize their devices to make them more valuable and cost-effective. Companies that recognize and respond to customer demands for more economical and personalized products have an opportunity to win customers and build loyalty.

[1] Methodology - Research activities took place during the first two weeks of December 2008. Communispace Corporation provided access and facilitation services for online discussions with two proprietary communities: (1) 480 members, males ranging in age from 25-59 and (2) 298 members, females ranging in age from 18 - 60. All community members resided in the United States at the time of the recruitment. Communispace assembles its online communities through a "by invitation only" approach; its members access secured sites to join discussions; facilitators provide ongoing and/or interval-based contact. Communispace discussions yield an average participation rate of 30%. Communispace is an independent, privately-held consumer research organization based in Watertown, MA.

"My computer, my workstation; it's the hub of most everything I do. In fact, if I'm even going to watch a TV show, it's right there on my computer screen."

– age 18 to 29

"It's a weird justification. For example, I'll buy a game now (because) it's going to keep me in the house so at least I won't be spending money anywhere else … I'll spend $30 dollars on a game instead of $100 dollars going out. It's way more beneficial."

– age 18 to 29

The following themes are consistent with learning from ongoing research conducted by PwC on technology and media usage during this economic recession:

- **Even tech enthusiasts are cutting back:** Consumers who rely heavily on technology and media are (often reluctantly) forgoing the purchase of new products, such as faster computers and cell phones with new features; dialing back existing services such as premium cable channels; and using multi-platform media technologies to replace other one-dimensional products, such as using a computer as a landline phone.
- **In-home entertainment is increasingly appealing as a way to economize:** Although this shift encompasses all age groups, entertainment preferences vary. Younger consumers are playing more video games, while older groups watch more DVDs.
- **Brands are missing a chance to stand out in tough times:** In general, technology and media companies are not perceived as being proactive in addressing consumer's economic concerns. This is a missed opportunity to attract new customers and build loyalty among current ones. Consumers believe brands are slow to respond to economic pressures and fail to recognize the demand for lower costs, increased customization options, and improved service.
- **The Internet is the priority in the media and technology budget:** This is followed closely by cell phones and more distantly by television—specifically cable and satellite services. The multi-platform capabilities of the Internet—its ability to act as a tool for communication, information, and entertainment—make it their "must have" media. Optimally, consumers desire mobile access to the Internet.
- **Bundling gets a bad rap:** Consumers' negative views of bundling contracts include technology trade-offs, hidden charges and long-term commitments. In order to be considered, providers must demonstrate that their "package" has true efficiencies: flexibility, cost, and billing advantages are the most appealing incentives.
- **Advertising on cell phones is acceptable—at a price:** Consumers generally say the concept of advertising on cell phones is unappealing, but this barrier might be broken if certain benefits or rewards are involved and if the approach is not too intrusive. Remuneration via cost reduction or added services may potentially erase consumer objections—and even create interest—in receiving ads on cell phones.

"Bundling usually is for some stuff that you don't really want, but in order to get the other stuff, it has to be in there … If they had a menu of all the things you could pick and a la carte pricing – and then the bundling pricing – that would be good."

– age 30 to 44

"I want whatever they come out with that's new. Like when things are obsolete, whatever they're selling to the new guy … they should just include you, too."

– age 45 to 60

Key Findings

Our key findings are as follows:

1. **Tools over toys – practicality trumps luxury:**
   - "Tools" are technologies considered critical to connecting with and functioning in their everyday world -- especially those related to work or managing their finances.
   - "Toys" are more expensive technologies (such as big-screen/high-definition televisions, premium phones, or - MP3 players) that are viewed as luxury or expendable items.
2. **Multi-platform media options are attractive in cost and convenience:**
   - The ability to access information and content on the Internet makes it the "must have" tool for access to news, entertainment, and communication.
   - Mobile devices that can access the Internet are becoming the new workstations.
3. **Re-thinking the cost of entertainment:**
   - Consumers are exploring more cost-efficient activities outside the home, such as movies versus live entertainment. They're also increasingly pursuing in-home entertainment options to save money on gas, food, and admission costs. This is an opportunity for cable or satellite providers, as consumers perceive significant value in a customized, 'a la carte' approach to program packages.
   - Video games and movies offered via the Internet or pay-per-view services are increasingly seen as appealing alternatives to going out. Content providers (such as Netflix) that can offer increased and more efficient distribution via the Internet have an opportunity to win new customers or build loyalty.
4. **Value is the reward for loyalty;**
   - Consumers want benefits in exchange for their continued brand support, such as free upgrades, lower prices for longer-term contracts, and the same special deals that are provided to new customers – without having to ask or even be aware of them.
   - The desire for more competent, caring, and personal customer service is pervasive. The resistance to automated phone systems is particularly high, often prompting the reaction, "give me a live person!" However, consumers fear customer service will continue to wane as companies introduce more automated services to reduce costs and protect profit margins.

"I'm a big computer and video consumer, and instead of seeing something that's going to be the next big thing, I would rather see one of the older products come back at a much more affordable price. I don't need anything bigger. I need it to be affordable."

– age 18 to 29

5. Your products and services – my way:

- Consumers want to customize. They feel constrained by contracts, usage agreements, and platform mandates (such as the inclusion of land line phone services). This is a key hurdle that must be overcome in order to grow interest in bundling. Consumers want to create their own packages with products and services that are most relevant to them.
- Although premium cable television was high on the list of luxuries to eliminate, the idea of a customized menu of networks and/or shows on premium channels, or even a pay-per-use plan, generated high interest as an alternative to dropping the subscription altogether.

6. In with the old, out with the new:

- Customers are frustrated by the perception that companies are raising prices and continue to "up the ante" with new "improved" products that force their existing – and often expensive - products, services, or applications into obsolescence.
- Older consumers are most dismayed by the perceived constant stream of new products. They feel overwhelmed, like they can't keep up. Younger consumers are more comfortable with and welcoming toward new technology, but are resistant to the cost implications of upgrading and wish products and service improvements would be more cost efficient and would not always require product replacement.

7. Don't interrupt—integrate:

- When it comes to advertising, consumers demand integration, not interruptions. This applies to advertising in general and cell phone advertising in particular.
- Resistance to receiving ads on cell phones is still high, but can be diminished with incentives that provide lower costs or added value. Older consumers are more interested in ads that will provide personally-relevant information on products and services, while younger consumers, who tend to be more budget conscious, prefer financial incentives in exchange for permitting ads.
- Regardless of age, consumers want advertising that fits their needs. They want to retain control over this highly personal space by customizing how, when, and what type of ads are received (such as a preference for free text messages or videos over phone calls, which are seen as too invasive). The subject material should be personally relevant, such as local retailer information or messaging about brands or products of pre-selected interest.

"Make sure that you're sending me something that's important to me. Don't bombard me with ads all day long. Be frugal with it."

– age 30 to 44

Implications to Your Business

1. **Emphasize function over form:** As customers tighten their budgets, they prioritize essential "tools" that provide greater value, such as devices or services with multi-functional, easy-to-use features that can cross media platforms.

2. **Focus on the efficiency and cost-effectiveness of products and services:** Multi-platform media are growing in appeal as consumers look for decreased cost and complexity. Content providers, such as those that offer premium cable television, video games, or DVDs, can position themselves as economical alternatives to external entertainment. New products or services requiring additional purchases and installations should be carefully considered so as not to render older models obsolete too quickly.

3. **Provide the ability to customize and personalize products and services:** Consumers want freedom of choice to help them economize, simplify, and focus. They are willing to bundle services if they can personalize plans or services and avoid mandated products or contract commitments.

4. **Demonstrate customer empathy by offering more value:** Consumers want to know their economic pain is felt and their loyalty appreciated. To gain and retain customers, provide meaningful discounts or deals; increase the ability to customize; and deliver better, more personal service. New products and services should be deployed carefully so consumers view them as advantageous and cost effective, rather than as a forced expense in a tight economy.

5. **Advertising on personal media or communication devices must add value, not annoyance:** Consumers say advertising is acceptable in return for some type of remuneration or the promise of personally relevant products, services, discounts, or entertainment value. The ads must be deployed in a way that is amenable to the consumer in terms of format, quantity, privacy, and timing.

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