Searching for Success

Google TV may be a solution without a problem. Pay-TV providers can already offer easy search, diverse content and interactive services without Google's help.

By Kurt Scherf ■ *Parks Associates*

For over a year now, Parks Associates has been categorizing all the different solutions that are specially designed to bring Web content and applications to a "connected TV." We put the term in quotes in this context because there will be different ways to experience connectivity between the Internet and the display other than an embedded solution. For example:

- Connected game consoles: In the United States, penetration of Internet-connected game consoles jumped 38 percent between 2008 and 2009. These devices are now in about 30 million households, and usage of the console as a set-top box is prevalent, with more than one-third of Microsoft Xbox 360 users watching video on at least a monthly basis. We believe that online video revenues at the game console alone brought Microsoft and Sony more than $500 million in 2009.
- Connected TVs: Penetration is quite limited to date, but we expect that unit sales worldwide will exceed 130 million by 2014. In short, built-in Web connectivity will soon be standard in most televisions.
- Connected Blu-ray Disc players: Just bought a flat-panel TV and don't feel like replacing it for a Web-connected set? For a smaller investment, many Blu-ray Disc players come equipped with many of the same content services found on the high-definition displays.
- Networked digital media players: Devices such as Apple TV, the Roku player and others provide a relatively lower-cost option to connect a TV to online video services. Parks Associates is projecting a quick sales peak in the United States, followed by a steady decline, as manufacturers embed online video access into consumer electronics products, thus closing the gap in this market. However, alternative set-top box platforms may have a more lasting presence in international markets, where they may be branded by broadband and pay-TV operators.

The market potential for Web-connected consumer electronics is significant, with annual worldwide shipments nearing 300 million units by 2014.

In light of this opportunity, 30-plus technology companies are all aiming to bring Web services to consumer electronics. Companies in the connected-television OS area that are working to build applications and Web services directly into the TV itself include Accenture, DivX, Google, IBM and Yahoo.

In addition to the companies advocating an embedded solution, companies such as ActiveVideo Networks and Clearleap argue that Web services and interactivity can be delivered with transcoding done in the headend. Further, companies such as Vuze indicate that the PC in the home is capable of transcoding and serving as an intermediary to the television. So there's plenty of room for debate about which are the right solutions.

Google is entering the market at a time where there is much indecision about the ideal technology solution – one that will benefit TV manufacturers, content owners and advertisers. Google's presence in Web advertising, including delivery and analytics, provides it with a huge potential for scale. One problem that has been troubling to the television manufacturers is how big their share of any potential revenue for online content might be.

To date, the business models between television manufacturers and content providers or aggregators have involved revenue sharing based on online video orders. As a result, the TV manufacturer

Google is entering the market at a time when there is much indecision about a solution that will benefit TV manufacturers, content owners and advertisers. There's plenty of room for debate about which are the right solutions.

About the Author

Kurt Scherf is vice president and principal analyst for Parks Associates, where he studies developments in home networks, residential gateways, digital entertainment services, consumer electronics and digital home technical support services. He can be reached at scherf@parksassociates.com.

may get a few pennies per VoD order. Online video revenues on connected CE devices other than game consoles will be around $180 million in 2010, reaching $800 million by 2014, so it won't be a huge revenue stream. Therefore, a deal with Google that can add advertising revenue to transactional monies would be a gain for manufacturers.

IS SEARCH REALLY A PROBLEM?

Although Google comes armed with a business model, has it developed a solution for a problem that is not as dire as it indicates? After all, Google leads its explanation video about Google TV by discussing why it is difficult for consumers to find the content they want on TV. Really? We might quibble about the benefits or detriments of the various electronic program guides (EPG) in use today, but overall the EPG is doing an increasingly effective job of allowing for search and discovery.

In addition, if the Google TV use model means users need a Logitech keyboard to type in search entries, that use case may not be attractive to many folks. Granted, the keyboard in the living room is going to be unnecessary for most people, as smart phones, tablet computers and other interfaces allow for more text entry, but I'm just not sold on search (as Google presents it) as the killer app here. The television service providers are innovating every day with their own program guides that have search, discovery and recommendation features. I don't think anyone will be lacking for decent search options for the TV.

WHERE ARE THE CONTENT PARTNERS?

Another issue with Google is how much high-quality content it will bring to the table. Google's main content partner today is Sony. It will need to bring a number of major content players into the fold to have a successful solution.

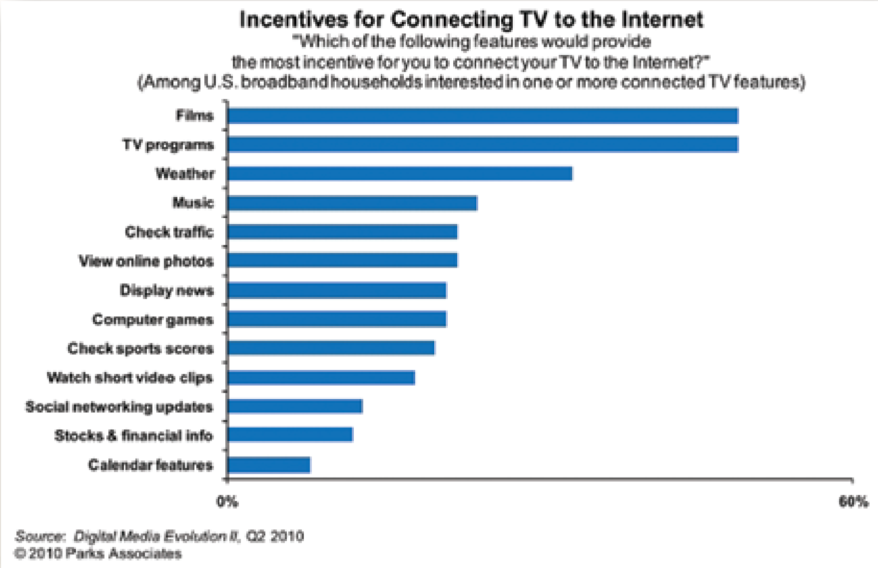

Figure 1 – Incentives for TV-Internet Connectivity

Best Buy will probably offer up Roxio CinemaNow content, but offerings will have to expand beyond that to attract large numbers of consumers.

Premium content is driving the demand for connected TVs, as the results from our recently completed Digital Media Evolution II study indicate.

Providing premium video-on-demand content is an area where the pay-TV providers will continue to excel. A couple of weeks ago, I had some time to catch up on my video on demand. With credits available on my VUDU account, I tried that platform first. What I quickly found is that my Verizon FiOS service had the same movies, and the high-definition versions were available a whole lot quicker than the download for VUDU's HDX format.

The Wall Street Journal is reporting that the studios and the operators are in discussions to reduce the window between the theater and pay-TV availability. This move makes sense. Interactive digital TV services are already in more than 40 percent of U.S. households. By 2014, they will be in more than 60 percent of U.S. households. That huge scale is an advantage for the pay-TV operators. What are the online services going to offer that's any better?

Premium content is driving demand for connected TVs. How much high-quality content will Google bring to the table? It will need to bring a number of major content players into the fold to have a successful solution.

IS THE WALLED GARDEN REALLY THE EVIL EMPIRE?

Related to this point, Google's foray into a very open Internet approach is promoted as a way of throwing off the shackles of the walled gardens set up by TV service providers and today's connected CE offerings. Parks Associates' latest round of consumer research indicates that desire for open Internet access isn't what's driving consumers to a connected TV. They want good content, and they want it to be easy to find.

Based on Figure 1, consumer desire for an open Internet experience on the TV for calendaring, music, photos, and commerce is not that strong. Tailored applications, including tru2way, EBIF, and LUA-based interactive features (available today from more and more pay-TV operators), are going to bring the interactivity of the Web without the "Wild West" component of misguided searches, text entry and reliance on the back button.

If the walled-garden approaches can deliver services in a controlled environment that doesn't overwhelm the average user and helps a provider deliver the highest-quality content, they could undercut consumer demand for a browser-based approach in connected TV.

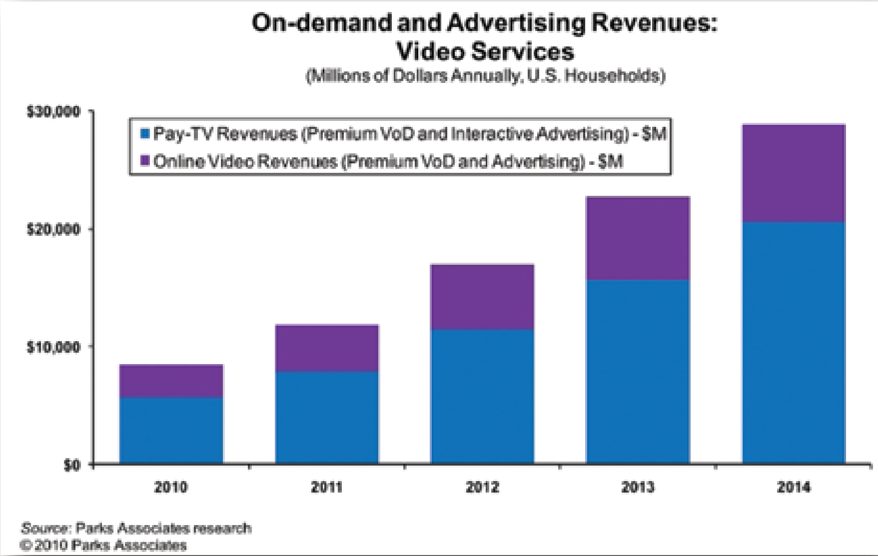

Figure 2 – VoD and Online Video Revenues

WILL SERVICE PROVIDERS CARE?

DISH Network is a partner, but will Google find additional service providers to join? One question is, what's in it for the providers? For DISH, a current lack of good interactive applications would be a reason for joining the fold. But will you see the cable industry, AT&T or Verizon knocking on Google's door anytime soon? These companies are already developing their own interactive applications and services.

In fact, comparing the revenue potential between the online and pay-TV worlds makes clear that operators will still control the lion's share of revenues for video services and interactive advertising. The revenues in the online world are certainly nothing to sneeze at, but the operators don't have to cede control to Google in order to pocket some serious revenues in the next few years.

MULTIPLATFORM MEASUREMENT

Google's entrance should help define how providers of online assets will work with consumer electronics companies to implement more multiplatform content and multiscreen audience measurement. Measurement and reporting are two important areas where some work is needed. The more that content providers, online companies and CE manufacturers can work together to build consistent reporting and feedback mechanisms into their products, the more effective they will be in monetizing their Web services and attracting more premium partners.