

THE DIGITAL DILEMMA

by David C. Tice

Understanding why some are opting out of today's hot media technologies sheds light on the traits consumers value most in media

It is no accident that, in the opening chapter of his book *The Paradox of Choice: Why More Is Less*, Barry Schwartz takes us on a visit to a consumer-electronics store. There are few places where the revolution in customization and consumer choice has made more speedy progress—or created more confusion—than in digital media. Devices such as DVRs and services like digital cable access offer consumers unprecedented control of their media and information world, often at aggressively discounted prices. Yet many consumers continue to bypass these technologies, creating a “missing piece” in the advertising puzzle.

Many advertisers are already banking on the Internet, video on demand, and other digital technologies to provide access

to consumers who are increasingly elusive and marketing averse. So bringing these technologies to as many consumers as possible is—or should be—a key priority of advertisers, content providers, and media service companies alike.

To help advertisers and media companies understand these digital “outsiders,” Knowledge Networks/SRI conducted a survey exclusively for this issue of *KNOW* to take us below the surface of consumers’ digital media attitudes and buying choices. In particular, we looked at those who have said “no” to three key technologies:

- broadband Internet access
- digital cable TV reception
- digital video recorders (DVRs, such as TiVo™)



Our study shows that, while some motivations and concerns reach across these technologies, each device or service

EVEN EARLY-ADOPTER HOMES EXPERIENCE CONSIDERABLE DISSONANCE CONCERNING NEW TECHNOLOGY.

has its own unique benefits and drawbacks in consumers' minds. Their reasons for choosing—or not choosing—to be part of the digital revolution offer valuable insight into the future of media generally.

PEOPLE DO SAY “NO”—AND OFTEN

No matter how wonderful a media device is, there are always people who say “no.” Using data from Knowledge Networks' *The Home Technology Monitor*™ tracking survey, we see that, over recent years,

- a consistent 1.5 percent of U.S. homes chose not to have a TV set
- 9 percent chose not to have a VCR
- about 17 percent chose not to have anything more than broadcast television
- 35 percent chose not to have a cell phone
- 44 percent chose not to go online from their home

This is all clear evidence that even the most mature and seemingly ubiquitous devices reach a “choice equilibrium” somewhere short of unanimity.

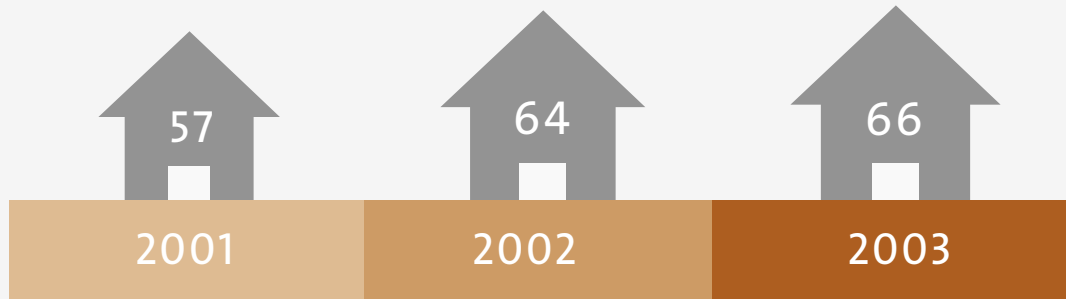
Experience has shown that, as for many other consumer items, cost is the most common reason people say “no” to media devices—even commoditized technologies such as VCRs or DVD players. But what are some of the other reasons people abstain? Knowledge Networks surveyed decision makers, ages 18 to 54, in 329 of its panel households about their decision not to buy digital cable, DVRs, and broadband Internet. These households were randomly selected and represent a cross section of American homes.

Most consumers—even those who are “early adopters”—are wary of technology. In Knowledge Networks' survey

- six in ten (59 percent) agree that the number of new electronic devices and services is more than they can keep up with
- two-thirds (66 percent) feel they do not know about the latest trends in devices
- three-fourths (75 percent) say they are not the first in their circle of friends to own new devices and services
- four in five (82 percent) wait until a new technology is well established before buying it

These results echo previous Knowledge Networks research conducted from 2001 through 2003 (*see Chart 1*), in which notable proportions of decision makers in early-adopter homes experienced considerable dissonance concerning new technology. Looking at responses to some of

CHART 1: TREND IN TECHNOLOGY PERCEPTIONS OF THE EARLY-ADOPTER HOUSEHOLDS, 2001–2003*



“Technology changes so quickly, we wait to buy new devices until they’re well established”



“Number of new electronic devices/services more than we can keep track of”

* Figures represent percentage of early adopters who agree “strongly” or “somewhat”

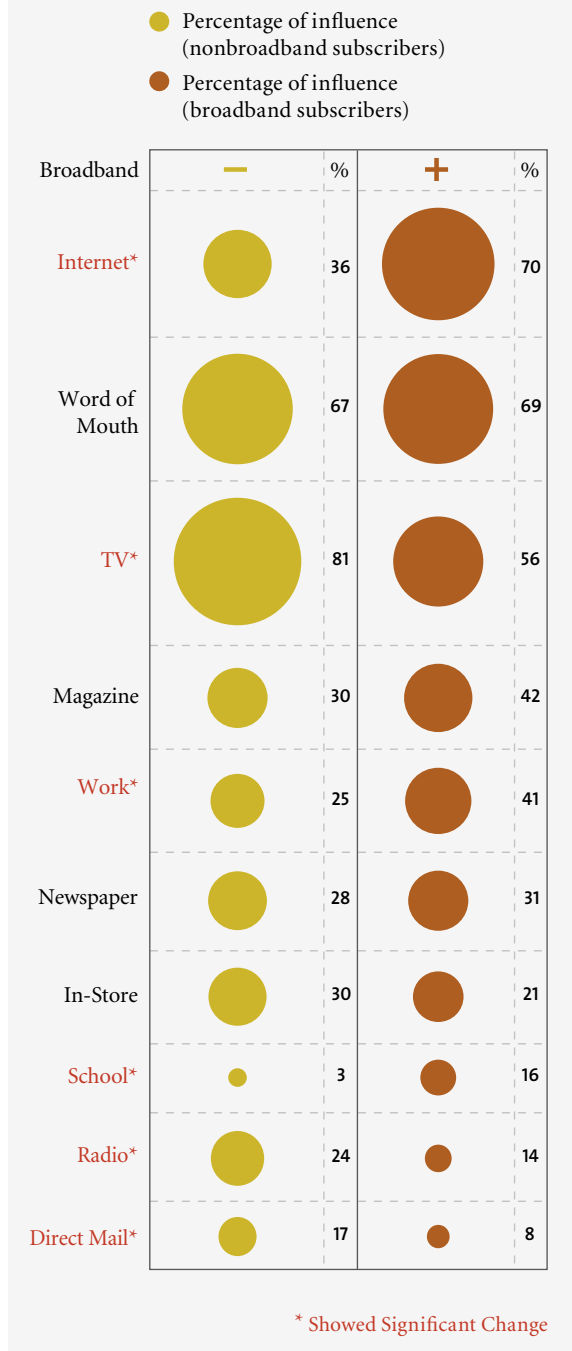
these same statements, results are markedly consistent and indicate that even homes with leading-edge equipment are reluctant to categorize themselves as being early adopters, and are seemingly uncomfortable with the sweeping changes found in all aspects of home technology.

Another critical issue in technology adoption is sources of information about new media devices and services, which leads to awareness. As might be expected, television

(72 percent) is what most people identified as the source from which they learn the most about new technologies or services, closely followed by word of mouth (68 percent). The Internet is named by about half of the respondents; newspapers or magazines by about a third; and work, in-store, or radio by about a quarter.

Interestingly, the proportion naming the Internet does not vary greatly by age or household income; but in broadband homes,

CHART 2: BROADBAND'S INFLUENCE ON CONSUMERS' SOURCES OF INFORMATION ABOUT NEW TECHNOLOGY



Consumers who have broadband Internet access have clearly different ways of learning about new technologies than those who do not.

the Internet was named by almost twice as many respondents as in nonbroadband homes (*see Chart 2*). Households with high-speed Internet are also more likely to name work and school as sources from which they learn the most, while nonbroadband homes are more likely to name TV, direct mail, and radio. This presents a clear differentiation in marketing channels that technology marketers should keep in mind.

DESPITE DISCOUNTS, COST IS STILL #1 BARRIER

So why do people choose to say “no” to the three technologies we have highlighted? Let’s take a look.

Digital Cable. Of the 120 analog (regular) cable homes in our survey, three quarters (78 percent) of “nonadopters” say they do not subscribe to digital cable because it costs too much. Beyond cost, however, there are other reasons: don’t watch enough TV to justify it (43 percent), avoidance of an additional set-top box (17 percent), and inappropriate content for children (13 percent). Just 17 percent said they were very or somewhat likely to get digital cable in the next year.

DVRs. Of the 294 homes in our survey without a DVR, more than half (58 percent) said they have not gotten one because it costs too much. In addition, 33 percent say they don’t watch enough TV to justify the purchase, 32 percent feel there aren’t enough good programs to record, and 24 percent want to avoid getting an additional set-top box. Slightly more than a quarter (27 percent) of “abstainers” are very or somewhat likely to get a DVR in the next year.

Broadband Internet. Of the 208 homes in our survey without broadband, more than half (57 percent) said they have not gotten broadband because it costs too much. Other reasons for opting out include don't use Internet enough to justify it (32 percent), don't need the speed (29 percent), and avoidance of additional computer equipment (16 percent). About three in ten (29 percent) said they were very or somewhat likely to get broadband in the next year.

So we see some patterns in these results:

- **Cost:** Seemingly always the number-one culprit; however, we should attend to the difference between a consumer with an empty pocketbook and one who just doesn't buy into the value of the device and service.
- **Don't use enough to justify:** This variation on the cost objection explicitly states a disbelief in the value proposition.
- **Form factor/technology:** For all three devices, the prospect of adding a new wrinkle (a.k.a. potential complication) to their electronics setup is a discourager.
- **Content:** In addition to insufficient content to justify the investment—a belief that must be based partly on speculation or hearsay—concerns about content inappropriate for children also ward people away.

There appears to be enough of a pattern across devices/services to serve as a general checklist for marketers of media technologies, as well as advertisers and content providers. Addressing these concerns may be the only way to get the most out of today's digital devices and services.

MARKETING CHANNELS AMONG DEVICE OWNERS

Another way to approach the adoption question is to ask: Where did those who bought advanced media technologies get their information before investing in the device or

ARE DVR-RESISTERS SIMPLY LACKING IN RESOURCES—OR ARE THEY UNCONVINCED BY THE VALUE PROPOSITION?

service? Once again, this changes depending on the technology under consideration. TV and direct mail appear to be more important for digital cable subscribers; the Internet and word of mouth for DVR owners; and word of mouth and the Internet for broadband subscribers (*see Chart 3*).

This is an interesting contrast to the results of the general question sources of technology information, and reinforces the thought that a proper marketing mix must be explored for each product individually; reliance on generalized models may end up wasting marketing dollars and reducing potential sales.

See Chart 3
on pg.38



IS AN IPG WORTH THE PRICE?

Another report from *The Home Technology Monitor™* series, *Consumer Television Choice*, sheds light on the trade-offs consumers make when evaluating TV and video service packages. In the summer of 2004, we explored the interest of consumers in a number of services that potentially could be offered by television providers, such as a set-top

box with built-in DVR, high-definition channels, on-screen interactive program guide, video on demand, broadband Internet service, home networking, and telephone service.

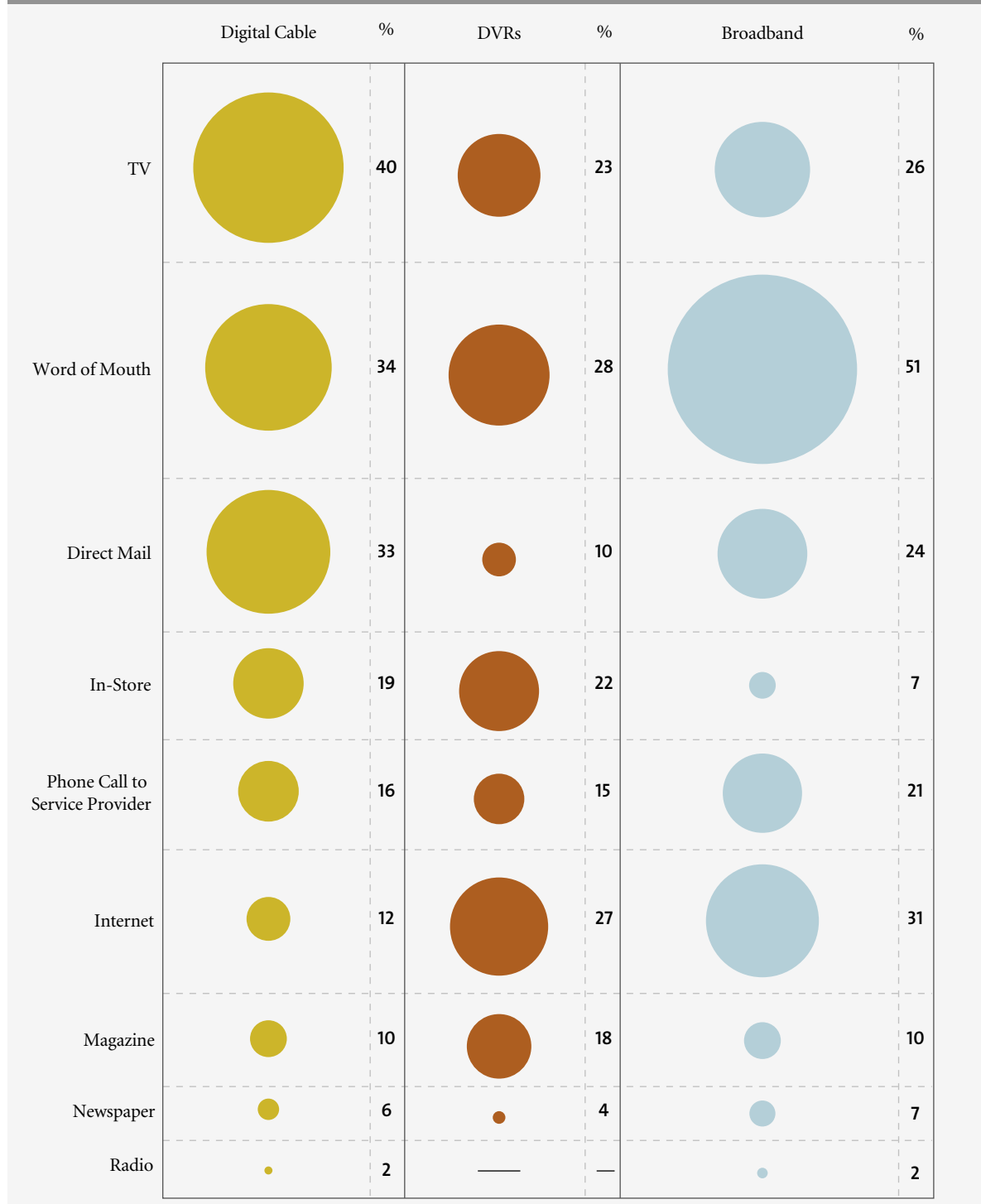
This study served to teach a lesson again about the value of looking at consumer choice from several angles. Case in point: interactive program guides (IPGs). When respondents were asked to rate the importance of each of the potential services listed above, IPGs clearly ranked first, ahead of broadband, the set-top box with DVR, and video on demand. IPGs also ranked second in a forced-choice exercise among the services. However, when respondents were asked how much they would pay each month for an IPG, it ranked last, at about half the value of a set-top box with DVR.

What does one do with a high-interest, yet relatively low-value, service? Try to bundle it with a higher-value service that may be less popular and give those doubting Thomases a reason to say “yes.” A method that combines a forced-choice technique such as Maximum Difference scaling with a bundle optimization analysis can provide guidance on these types of matters.

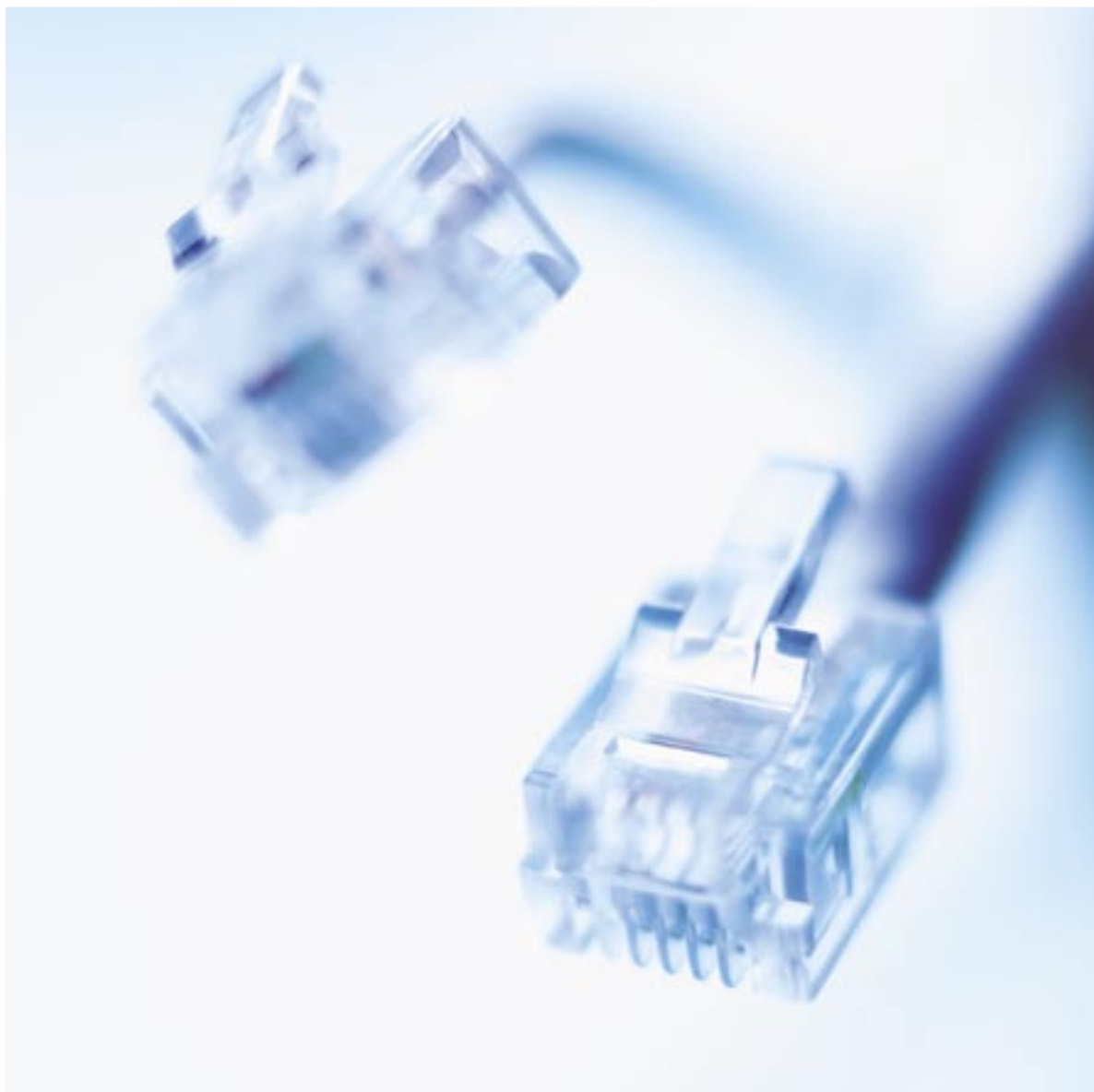
THE MONEY LEFT ON THE TABLE

A second set of findings from the same study puts some value on the potential payout from meeting consumers’ needs. We asked consumers about the difference between their current budgets and what they would be willing to pay for new services that interested them and met their needs. The results show

CHART 3: SOURCES OF INFORMATION AMONG THOSE WHO HAVE MEDIA TECHNOLOGIES



Relatively low-tech sources of information – such as word of mouth and direct mail – still have a powerful impact on the owners of advanced media technologies.



there is a definite potential for drawing more revenue from consumers.

- The average monthly budget for TV services among these homes was \$45; they would be willing to spend up to \$52 (+16 percent) for new services that grabbed their interest.
- The average monthly budget for Internet access among these homes was \$20; they would be willing to spend up to \$26 (+30 percent) for new Internet services that got their interest.

Dial-up Internet homes in particular seem ready for someone to give them a

good reason for switching to broadband, willing to increase their spending 66 percent (current budget: \$13; potential budget: \$21).

On the other hand, broadband homes show almost no elasticity in their Internet budget, which averages more than \$39. This may go a long way toward explaining the disappointing result of one Internet company's experiment with add-on broadband content; even if the content was well received, the average broadband home is literally only willing to add pennies to their monthly budget, even for services that interest them.

LESSONS FROM THE DIGITAL FRONTIER

With any product or service, reasons for resisting purchase are just as important as those for adoption. And our learning about those reluctant to commit to new technologies offers some important lessons for marketers in almost any category:

- **Price acceptance is job #1:** For “luxury” items, there is no obstacle to adoption like price—or, more accurately, perceived price weighed against perceived value. Identifying misperceptions in both areas is key to spurring abstainers.
- **Be unobtrusive:** Even the most useful, timesaving product can be undone by buyers' sensitivity to adding another device to their households. It is much better to replace or to piggyback than to fight for an entirely new footprint.

CONSUMERS' SENSITIVITY TO ADDING ANOTHER DEVICE TO THEIR HOUSEHOLDS CAN UNDO EVEN THE MOST TIMESAVING PRODUCT.

For this reason, DVRs hidden inside existing cable or satellite equipment may have a decided edge over stand-alone units.

- **Diminishing returns:** When “more” is actually perceived as “the same,” then access providers need to pressure content providers to do better. Why buy an HDTV set if you discover that HD programming is minimal? Or subscribe to digital cable when the 200 channels hold just slightly greater interest than the 75 you already have?

But the grand lesson may be: *Manage word of mouth effectively.* Adoption is an uphill battle when just one or two friends and family members give your product a so-so review. This is why building and maintaining a relationship with your current customers is essential; make customer service a priority, ask their opinion on a regular basis, and make sure you keep your promises. Let them know that they are more than just a monthly invoice, because they are your keys to better word of mouth. ▀

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