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THE EFFECT OF TABLETS ON US CONTENT CONSUMPTION

A Guide to FTI's 2011 Mobile Device and Digital Content
Consumption Survey

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Introduction

Media consumption has been changing rapidly over the past few years and the emergence of smart-phones and tablets has been an important accelerant for even faster change. FTI's recently completed Mobile Device & Digital Media Survey sought to gain new insight into how content is consumed online among US and UK respondents, and how tablet ownership affects media engagement and respondents' willingness to pay for content.

The survey included over 1,500 respondents in the US and UK who used at least one of the following devices: tablet, smartphone, laptop, desktop or e-reader. This report focuses mainly on US findings.

The study highlights critical indicative trends impacting media companies across the newspaper, magazine, television, motion picture and music sectors. While there are other studies on respondents' digital engagement, FTI's study uniquely focuses on differences in consumption patterns between tablet and non-tablet users. These findings point to several key considerations for the digital media strategies of content publishers and producers.

We sought to determine the following:

- **When, where and how often** individuals use mobile devices.
- **What types of media** individuals are accessing on their mobile devices, and their willingness to pay for that content.
- What **differences** there are in usage **by age and income groups, country,** and types of **devices**.
- What impact does the existence of digital alternatives have on demand for conventional media formats.
- What differences in media consumption between tablet and non-tablet users, and their willingness to pay for content.

Part I of this white paper presents a summary of our survey findings. Part II provides a detailed analysis by media segment. The reader may wish to skip to segments of interest.

Methodology - The data was collected through an online survey conducted between May 24, 2011 and June 2, 2011. A total of 1,541 individuals responded to the survey (1,027 in the US and 514 in the UK).

FTI's study focuses on differences in consumption patterns between tablet and non-tablet users, which point to several key considerations for the digital media strategies of content publishers and producers around the globe.

Implications for Digital Strategies

The objective of this study is to provide an understanding of content consumption and differences between tablet and non-tablet users so that publishers and producers can develop successful digital media strategies for the years ahead. While the tablet market is still emerging, and our sample of 1,500 respondents is not large enough to be conclusive, the study does highlight important trends in consumer behavior and attitudes.

The results indicate that the availability of online alternatives cannibalize traditional usage in most sectors of print and entertainment. The highest rates of substitution are in print media (newspapers and magazines), likely driven by an historic expectation that online forms of print media are free or very low cost. The substitution rate in most forms of video content is nearly as high, driven by an expectation that such online content be similar or lower priced than traditional content.

In general our study found that tablet users consume more of all types of media than non-tablet users, and that they are more willing than non-tablet users to pay for digital content. This is good news overall, as tablet ownership is projected to rise considerably over the next few years. However, tablet owners reduce or abandon conventional media at greater rates than non-tablet users, so finding the right digital monetization models for mobile that recaptures the value of this shift to digital is critical.

While most digital content consumers are resistant to pay for access, there are also many who express a willingness to pay for certain rich or unique online features and for certain hard copy and electronic combinations or “bundles.” And these respondents – including a growing number of tablet users – consume content more and consume content differently than do non-tablet users. Clearly it is these consumers around which digital strategies should be targeted.

Our study provides specific insights about behaviors among certain groups that may be used to the strategic advantage of content owners looking to increase digital revenues. We highlight a few below, but more are contained in the body of the report.

Newspapers – While a large portion of print subscribers have cut subscriptions, current print subscribers are more inclined to pay for online news than non-subscribers. Many said they would be willing to pay more for a bundled print and digital subscription. And older and wealthier tablet users tend to subscribe to and purchase print newspapers more than do others: 76% of tablet user over 55 years of age and 69% of tablet users that earn between \$100k - \$149k pay for print newspapers. A significant number of online news consumers who said they wouldn't pay for online news said they may be willing to pay for special features and news apps. Indeed, mobile may be a “digital do-over” for newspapers to profit from mobile content and advertising.

Magazines – Few respondents have yet to pay for online magazine content. That said, 66% of women have not changed their magazine purchasing behavior because of having access to content online. Of these, 54% are between the ages of 25 – 44 and 68% earn between \$25k and \$74k. As with news, they indicate that a compelling, curated tablet-formatted digital magazine would induce many to pay for digital content.

Television – While the availability of digital alternatives has caused TV subscribers to reduce or cancel their subscriptions, 16% of respondents said they have *increased* the cable subscription because of exposure to online alternatives. Tablet users of all ages are significantly more likely to upgrade their cable or satellite subscriptions than are others, and some of those users even more: 30% of tablet users

FTI's focus is on consumers who use online access as a complement to traditional media and who express a willingness to pay for features and content. It is around these groups of media consumers who use tablets (and smart-phones too) that print publishing and entertainment content companies can build winning online strategies.

ages 18 – 24 and 31% of tablet user that earn between \$100k - \$149k upgraded their TV or Satellite TV subscriptions as a result of being able to access increased programming online. TV viewers also have reduced their DVD purchasing and rental behaviors considerably because of online alternatives. Tablet users have done this more aggressively than non-tablet users, but they are also more willing to pay for online shows and consume online shows more frequently.

Movies - Consumers seem a little less enthusiastic about viewing movies online vs. through traditional methods. While digital substitution has also affected their DVD buying and rental behaviors, there has been less reduction in DVD movie consumption than in TV. In other, words, consumers seem more ready to engage with TV shows digitally than movies. For both TV and movies, the tablet replaces the laptop as the second most popular device for viewing video content, when a consumer owns a tablet. Consumers also claim they would pay for more digital movie (and TV) viewing if they had access to more new release content and would pay to avoid commercials.

Music - Many of our respondents claimed that they would favor an unlimited streaming service or a down-load to own service that provided a large number of downloads for a monthly fee. In addition they indicated that while their favored device is their MP3 player (usually an iPad or iPhone), they claim a cross-device offering would cause them to pay more for digital music access. Emerging cross-device offerings like Spotify, the streaming music service, are experiencing dramatic up-take rates with US consumers. This seems to ratify the consumers' claim they want unlimited streaming and access across their devices. Apple's iCloud service is also striving to give consumers cross-platform functionality for songs they own, but this service does not work on Android devices.

Summary and Major Findings

The pages that follow summarize key findings from FTI's media survey for US respondents only. We first discuss digital engagement, digital substitution and willingness to pay (for content) in broad terms, and then discuss key findings by media type.

Engagement/Usage

- In general, tablet users consume more digital media than do non-tablet users.
- Smartphones are used primarily as communication devices, and tablets are used primarily as media access devices.
- There are important differences among age groups regarding what content is preferred and how it is accessed.
 - The youngest age group consumes news content online nearly as much as all the other age groups – all between 65% and 75% of respondents,
 - Surprisingly, there is also high use of social networks by those in older age groups.
 - Otherwise, younger respondents consume more content online than do older demos.
- In addition, social networking sites are accessed extensively on smartphones (and laptops) indicating that smartphones tend to be used primarily as communications devices. In contrast, tablets are used much less for social media access and relatively more to consume media.
- Tablets appear to be discovery devices for video content online.
- Television content is consumed online by more respondents than is movie content suggesting that shorter-form content is more readily consumed on smaller screens. The tendency may also point to the greater availability of free television content online than free movies.

Digital Substitution

- Both tablet and non-tablet users show strong willingness to substitute digital for conventional media when they have online alternatives available.
- Tablet usage typically substitutes for conventional content consumption across all print and entertainment content forms, except for subscription TV, where it complements (increases) usage.
- Between one-third to one-half of respondents report reducing or stopping their use of conventional media when provided online alternatives, though the amount of substitution varies by age and (of course) by type of media.
- Perhaps a singular exception, subscription TV spending increases with tablet usage.

Willingness to Pay for Digital Content

- The availability of online alternatives results in the reduction of traditional usage in most sectors of print and entertainment.

Tablet users consume more content than do non-tablet users. However, among our respondents, both tablet and non-tablet users show strong willingness to substitute conventional media when they have online alternatives.

- There is almost no willingness to pay more for online content than for traditional format content, unless online is bundled with print or traditional format content.
- However, a significant number of consumers said they would pay for digital content if specific features were available. Favored features across media types include:
 - Custom content and apps
 - Quality graphics and photographs (for print media)
 - Commercial free content (for TV and movie viewers)
 - Ability to share content across devices at anytime (for music and for TV and movie).

Print Media (Newspapers & Magazines)

- Almost half of all respondents neither subscribe to nor purchase individual copies of newspapers.
- However, those who (still) consume hard copy versions are much more likely to pay for the digital version of a newspaper or magazine.
 - Bundling digital with print drives an increased willingness to pay for content among a meaningful portion of readers, and
 - As indicated above, providing unique or exclusive news / print content in a rich format increases respondents' willingness to pay for digital.

Entertainment (Television, Motion Pictures and Music)

- The overwhelming preference among respondents is to watch episodic TV and movies on a television set rather than on any other device.
 - In fact, only 1% of respondents listed a smartphone as a preferred device for watching TV).
- Access to online content (principally on a tablet) leads to increased paid consumption of subscription television (cable or satellite), suggesting the tablet serves as a content discovery device.
- Online access to video content will continue to substitute in-store purchases / rentals, and even in-theatre visits.
- Younger consumers show increased willingness to pay for online content relative to those in older age groups, provided the online content fulfills the anytime, anywhere value proposition.
- While downloading music is strongly preferred to streaming, a greater interest in streaming among smart-phone and tablet users may point to a growing demand for streaming as smart-phones and tablets increase their prevalence.

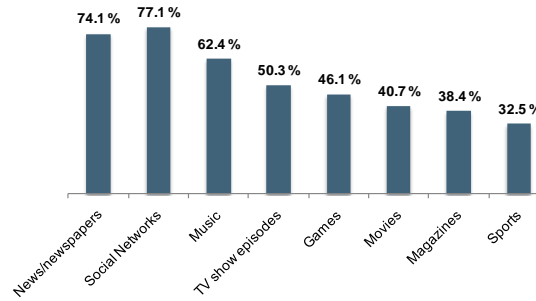
Why tablet user behavior is different is difficult to say without further study. Is the difference a result of devices and apps that enable users to enjoy a convenient, high quality user experience anytime-anywhere? Or are early adopters inherently more engaged in media, consuming more and paying more? At this point in tablet adoption, we suspect a bit of both factors may be at work.

Engagement: Who Uses What?

There are important differences among age groups in what content is preferred and how it is accessed. From the larger group of respondents (which includes tablet and non tablet users in both the US and the UK) there is surprisingly more consumption of news by those in younger age groups and use of social networks by those in older age groups.

As shown in Figure 1 below, news, social networking and music are the most widely consumed digital media among respondents in both countries, though UK respondents consume fewer movies and play less digital games than their US counterparts.

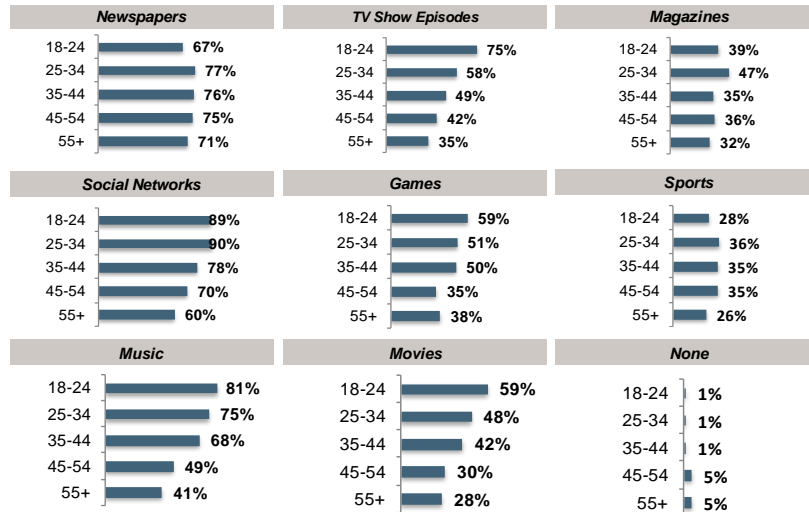
Figure 1 - Digital Media Usage



“Common wisdom” may not recognize the amount of news consumed by younger age groups, or the engagement in social networks, episodic TV, and music of older age groups.

Engagement with each type of media differs significantly by age group. A summary of engagement by age is shown in Figure 2.

Figure 2 - Media Engagement



There are several important take-aways amid the array of numbers in Figure 2 above. Some of the key ones include:

1. **Digital media is consumed by young and old** – While “common wisdom” assumes that digital content is used more by the younger respondent, the responses show that more than 67% of respondents in all age groups access news and newspapers online, more than 60% of all ages access social networks, and more than 35% of older demos (55+ years old) access, episodic TV, music and even games (38% in US) online.
2. **Newspapers** – Age doesn’t matter. Between 67% - 85% of all respondents across all age groups and in both the US and UK read news and newspapers online.
3. **Episodic television and Music** – Very high percentages (3/4 or more) of young respondents access these media online, but close to 1/2 of the older demos consume them.
4. **Magazines** – Surprisingly few respondents consume magazine content online, with limited differences among age groups.
5. **Movies** – Are viewed less than television online, potentially indicating a preference for shorter form content on the current base of internet connected devices (primarily PCs and laptops).

In general tablet users consume more content than do non-tablet users as shown in Figures 3 and 4 below.

Figure 3 - Online Consumption of Newspapers and Magazines

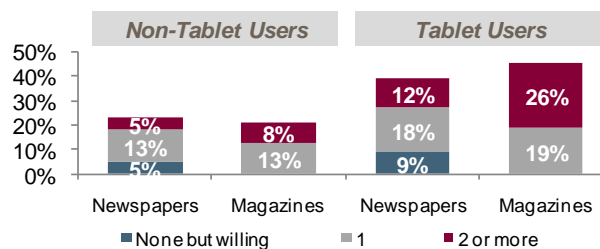
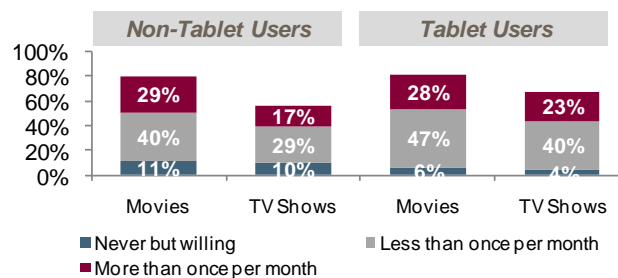


Figure 4 - Online Consumption of Movies and TV



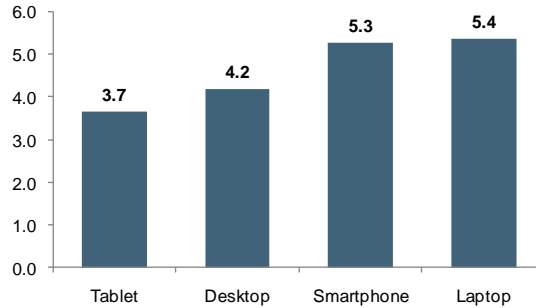
Tablet users are more likely to subscribe to one or more newspaper and magazine publications.

Tablet users also indicate more frequent viewing of movies and TV shows online.

Social Networks

As shown above, respondents engage more with social networks than with any other form of digital content. Respondents spend between 3.7 - 5.4 hours per week engaged in social media (Figure 5). Smartphones and laptops are most heavily used, but respondents with tablets also spend over 3.7 hours per week using social networking sites.

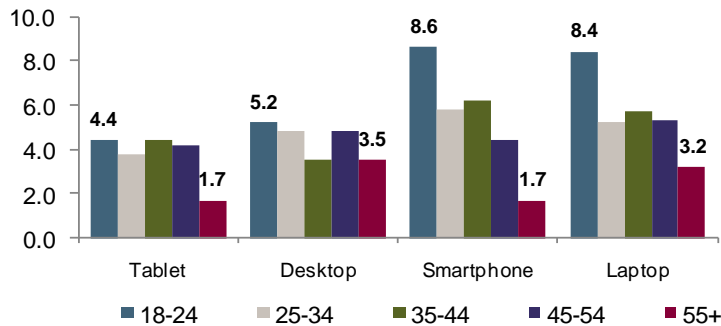
Figure 5 – Hours Spent Per Week on Social Networks



Social networking sites are accessed extensively on smartphones (and laptops) supporting the conclusion that smartphones are used primarily as communications devices, whereas tablets are used much less for social media access, and are used primarily as media devices.

While engagement with social networks varies by age, it does not drop off with age as quickly as many have thought. Respondents in older age groups (ages 45 + years) use social networks for 1.7 – 5.0 hours per week. In contrast and not surprisingly, 18-24 year olds spend almost twice as many hours (8.4 hours) as those spent by older respondents. Importantly anticipating future device usage trends, smartphones and laptops are used almost twice as much by 18-24 year olds for social networking as are tablets (Figure 6).

Figure 6 – Hours Spent Per Week on Social Networks by Age and Device



Engagement patterns that demonstrate the extensive use of social networking on smartphones indicate that smartphones are used primarily as communications devices (both text and verbal).

Digital Substitution

The study attempted to determine when and if digital media was a substitute or a complement for traditional (“hard copy”) media, and it focused extensively on the propensity of respondents either to reduce or to stop the use of conventional media when online alternatives are available.

The study indicates that online usage usually acts as a substitute for conventional content consumption across all print and entertainment content forms, except for subscription TV. Over 1/3 to nearly 50% of respondents (dependent on the media) stated they have stopped or reduced consumption of traditional format content because they have access to online content. TV, however, may be the sole form of media for which online access acts as a complement. At least among tablet-users, online access leads more respondents to increase their subscriptions than those who stop or decrease their subscriptions.

Such results are shown in Figure 7 below. Amid digital substitution in all other media forms, when presented with online content alternatives, 16% of respondents exhibit a tendency to upgrade their subscriptions of conventional TV. The reason for the upgrade was not queried, but is likely a result of respondents wanting to watch episodic series on conventional TV to which they were previously exposed online. This appears to suggest that online usage complements traditional TV usage.

Figure 7 – Substitution of Traditional Media for Online Alternatives

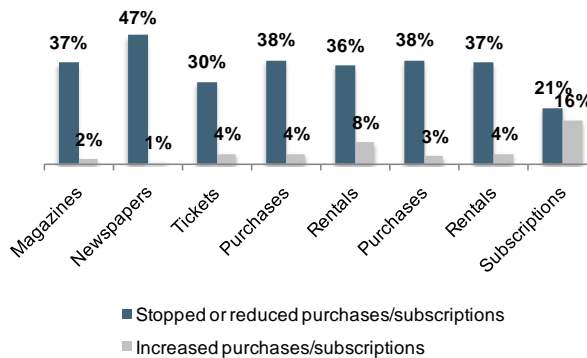
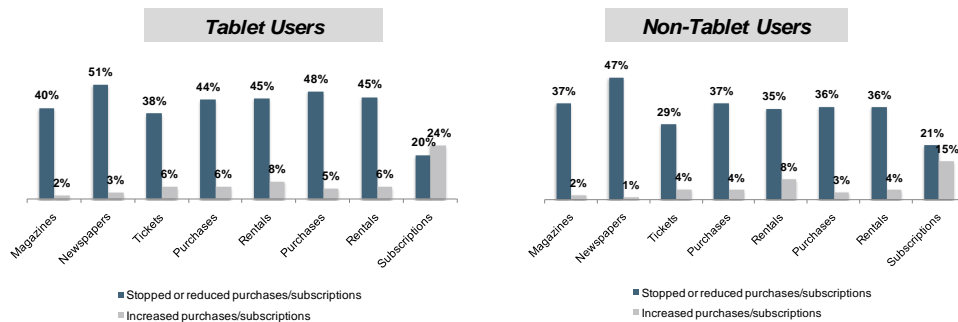


Figure 8 - Online Alternatives by Tablet / Non-Tablet Users



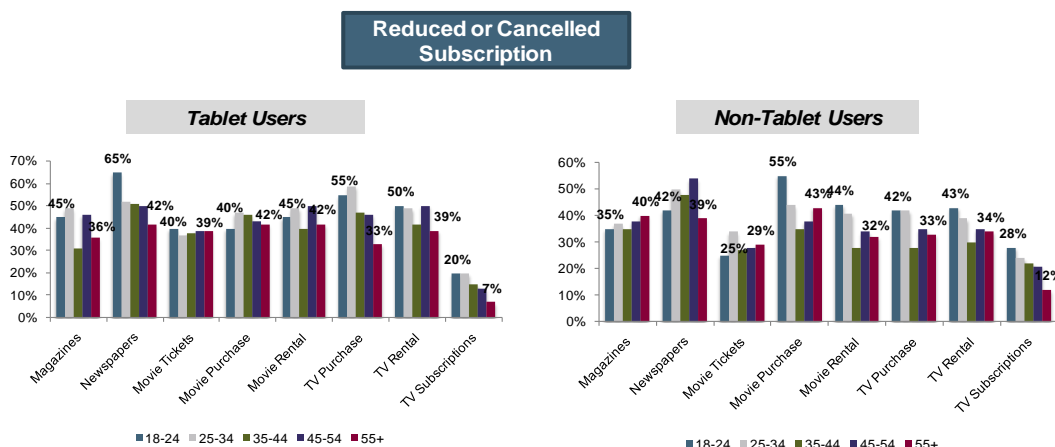
As shown in Figure 8, tablet-users tend to substitute online content consumption for traditional format consumption, except again in the case of TV subscriptions. While the presence of digital alternatives does reduce conventional media purchases, the amount of substitution varies by age and demographic group. In contrast, digital content availability may promote conventional television uplift among tablet users.

While the presence of digital alternatives cannibalizes conventional media purchases, the amount of substitution varies by age and demographic group. In contrast, digital content availability may promote conventional television uplift among tablet users.

Digital substitution differs by media type and among demographic groups as shown in Figure 9 below.

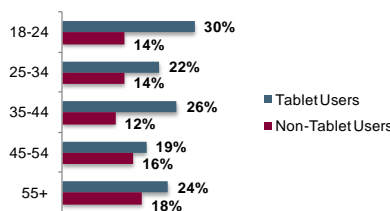
- Hard copy newspapers are the most substituted of all media among all age groups with 47% of all online users having stopped or reduced their hard copy consumption. Only the oldest age group (55+) has a notably lower rate of substitution (39%).

Figure 9 - Substitution of Traditional Media for Online Alternatives



Despite an antipathy to paying for content, when asked what content they were most willing to pay for, respondents showed somewhat more flexibility if provided exclusive content and breaking or regular news via streamlined apps.

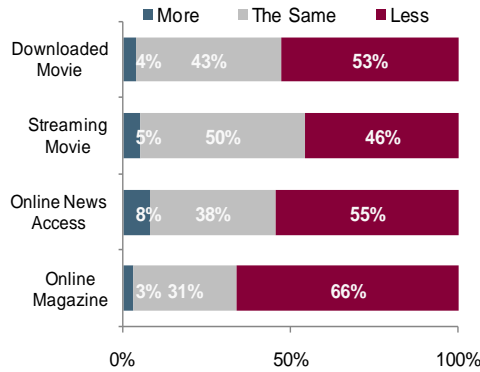
Upgraded TV Subscription



- Substitution of online for physical DVD rentals or purchases (whether Movies or TV Shows) is highest among the youngest age groups (18-34 year olds). Yet it appears that that substitution is lowest among the 35-44 demographic, perhaps given the higher likelihood of families with younger children in that age category.
 - Other types of media also experience substitution across age groups, though in different percentages. Approximately 36% - 38% of respondents demonstrate reduction or substitution of magazine purchases, DVD motion picture rentals and purchases, and TV show DVD rentals and purchases when provided online alternatives.
 - Though to a lesser extent (30%), there is a tendency across all age groups to decrease purchase of movie tickets when respondents also access online alternatives.
- Generally, as the population sample ages, it tends to substitute hard copy less.

Willingness to Pay (for content)

Figure 10 - Willingness to Pay for Online Access

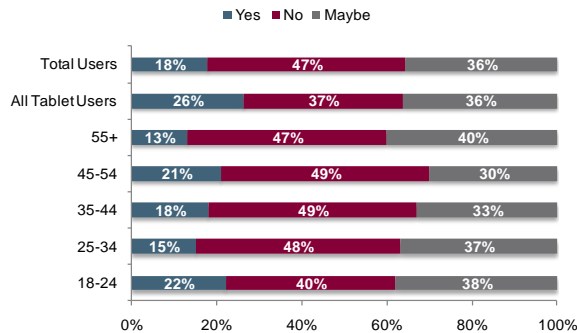


Media executives are correct to be concerned about the effects of digital substitution and about the risk of price compression in digital (Figure 10). Survey respondents across all age groups demonstrate a general desire to pay less or the same for online access.

FTI believes these responses are shaped by experience to-date with pricing for online versions of these media, particularly for print (newspapers and magazines), where the online versions have often been free.

However, many respondents are willing to pay more for bundled access to print and online forms of newspapers and magazines.

Figure 11 - Willingness to pay for print / online bundling



The survey also shows that respondents are (more) willing to consider paying for content when specific content features are provided as available options. For example, exclusive and custom content and apps are favored forms of content across media types for which respondents indicate a willingness to pay. Other features for which respondents indicate a willing to pay include:

- Online access to newspapers (some subscribers)
- Commercial free content for TV and movies
- Ability to share across devices favored for music.

Responses about willingness to pay did not change materially among respondents who used tablets or not. However, willingness to pay does vary by age and income level.

Summary of Findings by Type of Media

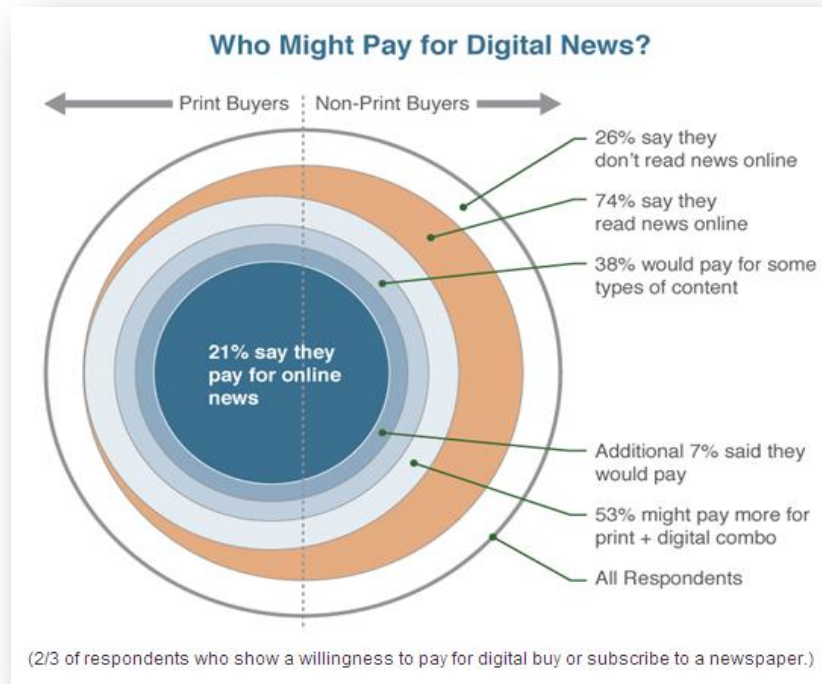
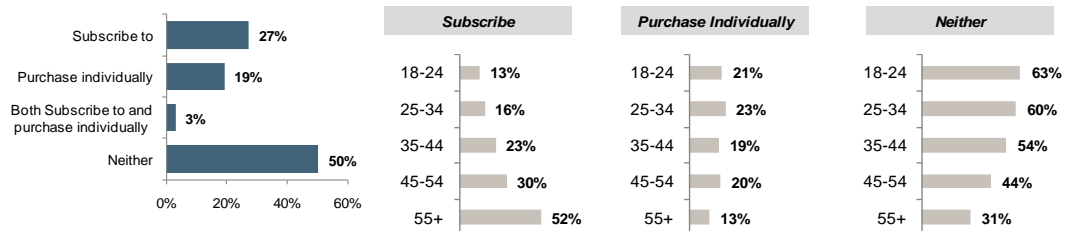
Newspapers

Online access has substituted print newspapers at a higher rate and more rapidly than any other media. Since the popularization of the Internet in the early 1990s, newspaper paid circulation has been in severe decline, and paid circulation in the US today is as low as it was in 1954, even though the US population is more than double what it was then. A key driver of this is that much of the online access to newspapers has historically been free.

The study showed that 50% of respondents neither subscribed to nor purchased individual copies of newspapers, and that the inclination to purchase hard copy newspapers correlated directly with age; the younger the age group the less the tendency to purchase hard copy newspaper (Figure 12).

The data suggests that newspapers should offer a combined print + digital subscription, and target tablet respondents in the particularly-willing age ranges to offer features important to tablet users.

Figure 12 – Acquiring Hard Copy Newspapers



The findings represent no “new” news regarding who is engaged reading hard copy newspapers. What “is” new, however, are the responses regarding willingness to pay for online newspapers, and what features respondents are willing to pay for.

While 74% of respondents say they read news online, only 21% pay for that online access, and another 7% who do not currently pay state they would be willing to pay for it. But staunch online non-payers where asked specifically what features they might be willing to pay for, 53% of tablet users and 35% of non-tablet users indicate that they could be induced to pay for “some” features.

For example, 53% of 18-24

year olds and 45-54 year olds indicate that they might pay for a digital and print combo subscription if bundled together.

This group also expresses a desire for unique feature sets and mobile apps. Most seem already to be print buyers. This group and the group who are willing to pay for print and online bundles are probably the lowest-hanging fruit for future online buyers.

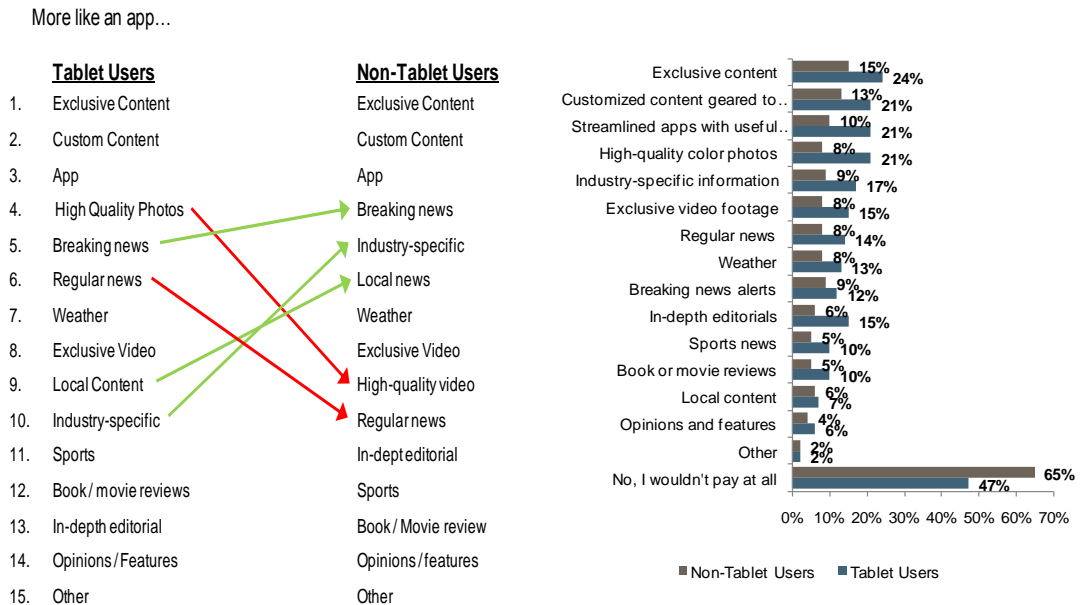
Although respondents are extremely disinclined to pay for printed content, they showed somewhat more propensity to buy if provided the following features:

- Exclusive content,
- Breaking and regular news, and/or
- News “apps”.

As shown below in Figure 13 tablet users have a different set of preferences when it comes to what features they might be willing to pay for. While exclusive content is the top preference for tablet and non-tablet users, priorities differ significantly between the groups on other features.

Tablet users have a different set of priorities from non-tablet users when it comes to what print features they might be willing to pay for.

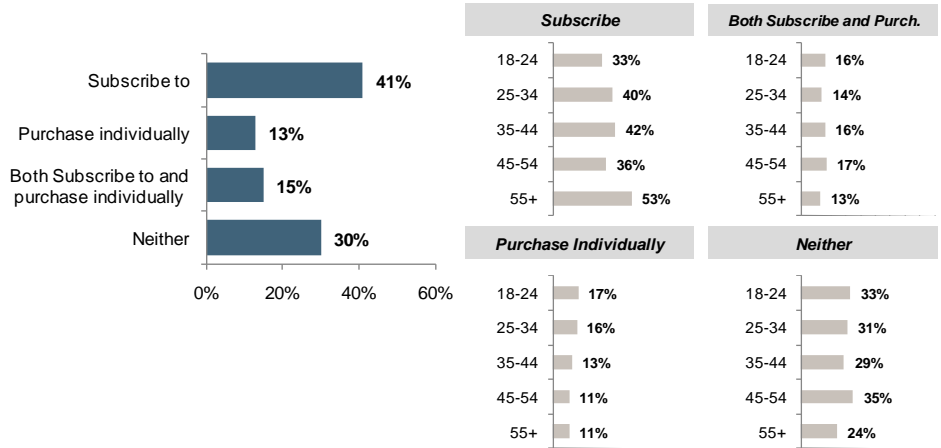
Figure 13 – Features Worth Paying For



Magazines

In contrast to the only 50% of respondents who purchase hard copy newspapers, 70% of respondents indicate that they acquire hardcopy magazines and 56% have subscriptions (15% both subscribe and purchase individually).

Figure 14 – Acquiring Hard Copy Magazines



Given the ability of magazines to deliver an attractive, curated experience and click-through functionality, and the expected increase in tablet penetration, we believe that magazines may see improved online revenue opportunities in the future.

Unlike newspapers, where purchasers differ by age, magazine buying (which can more easily target specific markets/subscribers) does not differ dramatically by age group, including those who do not buy any magazines.

In general, tablet users are more inclined to reduce hardcopy purchases of magazines than are non tablet users. However, respondents express a willingness to pay for high quality visual content, and as magazines develop more curated, tablet-focused alternatives with high quality graphics, tablets (and ereaders) may become favored online devices for paid magazine content. As with newspapers, online magazine consumers who currently don't pay for magazine content said they could be induced to pay for a combination of features such as exclusive content and magazine apps.

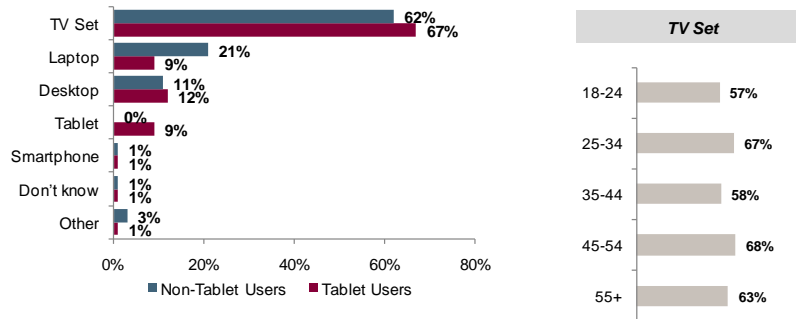
Television

Overwhelmingly, respondents across age groups still prefer viewing television on, well, a television (Figure 15).

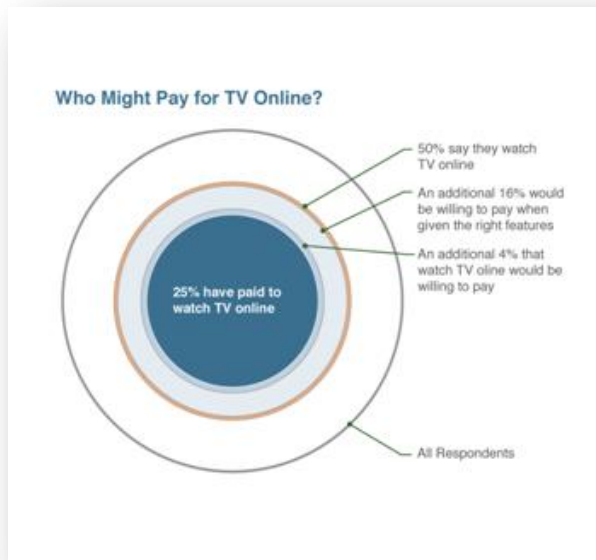
As for smartphones, only 1% of respondents preferred to watch TV on these devices. Such low responses argue against the efforts of some companies to bring mobile, digital television to these smartphones, since it is clearly the device of last resort for TV viewing.

An overwhelming majority of respondents preferred to watch programs on their TV sets. Only 1% indicated smartphones are their preferred device for watching TV

Figure 15 – Preferred TV Viewing Devices



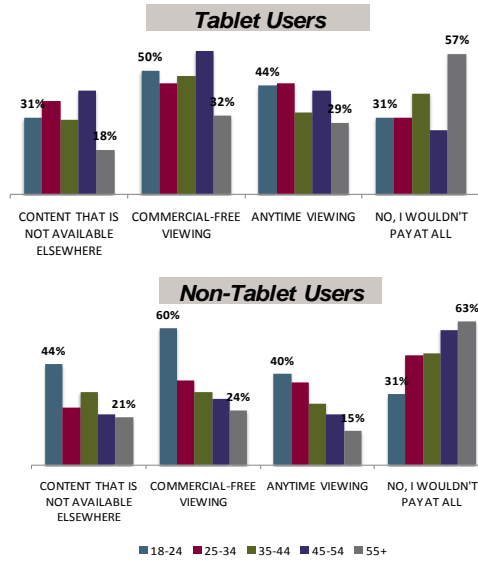
Almost half of respondents - 45% - already pay for on-line access to TV or would be willing to pay for online access if provided the "right" features.



50% of respondents indicate that they watch TV online. Of these 25% indicate that they currently pay for online viewing. An additional 20% of respondents indicate a willingness to pay for certain content features including commercial free content or anytime/anywhere viewing. In total, 45% of respondents already pay for on-line access to TV or could be induced to do so with the "right" features.

Among tablet users and non tablet users alike, those features worth paying for include commercial free viewing, anytime/anywhere viewing and content not available elsewhere (Figure 16).

Figure 16 – Features Worth Paying For



More interesting yet, 24% of tablet users and 15% of non-tablet users actually upgraded their TV subscriptions because they have accessed TV content online. In this way, the tablet has acted as a discovery tool to complement, not substitute, conventional usage.

Television may be the only form of media for which online access is a complement, and that does not face net viewer losses as a result of the availability of digital alternatives. Though not queried in the study, the uplift may be a result of respondents wanting to watch episodic series on conventional TV to which they were previously exposed online.

Although tablet users upgrade their TV subscriptions to obtain more content, they reduce hard copy rental and purchase of DVDs

Approximately 10% more tablet users upgraded their subscriptions than did non-tablet users. There were no significant differences in upgrade behavior related to income or gender (Figure 17).

Figure 17 – TV Subscription Changes Because of Online Alternatives

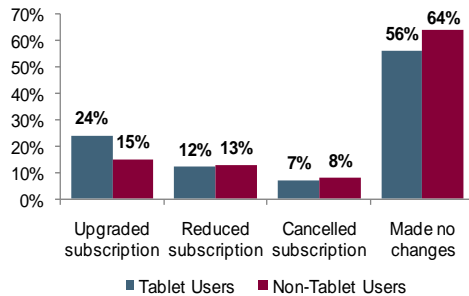


Figure 18 – Subscription Upgraders by Age

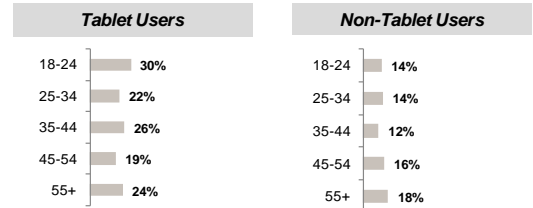
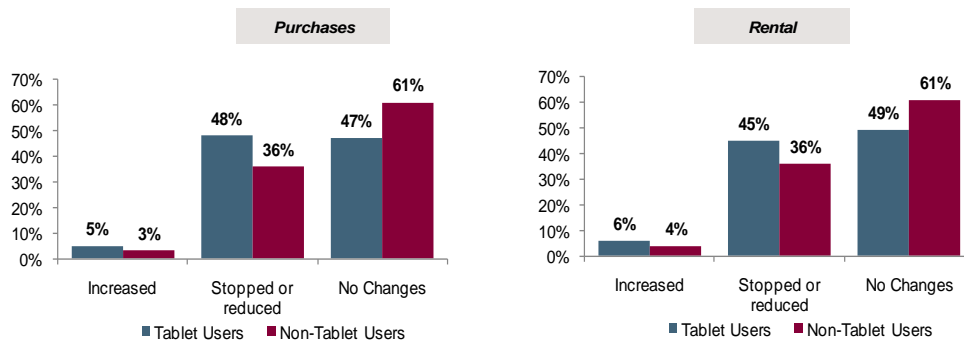


Figure 19 – Change in DVD Purchase & Rental of TV Shows

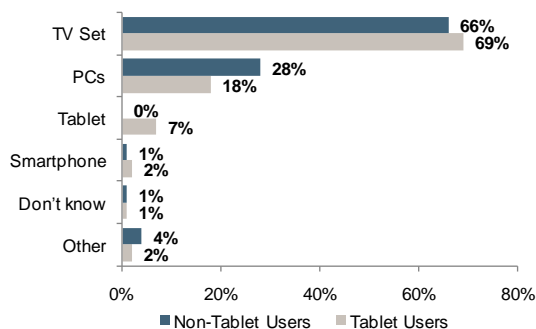


47% of tablet users and 36% of non tablet users reduced or stopped buying or renting DVDs of TV programming (Figure 19).

Movies

As with television viewing, the TV set is overwhelmingly the preferred device for watching movies at home.

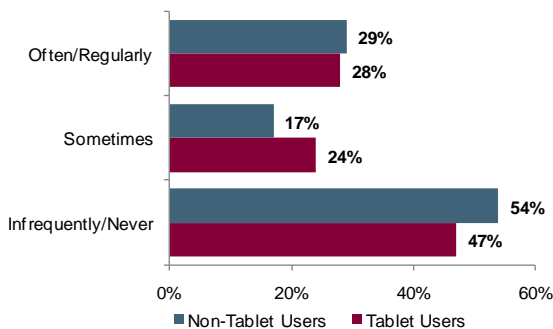
Figure 20 – Preferred Movie Viewing Devices



The preferred device for movie viewing is the TV set, as it is for episodic TV shows.

Among those who pay to watch movies online, tablet users and non-tablet users pay for online movie content with similar frequency (Figure 21).

Figure 21 – Frequency of Paid Online Movie Viewing



When asked what features would induce respondents to pay for online movies, the feature most worth paying for is access to movies while still in theaters. Approximately 1/4 to 1/3 of respondents would be more willing to pay for access to movies not available elsewhere and movies with extra features. The finding may indicate that there is a potential opportunity to make a greater swath of library content available on-demand through new online distribution partners (beyond just Netflix and Hulu). Only a very small percentage of young respondents would not be willing to pay at all for online TV content.

Of the respondents who said they would not pay for movies at all, respondents over 55 lead this category. Resistance to paying also seems to increase with age.

More than half of respondents have not changed their behavior regarding purchases and rentals of movies as a result of having online access (Figure 23). However:

- A significant portion of respondents, 30%, claimed they stopped or reduced their theater going
- 38% stopped or reduced DVD purchases, and
- 37% stopped or reduced movie rentals.

Tablet users reduce their engagement with all other movie formats in greater numbers than do non-tablet users when they have available online alternatives.

Figure 22 – Features Worth Paying For

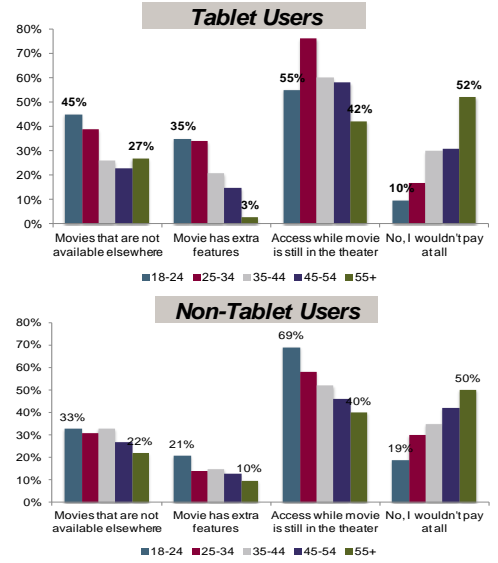
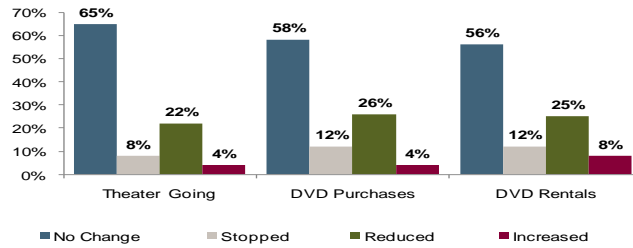


Figure 23 – Changes in Movie Engagement Because of Online Access



Music

Music was among the first media businesses to be seriously disrupted by the internet and digital substitution, with proliferation of MP3 players and then with the sudden appearance of Napster and other P2P music sharing websites. According to Forrester Research, from 1999, the year Napster started, to 2009, U.S. music sales and licensing plunged from \$14.6 billion to \$6.3 billion.

While downloads are the preferred access method (Figure 24), it is worth noting that smart-phone users and tablet users have a higher preference for streaming. This is particularly interesting when considered in conjunction with increasing adoption of smart-phones and tablets, and with the high willingness to pay for unlimited streams (Figure 25), particularly among the youngest demos.

The majority of listeners prefer being able to share music across devices they own. The survey also found younger listeners prefer plans with large numbers of streams or downloads.

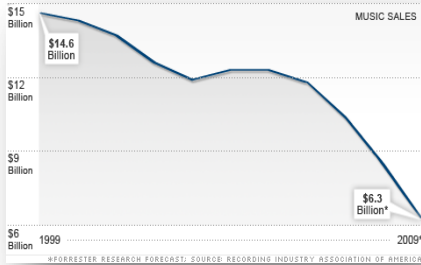


Figure 24 – Device & Access Preference for Electronic Music

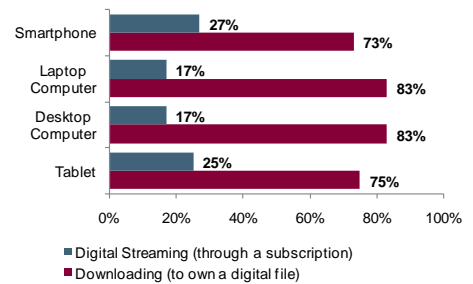
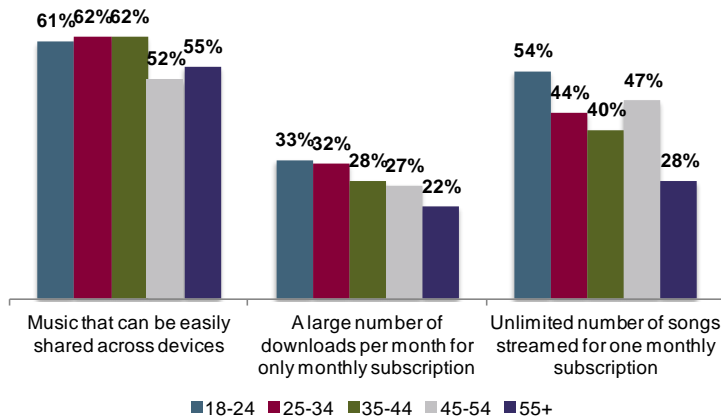


Figure 25 – Features Worth Paying For (by Age)



About FTI – Critical Thinking at the Critical Time



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