



Communication Trends

Highlights from the 2009
Nielsen Convergence Audit

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Introduction

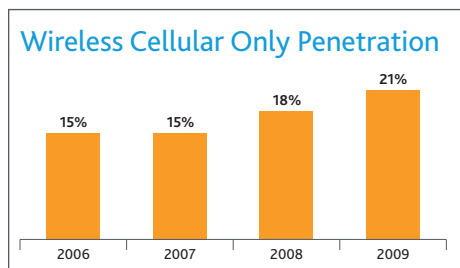
VOD, DVR, VoIP, FiOS—you may need a dictionary to decipher the acronyms of some of the latest technology advances that have re-defined the media and telecommunications landscape in the U.S. Understanding the media and communications habits of today's consumers more deeply than the competition offers companies the best way to win in this hyper-competitive, fragmented environment.

To understand consumers' attitudes and behavior towards voice, video and data products, Nielsen conducts one of the largest surveys of its kind—the Nielsen Convergence Audit. The Convergence Audit® is an annual survey that collects more than 32,000 U.S. online and mail respondents.

The most notable trends in 2009 include a rise in households who have "cut the cord" by trading their traditional landlines for wireless cellular services and an increase in mobile media device usage among a diverse set of households.

Cutting the telephone cord

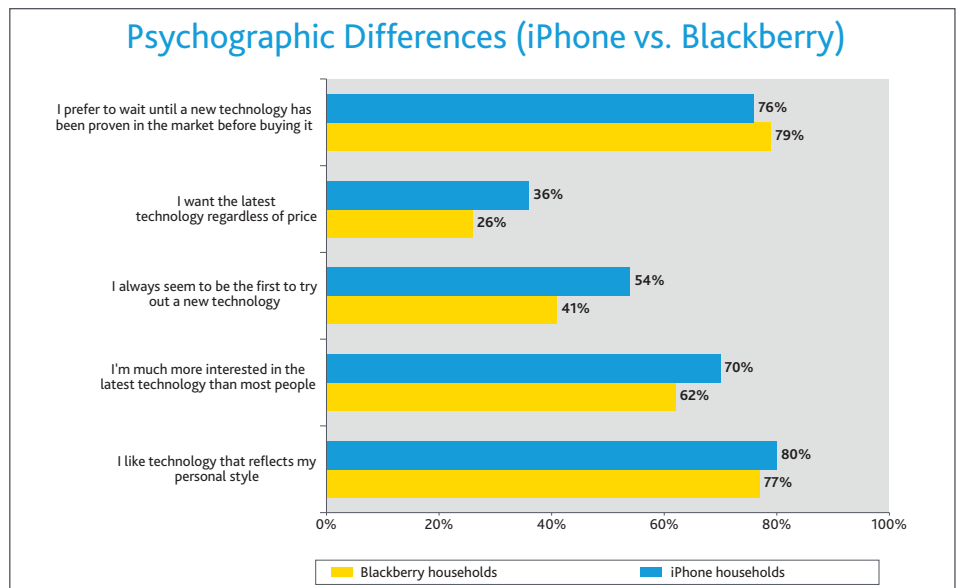
While an overwhelming majority, 88%, of U.S. households have a wireless phone in 2009, most still maintain a traditional landline at home. However, this is changing. In the second quarter of 2009, over one in five households reported they are wireless cellular only—an increase of 16% from the past year. This increase comes from the two-thirds of households who have dropped their landlines as well as from young adults that started new households with just a wireless phone service.



Blackberry versus iPhone

Nielsen reveals that approximately 15% of U.S. households own a smart phone. In spite of the recent sales success of the iPhone®, the earlier introduction of the Blackberry® gives them a higher penetration rate of 8% versus 4% for the iPhone. Given the high price point of both devices, the demographic profile of the Blackberry and iPhone user looks very similar—both appeal to households with higher income and education levels.

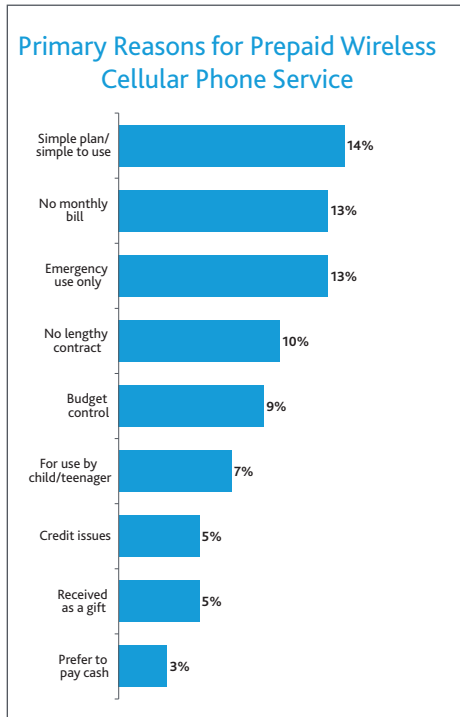
Interestingly, in terms of psychographic differences, the iPhone household has a slight edge over the Blackberry household in being the first to seek out the newest technology. Blackberry households tend to wait until a new technology is proven before investing. However, both Blackberry and iPhone audiences tend to be technology savvy, early adopters of technology and wireless oriented.



Households with Blackberry phones = 1,238 and households with iPhone phones = 2,543.

Primary reasons for prepaid phones

Most wireless cellular phone users have a post-paid contract, but 15% of households use prepaid phones. This attractive “pay-as-you-go” option offers simplicity and minimal commitment which are noted as the primary reasons for choosing this type of service plan.



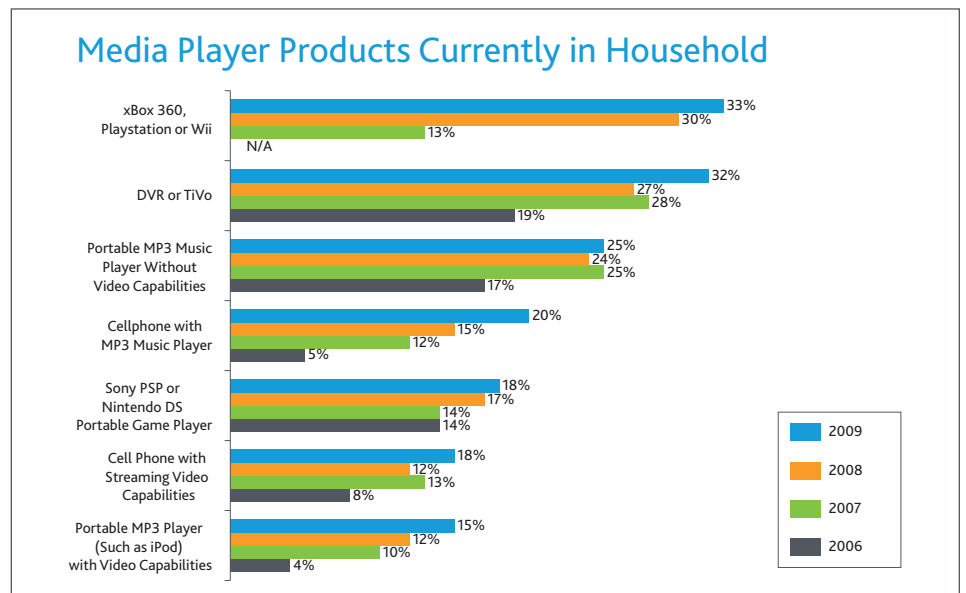
Total sample size = 4,256.

Mobile media expansion

This year all media player products in the market have seen growth. Given an increase in availability, product options and cost reductions, these types of products have become more mainstream. With one-third of households owning gaming devices (xBox® 360, Playstation® or Wii®) and digital video recorders (DVR), they are becoming well established products that continue to exhibit healthy year-over-year growth rates. Growth of portable MP3 music players without video capabilities leveled off in 2009 at 25%. Adoption of other alternative media player products is still in the early stages, although all have exhibited growth this year. Most notable are devices that offer video capabilities.

For many of the mobile media devices, more technologically savvy people drive growth. However, consumers who are less technology oriented have embraced gaming devices and use DVR's heavily. Further analysis of the Convergence Audit data usage among two Nielsen ConneXions lifestage groups—Young & Wireless and Frugal Folks—demonstrates this trend.

The ConneXions® household segmentation system groups consumers into 53 segments based on voice, video and data consumption, as well as consumer technology adoption, or Technodoption. The 53 ConneXions segments fit within 10 lifestage groups based on the combination of technology adoption, age and family structure.



Total sample size = 32,735.

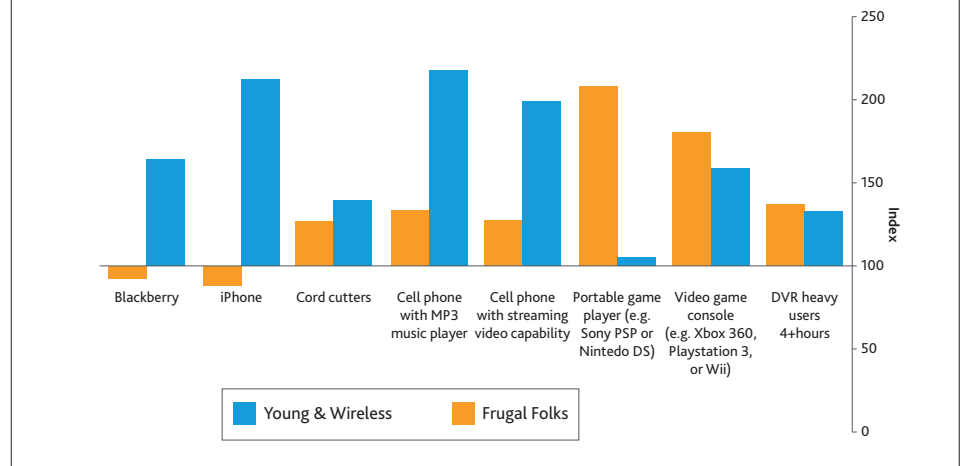
The **Young & Wireless** group consists mostly of young, upscale singles and couples who set trends and love technology. These households adore wireless devices and connect to the Internet by cell phone, laptop and handheld devices like iPhones and Blackberries. Many gave up their landline telephones—if they ever had them—for cell phones with MP3 and video players. They subscribe to a DVR, but use it less heavily as they spend most of their leisure time online downloading music, watching streaming video and instant-messaging friends as well as checking out information about jobs, cars and apartments. Serious music fans, they rarely travel without their MP3 players or car radios blaring. When it comes to cool technology, they own it.

With their more lower-middle-class incomes from blue-collar and service industry jobs **Frugal Folks** boast more moderate technology tendencies. Ethnically diverse and widely scattered throughout the exurban landscape, these Americans spend what they can on technology to keep their children entertained at home, indulging them with video game consoles and portable game players as well as educational computer software. These video-focused households watch their DVR for more than four hours a day as well as watching on-demand TV. They rent movies at a video store and use their kids' game systems to watch video content. Modest incomes depress technology usage and lead these households on a constant search for cheaper alternatives for phones and the Internet.

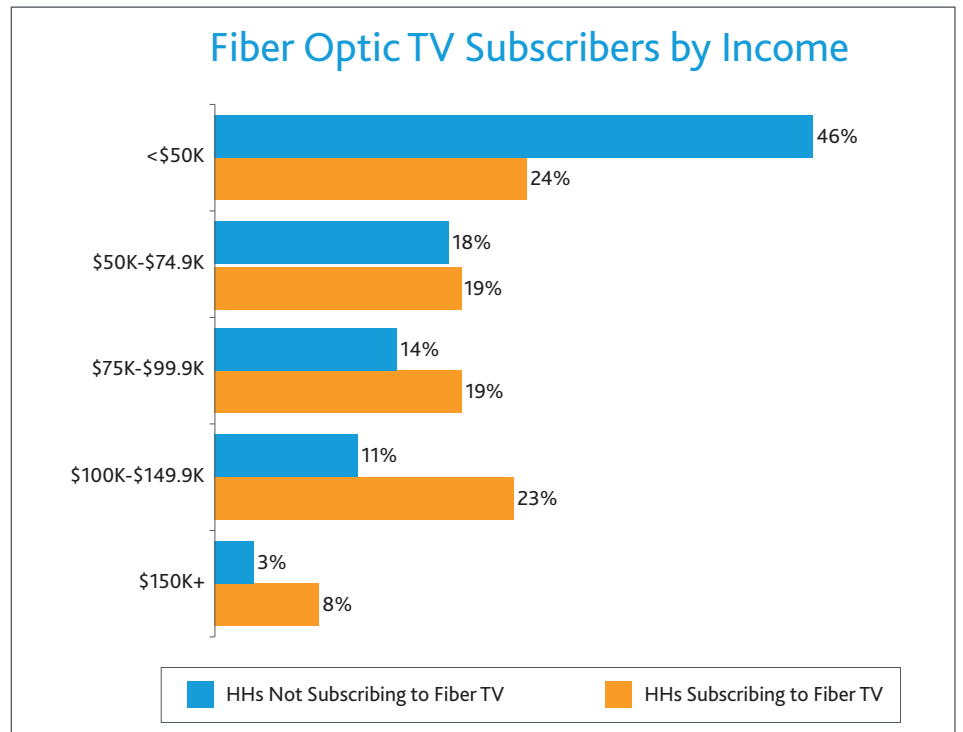
Fiber optic TV growth

Fiber optic TVs continued to grow over the past year with penetration increasing from 3% to 5%. Fiber optic TV homes tend to have higher incomes, with almost one in three subscriber households earning \$100,000 or more, compared with just 14% of all other TV households. Those switching to this relatively new service tend to be early adopters of technology.

ConneXions Index: Young & Wireless and Frugal Folks



Fiber Optic TV Subscribers by Income



Households not subscribing to Fiber TV = 30,859 and households subscribing to Fiber TV = 1,373.

The evolving landscape

The cut-throat telecommunications landscape continues to evolve, with consumers simultaneously deepening their commitment to wireless services and responding to higher-value bundles from their wireline cable or telecom provider. The growth of Verizon's FiOS and AT&T's U-verse services underscores the parallel growth of these technologies.

Consumers subscribing to wireless cellular services expect not only telephone communication, but also value-added features from simple enhancements like an MP3 player, to Internet-accessible smart phones. Despite their higher costs smart phones will continue to gain market share. The benefits of mobile email and the Internet coupled with improvements in Internet display capabilities and network speed will continue to drive this trend.

Similarly, cord-cutting households will continue to grow in numbers as consumers find wireless cellular service meeting their needs, further pressuring the telecommunications landline business. Prepaid cell phones will also gain, as some consumers seek the simplicity they offer and others look for more minimal financial commitments during the economic downturn. As a result of these trends, traditional wireline telephony has ceased to offer high-profits reliably for telecommunication companies.

Conclusion

Advanced services will continue to transform our lives. As the costs of these services come down, more and more consumers will purchase devices that connect, entertain and inform them at home as well as when they are away from home.

To win, telecommunication marketers must continue to stress the value of their products, weigh the costs and the benefits of each service and each campaign more critically. They must also understand the nuances—and particularly the differences between—of the people who will become their new customers and those who comprise their existing customer base. Those companies who can quickly differentiate their customers will prosper.

Passion for precision

Nielsen Claritas, an industry leader for over 35 years, is the preferred choice of Fortune 500 companies who wish to optimize their customer targeting, media strategies and site analysis decisions. Combining the most passionate team of industry experts with world-class data, software and services, we deliver solutions that help you identify both 'who' and 'where' your best customers and prospects are—with precision.

About The Nielsen Company

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