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accenture

High performance. Delivered.

Global Digital Home Study

Driving high performance
with services-led brands

• Consulting • Technology • Outsourcing

A close-up photograph of a person's arm and hand, wearing a red sleeve, using a red braided cord to interact with a door handle. The cord is looped around the handle and a small rectangular device mounted on the door. The person's hand is positioned to press a button on the device. The background shows a wooden door and a blurred outdoor setting with a wooden railing.

Unlocking the digital home —

Methodology

The Accenture Digital Home Study is based on an online survey of 10,170 consumers of digital technologies. The survey, which took place in April and May 2006, was representative of the local Internet population in nine countries: China, South Korea, Italy, Canada, United Kingdom, Taiwan, Germany, United States and Japan. Respondents were balanced across basic demographic factors, including age, gender

and education. The results from the individual countries were aggregated to provide a global view.

The main objectives of the study were to:

- Develop an awareness of consumer preferences for digital technologies.
- Understand current levels of consumer satisfaction as well as adoption drivers and barriers.

- Determine current and future usage of digital home solutions by consumer intention, such as imaging, video and education.
- Uncover the weak links in delivering a positive consumer experience — from R&D through to marketing, sales, service and support.

driving high performance with services

Summary

While consumer technology companies focus on bringing ever more advanced digital technologies to market, they face a consumer that is increasingly fickle and price-sensitive. The typical response has been to add functionality and cut the cost of products and services delivered. In doing so, industry players are missing out on a major opportunity to differentiate through services.

As consumers upgrade to digital homes, they face increased complexity, but do not want to become the CIOs of their digital homes. They want assistance with maintenance, monitoring and troubleshooting. They want new services to improve how they live and work. And they want it on-demand — whether it is delivered as part of an existing contract, as a monthly subscription, or as a one-off service call.

To address these needs, consumer technology players, both electronics manufacturers and telecommunications companies, must rethink their attitudes towards services. Instead of regarding services as a drag on bottom-line profitability, these companies must determine how to transform the consumer experience by embedding services in their offerings. We believe that enormous benefits await companies that can achieve this transformation, from improved differentiation to greater brand loyalty and new revenue streams.

The services imperative is highlighted by the findings of our digital home study, which canvassed more than 10,000 Internet users across nine countries. In the following pages, we put these findings into context, explaining the implications for consumer technology players in their quest to achieve high performance.

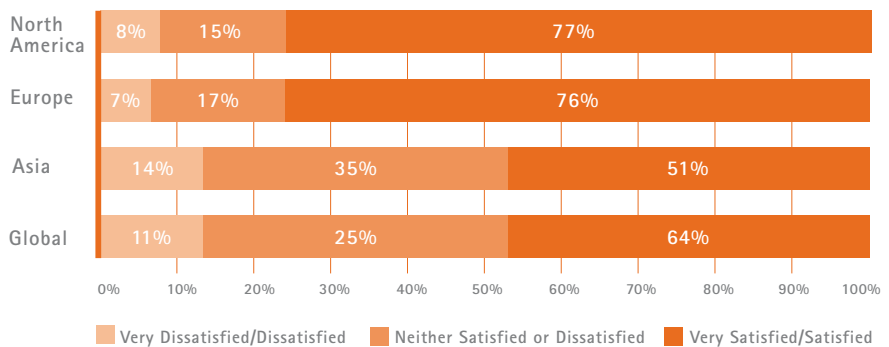
Turn on, tune in – the digital home is a reality...

Enabled by networking and interoperability, the digital home is a reality. Just as people switched from film cameras to digital cameras, and from Walkmans to iPods, consumers around the world are now upgrading to digital homes.

In 2005, worldwide revenues from sales of digital TVs (US \$48 billion) outstripped revenues from analog TVs (US \$31 billion) for the first time [source: iSuppli]. Powerful processors are now available, capable of handling high-capacity data streams, large amounts of memory and connectivity between devices like TVs, games consoles, and PCs.

Competition is also intensifying. Spurred by the success of Microsoft's Xbox, Orange has installed 2.5 million of its "Lifebox" wireless hubs across Europe, while BT, the United Kingdom's incumbent telecommunications company, has entered the market with a

Consumer satisfaction with digital technologies by region (% respondents)



device enabling IPTV and free voice calls, as well as wireless networking for PCs and security monitoring and control.

The good news is that most consumers are happy with the digital technologies they use. A full 77 percent of respondents in North America and 76 percent of respondents in Europe say they are satisfied.

The vast majority of consumers also believe that digital technologies such as broadband, home networks, consumer electronics and PCs have enriched their lives. Seventy-eight percent say that technology has made their lives easier; 76 percent agree that it has made their lives more fun.

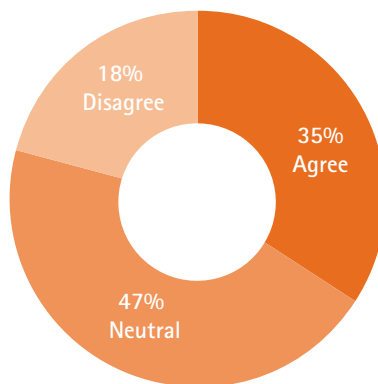


...but perceptions of consumer technology players are poor...

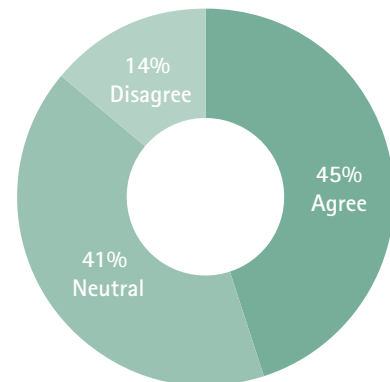
Currently, however, people are not convinced that consumer technology players either understand the customer, or have a commitment to providing quality service.

Only one in three respondents agree that manufacturers understand how they use technology. When asked if they would go to a manufacturer to fix a problem, a shocking 82 percent of respondents said they would not. Opinions of telecom providers are only slightly higher, with less than one in two respondents saying that they are committed to providing quality services.

Manufacturers understand how consumers use technology
(% respondents)



Service providers are committed to quality service
(% respondents)







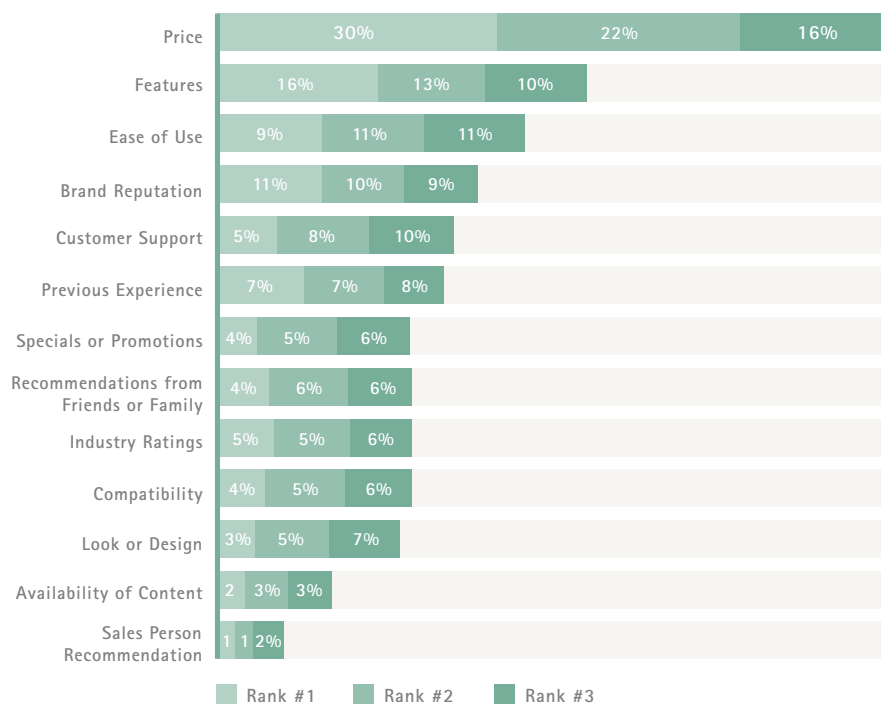
....and ongoing commoditization is a fact of life

Digital home technologies are powering a several-hundred-billion dollar global marketplace. But despite

industry hype surrounding this phenomenon, consumer behavior reveals ongoing commoditization.

Our survey shows that price is easily the most significant purchase decision factor – ahead of features, ease of use and brand reputation. Sixty-eight percent of respondents cited price among their top three considerations when making a purchase.

Global ranking of purchase criteria (% respondents)



Consumers often delay product purchases or service subscriptions while they wait for prices to drop. One third of respondents have delayed a purchase during the past two years.

And service switching is high, with 35 percent of respondents having canceled a service in the last two years. Minimal brand loyalty means that consumers have no qualms canceling services if a better or cheaper service of the same type is available.

So how can consumer technology players differentiate their offerings – and improve brand loyalty – in a market where price is the top-ranked purchase factor?



Reassessing attitudes to services

In their drive to reduce costs, consumer technology players have trained their customers to look elsewhere for service. By doing so, they have locked themselves out of a significant opportunity for deepening customer loyalty.

Consumers want to use and enjoy digital technologies. We believe that the brands that succeed in the years ahead will be those that can deliver the digital lifestyle through bundled, best-of-breed products and services that build closer relationships with consumers.

Just as IBM and EMC moved into services and solutions to offset the increasing complexity and commoditization in their hardware operations, we believe that consumer technology players must now transform the services they provide to consumers.

Across every industry, services stimulate customer loyalty. Online retailers, such as Amazon, regularly email existing customers with tailored recommendations for products. Banks, struggling to retain customers and differentiate their offerings, have found personal banking services to be extremely effective. And Mobile Network Operators (MNOs) are

increasingly developing Web- or mobile-based portals to deliver a strong, branded user experience to their customers.

Currently, consumer technology players view services as a cost center. This has meant that a consumer has to request assistance before it is provided, and the assistance provided is often limited, whether it be the scope or timing of coverage.

This attitude is at odds with consumer needs. They say that services do matter.

Services build customer loyalty; 71 percent of our respondents agree that experiencing good customer support makes them more likely to buy from the same company in the future. And 58 percent say that it makes them more likely to recommend that company to their friends and family.

For the consumer technology industry, the focus in recent years has been on advancing supply chains, brand marketing, and retail channels. Services capabilities have been left behind.

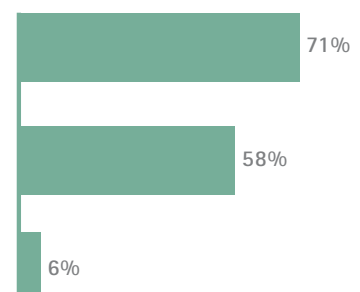
Good customer service equals brand loyalty

(% respondents)

The consumer is more likely to buy from the same company

The consumer is more likely to refer friends and family to buy from that company

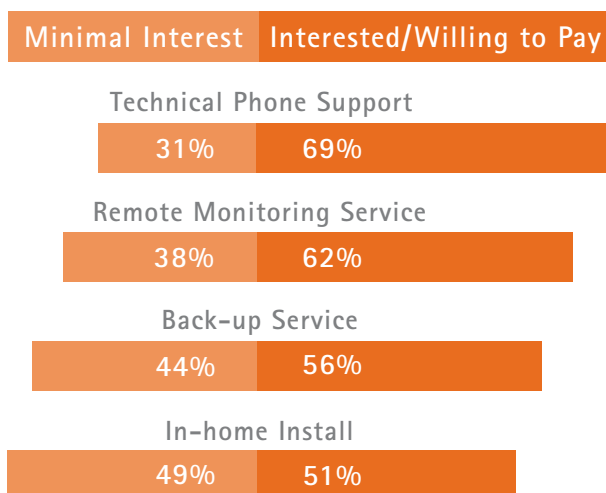
The consumer's choice to buy from a company is not affected





Benefits – why do improved services

Global consumer interest in digital home services
(% respondents)



Consumer technology players are failing to address consumer expectations. In our study, the primary drivers of consumer dissatisfaction were:

- a failure to use the technologies enough to justify the cost;
- difficulty in getting them to work; and
- the level of customer support provided.

This dissatisfaction is growing as the possibilities of the digital home expand. For every satisfied TiVo/Sky+ Personal Video Recorder (PVR) consumer, there will be many more grappling with the complexities of installing a digital network in their homes. There might come a point where consumers are so overwhelmed by complexity that they start to switch off. Against this backdrop, services will play an increasingly vital role in retaining and driving sales.



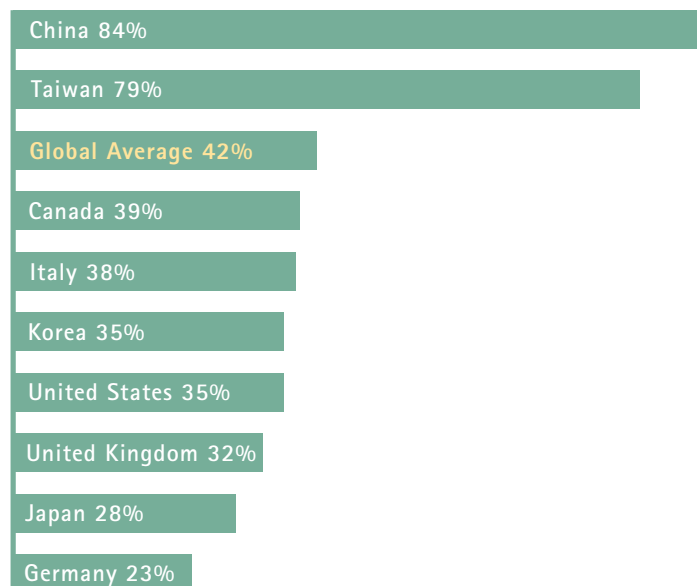
make sense?

Trusted technical services delivered at pre-sale, point-of-sale, installation and post-sale should define the consumer experience. This will drive recurring sales, enabling companies to lower the cost of these transactions.

On top of this, if services are packaged and executed effectively, they can become an offsetting revenue stream in their own right. Sixty-nine percent of respondents say that they are willing to pay for technical phone support and 62 percent would pay for a remote monitoring service. (See chart on page 10.)

Additionally, an average 42 percent of consumers worldwide would be more likely to buy if a provider sets up and maintains the digital home for a monthly fee. (See chart at right.)

Interest in the digital home as a utility service (% respondents)



Consumers were asked if they were more likely to buy if a provider would set everything up, keep it current, and charge monthly.

To achieve high performance in a commoditized market, consumer technology players must shift their mindsets.

Instead of seeing services as a drag on profitability, they have to start seeing them as indispensable core elements of their overall offerings.

The brands that succeed in the years ahead will be those that can deliver a digital lifestyle through bundled, best-of-breed products and services.

What if?

What if consumer technology players take a services-led approach to the market?

This would mean they let services lead rather than the technology — with interesting ramifications for their engineering investments. Some might even decide to manage their solution offerings and services as one business.

It means that the consumer would find it easy rather than inconvenient to get their digital home providers to help them. Imagine the consequences if industry players reach out to their customer before their customer calls them for assistance.

It also means they push for industry wide collaboration to reduce complexity for the consumer.

In some cases this might even require putting the consumer ahead of competitive differences.

Imagine what consumers would be doing if they did not have to choose between Blu-ray and high-definition DVD recorders.

In the end, it means that consumer technology players believe the relationship with the consumer after the sale is just as, if not more, important than before the sale.





How can the services opportunity be

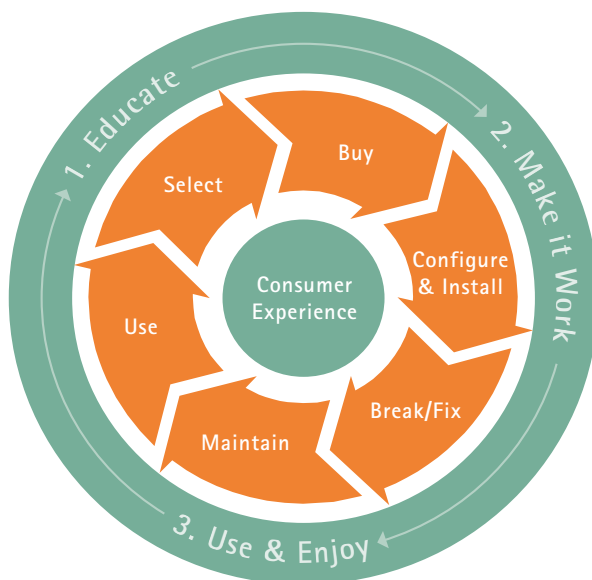
Accenture believes that it is critically important for consumer technology players to address the services expectations gap. Best Buy's enormously successful Geek Squad shows just how much demand there is among consumers for effective services.

To close the gap, consumer technology players must provide enhanced services at every stage of the consumer experience life cycle.



exploited?

Consumer experience life cycle



So how can this be achieved? We believe that companies must:

1. Provide better consumer education.
2. Ensure that their technologies work.
3. Focus on enhancing use and enjoyment after the sale is complete.

1. Educate

Our study shows that consumers urgently require education — both pre- and post-sale. Industry wide, product returns are high, but 30 percent of the time nothing is found to be wrong with the product.

There is abundant room for improvement. In the United States, for example, consumers cited inadequate assistance from salespeople (38 percent) and insufficient information and advice (33 percent) as the principal causes of dissatisfaction with retailers.

Help needs to be provided from the selection stage onwards. Users of digital home products say that they want to explore new technologies. Yet

adoption of new technology is slow. By helping consumers to make better buying decisions, consumer technology players would significantly enhance their brands — and their sales.

Consumer technology players need to create a climate of digital awareness. Consumers need technology comparisons, direct linkage of specifications to needs, and clear explanations of impacts on existing home environments, such as how high-definition

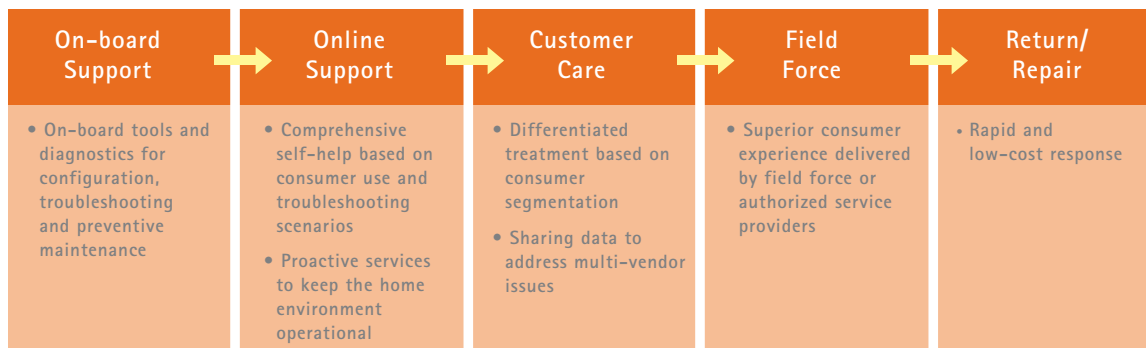
television programming links up with high-definition TVs.

Furthermore, this education must be multi-channel. Consumer technology players need to build intimacy at every consumer touchpoint, including online, on the phone, and in retail outlets. Apple's iLife 06 enables users to take full advantage of their hardware's digital capabilities. This is a good example of what can be achieved.

2. Make it Work

Making technology work for the consumer can be an expensive proposition. One home visit can negatively impact profitability. Instead, successful players will incorporate troubleshooting and repair mechanisms into their solutions, while building out revenue-generating services.

Customer support chain



The digital home study underlines the damage caused by poor customer support. Consumers say they are often frustrated with how long it takes to fix problems as well as with the qualifications of the service representatives.

Companies need to re-engineer the entire customer support chain to make it more responsive to consumer needs. This starts with intelligence embedded in the solution (known as on-board support) and moves up the chain with online support, phone support, field support, and finally, return or repair.

One recent Accenture client project highlights the way in which this may help organizations achieve high performance. We worked with a large global telecommunications company to reduce the cost of its customer care, without compromising quality of service.

Accenture was hired to operate and transform a significant portion of the client's customer care. We migrated a majority of the customer care off-shore, and transformed the client's business to improve the customer experience. Through a number of call

centers based in the United States, Mexico, Costa Rica and the Philippines, we support over six million customers, through a network of over 5,000 call center agents.

Through disciplined performance management combined with innovative programs to reduce complexity for the consumer, we have achieved the highest levels of customer satisfaction in the history of the company. This has contributed to record-low customer turnover, while reducing total cost-per-customer by more than 35 percent in three years.



3. Use and Enjoy

Consumer interest in services such as health monitoring and home security is not new. The question is, why do these needs continue to go unmet despite advances in technology?

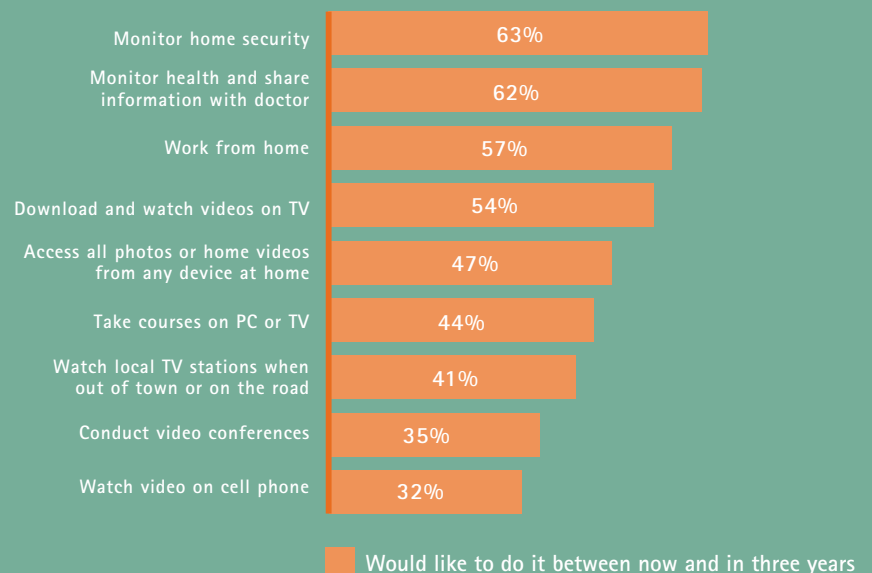
Rather than continually looking to boost functionality, consumer technology players need to focus on ensuring that consumers are getting maximum value out of existing digital home solutions. For example, Microsoft's Xbox Live, an online marketplace, arcade and user group community, has successfully added value to its Xbox 360 System.

This means doing a better job with post-sale follow-up. It means getting people used to new technology so they enjoy it and are interested in purchasing follow-on subscription services. And it means exploiting the clear opportunities that exist in lifestyle-based value-added services.

The digital home study showed that, for all the focus on entertainment-based applications, there are also clear and fast-developing opportunities for consumer technology players in security, health and productivity-based

technologies. Global respondents were most interested in value-added applications that will enable them to monitor home security, observe their health and share medical data with doctors, and work seamlessly from home.

Future interests of global consumers (% respondents)





Implications for consumer technology players

Accenture findings provide some interesting implications for consumer technology players striving for high performance:

- **Proactive services are necessary to reduce consumer complexity.** As permutations in the digital home become more complex, the consumer becomes more vulnerable. This means that the need for proactive and reactive customer support can only increase. On-board and effective remote services, both online and via the phone, will be needed to minimize the cost of delivery.
- **New value-added services should be exploited as distinct revenue streams.** Consumer technology players have an opportunity to create new revenue streams from value-added services. Companies ought to ensure that these services are packaged and executed effectively.

- **Services differentiation is vital.** To address the fragmented needs and preferences of consumers, consumer technology players must differentiate the various services that they provide. To do so effectively, they must deepen their customer understanding. They also will need to mass customize services at the point of delivery – whether online, in the home, on the phone or in a retail outlet.
- **Products and services need to be managed as one entity.** Consumer technology players that thrive in the digital home marketplace will need to manage products and services businesses holistically (for example, iTunes/iPod).

- **Partnerships will be critical.** The combination of hardware, software, connectivity access, content, field support and proactive/reactive services is too much for one company to handle on its own. Intelligent partnering and collaboration between hardware, content and service companies is going to be essential.

By enhancing their focus on services, consumer technology players can differentiate their offerings and move toward high performance.

For further information please email comms.and.high.tech@accenture.com

About Communications & High Tech

Professionals in the Accenture Communications & High Tech operating group provide business solutions to clients in the communications, electronics, high-technology, media and entertainment industries. A leading provider of management consulting, technology, systems integration and Business Process Outsourcing services, the group helps organizations seize the opportunities arising from convergence between communications, content and computing. Comprising more than 15,000 professionals worldwide, the group generated net revenues of US\$4 billion for the fiscal year ended August 31, 2005.

About Accenture

Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 133,000 people in 48 countries, the company generated net revenues of US\$15.55 billion for the fiscal year ended August 31, 2005. Its home page is www.accenture.com.

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