

2006 ChoiceStream Personalization Survey



ChoiceStream, Inc.
210 Broadway
Fourth Floor
Cambridge, MA 02139
617-498-7800
www.choicestream.com

Consumer Trends and Perceptions

The ChoiceStream Personalization Survey provides insight into consumers' interest in, and perceptions of, personalization. The annual survey was first fielded in May, 2004. Each subsequent survey includes the questions of the previous year's survey as well as additional questions on topics considered newly relevant to personalization. The 2006 survey adds questions on personalization as it relates to social networking and targeted advertising as well as personalization on television and mobile devices.

This initial survey research brief provides detailed information concerning the major general findings of the study. Additional information on specific topics will be made available soon.

Survey Overview and Respondent Profile

The survey was completed by 1,100 respondents who were invited to participate via email by MarketTools, an online survey services provider. Respondents were:

- Adult Internet users, 96% of whom have made at least one online purchase within the past 6 months
- U.S. residents
- Distributed across 4 age categories (18-24, 25-34, 35-49, 50+)
- 56% female; 44% male

The margin of error is +/- 3% with a 95% confidence level.

Key Findings

Key findings of the 2006 survey are listed below.

Interest in Personalization Remains Strong

- The 2006 survey finds **79% of consumers interested in receiving personalized content**, which is consistent with last year's response of 80%.
- **However, a significantly larger number of consumers are willing to tradeoff privacy for personalization**, as 57% are willing to provide personal demographic information in exchange for personalized content in 2006 vs. 46% in 2005 (a 24% increase). And, 34% more consumers are willing to allow Web sites to track their clicks and purchases.

- **While interest in personalization remains high and consumers' willingness to divulge information increases, concern about the security of personal data is consistent year over year**, with 62% of consumers indicating concern in 2006 vs. 63% in 2005.

Interest Spreads beyond the Desktop to TV and Mobile Screens

- The survey finds **45% of consumers dissatisfied with their onscreen TV programming guide because it takes too long to sort through it** to find programming of interest.
- Overall, **47% of consumers want a personalized TV program guide** to help them find shows and movies to watch. Interest in a personalized guide varies significantly by age, with 62% of 18-24 year olds indicating interest and 37% of 50+ year olds.
- **Cable and TV operators are leaving money on the table** as nearly 40% of consumers indicate that they would 'watch more VOD/PPV if it were easier to find programming and movies that matched [their] tastes and interests.'
- **Mobile operators are leaving money on the table as well.** 47% of consumers indicate that they 'would be more likely to download ringtones, music or other content if they were presented with choices based on [their] particular tastes and preferences.'

Consumers See Value in Personalization for Social Networking

- **75% of consumers indicate that personalization would improve their social networking experience** by introducing them to other members who share their tastes and interests.
- Not surprisingly, **participation in online social networking varies greatly by age**, with 69% of 18-24 year olds participating and just 8% of 50+ year olds.

Types of Content to be Personalized Are Consistent with 2005 Findings

- **The types of content consumers want personalized are relatively consistent with the 2005 survey findings**, with books, music and movies being the most popular categories.
- **Interest levels in different types of content vary by age group.** The top three content areas for which younger respondents are most interested in receiving personalized recommendations are music, DVDs and books. Among 50+ respondents, interest in personalized recommendations of books is of the greatest interest followed by travel and TV/movies.

Consumers Are More Willing to Pay Attention to Personalized Advertising

- More than a third of all respondents said **they would be more willing to pay attention to advertising if it was personalized** based on personal tastes and interests.

- A large majority of consumers are interested in personalized advertising distributed through their television or online, but fewer want personalized ads via their cell phones.

Interest in Music Personalization Remains High Overall

- **And it continues to reflect an age bias**, with younger consumers indicating greater interest than older ones.
- **Music retailers are leaving money on the table by not helping consumers find music that matches their preferences.** 28% of respondents claimed that they would have bought more music if they had been able to find more that they liked.

Movie Retailers Can Also Boost Revenue through Personalization

- **Movie retailers are leaving money on the table as well**, with 34% of consumers agreeing that the last time they went movie shopping they would have bought more DVDs/videos if they had found more that they liked.
- **Renting or buying DVDs/videos at a local store remains the most popular source for movies** outside of a movie theater.

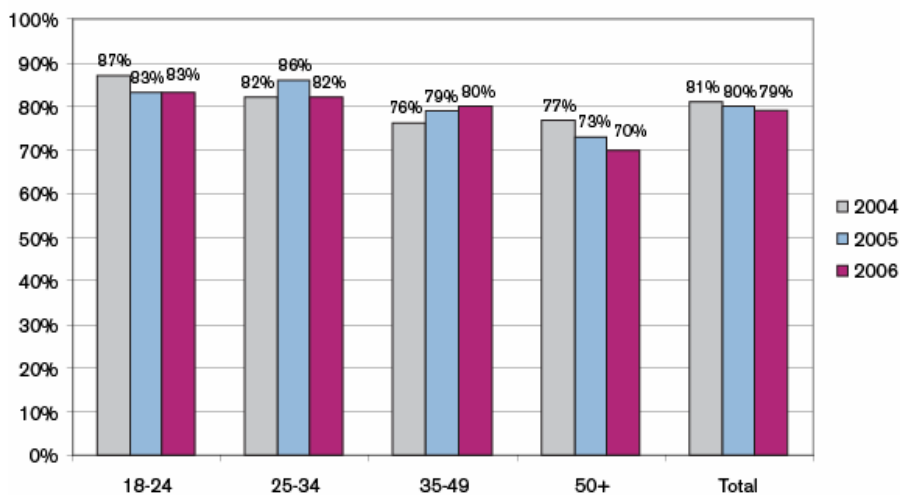
Detailed information concerning these and other findings is located in the following sections of this document.

Interest in Personalization

Interest in personalization continues to be strong with more consumers willing to trade privacy for personalized content.

Overall, the survey found that 79% of consumers are interested in receiving personalized content, which is consistent with previous years' findings.

Percent of Consumers Interested in Personalized Content by Age

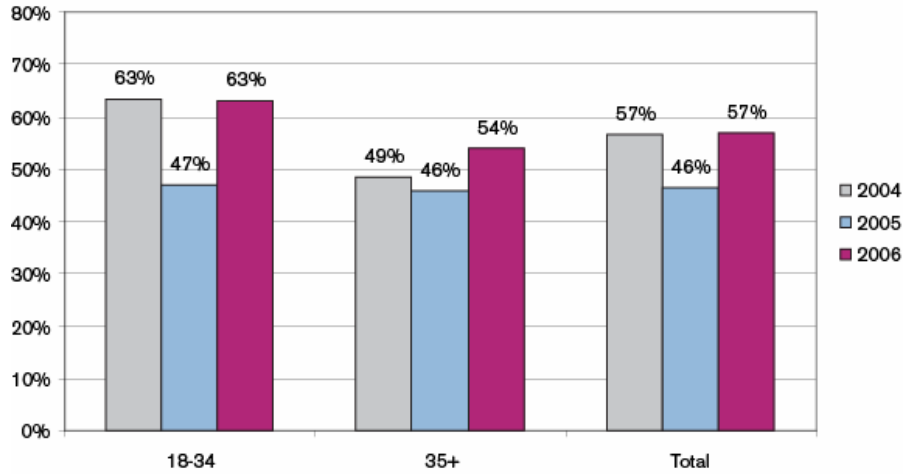


Also consistent with the 2005 study is the percentage of consumers concerned that their personal data might not be secure with personalization. In 2006, 62% of respondents overall indicated that they were concerned that their personal data might not be secure vs. 63% in 2005.

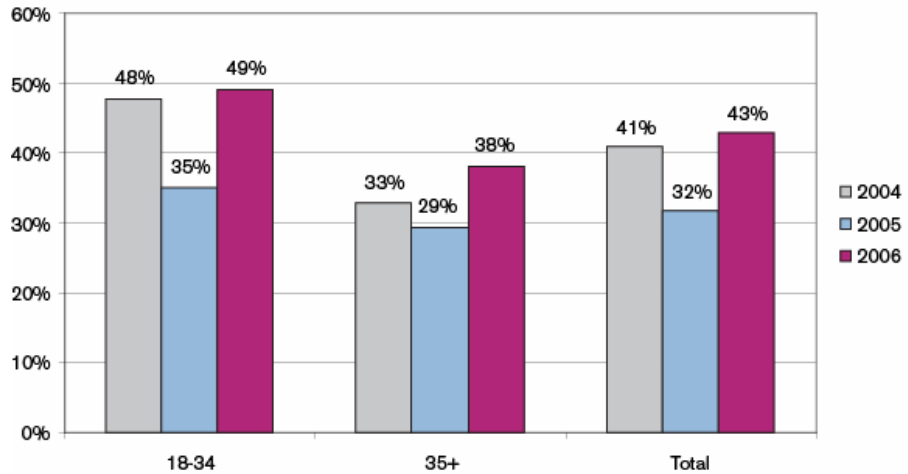
It is interesting to note that even though concerns about the security of online data remain high, *more consumers are willing to divulge demographic data and allow Web sites to observe purchase and click behavior in exchange for a personally relevant experience.* In 2006, 57% are willing to provide personal demographic information in exchange for personalized content vs. 46% in 2005 (a 24% increase). And 34% more consumers are willing to allow Web sites to track their clicks and purchases (43% in 2006 vs. 32% in 2005).

Also interesting is the fact that in both cases, the numbers for 2006 were roughly equivalent to the results found two years ago in the 2004 survey. We believe that the lower results from 2005 reflected the public's temporary concern over high-profile security problems which were reported within just days of fielding the survey. As time passed and consumers continued to experience the problem of 'superabundance' of content, their willingness to trade off some measure of privacy in exchange for relevance and convenience appears to be returning.

Percent of Consumers Willing to Provide Demographic Data in Exchange for Personalized Content

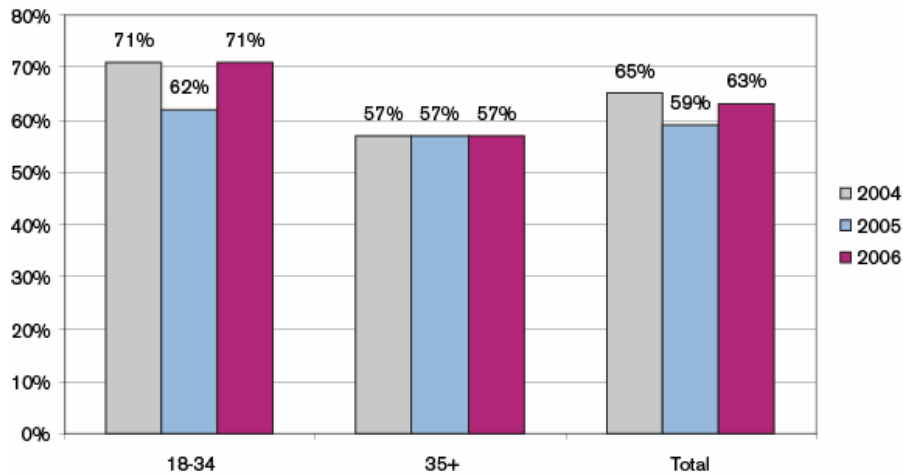


Percent of Consumers Willing to Allow Web Sites to Track Clicks and Purchases in Exchange for Personalized Content



Overall, the number of consumers willing to provide preference information in exchange for personalized content is relatively consistent year over year (63% in 2006 vs. 59% in 2005).

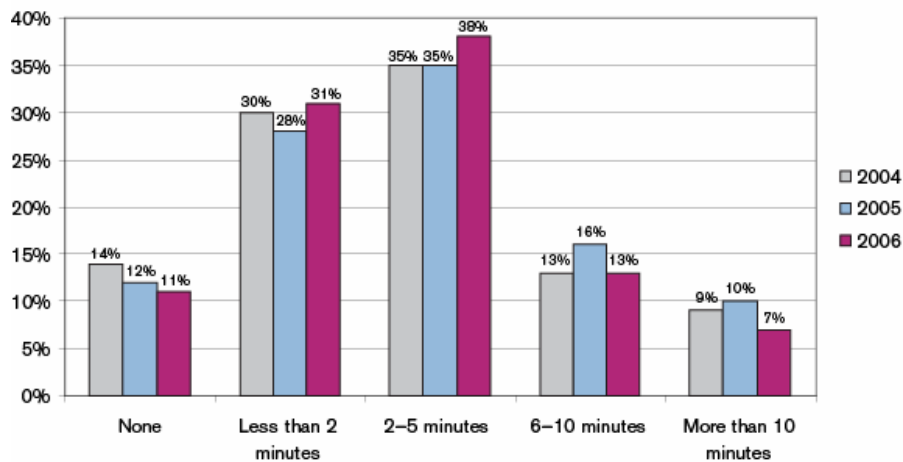
Percent of Consumers Willing to Provide Preference Information in Exchange for Personalized Content



Consumers continue to be willing to spend time answering questions about themselves in exchange for personalized content.

The survey found 58% of consumers would spend at least 2 minutes answering questions about themselves and their interests in order to receive personalized content, vs. 60% in 2005.

How Much Time Are You Willing to Spend Answering Questions About Your Tastes and Interests in Exchange for Personalized Content?



As was the case in 2005, the responses to this question are divided along gender lines. In general, women are more likely to spend time answering questions about their tastes and interests than men.

Personalization on TV and Mobile Screens

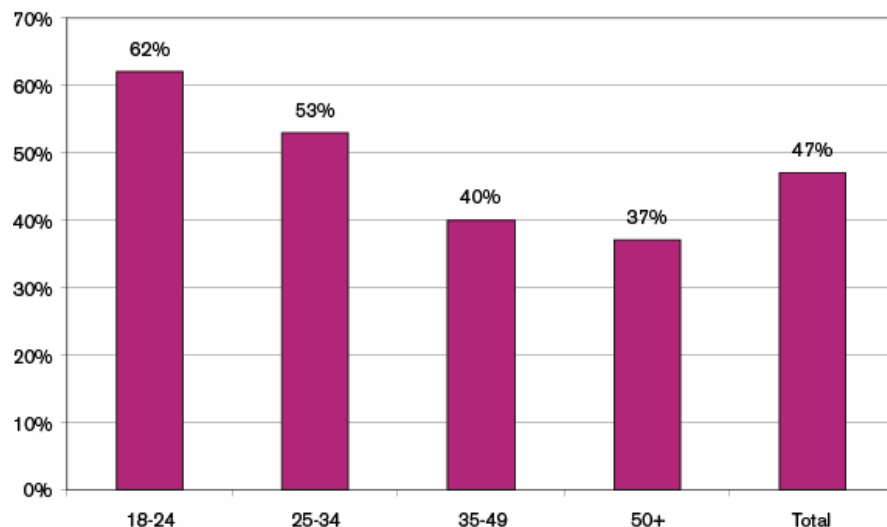
As consumer frustration with the never-ending tidal wave of digital content grows, interest in personalization spreads beyond the desktop to other consumer devices, such as TVs and mobile phones.

In 2006, new survey questions were added to determine consumers' interest in personalization on devices and outlets outside of their computer desktops. Overall, consumers do appear to be as overwhelmed with the content on their TVs and mobile devices as they are with the content on their computers, and are interested in personalization as a way to cut through the clutter in their lives.

The survey finds 45% of consumers dissatisfied with their onscreen TV programming guide because it takes too long to sort through it to find programming of interest.

And, 47% of consumers want a personalized TV program guide to help them find shows and movies that match their individual preferences. Interest in a personalized guide varies significantly by age, with 62% of 18-24 year olds indicating interest and 37% of 50+ year olds.

Percent of Consumers Who Want a Personalized On-Screen TV Program Guide



Interest also varies by gender, with 50% of women indicating that they would like a personalized guide and only 42% of men expressing interest.

TV and mobile operators are missing significant retail opportunities by not making it easier for consumers to find content to buy.

The survey finds both mobile and TV operators leaving money on the table as many consumers find it difficult to sort through the wide variety of available content, products and services to find what interests them.

Of the consumers who use VOD and PPV services, more than one third – 36% – indicate that they would ‘watch more VOD/PPV if it were easier to find programming and movies that matched [their] tastes and interests.’

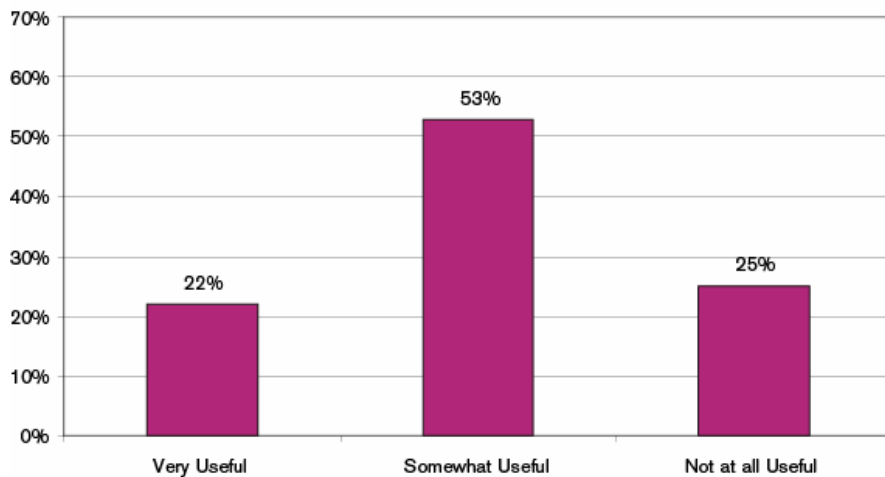
For consumers who download and access Internet content via their phones, a full 47% indicate that they ‘would be more likely to download ringtones, music or other content if they were presented with choices based on [their] particular tastes and preferences.’ It is interesting to note that this number climbs to 63% for the 18-24 year old demographic, which is likely the primary target for this type of merchandise.

Social Networking and Personalization

Consumers recognize the value of personalization as a means to finding other members in their networks who share their tastes and interests.

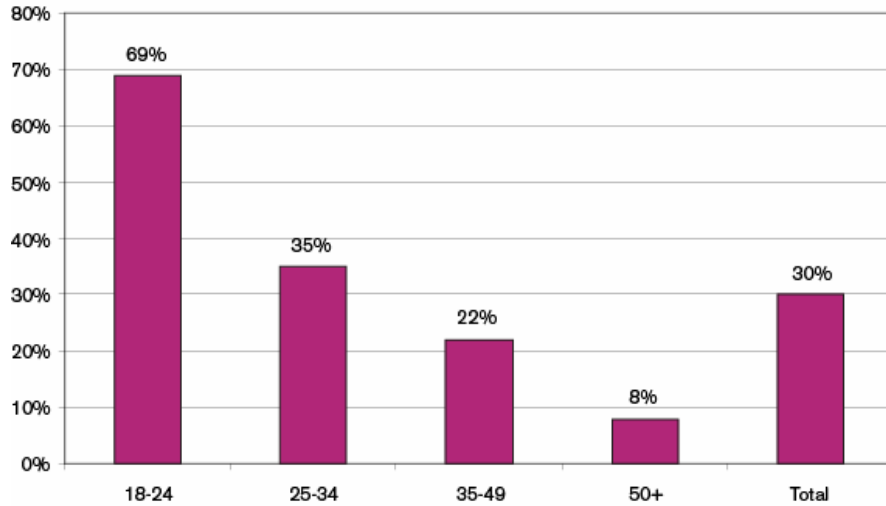
75% of consumers believe that personalization would improve their social networking experience by introducing them to other members with similar interests and preferences.

Usefulness of Social Networks Introducing You to Members Who Share Your Tastes and Interests



Not surprisingly, participation in online social networking varies greatly by age, with 69% of 18-24 year olds participating and just 8% of 50+ year olds.

Percent of Consumers Participating in Social Networks

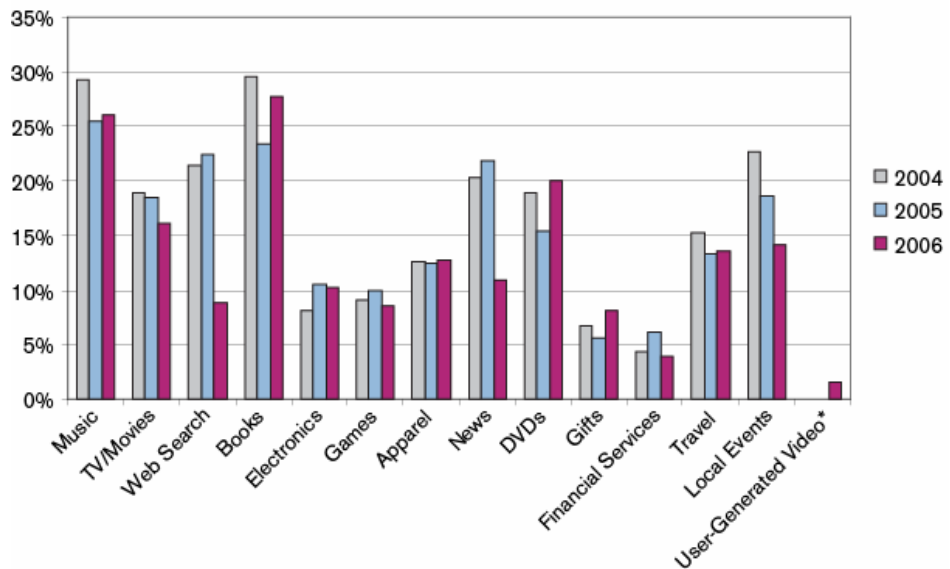


Types of Content to be Personalized

Overall, the types of content consumers want personalized are generally consistent with the 2005 survey findings.

Books and music continue to be the most frequently requested content categories for personalization.

What Types of Content Would You Like Personalized?



* User-Generated Video category is new in 2006

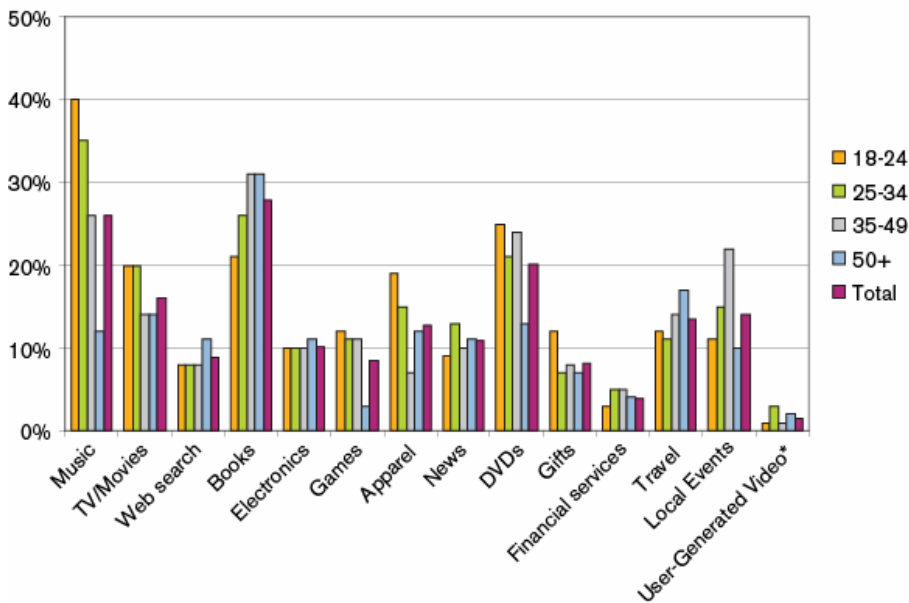
Content categories for which interest declined significantly include Web search results, which declined from 22% in 2005 to 9% in 2006 and News, which declined from 22% in 2005 to 11% in 2006.

Content categories which saw significant increases in the demand for personalization include DVDs, which increased 33% from 2005.

Interest levels in different types of content vary by age.

The top three content areas for which younger respondents (18-24 year olds) are most interested in receiving personalized recommendations are music (40%), followed by DVDs (25%) and books (21%). Among older respondents, particularly those in the 50+ category, interest in personalized recommendations of books is of the greatest interest (31%), followed by travel (17%), and TV/movies (14%).

**What Types of Content Would You Like Personalized?
By Age Group**



* User-Generated Video category is new in 2006

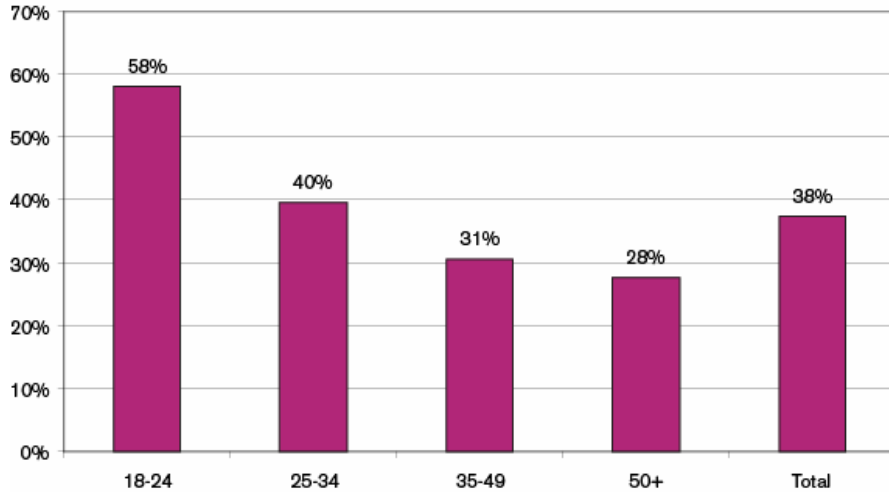
Personalized Advertising

Personalized, one-to-one advertising via TV and the Internet will win consumer mindshare.

This year’s survey includes new questions on personalization as it relates to targeted advertising. More specifically, the survey asks a series of questions to determine if consumers would pay more attention to ads if they were personalized based on the consumer’s individual preferences. The survey also asks respondents how useful it would be to receive personalized advertising via a variety of different media or electronic devices.

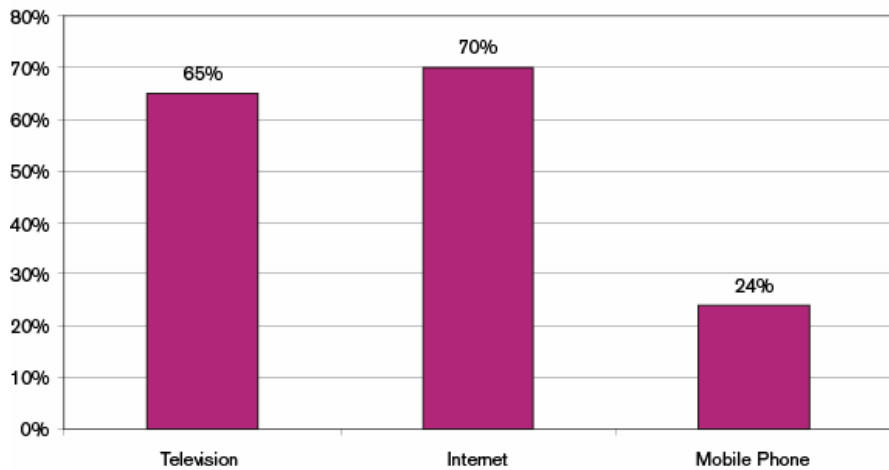
Overall, 38% of all respondents said they would be more willing to pay attention to advertising if it was personalized based on personal tastes and interests. Interesting, though not surprising, is the fact that the percentages vary by age, with younger consumers more interested in personalized advertising than older ones.

Percent of Consumers More Willing to Pay Attention to Ads if They're Personalized



When broken down by advertising medium, the results show a large majority of consumers interested in personalized advertising distributed through their television or online, but much fewer interested in receiving personalized ads via their cell phones.

Percent of Consumers Interested in Receiving Personalized Ads Via ...



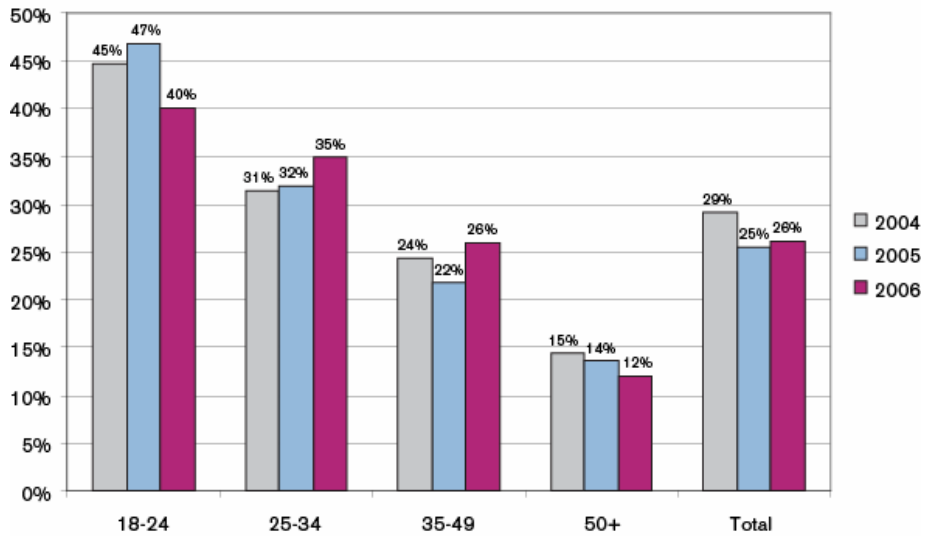
The low mobile numbers might reflect the fact that accessing content and merchandising through mobile phones and other WAP devices is still an

emerging business in the U.S. and many consumers are not yet familiar or comfortable with it. In fact, according to the survey, only 21% of U.S. consumers who own a mobile phone ever use it to access the Internet or download content.

Music Personalization and Purchasing

Interest in music personalization remains high overall and continues to reflect an age bias, with younger consumers indicating greater interest than older ones.

Percent of Consumers Interested in Music Personalization by Age

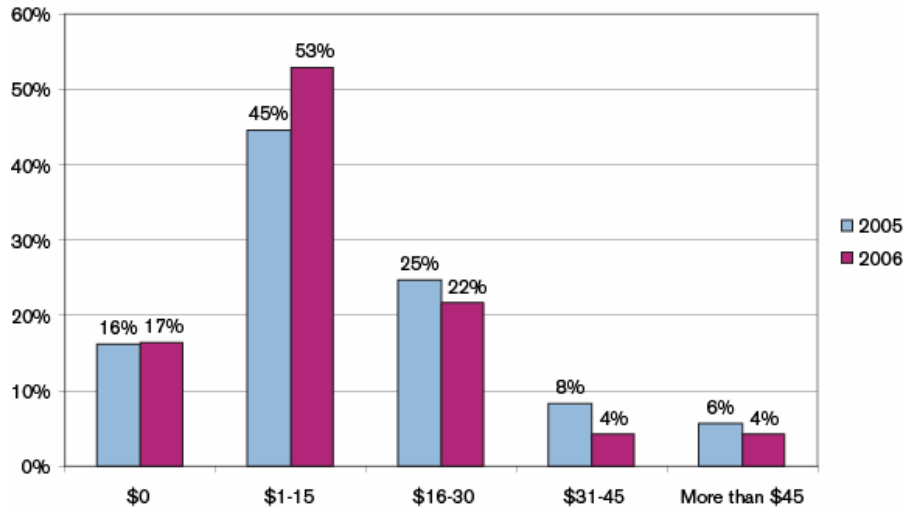


A large number of consumers are already buying music online. 53% of respondents indicated that they had purchased at least some of their music online over the past six months, up from 45% in 2005.

When asked how they intend to buy music over *the next six months*, an even larger number—63%—indicated that they will buy at least some online.

While more consumers are buying music online in 2006, the amount they spend has decreased from the 2005 report. In 2006, slightly more than 30% of consumers who bought music online spent at least \$16 per month on music vs. nearly 40% in 2005.

Amount Spent Buying Music Online in a Typical Month



Music retailers can drive revenue by helping consumers find more music they'll like.

Music retailers are leaving money on the table by not helping consumers find music that matches their preferences. When asked to consider their most recent music purchase, 28% of respondents claimed that *they would have bought more music if they had been able to find more that they liked.*

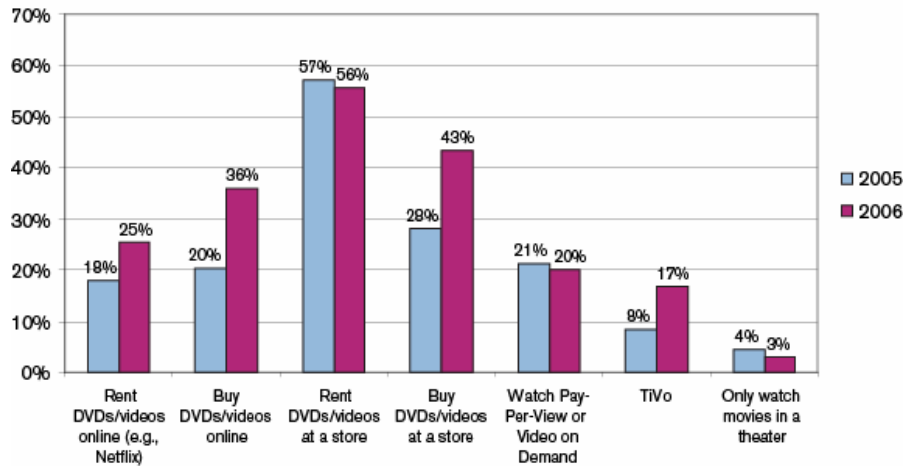
Movie Buying and Renting

Movie retailers are leaving money on the table as well, with 34% of consumers agreeing that the last time they went movie shopping they would have bought more DVDs/videos if they had found more that they liked. Among 18-24 year olds, the number was even higher at 46%.

Renting or buying DVDs/videos at a local store remains the most popular source for movies outside of a movie theater.

When asked 'Where do you go to get movies to watch outside of a movie theater?' 56% responded that they rent or buy movies at a local store, 36% buy DVDs online, 25% rent DVDs from an Internet DVD rental service (e.g., Netflix, Blockbuster Online) while 20% watch Pay-per-view or Video-on-demand.

Where Consumers Get Movies to Watch Outside of a Movie Theater



About ChoiceStream, Inc.

ChoiceStream is the premier personalization solution provider for the world's largest entertainment, e-retail, TV and mobile brands, including AOL, Yahoo!, DirecTV and Overstock.com. In today's marketplace of 'superabundance,' ChoiceStream's RealRelevanceSM Platform restores control to consumers by delivering personally relevant choices when and where they want it. ChoiceStream's RealRelevance Platform accurately presents consumers with their favorite music, movies, news, sports, and products wherever they are: online, using a mobile device, or watching television. For consumers, ChoiceStream's technology delivers on the promise of instant gratification. For content providers, ChoiceStream's solution produces measurable business results and a powerful approach to building lifetime customer loyalty. For more information, please visit our Web site at www.choicestream.com.