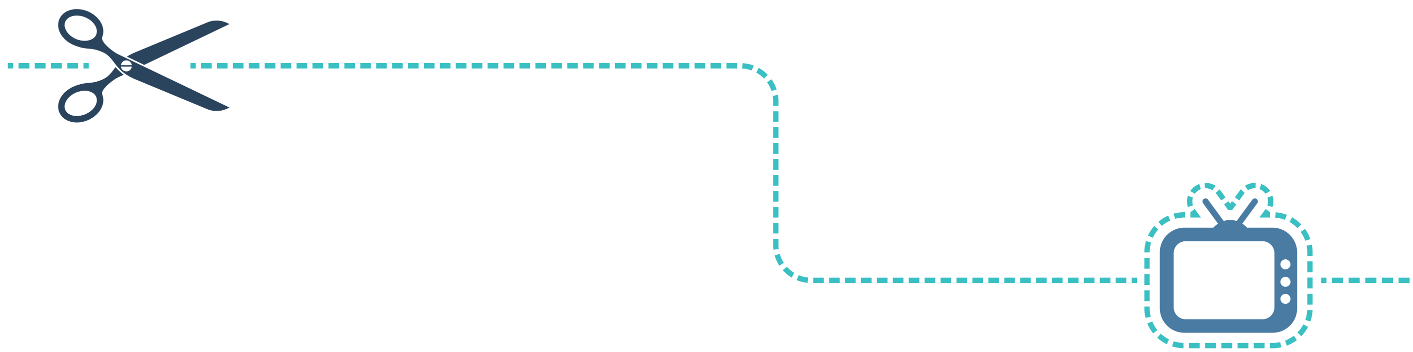
All About the Cord

UNDERSTANDING AND REACHING THE CORD CUTTERS AND CORD NEVERS

This white paper will explore cord cutters and cord nevers, how their motivations and behaviors differ or remain the same globally, and how video content companies can reach and retain these elusive viewers.



According to SNL Kagan, video cord cutters are defined as consumers who have dropped a multichannel subscription without replacing it. Among a recent SNL Kagan survey group of 21,000 U.S. adult Internet users, these viewers represent 65% of U.S. non-multichannel households. Cord nevers are defined as viewers who have never subscribed to a multichannel video service; in the same survey, these viewers account for the remaining 35% of U.S. non-multichannel households. Further, it has recently been reported that 14% of U.S. broadband households do not subscribe to pay TV, reflecting the growing shift towards viewing content via digital streaming. Content viewing without the pay TV cord is generally more prominent in the U.S. than around the globe, and this white paper will later explore the regional market dynamics driving the different business models globally.

As revealed in recent survey reports, 18-to-34-year-old Millennials are less likely than older U.S. consumers to have pay TV subscriptions; these young adults are 67% more likely than average to be cord cutters and 77% more likely than average to be cord nevers.

THE CORD CUTTERS

Not surprisingly, 18-to-34-year-old Generation Y Millennials have been driving U.S. cord cutting behaviors, as content consumption options have risen in recent years. This group includes both people who grew up with traditional TV, as well as the first wave of consumers native to the digital experience. Cord cutters are likely to have lower incomes, and these consumers are motivated to move away from the cord mainly by pay TV costs and alternative online sources of TV content. They are also leading other generations in streaming media subscriptions, and Millennial households that subscribe to a streaming service forgo pay-TV subscriptions at almost 4X the national average—over 24%. Some cord cutting and cord "shaving" is also seen in older segments like the 35-to-49-year-old Generation X and 50+ Boomers, who may not cut the cord entirely, but shave their pay TV packages to save money or add over-the-top (OTT) video to their content viewing cycles.

THE CORD NEVERS

The core U.S. consumers who were never tied to the cord in the first place include the digital natives of Generation Y Millennials and younger Generation Z, as well as representation across older Generation X and Boomer consumers. SNL Kagan has described video cord nevers as a more diverse group than cord cutters, with households categorized as transitional young adult households, OTT video or OTA broadcast. They note that Gen Z and younger Gen Y cord nevers are often still in school, still living at home or in low-wage employment; the older Gen Y and Gen X cord nevers are used to being satisfied by OTT video content options (likely preferring online originals vs. broadcast and cable shows available online); and the older Gen X and Boomer cord nevers are likely to have long-held viewing habits satisfied by OTA broadcasts. Overall, the research firm has identified cord nevers as more likely to be single adults without children and with lower incomes.

GLOBAL COMPARISONS

While pay TV is at different stages of adoption and growth around the world, according to SNL Kagan analyst Julija Jurkevic, "Video cord cutting is primarily a U.S. activity (and maybe Canada). Although each region of the world has its unique characteristics, affordable pay TV services, popularity of free-to-air TV, low broadband penetration, and ongoing cable digitization have contributed to the lack of cord cutting outside North America." Indeed, reports have indicated that Canadian TV subscribers are also cutting the cord at a similar pace to U.S. TV subscribers—both hovering around 6% by the end of 2014.

Beyond the U.S., consumers generally either have an antenna or pay for an alternative way to have free TV content brought into the home—such as via cable, satellite, or IPTV service. In Western Europe, for example, free-to-air (FTA) digital terrestrial TV (DTT) will continue to be the top TV platform, with 44 million homes by 2020; FTA satellite TV will include 27 million homes there.

Mo Hamza, another SNL Kagan analyst, says that "Beyond some saturated markets like the Nordics, most European country pay TV penetrations still have room for growth and are not seeing large drops."

According to Hamza, "There's generally a strong free-to-air environment in these markets, that is either an opportunity to upsell to pay TV or a threat in combination with a low cost OTT offer such as Netflix." However, recent findings indicate that in the first quarter of 2014, Italy and some smaller Central and Eastern European countries including the Czech Republic—along with Scandinavia and Benelux in the Nordic region—did see cord cutting among pay TV subscribers. Similar to the U.S., these changes are probably caused by a mix of factors including economic issues and content viewing options, as audiences also start to shift their mindset and behaviors towards paying for TV content via SVOD services.

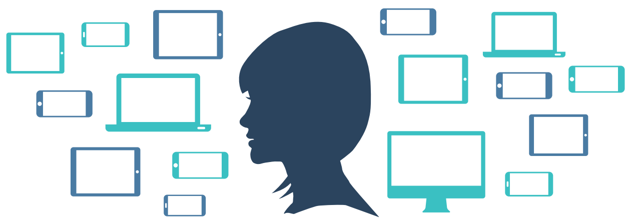
In Latin America, the current pay TV penetration is just over 40% and expected to rise to over 50% by 2020, at the same time that digital TV penetration there will be 95% (driven by satellite and free-to-air DTT). While TV Everywhere (TVE) use among operators is growing, the number of cord cutters and cord nevers is also growing in the region: Over 1 in 10 Latin American consumers between the ages of 20 and 30 have cut the pay TV cord in favor of SVOD entrants like Netflix to the market. Consumers there younger than 20 are also cutting the cord and nearly 10% more users in these two groups are cord nevers—setting the stage for pay TV battles ahead.

The Asia-Pacific region is also changing rapidly. Pay TV and digital TV penetration levels will both grow to nearly 70% in 2020—driven by digital cable and DTT services. The region is behind only North America and Western Europe in both pay TV penetration and SVOD service adoption levels, as TVE is increasingly being deployed to thwart cord-cutting moves to OTT video. Led by China, the region is expected to add more than 230 million OTT video households by 2020—driven by multiple influences including strong telecom infrastructure and varied content options to support OTT growth and future shifts away from the cord. South Korea, which will see the highest OTT penetration levels in 2020, is a key market to watch; as is Japan, where consumers are accustomed to free TV content—likely causing the current consumer resistance there to shift from the cord to the paid SVOD services available in the market, despite some of the fastest broadband speeds in the world.

An added dynamic in areas including India is digital piracy, with high costs and inaccessibility driving pay TV avoidance. The Middle East and North Africa (MENA) region is experiencing similar piracy woes.

WHY ARE THEY CUTTING AND AVOIDING THE CORD?

Viewing habits are changing and there are a few key factors—and likely a combination of these—that are driving consumers to leave the cord behind wherever they may be.



Viewing alternatives have emerged

Choice: There is too much of a good thing available these days. Consumers have a plethora of video and media options, from devices and platforms to content choices. Targeted OTT video packages like HBO's upcoming offering are attractive as pay TV alternatives. SVOD services are changing habits and reducing traditional TV content viewing as well; currently, it is estimated that 43% of Millennials in the U.S. and around 35% in Canada use Netflix or other SVOD streaming services. In Spain, 30% of users have stopped watching programs on traditional TV in favor of connected TVs. Studies have also indicated that device owners are far more apt to cut the cord than non-device owners.

Mobility: Similarly, consumers are increasingly able and interested in viewing content out of the TV room and out of the home; Millennials reportedly spend a third of their TV time watching video via connected devices including mobile and laptops. They are consuming video across platforms and devices—often at the same time, and demanding control of their viewing experiences. And with OTT content, they can—particularly where faster broadband speeds and unlimited data caps are offered, as cord cutters consume the majority of North American downstream traffic (54%). In areas like Australia, ubiquitous wireless broadband penetration is driving the growth of pay TV alternatives.

Convenience: Busy lives demand flexibility and with the rise of OTT, VOD, DVRs and catch-up TV options, consumers have gotten used to watching content on their time. Recent survey reports cited timing as the primary reason for watching original series on the Internet; 56% of respondents said they prefer watching TV on their own schedule.

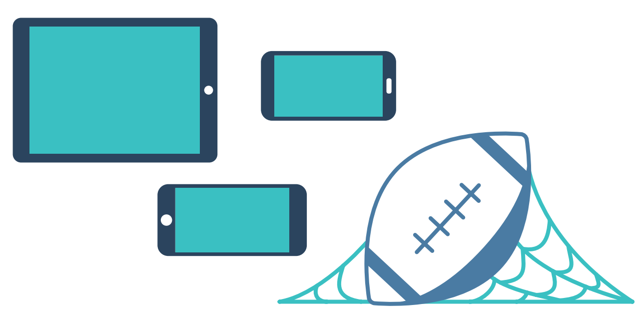
Content: Services like YouTube have created satisfying free content alternatives (particularly for younger cord nevers), and premium original programming is increasingly available on SVOD services like Hulu Plus, Amazon Prime, and Netflix. SNL Kagan has found that households ranking premium TV programming (e.g. HBO) and live cable sports as having the highest value are the least likely to cut the video cord. However, emerging OTT offerings in these genres will continue to lure more consumers away from it.

Viewing behaviors have changed

Ad sensitivity: Online ads are increasingly more targeted and personalized than those found on traditional TV. Consumers are less apt to complain about ads that are relevant to their interests and viewing experience, and more tolerant of them in exchange for viewing online video.

Binge watching: The ability to catch up on full seasons of TV series, honed in the SVOD age and promoted by the TV networks to drive ratings, has become the viewing pattern of choice for many consumers. On a global basis, approximately 80% of viewers indicate that they binge on content.

Personalized content: Online video was born to respond to individual interests. Consumers can instantaneously find and view an unlimited amount of content that they want online, without waiting for network schedules and limited choices to define their experience. Viewers also now want to engage with content tailored to their personal interests. They are seeking curated content experiences via OTT platforms that learn their viewing preferences, adjust to them and recommend what is sure to be their next favorite show.



Limited interest in live sports: As mentioned above, live sports remains a key driver of pay TV subscriptions, and thus a key differentiator between keeping and cutting the cord. Survey findings have noted that live sports are an important genre for viewing for 50% of pay TV subscribers, vs. only 26% of non-subscribers. Meanwhile, ESPN has begun experimenting with OTT packages and companies like YouTube network Whistle Sports are building OTT sports content targeted specifically to Millennials around the world, so alternatives are emerging for more casual sports fans.

Marketplace factors have evolved

Pay TV economics and value proposition: Both cord cutters and cord nevers indicate that pay TV is too expensive for the content they are watching, and as mentioned, both groups also skew toward lower income categories. Many Millennials came of age or cut the cord during the recession several years ago and never went back to pay TV, as their habits permanently changed. The others who have been abandoning pay TV since then also perceive that assembling separate OTT, SVOD and broadband service plans outside of pay TV will save them money.

Hardware costs: Millennials are spending more on hardware like phones and tablets, which may leave them with less money to spend on actual content. The average 18-to-34-year-old in North America owns one or more smartphones, and will probably spend $3,000 a year on new hardware (like tablets) plus connectivity via their data plans.

Single adult, no kids: Survey reports have stated that among U.S. homes currently lacking pay TV, 60% are single-person homes, and 52% of homes without children have never had pay TV—perhaps suggesting that those without children in the home can more easily get by without the expense of pay TV.

Global and cultural shifts: Many of the technical and legislative barriers to content delivery are dissolving around the world, and broadband penetration rates are rapidly rising. This gives consumers enhanced OTT options to receive culturally relevant video content that was previously off-limits or relegated to international pay TV tiers.

HOW TO REACH AND KEEP THE CORD CUTTERS AND CORD NEVERS

Given who these consumers are and why they are cord cutting and avoiding, there are some key moves content companies should consider making to capture them:

1. Collect and use data to better understand these consumers and their content consumption patterns. Personalization is key in this brave new world, and to deliver it you need data.

Get closer to consumers to stay ahead of their changing tastes and behaviors. Analyze critical activities across consumer segments—whether from your own data or the marketplace, including:

- What are they watching?
- When are they watching? Where are they doing it?
- With whom are they watching?
- Why are they choosing particular content? Why are they moving away from other content?
- How are they finding, consuming and sharing all of it?
- What is their price sensitivity? How about their sensitivity to advertising?

Look to align your offerings with your audience targets on these points. Dissect the data you have collected and look to collect more.

2. Evaluate your core value and the unique content and service proposition you offer to these consumers.

When you understand better what these consumer groups want, think about your value proposition back to them. Audit your current business and explore what you bring to the table, namely:

- How do consumers perceive your current offerings (including cost, packaging, and service)?
- What unique content do you have to offer (such as live, original, premium, niche or exclusive content found nowhere else)?
- What about distinctive advanced products and services (including leading-edge mobile apps, home connectivity, and streamlined billing)?
- What are you doing better than your competitors to reach dynamic audiences? What can you be doing differently?
- Are there opportunities to develop more personalized experiences?
- How does this impact your video and business strategies going forward?

Determining your core value, then building upon it, will ward off competitors with more generic approaches. Listen, examine, pivot and reap the rewards.

3. Develop new flexible product and service mixes, including OTT, TVE, and ancillary home services.

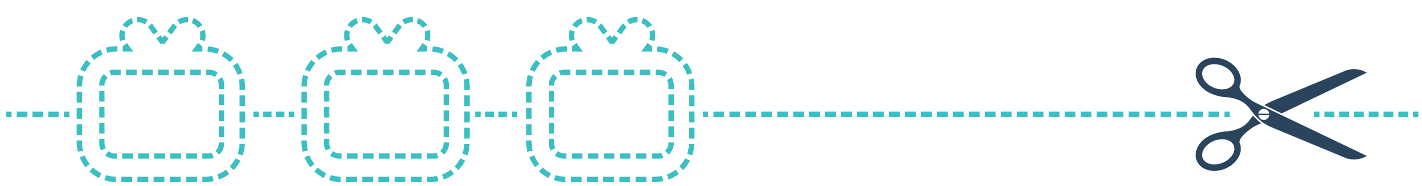
It remains easier to attract consumers to their first OTT experience than to lure them away from another, and first mover companies in the space will benefit. Beyond examining analytics and core value propositions, survey both customers and non-customers on key factors that drive their content and service purchase decisions, such as:

- Are marketplace demographics changing—by age, geography, household size, etc.?
- Are audiences consuming one particular length or genre of content more (or less) now?
- Do they request new content, product features or services (such as TVE, 4K resolution, faster broadband/higher data caps, smarter DVRs, real-time video, content curation, streamlined search, social sharing, and personalized recommendations) to enhance their viewing experience?
- Do they ask about customized offerings (including genre-specific OTT mini bundles like sports, lifestyle, and kids; skinnier bundles with marquee channels; mobile-only or language-specific packages; or co-viewing offerings for family members)?
- What issues and needs do they have during their viewing experience?
- What are the price points they are willing to pay for your content and services (are there opportunities to create lower or higher cost options)? What is their ad-load sensitivity?

If you can, experiment with different offerings to see what resonates. As you develop new offerings that emphasize your "special sauce," you will attract new audiences and keep the ones you have engaged and growing.

CONCLUSION

In order to reach and keep the complex cord cutter and cord never consumers around the world, content companies should use analytics to fully understand their customers and potential customers, conduct a business audit to optimize their core value in the dynamic marketplace, and be nimble and strategic in content and service offerings to best position themselves for the future.



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