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Videoquake 3.0: The evolution of TV's revolution

Consumer Intelligence Series

pwc

Research methodology

We set out to explore the many ways in which video content consumption has changed throughout 2015 and what this means for the consumers and the industry at large.

We sampled over 1,200 US consumers via an online survey to explore consumer attitudes toward video content and corresponding behavioral shifts.

Focus Groups

In September 2015, we conducted two consumer focus groups in Los Angeles. One group focused on cord cutters and cord nevers, the other on traditional Pay-TV subscribers and cord trimmers.

Consumer Survey

We sampled over 1,200 US consumers via an online survey to explore consumer attitudes toward video content and corresponding behavioral shifts. We analyzed our results against similar studies we conducted in fall 2014 and fall 2013.

Social Listening

PwC created a comprehensive search of relevant key words, fine-tuning based on results, and then analyzed the data against situational context. Over a three month period we examined social media mentions, analyzing them for insight into how consumers consume video content.

Cutting, trimming and slimming the cord

August 5th, 2015 was a bad day for traditional media. Eight major media stocks crashed as a result of disappointing earnings reports, wiping out a combined $37 billion in market value in a single day. By November, reports were still bleak, putting pressure on shares of media companies.

Investors were nervous, and it's easy to see why: in an increasingly digital world, the fate of traditional media is being tested like never before. Some stable subscribers that had been the hallmark of pay-TV platforms are canceling or reducing their cable and satellite subscriptions, opting instead for on-demand streaming. This shift is putting increasing pressure on the pay-TV bundle.

79% of US consumers subscribe to some form of traditional pay-TV

According to our survey, 79% of US consumers subscribe to some form of traditional pay-TV. Of those, nearly one in four—23%—engaged in cord-trimming in the past year, meaning they scaled back the size of their pay-TV package.

Part of this downsizing is the result of traditional providers adding "skinny bundles" to their offerings, slicing and dicing the 500-channel package into customizable and smaller pieces. This is intended to be a practical—and appealing—solution for consumers who are price sensitive and/or deluged with channels they don't want and don't watch. The average subscriber receives 194 channels, but regularly watches only 17.

It's also an attempt to hedge against cord-cutters, those who are dropping their pay-TV subscriptions, and to lure in cord-nevers, those who have never connected to a pay-TV service.

More than *16%* of our respondents said they had unsubscribed from pay-TV services in the past year

More than 16% of our respondents said they had unsubscribed from pay-TV services in the past year. US pay-TV services lost nearly a million subscribers across Q2 and Q3 combined, according to numbers released by MoffettNathanson. There's now a proliferation of "Cord-Cutting Guides," how-to handbooks released by the New York Times, CNN Money, PC Magazine and others. These interactive guides navigate users through manifold content possibilities, offering guidance on platforms, pricing and programming availability.

But cord-nevers is perhaps the most unsettling group of all. Five percent of our survey respondents say they have never subscribed to pay-TV services. Millennials ages 25 to 34 make up the bulk of cord-nevers, but the habits of 18 to 24 year old consumers may be more telling. Consumers ages 18 to 24 are 67% more likely to be cord-nevers than cord-cutters, according to our data. The only other group in which the population of cord-nevers exceeds cord-cutters is adults ages 50 to 59, who are 78% more likely to be cord-nevers.

“That’s all I need, that’s all I use, an Internet company. I don’t need cable because we have Netflix and Amazon Prime.”

– Cord-never, Female, age 25 to 34

These groups sit on opposite ends of the generational spectrum, and although they both eschew traditional pay-TV, their expectations of life without it are markedly different. Older consumers, who grew up with free access to limited channels, are more likely to decide that pay-TV subscriptions simply aren’t worth the cost, even if that means missing out on some of the best programming.

Younger consumers, on the other hand, don’t see their cord-never approach as sacrificial—to them, there’s nothing that they can’t get elsewhere. Their world has been shaped by on-demand streaming, and they’re betting on it to provide all the content they desire.

“Everything I would want to watch on cable…you can get it all on Netflix.”

– Cord-cutter, Female, age 25 to 34

of our survey respondents say they have never subscribed to pay-TV services

Consumers ages 18-24

67% more likely to be cord-nevers than cord-cutters, according to our data

Consumers ages 50-59

78% more likely to be cord-nevers

Over-the-top ("OTT") is on the radar

Netflix. Hulu. Amazon Prime. These are just a few of the big names in the on-demand streaming world, and the list is growing. 78% of consumers we surveyed subscribe to at least one streaming service. Among pay-TV subscribers, 70% subscribe to a streaming service as well.

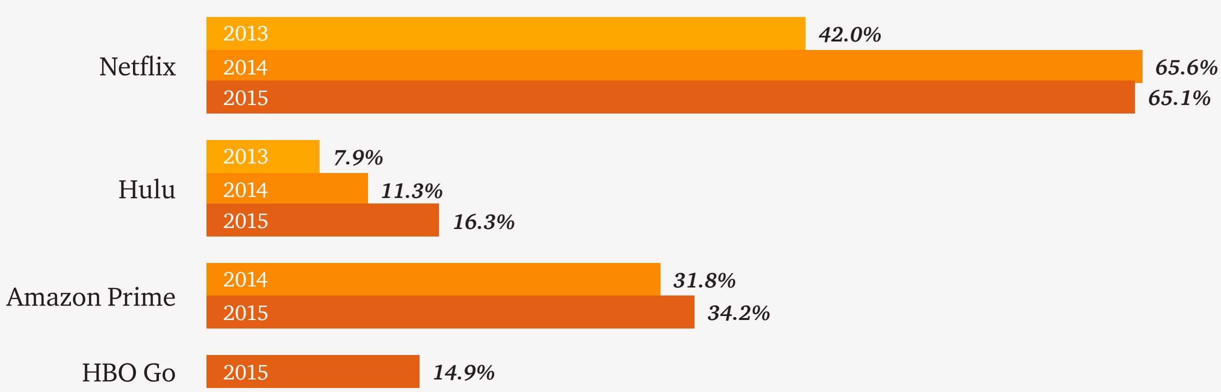
78% of consumers we surveyed subscribe to at least one streaming service

While on-demand or OTT streaming services are appealing to consumers, there's no single catch-all solution. Netflix leads the OTT pack—nearly two out of three Americans have a Netflix subscription—but 52% of Netflix subscribers also subscribe to cable, and 55% also subscribe to at least one other OTT platform.

Among Hulu subscribers, the overlap is even more staggering. 91% of Hulu subscribers subscribe to at least one other OTT platform—more than double the number of Hulu subscribers who also subscribe to pay-TV. Amazon Prime subscribers have a similar profile—79% subscribe to at least one other OTT platform, and 53% subscribe to cable. This means that in the battle for market share, OTT services are a threat to cable—but not necessarily to each other.

nearly two out of three US TV watchers have a Netflix subscription

OTT subscribers, % of US TV-watchers



Consumers are crunching the cord numbers

Cost is an unavoidable aspect of consumer decision making—and the most important factor for cord-cutters. 57% of cord-cutters say they choose not to subscribe to cable because "the monthly costs are just too high."

"I want to get rid of cable because we pay $100 and we don't ever watch it."

- Pay-TV subscriber, Male, age 35 to 49

And it's not just subscription costs—there are ancillary costs as well. Roughly 99% of pay-TV subscribers lease a set-top box. Of the top pay-TV companies, only a few companies offer their set-top boxes for purchase. The average household pays $231 a year in rental fees to cover multiple TVs in the home.

By contrast, OTT services offer streaming devices for anywhere from $3.99 (NBC's SeeSo) $50 (Sony PlayStation's Vue). This is a lower cost of entry than pay-TV set-top boxes—and the cost is incurred only once, an upfront investment that may drive greater loyalty for OTT services.

Moreover, the cost of cable is higher. The average cable bill cost viewers $99.10 per month in 2014, according to the Leichtman Research Group. The average monthly Netflix, Hulu Plus and Amazon Prime subscription costs $8.99, $7.99 and $8.25, respectively.

Yet sensitivity around pay-TV costs may be more a matter of perception than reality. If the average cable bill is roughly $99 per month and the average subscriber receives 194 channels, the cost per channel is roughly $0.51 per month. By contrast, the price per "channel" for OTT services is markedly higher—but because consumers are opting in for channels, they feel that they're choosing to pay for content they want, rather than feeling forced to pay for content they don't.

And pay-TV providers aren't standing idly by. Many have put in place new efforts to combat the cord cutting. In July, Verizon CFO Fran Shammo reported that the company's "Custom TV" skinny bundle was proving successful, with one-third of new FiOS video subscribers signing up for the service. "It will put pressure on the top line, but will improve our profitability from a programming standpoint," Shammo told investors. "Our customers are only paying for what they want to view, and we're only paying our content providers for what our customers want to view."

By making investments in the consumer experience and offering packages that resonate structurally—such as skinny bundles and TV Everywhere, which enables content to be integrated and shared across platforms, pay-TV providers are showing that the battle for subscribers is still very much alive.

Cost per month of services:

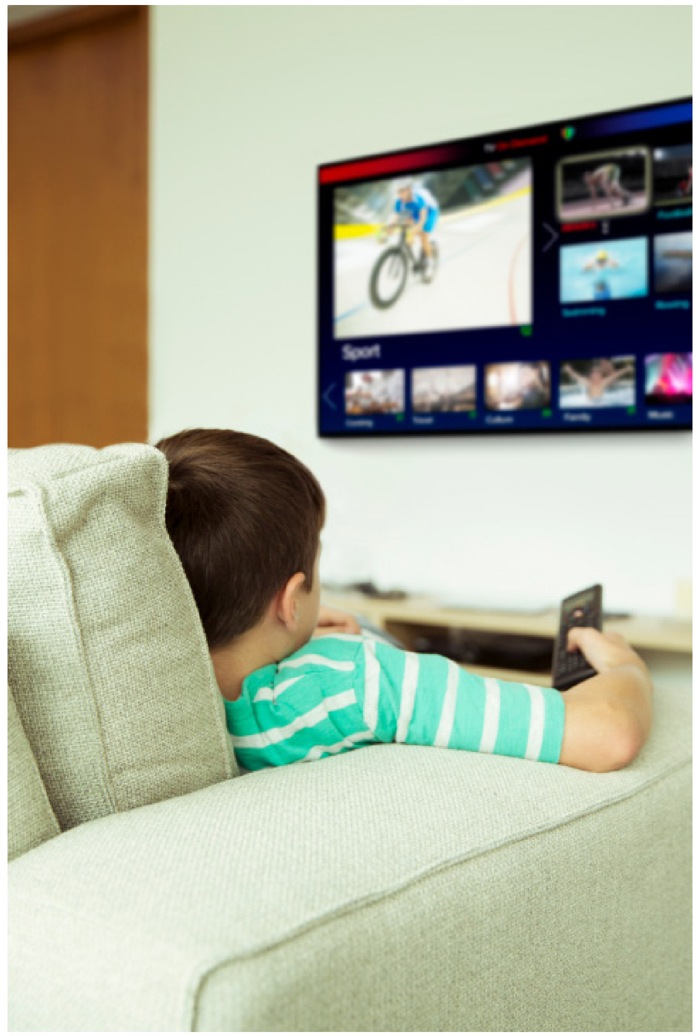
Services	*Monthly Fee*
Amazon Prime	***$99/year, $8.25/month***
CBS All Access	***$6***
Comcast Stream	***$15***
Dish Network's Sling TV	***$20***
HBO Now	***$15***
Hulu Plus	***$12 (commercial free)***
Netflix	***$8***
Nickelodeon Noggin	***$6***
Seeso	***$3.99***
Showtime	***$11***

Consumers are clamoring for customization and control

When we asked cord-cutters what would get them to re-subscribe to pay-TV, 56% list “being able to customize my package to exactly the channels that I want” as their number one motivator. Even loyal pay-TV subscribers recognize a need unfulfilled. When asked about their ideal pay-TV package, 45% said they most preferred an “a la carte” package of channels that they could customize themselves.

45% of loyal pay-TV subscribers said they most preferred an “a la carte” package of channels

Pay-TV services have made recent efforts to give consumer greater customization and control with “TV EVERYWHERE,” which allows broadcast customers to access content from their network through internet-based services—enabling them to view programming on multiple devices, both inside and outside the home. TV EVERYWHERE is typically included in pay-TV subscriptions at no extra charge. So far, the move appears to have helped mitigate churn. Comcast reported its best third quarter result in nine years, thanks in part to TV EVERYWHERE. Likewise, Charter gained 12,000 video subscribers during Q3.



The fight for eyeballs

Too much content, too many ways to watch

Consumers are filled with choices

If your full-time job was to watch TV and you watched one prime-time series per day—working overtime, all day, everyday—it would likely take you just over 13 months to get through 2015's roster of content. And that's only for scripted shows—reality TV, sports, game shows, documentaries, news and talk shows don't count.

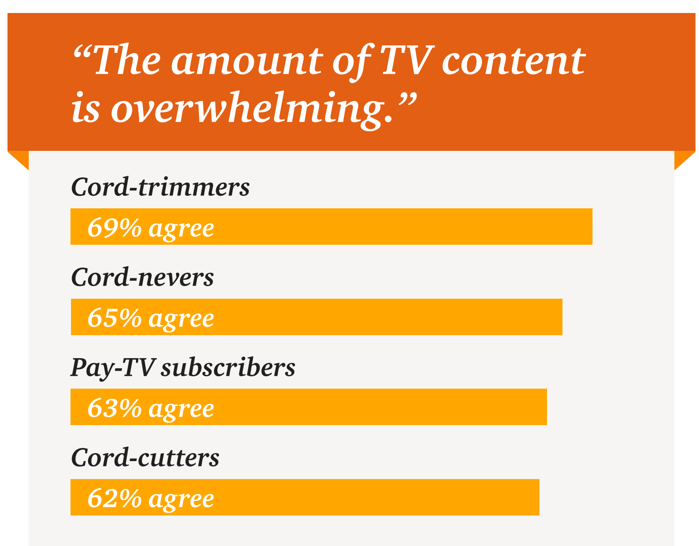
As FX Networks CEO John Landgraf put it, "This is simply too much television."

"My [TV] backlog is like ten series right now."

- Cord-cutter, 18-24

According to FX Networks' research, by the end of 2015, more than 400 original scripted series will have been on-air during prime time, up from 371 scripted series in 2014. Of the 2014 shows, 164 came from basic cable, 145 from broadcast networks, 35 from pay cable and 27 from Netflix and other on-demand streaming services. The number of shows has increased so much that the Primetime Emmy Awards changed its rules this year to better account for the expanding roster of content. The number of nominees for both "Comedy" and "Drama" series have been increased from six to seven, and categories have been redefined to clearly demarcate what constitutes a "drama," a "comedy" and a "limited series."

In our research, consumers echo Landgraf's sentiment. Across all groups—from loyal pay-TV subscribers to cord nevers—consumers agreed that "the amount of TV content is overwhelming." Not surprisingly, cord-trimmers were the most affirmative—69% agreed.



And yet overwhelmed doesn't mean dissatisfied. New programming is still met with excitement, and incumbents and disruptors alike are expanding into new, novel types of content.

CBS thrilled Trekkies when it announced that "Star Trek" would be returning to TV in 2017, viewable on the network's digital subscription video service. NBCU announced Seeso, a $3.99 ad-free OTT service that specializes in comedy. And Netflix has now outpaced many in original programming—it's offering 36 scripted shows in 2015 alone.

It remains to be seen whether the back-end finances of original programming make it sustainable for companies, but from a consumer perspective, more content is more choice. They may lament that they don't have time to watch it all, but perhaps that's the trade-off of the a la carte model: you can watch exactly what you want, but you have to first choose what you want.

OTT: Act Two for network shows

While providers experiment with new types of content, OTT has emerged as a second chance for cancelled network shows such as The Mindy Project which was cancelled by Fox due to low ratings and subsequently picked up by Hulu in a move that created buzz for the show. The Mindy Project went on to become one of the year's most talked-about premieres on social media.

Diversification of talent

Due in large part to the proliferation of content hosts, content is not just becoming more plentiful—it's becoming more diverse, too. "Diversity and Quality Rule the Day" was the headline for one paper, summing up the 2015 Emmy awards—the nominations this year set a record with a 64% gain for African-American actors.

Transparent has been a hit for Amazon Prime and Orange Is The New Black continues to delight Netflix viewers—both shows firmly embrace transgender characters. And of the 42 new shows planned for the 2016 TV season on the Big Four broadcast networks—ABC, NBC, CBS and Fox—13 star non-white actors, feature a mostly non-white cast, or feature non-white actors as co-leads. In part, these shifts reflect changing cultural attitudes—but they also underscore the trend toward "niche" programming and the growing willingness of content providers to create programs that connect more tightly with distinct audiences.

So much to watch, and so many ways to watch it

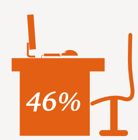
The battle for eyeballs is not just across services—it's also across screens. 77% of 18 to 24 year olds in our survey indicated that they access TV content from the internet. Increasingly, their internet is mobile. This cohort has more than doubled the time they spend on smartphone-based entertainment each month, from fewer than 20 hours a year ago to more than 40 hours today.

In November, T-Mobile announced that it will soon allow its customers to stream video from Netflix, Hulu, ESPN and 20 other services—without fear of running up their data plan. Called the "Binge On" initiative, the promotion is for subscribers on data plans at least three gigabytes or higher.

Meanwhile, tech giants like Apple, Google and Amazon are quickly innovating make video content viewing more engaging, adding new capabilities to their lineup of products and services. In September, Apple unveiled its latest iteration of Apple TV, and reportedly plans to release a streaming service in 2016. Google has been busy updating and improving Chromecast, its $35 streaming device that is compatible with popular services like Netflix, and, most recently, DishNetwork's SlingTV.

Amazon has made a new business case for video content with its Amazon Firestick, equipping these devices with a functionality that lets users purchase items directly from banner ads on the homescreen. As Jeff Bezos once famously told reporters "We make money when people use our devices, not buy our devices." The Amazon Firestick lives alongside Amazon Prime, which offers premium video content, including content created by Amazon Studios, its in-house programming team.

The multi-screen environment allows consumers to view wherever, whenever:



admitted to watching TV while at work

of consumers admitted to watching TV in the bathroom

admitted to watching TV while commuting

Navigating the new landscape

Consumers' relationship with video content is fundamentally changing—and the shift shows no signs of abating. In 2014, 91% of consumers said they could see themselves subscribing to cable in the following year. In 2015, that figure dropped to 79%—implying more than one-fifth of consumers could ditch their cable subscription in the next year.

Yet for all fuss about OTT eminence, even those services have to navigate shifts in consumer values and preferences, and reconcile those with back-end business models and financing. Online media, for all the content and choice it overs, is awash in "free" content, and search aggregators like Google and Facebook are controlling traffic and with it, advertising rates. So while many digital publishers are scrambling to bring in more eyeballs to compensate for diluted advertising rates, the television industry has reduced its dependence on advertising and instead ensures revenue through fees from pay-TV providers and consumers.

The fallibility of media is not just a problem pay-TV services have to wrestle with—it's universal to everyone in the industry. Netflix, often seen as indomitable, saw its profits cut in half in Q3, due in part to increasing cost for content and missed subscriber goals. And in a "territorial" move, signaling growing friction among disruptors, Amazon announced in September that it would stop selling devices from Apple and Google that compete with its own streaming media players.

As FX CEO John Landgraf told reporters, adapting to the changing media landscape is going to be "a messy, inelegant process"—but one thing is certain: it'll be an interesting ride.

"It's going to be a messy, inelegant process."

- FX CEO John Landgraf on the changing media landscape

Implications

Acknowledge that the field is still changing dramatically

Winners and losers have not been clearly established—the battle for viewers is still very much at play. Pay-TV companies must recognize that cord cutters aren't against cable—they are simply for greater customization, control and perceived value. Meanwhile, OTT services need to re-examine the value that they are providing consumers. The proliferation of content has prompted tremendous variety-seeking—to a degree that left consumers overwhelmed by the paradox of choice. To stay relevant and appealing, OTT services may need to rethink the quantity of content they produce, and how to market that content in a way that captures viewers' attention.

Re-position the bundle to compete with a la carte demands

The market demand is clear—consumers want content that fits their needs, and they want to be able to pick and choose that content for themselves. Yet the clamor for a la carte services is set against a backdrop of a relatively expensive cable bill. Piece by piece, a la carte services may seem more affordable, but in the aggregate, they can add up.

Pay-TV providers will need to win in a game of economics—if they can deliver packages that give consumers everything they want at a price they want, they could stem their losses and win back cord-cutters. The trick is to make consumers feel that they are paying for exactly what they want—and getting some additional channels on the side—rather than paying for channels they don't want. Moreover, companies will need to be mindful of newer, and potentially even bigger threats to the bundle—notably, services that aggregate your content, such as the Siri search via the new Apple TV.

Solve the 'content discovery' conundrum

The more great content providers unleash, the less likely consumers are to discover and view it. Helping consumers figure out how to choose content is paramount. Today, many high quality shows have tiny audiences—signaling that the "content growth" strategy may not translate to economic growth. This will be the battleground of 2016, and the content creators that figure out the balance of "just enough" will be the ones to get ahead.

Equally important will be new content curation and discovery interfaces, particularly as providers use data to drive algorithms for suggested content.

"Most shows don't require a ton of attention. You kind of know what's going to happen, for the most part."

- Cord-cutter, 18-24

Rethink commercials and the value of eyeballs

Commercials used to be a nuisance for TV watchers (unless it was a particularly enjoyable ad), but today TV advertising is less annoying than digital online advertising. When we asked cord-cutters what would get them to re-subscribe to cable, only 14% listed commercial-free cable as an enticement. When asked why they don't subscribe to cable, only 3% of cord-cutters said the main reason was because they "don't like commercials interruptions."

Make no mistake: this ambivalence toward commercials is not a sign of consumer empathy—it's a mark of apathy. According to CBS research, today only 50% of DVR ads are fast-forwarded through, meaning 50% of recorded ads are allowed to run uninterrupted . If that number seems high in an era of impatience and remote-controlled devices, consider that most of these viewers are distracted by their phones and tablets. 53% of consumers in our survey say they use their TV, laptop and mobile phone at the same time.

Businesses looking to sustain and generate ad revenue will need to assess not just how much screen time they're getting, but how many eyeballs are actually engaging with those screens.

Redefine measurements to capture meaningful consumer behavior

Beyond advertising effectiveness, media players may need to rethink measurements on the whole. Do same day ratings still matter when more and more viewers are time-shifting to watch their shows when it's more convenient? Are viewers who skip ads less valuable than those who sit through them (even if they're distracted during them)? Are mobile app viewers more engaged than laptop viewers? The proliferation of content across devices and platforms has upended old measurement formulas—and the industry needs to wrap its head around new ones that are more relevant and more impactful.

Sequence content to maximize buzz and entice viewers

Netflix gave birth to the binge watching movement, creating a curious time-vacuum for consumers of all ages. But although Netflix and Amazon have found success in releasing all episodes of an original series at once, it's not for everyone. Hulu and and some other services release original series one episode at a time. While deploying an entire series at once can create a media and social stir—think House of Cards on Valentine's Day—there's benefits to a slower cadence. Once a week viewing can sustain buzz longer, as critics reflect on each episode, and can create a more intense social experience since viewers are more likely to watch each episode within the same approximate timeframe and share their reactions in real time on social platforms like Twitter and Facebook. Content providers will need to conduct smart analysis of their targeted viewers to find the best release approach—whether that's all at once or one-by-one.

Drive personalization and customization across all aspects of the viewer journey

Consumers are clamoring for greater personalization and control. At PwC, we are champions of using data to drive new content curation and smarter discovery interfaces. Customized packages will also be critical to success—for both pay-TV providers and OTT services. Each will need to be mindful of what they can uniquely offer consumers to fulfill their needs in ways that add value without unwanted excess. In some cases, the smart play may be about supplemental services, rather than trying to win at a "one size fits all game" in a world where 74% of cable subscribers have at least one additional OTT service. And providers must be mindful of the tangential digital interfaces that consumers engage with—smartly integrating with digital content and social media can add greater dimensions to programming and escalate engagement.

Appendix: Data from 2013-2015

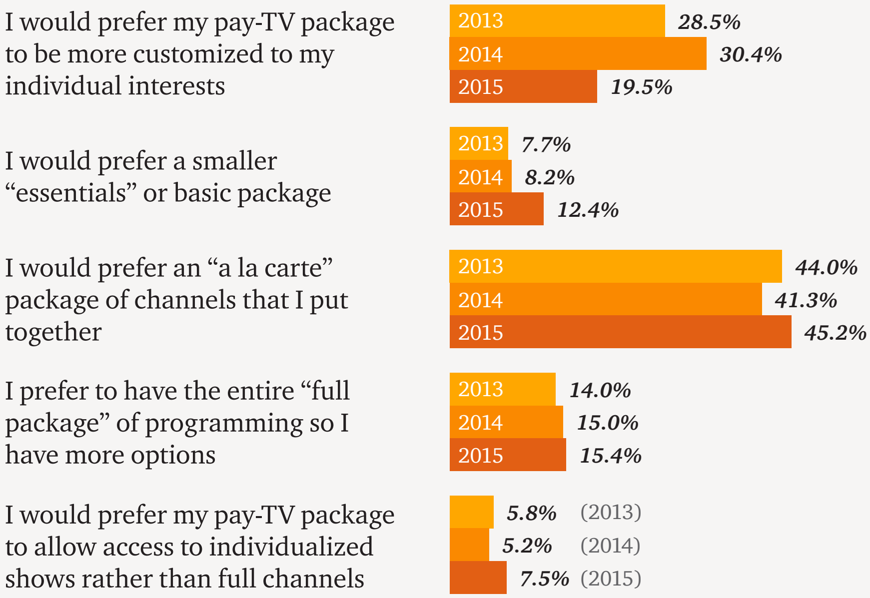
Of the following options, which THREE best reflect how you determine what TV shows/channels that you are going to watch?

	2013	2014	2015
It's a show that I have watched in the past	88.3%	86.6%	75.9%
I saw a commercial (on TV, online, billboard, other)	42.2%	46.2%	43.0%
Was recommended from a friend/family member - directly	59.4%	59.1%	40.7%
Was recommended from a friend/family member - through social media	8.3%	8.7%	12.3%
Was recommended from reviews read online or in a publication	17.1%	17.1%	17.9%
Was recommended from social media - NOT a friend or family member	3.9%	3.5%	4.9%
Was recommended by a specific channel or a subscription service	7.2%	10.6%	6.9%
I just flip through the channels until I see something that interests me	44.7%	37.7%	54.0%
I use a programming guide	27.7%	29.5%	40.3%

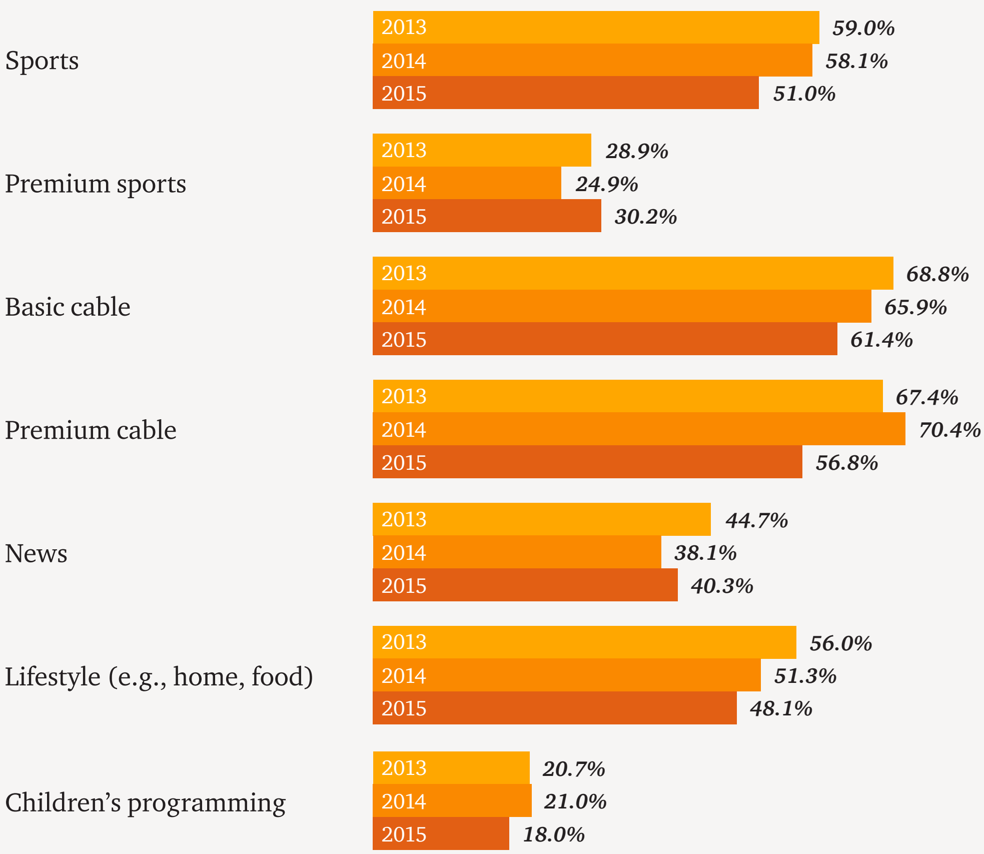
How important is original programming in influencing your interest in subscribing to a particular TV service?

	2013	2014	2015
Very important	23.3%	33.3%	27.2%
Somewhat important	39.7%	40.7%	36.6%
Not very important	23.2%	18.3%	18.4%
Not at all important	13.8%	7.7%	17.8%

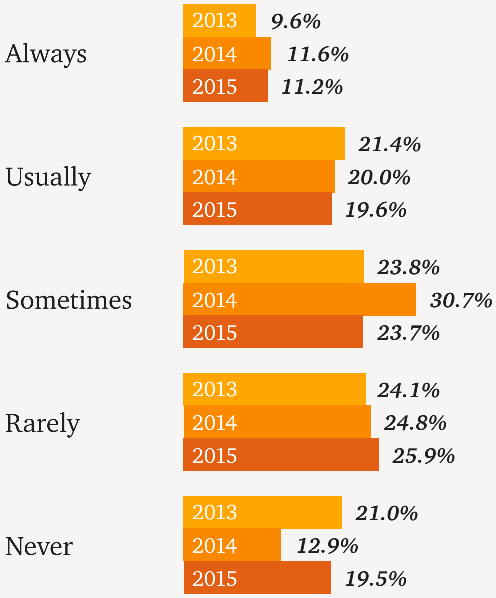
What is your pay-TV package preference?



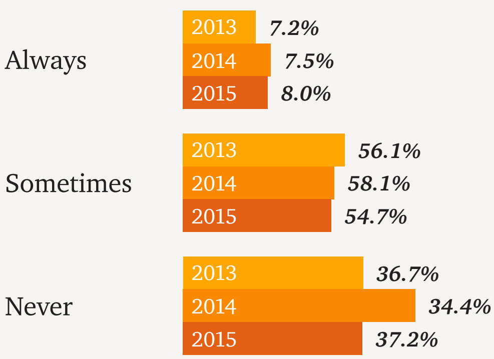
Which channels would you want as part of your a la carte or custom package?



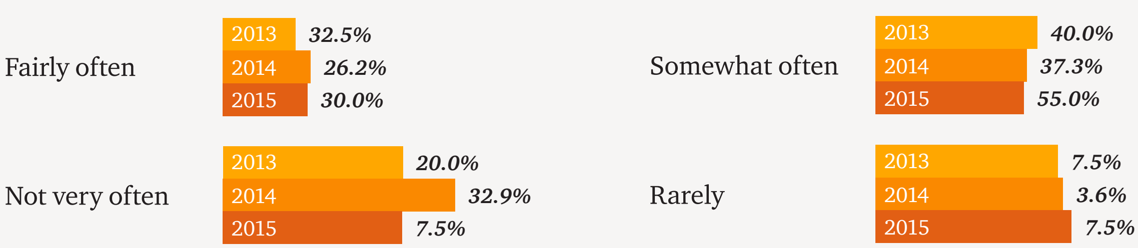
How often do you use a mobile device (e.g. Smartphone, tablet) while you are watching TV?



When you are simultaneously using your mobile device and watching TV, how often is the use of your mobile device related to the particular TV show you are watching?



How often are you using these apps to interact with the TV show, such as accessing additional content, social feeds, purchasing goods seen in the show, gaming, etc.?



For more information on this research, the PwC Consumer Intelligence Series, or how changing consumer preferences are shaping the entertainment, media, and communications industries, please contact one of our specialists:

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