

## Research for Marketers by Marketers

Driving analysis, insights and strategic thinking through tools, audience trends and customized quantitative and qualitative primary research.



# Cutting the Cord?

**Traditional TV viewing is on the decline. According to new Nielsen data, 18-34 year-olds decreased their traditional TV usage nearly 11% from September to January.** Part of this shift is due to “cord-cutting” – people unbundling their home telecom services, including pay-TV and home phone lines. Cable and satellite customers are increasingly frustrated by the cost of ever-expanding programming packages which may not be relevant to them. As a result, they are searching for new sources for their TV programming. Or are they? Despite this movement, cable remains a strong household presence – for now.

## February 2015

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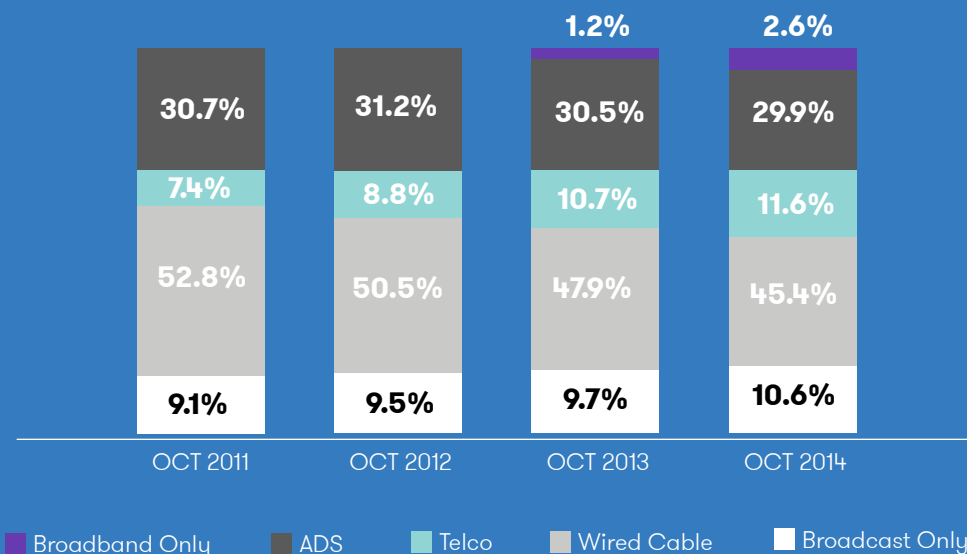
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# Q: Just how many people are canceling cable?

## A: It depends who you ask.

Different studies have reported very different numbers on how many US households plan to cut cable in the near future – anywhere from 3% (Frank N. Magid Associates) to 7% (Experian Research) to 15% (Morgan Stanley). Meanwhile, total subscriber losses from the pay-TV industry were reported at less than 2% in 2013, indicating that many more are threatening to cut the cord than are actually going through with it. While broadband- and broadcast-only households are still a small segment, they continue to grow.

TV Distribution (% of Total US)



## Demographics

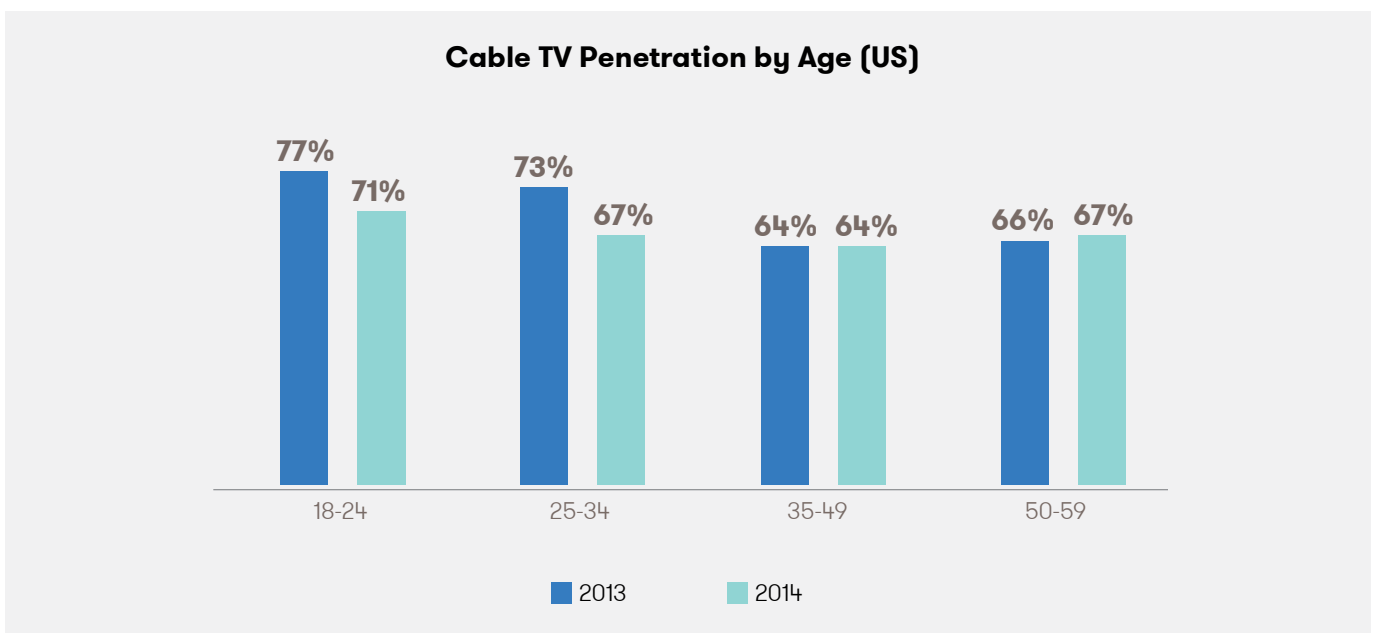
Predictably, Millennials are especially likely to be cord-cutters or “cord-nevers”, as in never having subscribed to pay-TV. As one Millennial put it, “I feel like cable is the one company that punishes loyalty”, as prices and fees are higher for long-time subscribers.<sup>1</sup> Meanwhile, cable penetration is kept higher than it might be - many who attempt to cancel their cable are offered a “quiet deal” once they call their company, so they end up keeping it.

<sup>1</sup> USA Today

According to PWC, cable TV penetration declined by 8% for 18- to 34 year-olds,<sup>2</sup> between 2013 and 2014. Nevertheless, penetration is highest amongst 18- to 24-year-olds at 71%. Older age groups saw no decreases in cable subscription rates from 2013 to 2014.

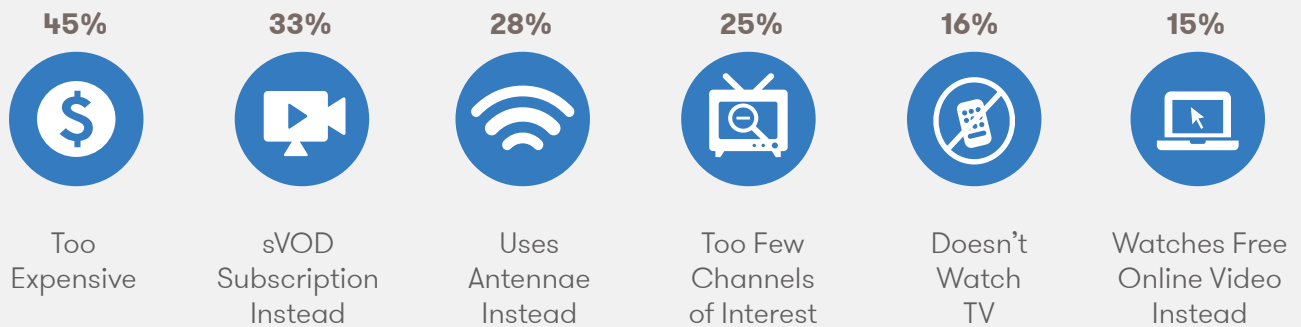
<sup>2</sup> Pricewaterhouse  
Coopers

But in an unlikely alliance, 18-24 year olds and seniors 65+ are the two groups most likely to say they have never subscribed to a pay TV service, though for different reasons. Younger age groups (18-24) are much more likely to be watching internet content in lieu of pay TV, while older age groups (65+) may be content to watch basic television via free broadcasts, having never developed a taste for the wider array of channels available through cable TV. Still, cost remains the biggest factor for these consumers, as it does for the rest of the population.



Source: PWC via BI Intelligence

## Reasons for Not Subscribing to Pay TV Service, July 2014



Base: 356 Internet users aged 18+ who do not subscribe to pay TV service

Source: Lightspeed GMI/Mintel

## Motivations

According to Mintel, those who cancel cable are motivated mainly by price, as well as the growing option to stream TV – one in five Americans who watch Netflix or Hulu don't subscribe to a cable or satellite TV service. The primary reason not to subscribe to pay TV service is simple: cost. Subscription to an internet-based video service like Netflix or Hulu ranks second, with one in three online adults citing this as a primary reason for not subscribing to cable.

- 59% of consumers say they would prefer choosing individual channels over pre-selected packages.
- They vastly prefer live TV for three genres: Sports, News, and Concerts.
- They are split on TV shows, with 39% saying they prefer to watch those live and 35% preferring on-demand.

Of the 1.7 million people that dumped cable TV last year, less than 10% signed up for satellite/fiber optic to replace it, meaning the great majority chose streaming or broadband only. Cable<sup>3</sup> itself is down to 52% of the video market and seems likely to fall below 50% this year if trends continue - as compared to 58% in 2012.

<sup>3</sup> Forbes

## Fractionalization of Content – Cable Alternatives Are Growing

<sup>4</sup> Parks Associates

The majority (55%) of US broadband households subscribe to a streaming TV service,<sup>4</sup> including Netflix, which topped 39 million US subscribers last year - an increase of 17% from 2013. 71% of pay-TV subscribers aged 25-34 had Netflix in 2014, up from 51% in 2013. And it's not just young consumers: Netflix subscribers nearly doubled among adults 35-49 and nearly tripled for people between the ages of 50-59 in 2014, reaching 58% of TV subscribers. Meanwhile, 69% of U.S. adults are equipped with a gaming console, multimedia device, or smart TV, and 21% of US households have dedicated set-top or plug-in devices - an increase of 10 times since 2010.<sup>5</sup>

<sup>5</sup> Nielsen Cross-Platform Report



**71% of viewers admit to feeling “overwhelmed” by the increasing TV options.**

<sup>6</sup> PWC

According to Nielsen, during the 2006-2007 television season, the average American viewer watched 4 hours and 34 minutes of television a day. Today, the daily average is roughly five hours. That's about a 10% increase over seven years, while the number of scripted dramas available to watch on premium and basic cable alone has increased by more than 275%—a figure that swells even larger when accounting for all over-the-top programming. Viewers have more content than they know what to do with: 71% of them admit to feeling “overwhelmed” by the increasing TV options.<sup>6</sup>

As technology options for watching TV continue to grow, so do content options, as the big players cater to the changing viewer. HBO, Univision, and CBS recently announced standalone streaming services, and Sony's cloud TV service, PlayStation Vue, will debut early this year. Even Overstock.com is getting in on the cable alternatives, by launching a streaming service that they deem a "skinny Netflix". The discount retailer's plan is to take advantage of its heavy internet and mobile traffic.

Perhaps the most exciting offering to come out of CES was Dish Network's Sling TV. For \$20 a month, viewers will have access to 12 major channels including ESPN, and even more a la carte flexibility, with the option to add more channels via packages for \$5/month. Sling TV CEO Roger Lynch candidly admits that this service is aimed at Millennials, who he believes are eager to drop cable - that is, if they subscribe to begin with. This will be the first internet-based service to offer a bundled set of networks across devices, as well as the first time that live sports (ESPN) and news (CNN) will be offered to consumers via an over-the-top service. ESPN's inclusion is especially remarkable, as sports is seen as the last bastion in the cable package to keep fans locked in. Sling TV might not convince everyone to cut the cord; however, as no broadcast networks are participating in its package, and it lacks DVR or VOD options.

Time will tell whether Sling TV and other options convince the masses to drop or pare back their traditional television services. With more of these releases on the horizon, will consumers opt for a patchwork of internet-based services, whose cost will possibly add up to a low-tier traditional cable service?



## Measurement

Nielsen has announced plans to incorporate SVOD into their ratings measurement in the future, capturing those viewers who are migrating towards subscription video on demand. As Netflix and others have refused to release ratings in the past, this could shed some light on just how many people are tuning in to streaming services.

### Subscription VOD at a Glance

										
<b>Monthly Fee</b>	\$8.99	\$5.99	\$8.25	\$7.99	TBD	\$20	\$3 - \$10	TBD	\$2.99	TBD
<b>Content</b>	Original / Acquired Movies / TV	CBS Content (no live sports)	Original / Acquired Movies / TV	Original / Acquired Movies / TV	HBO Content	Bundle of Cable Channels (ESPN, Turner, Scripps, others)	Non-fiction / Factual TV	Acquired Movies / TV	Curated Short Form Web Videos	Live and On-demand Content from 75 Major Cable and Broadcast Nets
<b>Ad Supported</b>	✗	✓	✗	✓	✗	✓	✗	TBD	✓	✓
<b>Launched</b>	2007	OCT 2014	2011	2010	TBD 2015	TBD 2015	MAR 2015	MID 2015	TBD 2015	Q1 2015
<b>US Subscribers</b>	39.1 MM	NA	20 MM	6 MM	NA	NA	NA	NA	NA	NA

Source: Annalect

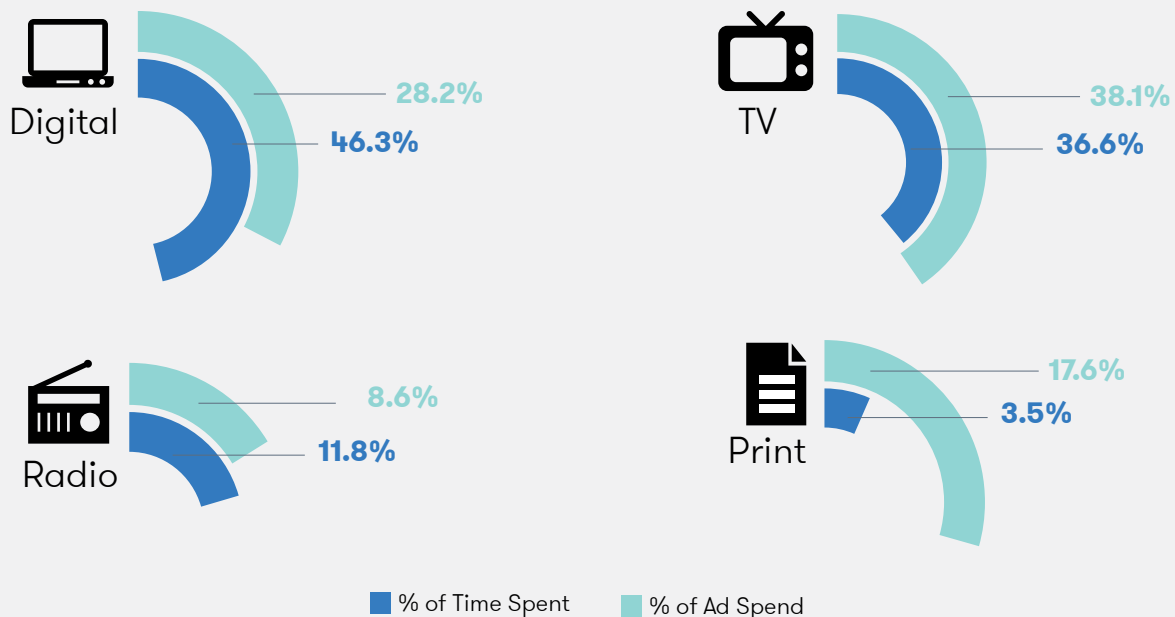
## Future Of The Industry

Cable companies are actually gaining broadband customers faster than they are losing video subscribers. More than one in four customers who call cable TV companies request “internet only” service, and the number of US broadband subscribers is poised to exceed the number of pay-TV subscribers by mid-2015. Comcast gained 1.3 million internet subscribers even as it lost 300,000 TV subscribers. Time Warner had a rough 2014 on the video side, losing nearly one million customers as it suffered from the CBS blackout, but it actually picked up internet customers.

While bundled packages are more common in high income households, premium channels are equally common in all income groups who subscribe to pay-TV. For lower- and middle-income consumers, premium TV channels are seen as a moderately priced alternative to more costly out-of-home entertainment, such as going to the movies or dining out, which is a concept that pay-TV providers can reinforce in their marketing.

As TV options become increasingly dependent on the internet, high speeds will be more crucial than ever for consumers and providers alike. Ad spend may also be impacted; as traditional TV declines in viewership, TV ad spend could lose share to online video. Spend for web and mobile ads is on trend to eclipse that of TV by 2017.

### Share of Time Spent and Media Spend, US 2013



Source: eMarketer, April 2014



## Looking Ahead

Recent announcements about over-the-top products from broadcaster networks and cable providers point to a new future in viewing behavior - one which has already begun to arrive. Despite hand-wringing and headlines that claim consumers are canceling cable in droves, the industry remains strong. Amidst the threats of cord-cutting, cable subscriptions remain in over 100 million households - a higher number than internet (90 million) or phone subscriptions (70 million). Time will tell whether the increasing a la carte options will convince the masses to cut the cord.

## Executive Summary

- People who are paying for TV but want to cut the cord remain a niche segment, but one that's growing
- The number of U.S. broadband subscribers is expected to exceed the number of pay-TV subscribers by mid-2015
- Audiences are watching more time-shifted digital content via Netflix, Hulu, Amazon Prime, and others
- Content providers are beginning to cater to viewers who don't watch traditionally, by expanding their streaming offerings
- Simultaneously, new a la carte streaming services continue to pop up, attempting to capture the fed up cable viewer with more flexible and affordable options
- As TV options become increasingly dependent on the internet, high speeds will be more and more crucial for consumers and providers alike
- Ad dollars for digital media fall behind that for TV, but this is predicted to change in the next few years as OLV becomes more widely used
- Brands must stay ahead of the rapidly changing TV consumption landscape in order to reach consumers

For additional information on this report contact:



**Allison Cramer**

Market Trends Analyst and Curator,  
Tools & Insights  
[allison.cramer@annalect.com](mailto:allison.cramer@annalect.com)  
212-590-7458



**Kathy Grey**

Director,  
Tools & Insights  
[kathy.grey@annalect.com](mailto:kathy.grey@annalect.com)  
212-590-0689

195 Broadway, 19th floor  
New York, NY 10007  
[annalect.com](http://annalect.com)



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