Consumer Intelligence Series: I stream, you stream

Winning in a video world

Contents

Cord cutting has more momentum than ever

A streaming explosion for all ages

Despite growth, streaming shows signs of unrest

The overwhelming nature of streaming could deter growth

In a sea of clutter, powerful branding is key

Live sports is cord-friendly — for now

How can new entrants succeed?

The opportunity

Tapping into the opportunity of the streaming boom

For the fifth consecutive year, we're digging into the evolution of America's relationship with video.

In 2017, despite a continued decline in traditional Pay TV subscriptions, we're also seeing some signs of trouble in the new order.

- What's driving the continuing drop-off in Pay TV, and what's keeping some people tethered to the cord?
- How are people incorporating new streaming services into their lives?
- Where are the opportunities for new entrants and for advertisers?

We conducted extensive research to learn more about what consumers want from the growing number of video-consumption options.

Methodology: *In October 2017, PwC surveyed a sample of 1,986 Americans, ages 18 to 59, with annual household incomes above $40,000. We analyzed our results against similar studies we conducted in Fall 2016, 2015, 2014, and 2013, and also added new topics to explore for 2017. Additionally, we conducted two consumer focus groups in New York.*

Key findings:

73% *of our respondents subscribe to Pay TV, down from 76% last year and 79% the year before. The number of those trimming their Pay TV subscriptions is also growing.*

73% *of respondents also subscribe to Netflix, meaning the same number of people who subscribe to Pay TV also subscribe to the service.*

82% *of sports fans would end or trim their Pay TV subscription if they no longer needed it to access live sports.*

75% *of consumers say they* ***can't*** *handle using more than four services in addition to Pay TV.*

Cord cutting has more momentum than ever

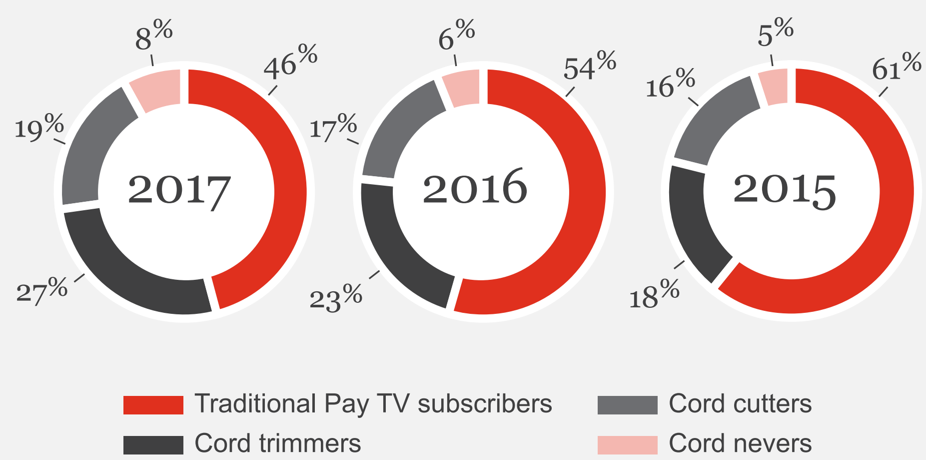
The number of traditional Pay TV subscribers continues to drop as more people are trimming or cutting the cord completely.

73% of our respondents subscribe to Pay TV, which is down from 76% last year and 79% the year before.

At the same time, people report they're paying more for video today than they were last year.

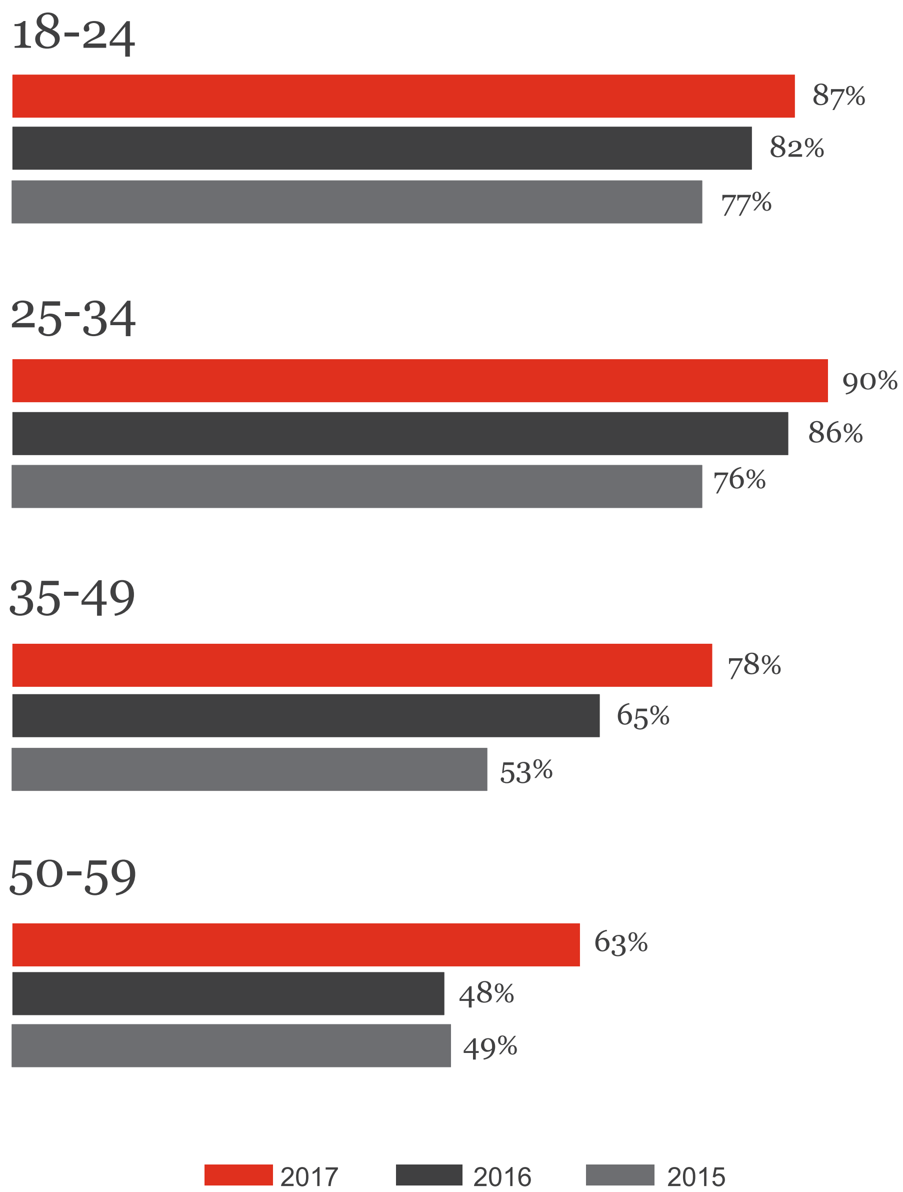
53% of cord trimmers report paying more for their services in 2017 than they did in 2016; however, trimmers are still paying less than traditional subscribers overall.

Distribution of Pay TV relationships over time



Source: PwC Consumer Intelligence Series video survey, 2017

Do you access TV content from the internet?



Source: PwC Consumer Intelligence Series video survey, 2017

A streaming explosion for all ages

Costs continue to rise because, with more options than ever, viewers are diversifying what they watch and using multiple services to consume content.

Streaming is up among all age groups.

- The number of people who use Netflix is now the same as Pay TV (73%).
- Of all the services respondents use, almost half (46%) are ones they acquired within the last six months.
- Pay TV trimmers are the most involved—they have five services on average, including Pay TV.

Despite growth, streaming shows signs of unrest

Consumers are showing signs of being overwhelmed.

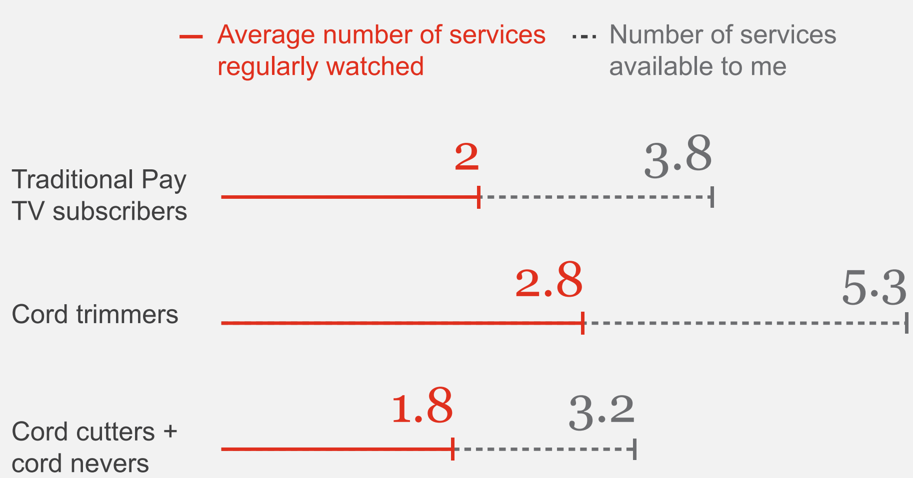
While respondents indicate they have four services on average—including Pay TV and digital services—they only watch about two of those services on a regular basis.

Just a quarter of consumers say they can handle using more than four services in addition to Pay TV.

Looking for content only adds to the burden—a notion we analyze in depth in our sister Consumer Intelligence Series publication on content discovery.

**Due to heightened levels of password sharing, we report on access to a service rather than subscription to a service*

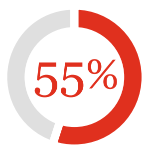
Number of services available to me* vs. number of services I watch regularly



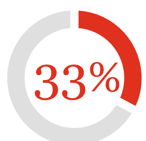
Source: PwC Consumer Intelligence Series video survey, 2017

The overwhelming nature of streaming could deter growth in the space—and drive Pay TV to evolve further

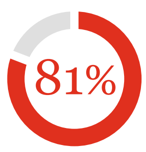
Consumers are getting savvy and resourceful. They are dealing with the overwhelming nature of streaming in ways that ease their own burden, but are bad for business



of cord trimmers "regularly" subscribe to a trial version of services



don't typically keep the subscription after the trial period is over



of focus group participants report that they share passwords with friends and family

Source: PwC Consumer Intelligence Series video survey, 2017

"When I want to watch something but I don't know what I want to watch, [I like] having that flexibility to turn on the TV and discover something new or just watch a rerun."

—Focus group participant, male, 32

Additionally, having too many options might mean limited growth for incumbents and new entrants alike—the #1 reason for ending a subscription is "I didn't use it enough" (29%).

With all the energy and resources required to keep up with subscriptions and content, appreciation for the ease of Pay TV grows.

Pay TV solves many of the issues that surround streaming, creating a relaxed and efficient viewing process.

Pay TV spin-offs that can provide viewers with the best of both worlds are poised for success.

In a sea of clutter, powerful branding is key

Exclusive content—including original content—is a key component of creating a successful streaming service, but it's not enough.

- When selecting streaming services, respondents are more drawn to having a wide variety of content available (37%) than having access to exclusive content (27%).
- Just 35% of respondents indicate that original programming is "very important" in influencing their decision to subscribe.
- Focus group respondents are unenthusiastic about original content produced by providers without an established reputation for it.

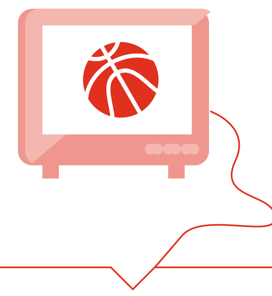
In fact, exclusive or original content might draw consumers to free trials or temporary subscriptions, but won't necessarily garner loyalty. Services that focus on long-term brand building alongside content development can avoid situations like this.

Viewers are most eager to watch—and pay for—a streaming service from a brand that already has an established presence with unique content. This reinforces the idea that powerful branding can drive success in a sea of clutter.

Live sports is cord-friendly—for now

Live sports is one of the primary motivators keeping people connected to the cord

81%
of sports fans subscribe to Pay TV



73%
of respondents overall who subscribe to Pay TV

91% of sports fans subscribe to Pay TV for access to live games

89% of sports fans say they prefer to watch sports games live

Source: PwC Consumer Intelligence Series video survey, 2017

But with respondents so eager for premium streaming services from brands like the NFL, the evolution of live streaming in sports might mean an even more precipitous decline in Pay TV subscriptions.

- 82% of traditional Pay TV subscribers would trim or cut their subscription if they no longer needed it to access live sporting events.
- Pay TV subscribers realize that they have alternatives: 90% of them believe the options for watching live sports have expanded in recent years.

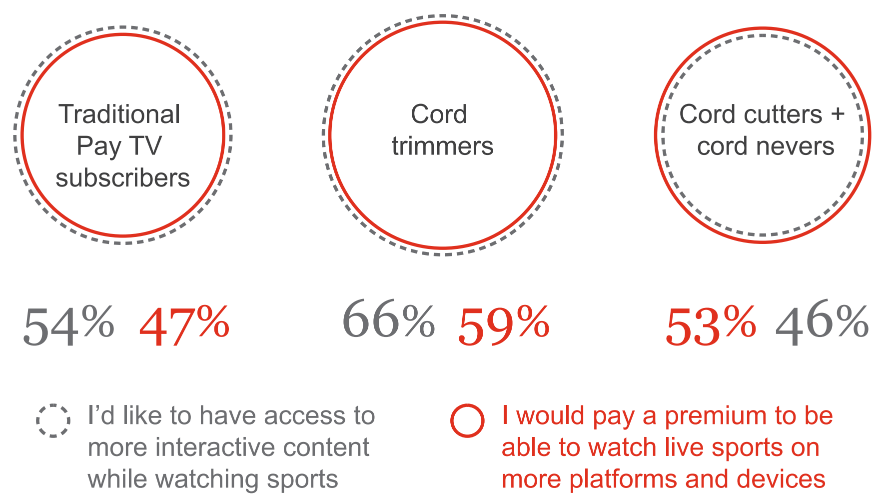
There are significant opportunities to engage sports fans outside of the traditional Pay TV format.

- More than half of sports fans (52%) say they would pay a premium to watch live sports on more devices.
- The average sports fan would pay around $23 per month for unlimited access to live sports on any platform.

The social nature of live sports and the growth of entertainment options like fantasy sports make it particularly ripe for deepening relationships with viewers.

- 56% would like to have access to more interactive content, such as stats, exclusive interviews, and the ability to chat with other fans, while watching live sports.

Sports fans want more ways to watch and interact with content



Source: PwC Consumer Intelligence Series video survey, 2017

How can new entrants succeed?

Even beyond sports, there is a significant opportunity for brands to engage viewers through video as second screen usage grows.

- 65%, at least occasionally, look up information about a product they see advertised while watching a show.
- 64% communicate with friends about the show they're watching using a second screen.
- 55% "always" or "usually" use a mobile device while watching TV, up from 36% last year.

But advertising needs to be less burdensome, more engaging and more relevant.

Focus group respondents say that many streaming services show "the same commercial over and over," and it's "annoying;" they also prefer longer ads up front, with fewer interruptions throughout.

Only 40% of respondents believe that advertising on streaming services is much more relevant to them than ads on TV.

Percent of those using second screen for each of the following
Frequently + sometimes

Look up who's acting/playing in the show/game	81%
Communicate with friends unrelated to show/game	78%
Use social media unrelated to the show/game	76%
Look up info on product featured on a show	65%
Look up info on product advertised in a show	65%
Communicate with friends about the show/game	64%
Post on social media about the show/game	50%
Browse merchandise related to the show	46%
Check fantasy sports stats	44%
Watch another TV show, film, or video	43%
Purchase merchandise related to the show/game	35%

Source: PwC Consumer Intelligence Series video survey, 2017

The opportunity

For companies to thrive in this accelerating video space, there are a few key points to keep in mind.

Consumers are overwhelmed
Pay TV and subscription service providers that can relinquish the need to own everything and figure out how to partner with one another—and how to create new types of bundles—can succeed. The next phase is unbundling-to-bundle again.

Keep it easy for the user
Streaming services need to find a way to replicate the laid-back, more seamless experience of traditional TV and activities like channel surfing.

Don't underestimate new entrants or spin-offs
Virtual Pay TV services and skinny bundles are making headway, thanks in part to a wide variety of content offerings, low price points, no required contracts, and often, no need for a set-top-box.

A focus on brand building can create lasting success
Platform and service providers that can build strong consumer relationships that transcend shifts in content trends will keep customers for the long term.

Sports fans need live access
This audience is sticking with Pay TV for live sports access, but they realize that other options are available and are willing to cut the cord once it becomes unnecessary.

Cord trimmers are an opportunity
This audience is the most eager to consume content and most capable of balancing a variety of subscriptions.

Let social networks work for you
Brands can successfully amplify their message through real-time word of mouth by capitalizing on the role that socializing plays while consumers are watching a show.

Keep ads relevant and exciting
Invest in ways to create more customized, less burdensome viewing experiences.

Source: PwC Consumer Intelligence Series video survey, 2017
(c) 2017 PricewaterhouseCoopers LLP, a Delaware limited liability partnership

Request a meeting with our specialists

Mark McCaffrey
US Technology, Media and
Telecommunications Leader, PwC
Tel: +1 (408) 817 4199
mark.mccaffrey@pwc.com

Paige Hayes
US Technology, Media and
Telecommunications Advisory Leader, PwC
Tel: +1 (213) 217 3506
paige.k.hayes@pwc.com

Jason Wagner
US Technology, Media and
Telecommunications Partner, PwC
Tel: +1 (646) 471 1297
jason.wagner@pwc.com

Christopher Vollmer
US Technology, Media and
Telecommunications Partner, PwC Strategy&
Tel: +1 (212) 551 6794
christopher.vollmer@pwc.com