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The rise of cord-shaving and cord-cutting

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Cord-shaving and cord-cutting are on the rise as more and more consumers decide to reduce or cancel their pay-TV subscriptions. This phenomenon is posing a major challenge for traditional television providers who must now compete with OTT services like Netflix and Amazon Prime. Consumer tastes are shifting, and digital streaming services have been quick to exploit emerging opportunities. But pay-TV remains a strong proposition: traditional operators still have much to offer the majority of consumers, provided they are willing to take the necessary steps to meet their customers' evolving needs.

Who are the cord-cutters?

In the United States alone, over 10 million subscribers will cut their pay-TV cords in 2016 (a 15 percent rise on the previous year) and the annual number of disconnections is set to rise to over 14 million in 2018. Although the number of global pay-TV subscribers remains far higher than the number of OTT subscribers (roughly six times as many in 2015), the ratio will shift dramatically in the period to 2020 (to just over three times as many). The annual growth in global OTT SVoD subscriptions will dwarf those for pay-TV over that period (19.9 percent versus 2.5 percent).

Consumers are turning away from traditional pay-TV services for a host of different reasons. A majority of cord-cutters cite the cost of their subscriptions, feeling that pay-TV services are just too expensive. Others cite poor customer service, technical issues, or a lack of quality television content. And this trend is getting stronger: the proportion of US cord-cutters citing the cost of pay-TV as a reason for not subscribing grew by nearly two-thirds between 2014 and 2015.

The demographic profile of US cord-cutters suggests that the phenomenon extends to all age groups and all income brackets. Cord-cutting is more or less evenly spread among 18 to 34 year olds (34 percent), 35 to 49 year olds (28 percent) and 50+ year olds (38 percent); the slightly higher figure for the latter group may be a reflection of greater susceptibility to cost factors.

Across incomes, households with lower incomes are the most likely to have disconnected their pay-TV services: nearly 60 percent of cord-cutters have a household income of less than US$50,000 and nearly 30 percent have an income of less than US$25,000. But one in ten cord cutters has a household income over US$100,000, suggesting that price alone does not explain the trend.

Consumers' interests are also increasingly spread across a range of different channels and content forms. A single content provider is unlikely to be able to deliver everything that an individual customer wants to watch or experience. As a result, consumers are prepared to create a bundle of services tailored to their particular viewing preferences. This means signing up to a variety of different services from different providers, which may include a full pay-TV subscription ('cord-keepers'), a reduced or cheaper pay-TV service alongside other services ('cord-shavers') or may comprise a set of OTT packages with no pay-TV subscription at all ('cord-cutters').

The need to manage a varied package of different subscriptions and micro-transactions undeniably adds complexity to both cord-cutters' and cord-shavers' content consumption. It doesn't necessarily make it much less expensive either: the cumulative cost of a cord-shaver's package of OTT and pay-TV subscriptions may be comparable with, or possibly even more than, a simple pay-TV package. But the subscription figures speak for themselves: consumers are increasingly prepared to manage this complexity to achieve the right mix of content for their needs.

The cord-cutting and cord-shaving phenomenon may yet intensify as a younger generation, more inclined toward digital video services than their parents, become the dominant consumer group. 18- to 34-year-olds spent more time consuming digital video content each day than any other age group in 2014 (although the proportion of non-TV viewing time increased in all age groups over the preceding two years).

Younger consumers are also much more well disposed toward alternative devices for watching shows and movies: while over 55s prefer the TV screen to the computer screen by a ratio of more than two to one, the equivalent ratio for 18- to 34-year-olds is roughly one to one. The position is even more stark for consumers under the age of 18. Nearly half of this group (44 percent) prefer consuming content on a computer or laptop, while less than a third (29 percent) opt for the TV screen. Indeed, more consumers in this group state a preference for mobile devices like smartphones and tablets (32 percent) over televisions. The trend toward a multi-device, multi-provider content landscape is clear.

OTT services are meeting customer needs

OTT providers have recognized the shift in consumer's expectations and are delivering the types of content consumers want to watch in ways they increasingly want to watch it. These providers are investing in content production – more so than traditional TV channels – and making it pay. For companies like Netflix, for example, investing in original content is a strategic goal. The company increased its spend on original programming from US $243 million to US $450 million between 2014 and 2015 (an 85 percent increase). Remarkably, it now spends more on content than the BBC, HBO and Discovery. The fruits of this investment can be seen in the critical recognition that this original programming is getting. Both Netflix and Amazon have won industry awards. Shows like House of Cards and Orange Is the New Black (Netflix) and Transparent (Amazon) have all been awarded Emmys. House of Cards has also won Golden Globe awards, as has Amazon's Mozart in the Jungle. OTT services are finding that they can pass the high production costs associated with creating original content on to their subscribers. Netflix raised the price of its video service by US$1 to US$9.99 in October 2015 for new customers in the United States, Canada and selected Latin American territories. The company had earlier repriced its two-stream HD plan from €8.99 to €9.99 for Eurozone countries.

Content producers are also realizing that digital streaming services have the potential to boost a show's audience. The viewership for the highly-acclaimed series Breaking Bad (first aired on the AMC network) increased by a massive 184 percent between 2011 and 2014 after Netflix uploaded the show and made it available to its subscribers. The creator of the series has even speculated that making it available on the streaming service was a major factor in keeping the show on the air.

High-quality content is not the only factor in meeting consumers' needs and expectations. Leading OTT providers continue to enhance the user experience of their services and improve their ability to help their customers find the types of content they really want to watch. By optimizing their huge libraries of content, and using advanced tracking and analytics technology, they are able to better understand consumers' interests and behavior. These companies can use this understanding to serve personalized options and recommendations, giving their customers easier and quicker access to the content they're more likely to want, while optimizing cost.

Pay-TV is not out of the game

OTT services may be enjoying a boom, thanks to their high-quality original programming and convenient on-demand delivery mechanisms, but traditional pay-TV services continue to hold a strong value proposition for many consumers. Indeed, these companies are still the preferred providers of movies, TV series and live sports for most customers. Global pay-TV subscriptions continue to grow year by year (albeit at a slower rate than OTT subscriptions) and the vast majority of consumers still prefer to consume video content through a TV screen. These providers are not out of the game by any means, but they do have some work to do.

Cord-cutting and cord-shaving present a clear risk to pay-TV business models and companies need to think carefully about where opportunities for additional revenue might lie. The vast majority of consumers say they are not willing to increase the amount they spend in total on video content this year. Just 10 percent of customers have expressed a willingness to pay more than they currently do, whereas twice as many (20 percent) actually plan to decrease their video content expenditure. But there are still revenue opportunities for content providers who are prepared to properly differentiate themselves and demonstrate the value of their consumer proposition. This could mean offering a larger range of products and services to customers. Or it could mean providing exclusive, high-quality content. Over two-thirds of consumers (71 percent) say they want their content provider to offer a large range of products and services that work well together, and over half (60 percent) think that exclusive content or services could persuade them to make additional purchases. Providers also need to think more innovatively about their advertising formats: nearly three-quarters (73 percent) of consumers have expressed a preference for zero or limited interruptions from advertising when accessing content.

The clear trend toward consuming on-demand digital content on a collection of different devices mustn't be ignored either. Providers that don't offer 'TV Everywhere' services – access to pay-TV content through online services or mobile apps – or that opt to provide only limited video on demand services are choosing a very risky strategy. All types of content providers also need to be alive to new and emerging trends: there may be broader opportunities in the aggregation of content across different OTT services, to take just one example. While consumer tastes are clearly shifting, and old certainties are under threat, forward-thinking content providers should nonetheless feel confident that there will be opportunities to thrive in the television market of the future.

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