THE **CORD-CUTTING** MOVEMENT

acxiom™

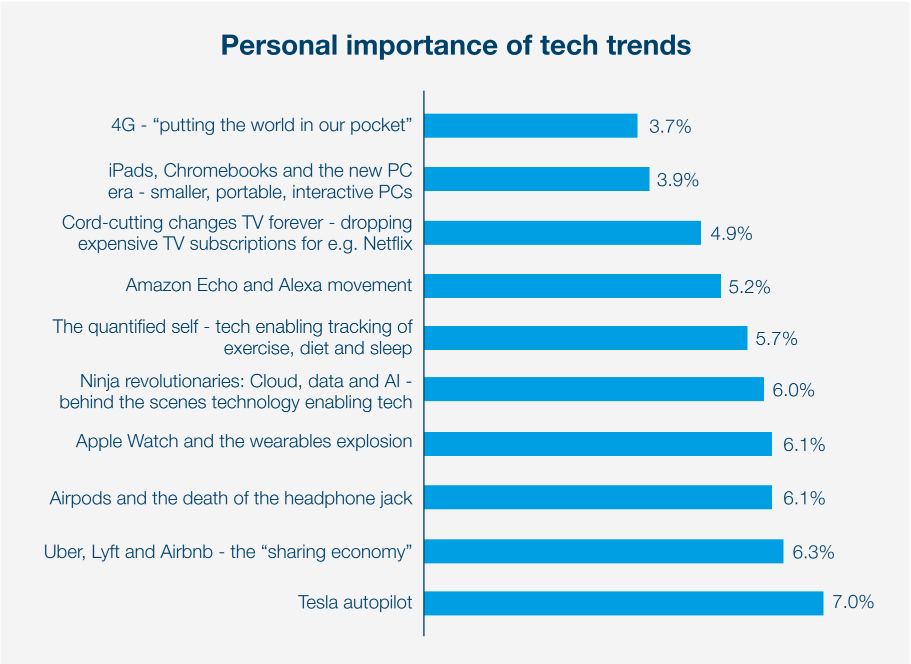
CONTENTS

EXECUTIVE **SUMMARY**

In the next decade the Telecoms industry will be transformed by space-age sounding technology: augmented and virtual reality, low Earth orbit satellites, artificial intelligence, the Internet of Things and more. When it comes to new technology, 5G is the #1 trend on everyone's mind, particularly Gen Z and Millennials. Looking back at the most important technology in the last decade, 4G led the way there too. The Telecoms industry has played a pivotal role in shaping the modern world.

This report will focus on what consumers consider the 3rd most important technological trend of the last decade – cord-cutting. Not as important as "putting the world in our pocket" with 4G, or the new PC era with iPads, Chromebooks and other small, interactive PCs entering our homes, but more important for consumers than voice assistants and the Alexa movement, the quantified self, the sharing economy and more.

What fuelled its rise, and what does it tell us about the role of brands more broadly when operating in an environment of technological disruption? The cord-cutting movement developed in a specific set of circumstances and came to be defined by a single brand with a singular vision, but it provides some insight into the complicated and sometimes fragile nature of brand loyalty in general.

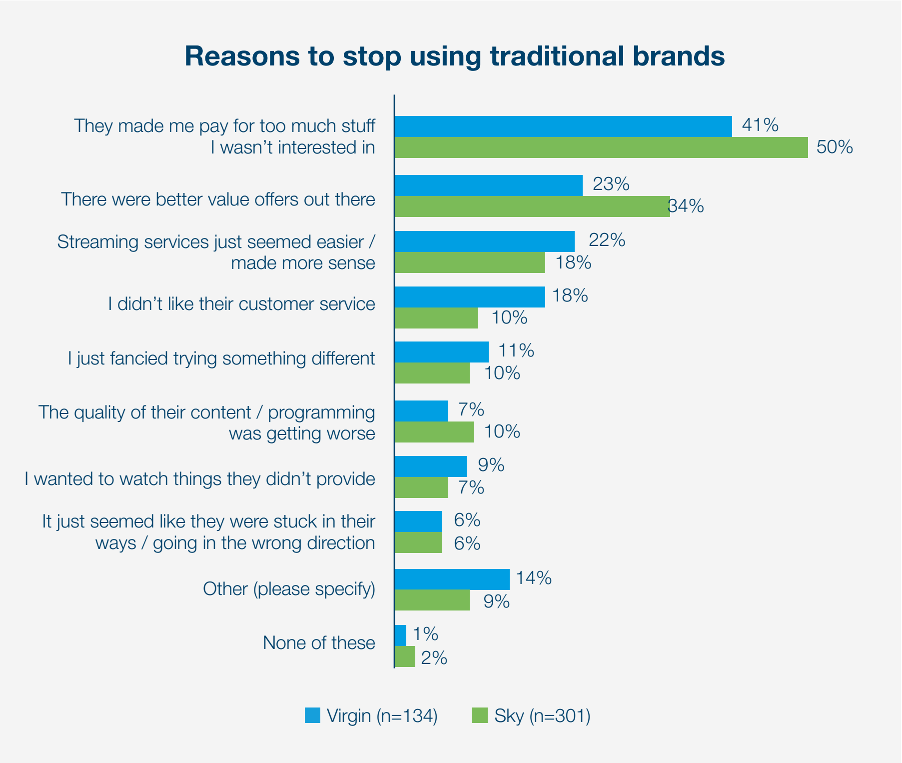


Millions of UK consumers were loyal to their TV provider for years, until they decided to cut the cord. The speed of adoption of the challenger companies is staggering, e.g. Netflix reaching the 10-million subscriber mark at almost 3x the speed of Sky[1]. This is a reminder that loyalty must be earned over and over again, no matter how long a customer and a brand have been together.

While the cord-cutting trend started in the last decade, it appears to be accelerating into this decade. The US are the trend-setters in this area. The first signs started to appear in 2010, when Comcast started reporting subscriber losses that exceeded the company's and industry analysts' forecasts[2]. At that time people questioned whether this was a temporary effect brought about by a struggling economy, but by 2013 there were declarations that cable TV had peaked[3], and by the end of the decade we were watching traditional Pay TV decline at an unprecedented rate[4].

Loyalty must be earned over and over again, no matter how long a customer and a brand have been together

By the end of 2018 we were witnessing the first global decline in subscribers[5], and the UK was leading the way in Europe with losses of over 400k subscribers[6]. According to the latest figures in Q3 2019, there has been an overall global decline of 2m, and the pace is beginning to pick up in EMEA with quarterly losses of 660k. Cord-cutting has now crossed the Atlantic and the signs show that this is accelerating.



[1] Netflix to overtake Sky's satellite TV subscriptions by end of year (Guardian)
[2] Comcast loses more subscribers than expected, but its earnings top estimates (New York Times)
[3] Pay TV will shrink for first time in history, study says cable watching peaked in 2011 (Giga OM)
[4] Traditional pay-TV operators lost record 6 million subscribers in 2019 as cord-cutting picks up speed (Variety)
[5] Multiscreen Index reveals first worldwide decline in TV service subscribers (Rapid TV News)
[6] UK leads Europe's TV market into cord-cutting era, says strategy analytics (Business Wire)

What motivates people to cut the cord? Stretching back to at least 2010, there was a recognition by industry analysts that there was "dissatisfaction with prices" and "some level of resentment with these services"[7]. This attitude became normalised and accepted, with providers once relying on the notion that most customers were too apathetic to change, though a new directive from Ofcom requires telcos to notify the customer before the "end of contract" occurs. A decade on and millions of subscription cancellations later, we need to re-evaluate that idea.

Most people in the UK cut the cord because they could no longer justify paying so much for stuff that they weren't interested in, and they looked elsewhere for better value. The convenience of streaming services and the desire to try something new appealed to some cord-cutters, but the primary motivation was the perceived misalignment between price and value, together with the proliferation of options from different providers[8].

While the younger generations are the most likely to be cord-cutters or cord-nevers, there is little evidence that they are less brand loyal than their parents. In fact, when it comes to products that they really care about, like mobile phones, they are more brand loyal. They are the most likely to try new technology, but cord-cutting reminds us that all generations are value-driven on some level.

Most people in the UK cut the cord because they could no longer justify paying so much for stuff that they weren't interested in

[7] Cord-cutting hits Europe as global pay TV numbers slide (Digital TV)
[8] Wireless commoditisation (PWC)

BACKGROUND

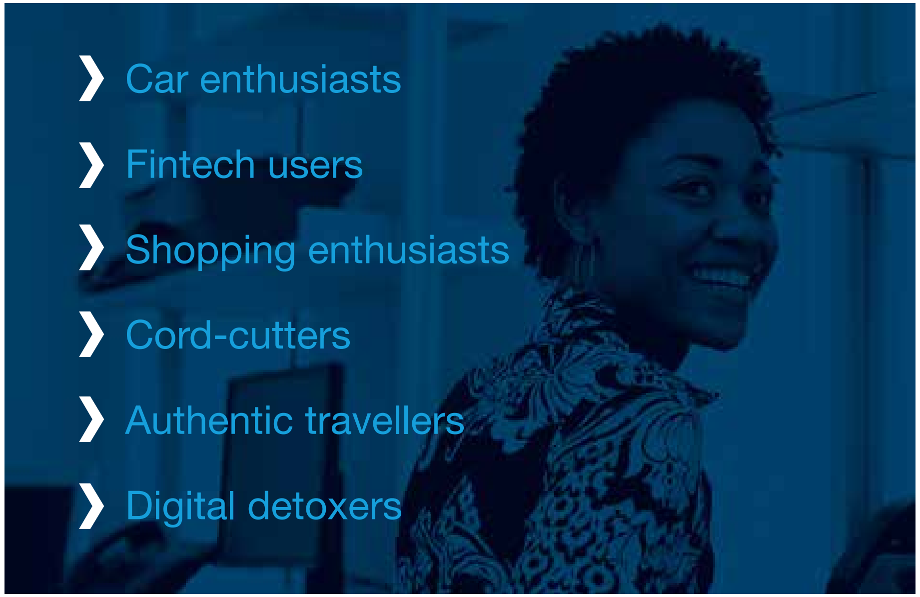
A nationally representative sample of 4,000 people were surveyed to measure some of the established megatrends – environmentalism, desire for authenticity, connected worlds creating disconnected societies – and explore how they connect to sector-specific trends.

This was within 6 key sectors:

1. Automotive
2. Consumer electronics
3. Financial services
4. Telecoms
5. Retail
6. Travel

The overarching objective was to understand what direction society is moving and how businesses in these industries should prepare for this, both in terms of risk mitigation and innovation.

This was followed up by surveying a sub-section of the population in each industry that were particularly close to the trends, to dig deeper into what is driving them and understand what the early adopters or enthusiasts believe are most worthy of attention. The sub-section included:

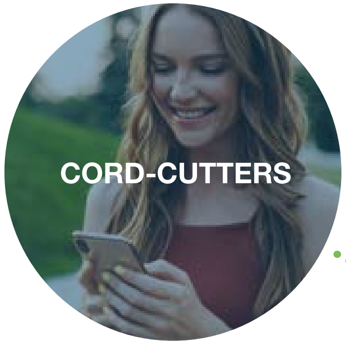


- Car enthusiasts
- Fintech users
- Shopping enthusiasts
- Cord-cutters
- Authentic travellers
- Digital detoxers

In this case, the focus is on cord-cutters. You can find a profile of them to the right. They will be the key feature of analysis, as we asked them the most probing questions, and their interest in the subject allowed them to give more thoughtful answers than your average person.

A secondary feature of the analysis will be the nationally representative audience, with a particular focus on how attitudes and behaviours differ across generations. Here is a profile of each generation from the nationally representative survey.

This will be supported by secondary research from a variety of sources, to provide an international and historical context with hard numbers where possible. They will be cited throughout the report.



Equal gender split and mostly Gen Z, Millennials and Gen X but includes some Baby Boomers too.

Present in all areas.

The majority watch TV every day, while just under half watch a device other than TV every other day.

The majority previously had a subscription with Sky and the most of them have access to both Amazon and Netflix.

Profile of each generation from the nationally representative survey

	Gen Z	Millennials	Gen X	Baby Boomers	The Silent Generation
Years born	1997-2004	1981-1996	1965-1980	1946-1964	1928-45
Age	16-22	23-38	39-54	55-73	74-91
Relationship status	Mostly single	Mostly married	Mostly married	Mostly married	Mostly married
Working status	Mostly students	Mostly employed full time	Mostly employed full time	Mostly retired	Mostly retired
Independence vs. Obedience	Independence	Independence	Independence	Mixed	Obedience
Security vs. Convenience	Mixed	Mixed	Mixed	Security	Security

WHAT LED PEOPLE TO **CUT THE CORD**

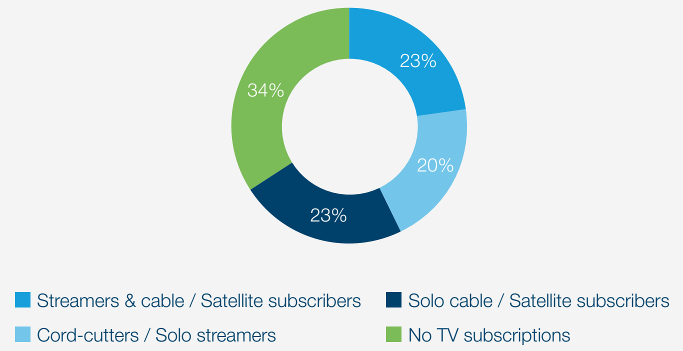
Based on this research we estimate that 10.8m people pay for a streaming subscription, and don't pay for cable / satellite. Of those, the vast majority (9.4m) previously had a cable / satellite subscription – cord-cutters and the majority had a subscription with a satellite provider.

The primary reason people cut the cord is because they had to pay for things they didn't want, followed by the belief there were better value offers out there. Regardless of whether they cut the cord last year, or more than 5 years ago, they were the two standout motivations. Few people believed satellite or cable providers were moving in the wrong direction, or the quality of the programming was getting worse – they simply sought more choice and better value for money.

> The price kept going up each year until it no longer became affordable. Also, it was poor value as was never anything on we wanted to watch so was paying a lot and not actually using the service.

What do cord-cutters think traditional providers should do to prevent more people from cutting the cord, or to entice them back? Reduce prices, reward loyalty and allow people to choose their own package. Ultimately the message is that brands shouldn't expect customers to be loyal to them, when people feel they haven't been loyal to their customers, nor operated with their customers' best interests at heart.

TV subscription portfolio



Prevent cord-cutting by reducing prices, rewarding loyalty and allowing people to choose their own package

“Just be cheaper! I think my package was close to 50 a month at the end and I currently pay 5.99 for Netflix which has great content and no pesky adverts.

Make them cheaper, we were with a provider for a long time, but felt that we were never rewarded for this really. The price just went up and up and we found we have less time for watching TV in this way - streaming has been much easier.

Make things more a la carte so people can pick just one channel or channels they liked for a small fee, rather than requiring people to buy into large, expensive packages that they don’t get their money’s worth on.

Offer better pricing options so that I can choose to only pay for what I actually want to watch. Offer loyal customers better deals during their subscriptions rather than only offering better equipment/services to new customers.

Make TV more a la carte so people can pick just one channel or channels they liked

WHAT ATTRACTS CORD-CUTTERS TO **STREAMING SERVICES** AND **OVER THE TOP** (OTT) MEDIA SERVICES

Most cord-cutters have access to both Amazon and Netflix subscriptions, but a much smaller portion pay for subscriptions to both – many people access these subscriptions on their friend's or family's account. Among cord-cutters, Netflix access is nearly ubiquitous – 85% use it, and 60% subscribe to it, followed by Amazon Prime Video and Now TV.

Why do people sign up to these services? The primary reason is again simply value for money.

> Cheap, plenty of choice and it was recommended to me.

After that, it depends on the streaming provider. Many people signed up to Netflix for their exclusive content and found the range of content outside of that more than justified the price, while others signed up for access to the wide range of films.

> Originally to watch “Breaking Bad” but was impressed by the original content from documentaries through to tv series and films. Keep finding new Netflix productions which easily justify the cost of subscribing.
>
> Signed up for a free trial to watch a specific programme that was only available on Netflix (Arrested Development) - kept it as we found enough other stuff on there to justify the cost.
>
> Netflix has great films and series so mainly the content of the films.

For Amazon, many people sign up to the video service primarily because of the package it’s part of.

> Includes prime delivery, very reasonable price, exclusive programmes, something for everyone, easy to use, no contract.
>
> It’s a great deal for students. I like how you can use amazon shopping, films and tv and music all in the one subscription, it’s fantastic value for money.

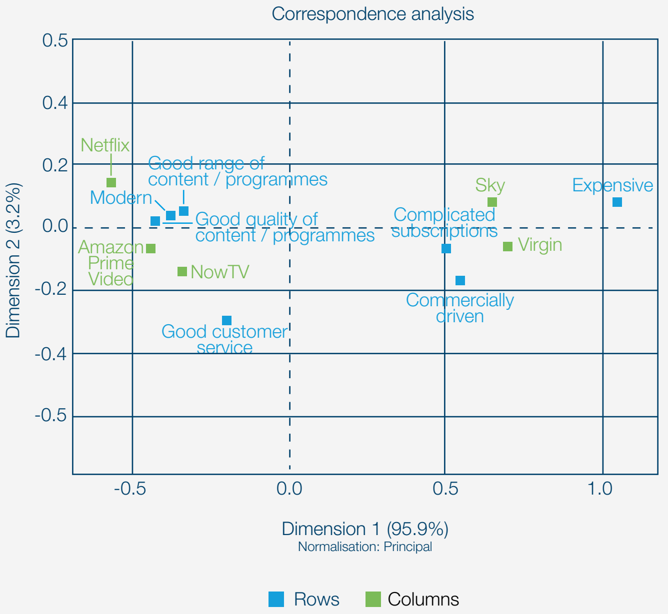
While for NowTV, it provides people with access to Sky programming in a cost-effective, flexible package.

> Benefits of Sky without being tied into satellite package. Gives me the best sky channels without tonnes of other channels.

WHAT ROLE **BRAND LOYALTY AND EXPERIENCE** PLAYED IN THAT

Only 22% of cord-cutters are purely value-driven when it comes to choosing their TV provider, but on the flipside much fewer people (7%) choose purely based on how much they like the brand. For the majority of people, it is a compromise between the value and the brand, but more people lean towards value over brand loyalty.

Q: Which of these words or phrases do you think apply to these companies?



That said, distinguishing cleanly between the value of the brand and the value of its offering is not as simple as it sounds. Many people consider Netflix good value because they think it has a better range of content and is inexpensive, while many people consider satellite services poor value because they think it has a worse range of content and is expensive. However, those transactional descriptions also form a part of the brand's perception, and that perception gives Netflix added brand value, which in turn likely reinforces the overall idea that a Netflix subscription is good value.

More people think NowTV, a division of Sky which offers a flexible low-cost alternative, has a better range of content than Sky. On the flipside, the majority of people think Sky is expensive, while few think that about NowTV. In other words, there's some indication that the real cost of Sky leads people to view the brand through a more transactional frame, and through that frame everything the brand offers is viewed more negatively. Many layers get added on top of that, for example the idea of reciprocal loyalty – if customers don't think brands are being loyal to them, they're less likely to be loyal to the brand, and again this transactional frame makes it more difficult for customers to appreciate some of the other elements of the brand value.

What is absolutely clear is that however we define "value", Netflix, Amazon Prime Video and NowTV are perceived as great value, while Sky and Virgin are perceived as poor value, and this was a pivotal factor in their choice to cut the cord.

KEY LEARNINGS FOR TRADITIONAL TELECOMS PROVIDERS

Telecoms more broadly is becoming increasingly commoditised across the globe, and that holds true in the UK too. The inevitable consequence is that brand value matters less and price becomes more decisive.

As we have seen, a driving force of people leaving Sky and Virgin is because of their pricing strategy, and we found that in where people's priorities lie when they choose their TV provider. That pattern was even more noticeable when it comes to choosing the internet provider and mobile service provider than their TV provider, and PwC's industry analysis provides evidence for that[9].

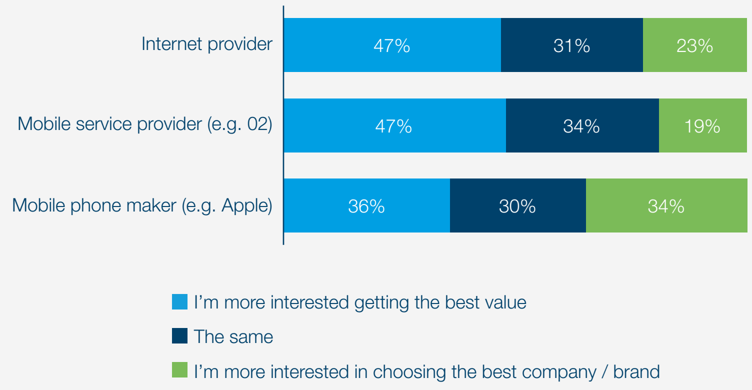
However even when it comes to choosing the mobile phone maker, more people are interested in monetary value than brand value. And while it's a common claim that Millennials are less brand loyal, we found no evidence of that among cord-cutters – 28% of Millennials leaned towards brand value when it comes to choosing a TV provider, compared to 18% of Baby Boomers. In fact, more Millennials leaned towards brand value over monetary value when it came to their mobile phone maker, as did Gen Z – it is the older generations that were more price-conscious. When choosing the TV provider, internet provider or mobile service provider, all generations lean more towards price.

There is no consistent pattern of brand loyalty across generations, across categories. By comparison, among car enthusiasts, we found that the brand was the least important factor in their car choice among all generations, while price was the 2nd most important factor for Millennials (behind reliability), the 5th most important factor for Gen X (behind performance), and the 4th most important factor Baby Boomers (behind safety). However, we also found that half of

28%

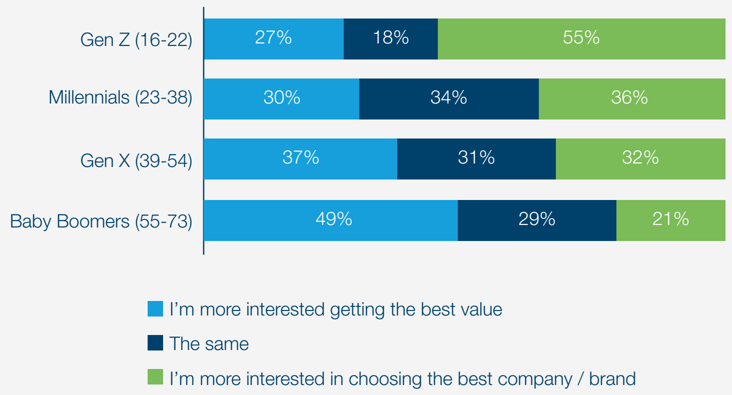
of Millennials leaned towards brand value when it comes to choosing a TV provider compared to 18% of Baby Boomers

Brand importance of other services



[9] It is not a choice: brands should seek differentiation and distinctiveness (Millward Brown)"

Brand importance of mobile phone maker by generations



millennials

place more emphasis on brand value than financial value unlike their parents

all generations thought the car brand was "very important" or "essential", and findings generally support the notion that brand value plays a greater role in buying a car (and other high value, tangible purchases).

So, Millennials are more price-conscious about choosing a car, but the average car costs 100x as much as a new phone, and the average Baby Boomer is worth 10x as much as the average Millennial. When the price barriers drop considerably, as they do in Telecoms, Millennials are less price conscious than older generations. If you add in factors around lifestyle and the role these products play in people's lives, then you find purchases such as mobile phones – where Millennials place more emphasis on brand value than financial value, unlike their parents.

The truth is that all purchase decisions are very complex, with many trade-offs, and any broad generalisations about how large groups make buying decisions are invariably wrong, particularly when that large group is defined by a single characteristic. It appeals to our desire for a simple explanation, and it feels intuitively right that this new disruptive generation that has been exposed to more choice than ever before will be the cause of the decline in big, traditional brands. However, the evidence rarely supports such a straightforward story, and it never applies across all buying decisions.

In the case of cord-cutting, technological disruption gave people the option of making a choice primarily on cost, answering an unmet need for many cable and satellite subscribers for decades. Those two factors combined – paying too much for a service, and the introduction of a competing service at a more affordable price – drove many people to cut the cord. However, mixed into that were a number of people who simply felt that their TV provider was demanding loyalty of them, increasing the price year after year, while offering no rewards for their loyalty (and instead rewarding new customers or customers threatening to leave).

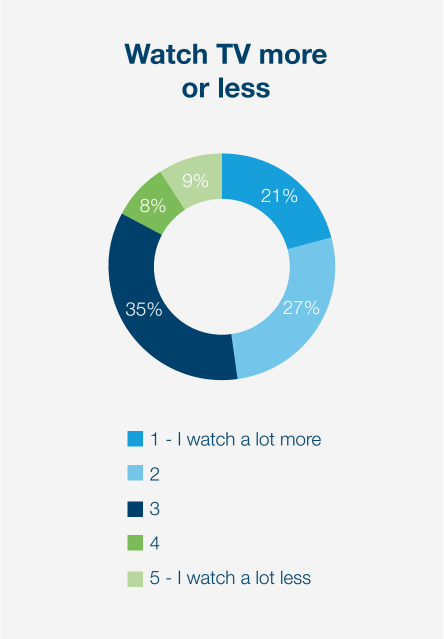
Amazon & Netflix are creating their own content and new entrants like Britbox and Disney+ are taking theirs back from Virgin and Sky. Whilst both carry the streaming services so as not to lose all contact with customers they cannot depend on this as a strategy. 5G will almost certainly see consumers cutting the cord entirely and streaming through their Smart TV especially since 5G will be much quicker than non-fibre broadband.

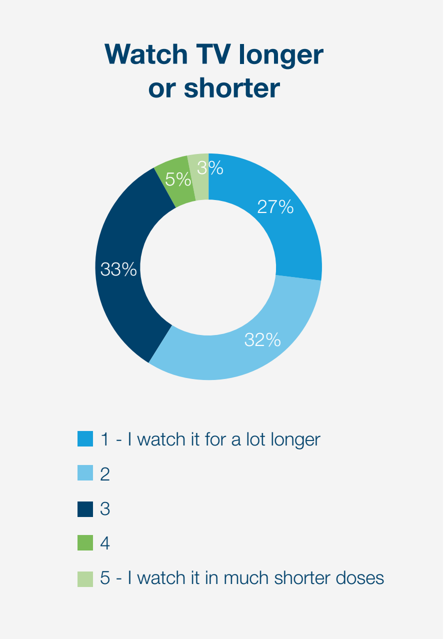
The brand is not the dominant factor in choosing the TV provider, but only a minority of people think price is the only factor. It is a complex interplay between those factors, along with the nature and quality of services, and the people choosing it in the moment and place they're making that choice.

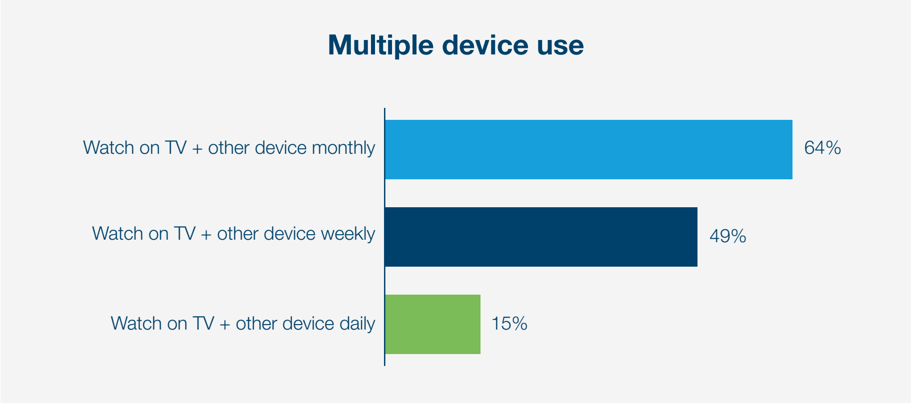
> The trend of binge-watching was created by the nature of streaming services

In other Telecoms industries, which are more commoditised, the opportunity for a new brand to come in and disrupt the market based on affordable pricing is quite small. However, there are unmet needs in every industry that are eventually filled through technological innovation, and even new needs that are created from it.

For example, 48% of cord-cutters say they now watch more TV, and 59% say they now watch TV for longer sessions. This trend of binge-watching was created by the nature of streaming services, which created new challenges for traditional providers that they were not designed to accommodate. The accessibility of streaming services on multiple devices created a demand for media multitasking too, with half of cord-cutters now watching something on TV and another device every week, while only 11%







of internet users watched TV online weekly in 2011 – the year before Netflix entered the UK[10].

What Telecoms brands need to do is listen to their customers unmet needs from their specific service, recognise the opportunities and threats from innovation within that space, and define their role within that marketplace. What they cannot do is sit comfortably now, find a new entrant comes in with some disruptive technology, and then blame broad generational trends for their declining market share. It will never be the only explanation, and it will never put the brand in the ideal position to respond and thrive.

To avoid this, you need to know your customer.

[10] Adults' media use and attitudes (Ofcom)

HOW **ACXIOM** CAN HELP

Acxiom solutions can help you better connect with the telecommunications consumer by helping your organisation:

Improve long-term customer value and retention

Using predictive “next best product” analytics leveraging transaction data with third-party enhancement to target existing customers with the right cross-sell/up-sell offer and reducing churn.

Enhance your consumer insights

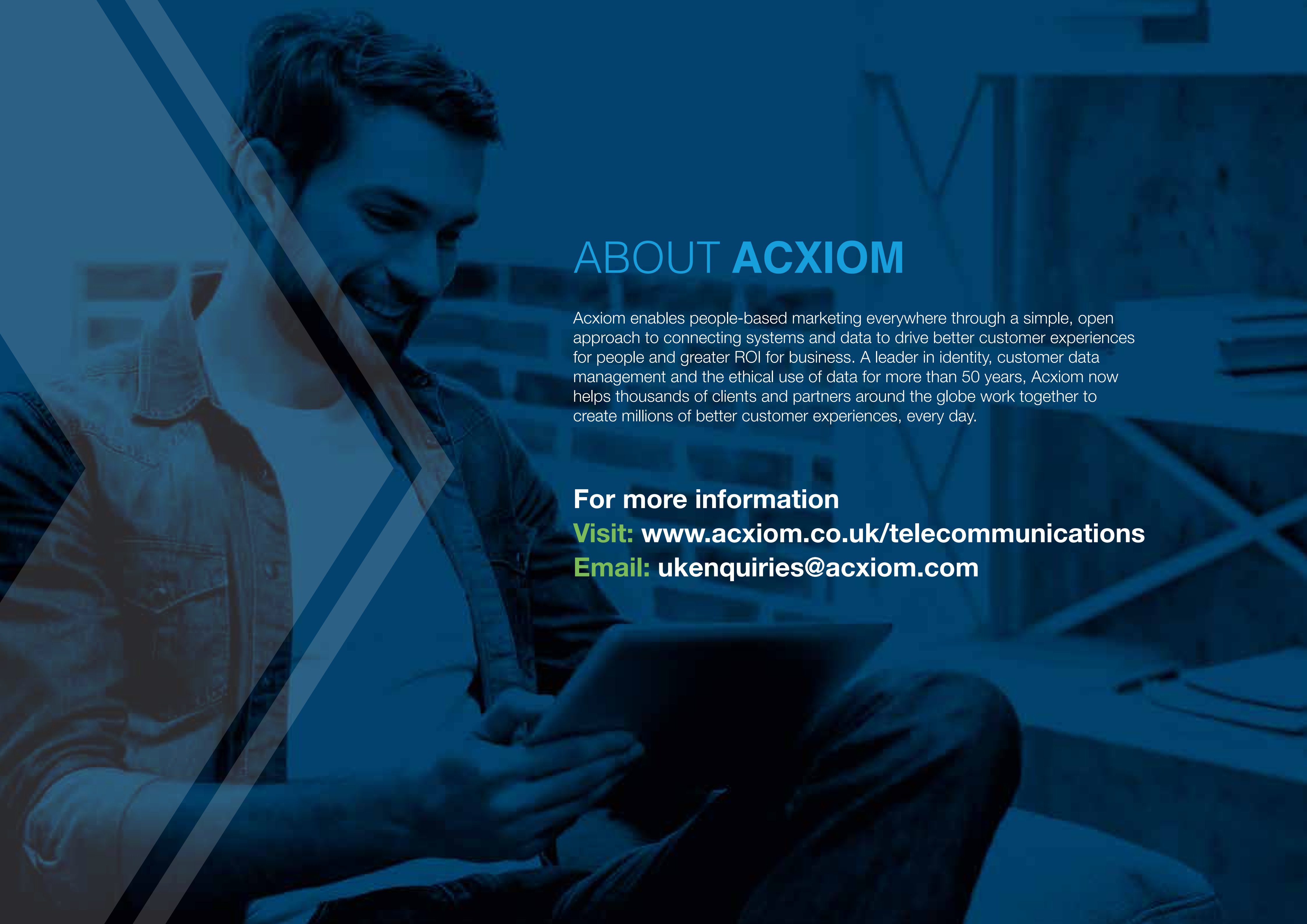
With our identity management solutions and analytics expertise, we can help you truly know your customer so you can offer the right solution.

Deliver personalised, relevant experiences to your customers across all channels

Providing a scalable customer data environment that integrates your omnichannel data sources in a privacy-compliant manner to provide a complete view of your customer.

Recognise customers across digital and offline channels

Increase conversion and deliver a better brand experience by onboarding offline customer and prospect data for people-based targeting and measurement across digital touchpoints.



ABOUT **ACXIOM**

Acxiom enables people-based marketing everywhere through a simple, open approach to connecting systems and data to drive better customer experiences for people and greater ROI for business. A leader in identity, customer data management and the ethical use of data for more than 50 years, Acxiom now helps thousands of clients and partners around the globe work together to create millions of better customer experiences, every day.

For more information

Visit: www.acxiom.co.uk/telecommunications

Email: ukenquiries@acxiom.com