

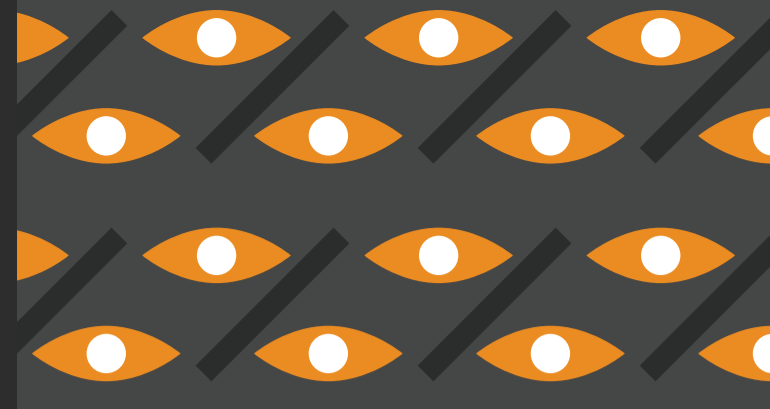
A new

video

world order

What motivates consumers?

A new video world order



What motivates consumers?

Video consumption has never been more fragmented. As pay TV subscriptions continue to decline, they are replaced by a number of live and on-demand streaming options that continue to grow by the day. Viewers can use a dizzying array of services to create their own consumption “nirvana.” However, there is bound to be an upper limit on both how many different services a consumer is willing to pay for, and how much time she has in the day to consume. This leads some in the industry to believe the growth in content and platforms may not be sustainable over the long term.

Cutting through this cluttered landscape to create a relevant position with consumers requires an understanding of which consumer segments your growth goals depend on and their underlying motivations, preferences, and behaviors. Only with this view can industry players make strategic decisions that will ensure competitive advantage and deeper viewer relationships, while remaining relevant and with enough scale to survive an inevitable culling in the over-the-top (OTT) video space.

For the sixth consecutive year, our survey sought to examine some of the most pressing questions about American consumers and their relationship with video:

- What motivational dimensions drive video consumption behavior?
- What are the current gaps in consumers’ technological needs?
- How will the nature of storytelling evolve, and how can you stay ahead on content?

We also developed new motivation-based video profiles to identify five distinct consumer groups in a continually changing video space.

Methodology In October 2018, PwC surveyed a sample of 2,016 people in the US, ages 18-59, with annual household incomes above \$40,000. We analyzed our results against similar studies we administered in past years, and ran cluster analysis on 68 attitudinal and motivational statements. Additionally, we conducted consumer and industry insider focus groups.



Watch now to hear their take on the future of video

Key findings



67%

Cord-cutting continues its upswing. This year, 67% of consumers are pay-TV subscribers, down from 73% in 2017, and 77% in 2016.



19%

Yet, a small but loyal pay-TV audience persists, even ticking up slightly: 19% of respondents say they’re “in a committed partnership” with their cable/satellite service, up from 17% last year.



Demographics are no longer an accurate predictor of consumer video consumption, as the behavior of younger and older generations converge.



\$18–24bn

Five distinct motivation-based consumer segments define today’s video consumption landscape, each spending \$18-24bn annually.



12%

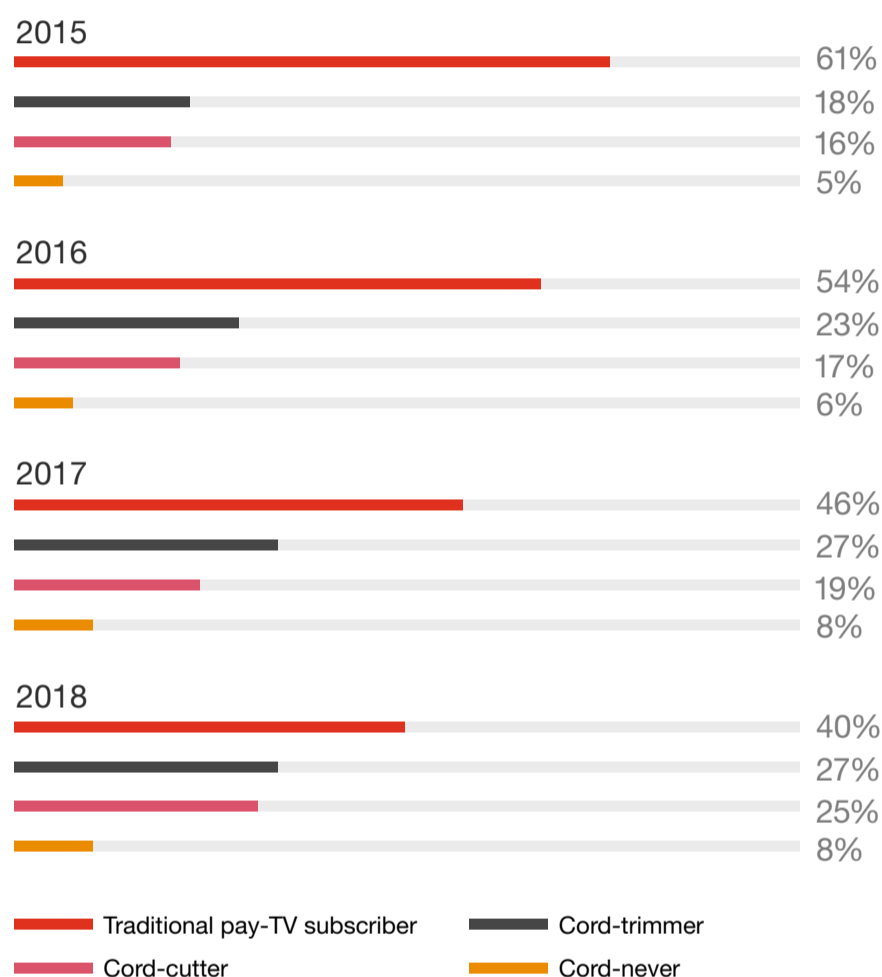
Consumers continue to perceive content discovery and recommendations as deeply inadequate: only 12% say they are able to find content on streaming platforms easily.

The cord-cutting revolution will not be interrupted



In 2018, we saw a continuation of the cord-cutting revolution: Total pay-TV subscriptions declined from 73% to 67%, while Netflix usage (76%) surpassed cable and satellite usage (67%) for the first time.

Distribution of pay-TV relationships over time



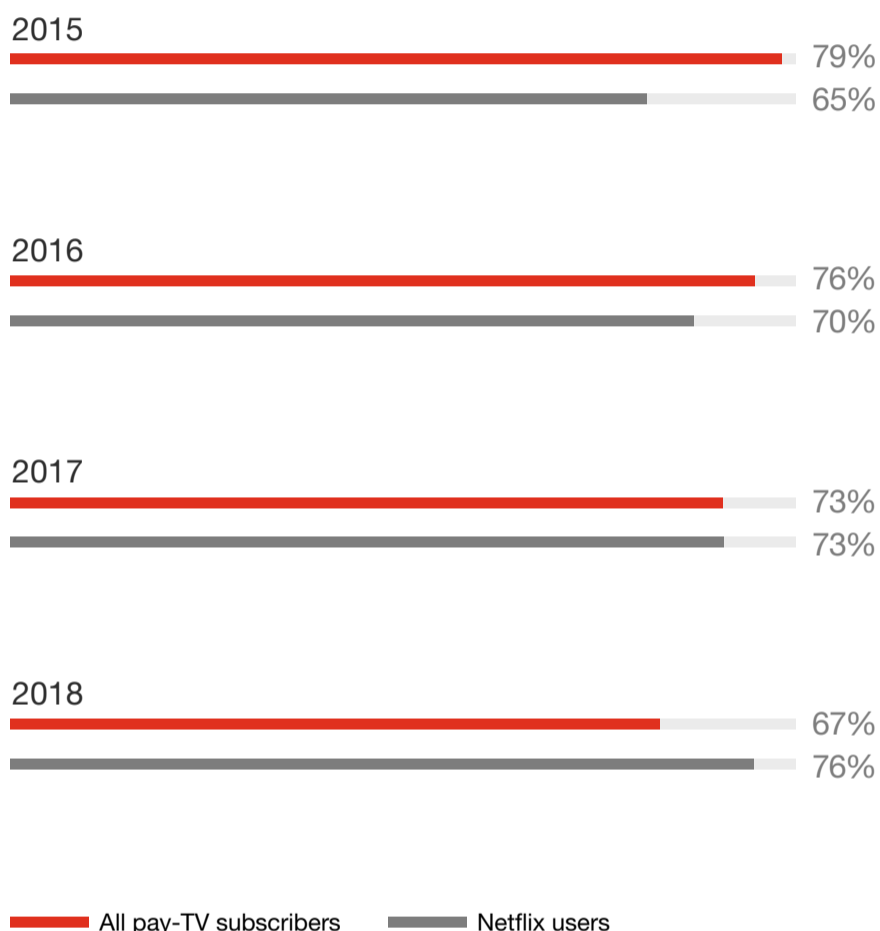
Source: PwC 2018 video survey

Q: Which of the following best describes your current relationship with pay-TV?

As content options and platforms continue to grow, and consumers have more control over their choices, the pay-TV-consumer relationship appears healthier:

- 19% of consumers say they're "in a committed partnership" with their pay-TV service provider, up from 17% last year.
- Fewer people feel "trapped" in the relationship (20%, down from 22% last year).

Pay-TV vs. Netflix subscribers



Source: PwC 2018 video survey

Q: Which of the following TV/video services do you currently use, have used in the past, or never used?

"Today, if you still have cable, it is a choice and you're choosing it because you've evaluated all the options and decided that this is optimal for you. Therefore, you've decided to be there versus you have to have this relationship."

— Industry insider specializing in entertainment, media and technology

What's motivating consumers? Understanding consumption habits



Demographics have long been used to assess and predict consumer video consumption and purchasing behavior. Segmenting customer groups by their motivations, however, offers us new and essential insights into these behaviors.

Our data shows that there is a convergence between older and younger generations: Older consumers are increasingly cutting the cord and accessing more video content online, while younger consumers are showing signs of positive pay-TV relationships:

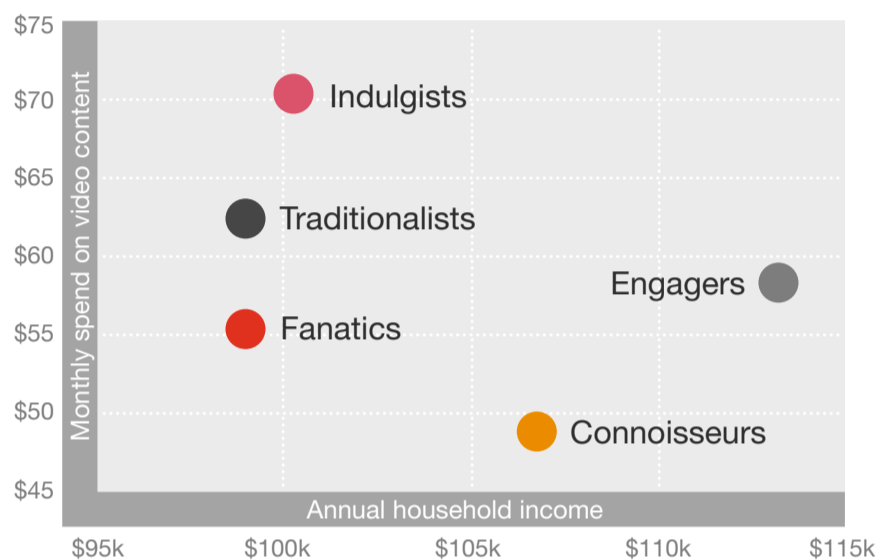
- 28% of older consumers (50+) have cut the cord, up from 19% in 2017.
- 61% of consumers 50 and above now access TV content from the internet, compared to 48% just two years ago.
- Younger audiences are more likely to report a healthy relationship with their pay-TV provider (22% of consumers ages 25-34 report being “in a committed partnership” vs. 16% of those 50 and above.)

“With my cable provider, it’s just easy to put the TV on, sit back and watch. With my [streaming service], you have to search and search and search, and sometimes—sorry. There’s just so much. You spend more time picking something out than actually watching it.”

—Millennial male consumer

Motivation-based segmentation also reveals that there is little association between income and spend on video content.

Correlation between video content spend and HHI



Source: PwC 2018 video survey

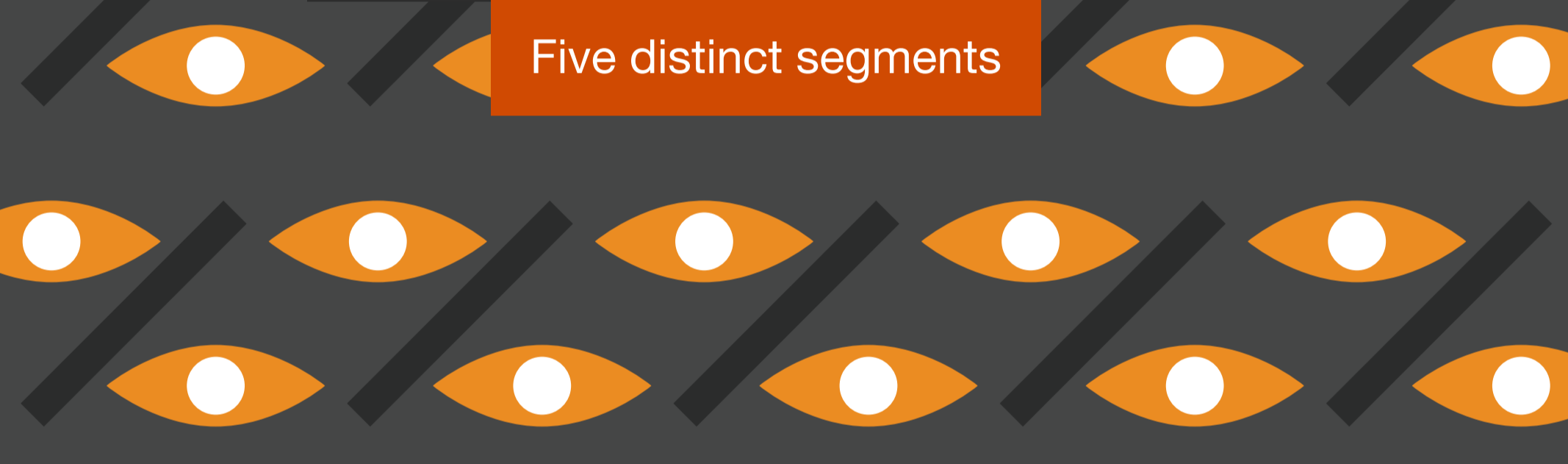
Q: What do you estimate is the total amount you spend on video content per month (including all streaming and cable services)? Which of the following best captures your household income level?



Profiles in

consumption:

Five distinct segments



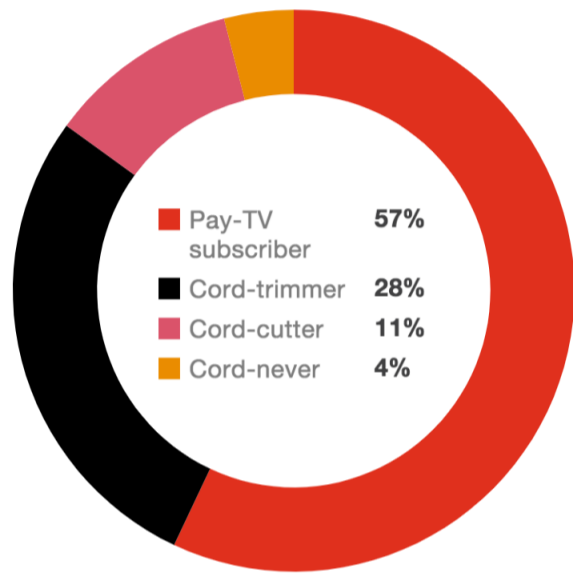
As the disconnect between behavior and demographics grows, we've found, perhaps not surprisingly, that people's video consumption habits correspond closely with their motivations for content as well as their particular interests.

The following are five distinct consumer profiles that emerged in our analysis of the survey data.

1 Indulgists



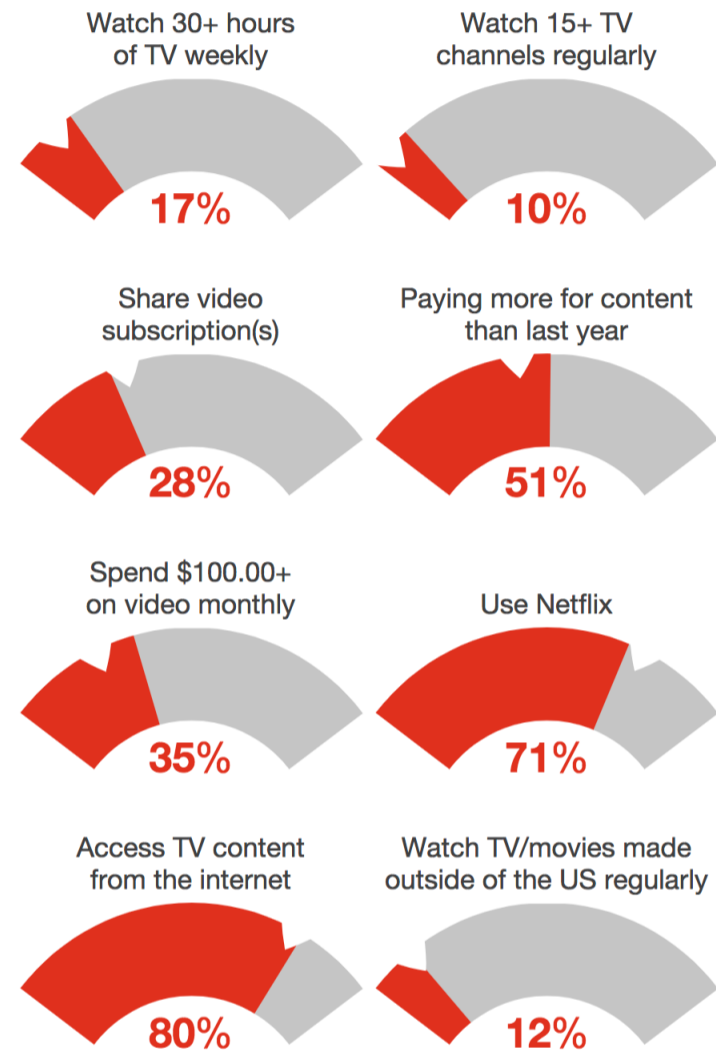
Indulgists — A major source of revenue for both cable and non-cable companies today, this group is driven by consumption – be it content, technology, or “stuff.”



What would improve video streaming?
Faster streaming speeds

Use their top service because...
Endless content, relaxing

Notches show the average US consumer %



\$25bn

US market value

\$70

Est. monthly spend

17 hrs

Est. weekly consumption

37

Average age

\$100k

Average HHI

38%
College degree

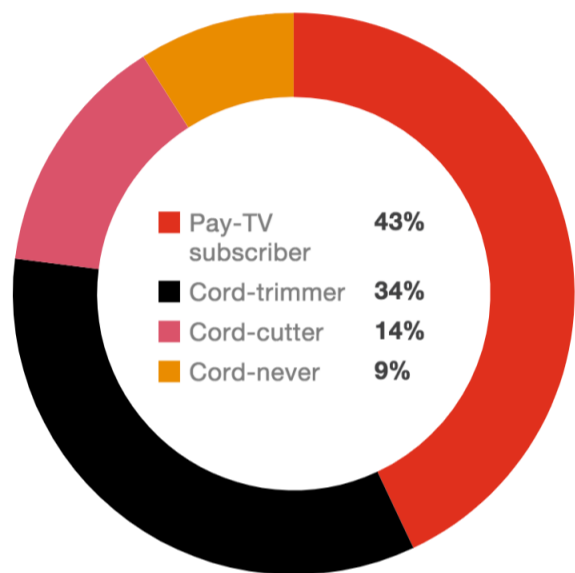
54% Male
46% Female

65%
Children <18 in HH

2 Engagers



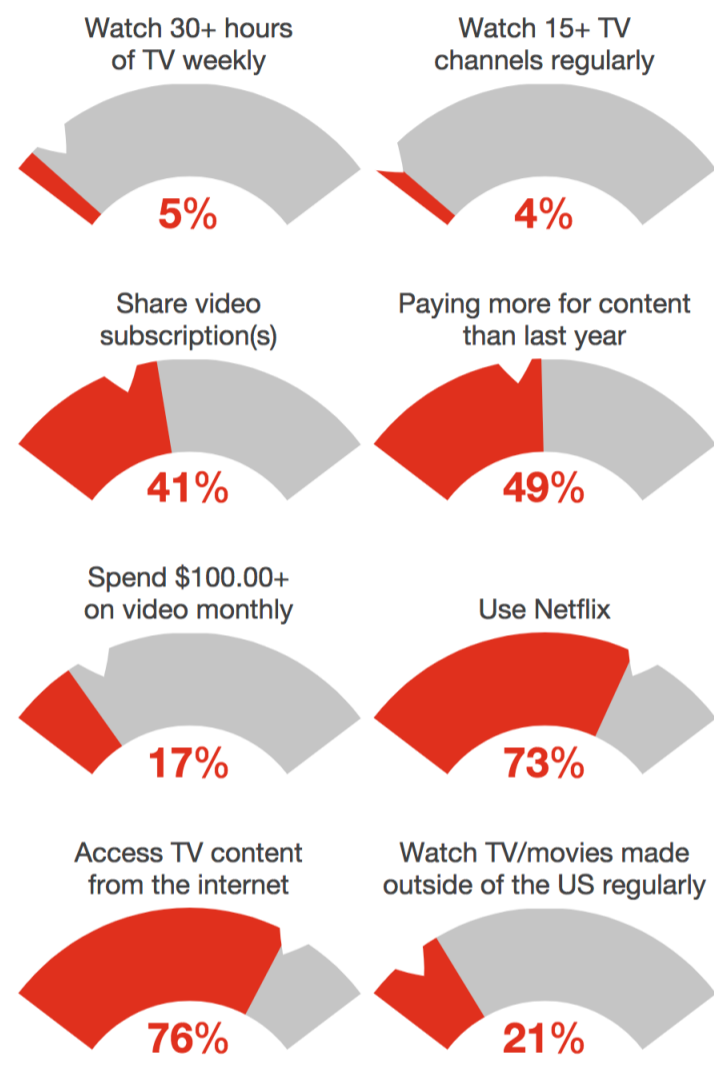
Engagers — Big consumers (even if they don't spend as much as Indulgists) who engage with content in a deliberate manner, they are the future of immersive entertainment and the leaders in online engagement.



What would improve video streaming?
Better content quality

Use their top service because...
Easy to use, original content, unique features

Notches show the average US consumer %



\$18bn

US market value

\$59

Est. monthly spend

12 hrs

Est. weekly consumption

34

Average age

\$113k

Average HHI

35%
College degree

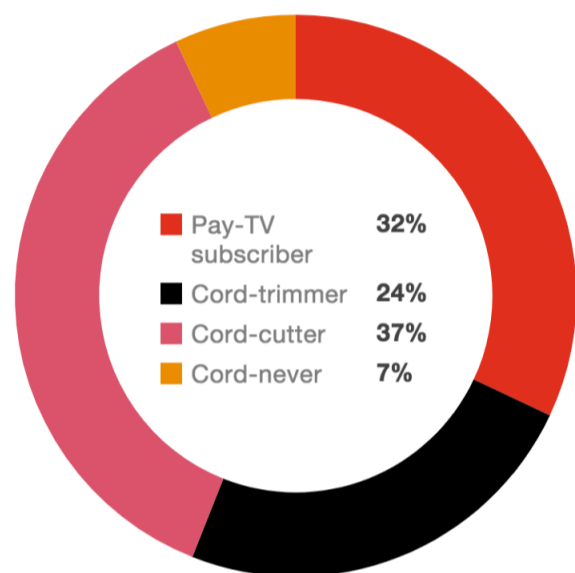
60% Male
40% Female

60%
Children <18 in HH

3 Fanatics



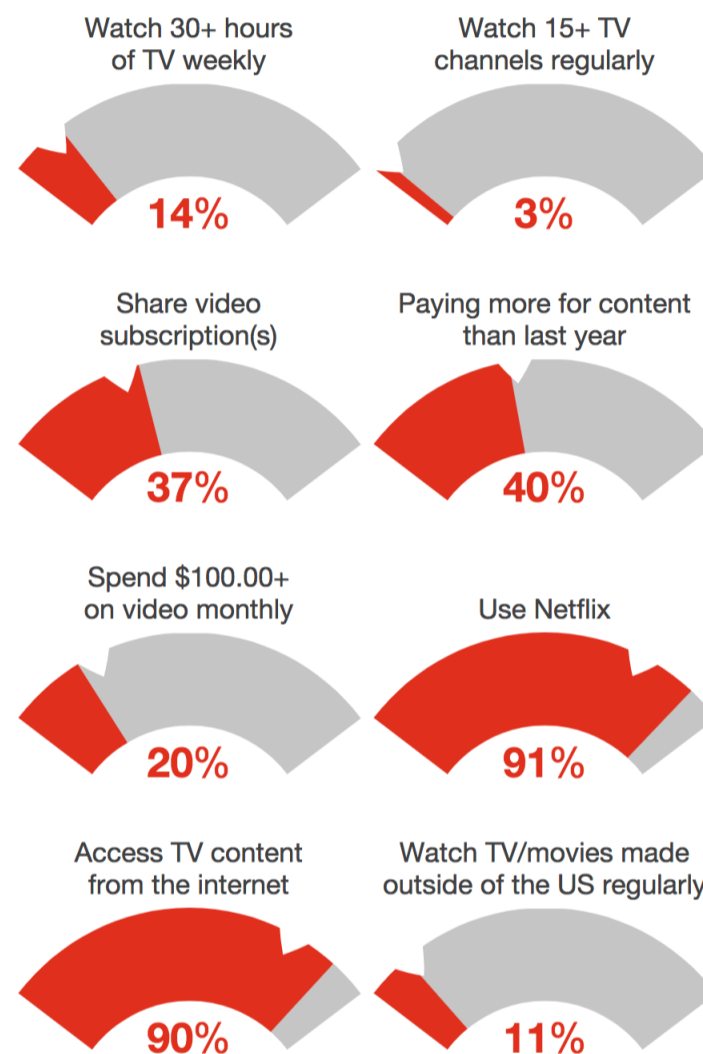
Fanatics — This segment will do anything to have access to an endless selection of content, even if they don't watch it all.



What would improve video streaming?
Bigger selection

Use their top service because...
Always something to watch, original content

Notches show the average US consumer %



\$27bn

US market value

\$55

Est. monthly spend

16 hrs

Est. weekly consumption

34

Average age

\$99k

Average HHI

41%
College degree

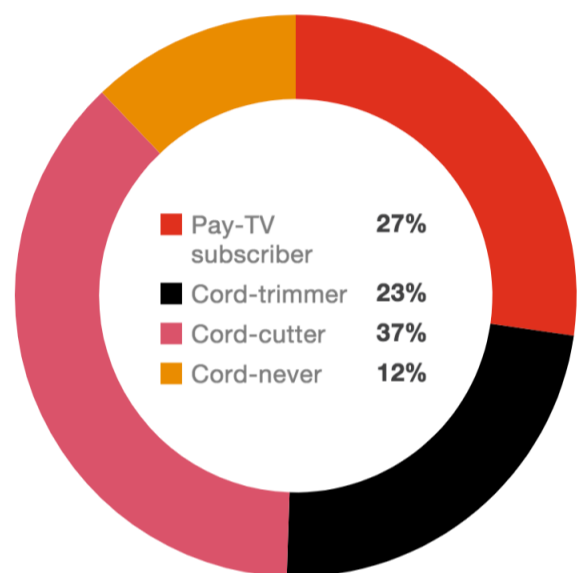
38% Male
62% Female

55%
Children <18 in HH

4 Connoisseurs



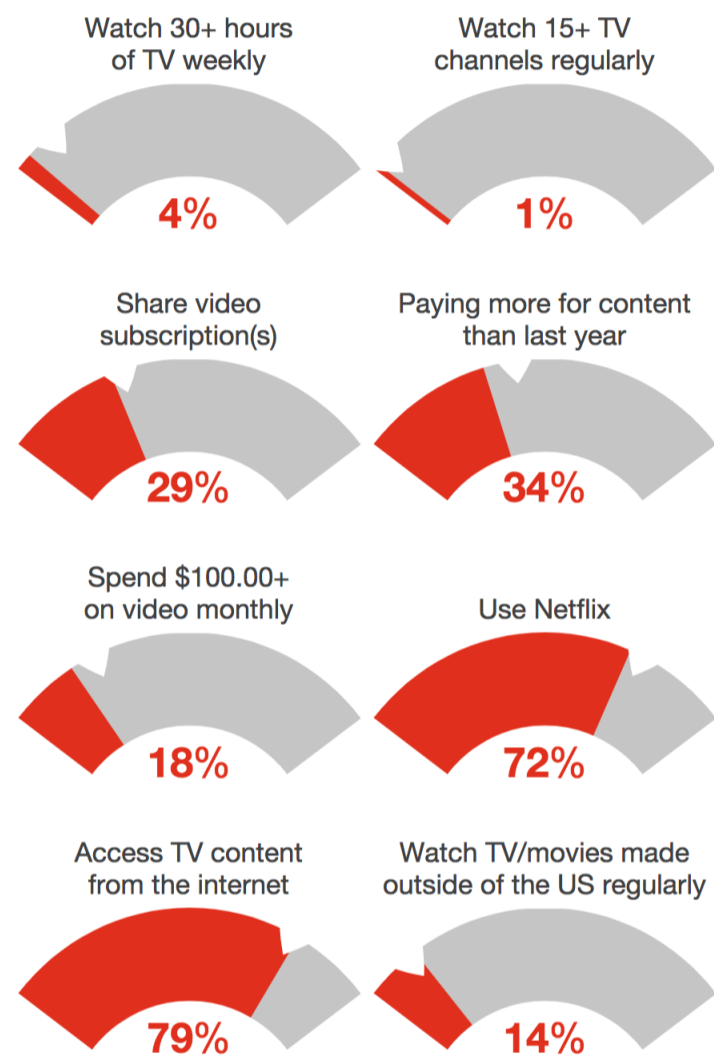
Connoisseur — A culturally-focused, worldly segment who are picky about their content and also the savviest when it comes to subscriptions.



What would improve video streaming?
Bigger selection

Use their top service because...
Always something to watch

Notches show the average US consumer %



\$22bn

US market value

\$49

Est. monthly spend

10 hrs

Est. weekly consumption

39

Average age

\$107k

Average HHI

44%
College degree

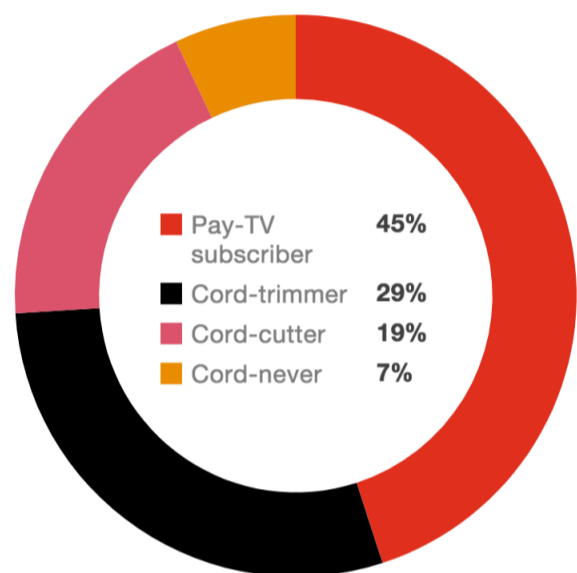
46% Male
54% Female

46%
Children <18 in HH

5 Traditionalists



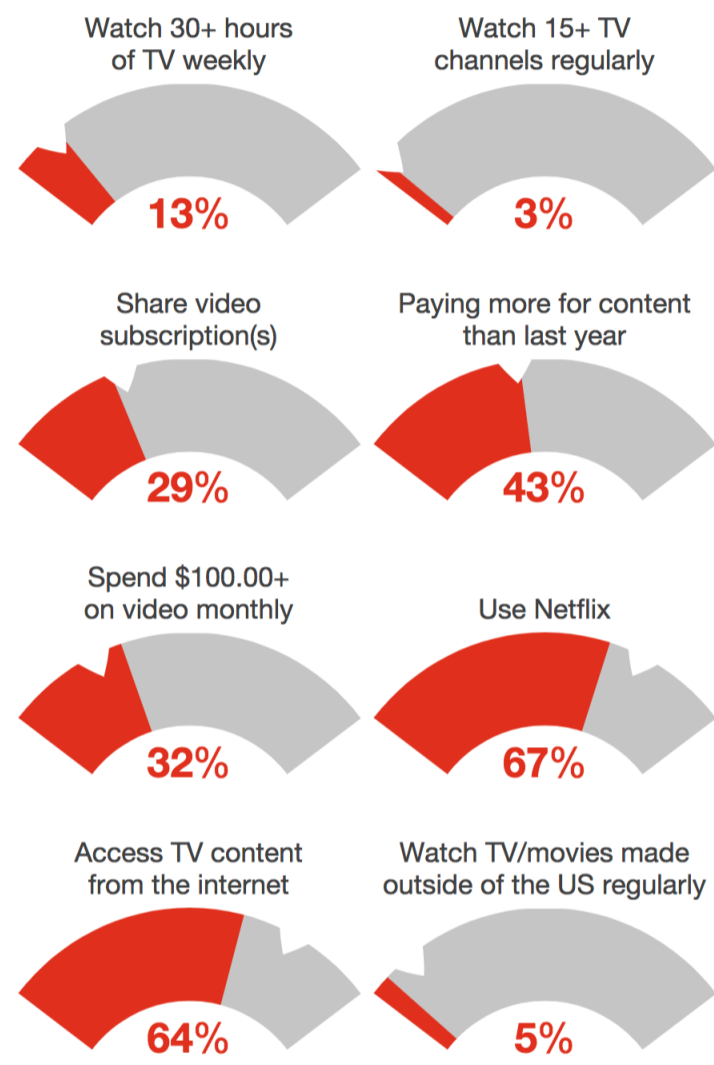
Traditionalist — Overwhelmed by the choices in today's market, motivated primarily by ease and comfort, this group prefers to watch live TV.



What would improve video streaming?
Only pay for content watched

Use their top service because...
Included with my cable, easy to use

Notches show the average US consumer %



\$29bn

US market value

\$63

Est. monthly spend

15 hrs

Est. weekly consumption

40

Average age

\$99k

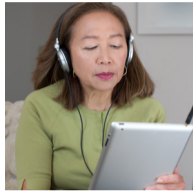
Average HHI

35%
College degree

34% Male
66% Female

46%
Children <18 in HH

What drives...?



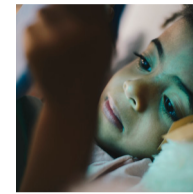
Indulgists

- They want it all: the latest gadgets, premium services and original content.
- Most important: *they're willing to pay for it*. More than one-third of this segment spends more than \$100/month on video entertainment.
- The most committed to their pay-TV relationship, and most likely to see themselves subscribing a year—and even five years—from now.
- Most likely to own DVDs of their favorite shows and movies, as well as go to the theater to watch movies.



Engagers

- More than sitting back and being entertained, this segment wants to engage with content and are more likely to be gamers.
- They consume content in abundance—especially action and comedy genres as well as foreign content—but they often share subscriptions with friends and family.
- They look forward to the days when virtual reality (VR) will replace movies and when they can custom-design their own TV shows.
- This segment likes posting on social media about the shows they are watching, and are the most involved in online conversations about video content as a whole.



Fanatics

- They want access to an endless library of content anytime, anywhere, on their terms.
- They are more likely to be cord-cutters while also subscribing to multiple services at one time.
- This segment loves binge-watching and will go out of their way to find shows and movies they want to watch.
- However, they would love for all of their content to be accessible in one place.



Connoisseurs

- This segment believes we should be reading more books and watching less TV, and are therefore picky when it comes to TV and movies.
- They want to see more educational and diverse content, as well as have greater online security.
- They are savvy about how they obtain and consume content: they're the most likely to be cord-trimmers, paying less for content today than they did last year.
- This group sees themselves as experts when it comes to finding content for free online.



Traditionalists

- These consumers are the “bread and butter” for pay-TV providers today and spend among the most on video content.
- They prioritize predictability, ease and comfort of watching: they like having TV on in the background and watching live programming.
- They are also the least likely to access video content online.
- We expect this segment will diminish over time as accessing content online and on apps becomes even more commonplace.

Staying ahead: using technology to find your audience



Understanding an audience's motivations and then targeting them allows content providers to stay ahead as the industry shifts. An often-overlooked opportunity, however, lies with technology: finding the gaps in service that technology can fill to reach consumers more effectively.

Improve artificial intelligence (AI) recommendations

Consumers still prefer reviews and recommendations from real people because AI recommendations are falling short:

- More than one-third of consumers (36%) believe that finding content on streaming platforms needs to be easier.
- Only 21% of consumers think their streaming services know what they want to watch better than they do.

Consumers are frustrated at how reactive—not predictive—today's algorithms are:

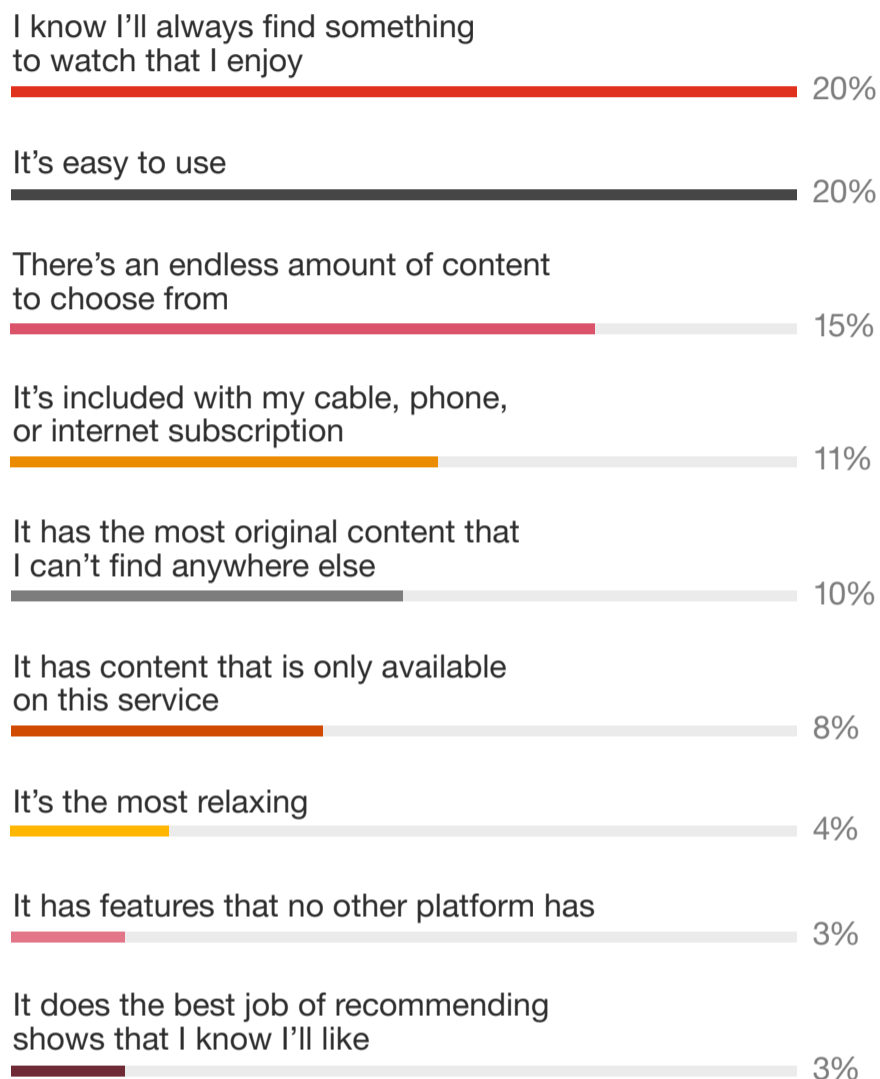
- 30% say their streaming services recommend the same content over and over again.

Engagers find reviews and human recommendations particularly important: 44% like to read professional reviews and 41% pay close attention to other viewers' ratings.

Eliminate user frustration

Despite the seductive pull of streaming services, 50% of the consumers in our focus group said they would eliminate a provider if the service was overwhelming (too much content) or inconvenient (not enough ways to overcome poor discovery.)

Main reason for using favorite content provider



Source: PwC 2018 video survey

Q: What is the main reason you use [service] most often?

This finding underscores how technology can attract or repel consumers. In fact, consumers said ease-of-use is a key reason for engaging with a service frequently, suggesting one way that streaming services may be at a disadvantage compared to pay-TV.

Consider how blockchain can address consumer needs

Consolidating content and payments is one way consumers would like to see the streaming experience improve:

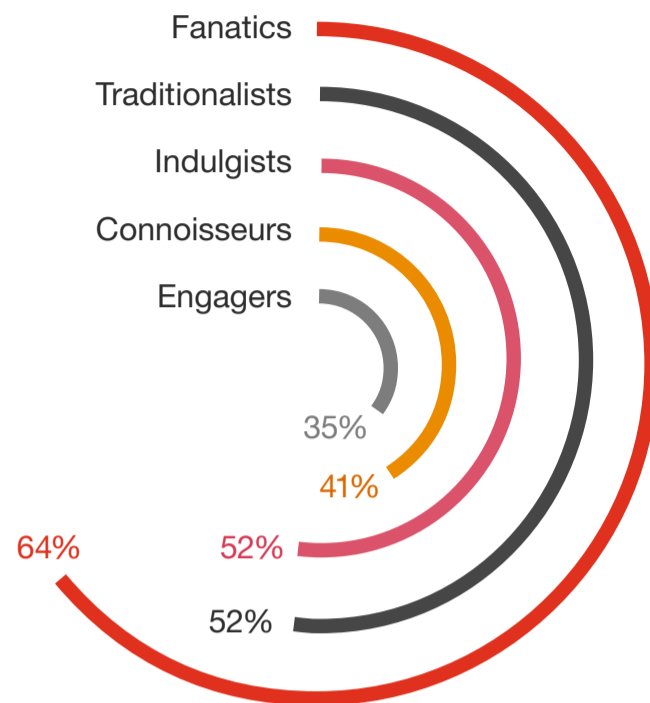
- 51% of consumers wish they could pay just one monthly fee for all the video content they watch, regardless of the platform or service.
- 50% of consumers hope all video content will eventually be available in one place.

In theory, blockchain technology could fill this key consumer need by simplifying the barriers around intellectual property rights, payments and contractual terms that drive fragmentation today.

This consolidation would need to be implemented carefully to avoid creating greater confusion. Some focus group participants expressed anxiety at the thought of having to choose from even more content in one place. Said one, “Unless you know exactly what you want to watch, that’s more overwhelming.”

Fanatics, in particular, are interested in having all video content available in one place to accommodate their viewing habits.

I hope all video content will eventually be available in one place (% agree)



Source: PwC 2018 video survey

Q: In the future, which of the following features would most improve your video streaming experience? (top 2 box)

“I have something that actually annoys me... when I watch one episode and nix it, and they recommend things based off of it even though I clearly didn’t like it.”

—Millennial female consumer

The death of TV has been greatly exaggerated

Despite the rise of mobile viewing—with 38% of respondents watching video content on their mobile device several times a day—TV viewing continues to flourish:

- More than **75%** of Indulgists prefer watching live TV.
- **65%** of pay-TV watchers prefer to watch TV live, up from 53% last year.
- **65%** of consumers stream content to their TV, and Smart TV usage has almost doubled: 42% of those who watch streamed content on a TV say they use a Smart TV, up from 22% in 2017.

Taking advantage of content opportunities



While tapping into technology opportunities will create new markets, content remains the glue of customer relationships for video.

Our research uncovered several content trends to future-proof these relationships.

Viewer-driven storytelling

- 22% of consumers are interested in seeing their favorite brands create content, rather than just the traditional players.
- More storytelling will be driven by the viewer: 30% wish they could “custom design” their own TV show.

Indulgists, the biggest spenders, are the most interested in brand-developed content.

Global rising

Some 20% of consumers are interested in foreign TV shows and films. In a world of ever-shrinking borders, we anticipate this desire for greater breadth and diversity of content will only continue to grow. Meanwhile:

- 59% of consumers want to learn about other cultures.
- 44% say TV and movies provide excellent exposure to other cultures.
- A scant 27% believe that countries and cultures are accurately reflected onscreen today.

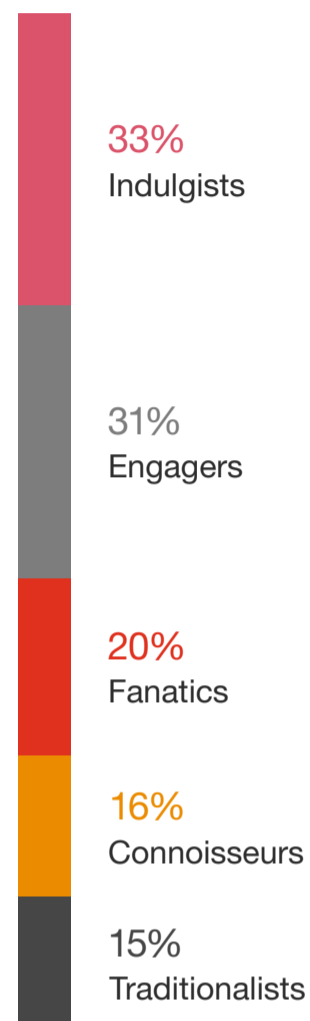
Connoisseurs and Engagers interact with foreign video content the most, in contrast with Traditionalists:

- More than 50% of Connoisseurs and Engagers say they watch foreign TV shows and films.
- 36% of Engagers have used a VPN to access content internationally, compared to just 21% of all consumers.
- A small minority of Traditionalists—5%—regularly watch content made in other countries.

I'd like to watch content created by brands I like (% agree)

Source: PwC 2018 video survey

Q: Please tell us how much you agree or disagree with the following statement: “I'd like to watch TV/movies created by brands I like, rather than just traditional content producers.” (top 2 box)



Moving towards custom immersion

We are still a long way from seeing a strong demand for truly immersive content, with just 17% of our respondents saying they would like to see virtual reality replace traditional movies. But Engagers will lead the revolution in this space: 54% say they would like to interact with movies in the future instead of just watching them (vs. 21% overall).

The opportunity: thriving in the new video order



Understanding viewer preferences is essential to remaining relevant in the increasingly crowded video space. Based on the survey, focus group and expert panel, consider the following recommendations:

- **Know your audience and target intentionally.** As our research illustrates, cord-cutting isn't the trajectory for every consumer. In fact, demographics and income alone no longer accurately predict video consumption and purchasing behavior: lifestyle and entertainment preferences do. Maximizing content and user experience in keeping with your target segments is essential. For example, we see improvement in the satisfaction of current pay-TV subscribers, despite continued cord-cutting. This indicates that if pay-TV were more intentional about understanding and, in turn, serving their specific target audiences, it could pay off.
- **Personalize and target content for each segment.** Consumers are unique; a one-size-fits-all approach simply won't work. As our respondents told us, each one wants something a little different. So why not give Fanatics (content obsessed) opportunities for boundless content while giving Traditionalists (lean-back consumers) a relaxed, easy viewing experience? And don't forget your mobile viewer who is looking for content in convenient, snackable bites. Successful companies will design content, products or services with their target's desired user experience at the core of every decision.
- **Don't let search be a liability.** Almost 90% of consumers are unsatisfied with content discovery and recommendations, which tarnishes their entire user experience. The inability to access a single source for content leaves them frustrated and annoyed. By more consistently integrating OTT platforms, distributors could provide consumers with that single, searchable source while also gleaning valuable data on customer preferences. Develop ways to better curate to support viewers in their search for new content they will enjoy.
- **Deploy AI to improve recommendations.** Viewers tell us they can't figure out what to watch next: They are overwhelmed by choice and underwhelmed by curation. Artificial intelligence can improve recommendations based on user history—but only if done intelligently. For example, consumers don't like every show they sample, and recommendations need to be targeted to what they like. In the absence of targeted recommendations from many streaming services and pay-TV providers, television manufacturers are forging ahead with AI-based recommendations.
- **Encourage second-screen engagement.** Mobile viewing is on the upswing and when 5G proliferates, mobile experiences will reach new heights. Already, living room viewers are live-tweeting and chatting during their favorite shows. Rather than redistributing content on secondary platforms such as a mobile or social media channel, offer a complementary experience to maximize engagement.
- **Reinvent storytelling with branded content.** Consumers are open to brands being a part of the narrative: 22% are interested in seeing their favorite brands create content, rather than just the traditional players. What's more, they're eager to step in and help create the story themselves. Create original content together by partnering with brands that resonate with your target's preferences.
- **Go global.** Consumers are more open to foreign-language programming than ever before. As technology overcomes language barriers with subtitles and dubbing, opportunities for global partnerships abound. Connoisseurs (culture seekers) lead other segments in their desire for global content.
- **Develop immersive experiences.** According to PwC's Global Entertainment and Media Outlook, spending on VR entertainment is slated to grow almost 40% over the next five years. Engagers (deliberate consumers), more so than any other segment, are hungry for immersive experiences. They will lead the way in incorporating cutting-edge video-consumption applications. If this segment is your target audience, consider accelerating plans for immersive offerings.

Let's talk

Mark McCaffrey

US Technology, Media and
Telecommunications Leader, PwC US

Tel: +1 (408) 817 4199

mark.mccaffrey@pwc.com



Paige Hayes

Technology, Media and Telecommunications
Advisory Leader, PwC US

Tel: +1 (213) 217 3506

paige.k.hayes@pwc.com



Gregory Boyer

Technology, Media and
Telecommunications Partner, PwC US

Tel: +1 (646) 471 5882

gregory.a.boyer@pwc.com



Ben Eisenberg

Technology, Media and
Telecommunications Partner, PwC US

Tel: +1 (646) 471 0555

ben.eisenberg@pwc.com

