2019 Media & Entertainment Study

L.E.K. Consulting's annual Media & Entertainment Study was conducted between December 2018 and January 2019. We surveyed around 2,000 households on their entertainment choices, preferences and viewing habits. Topics explored included:

- Streaming and other subscription services
- Cord-cutting trends
- Price sensitivity

This *Executive Insights* analyzes key findings from this proprietary research.

The *2019 L.E.K. Consulting Media & Entertainment Study* was conducted by **Dan Schechter**, Managing Director, and **Stephen Matthews**, Principal, in L.E.K. Consulting's Media & Entertainment practice. Dan and Stephen are based in Los Angeles.

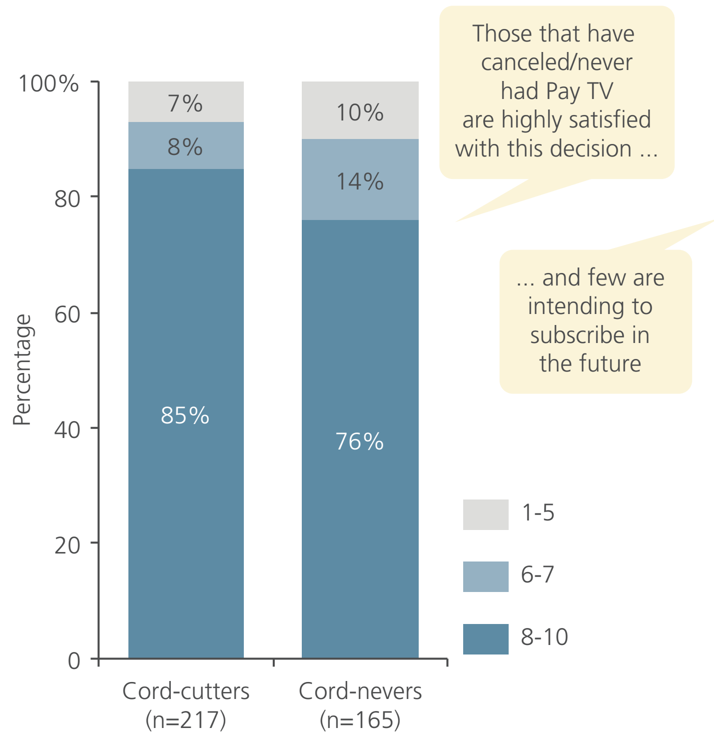
For more information, contact: **mediaentertainment@lek.com**.

Cord-cutters and cord-nevers are lost forever

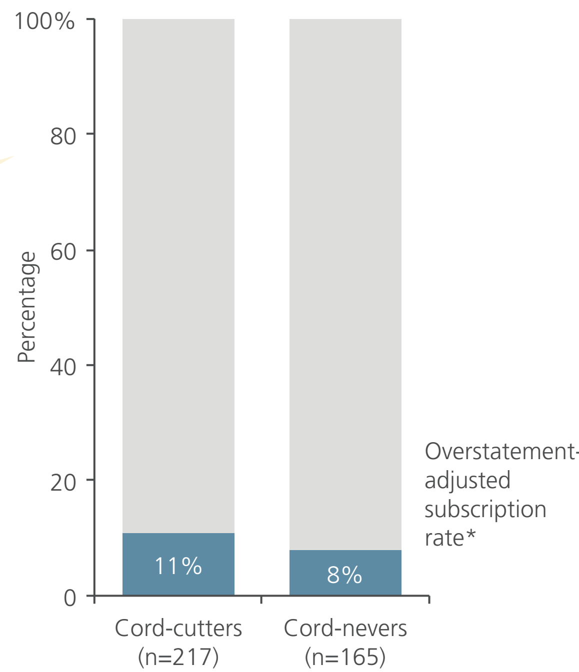
Analyst consensus is that traditional multichannel video programming distributor (MVPD) subscriptions will decline at low single-digit rates annually through 2022. Our survey results confirm that many consumers are unhappy with MVPD options: 59% said they were at least considering canceling their Pay TV subscription in the next three years.

Some in the industry speculate that cord-cutters and cord-nevers may eventually subscribe to Pay TV as they age. However, our survey indicates that this is wishful thinking. Cord-cutters are overwhelmingly satisfied that they have quit traditional Pay TV: 85% of respondents express high satisfaction with their decision, and just 11% indicate that they might one day resubscribe. Similarly, 76% of cord-nevers are highly satisfied with their decision to not subscribe to traditional Pay TV, and only 8% expect to ever do so in the future.

Satisfaction with decision to cancel/not subscribe to Pay TV subscription[1]
(On a scale of 1-10)



Likelihood of subscribing to a traditional Pay TV service ever again[2]



Notes: *Likelihood of resubscribing responses were adjusted 70%, 30% and 10% to account for overstatement
Source: L.E.K. 2019 Media & Entertainment Survey and analysis

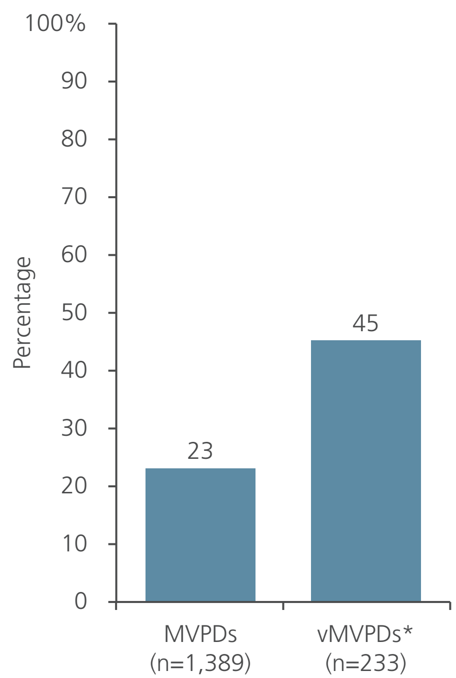
High satisfaction with virtual MVPD ▶

Consumers are delighted with virtual MVPD offerings for now …

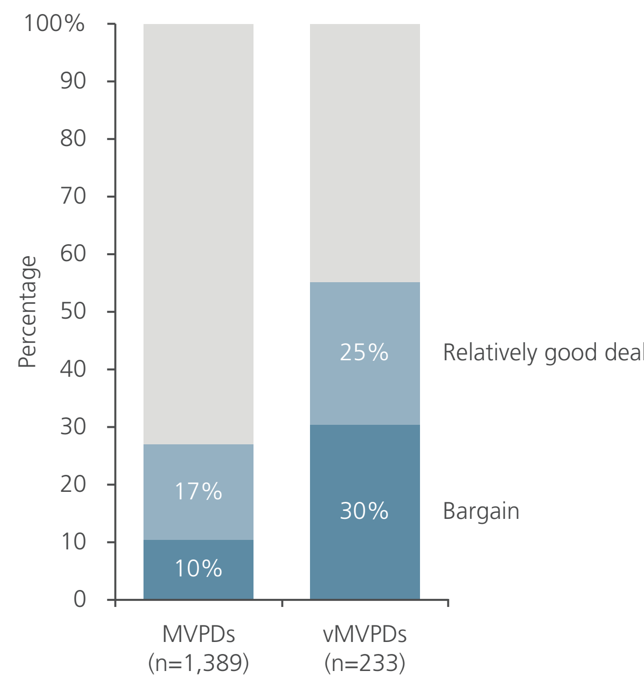
Consumers perceive traditional cable and satellite as poor value for the money, primarily because they are paying for content they don't watch (on average, households watch only 17% of the channels included in their TV bundles). An increasing number of virtual MVPD (vMVPD) providers are responding by offering fewer channels for a lower price (so-called skinny bundles), and many of them (e.g., Hulu+Live TV, YouTube TV) have experienced rapid growth.

Subscriber satisfaction with vMVPD offerings is significantly higher than for traditional MVPD services. Only 27% of traditional MVPD subscribers consider their service either "a bargain" or "a relatively good deal," versus 55% for vMVPD subscribers. Furthermore, vMVPD subscribers are far more likely to recommend their subscription service than are MVPD subscribers, as reflected in net promoter scores (NPS).

NPS for TV services by service type[3]



Attitudes toward the cost of television service by service type[4]



Notes: *Virtual multichannel video programming distributor: stand-alone TV service delivered over the internet that allows livestreaming of included networks (e.g., Sling TV)
Source: L.E.K. 2019 Media & Entertainment Survey and analysis

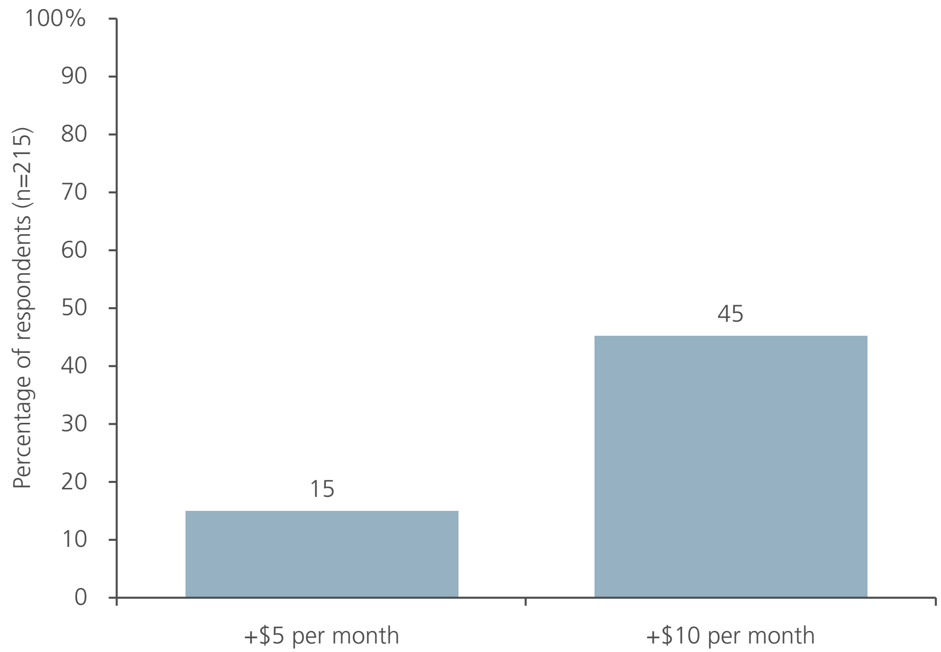
Challenges for vMVPDs? ▶

… But trouble may still be on the horizon for vMVPDs

As more consumers switch to vMVPDs, concerns have been raised about the long-term viability of these services, many of which operate on low-to-negative margins. Some vMVPD providers hope that building a large subscriber base through low initial pricing will enable them to gain leverage with content creators, increase advertising revenue and ultimately raise subscription prices.

However, not all vMVPD subscribers will blithely accept price hikes: 15% of respondents indicated that a $5 increase in their monthly fee would lead them to cancel their vMVPD service, and the churn rate rose to 45% for a $10 per month increase. DirecTV Now has already seen price hikes translate into increased churn. After implementing $5 and $10 per month increases in July 2018 and April 2019, respectively, AT&T reported that 350K DirecTV Now subscribers have left since Q3 2018.

Respondents' likelihood of canceling in the event of vMVPD price hikes[5]



Notes:* Likelihood of cancellation responses were adjusted 70%, 30% and 10% for the "May or may not," "Probably will" and "Definitely will" responses, respectively, to account for overstatement
Source: L.E.K. 2019 Media & Entertainment Survey and analysis

Netflix leads the pack ▶

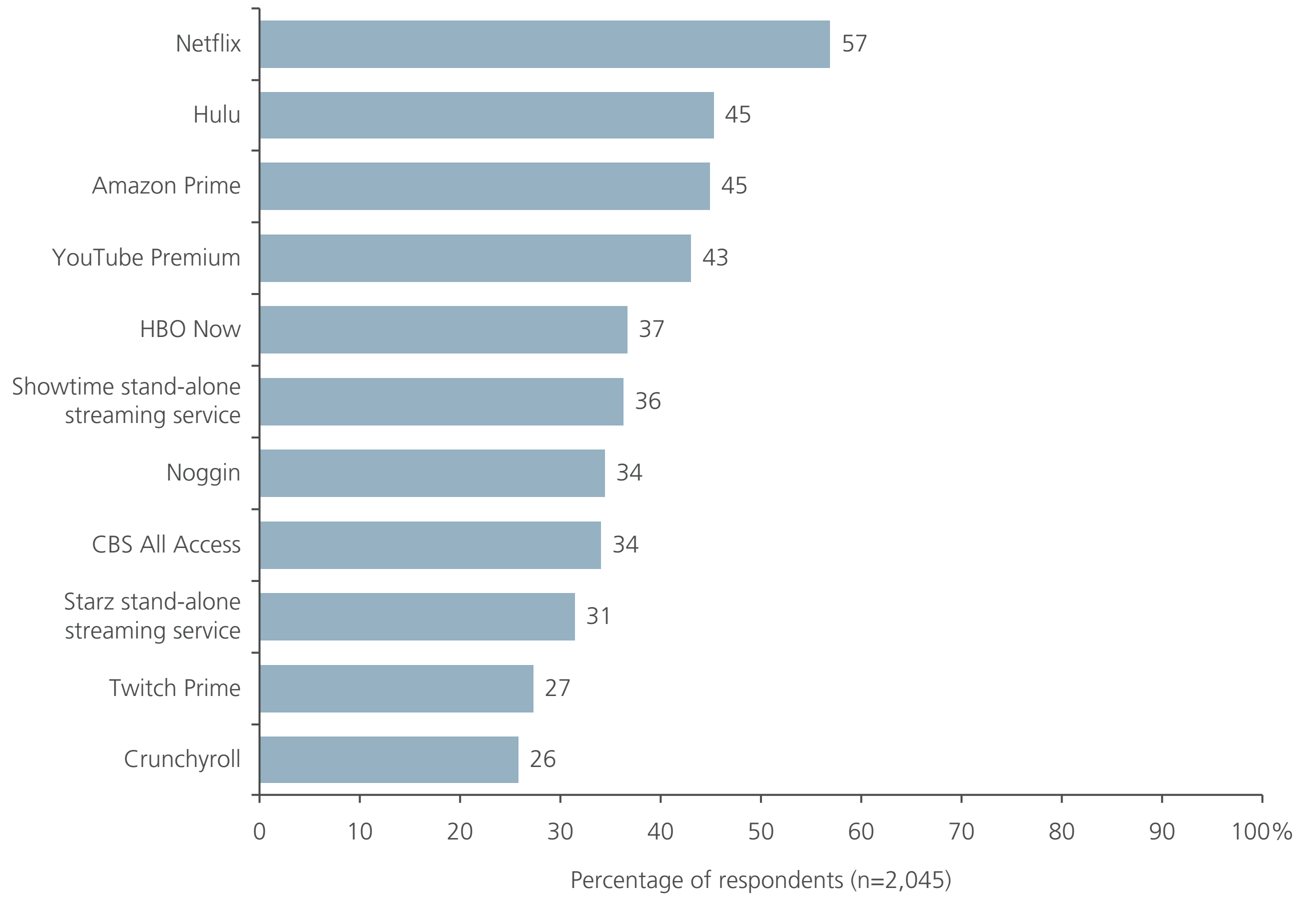
Although other streaming services are popular, Netflix is still king for now

Netflix is the long-established leader among over-the-top (OTT) platforms, with significantly more subscribers than any other service (approximately 60 million U.S. households). However, Netflix is not just winning the war for subscribers.

Despite a plethora of new entrants, it still has the most shows. Consumer satisfaction with Netflix is significantly higher than for other broad-line OTT offerings: Its NPS of 57 tops both Amazon Prime Video and Hulu, each of which has an NPS of 45.

However, competition is heating up. Both Disney and WarnerMedia plan to launch services in late 2019, and NBCUniversal will follow in 2020. Not only will this result in more competition for consumers' attention, but it will also impact the availability of key content. Whether Netflix retains the crown remains to be seen.

Respondents' likelihood of recommending OTT service to a friend or colleague



Source: 2019 L.E.K. Media & Entertainment Survey, L.E.K. research and analysis

Key takeaways ▶

Key takeaways and strategic considerations

The outlook for MVPDs is bleak – MVPD subs are expected to continue declining, with no indication of any reversal in sight given the attitudes of those who have cut/never subscribed. Things could get even worse in the event of a recession.

vMVPDs are a hit with consumers, though their viability is uncertain – While consumers are pleased with their current vMVPD packages, the results of our study and the significant churn that took place in the wake of recent DirecTV Now price hikes indicate high price sensitivity, a substantial issue given the low profitability of vMVPDs at current price levels.

Netflix has a firm grip on the OTT throne, but will it last? – Despite competing in an increasingly crowded market, Netflix has maintained its position as the leader among OTT platforms. Whether this lasts in the face of key upcoming launches remains to be seen.

Endnotes

[1]Survey question 32: How satisfied are you with your decision to cancel your subscription to this Pay TV service?

[2]Survey question 35: How likely are you to ever resubscribe to a traditional Pay TV service (e.g., cable TV, satellite TV, TV service provided by a telephone company)?

[3]Survey question 16: How likely are you to recommend the following providers/services to a friend or colleague, where '0' means "not at all likely to recommend" and '10' means "very likely to recommend"?

[4]Survey question 17: For the following services that you pay for, which of the following statements best reflects how you feel about the monthly cost?

[5]Survey question 25: If your monthly bill for your TV service were to increase, and your number of channels remained the same, how likely would you be to cancel your current service in the next 12 months?

About the Authors

Dan Schechter is a Managing Director and Partner in L.E.K. Consulting's Los Angeles office and leads the firm's Global Media & Entertainment and Technology practices. Dan's broad experience includes working with leading technology and internet companies, the largest U.S. telcos, major movie and TV studios, new advertising media, OTT service providers, and organizations within other sectors.

Stephen Matthews is a Principal in L.E.K. Consulting's Los Angeles office and works across the Media & Entertainment, Technology, Retail and Consumer Products practices. He has extensive experience in advising corporate and private equity clients in the U.S. and globally on a range of issues, with a particular focus on digital strategy.

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