Perennial Millennials: Pay TV Under Threat?

L.E.K.'s analysis, "The Perennial Millennial," is the first in-depth review of U.K. Millennials' media consumption, covering six life stages, from living at home with parents all the way through to starting their own families.

In the second installment of the *Executive Insights* Media & Entertainment Analysis: "The Perennial Millennial" series, L.E.K. explores the following questions:

- What is the uptake of and future interest in Over-The-Top (OTT) services among Millennials by life stage?
- What is the potential future impact on traditional Pay TV providers?

What do Millennials' TV and video consumption patterns look like? ▶

The Perennial Millennial research and analysis was conducted by **Maria Palm** and **Martin Pilkington**, both partners in L.E.K.'s European Media, Entertainment and Technology practice. Maria and Martin are based in London.

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

L.E.K.
INSIGHTS @ WORK

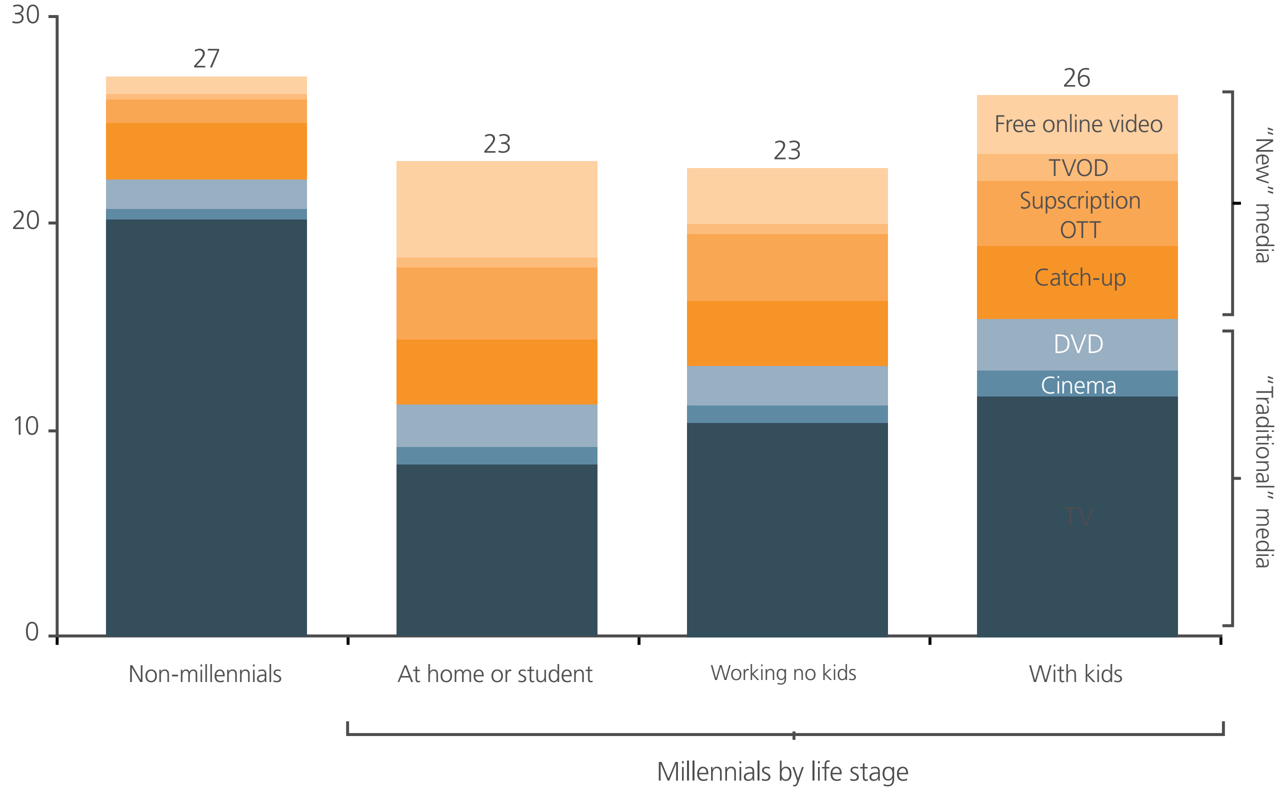
Millennials across life stages spend significantly less time consuming traditional TV and are much higher users of online video

Millennials spend far less time than Non-millennials consuming traditional linear and recorded TV including Pay TV (10 vs. 20 hours a week) and they spend twice as much time on online video services (11 vs. 5 hours per week). While traditional TV consumption is higher for Millennials with kids (12 hours per week) vs. earlier life stage Millennials, it remains significantly below Non-millennials.

Moreover, while Non-millennials are principally shifting from traditional linear and recorded TV to catch-up services (likely staying with the same broadcaster brands), Millennials across life stages are significantly higher users of new platforms offering subscription OTT services and / or free online video.

Average weekly video consumption by type

Hours per week



Note: Q: On average, how many hours of the following types of media do you personally consume in a typical week?
Source: L.E.K. Perennial Millennial survey

What is the uptake of subscription OTT services? ▶

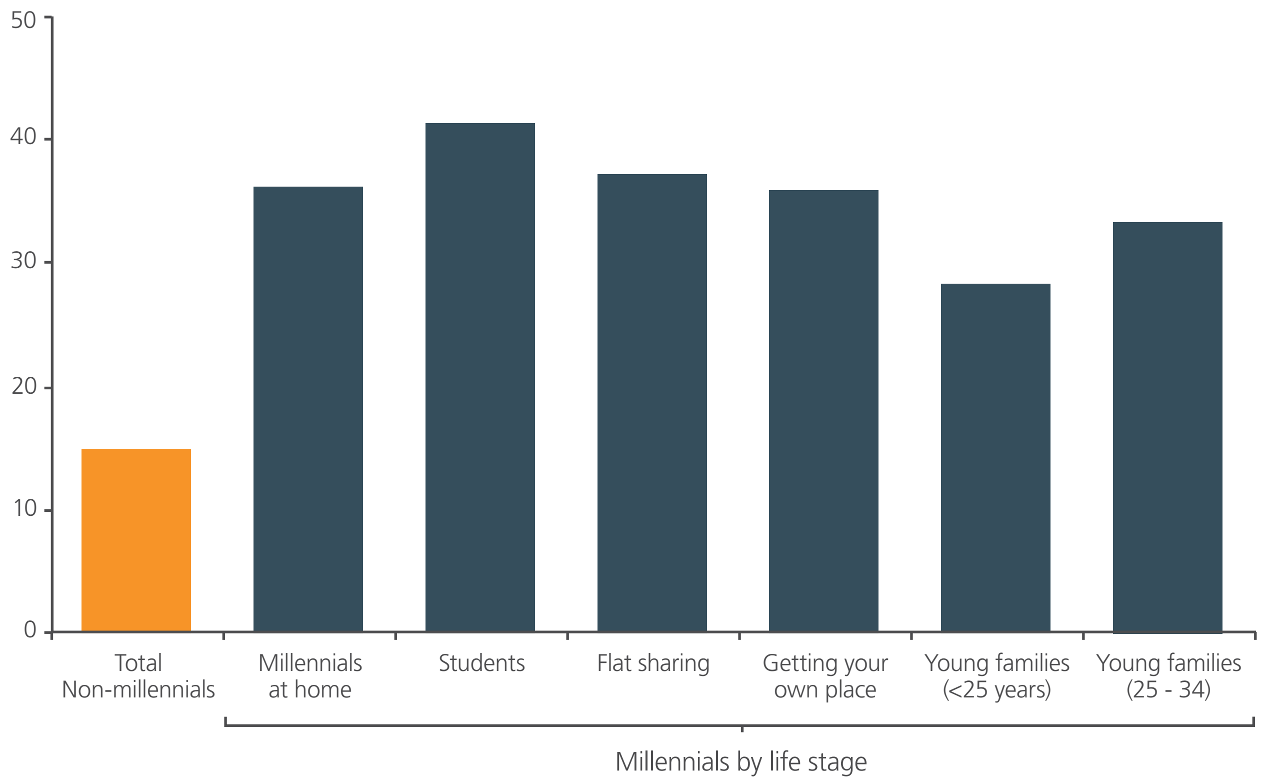
Penetration of subscription OTT services is significantly higher for Millennials across all life stages than for Non-millennials

Millennials across all life stages have significantly higher adoption of online video subscription services: 38% for Millennials pre-family and 32% for Millennials with kids vs. 15% for Non-millennials.

16% of Millennials, with and without kids, expect to increase their spend on subscription OTT services in the next 12 months (vs. 6% for Non-millennials).

Household penetration of subscription OTT video services

Percent



Note: Q: Which of the following TV services do you use at home, or for your personal use?
Option - "Subscription online video streaming services (e.g., Netflix, Amazon Prime Instant Video, Now TV, etc.)"
Source: L.E.K. Perennial Millennial Survey

What are the key reasons for subscribing to OTT services? ▶

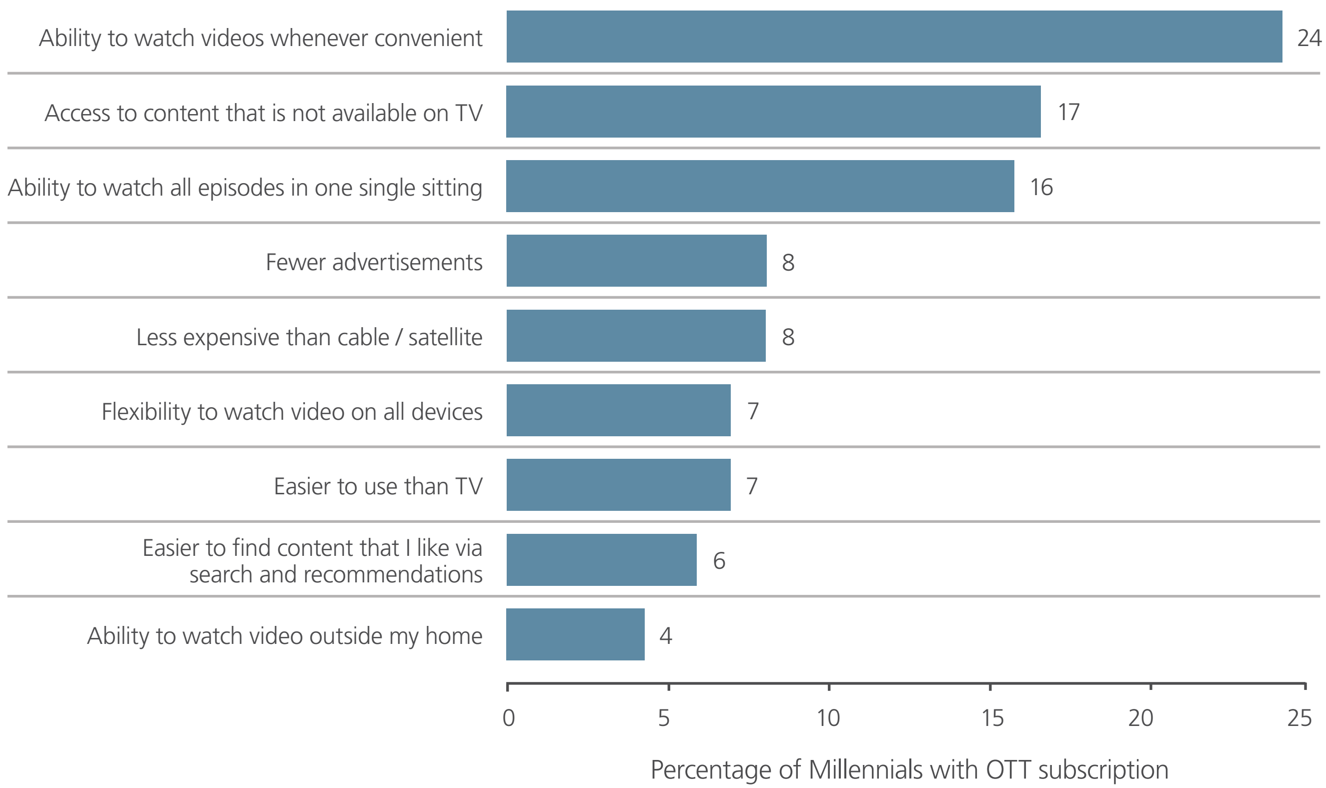
On demand access to content not available on TV are key drivers of Millennials uptake of OTT services

Access to additional content, not available on traditional FTA or Pay TV, and On Demand features are the key drivers of Millennials high uptake of OTT subscription services.

This reflects the higher importance of On Demand vs. linear viewing for Millennials. c.45% of Millennials state the majority of their viewing of Drama and Film is On Demand. This compares to 20-25% of Non-millennials.

Moreover, 54% of Millennials without kids and 46% of Millennials with kids prefer to watch two or more episodes per sitting when watching Drama.

Millennials' top reason for subscribing to OTT services



Note: Q: Which of the following statements best describes why you [use / would use] online video streaming subscription services?
Source: L.E.K. Perennial Millennial Survey

What is the uptake of different OTT providers? Who is in the lead? ▶

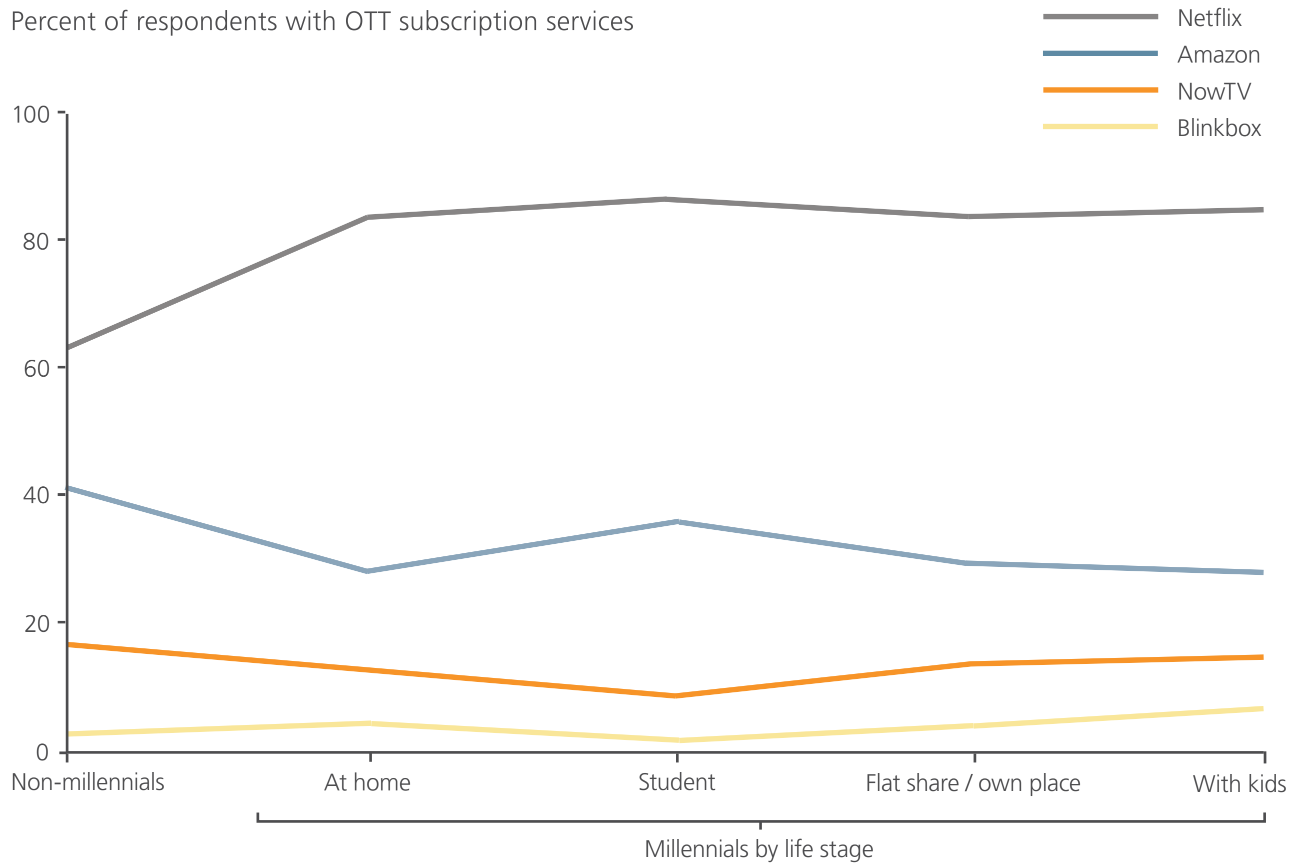
Netflix is the leading OTT provider in all age groups. The gap to Amazon is significantly smaller for Non-Millennials

Netflix has by far the highest uptake amongst Millennials. 85% of Millennials with OTT have Netflix, 30% have Amazon and 12% have NowTV. The pattern does not vary significantly by life stage.

Netflix is also the leading provider for Non-millennials but the gap between Netflix and Amazon is significantly smaller (63% of Non-millennials with OTT have Netflix and 41% have Amazon Prime).

Uptake of different OTT providers

Percent of respondents with OTT subscription services



Note: Q: Which of the following subscription online video streaming services do you personally subscribe to, or do you personally use if it's a household subscription?
Source: L.E.K. Perennial Millennial Survey

How are these brands rated vs. traditional TV brands?

Millennials across all life stages rate new online video brands significantly higher than traditional broadcasters and Pay TV providers

YouTube, Amazon and Netflix are rated significantly higher than the traditional broadcast and Pay TV brands by the Millennial generation.

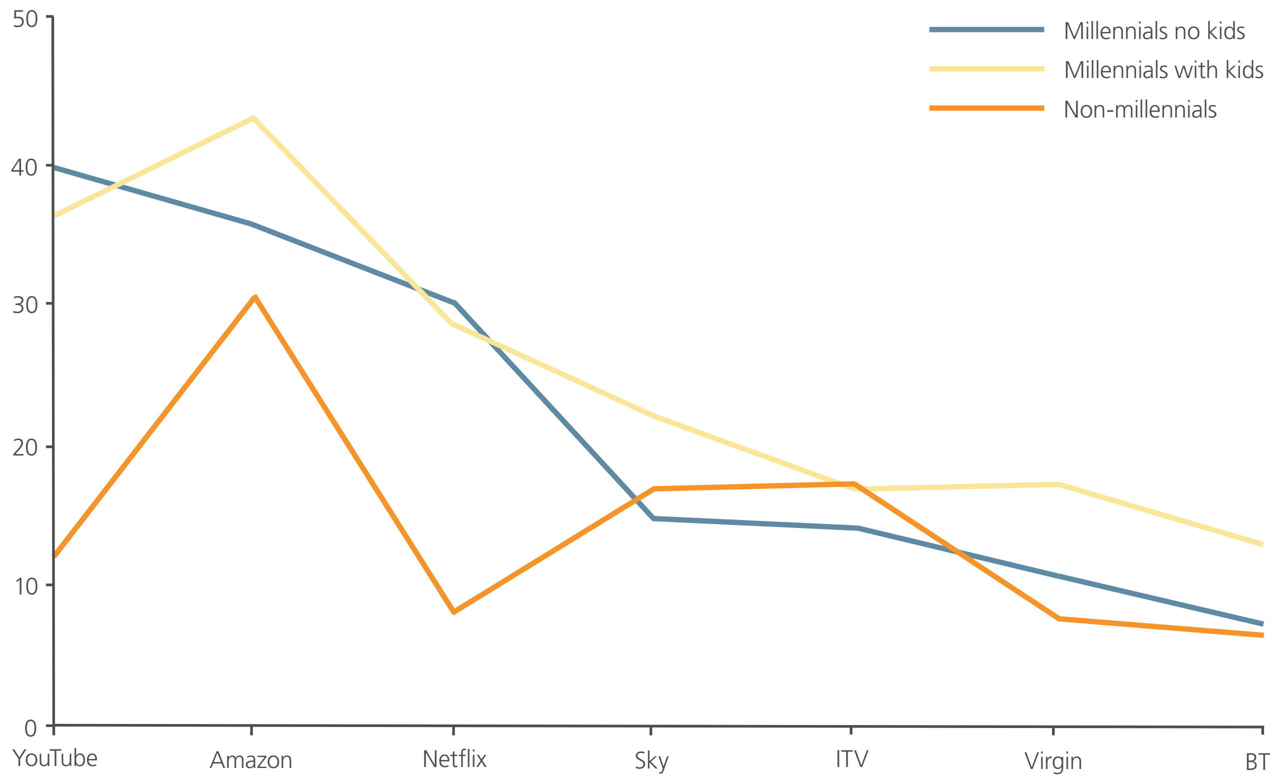
On a scale from 1 to 10, where 10 is love and 1 is hate, YouTube and Amazon are rated 9 or 10 by close to 40% of Millennials and Netflix by 30%. This compares to traditional TV brands, all at less than 16%. Traditional brands are rated slightly higher by Millennials with kids but the gap to the newer brands remains significant.

For Non-millennials, Sky and ITV are both rated more highly than Netflix and YouTube. However, Amazon scores highly across all generations, potentially indicating that they are a more significant threat than many would expect.

Is migration from traditional to new media continuing? ▶

Affinity with new and traditional TV / video brands

Percentage of respondents that rate the brand 9 or 10



Note: Q: For the companies and brands you recognize please indicate how much you either “love”, or “hate” them on a scale of 1 to 10. The highest rating of “love” is 10, and the lowest rating of “hate” is 1.
Source: L.E.K. Perennial Millennial Survey

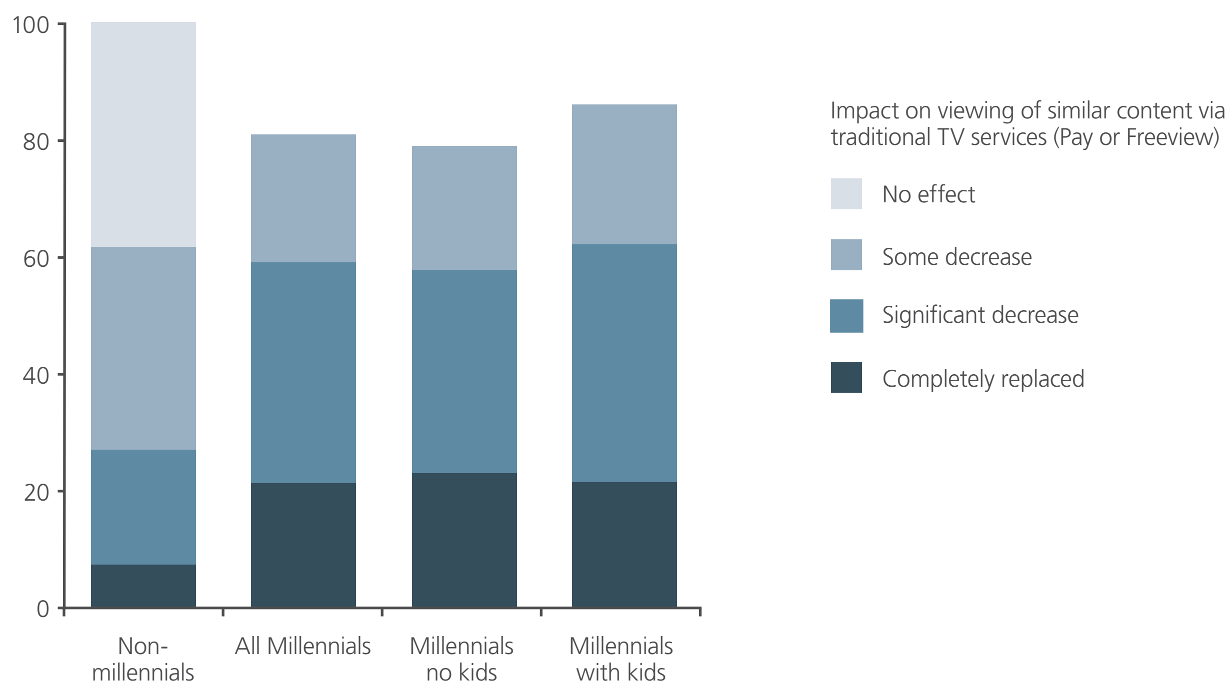
The adoption of OTT has a more significant impact on traditional TV viewing for Millennials than Non-Millennials

For Non-millennials, the uptake of OTT is largely complementary and around 75% of Non-millennials with OTT state that subscribing to OTT services has not significantly impacted their traditional TV viewing.

However, the impact is very different for the Millennial generation. Close to 60% of Millennials with an OTT service, state that their use of OTT services has had a significant negative impact on their viewing of similar type of content via traditional TV services (Pay TV and / or Freeview). The reported impact is consistent for Millennials across life stages.

Effect of subscription OTT on traditional TV viewing (Pay TV and Freeview) in last 12 months

Percent of respondents with subscription OTT



Note: Q: Specifically thinking about your consumption of paid online video subscription services (e.g. Netflix, Amazon Prime Instant Video, NowTV), how do you believe this has impacted your viewing of traditional TV (Pay TV and / or Freeview) over the past year?
Source: L.E.K. Perennial Millennial Survey

What is the overlap of OTT and Pay TV? How will it impact future Pay TV spend?

A large proportion of Millennials have both Pay TV and OTT but two thirds plan to reduce or cancel Pay TV in the future

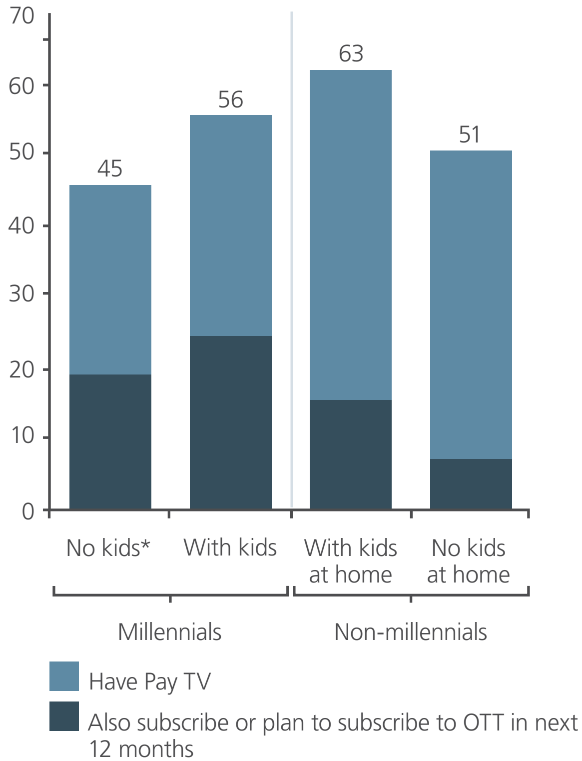
The adoption of Pay TV is lower for Millennials than Non-millennials, but the difference is not significant.

However, around 45% of Millennial Pay TV subscribers also subscribe to or plan to subscribe to an OTT service in the next 12 months. Of these, two thirds expect to cancel or reduce their spend on Pay TV as a result. The ratios are similar for Millennials across life stages.

The overlap between Pay TV and OTT is significantly lower for Non-millennials.

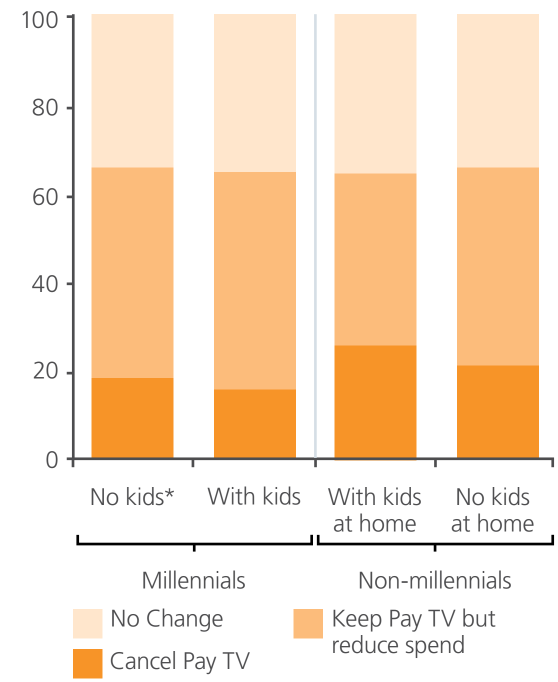
Uptake of subscription OTT amongst Pay TV subscribers

Percent of respondents



Percent of Pay TV subscribers with OTT that plan to reduce or cancel Pay TV in the future

Percent of Pay TV subscribers that have or plan to have OTT



What is the potential uptake of slim bundles? ▶

Note: *excludes Millennials still living at home; Q: Which of the following TV services do you use at home, or for your personal use?
Q: Thinking about the future, do you believe you will replace all or part of your pay TV package with online video streaming services?
Source: L.E.K. Perennial Millennial Survey

Millennials across life stages spend significantly less time consuming traditional TV and are much higher users of online video

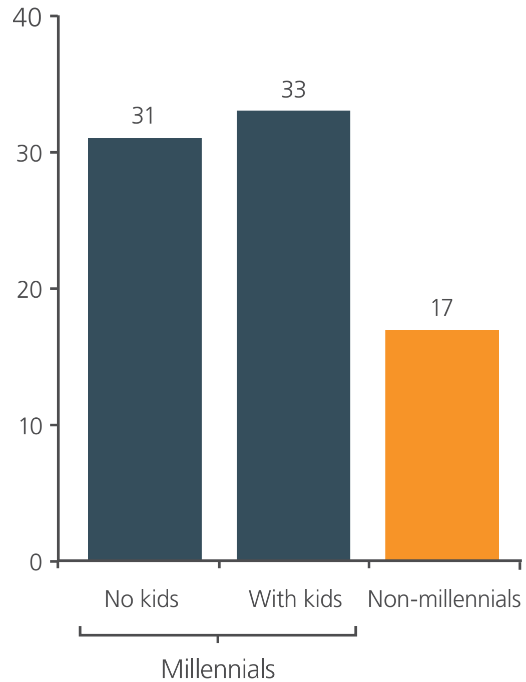
Around a third of Millennials across life stages state they would definitely or probably subscribe (provided the price is reasonable) to a “slim bundle” OTT service with:

- 10-15 of the most popular Pay TV channels (but not Sports)
- 100’s of box sets including popular U.S. drama
- 1,000 movies On Demand
- No contract, monthly payment

The interest in slim bundles is significantly higher for Millennials (across life stages) than for Non-millennials. Moreover, Millennials are more likely to cancel their existing Pay TV service as a result, in particular earlier life stage Millennials.

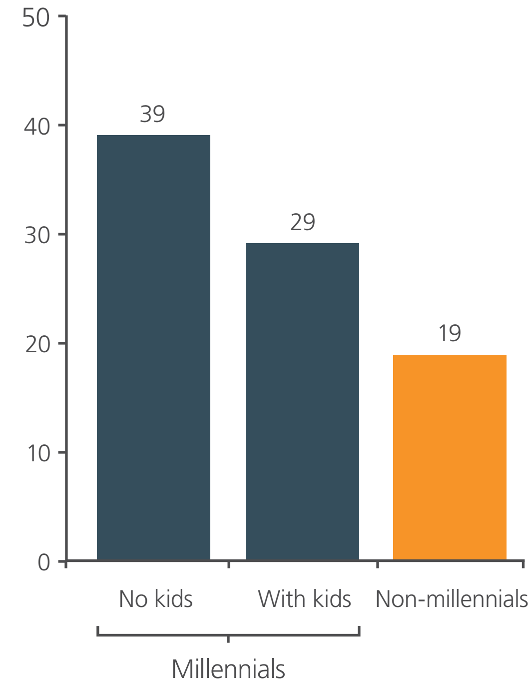
Interest in proposed OTT slim bundle

Percent of respondents that would definitely or probably subscribe



Likelihood of canceling existing Pay TV

Percent of respondents with interest proposition that would definitely or probably cancel existing Pay TV



What about other OTT propositions? ▶

Note: Q: Based on this description, how likely would you be to subscribe to this new service, at a price that you would consider reasonable?
If you had access to this service, would you cancel your existing Pay TV subscription?
Source: L.E.K. Perennial Millennial Survey

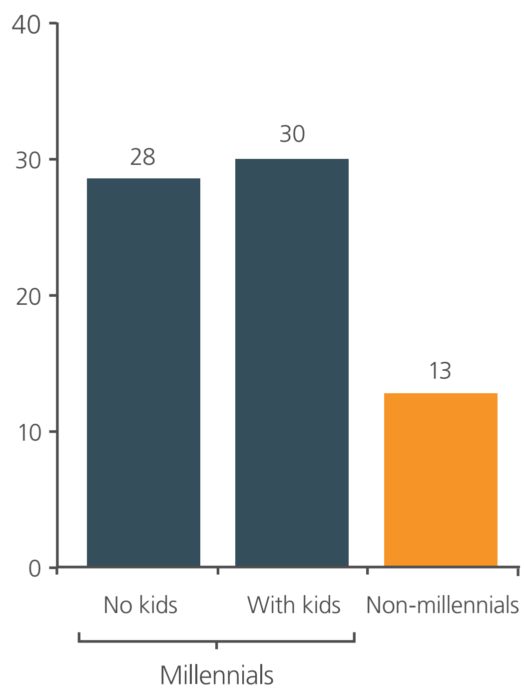
There is a similar level of interest in a service that aggregates select Pay TV channels with OTT providers in a single searchable interface

Around 30% of Millennials (vs. 13% of Non-millennials) state they would be interested in a service combining a small number of Pay TV channels with a selection of OTT providers in a single, customized searchable interface. The service would include:

- Online, TV and mobile access
- 10-15 of the most popular pay TV channels
- Ability to add selection of online video services (free, subscription and pay-per-item) e.g. Netflix, Amazon, Vimeo, iTunes
- Ability to search across all content in single interface
- No contract, ability to add / cancel content as desired

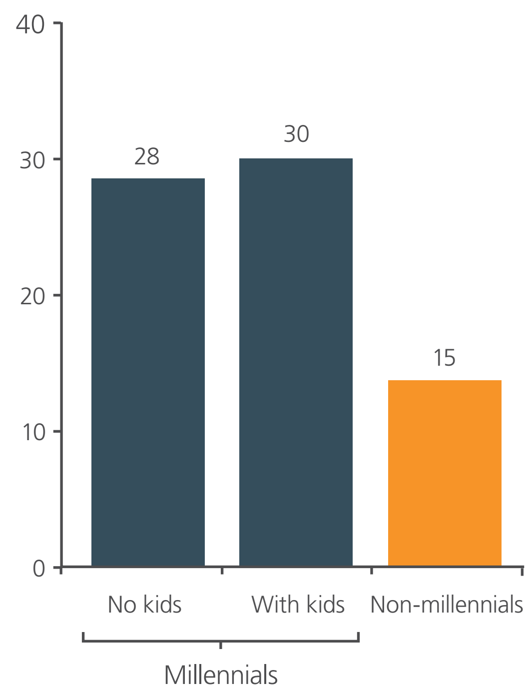
Interest in proposed proposition

Percent of respondents that would definitely or probably subscribe



Likelihood of canceling existing Pay TV

Percent of respondents with interest in new OTT services that would definitely or probably cancel existing Pay TV



What are the potential implications?

Note: Q: Based on this description, how likely would you be to subscribe to this new service, at a price that you would consider reasonable? If you had access to this service, would you cancel your existing Pay TV subscription?
Source: L.E.K. Perennial Millennial Survey

The research indicates that Pay TV operators face a growing threat from the Millennial generation's preference for new media channels

- Millennials across all life stages are already subscribing to OTT services at a higher rate of penetration than older generations
- While subscription OTT services are largely complementary for Non-millennials, it has a significant negative impact on Millennials' viewing of traditional TV services
- A large proportion of Millennials have both Pay TV and OTT and two thirds of these believe they will cancel or reduce spend on Pay TV in the future
- There is a strong interest in slim OTT bundles from Millennials

What does this mean for the media industry?

- Traditional media participants will need to adapt rapidly to compete in this fast-emerging new environment
- There needs to be far further and faster innovation to develop propositions that capture the interest and behaviour patterns of the Millennial generation
- There are continued opportunities for content providers to develop and monetize "must-have" content with strong appeal to the Millennial generations across new and traditional platforms

About the authors ▶

Research Methodology

For *The Perennial Millennial*, L.E.K. Consulting conducted online research of 1,308 Millennials and 685 Non-millennials living across the U.K.

The research took place in September 2015.

About the Authors

Maria Palm is a partner at L.E.K. Consulting's London office. She has over 22 years of experience in the telecommunications industry and has assisted various clients with commercial due diligence, sales and distribution strategy, and valuation projects. Maria first worked for L.E.K. between 1993 and1997 before leaving to join British Telecommunications as a strategy manager. She returned to L.E.K. London in 2000.

Martin Pilkington is a partner in L.E.K. Consulting's London office and is one of the leaders of L.E.K.'s European Aviation & Travel and Media, Entertainment & Technology practices. Martin has more than 22 years of experience helping clients address issues including growth strategy, portfolio optimization, transactions, sales and marketing strategy, pricing, performance improvement, new product development and market entry strategy.

L.E.K.
INSIGHTS@WORK