



Inside the Minds of Cord-Cutters & Cable-Keepers

How Cost, Comfort, & Live Streaming
Drive Cord-Cutting



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The Connected TV Landscape

The Intersection of Linear TV & Digital

News headlines are a daily reminder that the TV industry is in the midst of the most significant transformation in its 70+ year history. Consumers have more choices than ever before: not just in the number of channels and programs they can watch, but in how they watch.

The Perfect Storm

Proliferation of content in combination with time-shifting convenience has created the perfect storm for OTT and connected TV growth. Averse to the cost of cable and already accustomed to time-shifting, consumers are embracing these technologies and adapting to viewing customized content on their own time. The proof is the rapid rise of adoption: Connected TV is in roughly 70% of all US households – double what it was 5 years ago. Appointment television is making way for on-demand viewing. And we are far from seeing the end of fragmentation. Rather, we are just in the early stages of the next disruption in viewing.



Linear OTT Enables Live Streaming

Linear OTT is yet the next advancement in television viewing, delivering the ability to stream “live” TV via an internet broadband connection.

Linear OTT services are comprised of content apps, such as those from content creators such as HBO, CBS, and other cable networks, and Virtual Multichannel Video Programming Distributors (vMVPDs).

vMVPDs provide access to on-demand and live content delivered over the internet. VMVPDs offer consumers curated packages of apps (a.k.a “skinny bundles”) at a lower cost than most cable packages. Some of the bigger players include Sling TV, Direct TVNow, and Hulu.

Linear OTT Positioned for Growth

Like the early days of streaming VOD, linear OTT is projected to experience an upward trend in consumer popularity. eMarketer estimates that over 16 million users in the US will have a linear OTT service this year, a figure that is predicted to grow 64% by 2020 to 27 million users. Research firm Kagan SNL predicts vMVPDs will achieve close to \$3 billion in overall revenue, increasing to almost \$8 billion by 2022*.

There are roughly seven million subscribers to the largest vMVPDs, an increase of 75% over figures reported in October 2017, and at least another 10 million subscribing to the largest content creator apps.

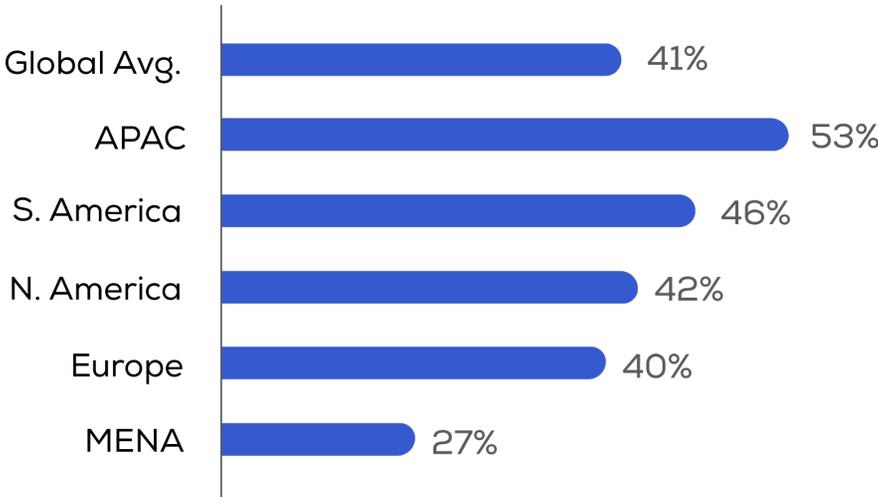
Source: Variety, “Cord-cutting Keeps Churning,” July 24, 2018

The Connected TV Landscape

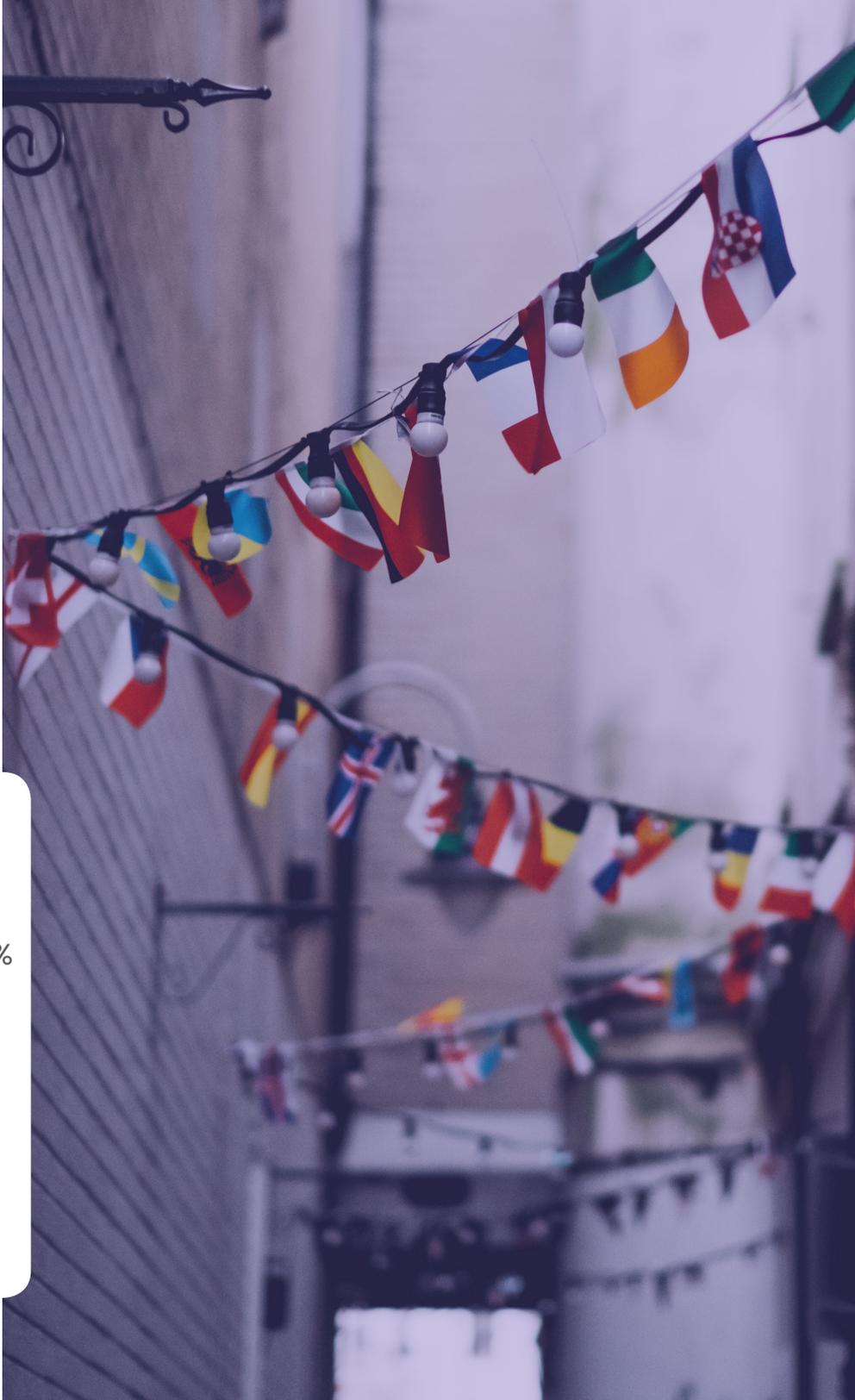
The Global Opportunity

Although the focus of this paper is the US market, live streaming is a popular alternative to traditional linear viewing around the world. A recent IAB study analyzed live streaming behaviors in 21 markets and found that close to half of adults have live streamed video on any device globally. In regions where linear connectivity isn't as widespread such as South America, the average surpasses global usage. As global adoption grows, the opportunities for advertisers to reach new markets will be facilitated via broadband connectivity.

% of Adults Who Have Live-Streamed Video



Source: "Live Video Streaming-A Global Perspective," IAB, June 2018



The Connected TV Landscape

The Impetus for Cord-Cutting

Cord-cutting began as a result of several market forces: low barriers to entry (most consumers already have an internet connection), the cost of cable subscriptions, and the affordability of streaming device hardware. Fast forward, and we can now add the growing number of streaming platforms as a key growth driver.

DISH Network's Sling TV pioneered the concept of live streaming three years ago. Since that time, consumers have been embracing the idea of watching live content without a cable connection. According to comScore, households with a vMVPD service now spend almost half of their time consuming live TV content. The landscape has become more saturated with vMVPD options, giving consumers more choice in affordable content delivery than ever before. In the past two years, the number of vMVPDs has doubled from four to eight major platforms, with more on the horizon.

This proliferation of streaming platforms and vMVPD services is a major contributor to the continued rise in cord-cutting, which grew 92% from 2015 to 2017, and is predicted to increase 80% over the next three years from 25 million to 45 million adults by the end of 2020. Cord-cutters aren't the only segment less accessible through paid linear TV: there are roughly 34 million Cord-Nevers, people who have never paid for a cable or satellite subscription. Combined, Cord-Cutters and Cord-Nevers form what eMarketer calls non-pay TV households, currently 26% of the population and predicted to increase to 32% by 2020 – a healthy market for live streaming platforms.

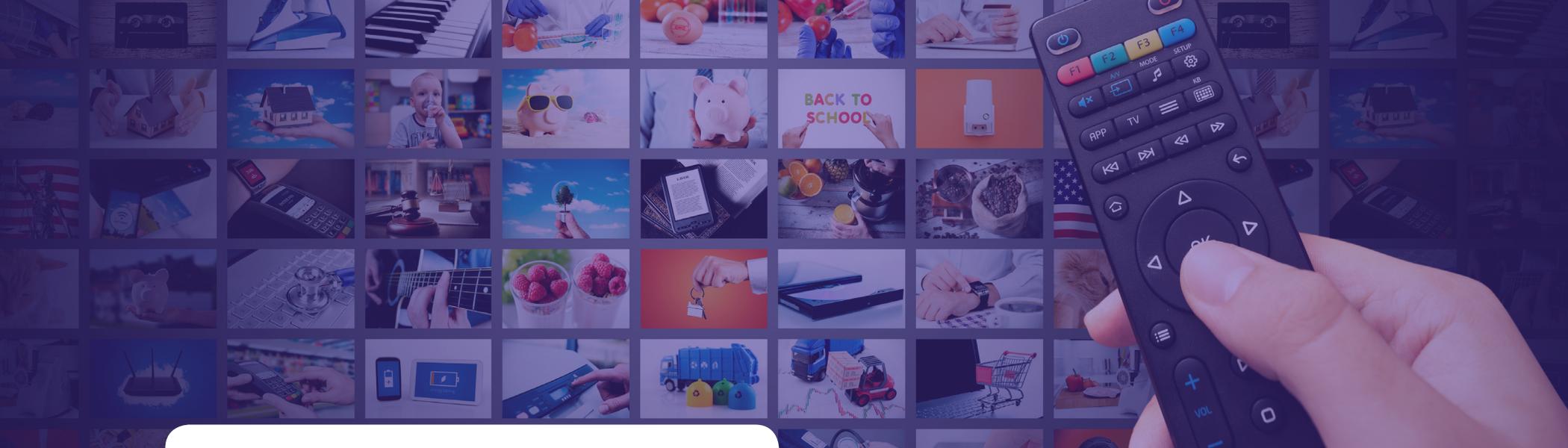


Alternatives for Sports Fans

For years, live sports was a stubborn pain point among Cord-Cutters. It was the last frontier where cable subscription was needed to watch the biggest games and favorite teams.

That's changing. While availability varies by app and blackout rules, particularly during the postseason, sports no longer require a linear connection for live viewing. League apps, vMVPDS such as fuboTV, and broadcast or cable apps all enable live streaming of baseball, football, and hockey games.

Streaming services are close to delivering on all the pillars currently supporting the linear world, with new platforms entering the market all the time. With so many options, what drives consumer decisioning in an increasingly complex world of choice? What can marketers learn about the forces shaping the decision to keep cable or cut the cord?



Key Definitions

- ▶ **MVPD:** Multichannel video (Live TV) programming distributor, e.g. cable/satellite companies. Formerly known as multiple-system operators (MSOs) or simply, cable operators.
- ▶ **Linear OTT:** Subscription streaming services that provide access to live TV programming. Linear OTT services bypass a set-top box and may include both live and on-demand “library” content. Linear OTT services include vMVPDs and content creators such as HBO Now and MLB.tv.
- ▶ **Live streaming:** Viewing linear television content in real-time via a linear OTT service rather than through a traditional cable or satellite connection.
- ▶ **vMVPDs:** Virtual multichannel video programming distributors are subscription services that bundle multiple streaming apps into a single package to deliver live and on-demand programming through the internet. Linear OTT services include those from pay TV operators, such as DIRECTV NOW from AT&T, Sling TV from DISH, NOW TV from Sky, as well as live streaming services such as Hulu with Live TV, Pluto TV, and fuboTV.
- ▶ **Cordless households:** Households with no traditional cable or satellite pay TV services.
- ▶ **Cord-cutting:** Cancelling pay TV for delivery of television programming. Most Cord-Cutters exchange a cable connection for internet delivery of television content.

Research Opportunity

Despite the high household penetration of connected TV, many people are reluctant to “cut the cord,” typically citing the desire to watch live sports, events, or news as the primary reason for maintaining a linear TV connection. Little research currently exists that addresses consumer decisioning behind viewing preferences, motivations for change, and awareness of all the various types of digital delivery options.

Telaria and Adobe Advertising Cloud wanted to explore the experiences, behaviors, and television usage among a spectrum of connected TV consumer segments in order to better understand:

1. The reasons people do or don't move down the path of cord cutting.
2. The impact that viewing live events, such as sports, has on the adoption and use of linear OTT and connected TV.
3. The level of consumer satisfaction associated with different methods of content consumption (i.e. cable vs. live streaming).

Telaria and Adobe Advertising Cloud commissioned Lieberman Research Worldwide to execute a custom research study on three major connected TV consumer segments.

Methodology & Sampling:

- National online survey in the US
- 15-minute survey
- Fieldwork dates: April 26 – May 9, 2018
- Total sample n= 750 age 21-54

Quota sampled:

- **Cable-Keepers:** Watch linear TV through cable or satellite service (n=250)
- **Live-Streamers:** Watch linear TV through non-linear platforms, e.g vMVPDs (n=250)
- **App/On Demand Only:** Content delivery via streaming apps only. No home cable or satellite connection (n = 250)

Qualitative In-Depth Interviews (IDIs)

- 12 in-person IDIs conducted in NYC
- 4 people from each sub-group



Executive Summary

- ▶ Despite the growing popularity of linear OTT platforms, there is a lack of awareness around options for live streaming content. Nearly **20% of Cable-Keepers don't know how they would access live TV without a cable subscription.**
- ▶ **For 42% of Cable-Keepers, access to live programming is the primary reason cited for keeping a cable connection.**
- ▶ Growth in cord-cutting technologies, platforms, and service providers has created a crisis of confusion. **55% of people who have not cut the cord find cord-cutting options confusing.**
- ▶ Cost is driving cord-cutting consideration. **73% of Cord-Cutters cited cost as a reason for dropping their linear TV connection. 48% of Cable-Keepers are considering cancelling their cable connection.**
- ▶ Sports and other live events may not be the bulwark of linear TV in the long-term. **30% of Cable-Keepers say they would cut the cord if they knew they could live stream all of their favorite sports, events, and news.**

The Path to Cord-Cutting

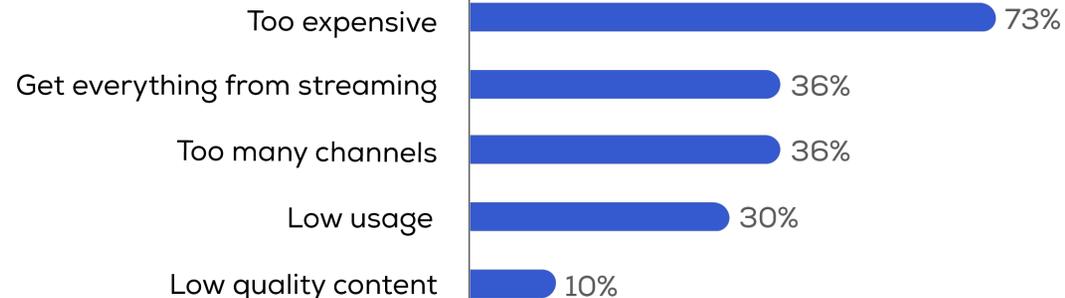
Price is the Driving Factor

Why do people make the decision to ditch cable?

The cost of a monthly subscription was overwhelmingly cited as the primary reason for cutting the cord. The second and third most common responses were “too many channels that I don’t watch” and the ability to “get everything through streaming”. Only four out of 10 Cable-Keepers are satisfied with the price they are paying for their service, a figure significantly lower than Live-Streamers.

The average cable bill has had a 5.5% CAGR between 2000 and 2017.* As costs increase, vMVPDS have the opportunity to provide consumers with packages that are less expensive than the cost of their current pay TV subscriptions.

*Source: Variety, “Cord-cutting Keeps Churning,” July 24, 2018



Satisfaction with monthly price paid for service:

- 74% Live-Streamers
- 40% Cable-Keepers

Reasons for Cord Cutting

Going Around the Set-Top Box

To the cost-conscious, two ways of accessing content have become more mainstream: password sharing and digital antennas.

Password Sharing

16% of respondents admit that they use someone else's password from a cable provider or a TV network to authenticate their app on an OTT device. Additionally, 21% share their passwords with friends and family. All of this password borrowing is likely having a positive impact on driving scale for streaming platforms. For them, the potential ad revenue associated with larger audiences might compensate for the subscription revenue lost to password sharing. But there are some technical hurdles as well as enforcement challenges. For example, what are the limits for acceptable sharing? And how can password "borrowers" be identified accurately?

21%

give away their passwords

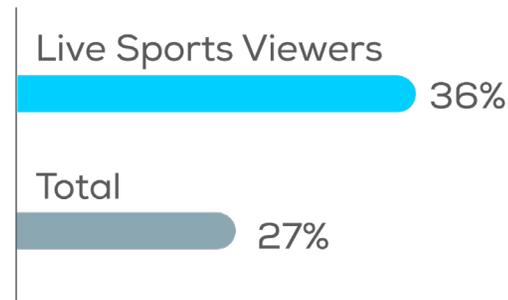
16%

use someone else's password

Digital Antenna

Cord-cutting has coincided with an increase in digital antenna sales. Far from being a piece of niche hardware, our research reveals that 27% of Americans use a digital antenna to watch TV. Live Sports Viewers are 33% more likely to have a digital TV antenna than the total sample.

% Who Use A Digital Antenna



Cable Subscribers Are Comfortable with Streaming Platforms

One myth is that cable subscribers aren't using streaming apps. But despite paying for linear TV, almost 80% of Cable-Keepers also use streaming apps and are quite comfortable with them. Nearly a quarter of their overall average weekly viewing time is spent with on-demand content.

How Cable Subscribers Watch TV (% Share of Viewing)



So if comfort with streaming services isn't an issue, why have Cable-Keepers been reluctant to cut the cord?



46%

of **Live Sports Viewers** reported that they watch **more streamed content** now than 2 years ago

40%

of **Cable-Keepers** reported that they watch **more streamed content** now than 2 years ago

Cable-Keepers are finding more to watch on streaming platforms and are shifting their viewing towards these platforms: 40% of Cable-Keepers are streaming more content compared to two years ago. Live Sports Viewers are also consuming more streaming content, with 46% viewing more now at the expense of cable's entertainment programming and live non-sports events.

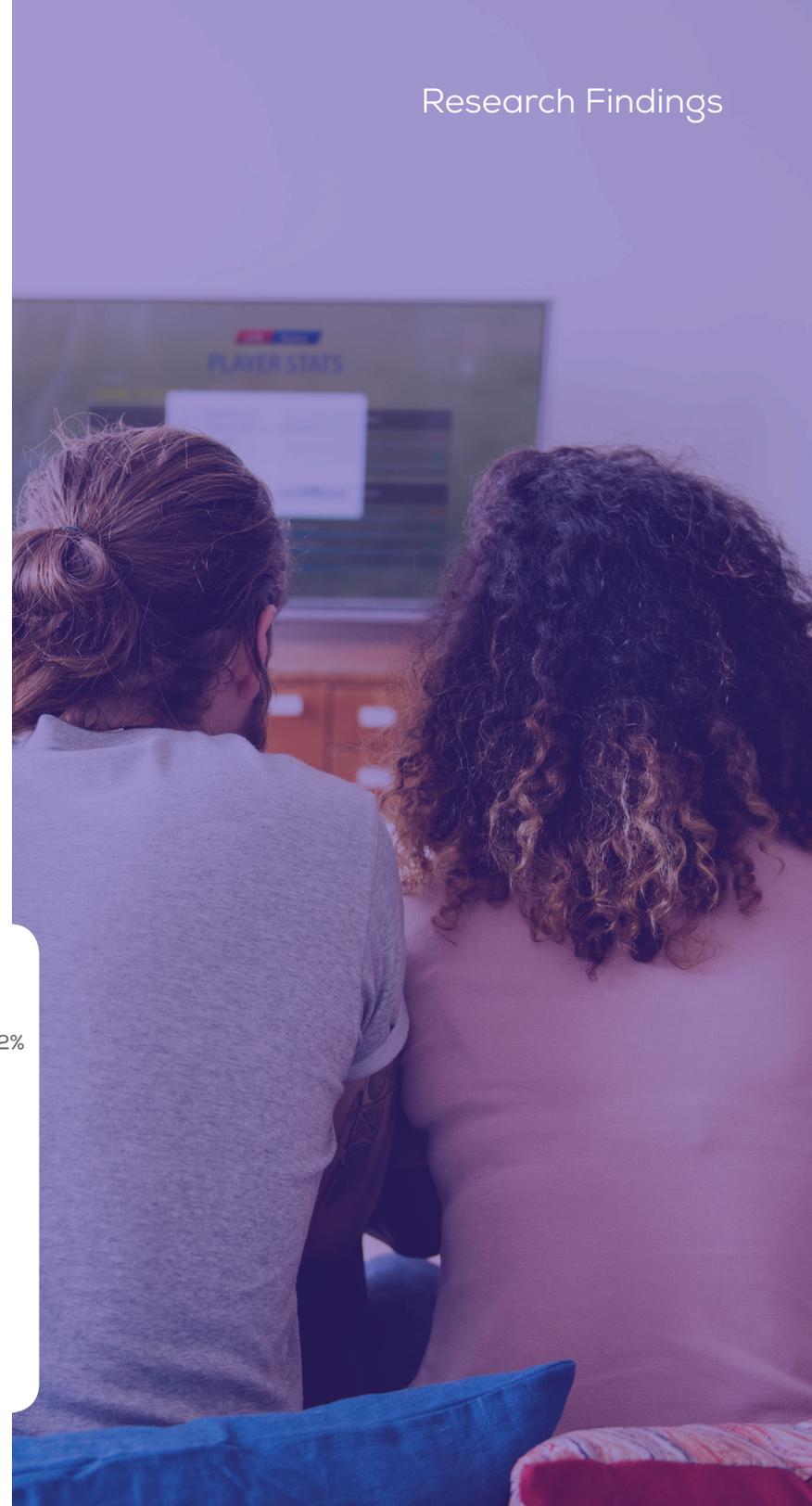
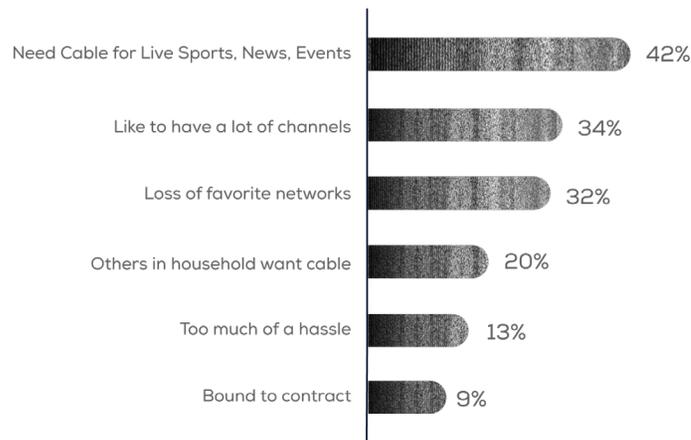
Staying the Cord-Keeping Course

Why Cable-Keepers Haven't Cut The Cord

Despite steady declines in subscribers, cable still dominates viewership. The primary reason people keep the cord is the perception that only a linear connection can deliver live television content (42%).

The second and third most common reasons are the desire to have a lot of channels (34%) and the fear of losing favorite networks (32%).

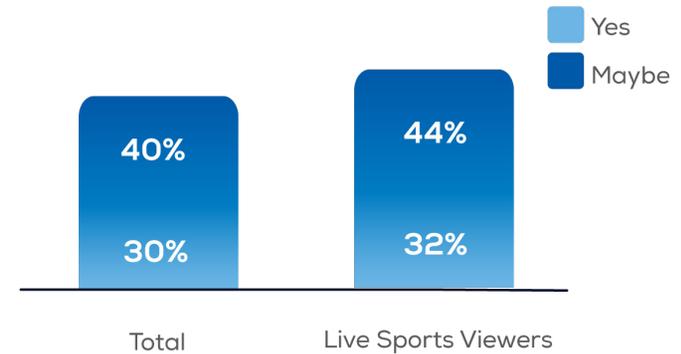
Cable-Keepers' Barriers to Cord-Cutting



Commitment Issues

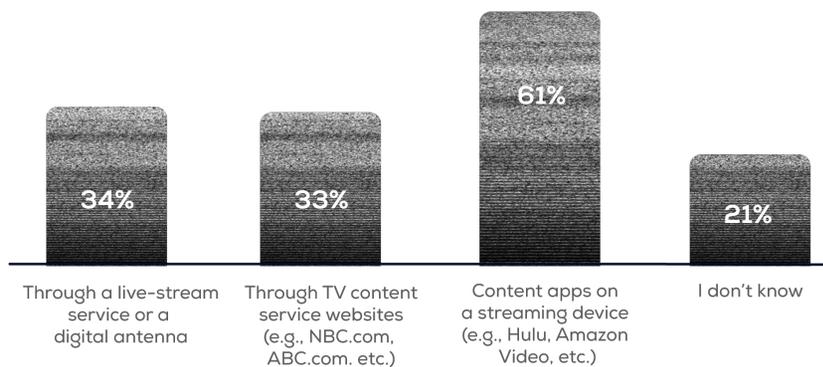
How committed are Cable-Keepers to their linear connection? Despite the barriers, almost half of cable subscribers have or are considering cutting the cord. This is especially true among Millennials, who outpace older segments in cord-free status. One in three cable subscribers would definitely cut the cord if they could live stream their favorite sports, events and news, and an additional 40% would consider it. Sports fans are even more likely to consider cutting the cord if they could live stream programming. So what is holding them back from linear OTT adoption?

Would Cut Cord if They Could Access Live Events through Paid Streaming Service



Cable Subscribers' Awareness of Linear OTT options

"If you no longer had cable, how would you access television content?"



Live Streaming's Awareness Problem

Nearly one-third of Cable-Keepers would cut the cord if they knew they could stream live events. Despite the growing number of linear OTT platforms, the data suggest that there is a lack of awareness of options available for accessing live streaming content. Over 20% of Cable-Keepers don't know how they would access TV content. While vMVPD platforms, such as Sling TV and Hulu with Live, can more closely replicate a cable experience than SVOD apps, only 34% of respondents think of those alternatives as a substitute for cable. Instead, a majority of respondents would opt to replace cable with streaming content apps.

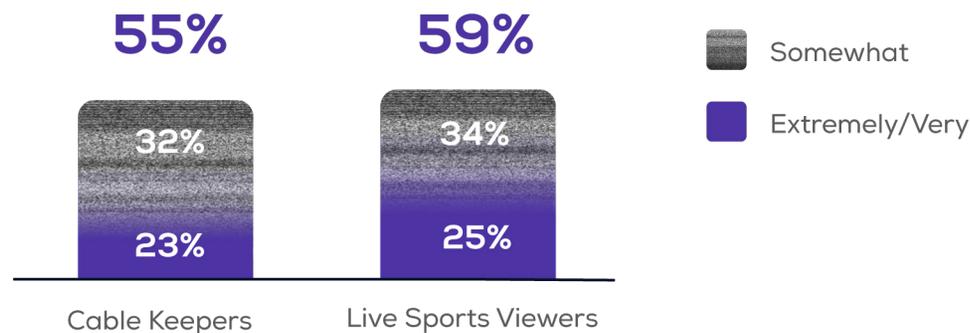
Confusion Rules

There is always a learning curve associated with new consumer technology. Solving for awareness moves the consumer partially up the adoption curve, but driving demand still requires promoting benefits and ease of use to force a behavioral change.

Results from our study indicate that we are still somewhere in the middle of that curve. Over half of respondents said that the options for cord-cutting were confusing – and with good reason. Pricing, content availability, ad-supported vs ad-free, and number of channels are just some of the factors that impact decisioning. For consumers who are only interested in replicating a live viewing environment, navigating a new user interface and figuring out which apps have their preferred networks and shows can be daunting.

Consumer Confusion

"How confusing do you find the options for cord-cutting?"



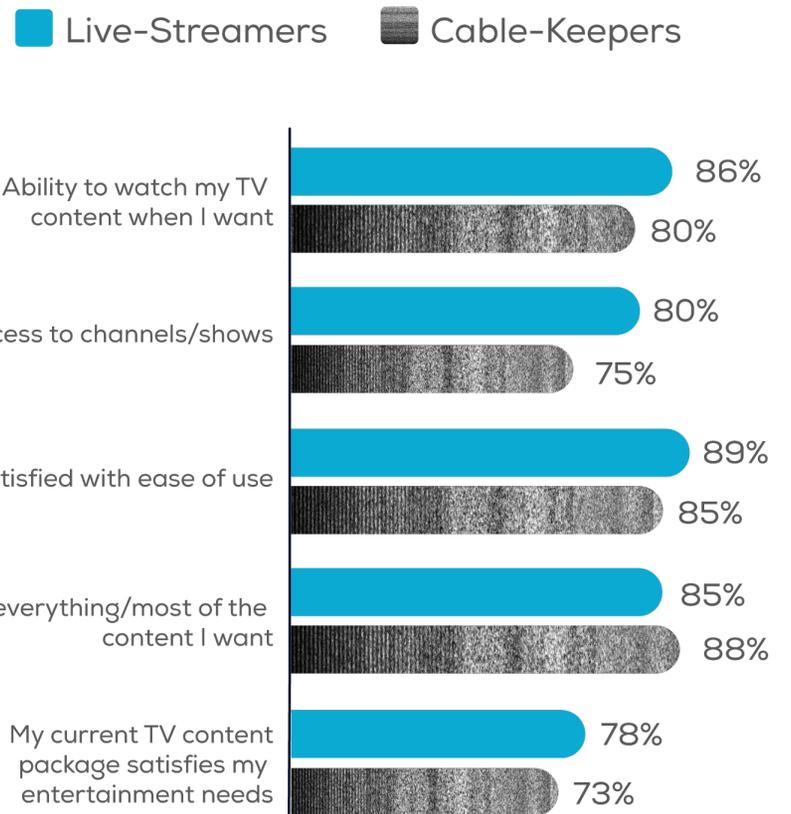
Consumer Satisfaction

The Streaming TV Satisfaction Score

Cable-Keepers like having a lot programming options and it is a top reason why they maintain their linear connections. But is more better? Conversely, does having fewer channels impact overall satisfaction levels with live streaming services? We wanted to explore the relationship between value and satisfaction to understand if Cable-Keepers believed that cable was worth the cost and, conversely whether Live Streamers felt they were missing out on the content they wanted in order to save money.

In terms of satisfaction with their service, the research consistently revealed that Live-Streamers were equally as satisfied with their viewing experience as Cable-Keepers.

Satisfaction with Service



Value Perceptions Differ

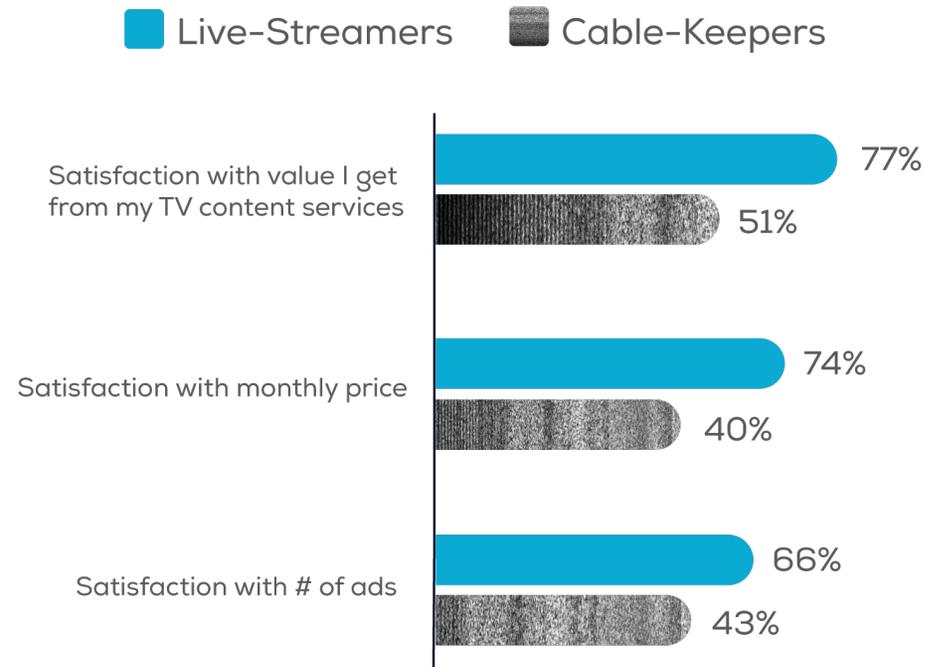
However, the picture changes when factors related to value and ad experience are added to the mix. Although satisfaction levels are fairly equal between Cable-Keepers and Live-Streamers, the relative value that each segment derives from their service alters that equilibrium.

Satisfaction with price, ad loads, and overall value for price paid reveal a deeper level of disconnect between Cable-Keepers and Live-Streamers. For example, only half of Cable-Keepers are satisfied with the price they pay for content relative to the service they get, compared to 77% of Live-Streamers.

This provided a basis from which we developed a “Service Satisfaction Score” to account for both aspects of each delivery platform.

The score is calculated from the average satisfaction levels for both service and value. The service satisfaction score for Cable-Keepers is 67, compared to 80 for Live-Streamers. For benchmarking purposes, the service satisfaction score for all respondents is 73. The score provides a wider scope for comparing satisfaction levels between these services. Once the value perception is accounted for, Live-Streamers are more satisfied with their vMVPD services than Cable-Keepers.

Satisfaction with Value



Live-Streamers believe they are getting a better value exchange for price paid vs content received.

Key Takeaways

Future Implications for Marketers

PLATFORMS ARE DRIVING SCALE

New vMVPD services, low barriers to entry, and attractive pricing will drive greater adoption of live streaming platforms and help advertisers achieve the scale that has historically held back greater investment.

RAPT AUDIENCE

High rates of satisfaction with ad load among Live Streamers gives advertisers an opportunity to see outsized results per dollar spent.

INCREMENTAL REACH

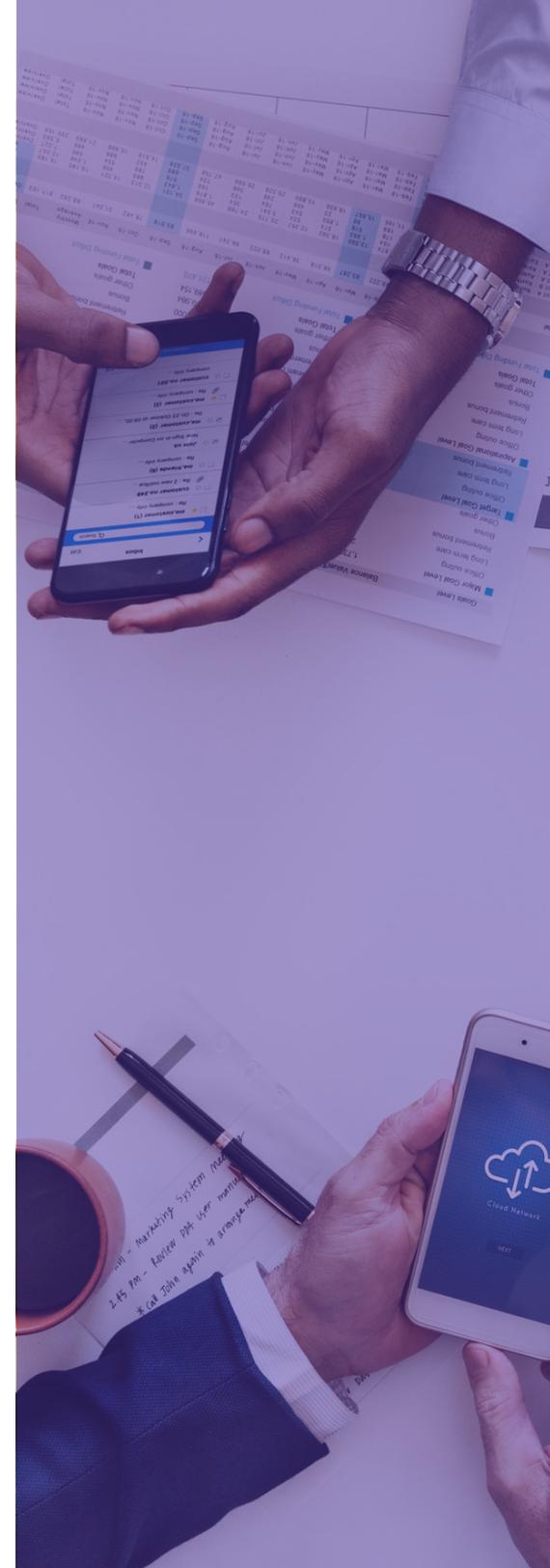
Advertisers can gain incremental reach for their campaigns via streaming TV platforms. By consolidating buys with automated software, marketers can manage reach and frequency across a fragmented landscape.

EASY EFFICIENCY

Linear OTT platforms provide audience targeted impressions at scale across a large network of channels. Brands can opt for a mix of live and on-demand content to achieve scale.

ACCESS WITHOUT EXCESS

Brands that want to advertise in quality content without paying prime-time CPMs can look to streaming platforms for access to traditional cable and broadcast programming, as well as relationships with up-and-coming streaming services.



Key Takeaways

Future Implications for Publishers

BANG THE SPORTS DRUM

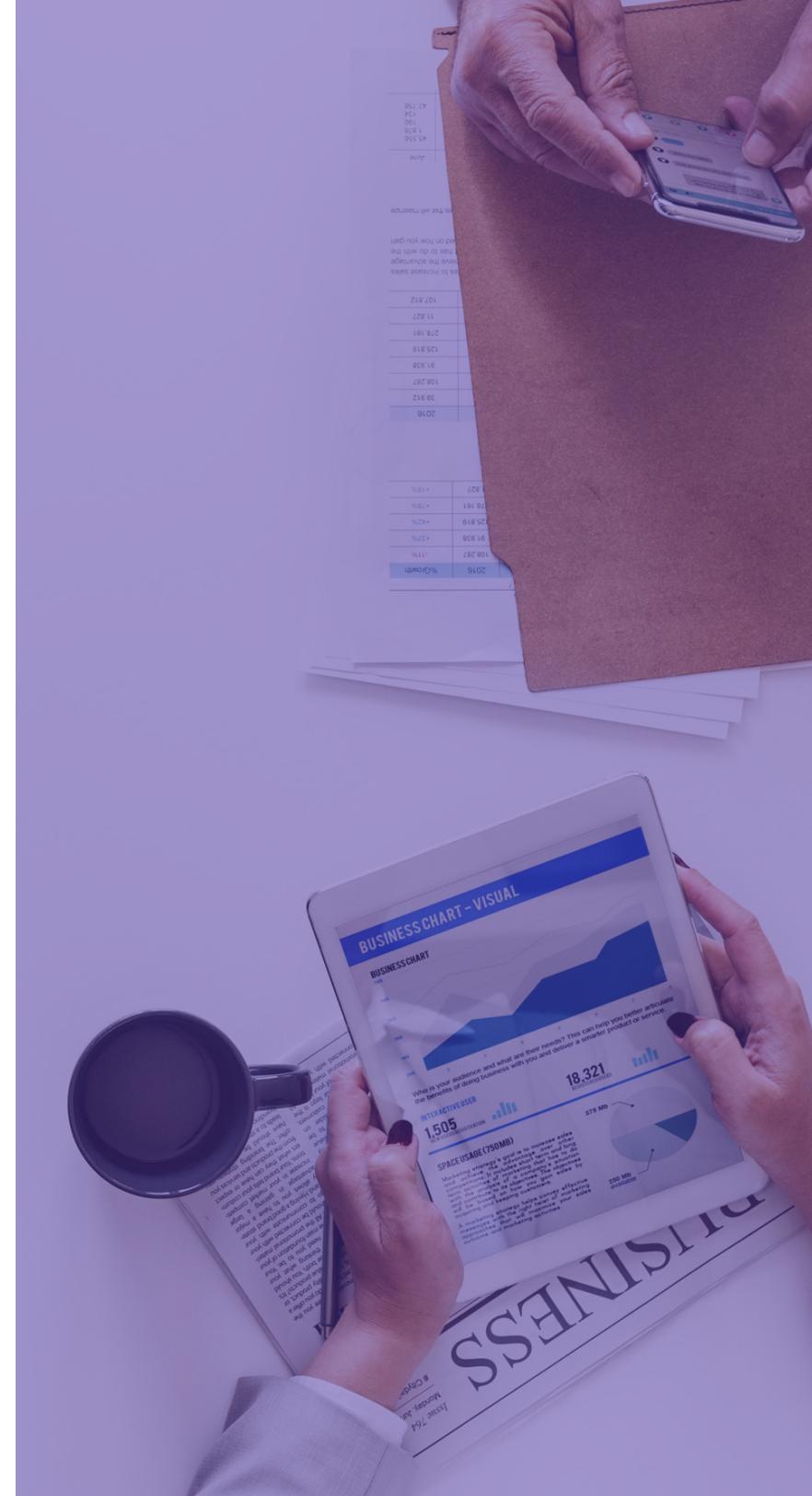
Sports and live events are the last barrier to completely cutting the cord but awareness of live streaming programming needs to increase. Linear OTT services should promote sports programming and local team availability on local channels.

LEARN WITHOUT RISK

Platforms that encourage trials by providing discounts will appeal directly to a consumer's wallet, minimizing having high conversion rates and consumer's perceived risk of losing their content choices.

SOLVE FOR CONFUSION

Linear OTT services need to make it easy for consumers to understand how to navigate and optimize their experience with new apps.



About Telaria

Telaria, Inc. (NYSE: TLRA), is a complete software platform to manage premium video advertising. We engineer the most robust suite of analytics, automated decisioning, and integrated programmatic and direct monetization tools in the industry. Global publishers require total command of their business; Telaria's independent solution empowers unbiased decisions for the best revenue outcomes. Telaria operates out of 13 offices worldwide across North America, EMEA, LATAM and APAC.

About Adobe Advertising Cloud

Adobe Advertising Cloud is the industry's first end-to-end, independent platform for managing advertising across traditional TV and digital formats. By focusing on brand safety, improving transparency and leveraging the full power of Adobe Creative Cloud and Adobe Experience Cloud, our platform enables advertisers to gain greater control of their global advertising spend and achieve their business objectives. The platform already manages roughly \$3 billion in annualized ad spend on behalf of more than 1,000 global clients, including Allstate, Ford, Heineken, L'Oréal, MGM, Southwest Airlines and Wells Fargo.

About LRW

LRW Group is a globally-minded collaboration of data-driven companies best known for its ability to translate deep human understanding and sophisticated data analytics into business success for its clients. LRW has been advising top global brands on issues of strategy, branding, communications, innovation, product development and customer experience since 1973 and is recognized among the 10 most innovative and 20 largest market research consultancies in the world. LRW Group companies include: LRW, Kelton Global, ISA, LRWTonic, LRWMotiveQuest, Strativity and icanmakeitbetter.

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