



# Over-the-Top, Cord-Cutting, and the Consumer

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In Front of **the Curve™**

## *Over-the-Top, Cord -Cutting, and The Consumer*

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Insight  
Strategy  
Planning

**Market dBrief™**

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This Market dBrief™ draws its data from TDG's new report:

**[Over-the-Top Broadband Enthusiasts – Who Are They, What Drives Them, and What Do They Want?](#)**

This report identifies four non-overlapping OTT-dependent segments (Replacers, Supplementers, Optimals, and Non-OTT Consumers) and analyzes the characteristics that define and distinguish each segment, including demographics, psychographics, TV viewing and subscription habits, technology dispositions, interest in alternative TV services, and a host of other characteristics. The data reveals an emerging market comprised of very different consumer segments with different motivations and service expectations.

For more information, or to purchase the report, please contact us at [sales@asktdg.com](mailto:sales@asktdg.com) or 469.287.8050.

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## **Over-the-Top Video, Cord-Cutting and The Consumer: A Snapshot of Recent TDG Primary Consumer Research**

TDG was the first firm in the U.S. to pursue advanced studies on the emergence and evolution of Over-the-Top (OTT) video delivery. While the topic is still relatively new to the mainstream press, in the last few months it seems as if everyone has become an expert on the subject. In reality, this is due to a linguistic error on the part of industry and press, both of which have mistakenly confused the concept of “cord cutting” (that is, cancelling one’s PayTV subscription and watching only web-based video not associated with any particular service) with OTT (that is, the delivery of web-based video directly to the TV via a broadband connection). This is not only invalid but dangerous. Though “cutting the cord” is being spun as “the next big thing,” it has to date only attracted a handful of dedicated converts, a fact which has led pundits to dismiss or write-down the long-term potential of OTT in general – a dangerous mistake for both incumbents and competitors. Yes, cord cutters are part of a growing OTT enthusiast segment, but only a very, very small part of the whole. Logically speaking, cord cutters are a necessary part of OTT enthusiasts but hardly sufficient.

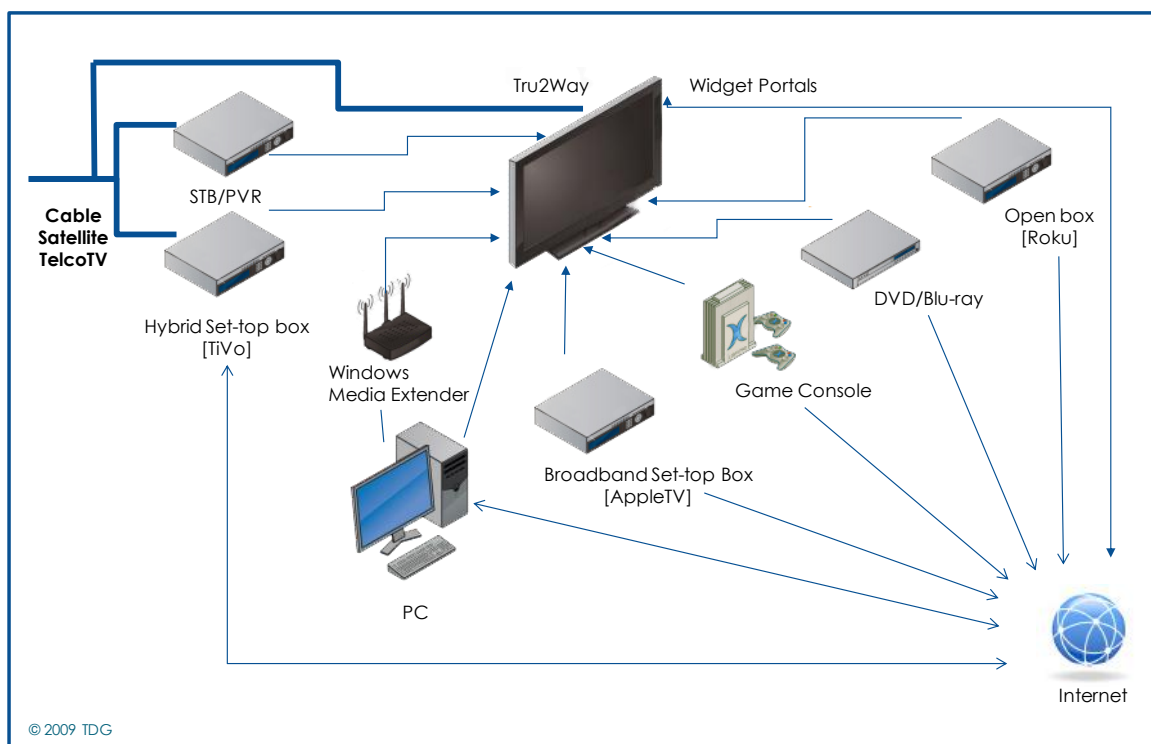
For example, one could hook up digital media adapter or extender to their TV and home network and access Hulu, Cinemanow, or Netflix, which would qualify as cord cutting and, by implication, OTT. However, if the same adapter is used to provide the same content to the TV but one decides not to replace their current PayTV service, this would not qualify as cord cutting but would still be considered OTT. In the former instance, OTT is used as a replacement service. In the latter, OTT is used as a supplementary service. This distinction is crucial in understanding why consumers are interested in OTT video and how demand will vary by segment.

With this distinction in mind, the purpose of this dBrief is to share a snippet of TDG’s [latest primary research](#) on consumer interest in OTT video services, one which goes beyond the “cord cutter” label and identifies four different OTT segments: Replacers, Supplementers, Optimals, and Non-OTT Consumers.

## 1.0 – The OTT Market Space – Emergence

With the rapid uptake of web-based video and dramatic improvements in the quality of online video delivery, it was inevitable that innovative companies would look beyond the PC and instead turn their attention to delivering online video directly to the living room TV, bypassing or going “Over-the-Top” of incumbent PayTV operators.

**Figure 1 The In-Home Quantum Media Universe – Multi-Source and Multi-Path Video**



Though somewhat nascent at this point in its lifecycle, OTT video delivery is increasingly seen by incumbents as a legitimate long-term threat. The means by which OTT operators can reach the TV is multiplying each and every day, as is their motivation to do so. As noted below, the traditional PayTV set-top box is no longer the only way to get one's video content to the TV.

With so many web-enabled video platforms coming into play, there is no doubt incumbent PayTV operators are in for major competition and on multiple fronts. It is more a question of when and in what form these offerings will materialize.

## 2.0 The OTT Market Space –Evolution

In TDG's latest consumer research, a random sample of more than 2,000 adult broadband users were asked a series of questions relating to a new broadband TV service which was prefaced and described as follows:

***A number of companies are looking to deliver TV services comparable to your current programming but delivered over your broadband connection. These are known as 'broadband TV services' and in most cases are indistinguishable from your regular TV service and can deliver TV programming to virtually any room of the home.***

***Imagine that a broadband TV service featured the same variety of TV programs and movies you now receive, but also included your favorite online video and entertainment – all served directly to your home TVs and integrated into your program guide. This new broadband TV service would:***

- ***Allow you to select the 20 to 30 channels they watch most often,***
- ***Feature your favorite movies (on-demand, whenever you want to watch them), and***
- ***Offer a wide variety of online video and entertainment, all delivered directly to your home TVs.***

Respondents were thereafter asked of the likelihood they would sign up for this new video service:

- (1) First, as a supplement to their current PayTV service at randomly assigned price points; and
- (2) Second, as a replacement for their current PayTV service at a randomly assigned price points.

Both questions were asked of all respondents but at different points in the survey, meaning in some cases consumers responded positively to both (and thus giving rise to a third OTT consumer segment not considered in this paper but profiled extensively in TDG's new report – [OTT Broadband Enthusiasts](#)).

In mining this data, TDG was able to isolate four distinct (non-overlapping) consumer segments:

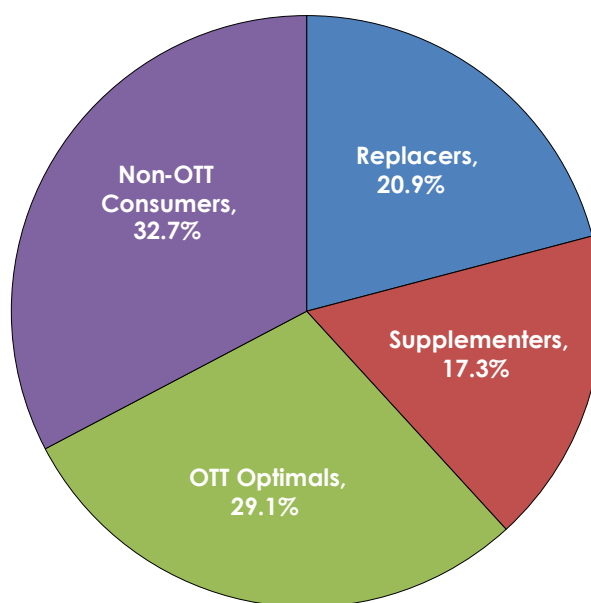
- Replacers – those likely to replace their PayTV service with an Over-the-Top (OTT) broadband video service *but not likely to use OTT as a supplementary*

service. Please note that this classification does not include or represent those consumers likely to cancel their PayTV service and replace it simple web video viewing. This specific phenomenon was not addressed in TDG's most recent study. Rather, the label "Replacers" in the present sense pertains only to those who are interested in forgoing their traditional PayTV service for a broadband TV service as defined above.

- Supplementers – those likely to supplement their PayTV service with an OTT broadband video service *but not likely to use OTT as a replacement service*.
- OTT Optimals – those interested in both replacing and supplementing their PayTV service with an OTT video service. This category constitutes the overlap between Replacers and Supplementers and is logically distinct from both of these two segments.
- Non-OTT Consumers – those neither interested in replacing nor supplementing their PayTV service with an OTT service.

The graphic below offers a breakdown of how adult broadband users fall in this OTT continuum. Once again, please note that these are non-overlapping segments – logically distinct and statistically separate consumer segments.

**Figure 2 Segmentation by OTT Status**



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As illustrated, two-thirds of adult broadband users are interested in some variant of an OTT service:

- 21% are Replacers (inclined to replace their current PayTV service but with *no interest in supplementing*);
- 17% are Supplementers (looking to supplement their PayTV service with an OTT offering but with *no interest in “cutting the cord”*), and
- 29% are OTT Optimals (with an *interest in both replacing or supplementing* depending on the specifics of the offering). No, one cannot both replace and supplement simultaneously; they are mutually exclusive by definition. However, a significant percent of adult broadband users respond positively to both OTT offerings and, when compared with Replacers or Supplementers, displayed sufficiently unique characteristics that justified their treatment as a distinct (non-overlapping) category.
- The remaining one-third of adult broadband users who are neutral or negative in regarding to both forms of OTT service are identified above as “Non-OTT Consumers.”

Yes, demand for OTT services in either form (as a replacement or a supplement) will vary by price and the specifics of the offering (as the case with any TV service). Yes, there are technological and business issues that must be addressed before certain forms of OTT video services can be delivered over a residential broadband connection (as was the case when cable TV was first introduced). But these are supply-side inhibitors, not demand-side constraints. Consumer research focuses on determining consumer receptivity *as if* the supply-side issues are resolved. It seeks to define the necessary and sufficient conditions for maximizing receptivity given perfect supply-side conditions.

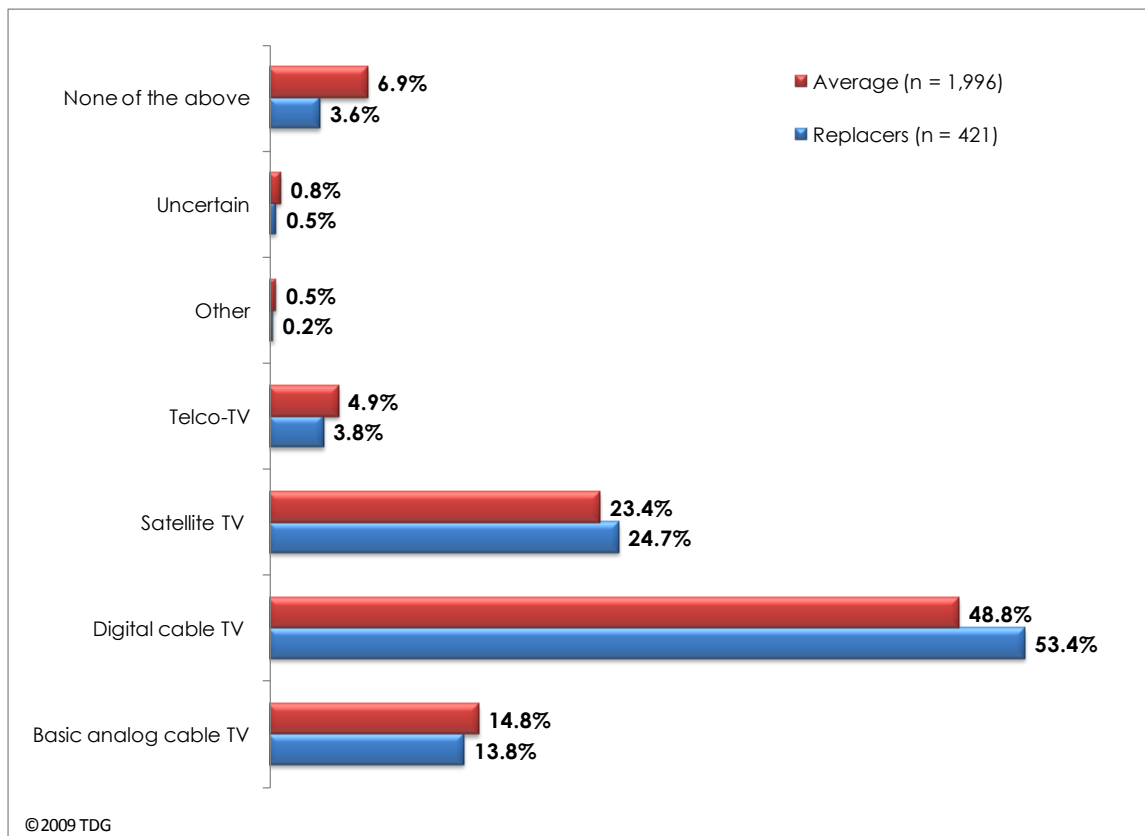
Readers will draw their own conclusions as to what the data in this paper implies about the OTT market opportunity. In the meantime, this paper examines the characteristics of those likely to “go OTT” and replace their PayTV service. Again, this is but a snippet from the data set featured in TDG's new report on [\*\*OTT Broadband Enthusiasts – Who Are They, What Drives Them, and What Do They Want?\*\*](#)

### 3.0 Profiling PayTV Service Replacers – A Snapshot

This section offers a “snapshot” of TDG’s recent primary consumer research on the subject of broadband TV services. Specifically, it will compare and contrast two specific consumer sub-segments: (1) those to varying degrees interested in *replacing* their current PayTV service with an OTT broadband TV service (labeled as “Replacers”) and (2) adult broadband users in general (labeled as “Average”).

#### 3.1 PayTV Service Subscriptions

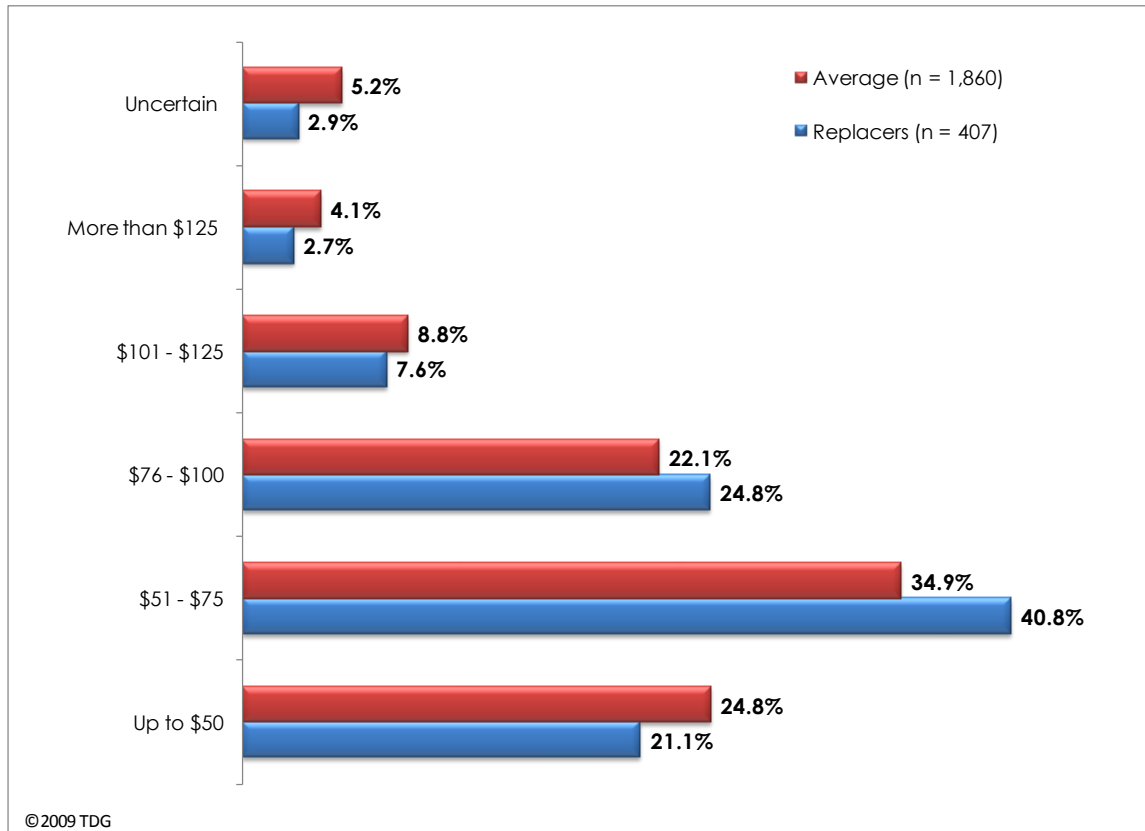
**Figure 3 PayTV Subscriptions**



Replacers are 9% more likely than average adult broadband users to be digital cable subscribers (53% vs. 49% respectively) – the only case in which a significant difference is observed relative to the type of PayTV service subscription. Note that PayTV penetration is slightly greater among Replacers than average adult broadband users (96% vs. 93% respectively).

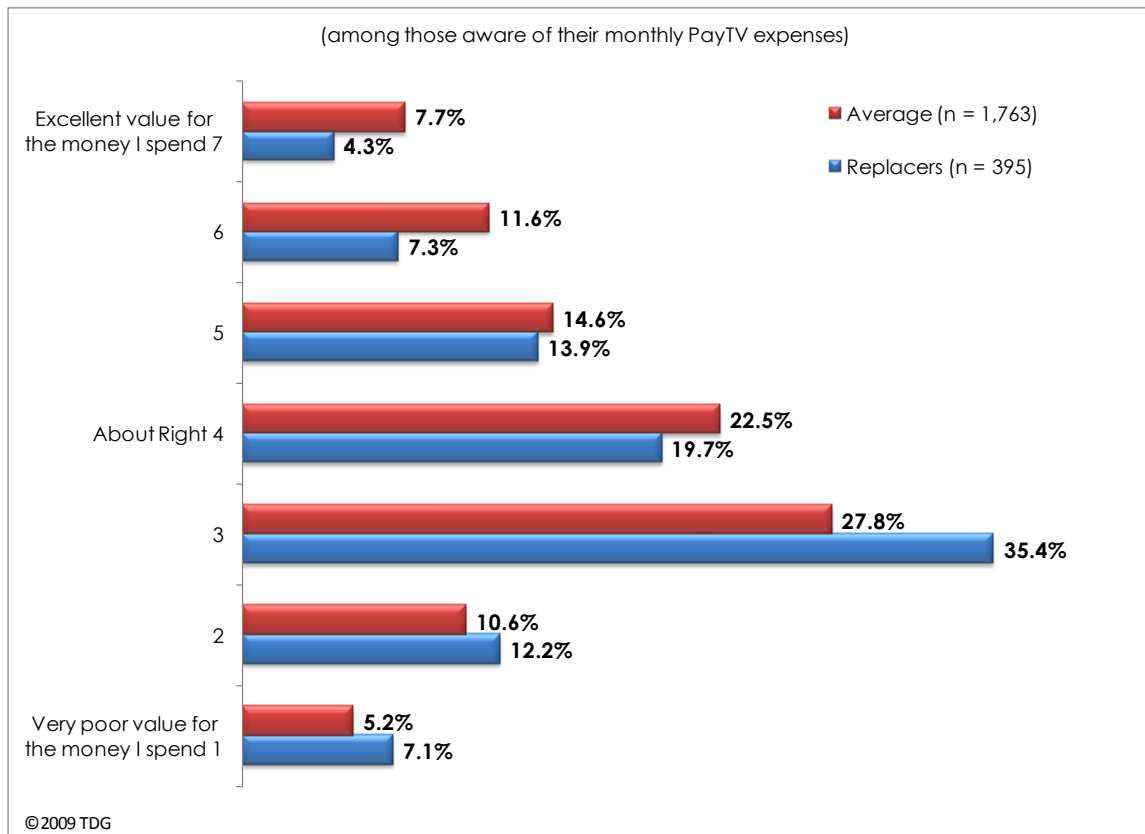
In terms of the presence of Replacers as a percentage of each PayTV category, they comprise 20% of what were basic analog cable subs (the survey was completed in Q1 2009 prior to the digital TV transition), 23% of digital cable TV subs, 22% of DBS subs, and 17% of telco-TV subs.

**Figure 4 Monthly PayTV Expenses**



In terms of the amount of money spent each month on PayTV services, Replacers spend less than the average adult broadband user. For example, only 10% of Replacers in excess of \$100 per month on their PayTV service, compared with 13% of average adult broadband users. In contrast, 66% of Replacers spend between \$51 and \$100 per month on PayTV services compared with 57% of average adult broadband users.

As will become clear as this paper progresses, Replacers more strongly exhibit mainstream characteristics than do other OTT segments, a very important insight when conceiving the “perfect audience” for an OTT-as-replacement offering. This varies significantly from Supplementers and Optimals (segments discussed further in [TDG's new report](#)).

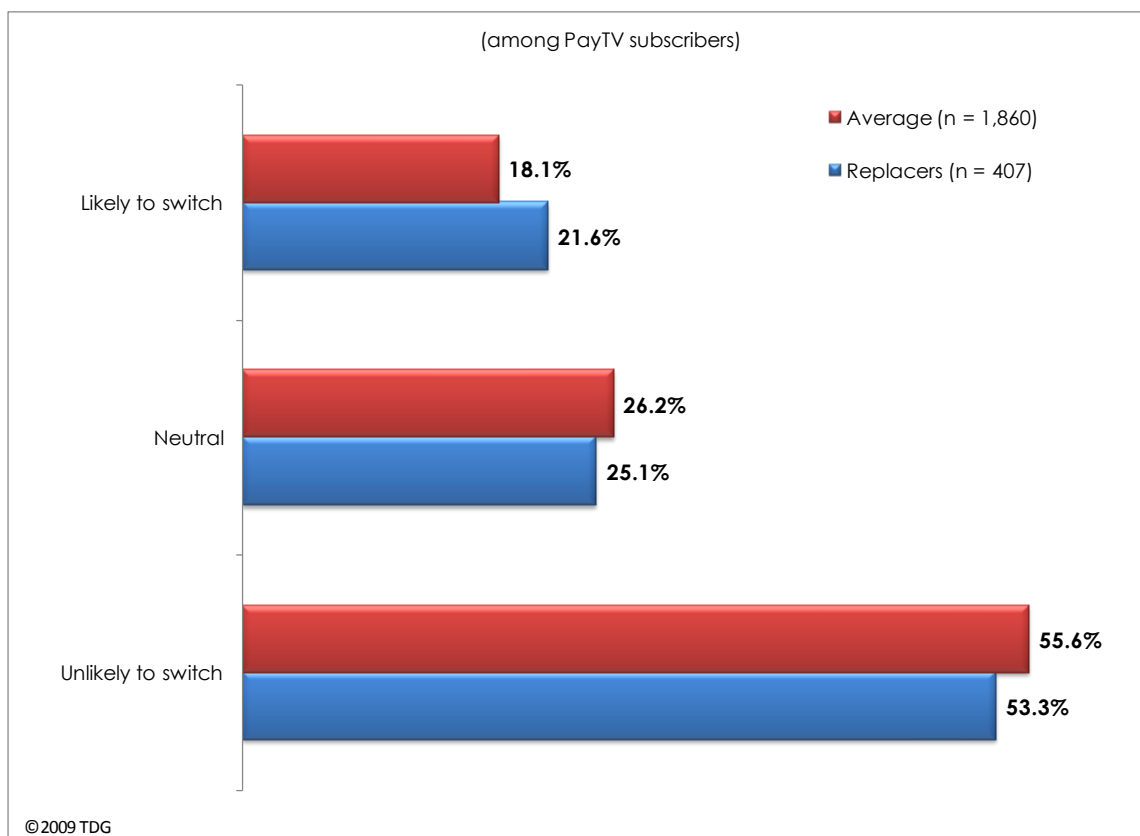
**Figure 5 Perceived Value of PayTV Services Relative to Monthly Expenses**

In regards to the perceived value of one's PayTV service (i.e., the benefit relative to cost), 55% of Replacers have a negative perception (selecting "3" or less on a 7-point scale). This compares with 44% of average adult broadband users, a difference of 11 points or 25%.

At the other end of the spectrum, Replacers are significantly less likely to perceive the value of their PayTV service as positive: only 24% of Replacers rate service value at "5" or higher, compared with 34% of average adult broadband users (a difference of eight points or 31%).

Thus, Replacers are more likely than average adult broadband users to be displeased with the value of their current PayTV service such that, assuming the right offering, they would "cut the cord" of their current PayTV service and jump ship to an alternative broadband TV service.

To what extent do these perceptions translate into consumer willingness to switch PayTV services (say from cable to satellite or telco-TV)? The chart below offers insight.

**Figure 6 Likelihood of Switching PayTV Providers in Next Six Months**

As illustrated above, 22% of Replacers are likely to switch PayTV service providers in the next six months, compared with 18% of average adult broadband users. Keep in mind that this has nothing to do with switching to an OTT broadband TV service—the question appeared in the survey well before any discussion of broadband TV. It refers only to switching to another incumbent.

It is interesting to note that negative value perceptions translate into a willingness to switch PayTV operators about 40% of the time among both Replacers and average adult broadband users.

## 4.0 Final Thoughts

The delivery of web-based video “Over-the-Top” of incumbent PayTV services and directly to the living room TV is inevitable (it is but a question of “When” not “If?”). However, OTT can be expressed in several different business models, some positioned as PayTV replacement services, others positioned as supplementary; some driven to replace PayTV altogether, others looking simply to add broadband video to consumer's existing PayTV services.

TDG long ago predicted that the first wave of OTT services would be supplementary in nature, intended to siphon revenue from value-added PayTV services such as VOD and PPV. Today, this is indeed the case, as illustrated by offerings such as Microsoft's Xbox LIVE, Netflix, and Vudu. Over time, however, OTT services will become more robust – in terms of both content and features – and begin to threaten core PayTV subscriptions more directly.

Regardless of the type of OTT service one offers, it is imperative to know as much as possible about one's target audience. As noted in this brief paper—and discussed in much greater detail in TDG's new report—the emerging market for OTT video services is heterogeneous in nature, comprised of different segments with needs. In regards to Replacers and how they compare with average adult broadband consumers (the segments profiled in this paper), the differences are subtle. Yet it is within this banality that we find a deeper insight. Despite received opinion, those likely to “cut the cord” and go with an OTT video offering are neither comprised of tech-sophisticates yearning for some obscure new TV technology, nor a fringe group online video enthusiasts that abhors the idea of paying for TV programming. Instead, OTT-as-replacement enthusiasts are mainstream in disposition, looking for a less expensive but more personalized TV service; one that offers better value, the right collection of content, and the features and applications they most desire.

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We hope this dBrief has helped you gain a greater understanding of the over-the-top video market and its challenges. But it doesn't end here. We invite you to take a few moments to visit our website and see for yourself how deep the research goes and how vast the data is.

At TDG, our mission is to help you locate your target audience of today, and point you towards your consumers of tomorrow. We apply our extensive research to your specific strategy. Ultimately, our success lies in helping you find yours.

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We look forward to speaking to you soon.

## Related Reading

This TDG dBrief is yours to share with as many people as you wish. Should you be interested in a much broader and more granular discussion of consumer interest in OTT services, check out TDG's latest reports:

- [Over-the-Top Broadband Enthusiasts – Who Are They, What Drives Them, and What Do They Want?](#)
- [PayTV Service Providers and Online Video Delivery: How Soon is Now?](#)
- [Online Video Strategies for TV Content Providers: Reflections and Recommendations](#)

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