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Pay TV is Not Dead!

Myth Busting 101: It's (NOT) Inferior to OTT Cost and Value Experience

Charles Cheevers
CTO Customer Premises Solutions
ARRIS

Michael McCluskey
VP Product Management
Espial

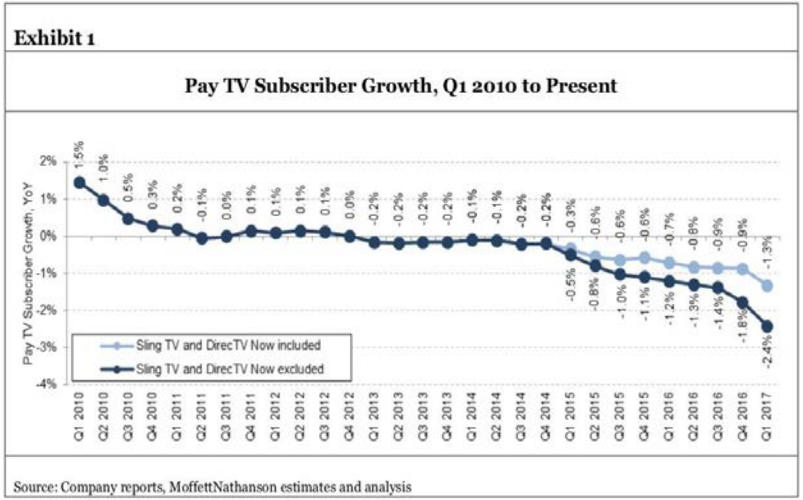
Sections of this presentation

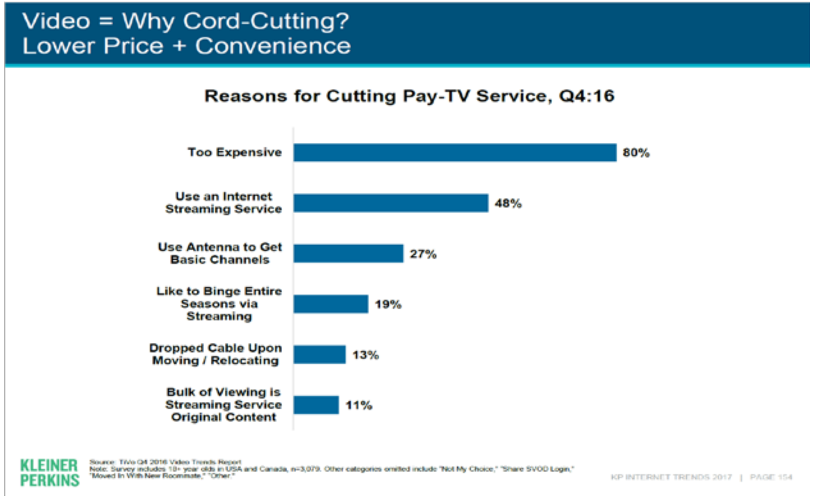
- ❑ What is the status of Pay TV services and what is the feedback from consumers?
- ❑ Cord shaver OTT users, what do they value and can they be converted back to Pay TV?
- ❑ What elements of the user experience do consumers use/value/need?
- ❑ What can the next generation Pay TV user experiences do to retain and grow subscribers?
- ❑ Summary

Conflicting views out there…

- ❑ Consumers moving away from Pay TV services towards self created OTT bundles
- ❑ Declines in Pay TV subscribers and increase in Cord Shaving
- ❑ Broadband the growth – video the decline
- ❑ Millennials not interested in Pay TV services and not going to watch TV in the future
- ❑ TV is the old way to consume video; mobile screens is the new way to consumer video
- ❑ Live TV is dead and people will watch most video time-shifted
- ❑ Set-top box (STB) being replaced by applications on other devices
- ❑ Does the MSO need its own STB?

What we tend to see on weekly basis



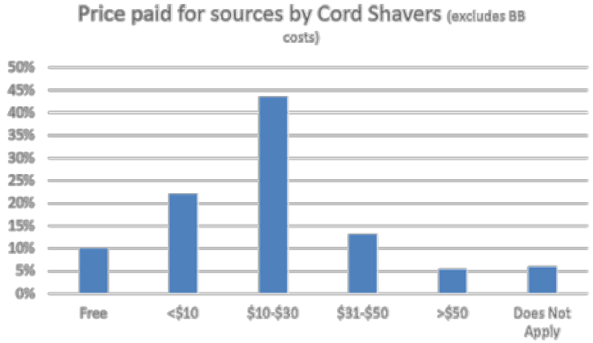


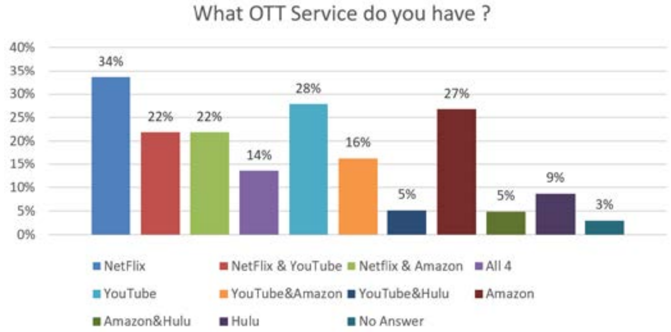
MoffatNathanson showing 2-4% decline in Pay TV subs over last 7 years but is acceleration in its future

Mary Meeker of Kleiner Perkin’s went one step further and showed 6 areas why consumers cord shave from Pay TV

Why Cord Shavers don’t have Pay TV and who they use

- Its cost and a belief they have what they need with OTT sources
- There is a group of home owners who want a more controlled environment for them and their kids and not spending hours watching TV
- Its really 2 to 4 sources they subscribe to…. Netflix and YouTube dominate and Amazon and Hulu round out the >2% sources
- And in reality they start to pay more – by adding services



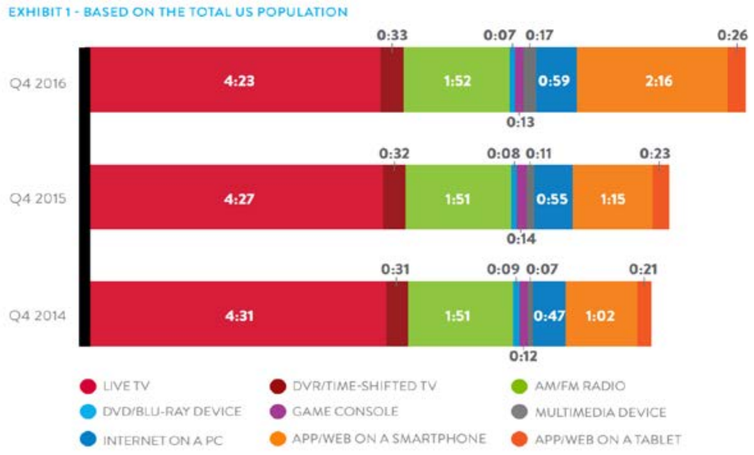


Is it more about just more consumption vs cannibalization?

Nielsen showing that there is general growth in viewing across all screens

Live TV has only dropped by 8 minutes per day over last 2 years

Largest increase on smart phone



Source - 2016 Nielsen Total Audience Report
http://www.nielsen.com/us/en/insights/reports/2017/the-nielsen-total-audience-report-q4-2016.html

Time Shifted content viewing has remained the same

Although binge viewing has risen?

There is also the background TV application which the US likes more than other regions. Multiple TVs left on – with background ambient noise/news etc.

We do have official surveys and correlation

FCC conducts 10 year survey each year for cable companies

2015 report published

Summary of typical Basic to Expanded to most popular beyond Enhanced shown here

Comparison to Cost of Living Index – CPI. Price increase in cable is tracking higher than basic necessity products

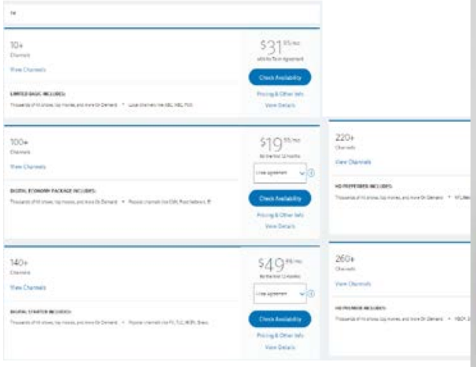
Table 4
Historical Averages

Year	Basic Service Price	Expanded Basic Service			Next Most Popular Service and Equipment	CPI Index	
		Price	*Channels*	*Price per Channel*		*All Items*	*Cable*
2005	$14.30	$43.04	70.5	$0.620	$56.03	127.2	169.6
2006	$14.59	$45.26	71.0	$0.650	$59.09	132.2	174.4
2007	$15.33	$47.27	72.6	$0.670	$60.27	135.0	179.0
2008	$16.11	$49.65	72.8	$0.680	$63.66	140.8	183.9
2009	$17.65	$52.37	78.2	$0.710	$67.92	140.8	186.5
2010	$17.93	$54.44	117.0	$0.560	$71.39	144.5	191.9
2011	$19.33	$57.46	124.2	$0.569	$75.37	146.9	192.0
2012	$20.55	$61.63	149.9	$0.505	$78.91	151.2	199.8
2013	$22.63	$64.41	159.6	$0.484	$81.64	153.6	206.5
2014	$22.78	$66.61	167.3	$0.496	$84.65	156.0	212.0
2015	$23.79	$69.03	181.3	$0.456	$86.83	155.8	216.4
Compound Average Annual Rate of Change							
5-year average	5.8%	4.9%	9.2%	-4.0%	4.0%	1.5%	2.4%
10-year average	5.2%	4.8%	7.1%	-1.4%	4.5%	2.0%	2.5%

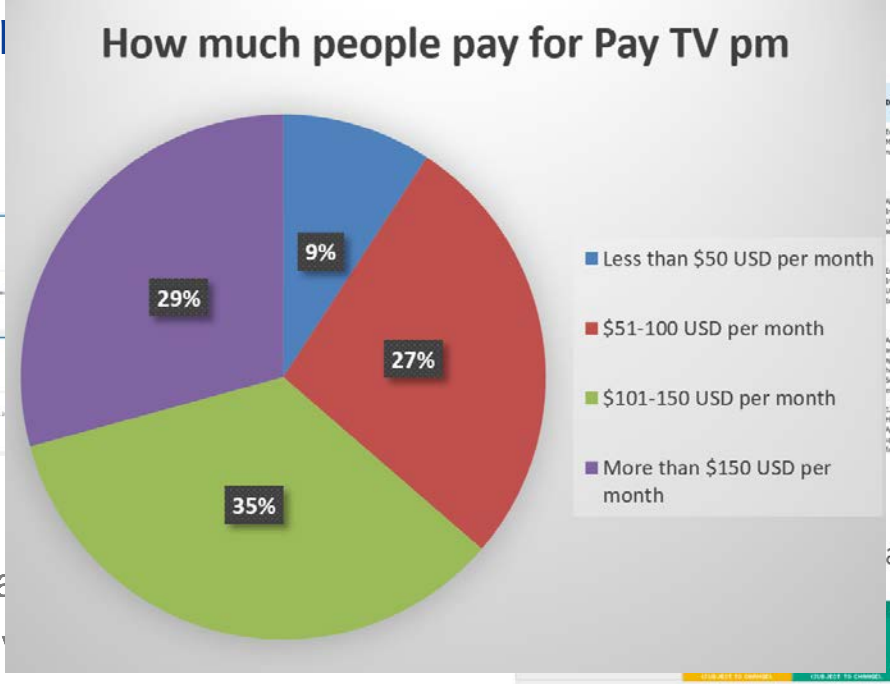
Source: 2005-2015 surveys. See Attachment 7 for references. Attachment 7 also shows the series back to 1995.

"2016 Statistical Report on Average Rates for Basic Service, Cable Programming Service, and Equipment"
https://apps.fcc.gov/edocs_public/attachmatch/DA-16-1166A1_Rcd.pdf

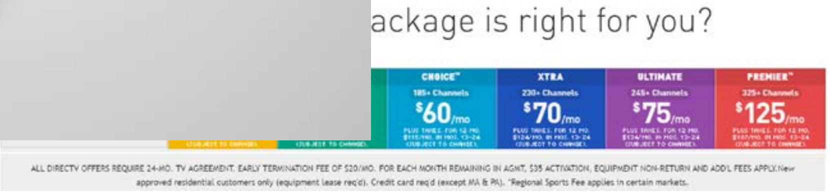
Some of the curr



Comcast



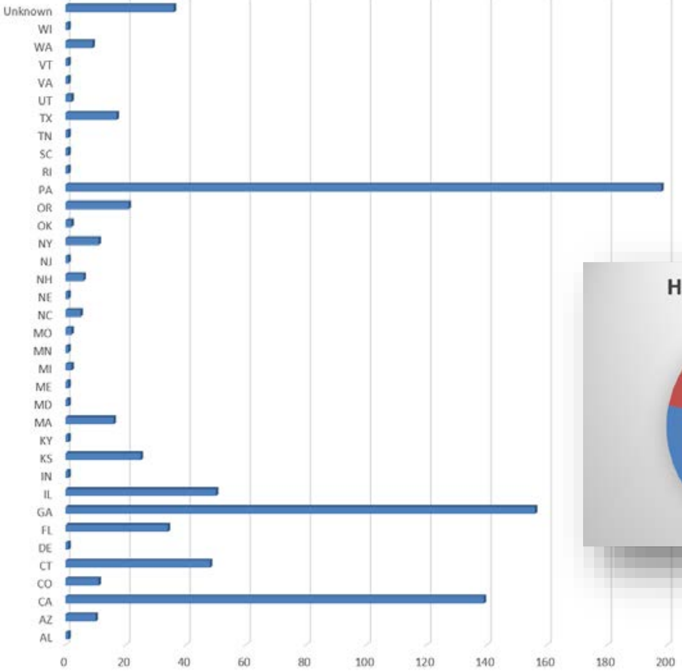
Charter/Spectrum

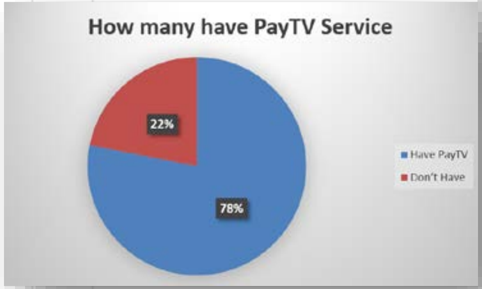


- All pretty much the sa
- Lots of 2 year incenti
- Some cord shaver skinny bundles emerging

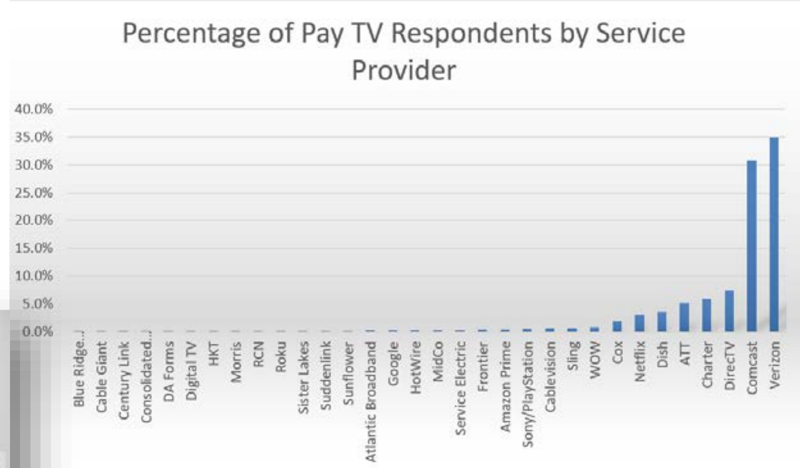
DirecTV

Polled almost 900 US households





78% - Have Pay TV
22% - Cord Shaved



35% Verizon customers
31% Comcast customers
13% ATT/DirecTV
6% Charter

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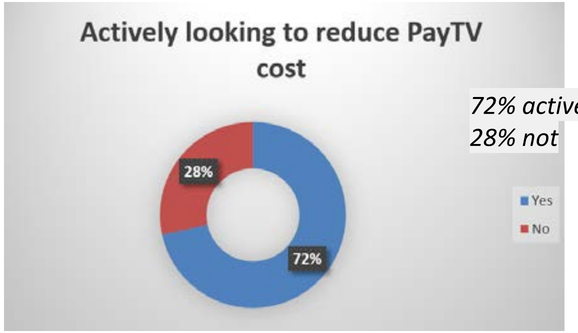
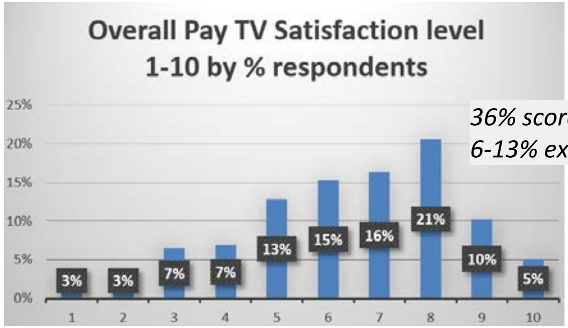
Mary Meeker and Kleiner Perkins are right – kind of….



72% actively looking to reduce Pay TV monthly bill
28% not



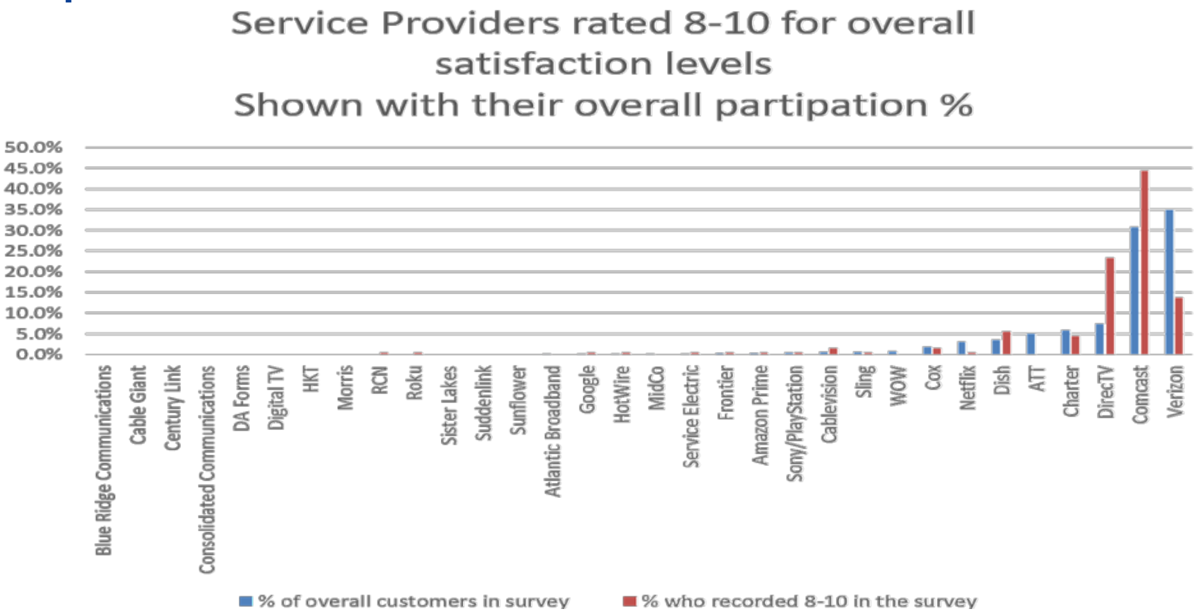
36% scored their MVPD 8-10
6-13% extremely dis-satisfied

Overall satisfaction level (1-10) was 6.3

Cost Satisfaction : 3.9

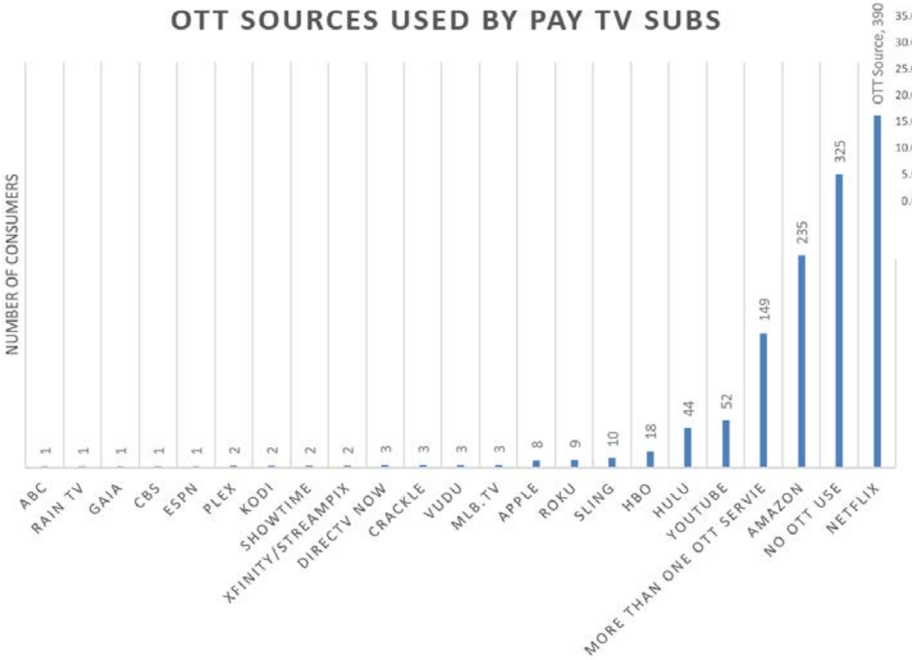
UX satisfaction : 6.1

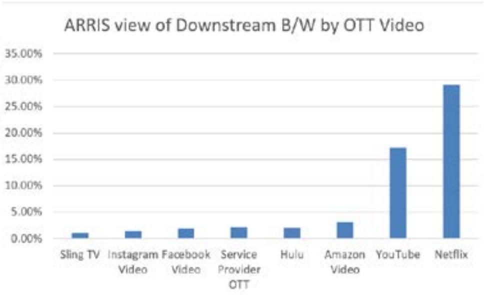
How did the positive customers vote

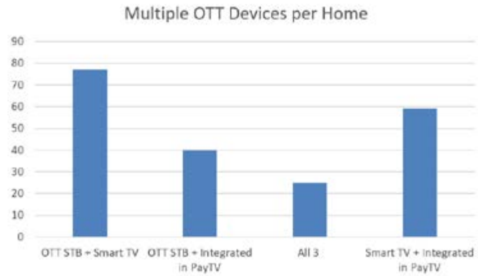


- Comcast, DIRECTV, and Dish had higher number of 8-10 rankings than the proportion of their survey participation
- As a side note, Comcast subscribers with X1 rated their satisfaction levels higher than those that had not yet moved to X1

There are really only 2 sources that count – 4 that make impact



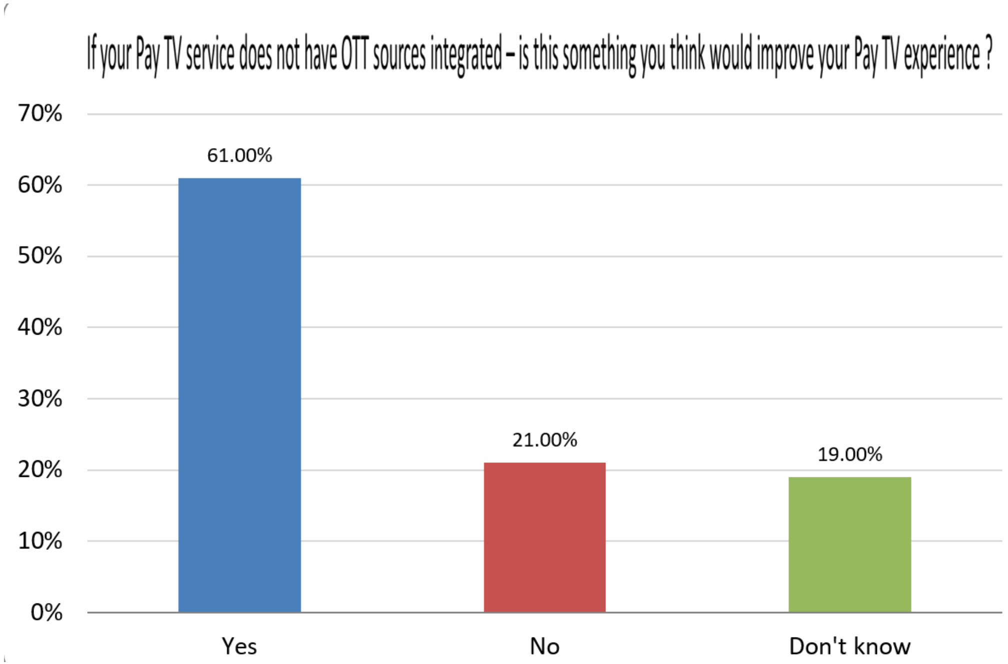




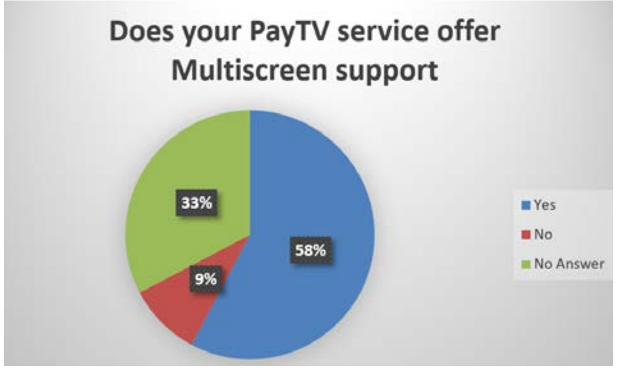
- Subscription rates
  - Netflix 55%; Amazon 33%
  - No paid OTT use 45%
  - More than one paid OTT service – 20%
- Use rates very different
  - Netflix 28%; YouTube 17%
  - Amazon 3%; Hulu 2%

Consumers see big value in integration of OTT sources

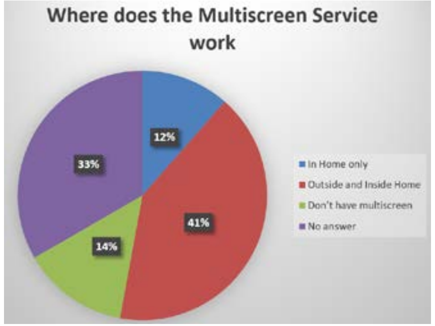
- One of the key feedback items in survey is that consumers value the integration of OTT sources in their aggregated Pay TV system
- They like to stay on same HDMI and keep the same remote interface
- They like metadata shared search and recommendation engines – where they can find all content across all integrated sources
- They are discerning of how this is implemented. Needs to be simple and either inherent in guide or in the search applications



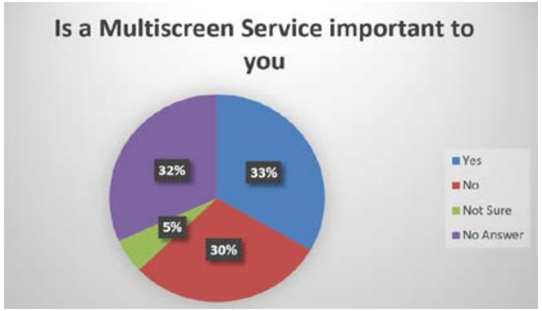
Some confusion on multiscreen services



- 58% had MS service
- 33% did not answer or did not know
- 9% said No



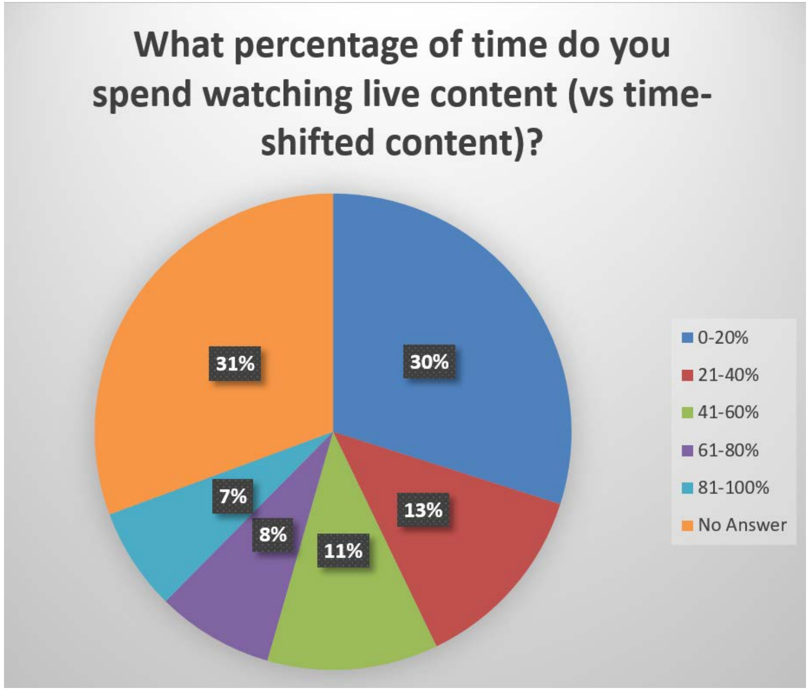
- 17% in-home only
- 41% inside and outside
- 33% did not answer or did not know



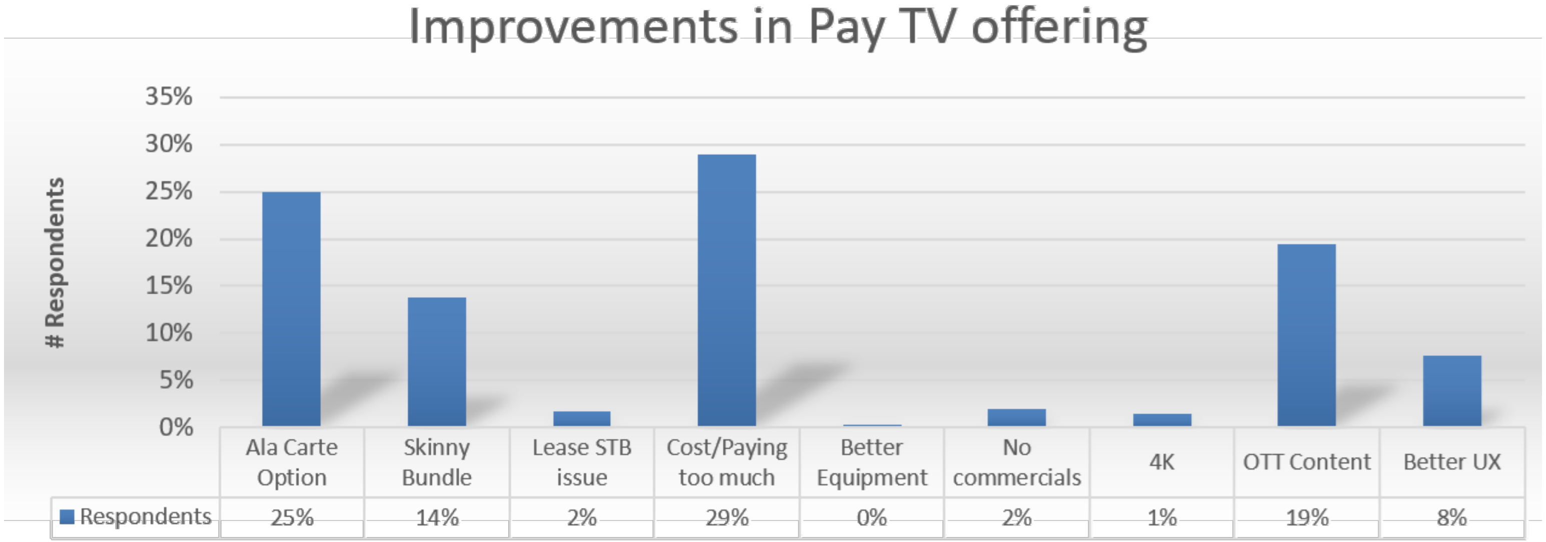
- 33% think MS is important
- 30% said No
- 32% did not answer

What way do people think they are watching Pay TV

- 30% of people think they watch Live content 20% of time
- 13% watching Live TV up to 40% of the time
- 11% watching Live TV up to 60% of the time
- 8% watching Live TV up to 80% of the time
- 7% watching Live TV up to 100% of the time

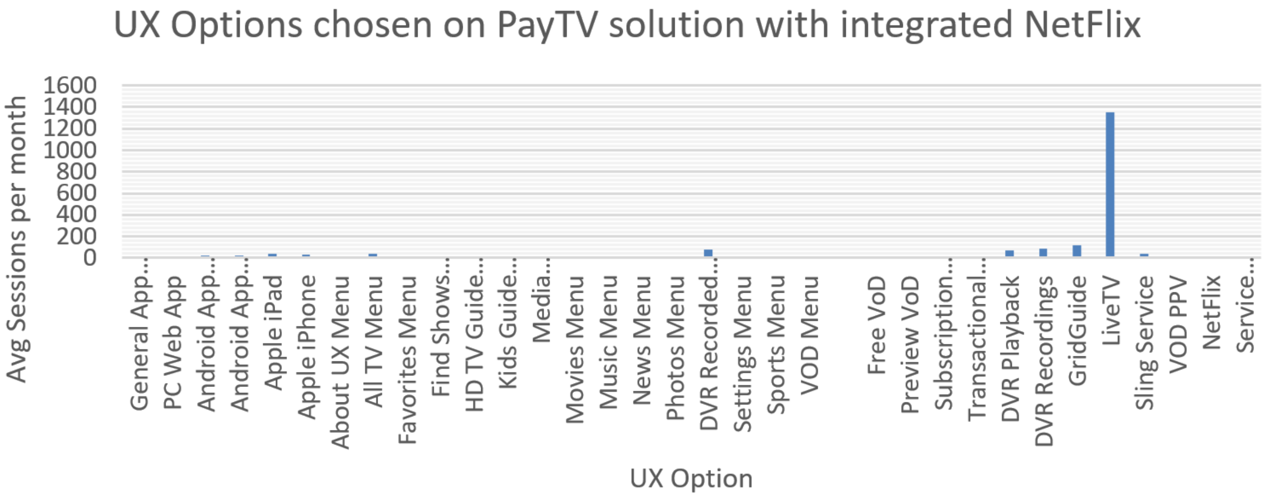


Cost and value for money – as expected



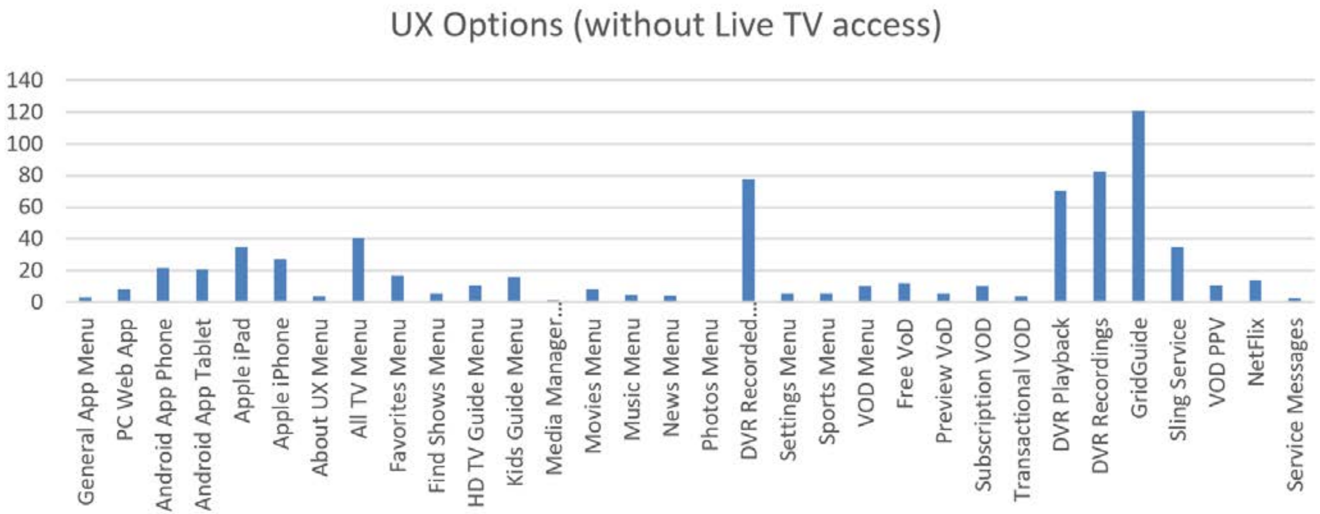
- Users like a la carte/skinny bundle concepts, because they typically focus their TV watching on 17 channels

Take a modern Pay TV solution with integrated Netflix….



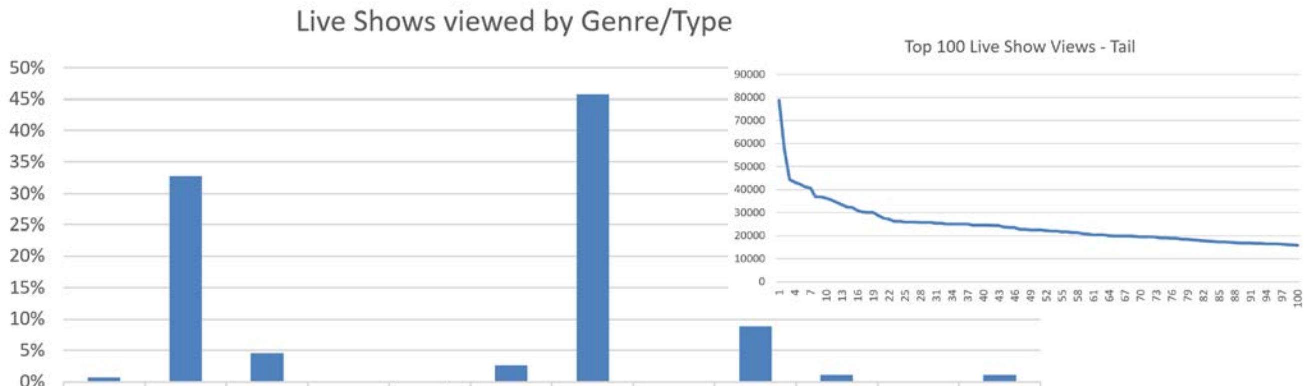
- Users use the Live TV menu options 10x more than anything else

Take a modern Pay TV solution with integrated Netflix….

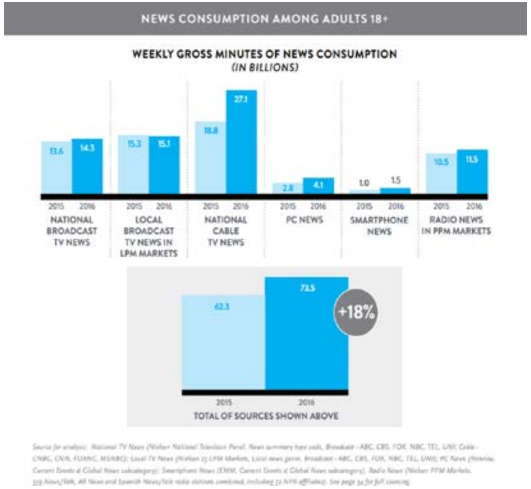


- Leave out Live TV access menu
- Grid Guide (Live TV mostly) and DVR are 2 most used Menus
- Netflix sessions per month are 15.2 per month < 1 per day.

What are people watching – its still mostly Live TV



	Drama	Sport	Talent Show	Reality TV Show	Documentary or Nature Show	Chat Show	News	Game Show	Variety Show	Movie	Sitcom	Award Ceremony
Series1	1%	33%	5%	0%	0%	3%	46%	0%	9%	1%	0%	1%

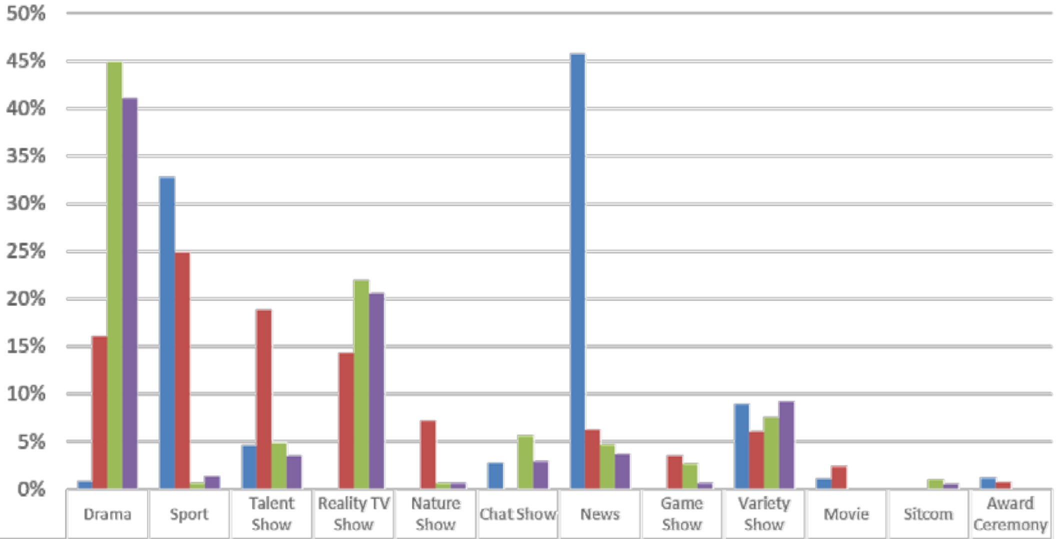


Source - 2016 Nielsen Total Audience Report
http://www.nielsen.com/us/en/insights/reports/2017/the-nielsen-total-audience-report-q4-2016.html

- News and sports dominate most US households. Will this change for Millennials when they change phase of their lives to financial maturity?
- Nielsen also reports the increase in news watching – up 18% from 2015 because of US politics in particular

Its different what is scheduled and watched

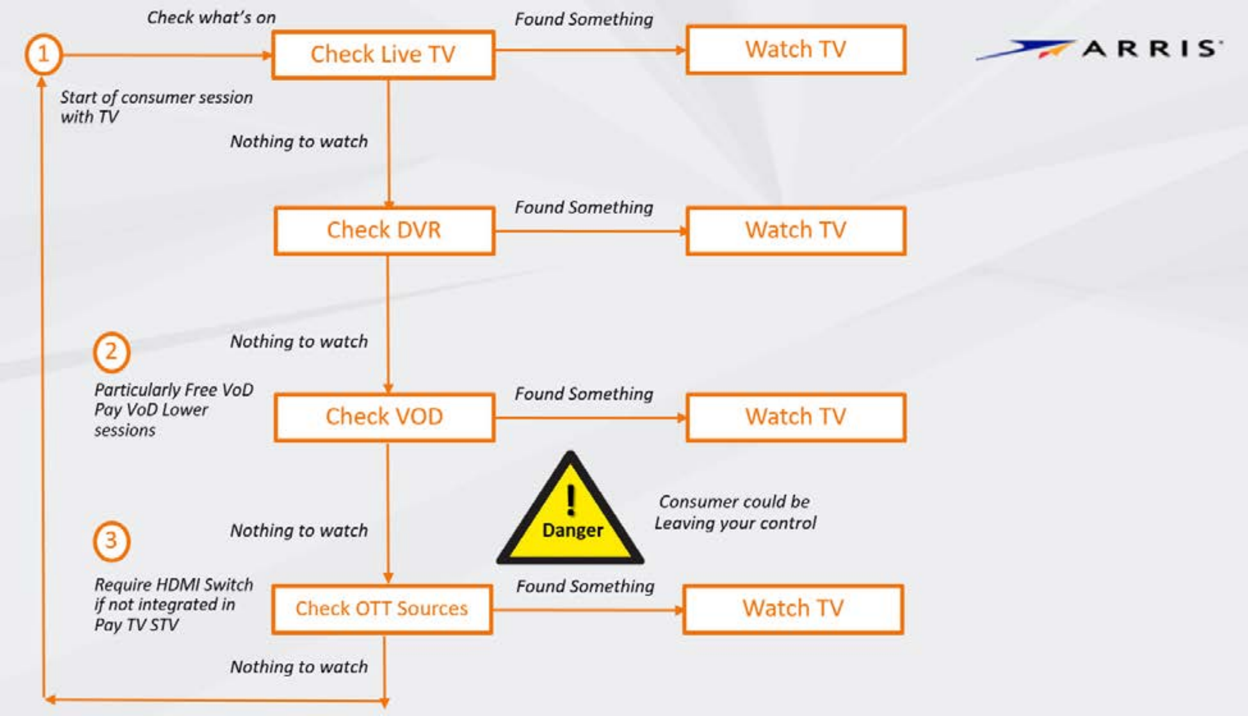
Comparison of Live, Scheduled, Recorded and Playback of Top 100



	Drama	Sport	Talent Show	Reality TV Show	Nature Show	Chat Show	News	Game Show	Variety Show	Movie	Sitcom	Award Ceremony
Live TV Top 100	1%	33%	5%	0%	0%	3%	46%	0%	9%	1%	0%	1%
Scheduled Rec Top 100	16%	25%	19%	14%	7%	0%	6%	3%	6%	2%	0%	1%
Actual Recorded Top 100	45%	1%	5%	22%	1%	6%	5%	3%	8%	0%	1%	0%
DVR Playback Top 100	41%	1%	4%	21%	1%	3%	4%	1%	9%	0%	1%	0%

- Sports is highest scheduled but lowest playback
  - Backup to live view
- Talent shows are scheduled recorded and spur of moment record
- Drama series are heaviest use for DVR playback

The 90% travelled path – keep this path coming back to MSO



- The key element of the UX is to make sure that the consumer follows this path on
- MSO STB
- MSO HDMI port
- MSO Remote control
- MSO multi-screen app
- MSO mobile app

Its all about the perception of value for money

- Consumers will always look for price decreases – don't give them other things to complain about!
- Buying 250 channels and only watching 17 – gives them the belief they are paying for content and channels they don't want or need.
- Solution is to keep them happy enough that they don't do the work to move
- Integrate all sources on your video solution
- Don't lose Remote control or HDMI control
- Add as much anti-churn elements through overall 'Full Fat' User experience – from content, STB/TV UX, Remote Control UX and even integrate smart lifestyle services into the 'Screen experience.'

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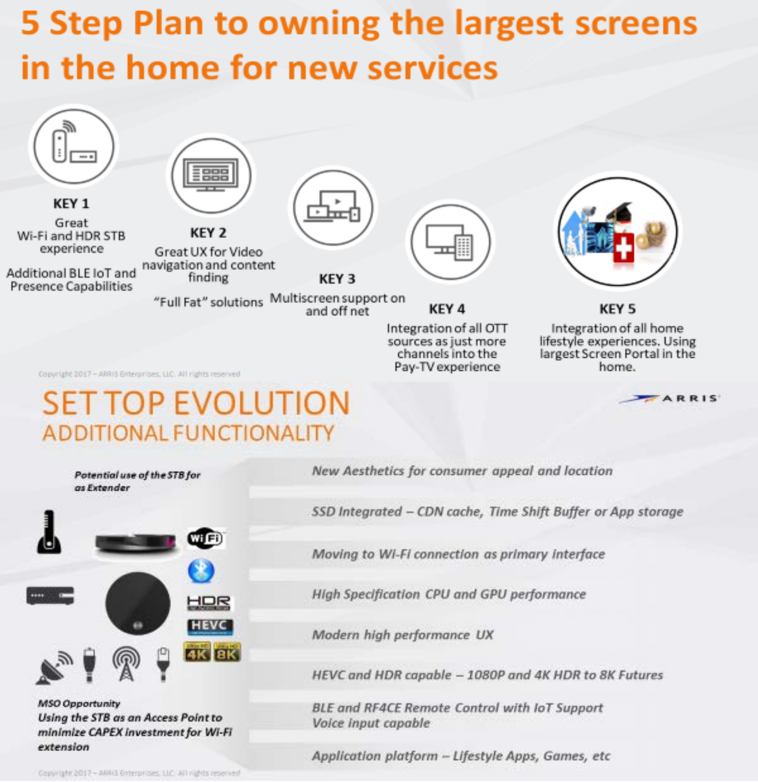
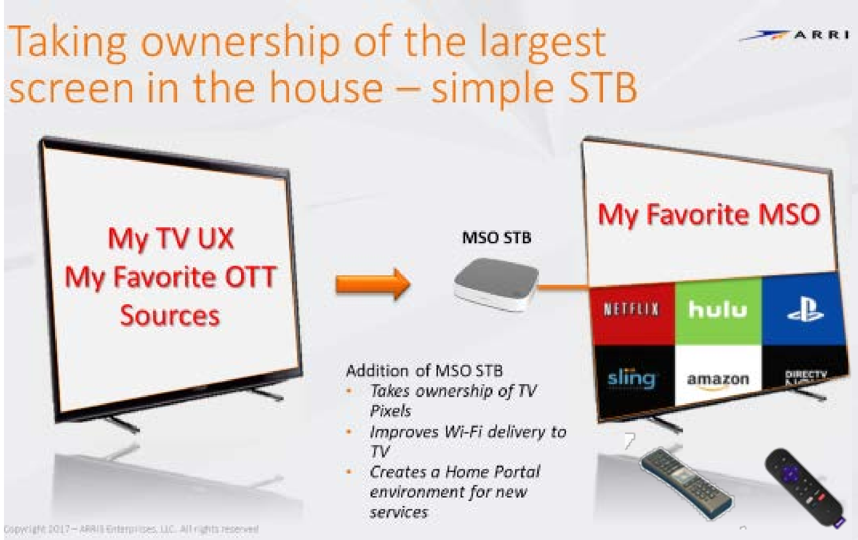
The key elements to ensure ownership of the customer eyes

- Simple and intuitive direction that can work – and will distract the consumer from the cost of Pay TV
- Think of services to the screen vs video to the screen – and add new lifestyle services like Health, Education, Home Security
- the user interface and both graphic, voice input and audio output are becoming more important to unify and aggregate the Home Lifestyle services
- The STB is the enabler and portal to own these home screens



Control, quality and ownership of the largest screen

- Strategy should be to own the largest screens in the home
- TV is changing to screen + Media Box
- Will go to all Wall TV and become the control point of the home and all services including video
- Lifestyle and Home services will be integrated into the video/TV experience
- Don’t lose the control of this evolution to all wall console in the next 5+ years.



Low cost STB owns the most valuable large screen real estate. Don’t lose this screen ownership!

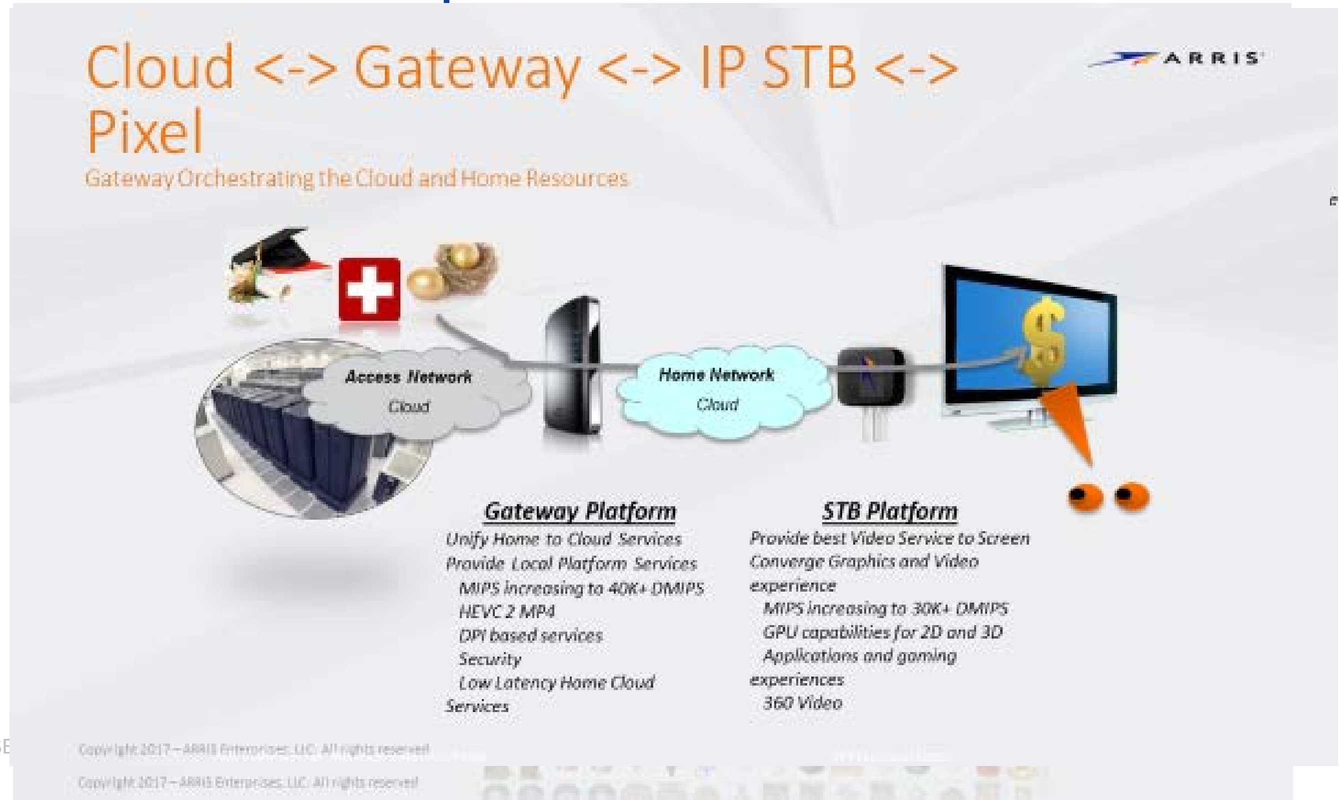
Don’t lose the selection of content/service ownership by not having remote control!

The TV is separating to screen and media box

- The screens are going thinner
- Dropping the media and connectivity electronics into separate Media Box
- Media Box connected to screen via new ‘power and led setting’ cable
    - Is this the new HDMI input
- Separate Media Box contains all decode, Wi-Fi connectivity, sound and input port functionality
- How does the MSO intersect with this direction?

The bar is increasing for user experience and UI

The consumer is the prize for investment in UX



All enabled by the STB

Driving services to the screen

Virtual Reality is another form of TV and UX

- Integrating the VR/AR HMD experience with the TV/screen platform in the home
- HMD usage driving 360 viewing on the STB driven screen as well

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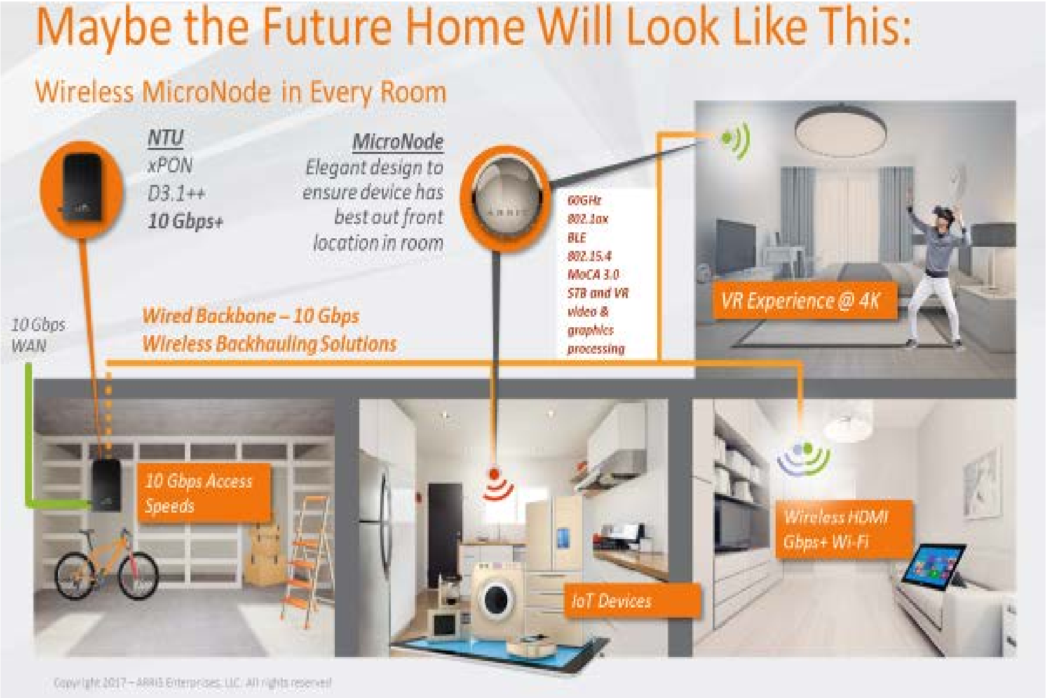
Its all about keeping the customer happy

- ❑ Integrate OTT sources in your UX
- ❑ Don’t lose control of remote or HDMI port
- ❑ Focus on better UX as balance to cost grumblings
- ❑ Add in new services on the STB/TV that also distract from cost of just video
- ❑ Make the screens in the home drive revenue for you
- ❑ Add in new Home Lifestyle services
- ❑ On the journey to all wall TV – don’t lose the ability to add your own controlled STB to own this new portal



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Charles Cheevers
Charles.Cheevers@arris.com
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