



“Keep My Customer”

WHY CONSUMERS SUBSCRIBE TO,
STAY WITH,
CANCEL,
AND COME BACK TO
ONLINE VIDEO SERVICES

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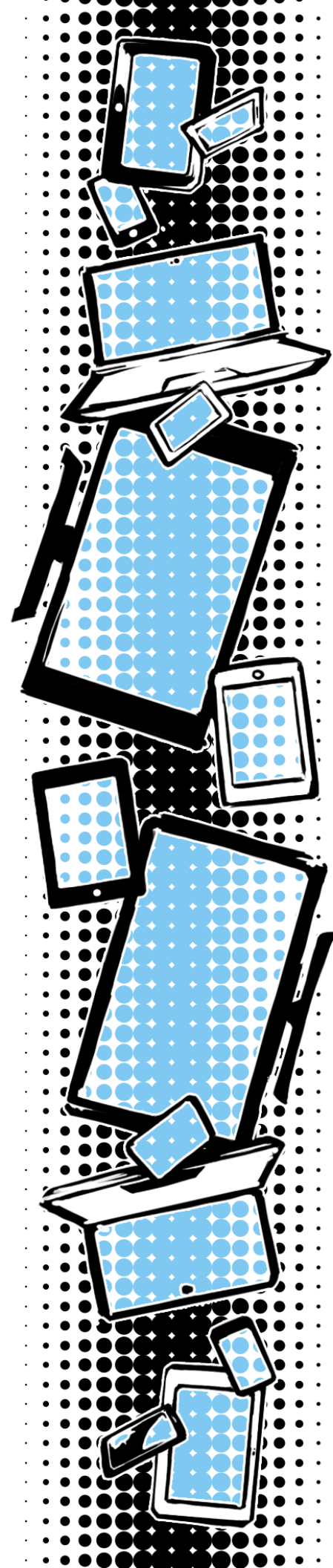
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3 SUMMARY

The average online video subscriber (OVS) in the US subscribes to 3.4 services and pays an average of \$8.53 per service. In the UK, the average OVS has 2.9 services and pays an average of £6.61 per service.

One-third of UK and US Amazon Prime Video subscribers have purchased an add-on video service. Higher income individuals are more likely to use Amazon Prime Video to purchase an add-on. Aside from the initial subscription, higher income customers provide no additional benefit to online video service providers (OVSPs). Amazon benefits because they spend more in the Amazon store.

Discounts for an extended subscription commitment are an under-exploited opportunity for OVSPs. A 20% discount for a 3-month commitment generated the highest interest level, with two-thirds of US and 57% of UK OVSs saying they were likely or extremely likely to take the offer. Parents and young people are more likely to be interested in discounts. For example, parents in the US are 14% more likely to take the 20% discount offer than average, and young adults (18 to 34-year-olds) are 10% more likely. Offering more than a 20% discount did not result in more interest.

Free trial abuse is not a big problem for online video service providers. While 49% of US and 62% of UK online video subscribers have canceled at least one service within the free trial period, only 5% in the US and 2% in the UK have canceled 4 or more trials in the last year.

55% of UK and 64% of US OVSs have been with their longest-tenured service for one year or more. Content, value for money, content discoverability, and originals are the top 4 reasons they stay. Lack of good content, poor value for money, difficult discovery experience, and lack of originals are also the top four reasons cited for canceling service.

Service experience is also a critical factor in retaining subscribers over the long haul. The two top factors in a great experience are communication and personalization. OVSs said that receiving a notification about new relevant content availability was an important feature. They also want to receive personalized recommendations and get help using a new device with the service.

38% of US and half of UK OVSs have canceled at least one service in the last year. However, most have only canceled one, with just 1 in 10 of the cancellers quitting 3 or more services.

Involuntary cancellations, where a credit card problem results in automatic cancellation of a customer, are a huge industry problem. Just over a quarter of US and a third of UK OVSs report they have experienced involuntary cancellation. Of that group, 30% (8%–9% of the whole survey group) did not return to the service.

Young adults are twice as likely to have experienced involuntary cancellation in the UK, and three times more likely in the US. Also, a third of US male OVSs have been canceled, versus 23% female OVSs.

An OVSP's old customers are its best new prospects. Over 4 in 5 US and UK service cancellers have received emails from a service they had previously canceled. One-third of US and a quarter of UK cancellers have been persuaded to sign up for service again. What's more, 6 in 10 US and 7 in 10 UK cancellers have at least attempted to sign up again.

4 ABOUT THE DATA

To better understand consumer relationships with streaming video services, we partnered with Troubadour Research and Consulting to survey 1000 consumers in the US and 500 in the UK, all of whom use streaming video services. Specific research objectives were:

- To explore the current make-up of consumer streaming media portfolios, including:
 - The number of services used
 - The amount spent on streaming video services
 - Price-point sensitivity
 - Interest in certain service features
 - Use of aggregation services like Amazon Prime Video
- To understand consumers' viewing behaviors:
 - Cancellation behaviors
 - Use of free trials
 - Resubscription to canceled services
 - Impact of billing problems

The survey data were weighted to accurately reflect gender and age in the US and UK populations of streaming video consumers.

4.1 ABOUT TROUBADOUR RESEARCH & CONSULTING



Troubadour Research and Consulting is a research and strategy consulting firm built upon the premise that market research should be focused on telling the story. Troubadours have a long heritage of being trusted advisors, bringing the story of the people to decision makers, so we focus on story-driven—rather than data-driven—presentation of insights and recommendations.

5 CONSUMERS AND STREAMING VIDEO SERVICES

7 in 10 US households and 4 in 10 UK homes have a subscription to at least one SVOD service.^{1,2} The survey data shows that these SVOD homes are not just taking one service. Multiple subscriptions are the norm.

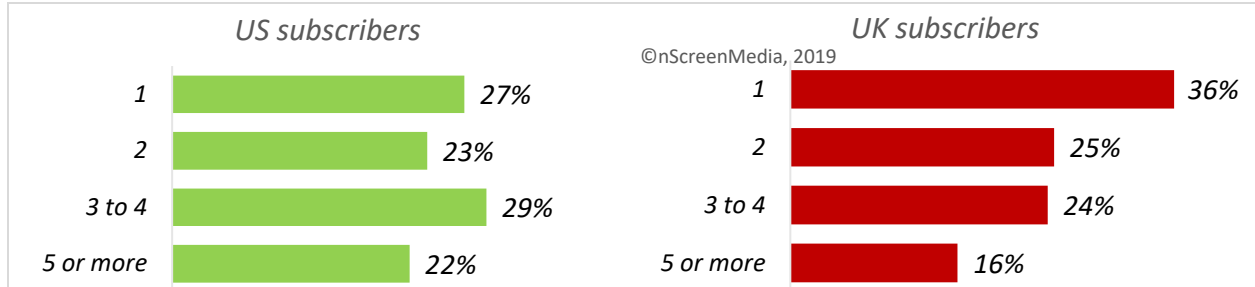


Figure 1. Number of online video services subscribed to by US and UK streamers

The average online video subscriber (OVS) in the US subscribes to 3.4 services and pays an average of \$8.53 per service. Consumers subscribe to these services either directly through the services' direct-to-consumer apps, or indirectly through Amazon Channels. Amazon is already exerting a very strong influence on the SVOD market (see section 5.1 below for more details). Excluding Amazon Channels from the average reduces the number of SVOD services the average subscriber has to 3.0.

The average online video subscriber in the US subscribes to 3.4 services and in the UK 2.9 services.

In the UK, the average OVS has 2.9 services and pays an average of £6.61 per service. Amazon also has a big influence in the UK market. Excluding Amazon Channels from the average reduces the average number of subscribed services to 2.5.

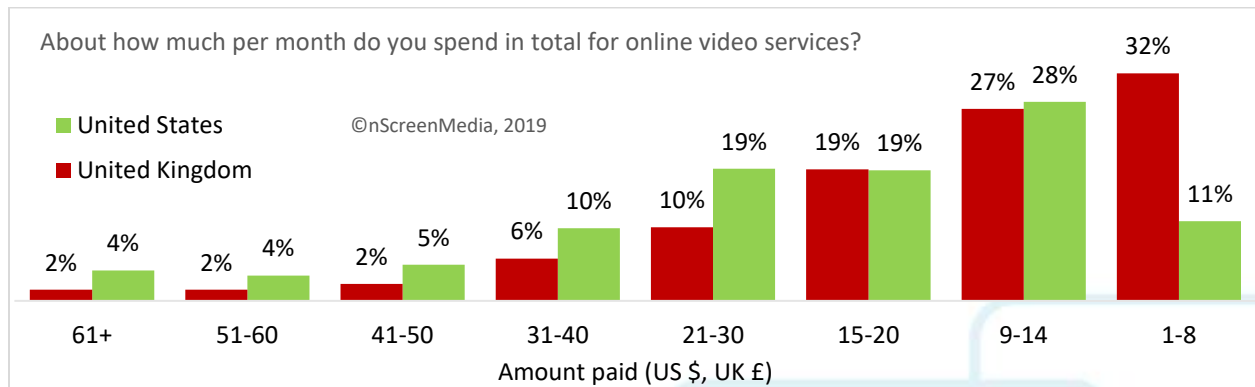


Figure 2. Amount spent per month for online video services—US, UK

As US OVS consumers subscribe to more services, it is no surprise that they spend more per month on all their services. Roughly twice as many people are spending more than \$20 per month on all their SVOD services in the US than in the UK.

Income level, as should be expected, impacts the amount someone spends on online video services. 45% of those earning less than \$50,000 a year spend \$14 or less per month in the US versus 35% for those earning more. In the UK the situation is similar. 65% of those earning less than £45,000 a year spend £14 or less per month in the UK versus 45% for those earning more.

5.1 THE IMPACT OF AGGREGATION: AMAZON CHANNELS

Amazon resells many SVOD services to its more than 100 million Prime customers through its Channels program.³ With three-quarters of Prime members using the video service, most are accustomed to using Amazon to find and watch video. However, Amazon’s reach is even larger than that. 18% of the US population use Amazon to rent or purchase videos.⁴ Each one of these visits is an opportunity to sell people SVOD subscriptions.

Such huge marketing muscle has helped SVOD providers that partner with Amazon acquire many new customers. CBS’ CEO said recently, “Amazon has been absolutely amazing in terms of growing our subs.”⁵

Some, behind closed doors, say Amazon is contributing as many as half of the subscribers to their services. Our survey shows just how successful Amazon Channels is at getting people to sign up for services. One-third of our survey respondents who subscribe to Amazon Prime Video have purchased an add-on video service in the US.

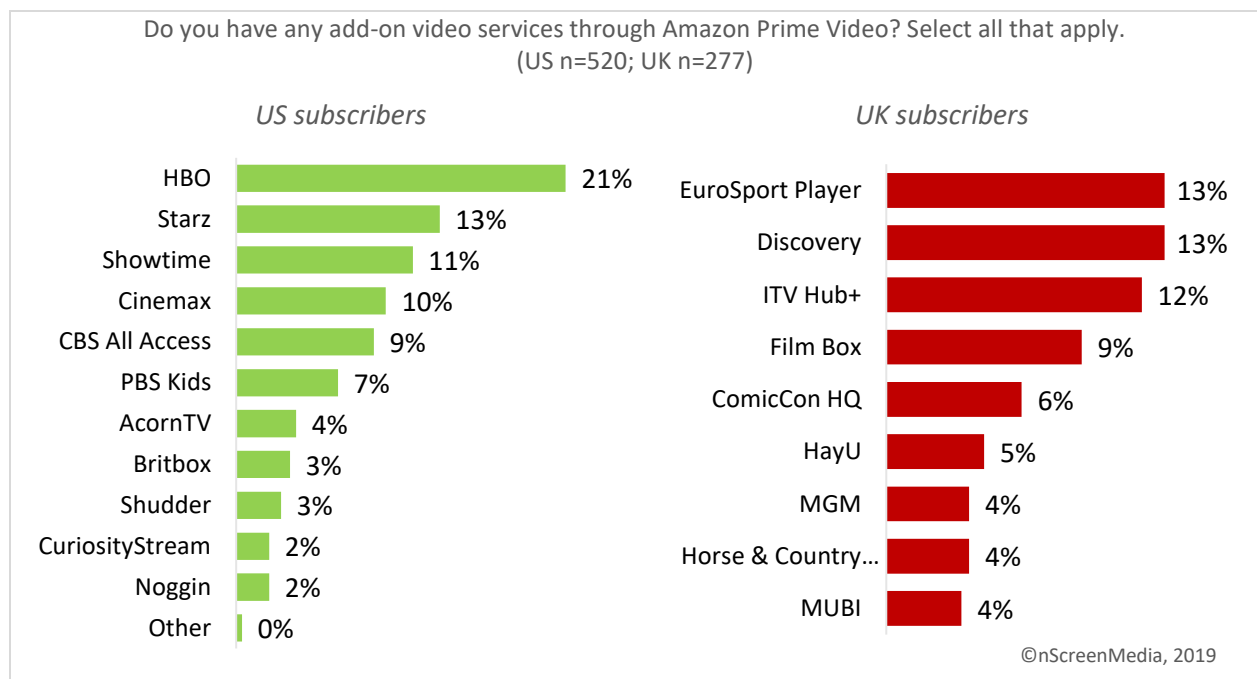


Figure 3. Most popular add-on video services for US and UK Amazon Prime Video subscribers

In the US, the most popular video add-ons are premium video services like HBO, Starz, Showtime, and Cinemax. CBS All Access is also very popular.

In the UK, the story is the same. A third of Amazon Prime Video users say they have an add-on video service. The most popular are Eurosport Player and Discovery. ITV Hub+ and FilmBox are also very popular.

Amazon is benefiting in another way from its Amazon Channels program. Higher income individuals are more likely to use Amazon Prime Video and to subscribe to another video service through it. In the US, 58% of those earning \$50,000 or more subscribe to Amazon Prime Video, 45% earning less than this subscribe. In the UK, 64% of those earning £45,000 or more subscribe to Amazon Prime Video, 52% earning less than this subscribe. While this slant toward upper earners does not benefit Amazon’s video partners, it certainly does benefit Amazon. Higher earners are more likely to spend more in Amazon’s retail store.

6 EFFECTIVENESS OF SIGN-UP OFFERS

6.1 FREE TRIAL PERIODS

Free trial periods are a very important tool for online video service providers (OVSPs) to encourage people to sign up for service. They are widely used, with trial periods offered between one day and one month.

However, there is a dark side to free trials. Some consumers sign up for a service, binge on as much content as they can, and then cancel without paying anything. Should OVSPs be concerned that this binge-and-bolt behavior is adversely affecting their bottom line?

In the US, half of online video subscribers (OVSPs) have signed up for a service free trial and canceled before their first payment. Of that group, most (69%) only did this with one service. Just 5% could be considered serial offenders, canceling four or more services during the free trial period in the last year.

In the UK, 62% said they had signed up for a service free trial and canceled before the first payment. Of those, three quarters only did this once. A mere 2% could be considered serial offenders.

Free trial abuse is not a big problem for online video service providers. Only 5% in the US and 2% in the UK have canceled 4 or more times during the free trial period in the last year.

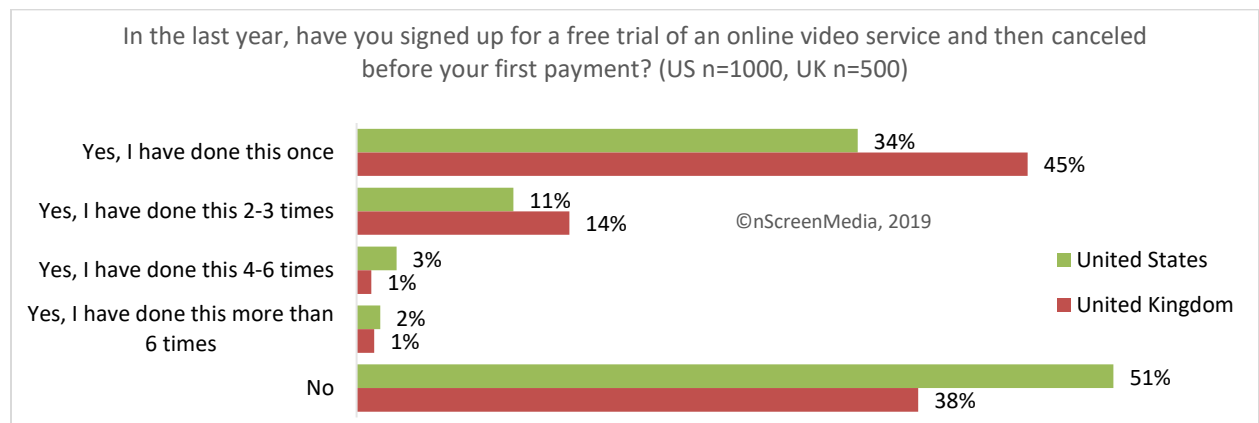


Figure 4. Use and abuse of online video service free trial periods in the US and UK

Much has been written about how young people fear commitment and might be predisposed to abuse free trial periods. The survey data suggests young adults are only marginally more likely to have canceled multiple services within the free trial period. In the US and UK, 16% said they had canceled 2 or more services within the free trial period. 24% of UK and 21% of US young adult OVSPs said the same. However, the number saying they had canceled 4 or more services was comparable to the average.

This data suggests that OVSPs should not be overly concerned about binge-and-bolt consumers. The benefits of a free trial period seem to far outweigh the risk of abuse.

6.2 DISCOUNTS

One under-exploited tool at the disposal of OVSPs is offering a discount for a longer term of commitment. The many reasons why encouraging a customer to sign up for an extended time is a good idea include:

- Improved customer lifetime value
- Reduced impact of customer chargebacks
- Fewer opportunities for unintentional disconnections due to credit card problems

We asked our survey group how much of a discount would encourage them to sign up for three months, rather than the usual monthly plan. According to OVSPs like Sling TV, if a customer passes the three-month mark, they end up staying with the service for a very long time.⁶

6.2.1 Effectiveness of Discounts in the US

In the US, we asked the survey group to consider a service that charges \$8.99 per month, for a total of \$26.97 for three months. We divided up the survey group into five subgroups and offered each a different discount from the normal three-month cost. Discounts offered were \$1.50, \$3.00, \$4.50, \$6.00, and \$9.00. We asked respondents to rate the likelihood that they would take the discount offered on a five-point scale from extremely likely to not likely at all.

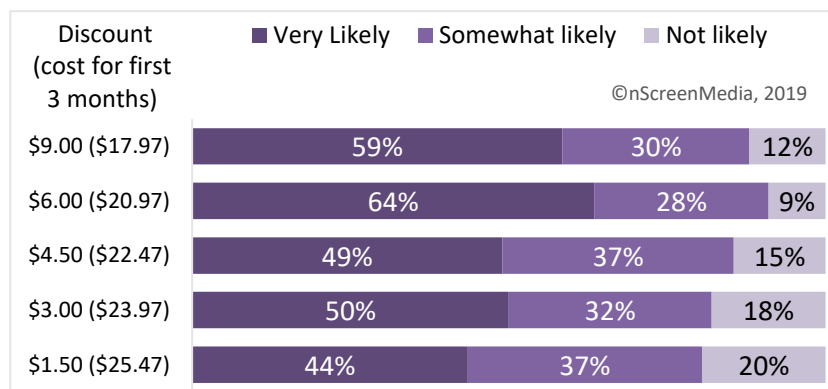


Figure 5. Interest in subscribing to a video service for 3 months at various discounts—US

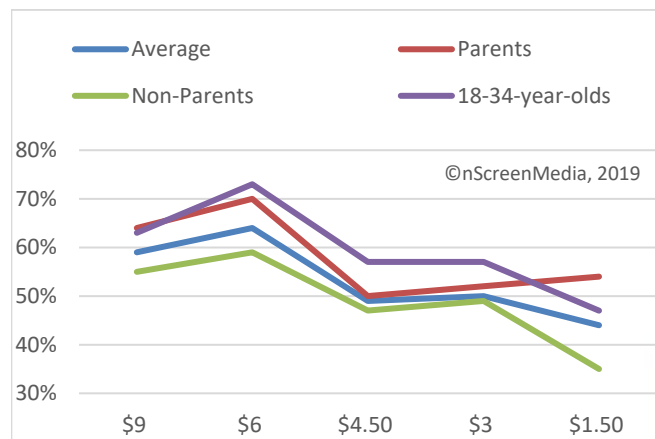


Figure 6. US OVSPs extremely or very likely to sign up for a 3-month subscription at various discounts

Unsurprisingly, higher discounts were more effective at encouraging an extended commitment. For example, 44% of those offered \$1.50 discount said they were very or extremely likely to sign up for three months. 59% of those offered the top discount of \$9 said the same. However, the highest interest came from the group offered the second highest discount of \$6. Almost two-thirds said they were very or extremely likely to take the offer.

Young adults are much more likely to take the offered discount at all levels than the average. Once again, the most effective discount offered was \$6. 73% of young adults said they were very or extremely likely to sign up for three months of service versus 64% for all survey respondents.

Parents are also far more likely to take a discount than the average. Non-parents are less likely to take a discount than the average. For example, at the optimal discount of \$6, 70% of parents said they would probably take the offer versus 59% of non-parents.

6.2.2 Effectiveness of Discounts in the UK

In the UK, we asked the survey group to consider a service that charges £7.99 per month, for a total of £23.97 for three months. As in the US, we divided up the UK survey group into five subgroups and offered each a different discount. Discounts offered were £1.25, £2.50, £3.75, £5.00, and £6.00. We asked respondents to rate the likelihood that they would take the discount offered on a five-point scale from extremely likely to not likely at all.

Once again, higher discounts were more effective at encouraging an extended commitment. For example, 42% of those offered a £1.25 discount said they were very or extremely likely to sign up for three months. 50% of those offered the top discount of £6.00 said the same. As with the US study, the highest interest came from the group offered the second highest discount of £5.00. 57% said they were very or extremely likely to take the offer.

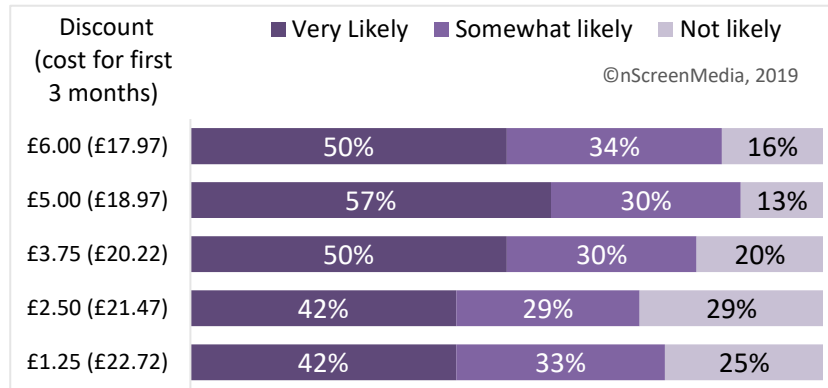


Figure 7. Interest in subscribing to a video service for 3 months at various discounts—UK

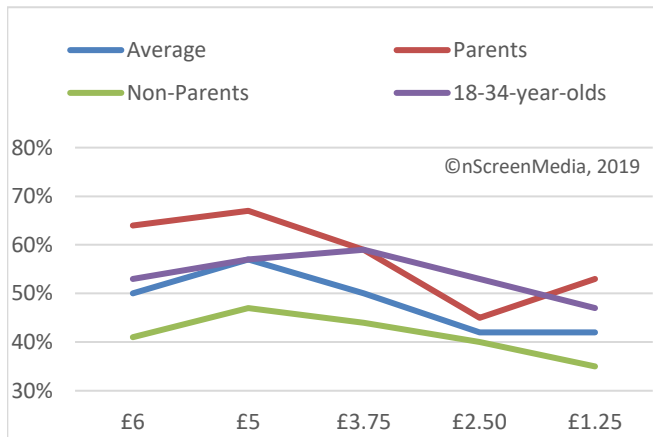


Figure 8. UK OVSs extremely or very likely to sign up for a 3-month subscription at various discounts

In the UK, the young were much more likely to be seduced by a discount at lower price points. For example, 59% of young adults said they were extremely or very likely to sign up for three months of service versus 50% for all survey respondents. Oddly, there was little difference between the young and average survey participants at the higher discounts.

Parents in the UK are just as keen as their US counterparts to take a discount offer. At the optimal £5.00 discount, 67% of parents were ready to sign up for three months, while only 47% of non-parents said the same.

Both in the US and UK, a 20% discount for a 3-month subscription commitment generated the highest interest level. Higher discounts generated less interest, not more.

7 KEEPING EXISTING SUBSCRIBERS

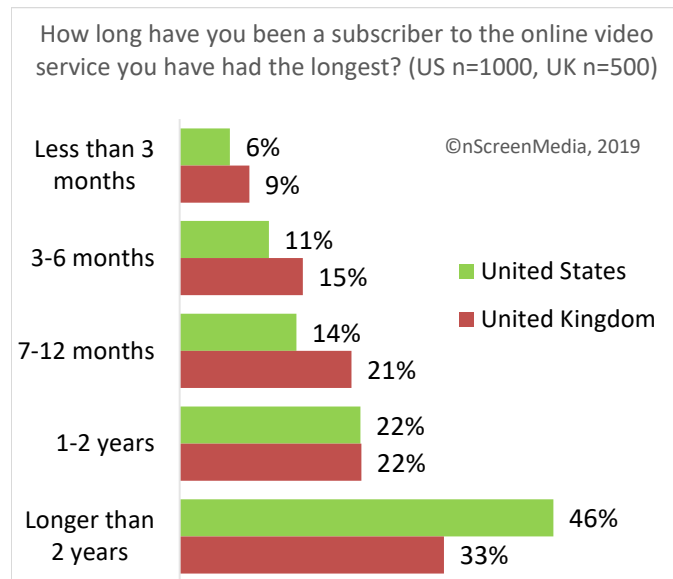


Figure 9. Length of time with longest tenured service

Online video services have been in market long enough for some subscribers to have used them for two years or more. We asked the survey group how long they had been with their longest service. In the US, 46% said they had been with their longest-tenured service for longer than two years. More than two-thirds had been with their longest-tenured service for a year or more.

SVOD services were introduced in the UK a few years after the US. There are also fewer of them. In general, that means people have been with their longest-tenured service less than in the US. A third say they have been with their service for more than two years and 55% a year or more.

7.1 EFFECTIVE RETENTION FEATURES

7.1.1 Reasons For Staying With the Longest-Tenured Service

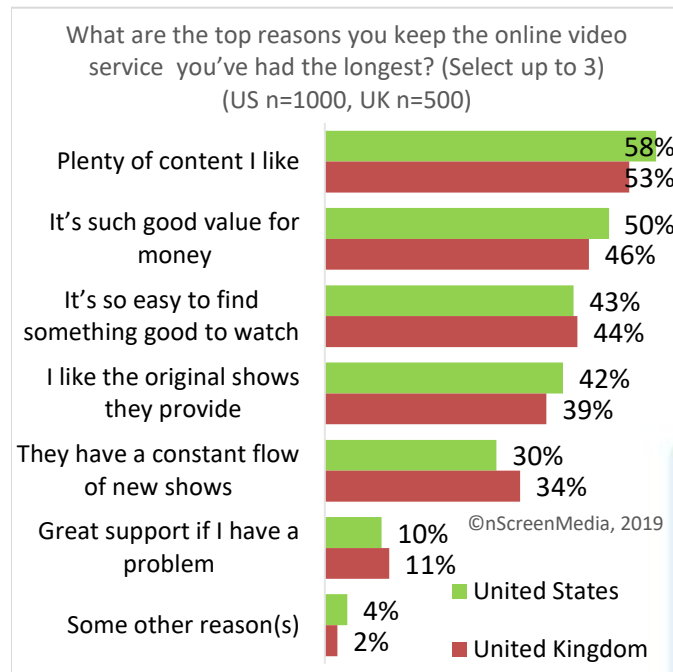


Figure 10. Why subscribers stay with their favorite service

We asked the survey group to tell us why they stayed with their longest-tenured service. We asked them to select their top three from a list of seven reasons. Interestingly, both the UK and US survey groups ranked the features in the same order. Of course, having plenty of interesting content to watch topped the list, with value for money a close second place. Ease of finding something good to watch came in third, and interesting original content was just behind. Providing plenty of new shows was the fifth most important feature.

Rounding out the bottom of the list in both countries was receiving good support to help resolve a problem. Although this item was far behind the other five, it is worthy of attention. Many people have never had to call their OVSP for support with a problem. However, when support is needed making it easy to get is critical in managing the customer relationship. Nothing will lose a customer faster than if they can't get the help they need when they need it.

7.1.2 Most Important Features of Longest-Tenured Service

We next asked the survey group about how important some common experience features were to them in their longest-tenured service. The features we asked about are important to maintain engagement with the service. Engagement is directly linked to customer lifetime value since if a customer begins to spend less time with a service, they are much more likely to cancel it.

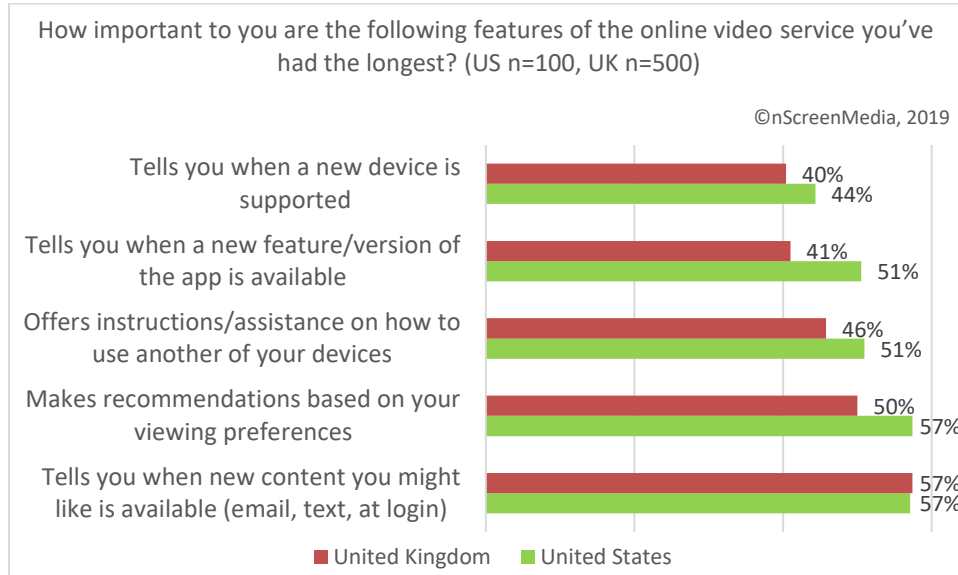


Figure 11. Importance of service experience features

In-app recommendations top the list in the US and UK, with 57% saying the feature was either very or extremely important in both countries. Notifying a customer when new content they might like is available emerged as the second most important feature in both countries. 57% in the US and 50% in the UK ranked receiving these notifications either very or extremely important.

8 CANCELLATION BEHAVIORS

Cancellations are a fact of life, particularly for monthly online video services. Our survey looked at how often people cancel service and their reasons for doing so.

8.1 HOW OFTEN PEOPLE CANCEL

In the US, 38% of the survey group say they have canceled one or more services in the last year. Of that group, two-thirds say they had canceled one service only. Only 1 in 10 have canceled three or more services.

Half of UK online video viewers have canceled service in the last year. Of that group, 62% say they have canceled only one service. As in the US, 1 in 10 have canceled three or more services.

38% of US and half of UK OVSs have canceled at least one service in the last year. However, most have only canceled one.

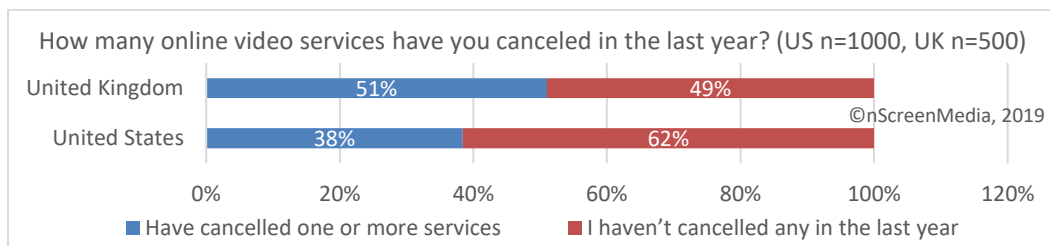


Figure 12. Number of online video subscribers that have canceled at least one service in the last year—UK, US

Both US and UK Netflix users are slightly less likely than average to have canceled service in the last year, while Amazon Prime Video users in both countries are neither more nor less likely. In the US, Netflix users are slightly less likely than average to have canceled service in the last year. US Hulu users are slightly more likely.

The young are significantly more likely to have canceled services than the average in both countries. In the UK, 40% of young adults say they have never canceled a service versus half of the entire survey group. Conversely, 28% have canceled two or more services versus 19% for the average. In the US, the trend is the same though slightly less pronounced. 55% of young adults say they have never canceled a service versus 62% for the average. 16% have canceled two or more services versus 13% for the average.

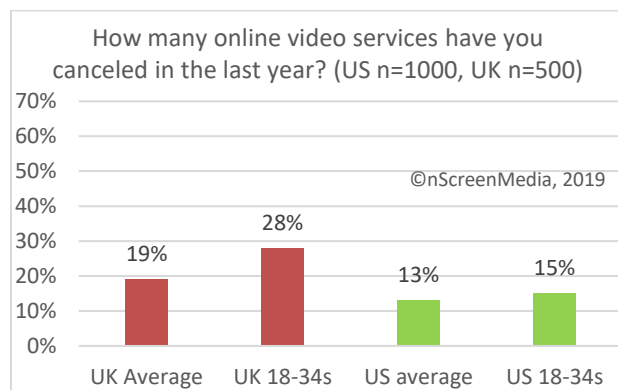


Figure 13. UK and US OVSs who have canceled 2 or more services in the last year

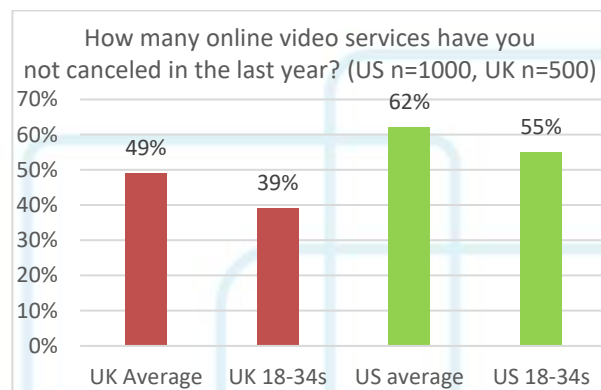


Figure 14. UK and US OVSs who have not canceled a service in the last year

8.2 WHY PEOPLE CANCEL

8.2.1 Content Is Critical

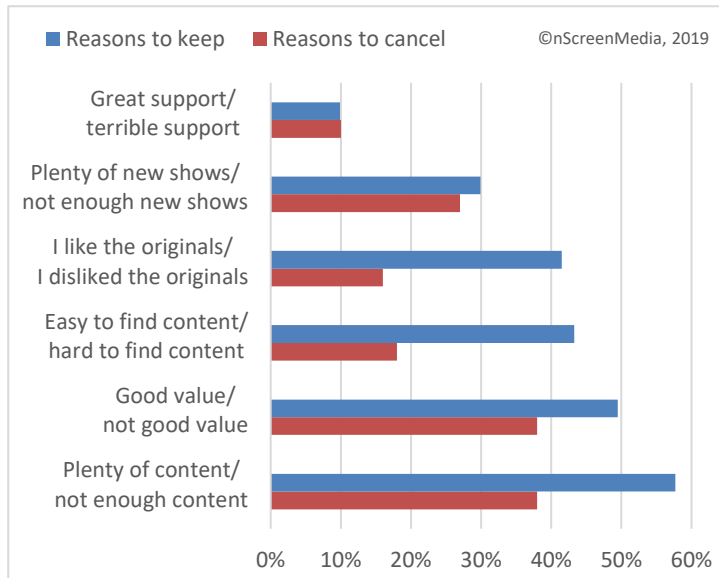


Figure 15. Reasons US SVOD users stay with or leave a service

The top two reasons cited in the UK and US for canceling a video service were the same: people couldn't find enough content they liked and didn't find the service good value for money. It's interesting to note that the top two reasons cited for staying with the longest-tenured service were the opposite of the reasons for canceling a service: people could find plenty of content they liked, and they found the service good value for money.

The fourth most popular reason for canceling in the UK and fifth in the US was running out of things to watch. Roughly a quarter of respondents in both countries ranked exhausting the content library in their top three.

Quality and quantity of original content did not feature highly as a reason to cancel a service. Both the UK and the US ranked a paucity of originals third from last. Does that mean the over \$10 billion Netflix spent on content in 2018 was wasted? Far from it. Originals are an important reason people stay with their longest-tenured service (see Figure 10).

8.2.2 Service Cost Is Important

Our survey group suggests that consumers are working to manage their budget for video entertainment. In the US, the fourth most popular reason for canceling a service, with 22% ranking it in their top three reasons, was that they wanted another service and couldn't keep both. 27% of UK survey respondents said the same, making it the third most popular reason for canceling.

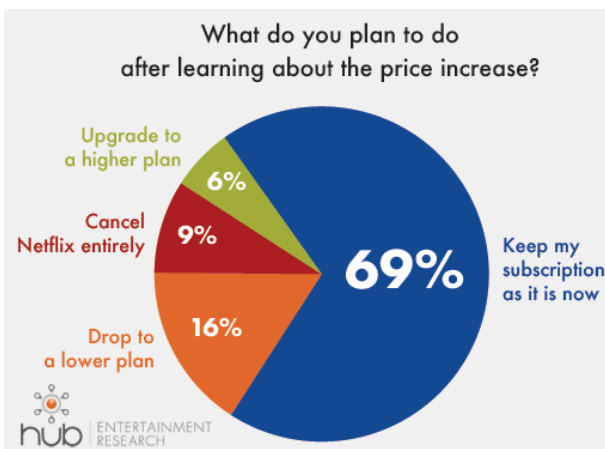


Figure 16. Most Netflix subscribers won't cancel over an 18% price increase

Interestingly, the price is the subject of the fifth most cited reason for canceling in both countries. 24% of UK and 22% of US respondents said they canceled because the price increased, and they didn't want to pay more. However, pricing and value perception are a complicated issue. Netflix increased prices by 10% in late 2017 and saw no impact on subscriber growth.⁷ The company raised prices again in January 2018 with middle-tier subscribers suffering an 18% increase.⁸ It could be that, once again, most Netflix subscribers continue to see enough value in the service to remain subscribed. According to Hub Entertainment Research, only 9% said they planned to cancel over the increase and only a few of those saying they will cancel are likely to follow through with their intention.

8.3 INVOLUNTARY CANCELLATIONS

Leaders in the video industry have frequently pointed their fingers at credit card cancellations as a reason for poor performance. For example, in 2015 Reed Hastings, the CEO of Netflix, blamed the shift to chip-based credit cards as the reason the company missed its guidance for subscriber additions:

“Our over-forecast in the US for Q3 was due to slightly higher-than-expected involuntary churn (inability to collect), which we believe was driven in part by the ongoing transition to chip-based credit and debit cards.”⁹



Reed Hastings, Netflix

It turns out that about 13% of credit card transactions fail the first time the charge is made. Many of these failures are due to insufficient funds being available to cover the charge. Normally, the service provider automatically retries the transaction a couple of days later, with the result that half of the failed charges succeed. Waiting a few days allows the subscriber to pay their credit card bill making more credit available for new charges.

Involuntary cancellations are a huge industry problem. Just over a quarter of US and a third of UK online video subscribers report they have experienced involuntary cancellation. Many do not return.

The subscriber is unaware there was any problem if the retry succeeds. If the retry fails, the customer is notified and can work to resolve the issue with the online video service. The subscriber is disconnected only if the issue cannot be resolved or if the subscriber does not respond.

Despite the automatic retry process and attempt to resolve the issue directly with the subscriber, our survey data suggests involuntary cancellations are quite common. However, the data also shows most subscribers fix the problem and come back.

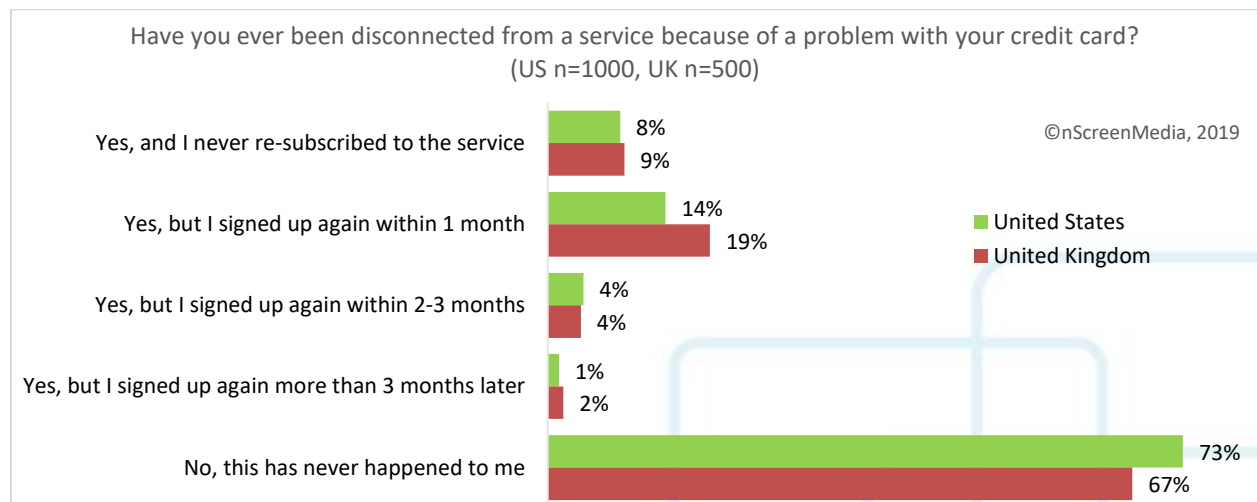


Figure 17. The impact of involuntary service disconnections on UK and US online video subscribers

Just over a quarter of US and a third of UK online video subscribers report they have been disconnected from an online video service due to a credit card problem. Of those experiencing involuntary cancellation, 30% (8%–9% of the whole survey group) didn’t return to the service—the rest re-subscribed within a few months.

8.3.1 The Young, US Men Affected More

Perhaps it is not surprising that young people are impacted by involuntary disconnections more than their older peers. In the UK, 2 in 5 young adults have experienced disconnection versus 1 in 5 of those 35 and older. In the US, 45% of young adults have experienced disconnection versus 16% of those 35 and older. Younger people are still building credit and earn much less than older people, making it more likely that they hit their credit limit causing additional charges to be declined.

More of a surprise is the fact the US men are impacted by involuntary disconnection more than women. A third of US men said it had happened to them versus 23% of women. Service operators should pay attention to this issue because men are also less likely to come back. 13% of US men said they never re-subscribed to the service, versus 5% of women.

Oddly, we did not see a difference in involuntary disconnections between men and women in the UK.

We might have expected more involuntary disconnections among lower-income survey participants than higher. However, there was no difference in reported involuntary disconnections between those earning less than \$50,000 (£45,000 in the UK) and those earning more.

8.3.2 Minimizing the Impact of Involuntary Cancellations

A key strategy for OVSPs is to minimize the impact of involuntary cancellations. Avoiding the 9% of subscribers who never come back is important. However, the fact that they didn't miss the service enough to re-subscribe suggests they may have been at risk of canceling anyway. To avoid these cancellations, OVSPs need to adopt a proactive strategy that:

- Identifies subscribers who are not spending much time with the service;
- Targets them with messages recommending appropriate content; and
- Offers them special discounts to keep them on board.

The 22% that do return have still missed paying for up to a month of service. To minimize the loss in revenue, OVSPs should regularly check that they have the preferred contact method for each subscriber.

9 WINNING CUSTOMERS BACK

9.1 WHEN A CUSTOMER IS NO LONGER PAYING



Arlen Marmel, Ellation

Arlen Marmel, VP of Marketing and Distribution at Ellation, has a seemingly surprising attitude toward customers of his Crunchyroll and VRV streaming video service:

“When you think about these canceled customers, I love them. Because the best thing you can have from a customer acquisition perspective is demonstrated intent. They have already paid us. They’re highly qualified to be a premium customer, but for whatever reason, we haven’t delivered.”¹⁰

Our data suggests Mr. Marmel is correct: past customers are, indeed, the best prospects to reacquire.

Over 4 in 5 US and UK service cancellers have received emails from a service they had previously canceled. A third of US and a quarter of UK cancellers have been persuaded to sign up for service again. What’s more, 6 in 10 US and 7 in 10 UK cancellers have at least attempted to sign up again.

An OVSP’s old customers are its best new prospects. A third of US and a quarter of UK cancellers have been persuaded to sign up for service again.

The data emphasizes two critical things to keep in mind when dealing with a customer in the process of canceling service:

1. The cancellation process must be as pleasant and easy as possible.
2. Ensure lines of communication with the customer remain open after they have left.

SVOD providers have received the message, at least according to our survey. 9 in 10 UK and US cancellers said the cancellation process was somewhat or very easy.

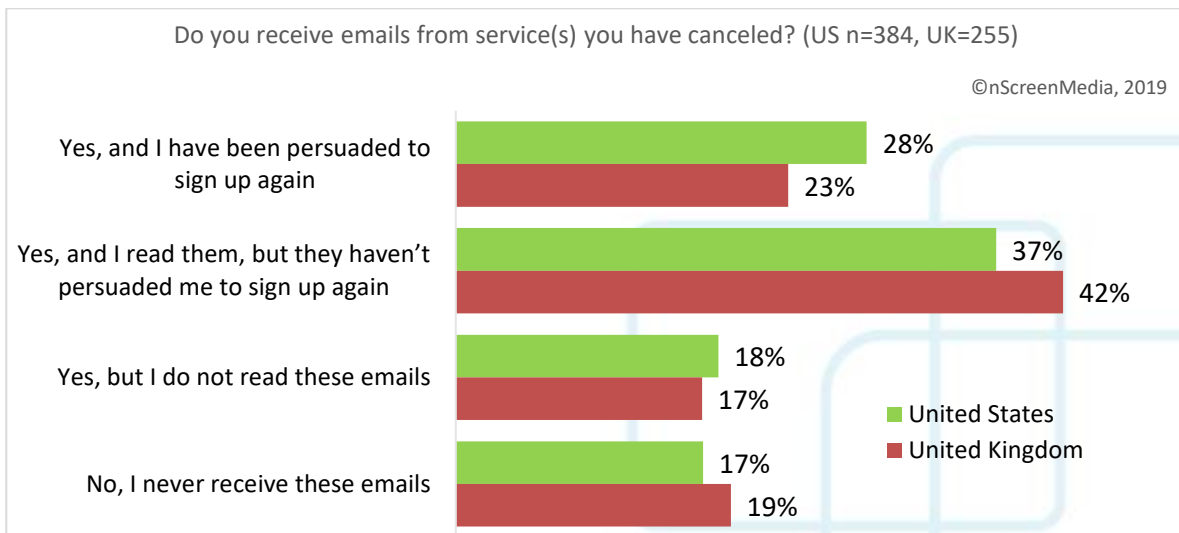


Figure 18. Do services send emails to subscribers who have canceled?

10 CONCLUSIONS

One of the most striking results of the survey is the alignment between the UK and US SVOD markets. Question after question, the two countries displayed similar approaches and behaviors. Though the UK lags the US in penetration and usage of SVOD services, streaming TV has become an essential part of the entertainment experience on both sides of the Atlantic. The deep acceptance of SVOD services speaks the maturity of the market.

As the market matures, it is comforting to see that, by-and-large, people are not becoming accustomed to behaviors that OVSPs would see as taking unfair advantage. They can continue to offer free trials without worrying that many people will sign up, watch a show of interest, and then cancel before the first payment. Similarly, few people are canceling multiple services each year, suggesting binge-and-bolt behavior is the exception, not the norm.

The survey certainly revealed there are plenty of areas that OVSPs can focus on to improve the performance of their business. Getting people past the three-month mark in their subscription is critical to improving customer lifetime value (CLV). The data shows offering a discount to sign up for three months could have a positive impact on sign-ups and CLV.

Another area for OVSPs to look at is direct communication with customers. Most customers would welcome updates on content they might like, and the notification has a double benefit for OVSPs. It keeps a customer engaged and happy with the service, which should boost CLV. In addition, a happy customer is likely to recommend the service to friends.

Further, keeping the lines of communication open when a customer leaves is equally important. The data shows that a substantial number of people were persuaded to re-subscribe to a service they formerly had by emails they received reminding them why they signed up originally.

Finally, keeping on top of involuntary cancellations will provide immediate monetary benefits to OVSPs. Again, customer communication could be a key tool to use. Ensuring a customer knows there is a problem could help prevent a late payment or an eventual cancellation.

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