

KEEPING CUSTOMERS FROM CUTTING THE CABLE

A Case Study on Retention and Disruptive Technology for the Cable Industry

Thesis Question. *In 1993, Nicholas Negroponte, then director of MIT's Media Lab, predicted that wired communications (e.g., telephone) would go wireless, and that wireless communications (e.g., broadcast TV) would go wired. Are we really seeing the advent of the so-called "Negroponte Flip?" Is it time to "cut the cord" on phone and go totally wireless? What about video, are there really armies of "cord cutters" flocking to watch their video content exclusively over the Internet or downloaded from the newest batch of "over-the-top" providers? **What can the cable industry do to position digital video services to retain customers and prevent video cord-cutting?***

Business Case. Sam Howe pushed the stack of analyst reports to one side of his desk, sat back in his Herman Miller chair, and looked out of the ninth floor window of the Time Warner Center's North Tower. As Chief Marketing Officer, for *Time Warner Cable* (NYSE: TWC), Sam should have been satisfied with many of the high-level findings from the industry analyst reports, but he recognized that there were two consumer trends which, if left unchecked, could become problematic in the future. Consumers who drove these trends were dubbed "cord-cutters" or "cable cutters" by analysts due to the fact that they eschewed traditional wireline telephone service and traditional multi-channel video (e.g., from cable, satellite, and telco providers). Although consumer adoption of "cord-cutting" alternatives to phone and video are progressing at wildly different rates, a look at each trend separately is instructive.

With telephone cord-cutters, according to *Bernstein Research*, by the middle of last year, nearly 23%, or more than one in five American homes was wireless-only.¹ Even though wireless substitution is increasing for every demographic group, adoption is widely skewed by age groups. For example, over one-third of adults between the ages of 18-24 are wireless-only and almost half of all adults 25-29 years now use the cellular phone exclusively. This percentage drops significantly as the population gets older, but Bernstein Senior Analyst, Craig Moffett points out that for the first time in history, over a quarter of adults between the ages of 30 and 44 no longer have a land line. From a multicultural marketing perspective, Hispanic and African American demographics are more likely than other ethnicities to be wireless-only.

The so-called TV cable-cutting phenomenon is becoming even more widely-hyped because it represents yet another modern consumer behavior shaped by the Internet in general, and more specifically enabled by the greater download capacity and throughput speeds being rolled out by cable and telco companies' broadband Internet services. In fact, *SNL Kagan* projects that 7.1M US households will receive their video entertainment exclusively from Internet sources by 2013.² Many television networks and studios are beginning to enter the fray with high-profile experiments like the ABC-FOX-NBC joint venture *HULU*, ESPN's *ESPN360*, and NBC's premiere launch of the sitcom "Community" on Facebook. Even consumer electronics manufacturers like *Apple* (NASDAQ: AAPL), *Microsoft* (NASDAQ: MSFT), and Blu-ray disc makers are piloting different subscription-based Internet video services through various "over-the-top" video services like *Netflix* and *Blockbuster Video*.

¹ Bernstein Research, "US Telecommunications: Wireline Cord Cutting Accelerates," January 6, 2010

² SNL Kagan, "Multichannel Market Share Projections," October 2009

Although the entry by large corporate players and the touted “death of traditional video” due to Internet delivery receives much press coverage, research studies like the *CTAM/Nielsen* “Crossing Over” report show that Internet video content viewing, even by the most ardent viewing segments, averages less than 90 minutes per day when compared to the same group’s average of four and one half hours of TV viewing per day.³ The Nielsen Group goes further and says that there is little evidence in the aggregate of video substitution or “cord-cutting.” The same Bernstein Analyst, Craig Moffett, says video cord-cutting “remains in the province of urban myth.”⁴ Finally, many studies show that Internet video viewing is supplemental to traditional viewing sources (e.g., NBC’s Olympic Games TV viewership was complemented by its online video coverage and not replaced by it).

Consumers, nonetheless, are increasingly interested in acquiring video content in non-traditional ways and this cord-cutting trend must be taken seriously. Therefore, while the effects of video cord-cutting may not be significantly evidenced in the cable industry’s market share or customer defections yet, many of the top cable companies are being proactive and have launched their own “TV Everywhere” platforms to establish a foothold in the space.

If Sam could tap into the psyche of the cord-cutter demographic segment, particularly the so-called “*Millennial*” generation, he might be able to reposition or complement the messaging for the digital video service in innovative ways to improve the retention of current customers. What his marketing team needed was an opportunity to test market a marketing campaign targeted to specific demographics with some of these key retention messages. The copy points should resonate with customers most likely to cut-the-cord on video. Most importantly, he needed the quantitative or qualitative data that would support the efficacy of these messaging points. As Sam watched another sunset over Columbus Circle from his office, he wondered whether pulling together a “Skunk Works” team of recent MBAs might be a good way to shorten the customer research cycle and leverage their insight in developing a creative brief for this critical retention campaign. As he left the Time Warner Center, he checked one last time to make sure his Executive Assistant, Rosie Gonzalez, had downloaded the latest episode of “*Lost*” onto his iPhone so he could watch it on the train ride home.

Key Questions to be Answered:

1. Analyze available research to identify and target key cord-cutting segments for the digital video service. Who are the cord-cutters, what is their profile?
2. Develop a set of compelling benefits of the TWC Digital Video service that will best resonate with the key demographic. What are cable-cutters looking for in video content or through Internet delivery that would convince them to keep their digital video service?
3. Support your key message points with data that validates your desired customer response (i.e., retain video service from Time Warner Cable). How do you know these points are important to this target segment?
4. Develop a creative brief, based on your case study findings for the creative agency to develop a mock-up for a targeted marketing campaign. How will you communicate your message?
5. Present your creative brief, copy points and justification to the Board

³ CTAM, “*Crossing Over: Understanding Viewer Multi-Screen Migration*,” May 2009

⁴ Cited in *TV Week*, “*Where Are Cord-Cutters? Signing Up for Cable, Satellite*,” March 1, 2009