

Essay Question

Millennials are starting to enter a new life stage (those born between 1981 & 1988). Please discuss your perceptions of how they currently consume content, how their consumption may change as they get older, and what steps our industry can take to meet those expectations. Your answer can reference pricing, packaging, platforms or other levers, and it can discuss the transition path for traditional broadcast or distribution companies. Your answer will be evaluated partly on its leveraging of the Charlton research for CTAM.

Increased competition from new content platforms and distributors as well as the advent of new content formats continue to change the content consumption habits of all Canadians. Large cable and satellite operators that had a virtual monopoly on video content delivery 10 years ago are rethinking their business model as they continue to face increased competition from disruptors like Netflix and Amazon Prime. Moreover, large media companies that rely heavily on licensing foreign content are now competing against those same foreign studios as well as the influx of short and mid-form content that is relatively inexpensive to produce and gaining a greater share of Canadian viewership.

Trying to make sense of this evolving landscape is more complicated than ever. However, one of the ways in which analysts are trying to forecast future content consumption habits is by looking at the content consumption habits of Canadians in various life stages. This methodology is predicated on the assumption that viewing habits are driven by more predictable and persistent outside forces and downplays the larger disruption that is influencing all facets of how Canadians want to engage with video. While this paper will highlight some of the ways in which life stages may influence the viewing habits of young Canadians as they get older, it will also try to explain why solely focusing on life stages in and of themselves will not tell the entire story. The content consumption habits of millennials are symbolic of a larger change in viewership habits across all generations. To remain relevant, Canadian PayTV companies need to put a greater emphasis on addressing fundamental pain points that are allowing disruptors to gain greater market share, including: i) the retail price; ii) content discoverability; and iii) the user experience. While younger generations are interacting with content differently, these content consumption habits should be considered a sign of what's to come versus the symptom of a specific life stage.

How Millennials Currently Consume Content:

The specific start and end of the millennial cohort varies from source to source but spans from somewhere in the early 1980s to as late as the year 2000. Despite these variances, the most commonly accepted characteristic of the millennial cohort is an, "increased use and familiarity

with communications, media and digital technologies”¹ as compared to the Generation Xers that preceded them.

Understanding that millennials have an increased familiarity with communications, media and digital technologies, the content consumption preferences of this generation are perhaps not surprising. For example, millennials prefer online streaming video as compared to watching via a traditional TV subscription, watching 37% more long form online. In addition, millennials watch 56% more short form video, which is a format that is underrepresented in the traditional PayTV model but widely available via online content distributors like YouTube and Snapchat².

Since millennials are much more likely to watch content that’s not available via traditional PayTV distributors, millennials put a greater value on being able to access to all of their subscription services (streaming and non-streaming) within an aggregated content experience that can be accessed on multiple devices³. Furthermore, millennials are significantly less interested in watching content at a set scheduled time, spending less than half their time watching linear as those over 39 years old⁴.

The familiarity and abundance of digital technologies has made it a lot easier for young Canadians to access content where and when they want. An entire generation seems to be migrating away from linear schedules, allowing content creators to think outside of the 30 and 60-minute formats. Additionally, as the cost of creating high quality content continues to decrease, millennials have more video options than ever, fueled even further by the increasing popularity of user-generated content.

While there are many differences in how millennials consume content, the fact remains that Canadians from every generation are adopting similar patterns. For example, in the last five years, streaming content online is up 95% across all cohorts in Canada. Moreover, viewership of content via a TV subscription is down 13% regardless of generation or life stage⁵. As a result, the industry’s response should recognize that there are much larger factors at play beyond life stage.

How The Content Consumption of Millennials May Change As They Get Older

The technological experience of those who were born in the early 1980s is different as compared to those born closer to the year 2000. As a result, the millennial cohort needs to be broken down further between ‘Old Millennials’ and ‘Young Millennials’. Today, Old Millennials are starting families and can remember a time before the internet became a central part of everyday life. Those born closer to the early 1980s may have not owned a cell phone until after high-school and spent most of their time in secondary school with dial-up internet connection

¹ <https://en.wikipedia.org/wiki/Millennials>

² 2018 CTAM Video Consumption Research, Charlton Insights, Pg 8.

³ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 38 & 40

⁴ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 50

⁵ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 47

speeds, if anything at all. By contrast, Young Millennials are still in their late teens or early 20s and have always known a world where high-speed internet was accessible. Young Millennials may have had access to a cell phone as early as elementary school and cannot remember a world without social media. Therefore, when discussing life stages, this section will focus on Old Millennials, which include those born between 1981 and 1988.

According to Mark Manson's, *The Four Stages of Life*, most Old Millennials are entering their third life stage labeled 'Commitment'. The Commitment stage typically begins at the age of 30 and lasts until retirement. It is a time when people, "double down on the most important relationships in [their] life...double down on a single mission in life"⁶. For the majority of people in this life stage, this single mission manifests itself through a career, family or both.

As Old Millennials enter their Commitment life stage, their content consumption habits may change in several ways. For example, as Canadians get older and start a family, it is likely that they will consume more passive long form content. Canadians between the ages of 18-24 watch 19.8 hours of long form video per week as compared to 23.2 hours per week for those aged 25-39, 26.6 hours per week for those aged 40-54 and 36.7 hours per week for those aged 50+.⁷ By analyzing this data, there appears to be a direct correlation between the age of a Canadian and the amount of time they spend watching long form video.

At the same time, the device being used to watch long form video also seems to change as Canadians get older. For example, Canadians between the ages of 18-24 watch 2.7 hours of long form video per week on their phone as compared to 1.6 hours per week for those aged 25-39, 0.9 hours per week for those aged 40-54 and only 0.4 hours per week for those aged 50+.⁸ It therefore stands to reason that as people watch more long form and have more access to the largest screen in their residence, they will be less likely to choose a mobile phone as their primary device for watching video.

However, while we can certainly expect some changes in the content consumption habits of Old Millennials as they get older, the primary driver of these changes go beyond life stage and therefore the industry should be taking steps to address changing consumption habits among all cohorts.

What Steps the Canadian PayTV Industry Can Take to Meet the Changing Expectations of Millennials

With increased competition from new distributors and the proliferation of new content formats, Canadians in all life stages are evolving their video content consumption habits. In order to meet these changing expectations, the industry needs to focus on: i) the retail price; ii) content discoverability; and iii) the user experience.

⁶ <https://markmanson.net/four-stages-of-life>

⁷ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 50

⁸ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 50

One of the most important steps that the PayTV industry needs to take is to lower the retail price. Traditional PayTV distributors and content companies need to understand that the most significant differentiator between them and new entrants is that new entrants are willing to operate with significantly smaller margins in exchange for growth. For example, Netflix's fourth quarter profit margin in 2018 was 3.2%⁹ as compared to Shaw Communications, which ran at about 13.8%¹⁰ and Rogers, which ran at 12.75%¹¹. By comparison, the average profit margin for the entire S&P 500 runs at approximately 11%.¹² The most common unaided reason given by Canadians for cord-cutting (at 67%), cord-shaving (at 59%) or being a cord-never (at 67%) is that it's too expensive¹³. Putting a greater emphasis on protecting subscription levels as opposed to protecting margin is the only way in which the Canadian PayTV sector can compete effectively against new entrants and grow their businesses over the long term.

In addition to addressing the retail price, the Canadian PayTV industry needs to deliver solutions that will make all of its content more discoverable. Millennials are far more interested in larger packages that include a wide variety of content options and provide more overall value¹⁴. When millennials were asked how many channels they'd be willing to pay for in the PayTV ecosystem, the average given was 42.4 or 19% more than the average for Canadians aged 35 and up. More significantly, the millennial average was more than double the average actually used by all Canadians in a given week¹⁵.

By putting a greater emphasis on content discoverability rather than packaging choice and smaller content offerings, Canadians would be less likely to question the number of channels included in their PayTV service and would focus more on the great content being made available. Canadians, especially younger ones, want everything at their disposal and as traditional PayTV distributors shift the model to deliver fewer channels, they are in fact delivering a less valuable product. This ultimately compounds the negative perceptions associated with the traditional PayTV model and drives Canadians to other platforms.

Lastly, the Canadian PayTV industry needs to invest in making the content accessible in a seamless fashion across all consumer devices. Millennials are 18% more likely to value the ability to access their TV subscription over various media devices and at least 10% more likely to value the ability to access all forms of content outside the home¹⁶. Allowing Canadians to access the content they are paying for across devices and at their convenience will be

⁹ https://ycharts.com/companies/NFLX/profit_margin

¹⁰ https://ycharts.com/companies/SJR/profit_margin

¹¹ https://ycharts.com/companies/RCL/profit_margin

¹² <https://www.investopedia.com/ask/answers/041415/what-considered-healthy-operating-profit-margin.asp>

<https://insight.factset.com/sp-500-reporting-record-high-net-profit-margin-for-q1-2018>

¹³ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 14 & 17

¹⁴ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 27

¹⁵ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 32 & 27

¹⁶ 2018 CTAM Video Consumption Research, Charlton Insights, Pg 38

increasingly important as the industry takes steps to address the changing viewership habits of Canadians and millennials.

Conclusion

In conclusion, millennials have different content consumption habits as compared to older cohorts and their consumption habits will likely change as they enter new life stages. However, as Older Millennials progress through the Commitment life stage, relatively minor changes to their content consumption habits should not distract from the larger content consumption changes that all Canadians are making.

With declining subscription rates and the perceived value in PayTV on the decline, the industry has spent the past few years focused on managing the business down. In order to turn things around, the industry should refocus their attention on growth as well as building products and services that put the customer first.

In order to remain relevant and compete against new entrants, the PayTV industry needs to address the three most significant drivers of change, including: i) the retail price; ii) content discoverability; and iii) ensuring content can be accessed across multiple devices and at the subscriber's convenience.

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