CUTTING THE CORD: WHAT DOES IT MEAN FOR THE FUTURE OF THE TELECOMMUNCIATIONS INDUSTRY?

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ABSTRACT

This paper researches the cord cutting phenomenon occurring in the telecommunications industry. An analysis of changes in the number of subscribers of telephone, satellite TV, voice, cable, and broadband companies has been conducted. Reasons that cord cutting is occurring include increasing prices of services, new technology that provide multiple ways to obtain services, demographic changes in viewing habits, and government policy changes. The future of the industry involves live content TV and 5G technology.

INTRODUCTION

In the telecommunications industry, telephone, television and internet service to the facilities of households and businesses has traditionally been provided via a copper or fiber optic cable or over-the-air in the case of television service. Discontinuing wired services or 'cord cutting' and replacing it with free over-the-air (OT) broadcasting via the use of an antenna or a low-cost subscription to over-the-top (OTT) programming via streaming video over the internet has become a trend in the industry. This paper first examines the trends in the number of video, broadband and voice subscribers of the top providers, then it explores the dominant reasons for cord cutting and concludes with an exploration of the future of cord cutting.

CORD CUTTING IN VIDEO, BROADBAND AND VOICE SERVICES

To get a clear picture of the cord cutting trend amongst wired video (pay-tv), broadband (internet) and voice (digital telephone) subscribers, quarterly data was collected over the last two years from financial reports of top providers. In the telephone industry, Verizon, AT&T (U-verse) and CenturyLink are the top companies while AT&T (DirecTV) and DISH Network are the top satellite television companies. Comcast, Charter Communications and Altice, which owns Suddenlink and Optimum, are the top three cable television companies.

Video Subscribers of Telephone Companies

Verizon has not experienced as much cord cutting as AT&T (U-verse) and CenturyLink. In fact, Verizon's Fios Video service grew by 101,000 subscribers between the second quarter of 2015 and the second quarter of 2017, a 2.2% growth rate. CenturyLink stopped reporting the number of their Prism TV subscribers in 2017 because of the company discontinuing it (Arnason, 2017;

Frankel, 2017). In summary, the total number of subscribers of the three companies has declined by 2,278,000 between the second quarter of 2015 and the second quarter of 2017.

Video Subscribers of Satellite Companies

The subscribers for the two satellite companies, AT&T DirecTV and DISH Network reflect a similar pattern that was observed above with Telephone companies. AT&T's DirecTV service has seen an increase in subscribership by 1,286,000, a 6.6% increase. DISH Network, however, has experienced a reduction of 600,000 subscribers or a 4% reduction. Overall, the satellite TV companies have fared better than the telephone companies, with a net increase of 686,000.

Video Subscribers of Cable Companies

Comcast has increased by 210,000 (1%) subscribers over the last two years. Charter Communications has seen a slight decrease of 318,000 (2%). Altice decreased by 176,000 subscribers (5%) by the second quarter in 2017. In summary, the subscriber count for cable TV has decreased by 284,000 over the last two years.

Broadband Subscribers

The number of broadband subscribers increased by 2,557,000 between the second quarter of 2016 and the second quarter of 2017. Cord cutting is not as prevalent here as in Pay-TV.

Voice Subscribers

The number of voice or telephone subscribers between the second quarter of 2016 and the second quarter of 2017 for all the telephone companies (i.e., Verizon, AT&T, and CenturyLink) and one cable company (i.e., Altice) dropped by 3,010,000. Most of the reduction is in digital telephone connections. Only Comcast and Charter Communications reported increases.

REASONS FOR CORD CUTTING

Triple cord cutting is occurring in the telecommunications industry. U.S. consumers are cancelling their traditional pay-TV services, fixed broadband, and landline telephone services. MarketWatch reports that as of the end of the second quarter 2016 there was a loss of 834,000 pay TV subscribers. Specific company trends indicate the following: the four largest publicly traded cable companies have been doing better over the past two years; smaller companies have been doing worse; AT&T has been doing better since its acquisition of DirecTV but has seen a loss of 250,000 subscribers by the end of the second quarter 2016; Dish has seen poorer performance even with its ownership of Sling TV; and cable operators have more broadband subscribers than pay-TV subscribers (Dawson, Aug 2, 2016). IBISWorld reports that annual growth in the wired telecommunications industry is expected to be -1.6% from 2016-2021 (LeClair, 2016), and expects modest growth of 3.2% in the wireless telecommunications industry from 2016-2021 (Blau, 2016). eMarketing predicts that by 2018, 1 in 5 US consumers will not have a subscription to a cable TV package (Boorstin, 2016; Pressman, 2016).

Economic Reason

The first and most important reason is the economic reason or price of service. According to the "2016 Connected Subscriber Report" by Salesforce, 56% of pay TV cord cutters surveyed listed the price of communication service providers (CSPs) as too expensive. Even triple play or TV bundles that include TV service, a landline phone and internet service have seen significant price increases that are encouraging cord cutting (Wingfield, 2014).

New Technology Reason

New technologies provide more content with more variety than traditional cable TV programming and methods that make it cost efficient. Netflix has streaming services and new programming such as House of Cards and Orange is the New Black and Hulu is providing new live TV services. Several internet companies have been entering the market: Sony with its playStation "Vue", Amazon with its Primer offering and partnering with Comcast, and Apple along with Google's YouTube offering TV viewing (Boorstin, 2016; The Economist, 2016).

Originally streaming video was limited to tablets and telephones, but now it is possible to watch favorite television shows on big screen TVs. Google's Chromecast and Amazon's Firestick provide cost efficient options (Stewart, 2017). Content providers such as Disney, HBO, and ESPN are offering streaming subscription services directly to consumers for a monthly fee (Wyatt, 2016).

Demographic Reason

There have also been some viewing changes among consumers. Older viewers watch more television than other demographic groups and their TV viewing times are increasing (The Economist, 2016). Television viewing is declining among younger viewers (The Economist, 2016) however they are very connected via their tablets and smartphones, spending hours on them every day (Wyatt, 2016). "Binge watching' is a new trend among TV viewers in which viewers will watch an entire season (or more) of a favorite show in a single sitting (Stewart, 2017).

THE FUTURE OF CORD CUTTING

The future of cord cutting looks very promising due to two major technological innovations, live content and 5G mobile networks and phones. Live content is now available on DirecTV Now, Hulu, Live TV, PlayStation Vue, Sling TV, YouTube TV, and Fubo TV (Wilkinson, 2017) and more services are coming which will help TV viewers to save money (Samson, 2017). Verizon will have fixed line 5G trials in 11 cities in 2017 and AT&T will have trials of wireless 5G in Austin and Indianapolis in late 2017. 5G networks have two goals: to provide faster data-transfer speed and more reliable service. New technology is also providing new options for cable providers and for consumers. Comcast has a new X1 user interface that makes searching and browsing TV easier (Boorstin, 2016).

REFERENCES

(Available on demand)