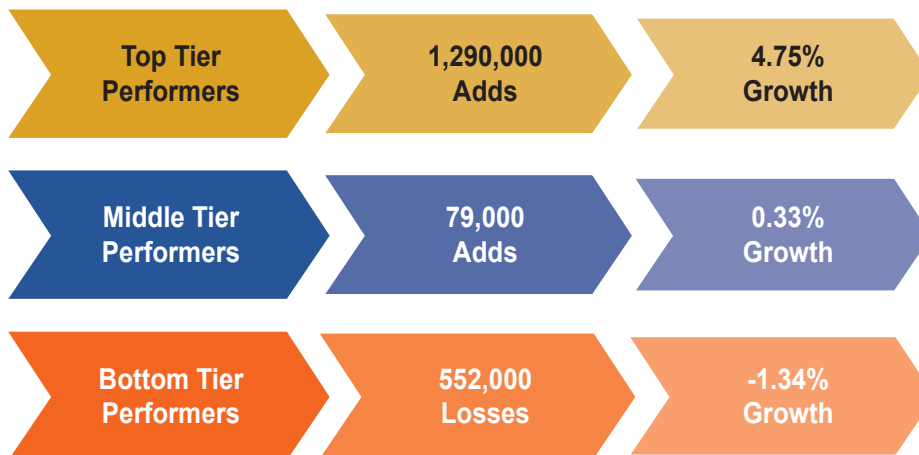




Are analysts overstating the decline of the pay television industry? While the expansion of online video content is impacting the television service industry, in the short term, a majority of customers are likely to simply utilize “over-the-top” programming to augment traditional television to expand the breadth of their video entertainment options. Contrary to analysts’ pronouncements that there is a decline in the number of home television customers, many providers are, in fact, gaining customers. J.D. Power and Associates research shows that television service providers that deliver exceptional customer experiences continue to flourish, despite the increased competition from video-viewing alternatives and the effect of the extended economic downturn on consumers’ discretionary spending.

Among the television service providers that perform particularly well in the *J.D. Power and Associates 2011 Residential Television Customer Satisfaction Study*^{SM1} through three of four waves of fielding, aggregate subscribership grew by nearly 1.3 million customers between September 2010 and March 2011.² Comparatively, the four providers that rank lowest in the study, which have failed to satisfy their customers to the same extent as the highest-ranking providers, have incurred aggregated losses to date of more than 550,000 customers during this same time frame.

In a market characterized by intense competition for customers and demand for innovation, future growth and profitability will depend on service providers’ ability to satisfy existing customers and foster brand loyalty. To be successful, providers must commit their entire organization to measuring, promoting, and enhancing the customer experience.



Source: National Cable and Telecommunications Association, September 2010 through March 2011

Figure 1

The Impact of Providing a Satisfying Customer Experience

To examine the impact of satisfying television service customers on subscriber growth and financial performance, J.D. Power conducted analyses using subscribership figures and three of four waves of data from the 2011 study. Provider-level satisfaction, loyalty metrics, and customer intention data were merged with publicly available provider-level data such as net subscriber additions (i.e., the number of new customers minus the number of lost customers)

1 The publication date of this study is October 13, 2011

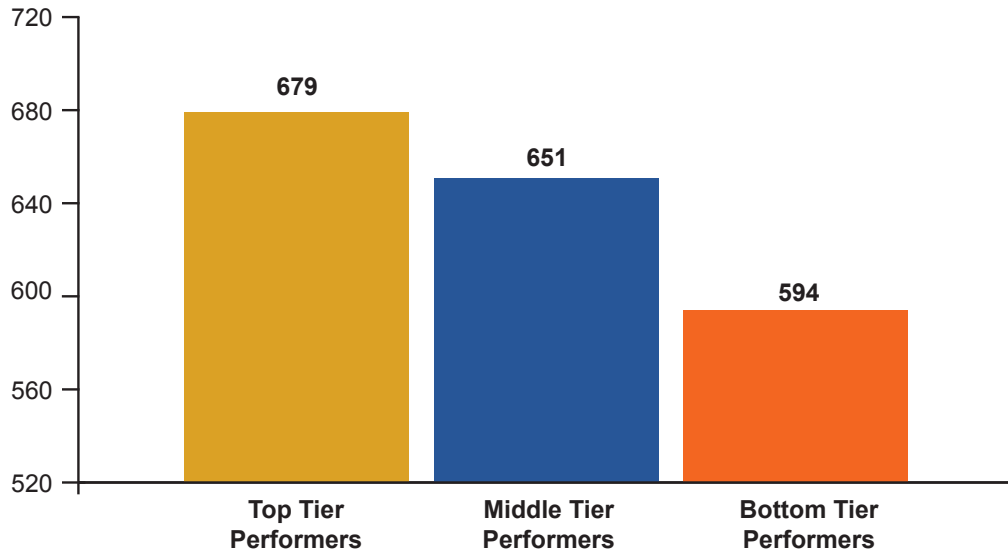
2 Subscribership data source: National Cable and Telecommunications Association

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and subscription data for the top 13 television service providers in the United States. On an aggregated basis, these 13 providers represent greater than 95% of all television service subscribers in the United States. Providers were grouped into three tiers based on overall index satisfaction scores in the 2011 study: Top Tier Performers, Middle Tier Performers, and Bottom Tier Performers.

The overall satisfaction index score among Top Tier Performers is 679 (on a 1,000-point scale), which declines by 28 points to 651 for Middle Tier Performers and by an additional 85 points for Bottom Tier Performers (594).

Overall TV Service Satisfaction



Source: J.D. Power and Associates 2011 Residential Television Customer Satisfaction Study,SM Waves 1-3 **Figure 2**

Between September 2010 and March 2011, the customer bases of Top Tier Performers collectively grew by 4.8%, contrary to many analysts' sweeping comments regarding the continuing decline in subscribership. Conversely, the customer bases of Bottom Tier Performers collectively declined by 1.3% in the same time frame. To further illustrate the point, AT&T U-Verse, now the ninth-largest provider of subscription television service in the United States and the highest-ranked provider year-to-date in the 2011 Residential Television Customer Satisfaction Study (with a score of 690 index points), netted an additional 466,000 customers in the September-to-March period, representing growth of 17%; conversely, Mediacom, a Bottom Tier Performer, lost the equivalent of 2.3% of its customers.

To recognize the financial benefits of satisfying television customers overall, it is critical for providers to understand the value of satisfying individual customers. J.D. Power notes the following from recent industry data:

Customers of Bottom Tier Performers who switched to those providers within the previous 12 months are more likely to have done so simply because of a change of residence. Nearly half (45%) of customers who switched to a Bottom Tier Performer cited change of residence as the reason they switched, compared with just 12% of customers who switched to Top Tier Performers. Without these "movers," the net loses of the Bottom Tier Performers would be even more significant.

Poor customer service is also a key driver of churn, as customers of Bottom Tier Performers are nearly twice as likely as customers of Top Tier Performers to indicate they would switch from their current provider for better customer service (20% vs. 12%, respectively). Furthermore, customers of Bottom Tier Performers are nearly twice as likely to indicate they would switch their provider for a more reliable service, highlighting the need for these providers to improve service continuity. Customers of Top Tier Performers are four times more

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Continued

likely than are customers of Bottom Tier Performers to have switched to their provider because they were searching for a specific deal, feature, or channel. It is clear that Top Tier Performers are effectively communicating their attractive offerings and backing it up with the highest levels of customer care.

While there are other factors contributing to increases and decreases in customer bases, existing customers can serve both as proponents and detractors of a brand. Word of mouth is effective in garnering market share and valued customers, and satisfied customers serve as brand advocates. J.D. Power finds a strong correlation between a customer's propensity to recommend their television service provider and the increase in number of actual subscribers. Data indicates that 26% of customers of Top Tier Performers say they "definitely will" recommend their service provider, compared with just 6% of customers of Bottom Tier Performers. In the 3 months previous to being surveyed for the 2011 study, customers of Top Tier Performers made 2.4 positive recommendations of their service provider, on average. In contrast, customers of Bottom Tier Performers made an average of nearly 2 negative recommendations regarding their service provider during this same time frame. While the underlying customer experience is primarily driving these changes in market share, brand advocacy clearly is having an impact.

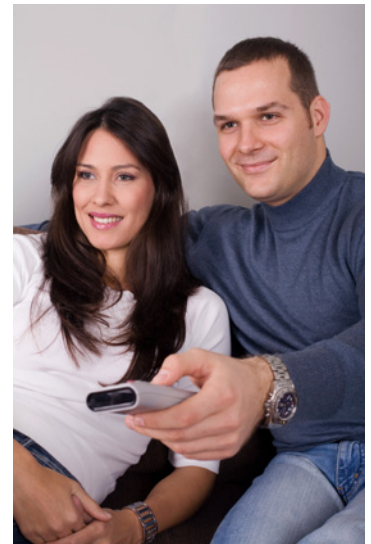
The Financial Impact of Highly Satisfied Customers

The financial implications of providing subscribers with a highly satisfying customer experience are large. Providing an exceptional customer experience generates additional return on investment, as highly satisfied customers are likely to spend more with their provider. In general, highly satisfied television service subscribers have a higher propensity to subscribe to premium services and may be more likely to buy higher-end services in the future. Customers of Top Tier Performers are 67% more likely to say they "definitely will" or "probably will" purchase additional products from their provider in the future. This level of intention may be critical as telecom providers continue to develop smart grid and home security services. Similarly, there are opportunities for additional revenue streams in programming, as customers of Top Tier Performers are 42% more likely than those of Bottom Tier Performers to subscribe to premium cable programming packages. Further, customers of Top Tier Performers are more likely to lease additional set-top boxes (51%), compared with customers of Bottom Tier Performers (32%).

Winning Customers with Satisfaction

In order for providers to adapt to industry changes, maintain healthy subscriber growth, and to continue providing customer value, J.D. Power and Associates recommends the following actions.

- **Implement post-transaction tracking programs that measure the drivers of satisfaction.** Bottom Tier Performers may face near-term churn issues, as one-fourth of new customers—those who have been with their current provider for 12 months or less—indicate they are likely to switch. It is crucial that providers ensure that customer needs are being met in the days and weeks following service initiation and purchases of additional services and upgrades, as new technology and programming may pose new challenges for some individuals. Offering high-quality customer support both online and via the phone, as well as soliciting feedback in the weeks following service initiation and programming and equipment upgrades, may serve as ways to instill customer confidence in their investment, reduce escalated customer service contacts, and foster long-term customer loyalty.
- **Understand and monitor the drivers of satisfaction and provide a distinct, consistent value to customers.** This is the common denominator among the highest-ranked providers in J.D. Power and Associates' studies over time. Value is not purely a function of providing service and support at low cost—value can be recognized in the price, product, or people with whom the customer interacts. Television service customers may be willing to pay a premium for an outstanding product and support team when they recognize the value in doing so. However, identifying competitive strengths and redefining or reinforcing the value proposition is a never-ending endeavor. The four waves of data used in the



Continued

Residential Television Customer Satisfaction Study provide an understanding of what drives value and satisfaction in the provider's customer base and measures how they change over time, laying the foundation for improved lifetime customer value and advocacy.

- **Consistently provide an exceptional overall customer experience with your product or service.** Given the impact of loyalty, brand advocacy, and customer satisfaction on financial performance, it is crucial for service providers to establish themselves not only as cable and satellite providers, but also as providers of premier entertainment and information, high-quality equipment, and services that are reliable, well supported, and which customers perceive as worth the investment.

J.D. Power and Associates will continue to track customers' satisfaction with their overall television service experience and measure the factors that provide the greatest impact, which will allow television service providers to more accurately target marketing plans and measure performance diagnostics. The aggregate results of the four study waves measured in the *Residential Television Customer Satisfaction Study* are released each October.

For more information, please contact:

Frank Perazzini Frank.Perazzini@jdpa.com

Steve Kirkeby Steve.Kirkeby@jdpa.com

Ross Gagnon Ross.Gagnon@jdpa.com

Or visit the company's website: businesscenter.jdpower.com

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