Personal Video Recorders find it difficult to get off the ground

Carles Cabré
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Digital video recorders or PVR (Personal Video Recorders) are facing fierce competition from cable companies and the makers of DVDs and televisions.

Having a domestic appliance at home waiting for you with the washing done or dessert prepared is just a fantasy of advertising. This is not so with the television that knows which programmes you like and records them for you autonomously, lets you stop a live broadcast or easily skip over the commercials on pre-recorded programmes. Personal Video Recorders make all of this possible.

These devices, which have been available on the North American market for the past five years, mean a revolutionary and intelligent way of watching television, given that they make life easier for the busy TV viewer who is short of time and saturated by the offer. A recent study by Lyra Research showed that 76% of PVR users are very satisfied with their television experience after buying the device as against a mere 7% who said they were satisfied before buying it. Forrester calculates that by 2009 about half of the homes connected to cable or satellite television in the United States will have a PVR. That means over 22 million subscribers.

User satisfaction, however, has not made TiVo, the pioneering company and most popular PVR services supplier in the United States, break out of the red. They made a loss of 32 million dollars (26.4 million euros) in their last fiscal year.

On the other hand, the owner of Replay TV, TiVo’s main competitor in North America, was declared bankrupt in March 2003. In Spain, Techfoundries has had little success in its attempt to popularise its PVR InOut TV and it is now trying its luck on the market selling its devices to hotels.

These manufacturers base their income on the sale of the device and a monthly subscription to services like EPG (Electronic Program Guide), which allows the user to record, for instance, all the documentaries on fauna on any television channel.

Alliances
In order to get into households, the independent manufacturers of PVR have allied themselves with cable TV companies. However, the latter have now become the main competitors to the former. In the United States, Time Warner Cable and Comcast, for example, are offering their subscribers PVR services that are developed by third party companies like Scientific-Atlanta or Motorola. By doing so they avoid paying licences for using the services of TiVo, Replay TV and the like. Moreover, the prices of the
cable TV companies are much lower because their subscribers have only to pay a quota of between 5 and 10 dollars, while TiVo’s pay out 13 dollars a month plus and at least another 150 dollars for the device they have to buy.

On the other hand, independent manufacturers are also having a hard time closing deals with the main manufacturers of DVD systems and televisions, which is a key market for the future profitability of these companies. Panasonic, Mitsubishi and Sharp products leave the factory with their own PVR system installed.

All in all, over the last six months the combination of TiVo with Pioneer DVD recorders has been highly successful. Toshiba has plans to launch a similar product this year. With these agreements the PVR makers get two sources of income: the licences those makers pay and the subscriptions to premium services from the buyers of these devices after a short promotional period with free access to those services. According to Michael Ramsay, co-founder and top executive of TiVo, “80% subscribe to those services once the free period finishes”.

The second hope of these companies is the income from publicity. The high bracket buying power of these customers turns them into a very desirable target for advertisers. For example, several car makers (BMW and Ford) and Hollywood film studios have recently signed agreements with TiVo and have broadcast commercials previously accepted by their subscribers.

In this way, the companies hope that the high degree of satisfaction shown by their customers so far, plus the alliances with the makers, the new sources of income from publicity and the sale of information about their customers to third parties will help them overcome the strong competition from the clone makers and move into profitability in the next few years.

**What difficulties do the PVR makers face?**

**Towards an indispensable channel offer**

**Josep Valor, IESE professor**

Although the PVR concept has a great future ahead, the makers of these devices will have to get round several problems. On the one hand, there is no awareness of this product category. While users know exactly what a video is and what it is for, few people know the meaning of the initials PVR. If they think that it is simply a highly developed video, then they will not be prepared to pay the considerable difference in price for this device. On the other hand, having this type of device only makes sense in a multi-channel environment that needs an electronic TV-programming service. Recording a serial when there is only one channel is easy. However, if this serial is broadcast on more than 40 out of the thousand channels the user has, the task is rather arduous but highly satisfying, given that in a week the device can store all the chapters of the serial that were never broadcast. In Spain, the limited number of channels in Spanish makes the advantages of this type of service somewhat restricted.

**The unawareness of the public**

**Juan Miguel López, Director of Technology at PwC**
The manufacturers of PVRs clash with the unawareness of the public that is heightened by the existence of different terminologies for the PVR, such as DVR (Digital Video Recorder) or HDR (Hard Disk Recorder).

In countries like Spain, paid digital TV needs to become popular. But, although the Spanish market is soon expected to enlarge its open digital channel offer, the content suppliers could refuse to sign agreements with the PVR makers due to the fact that these devices have the capability to skip TV commercials. Moreover, these are rapidly developing technologies, which multiply the competition of the independent manufacturers. The companies that transmit the digital TV signal already sell PVR services, while the convergence between the TV and the PC makes one think that the new generation of graphic cards with TV/Video functions could replace this type of device. However, all these hurdles should not discourage the PVR makers as their market only gets larger and larger with the growth of digital TV.