



PVR: why innovating on TV is difficult

Josep Valor

e-business Center PwC&IESE

20/11/2003

Is it a smart video? Is it an improved TV? Is it the much announced TV on demand? No. It's a PVR (Personal Video Recorder), a device that acts as a hard drive for the TV and that, through a subscription system, allows one to filter, store and index TV content in an intelligent way to later replay it how and when the user wants.

TiVo has been on the market for five years, but questions about its popularity are still unresolved, as shown by the tepid diffusion of this kind of devices in the USA. The well-publicised one million subscribers, reached by TiVo this November, is insignificant compared to the number of US households with TV – less than 0.8% compared to almost 100%, respectively.

This is a curious phenomenon, if you consider that those who try out PVR never leave it but become addicted to this technology.

Why doesn't such a revolutionary innovation take root? The essential characteristic of traditional TV systems is their capacity to control their audience. The broadcasters' business is to tell people what and when they must watch TV. This compels people to watch ads.

PVRs are not only a revolution because they allow users to decide what and when they want to watch TV, but they mean a change of paradigm for the sector (users can skip over ads). In the case PVRs become popular, broadcasters, advertisers, ad agencies, media planners and audience measurers would see their current business questioned.

Thus, it's understandable that they aren't interested in the new system being successful.

Beyond the logical industry resistance, PVRs face the typical problem of the diffusion of disruptive innovations. Although, objectively, they offer many benefits, just a few early adopters (techies) rush to test them while most people need some time to come to terms with them. Many of these innovations die before they cross that barrier.

In spite of the fact that analysts forecast good prospects for these systems, PVRs are at stagnation point.

With regard to TiVo, it's also necessary to add that the company has failed in its positioning by betting on a segment – stressed people without time to watch TV— few of which are

Highlights

1 Founded in 1997, TiVo pioneered the introduction of the PVR. Later, Replay TV appeared on the market. Currently, cable and satellite operators incorporate PVR functions in their set top boxes. In Spain, Techfoundries sells In-Out TV, which has one thousand beta test users, according to the online magazine Baquía.

2 Analysts think that TiVo should become a partner of one of the cable operators such as Time Warner, Comcast, Charter Communications or Cox Communications, which will be the most important drivers of PVR popularity and together they have 45 million subscribers.

3 Videos, present in 94% of US households, are popular basically because of their capacity to record programmes, a function already included in the new PVR models.

4 According to *Digital Television 2003*, by eMarketer, PVR households in the US currently number 3.6 millions and will reach 15.3 millions by 2006. The report shows that among the major features of PVRs that US consumers find appealing are the ability to skip commercials (81%) and the ability to watch a programme regardless of its normal air time (76%).

prone to innovations.

Moreover, the potential user doesn't know if he or she is buying another box to add to his or her TV or if this one is going to substitute all the rest.

Toshiba and Pioneer are trying to resolve that oversight by adding a DVD recorder to their new PVR. In this way, TiVo takes over from current videorecorders. In Spain, Techfoundries, owner of the PVR In&Out TV, has slowed its offer to consumers and is repositioning its product towards more profitable clients, such as hotels.

It's difficult to know whether these new focuses will be enough to boost the so-called tipping point for PVRs. The only thing that is clear is that we aren't facing a simple technological innovation but a change in the TV business model. We must wait and see.