

TiVo

A case study analysis



Group 5

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1. Management vision

There are four directions that TiVo's management team can choose; each strategy has issues that the management team should consider before making a decision.

The first direction is doing stand-alone business. TiVo can successfully compete with others in this type of business and earn high profits due to its unique offering. Stand-alone business also gives TiVo flexibility in developing its product technology and in enhancing its brand awareness, which allows TiVo to set higher prices. On the other hand, the company will have more marketing expenses in order to compete in the market since it needs to pay for advertising costs itself. Moreover, cable companies can become new potential competitors since they can outsource consumer electronics manufacturing to produce DVRs for them and distribute DVR devices to their subscribers.

Doing Comcast and Advertising business may require TiVo to assemble its product equipment with another consumer electronics product and to use co-branding causing TiVo's brand awareness to decrease. Moreover, the management team needs to put huge effort in turning advertising-related business into one of its core businesses. Furthermore, TiVo's monthly average revenue per unit or per subscriber (ARPU) from the customer base of cable network providers has dramatically decreased, turning the profit margin from this base to be very low. In contrast, customers who use TiVo have a low churn rate, so the company can use this competitiveness to attract cable companies to adopt and distribute TiVo products to their subscribers to help protect their subscribers from switching to another cable service provider. Secondly, TiVo can lower its expenses by asking cable firms to do marketing activities and the whole installation process. Moreover, partnering with cable companies will offer TiVo a larger and more predictable customer base, which will help fulfill Roger's vision of pushing TiVo into the mass market. This also helps to diversify the company's customer base and revenue source.

The third option is to turn TiVo into a content distributor. First of all, it provides convenience to consumers. In addition, there is no boundary for broadcasting content over the Internet; therefore, the company can broadcast the content worldwide. Finally, many content creators want TiVo to help them in distributing their contents to consumers. On the other side, it requires vast resource in creating a distribution network, since it needs to be able to support various hardware and software applications used by consumers. Secondly, the company does not have much experience in being a content distributor; therefore, the success of running this type of business still risky. Moreover, the partnership between TiVo and cable providers can become vulnerable.

The last option that TiVo is considering is expanding its business internationally. Expanding the business to a market outside the US will not be an easy job for TiVo since it lack of expertise operating the company multi-nationally. In addition, there are many risks that the company will be exposed to, such as exchange rate, change in local government policy and regulations, as well as cultural differences that will have an adverse impact to the company. In contrast, TiVo can use its distinctive competency to attract local cable networks, local content distributors, or local advertisers to be its joint venture partner to do business in the local market. Furthermore, being a leading DVR developer will help the company to increase its potential to sign more license agreements with other consumer electronics producers which in turn helps increase the availability of product distribution networks in markets outside the US.

2. Market segmentation

There are three main market segmentations that TiVo targets based on different types of products or services the company offers. In other terms, the company offers different types of products and services to different groups of customers.

The first market segmentation of TiVo are advertisers and networks in which the company offers advertising services called “showcases” for this group to advertise through TiVo. The ads consist of four to six minutes commercials designed to be entertaining. TiVo also offers audience-measurement services to the same segment who would like to get information about viewer behavior at a micro level, for example, whether commercials or shows did better than others at certain times or in certain markets.

The second segmentation group is a group of OEMs and CE manufacturer licensees who need the TiVo technology to operate with their own products. An example of prominent licensee is Toshiba who use TiVo technology to produce a DVD recorder with TiVo’s basic-service option, which included record, pause, rewind, and instant replay.

The last segmentation group is a group of consumers who are the end users. For this group, TiVo offers DVR products that allow consumers to experience a new way of watching television. The users can pause live TV, fast-forward through commercials, and hit instant replay during their favorite sport event.

3. Marketing strategies

Based on the statements above we can suggest our marketing strategy for TiVo for the period between 2005 and 2010. We divided our strategy into three sub strategies based on their impact on a specific target group. The first two strategies are mainly designed for the consumers while the third strategy is focusing more on advertisers and the network.

3.1. Internet TV

As can be seen from the financial statement the ARPU for TiVo-owned subscribers has been steadily increasing over the past few years while the ARPU for DirectTV-owned subscribers has been steadily decreasing to \$1.52 per month. Having this trend in mind, TiVo will not be able to earn a lot of profit (if positive at all) from customers brought in by cable companies. Having a look at recent technological developments Internet TV is a huge opportunity for TiVo. It is also a step towards providing stand-alone DVRs suggested by Matt Wisk (TiVo’s CMO).

Providing Internet TV incurs just little fixed costs and even lower variable costs. The service scope can be improved gradually thus keeping the investments needed per improvement at a low level. While the penetration of broadband connections in North America and Western Europe has already reached 20% of the population (see Appendix) and it is growing at a huge rate, Internet TV will be consumable by the majority of America’s, Europe’s and Asia’s population by 2010.

We suggest that the period from 2005-2010 will be a first step towards Internet TV and we will not change our core business concept until the end of the planning horizon. Our goal is to achieve the certification “Internet TV ready” printed on our boxes. This is important to let people know that we are on the technological front and we will be the first who are able to deliver a whole new TV experience to the consumer’s living room. We must not wait since first start-ups are already delivering

Internet TV and it is just a matter of time when people will realize that they are currently overpaying cable companies (since most Internet TV is currently for free). In addition we want to further maintain and strengthen our relationship with Netflix, so we can offer Video-on-demand to our customers. People can then watch their favorite movies over Internet for a cheap price. With this partnership we can keep our costs at a low level while providing a complete home entertainment for our customers. Further plans will be partnerships with pay-TV companies such as "Premier" or "Discovery Channel", where people can purchase one-time or subscriptions directly over TiVo. The content will then be delivered over Internet. Providing just basic features over Internet TV we make sure that we are able to satisfy our customers with these features. We gradually will add new channels and content after 2010 when we are able to estimate customer's needs and new technological possibilities.

3.2. New TiVo box

In order to cope with technological improvements such as HDTV or Internet TV we need to launch a new TiVo box called "Series 3" in order to distinguish ourselves with other service providers. We now confuse customers with a non-transparent product line-up, since there are other DVD devices offering a simple TiVo technology. Since our goal is to offer a complete home entertainment experience we need to upgrade our products, so customers need only TiVo (and nothing else). This will first reduce customer's total cost while increasing their willingness to pay for the TiVo box, since the TiVo box contains everything they need. First, we need to include support for HDTV, Dolby Digital (for our home theater group) and move forward by adopting the H.264 video codec, which offers brilliant quality while reducing the file size. These technologies show the customer that we are moving with time and that we want to offer the best TV experience ever. We need to achieve a high brand loyalty; for that we need to be the best in our service industry. We implement carefully selected connections with cables in different colors provided, so customer cannot install the box wrongly. This allows customers to install the box on their own and thus save further costs. Below is a brief listing of our new product palette:

- *TiVo 3 connect*: Offers the full TiVo features, while being easy to handle and install.
- *TiVo 3 cinema*: Offers a DVD player/recorder on top of the normal features. So people don't need to buy several devices and can just stick with TiVo.

3.3. Embedded advertising

The third recommendation is divided into two different strategies involving TiVo's different target segments that are the network and advertisers. Our strategies include an evolution advertisement and movie trailer offering.

First, we will be offering a brand new advertising method by place or insert a related product of the program that is currently showing on the bottom of the TV program. Imagine watching your favorite TV series while seeing an adorable shoes, elegant watch, baseball cap or even makeup style you like, but don't know where to get it. Our new offering will randomly select popular merchandises to be appeared on the bottom of the program. If the audiences are interested in the product they can order a catalog of the product or even purchase it by the touch of their remote control.

Moreover, for movie lovers, new TiVo will be offering an instant movie trailers including upcoming movies, currently showing movies and out of the cinema movies (older movies) available on DVD or Video-on-demand. Our TiVo users are again able to buy movie tickets from their local movie theater or even place movie rental order and watch them either instantly on their TVs or on DVDs that are guaranteed to be delivered the following day.

For both strategies, our TiVo end-users are still having the option to turn on/off the digital offering whenever they wanted to. They can even customize the advertisements to make them suit to their own personal lifestyles and needs.

In order to be able to implement this recommendation the company needs to establish several connections and partnerships where our main revenue stream from this recommendation will be from. Our business and advertising customers can place their products on our TiVo network by giving us an entrance free and when they sold the product through our network they need to give us certain commission fees.

By offering these additional services it will enable both our business customers and end-users with a brand new solution that is different from any of our competitors while offering us an additional revenue stream. In other terms, it will not only be our point of difference, but it will also generate additional revenues for TiVo.

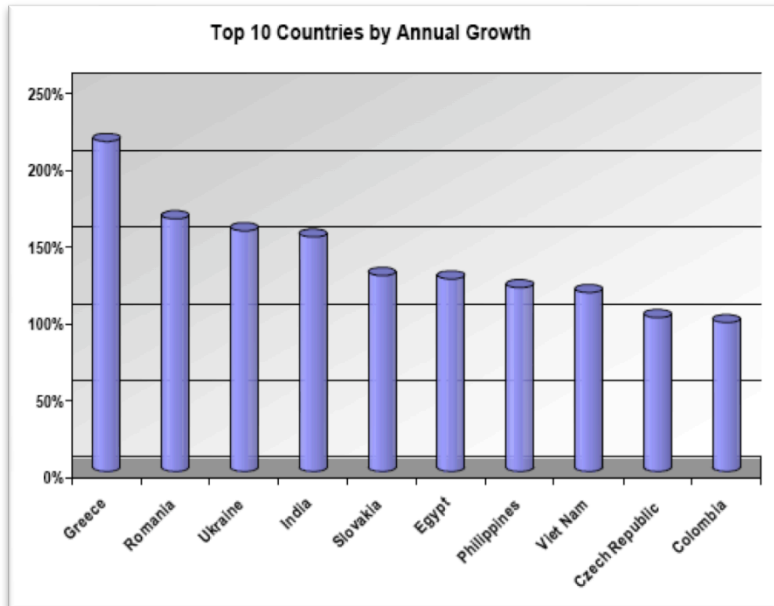
4. Financial planning

First we assume that growth of subscribers will at least continue at the current rate for the next few years. Given our Internet TV, we think that will boost our direct subscribers at an increasing rate, since more and more customers have access to a broadband connection (see Chart 1 in Appendix). Looking at the ratio (see Chart 2 in Appendix) between direct owned and DirectTV subscribers we see that the ratio gradually improves towards direct owned ones. Since direct owned contracts have an ARPU of more than \$8 and DirectTV ones have just \$1.5, the service revenues will increase much more in dollar terms per each additional contract.

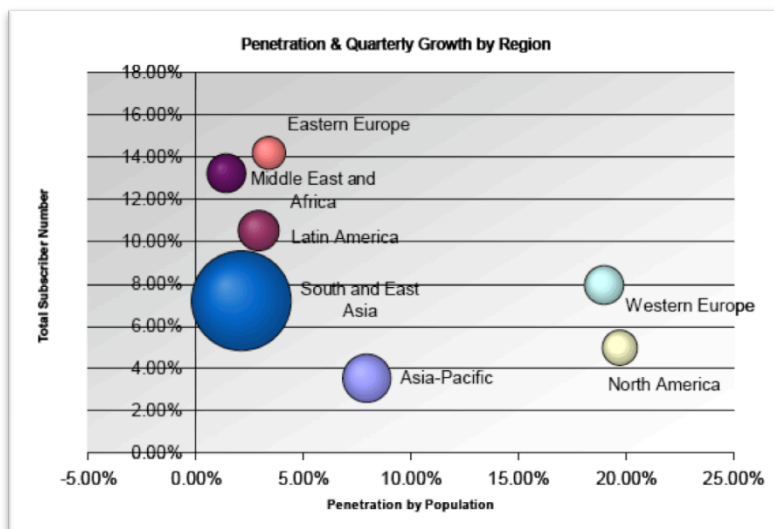
Looking at the given financial report from year 2005, we can dismantle the per customer cost: \$40.3 per year (see Chart 3 in Appendix). Given the two ARPU rates per year, which are: \$105 per direct owned and \$18.24 per DirectTV owned customer. We see that the ratio between these two customer groups is significant for our revenues. We just calculated the service cost because this is the cost we need to spend for the customer. In this cost we included all other costs such as R&D and marketing. These costs would need to be divided to the corresponding cost centers (service, technology, hardware) but we believe that with fully accounting them to the service center we are on the safe side (we better calculate too low than too high). And there will be mere costs for introducing the Internet TV – so these factors should balance each other. So Chart 4 shows that the net profit will get positive in the year 2008 when the ratio between direct owned and DirectTV owned subscribers is high enough. This calculation is very simple though and has the flaw that one could argue why we don't cancel all DirectTV owned subscriptions since they yield a negative profit. Reasons are that first that would hurt our reputation and that we hope to get new private revenues from InternetTV through DirectTV customers who try our new service.

5. Appendix

The appendix contains graphs taken from World Broadband Statistics published by Point Topic Ltd in 2006.



Graphic 1 shows the countries with the highest annual growth of broadband connections.



Graphic 2 shows a regional map of broadband penetration, total subscribers and growth.

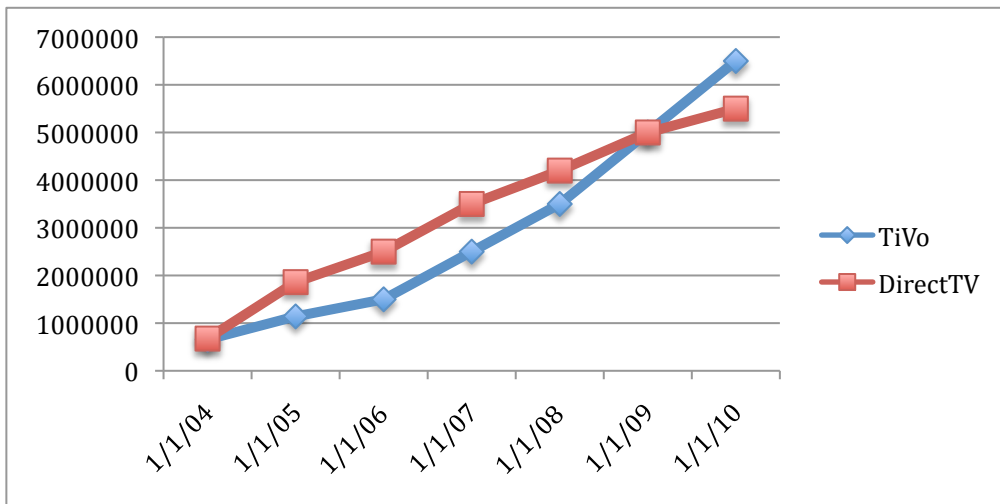


Chart 1: Cumulative Subscribers

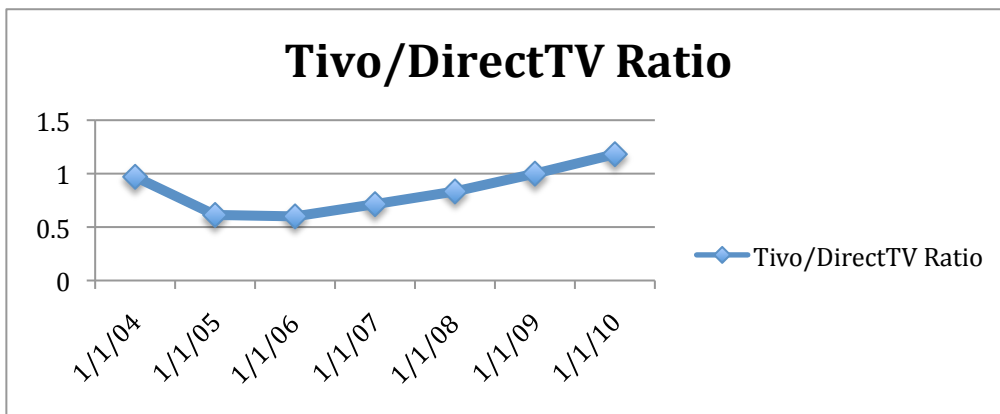


Chart 2: TiVo/DirectTV Subscribers Ratio

Per Customer Service Cost (calculated from year 2005 financial report) (all data in thousands except end value)	
Cost Service Revenue	\$29360
Research and Development	\$37634
Sales and Marketing	\$37367
General and Administrative	\$16593
Rebates, Share, Others	\$54696
Total Service Costs	\$170650
Total Subscribers	3001
Per Customer Cost	\$58.5

Chart 3: Service Cost

