

# TiVo in 2005



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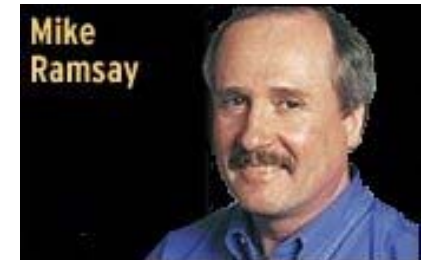
# “Picture Perfect”

## TiVo’s Marketing Strategy - 2005 and Beyond



- “We are firmly convinced that TiVo can extend its brand and technology to the mass market.”  
- Tom Rogers

- “We’re in the user interface and entertainment services business.” - Mike Ramsay



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# Executive Overview

- **Problem:** What is the future (2005 and beyond) business strategy for TiVo? According to Messer's Rogers and Ramsay, any marketing strategy must be geared toward capturing mass markets employing user interface methods and focusing on software and services.
- **Situation:**
  - TiVo's business relationship with DirecTV ended; new competitors emerged; established short term solution with Comcast.
  - The industry focus is moving towards content and applications, and this requires a change in marketing strategies.
  - New means of distribution include internet-based video-on-demand (VoD) as well as non-linear transmission through digital terrestrial, satellite, cable and DSL networks (television-based VoD).
- **Solution:**
  - TiVo management has identified 4 predominant marketing opportunities to address the emerging situation.
  - The Strengths, Weaknesses, Opportunities and Threats of each opportunity will be presented.
- **Recommendation:**
  - The SWOT analysis will lead to the presentation of a "picture perfect" strategy that can best exploit the home consumer entertainment market. Included will be methods for overcoming weakness and threats, as well as financial justifications.

# Customers

- The DVR segment expected to grow to as much as 40% of US homes by 2009.
- There exist 3 primary customer segments for TiVo digital services:
  1. Analog cable customers (approx. 40M), who are deemed unlikely to switch to digital format.
  2. Mid-market users of cable, satellite, telco, who may opt for set-top digital boxes.
  3. Home theater customers wanting high-definition and multiple-tuner DVR's.
- TiVo's 2005 core customer segment consists of:
  - Discriminating enthusiasts; married; 25-45 yrs old; \$70-\$100k income
  - Families with young children who appreciate TV on demand, parental controls.
  - Churn rate for monthly subscribers < 1%.
- Opportunities for Expanding Customer Segments:
  - Customers of high-definition content
  - Foreign language (including overseas) customers

# Competitive Challenges

- TiVo's deteriorating relationship with DirecTV.
  - 70% of TiVo users were DirecTV subscribers
  - DirecTV owned a stake in NDS (a competitor)
- New entrants in DVR, Internet and overseas markets.
- TiVo prices being undercut – e.g., DishNet offering free product with no monthly charge.
  - Other competitors offering box for \$100; TiVo counters with \$99 box after rebate.
- Monthly fee a concern to consumers – i.e., Consumers who purchased set-top box at retail CE stores “surprised” they have to pay additional monthly service fee.
- Current set-top box cannot support hi-definition or dual tuners.
  - Customers disappointed they could only record one program at a time.

# Opportunity Analysis

- TiVo management has identified 4 principal market opportunities:
  1. Aggressively pursue stand-alone DVR business
  2. Seek deals with other distributors
  3. Become a content distributor
  4. Seek new markets outside of the U.S
- The following 4 slides present a S.W.O.T. analysis of each prospective opportunity.



# Opportunity Analysis

## 1. Aggressively pursue stand-alone DVR business

### Strengths & Opportunities

- TiVo has user-friendly interface; rich feature set. *“So simple my 8 year old can do it.”*
- Compatible with cable, satellite, airwaves
- Home Media Option easily adapted to Internet broadband, digital music, pictures, other premium service options.
- Significant patents.
- “TiVo” a branded product.
- Opportunity for innovation.
- Cable companies promoting DVR’s.
- Phenomenal growth in online advertising revenues, e.g., Mini-movies; showcases; interactive ad’s.
- DVR can integrate cable card, for cable partners who supply OEM box.
- WishList and Season Pass offered for a free trial period at installation..

### Weaknesses & Threats

- Lacking hi-definition & multiple tuner capabilities.
- Present set-top boxes not extensible.
- FCC regulations may delay or prevent integration of desirable features into set-top box.
- PC’s have DVR functionality (Microsoft, HP, Gateway, Sony).
- NDS will offer recording of pay-per-view; EchoStar, Motorola, ReplayTV, Scientific Atlanta and others are narrowing the technology gap.
- Other DVR makers: ReplayTV 2Wire, Akimbo.
- HMO is open source, thus posing threat of entrance by third-party software developers.
- Difficult first time installation usually requires a technician.





# Opportunity Analysis

## 2. Seek Deals with other Distributors

### Strengths & Opportunities

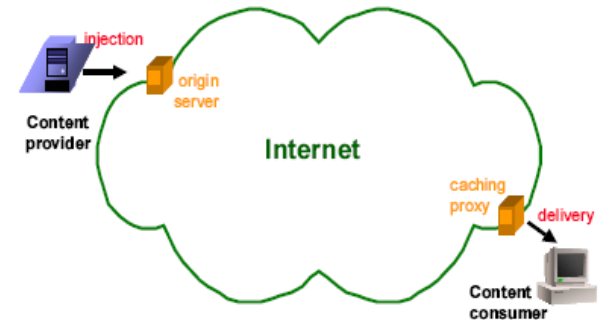
- Cable, satellite & Teleco's offer high volume distribution channels
- Comcast deal not exclusive; opens door for other agreements.
- Growth actions in retail channels.

### Weaknesses & Threats

- Not modular = significant costs to extend technology to new OEM, CE device or box.
- Unwillingness of cable & satellite companies to sign on.
- Telecommunications companies may enter the market.
- Integration or direct access to high definition set top box is required.

# Opportunity Analysis

## 3. Become a Content Distributor

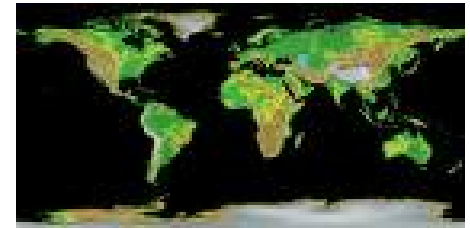


### Strengths & Opportunities

- Existing agreement with Amazon.com could be expanded to include content.
- Broadband Television (BTV) is an emerging platform for distributing digital television channels; and Internet media providers are setting the trend.
- Many telcom and cable operators are in the process of trialing BTV infrastructure and expecting that it could evolve into the next emerging market of 2005 and beyond.
- TiVo strong on customer services; loyalty-building. Market is now moving from supply driven (telco) to demand driven (Internet), and those with the best marketing and customer service capabilities will win; technologies are rapidly becoming commodities.

### Weaknesses & Threats

- There exist Web-based alternatives.
- Unfamiliar territory for TiVo; lack of expertise.
- May conflict with interests of potential distribution partners.
- Puts TiVo in direct competition with networks.
- Not proven to be cost effective.
- 6 month lead time to enter the business following a decision by management.



# Opportunity Analysis

## 4. Seek new markets outside of the U.S

### Strengths & Opportunities

- Early entry into world market
- Superior technology
- Establish brand recognition and build loyalty.
- Low cost opportunity in manufacturing.

### Weaknesses & Threats

- May require additional product engineering.
- No market presence.
- No international standard data interchange format for the entertainment Industry.
- Resource intense in terms of time, people and cost.
- Additional International regulations and shipping/customs fees.

# Recommendation

## Strategic Plan – “Picture Perfect” Objectives

- The Strategic objectives are:
  1. Become the predominant stand-alone DVR provider, both within its current mid-market segment, as well as to home-theater and foreign-language markets. To do so, TiVo will concentrate its engineering resources on developing high-def, streaming broadband, and multiple tuners.
  2. Develop additional distribution partnerships, by taking advantage of its non-exclusive arrangement with Comcast. Attracting new partners will require TiVo to negotiate service pricing and a portion of the proceeds of advertising and content.
  3. TiVo will become a content provider by:
    - Partnering with one of its existing providers, such as Amazon.com, to download Amazon-owned content directly from the Internet through the existing Series2 TiVo box, bypassing the PC as well as other methods of distribution, thereby “leapfrogging” both the DVR competition, as well as other content providers not yet employing the Internet distribution method.
    - Partnering with traditional content providers (Warner Bros, Disney) and content distributors (BlockBuster, NetFlix) who seek to exploit the online customer segments.
    - Partnering with niche content producers (in consort with Amazon) who create low-cost programming that can capture numerous different customer segments having specialized interests, including foreign-language content for overseas markets, thereby introducing TiVo to wholly new markets (including overseas markets), using streaming technology, thereby paving the way for the future introduction of hardware via CE channels.
  4. Reduce its cost per subscriber and increase its revenue per subscriber. Increase advertising revenues by exploiting its data mining and interactive capabilities.

# Recommendation

## Strategic Plan – Marketing Methods

### Share Maintenance

- Flanking Defense
  - Invest in R&D to provide HD and multiple tuner capability to improve competitive status.
  - Offer Pay-per-view to improve market position.
  - Reduce SAC to be more appealing to consumers
- Flanking Attack
  - Seek deals with cable and satellite providers for high volume distribution
  - Expand agreement with Amazon.com to include content and emerging BTV.
  - Enter global market to establish brand recognition and superior technology.
  - Seek a growth roster of advertisers.

### Growth

- Technological Differentiation
  - TiVo's patented HMO process, software and hardware provide superior user interface capabilities.
  - Going forward, TiVo must include 3 new capabilities into its set-top DVR's:
    1. High-definition capture and playback
    2. Multiple tuners
    3. Broadband modem
- Leapfrogging
  - TiVo will leap ahead of the competition by means of partnering, licensing & revenue-sharing agreements that will give subscribers a much broader range of content & services, while also providing entrée to new markets.
- Guerilla
  - TiVo will expand its offerings of season passes for popular series at market penetration pricing for an introductory period. As well, the company will increase its products and services at reduced costs, using rebates.

# Recommendation

## Strategic Plan – Overcoming Challenges

- Must support Comcast deal
- Must develop hi-def, streaming broadband, & multi-tuner capabilities.  
Requires:
  - Engineering expenditures for new hardware
    - Extend Comcast agreement to include R&D and parts fabrication for hardware to support future services.
  - Selling set-top boxes through additional CE retailers and online (Amazon.com)
- Must gain broader distribution of technology, including:
  - Arrangements with other cable companies, teleco's and Internet content providers.
  - Penetration of foreign markets - Requires entering into licensing agreements with OEM's, e.g., Toshiba, Pioneer, Humax
- Must reduce Subscriber Acquisition Cost (SAC) from \$180 to \$125.
  - Secondary challenge to increase Average Revenue Per Subscriber (user) (ARPU) to \$12.95.

# Recommendation

## Strategic Plan - Forecasts

### Market Share

- DVRs in 8% of households
  - Expect 30% by 2009
- 3 million TiVo users
  - Expect at least 12 million by 2009
- TiVo has 24% of market share
  - Increase share to 30%

### Revenues

- Stand Alone:
  - \$12.95/mo ARPU
- OEM deals:
  - \$1/mo
- Advertising on TiVo
  - \$5M per year
- From content
  - \$5-\$10 per use (cost of rental)
- 15-30% margin from DVRs sold through CE.

### Costs

- Stand Alone:
  - \$125 SAC
- Pursue patents related to DVR technology
  - \$10M and up
- Marketing & Sales
  - \$37M
- R&D
  - \$37M

# Summary

Implementing the recommendations contained in this presentation will allow TiVo to:

1. Focus research and development resources on HD and multiple tuners in order to capture a greater market share in stand-alone DVR's.
2. Develop new alliances with OEM's in order to capture a greater share of cable, satellite and Internet broadband markets.
3. "Leapfrog" the competition as a content provider by expanding its current agreements with Amazon and seeking new deals with distributors such as BlockBuster and Netflix.
4. Approach overseas markets by entering into licensing agreements with foreign OEM's, and by introducing foreign language content with its streaming technology.
5. Reduce the cost per subscriber and increase revenue per subscriber to attack a greater market share.
6. Maintain customer satisfaction and service