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"Look at these guys...They decide what we watch and when we watch it. . . ."

"Network programmers—who needs them? Program your own network. TiVo. TV your way."

Between these two lines, the TiVo commercial showed a pair of burly men throwing a TV network's chief programmer out of the window of a tall office building. Brodie Keast, TiVo's vice president of marketing and sales, had replayed the ad a dozen times on that morning of May 2000, and he still found it to be as hilarious as the first time he saw it. The TiVo digital video recorder, beyond its many advanced features, made a big idea real—if you owned the TiVo black box and subscribed to the TiVo service, you could really control what you watched and when you watched it. TiVo's marketing team intended to get that big idea across through a catchy communications campaign, with a boldly humorous tone that would help consumers envision how TiVo restored the fun of television.

Fourteen months into the launch, TiVo had signed up 42,000 subscribers, with a current rate of 14,000 new subscribers per quarter. With 102 million TV-watching households in the U.S., that was only about .04% penetration, despite availability in most major consumer electronics stores across the nation. Yet everyone who owned TiVo seemed satisfied with it, with 72% of owners even claiming that TiVo had made TV viewing "a lot more enjoyable." Ninety percent said they would recommend it to family and friends. Early adopters were raving deliriously in the online forums of TiVo's website.

TiVo's marketing team argued that lack of awareness was a key cause of the discrepancy between the love for TiVo and its lackluster sales. The provocative TV and print campaign, including the "Network Executive" commercial, was conceived with this problem in mind. But would people get it, or would they just be confused? And was it too controversial? Keast had his share of last-minute doubts.

Professor Luc Wathieu and Research Associate Michael Zoglio prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

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A major problem with the digital video recorder category was that its many functions (which involved pausing and replaying live TV as well as an array of flexible recording services) were not as easy to explain as they were to experience. The “Network Executive” ad just substituted any explanation with the phrase “Program your own network.” But maybe it would be better to just try something completely straightforward—that is, to explain TiVo for what it did. Why not simply show a stream of satisfied customers reporting their experiences with TiVo—e.g., “TiVo allows me to pause live TV when I am interrupted by the phone. . . . With TiVo you can record 30 hours of programming without the hassle of videocassettes . . . and TiVo is intelligent: it automatically detects and records the shows that you love. . . . TiVo will make suggestions just for you. . . .” And then a voiceover would tie it together: “Pause. Rewind. Fast-forward. Pause again. Look at it in slow motion. With TiVo’s features, you are in control. With TiVo, you watch anything you want, when you want to watch it. And it’s available at your favorite electronics store, for just a little more than a VCR.”

Keast knew that things were not that simple, and that he had to account for TiVo’s best strategic interests and integrate the new television campaign with other marketing decisions. However, before okaying the “Network Executive” ad (and three other equally amusing commercials based on the “Program your own network” theme), Keast decided to step back and review the company’s situation one more time.

Early Days

When TiVo founders Jim Barton and Michael Ramsay left Silicon Graphics¹ in August 1997, their idea was to equip homes with a “home network” that would integrate all household communication devices. Both Barton and Ramsay had been involved in the development of an interactive television system (the Full-Service Network Project) that Silicon Graphics installed with Time Warner in 4,000 homes in Orlando, Florida. Although that project was deemed successful, its initiators recognized that the Internet, not television, was quickly becoming the key home interactive instrument. However, when the project was cancelled, Barton and Ramsay felt that its key ideas could be converted into a congenial and affordable “home network” technology.

After a few months, it became apparent that devising a meaningful and user-friendly home networking system was overly ambitious. Consequently, the two entrepreneurs decided that instead of allowing consumers to command the whole house, they should focus on the television. Relying on fast-improving hard-disk technology, the device would provide an easy-to-use interface between the confusing hundred-plus channel lineup and what people would actually want to watch on their TV at specific times during the day. (If executed properly, this concept was sure to reach immediate popularity, they thought.) A cute brand identity would give a gracious face to the machinery, whose technological sophistication would remain hidden in a black box next to the TV set. It would get a friendly-sounding name: TiVo. The first TiVo was shipped on March 31, 1999.

The physical TiVo unit was a set-top box that interfaced between the broadcast feed (either cable, satellite, or antenna) and the television. (See **Exhibit 1.**) The TV signal passed through a digital encoder that compressed it using the MPEG-2 format.² After being digitized, the signal was recorded on a hard drive. The number of hours that the unit could record depended on two factors: hard drive

¹ Silicon Graphics was a leading provider of 3-D graphics hardware and software.

² MPEG stands for Moving Picture Experts Group, and MPEG-2 is the standard digital audio and video compression format for products such as digital television set-top boxes and DVDs.

capacity and recording quality. The TiVo box came with four quality presets, ranging from “best” to “basic.” “Best” compressed the signal least, whereas “basic” compressed the signal the most, taking up less space on the hard drive. (See **Exhibit 2**.)

What happened to the digitized content next depended on whether the viewer was watching live TV or a previously recorded program. Viewers who watched live TV received it with a few-second delay, because TiVo recorded the signal before sending it to the television set. In order to have the ability to pause and rewind live TV, TiVo always kept a 30-minute cache of digitized feed of the live program being watched.

When the viewer was using TiVo to record television, the digitized program was just recorded on the drive (up to its full capacity). When the viewer subsequently watched a recorded program, the MPEG-2 data was decompressed, decoded, and passed into the television, where it then appeared in the normal fashion. The compression, encoding operation, decoding operation, and user interface were all controlled by a PowerPC processor. The TiVo unit operated on a proprietary operating system.

In order to ensure product reliability and effective distribution, Barton and Ramsay sought the partnership of consumer electronics superstar brands Sony and Philips. TiVo subsidized³ the two companies so that they would manufacture the black box, distribute it, and promote it to retailers. After initial shipments through regional dealers, TiVo became nationally available through Best Buy, an electronics chain, in September 1999. A month later Circuit City and Sears started carrying the black box, and a national distribution was in place.

With production and sales outsourced, Barton and Ramsay could emphasize the company’s true nature as an entertainment service. TiVo was priced as a distinct service not included in the cost of the hardware. The black box was priced \$499 for a model with up to 14 hours of recording capacity and \$999 for a model with up to 30 hours. The TiVo service came at an additional charge of \$9.95 per month, \$99 per year, or \$199 for the lifetime of the unit. Without the service, TiVo could be used to pause, replay, and fast-forward live TV, but recording (and accessing TiVo’s system of personalized suggestions and automatic recording of favorite shows) required payment of the additional fees.

While the hardware manufacturers took control of retail distribution and in-store communications, TiVo’s promotional activities were restricted to public relations, animating the TiVo.com website (which featured both a service demonstration and the opportunity to buy the system online), and a very limited mass media campaign. (See **Exhibit 4** for an example of an early print ad.) Sample black boxes were sent out to the press around the time of the launch. Although this led to a fair amount of publicity for the device and the TiVo brand, there was some confusion in the press as to how the new product category should be introduced. TiVo was indiscriminately referred to as a personal video recorder (PVR), digital video recorder (DVR), personal digital recorder (PDR), intelligent video recorder (IVR), or on-demand TV. Oftentimes the press discussed the features of the device, but it was not always to the advantage of the company, as the first-generation product was not free of problems. For instance, a review by personal technology columnist Walter Mossberg in *The Wall Street Journal* was lukewarm:

In my tests, TiVo’s Personal Television displayed some serious glitches, which the company says it is fixing, and it is designed as much for advertisers as for users. . . . I also thought TiVo’s

³ See *Sales and Marketing-Related Parties* in the quarterly results shown in **Exhibit 3**.

onscreen program guide was confusing, as is the process of navigating around the unit's menus . . . changing channels caused the TiVo picture to break up or freeze briefly.⁴

Changing Habits on a Mass Scale

TiVo's marketing problem went well beyond the usual task of inserting a product within pre-existing preferences and lifestyles of targeted consumers. Indeed, the company was faced with the more challenging task of inviting people to change their consumption habits altogether, in a domain (TV viewing) that was deemed one of the most ritualistic elements of contemporary American life. Keast explained:

Typically, with television, changes in technology have been slow. First, things went from black-and-white to color—a major technological change, mind you, but this wasn't a major change in the way television was consumed. Then the remote control came along. Now people could flip from channel to channel, and this made consumers less captive. Networks were nervous and competition intensified, but the industry's structure and basic viewing habits remained unchallenged. Then cable and the satellite dish appeared, together with a proliferation of targeted channels that gave consumers even more choice. Yet none of these changed the way you watch television. When we introduce TiVo in the household, it changes the balance of power overnight. It's truly a revolution, one that changes the way television is watched. So we were faced with the ultimate marketing challenge of changing human behavior on a mass scale—a behavior that was ingrained over a period of 50 years.

Life before TiVo

In 1999, more American households had television than telephone service, with the average American household owning 2.4 television sets. The average household spent 7.4 hours per day watching TV, with the average adult spending about 4.3 hours per day in front of the screen. Americans regularly intensified their experience by purchasing larger television sets. Advanced home audio systems complemented their viewing. In 1999 the number of families owning a 25-inch or larger TV set and a surround-sound audio system reached 20 million. This number had increased by 300% since 1995. When buying consumer electronic equipment, 71% of consumers were influenced by friends or relatives, 56% by publications and advertising, 40% by store staff, and 30% by television advertising.⁵

Television viewing was a relatively passive activity, and avid consumers were often ironically called "couch potatoes." Dependence was sometimes so extreme that it created problems in the household. Getting children to do their homework was a constant fight, and television was often used as a reward to encourage children to do various tasks. An estimated 68% of Americans complained that they felt "widowed" by their loved one during the fall television season. Couch potatoes were known to spend less time with their children, and they were frequently accused of housework avoidance, mood swings, and work neglect.

Networks would schedule their most popular shows during prime time, the broadcast time between 8 p.m. and 11 p.m., with season premieres typically drawing audiences larger than 25

⁴ "Personal Technology: Two Companies Offer TV-Viewing Options for the VCR-Challenged," *The Wall Street Journal*, April 8, 1999.

⁵ Data cited in "Can Anybody Help," *The Wall Street Journal*, June 26, 2000.

million viewers. Advertisers attempted to take advantage of this audience: In 1999 they spent much of the \$52 billion in television advertising expense in the U.S. for prime time space.

Life with TiVo

The basic idea behind TiVo was that it would take control away from the networks and put it directly into the hands of the consumer. To empower consumers, the TiVo service provided them with a variety of specific features. Accessing these required a connection to a telephone line, so that the unit could call TiVo headquarters nightly to download feature upgrades and update programming schedules.

The **electronic program guide (EPG)** was the user's interface with the device. The EPG, a menu of options, included the option to watch live TV. Another option was to view "Now Playing," a system that accessed all previously recorded programming. Additionally, the EPG gave access to (1) previews for shows that could be scheduled for recording with one push of a button; (2) a TiVo-produced video magazine; (3) a set of network showcases where networks promoted their best shows; and (4) an on-screen TV guide.

Among the most popular features was the **season pass** that allowed users to specify their favorite show so TiVo would automatically record all of the episodes. TiVo would track and record the show without help from the viewer, regardless of when it was on, and accounted for scheduling changes. Moreover, the TiVo remote was equipped with a "thumbs up" and a "thumbs down" button (see **Exhibit 1**). With these buttons, viewers could indicate how much they liked or disliked what they were watching, effectively revealing their preferences to the service. Subsequently, TiVo would suggest television programs that viewers might want to watch. By pushing a button, these suggestions could then be scheduled for recording. Keast explained:

Within the four walls of the box, there is a preference engine that runs inside the recorder, and it keeps track of what shows you have chosen to record, and the shows you have been watching. There are also, on the remote, the two thumb buttons. As you are watching, you can offer feedback to the service, from three thumbs up to three thumbs down. [The service] keeps track not only of the shows themselves, but also of the featured topics and actors. Over time, the suggestions get better and better.

Envisioning the potential of this service was perhaps more difficult for nonusers. However, pressing the thumb buttons was so rewarding in terms of useful programming suggestions that TiVo owners became extremely addicted to it after a while. Not only did the thumb buttons lead to programming suggestions, but TiVo would proactively record programs that agreed with the viewer's preferences, if sufficient hard drive space was available. Keast recalled an amusing anecdote:

I came home and my TiVo was full of episodes of *The Brady Bunch*. One of my children had gone through and given all of these *Brady Bunch* reruns three thumbs up, so TiVo just kept recording them. So I had to go through the archive of shows and delete them, all the while changing the three thumbs up rating to three thumbs down so the unit would stop recording the *Brady Bunch* episodes.

According to an independent study, 62% of TiVo owners watched more TV with the service than without, and 31% of the owners said that TV was their primary source of entertainment (as compared with 16% before ownership). Fifty-nine percent said that they watched programs that were once unavailable to them because of inconvenient scheduling, and there was a 31% decrease in channel

surfing. Children's programming and dramas were the most recorded programs, with situation comedies following closely.

While the "pause live TV" feature was deemed as having the most significant "wow!" factor, it was used less and less over time simply because live TV was watched less (70% of owners were watching recorded materials every day). Moreover, it appeared that the "pause" feature was used more to conveniently handle interruptions (phone calls, etc.) than to stop an image that needed to be scrutinized.

TiVo's data showed that subscribers were fast-forwarding through 90% of commercials. (Thanks to digital technology, TiVo could fast forward three times, 18 times, or 60 times the normal speed.) "We don't believe it necessarily means that consumers don't like advertising in general, but it proves that they don't like 30-second commercials that are not specifically relevant to them," said Keast.

Despite the apparent high satisfaction of current owners ("TiVo is the best thing since sliced bread!" "TiVo has turned my Super VHS VCR into a \$500 clock and paperweight! If only I'd known then what I know now—the glory of TiVo!" said fans on TiVo's website), nonusers sometimes held opinions that concerned the company. For instance, a *New York Times* reader wrote: "I've been thinking about buying a...TiVo. But... I've decided to wait until someone invents a complementary and equally subversive device—one that prevents...TiVo from packaging my viewing habits for resale. Why pay to be spied on? I'd sooner let some network suit go through my trash."⁶

Pandora's Box⁷

TiVo's ability to shift programming and skip advertisements was a source of concern for both television networks and the advertising industry. History, however, had shown that both industries had survived a number of supposedly fatal threats. When the remote control was invented, there was a concern that people would just change channels when commercials aired. However, various studies later showed that less than 5% of commercials were zapped. Then, when cable TV and dish systems led to channel proliferation, conventional networks feared audience fragmentation and a decrease in advertising revenues. Indeed, the market share of the big three networks (ABC, CBS, and NBC) dropped from 91% of the national audience in 1978 to 45% in 1999; yet the three networks' revenues from advertising grew from \$4 billion to \$14 billion over the same period. Finally, despite the popularity of the VCR—including its time-shifting potential and people's ability to watch rented movies instead of live TV—it did not prevent the \$50 billion television advertising industry from flourishing.

TiVo as a Threat

Brodie Keast summed up the dilemma for the networks:

Early on the networks and advertisers couldn't decide whether to sue us or buy the company. And now they're just kind of somewhere in between. And TiVo certainly raises big questions for the networks, who essentially are aggregators of programming content. And if at

⁶ *The New York Times*, September 3, 2000.

⁷ In Greek mythology, Pandora was an extremely beautiful woman created from dirt and water, who was blessed with all kinds of talents given to her by each of the Greek gods. Zeus offered her a box full of disasters that she was supposed to keep closed. Pandora could not resist curiosity, and when she opened the box all kinds of calamities were released. As she quickly closed the box, the only thing that remained trapped in it was hope.

some point, consumers can choose, “I want this specific show; I like *Will and Grace*; and I want this off the Discovery Channel; and I want that off of HBO. . . .” They’re making their own personal TV line-up. Will consumers care about who’s aggregating shows? What is the value of must-see TV on Tuesday nights or whenever it’s on? With TiVo, commercial space at 2:45 a.m. might be just as valuable as commercial space at 8:15 p.m. On top of that, networks lose the ability to position a popular show at prime time and then count on enough consumer inertia to put a new show behind it to promote it. I mean all those rules just kind of go away.

The rules went away for advertisers as well. Using conventional viewer panel data to predict audience size and characteristics as a function of the airing time of a commercial became impossible. Consequently, the conventional way that advertising agencies sold media space to marketers—on the basis of reach—would be jeopardized. And if viewers were going to skip the ads anyway, the questions became more complex. How was Procter & Gamble (P&G) going to sell soap in a TiVo-ed world? TiVo was determined to uphold at least two principles that constrained the degrees of freedom for advertisers: consumers should remain in control at all times—i.e., they should only be exposed to commercials on an opt-in basis, and data about individual viewing patterns would remain inaccessible except in aggregate format.

Even though TiVo had sold a limited number of units by May 2000, industry experts were predicting that category sales would range between 350,000 and 800,000 units by year-end 2000, with anywhere between 30 million and 55 million units in use by 2005. These forecasts were fueling the concerns of networks and advertisers.

TiVo as an Opportunity

TiVo never claimed that it had set out to revolutionize television by ruining the networks and eliminating television advertising. After all, the TiVo remote control could have enabled the viewer to skip commercials altogether, but it didn’t. Said CEO Ramsay: “Network psychology is to have a line-in-the-sand mentality. If you’re on one side of the line, you’re their friend. If you’re on the other side of the line, you’re their enemy. Advertising the ability to skip commercials is on the other side of the line. We designed the technology so that it doesn’t infuriate the networks.”⁸

Ramsay sought the partnership of the industry, claiming that the growth of personal television would benefit both viewers and the industry. Network leaders such as CBS, NBC, Discovery, and The Walt Disney Company were equity investors in the company, with NBC and Discovery represented on the board of directors. These and other networks were also involved as “programming partners” so that they could be featured in the different services TiVo offered. On the advertising side, P&G and General Motors were actively working with TiVo on defining the advertising formulas of the future.

Opportunities for advertisers TiVo’s marketing team believed that TiVo created an enormous opportunity for what they humorously called “couch commerce,” claiming that “couch commerce will have the convenience of the Internet with the emotional motivation of the television.” The process to make this vision happen was already initiated, said Keast:

The advertising piece is something that we’d like to let evolve with advertisers, rather than us trying to come up with all the answers. Most television advertising nowadays is not relevant to people when they’re watching something, with such a large and diverse national audience. So that’s why people skip over ads when they have a chance to do so. All we’re

⁸ Quoted in “Boom Box,” by Michael Lewis, *The New York Times*, August 13, 2000.

assuming is that with this technology, there should be greater message personalization and targeting, to make advertising more relevant and interesting. It is still very early to claim that anyone has completely figured it out. For now, we're working with charter advertisers to try to adapt our service so that more personalized and more targeted advertising can be delivered. In any case, we will allow consumers the choice to opt into it, or not get in at all.

An obvious advantage was that TiVo could keep track of what shows were being watched, and how many people were planning to record a particular show. TiVo could thus help advertisers both track and predict the television audience. Moreover, advertisers could be informed of how many people fast-forwarded through their commercials, and could receive an aggregate profile of those who did not. Old marketing techniques were good at identifying successful shows, but the actual viewing pattern of commercials inserted in those shows remained largely a mystery.

Early ideas that TiVo offered to advertisers included shipping TiVo's hardware with pre-loaded advertisements that viewers would watch while the unit was setting itself up during installation. Another idea was to have the networks (or TiVo directly) air a number of different versions of the same commercial,⁹ and the unit's preference engine would retain only the one that best applied to the viewer.

TiVo's most inventive concept was that of **telescoping** ads. Instead of 30-second commercials, ads could be made up of a sequence of many shorter screens which users could select, based on specific categories or even on the basis of brand names, on an opt-in basis. TiVo's fast-forward and rewind features would make it easy to find the relevant part of any telescoping ad.

Opportunities for networks Networks could benefit from TiVo's ability to track how many people were scheduling a show for future recording. Network showcases would prove particularly useful in that respect. Before TiVo, if a new sitcom was advertised, the network had to wait until the day after the premiere to verify the effectiveness of its promotions. With TiVo, networks could adjust their launch strategy as they monitored the behavioral response to their campaign. Networks could also establish audience size and characteristics in advance, in order to market advertising slots more effectively.

Virtually all service features of TiVo were supposed to bring new opportunities to television networks. The season pass, for instance, guaranteed that viewers would not miss any episodes of their favorite show, increasing regular network viewership and loyalty. The thumb buttons could provide networks with aggregate feedback on their shows' degree of success. The network showcases were potentially more effective than monthly pamphlets sent in the mail, and they made it easy for viewers to commit to a show immediately, on impulse. Movie channels would not need to schedule movies at different times of day to maximize their chance to meet interested viewers. TiVo's viewing suggestions based on the preference engine would give the networks additional chances to match their shows with the most interested audiences.

Competition

When TiVo was launched in March 1999, it was alone in its category. However, over time, competition developed. A device called ReplayTV emerged as a strong competitor. And in fall 2000, software industry leader Microsoft announced that UltimateTV was to be launched.

⁹ For instance, there could be three different versions of the same car brand promoted at the same time.

Replay Networks

The Replay Networks company was created in August 1997 by a *Star Trek* fan who was seeking a way to record *Star Trek* episodes automatically, whenever they would air. The resulting device, named ReplayTV, started shipping in April 1999. Because Replay Networks was manufacturing its own hardware, initial distribution was very limited. National distribution started in April 2000, after a contract was signed with Panasonic to build and market the units.

ReplayTV was also a black box, similar to the TiVo units manufactured by Philips and Sony. The hard drive was capable of recording for the same amount of time, with comparable quality settings. ReplayTV shared many features with TiVo such as pause live TV, search tools, and the ability to record programs through an electronic program guide.

ReplayTV's remote control had no thumb buttons like TiVo's. But it did include a distinctive button marked "Quickskip." Quickskip was able to time-shift the recorded program by 30 seconds instantaneously, which was exactly the length of a typical commercial.

When ReplayTV was launched nationally in May 2000, it was touted as a digital VCR. The price of the unit was \$200 higher than TiVo's unit, but the service was included in the price, without requiring an additional fee. For the salesperson in the electronics store, this guaranteed a higher commission. Replay's marketing efforts largely concentrated on newspaper advertising and on educating salespeople, providing them with standardized key catchphrases such as "You can skip commercials with the 30-second Quickskip button," "You don't need to pay a monthly fee for service," etc. ReplayTV also produced a set of television commercials focused on the pause feature. For instance, in one of them, a viewer paused a boxing match to get more pizza, and the boxers were shown standing around as if waiting for the viewer to allow them to resume.

Microsoft's UltimateTV

In March 2000, Microsoft announced that it would augment the services of its one-million subscriber WebTV subsidiary with a digital video recording device called UltimateTV. WebTV's existing set-top boxes allowed TV viewers to send e-mail and surf the Internet on their TV screen. The UltimateTV box, made by Thomson as well as by Sony, would furthermore be bundled with satellite television thanks to leading provider DirecTV. This was meant to provide consumers with a unique combination of access to electronic mail, Internet surfing, interactive television, and personal video recording.

Launch was expected in fall 2000, in time for Christmas. Microsoft claimed to be offering more technologically advanced features, including watching or recording two shows simultaneously, recording pay-per-view movies, 30-second skip, and fast-forwarding at up to 300 times the normal speed. WebTV's personal television service would be subscription-based, and priced around \$10 per month, like TiVo's. The price of the UltimateTV box, bundled with DirecTV or sold separately, had not yet been announced. Microsoft's product announcements and marketing communications emphasized UltimateTV's technological advances.

Other Competitors

Since its creation, the personal television category had ignited the imagination of several entrepreneurs. For instance, Jovio, a start-up from Pittsburgh, Pennsylvania, had announced its intention to launch a free service that would be similar to TiVo's, but additional advertising inserts would be appended onto the recorded programs. Individual profiles and behavioral data about viewing patterns would be captured and sold to potential marketers who would advertise on Jovio.

Seagate Technology and Thomson Multimedia had announced a joint venture to put their own personal television hardware inside the television set.

Conventional VHS video recorders, despite their shortcomings and the competition of digital video disks (DVD) players, continued to sell well, at a rate of 60 million units per year, sometimes at prices below \$100.

Making it Happen

Lessons after Christmas 1999

In addition to the accelerating pace of change in the competitive environment, the lessons learned from the disappointing sales results of Christmas 1999 were an important trigger for TiVo's new communications campaign.

1. Retail execution Marketing TiVo at the point of purchase appeared to be more challenging than expected. In contrast to most other consumer electronics goods distributed under the Philips and Sony brand name, TiVo often appeared to require extensive explanations and an in-store demonstration. The manufacturers' reps could not give TiVo the amount of support it required. It was hard to convey a sense of urgency to TiVo's distribution partners. Moreover, a 50% salesperson turnover rate in consumer electronics stores made training efforts ineffective. There was a lot of variance in the way TiVo was sold. "I pitch it as a super VCR," said a salesman in a high-end electronics store in the Boston area, explaining:

There is no tape to buy, no tape to put in before you record, no tape to store in the family room. That's because there are 30 hours available on the hard drive. Moreover, because it is recorded digitally on a hard drive, the recording quality is superior to a VCR, and there is no degradation over time. Our demo unit is not hooked to TiVo, but you need the subscription, and I always recommend buyers to go for the \$200 lifetime subscription. These things are here to stay. When buyers are in doubt, I tell them to take it home and return it if they don't like it. Very few people return these boxes after trying them.

A salesman from another store said:

I just acquired a TiVo, so for me the sale is easy. First, I show the pause feature. Many people ask me about skipping commercials, so I also show the incredible speed of fast-forwarding. And as you won't be able to stop the fast forwarding on a dime, TiVo automatically rewinds about 10 seconds once you stop it. This is very cool because it works out just right. Programming the recordings is very easy. And the thumbs up and thumbs down really gets you programming that you didn't know about. I heard that Microsoft is going to bundle TiVo with WebTV,¹⁰ but you can safely buy TiVo now, because that's not going to happen before spring 2001 and getting TiVo that way will require a satellite dish.

2. Pricing "We came to the conclusion that the price was too high," said Keast:

A \$1,000 ticket meant that TiVo was more expensive than most TV sets, and more than twice the price of a good satellite system. With this service being so new there was no reference point. If you take DVD, it always had the VHS tape as a reference point. It had much better

¹⁰ Sic.

quality and sound. And the way it fits in your life was pretty well understood right from the start. Here we start with a completely blank sheet of paper. We thought TiVo would be worth \$1,000 for early adopters, but it simply wasn't clear what the reference point would be to get this price accepted.

3. Awareness Despite public relations efforts, the degree of awareness, both for the brand and for the category, remained negligible. The marketing team realized that TiVo needed a demo; it was difficult to explain and difficult to understand. Co-branding with Philips and Sony certainly brought an image of reliability, but it didn't seem to contribute to awareness. Moreover, the company realized that there was "a tremendous amount of inertia: no matter how great TiVo is, improving television viewing is not on the top of anybody's priority list, unless they really experience the benefits," explained Keast.

Cookbook Won't Work

When marketing new products, conventional marketing wisdom suggested that instead of a mass-market approach, marketers should focus their resources on targeting early adopters. In theory, early adopters could be expected to share some common traits that would make them, as a segment, directly addressable in an economical fashion. They also tended to be opinion leaders, and initially targeting them (if that translated into sales) would kick off a viral effect.

TiVo, as a small company, did not want to waste marketing money on unlikely prospects. Thus, much of the pre-Christmas 1999 campaign was conceived with the early adopter theory in mind.

Of all the features of TiVo, the one that possessed the single most important "wow!" factor was the ability to pause live TV. Just as earthquakes grab one's senses by shaking things up that were supposed to stay fixed, TiVo stunned first-time users by stopping something that had always been assumed to be streaming. Those who were price-insensitive enough to consider spending \$1,000 for the unit on the basis of that "wow!" factor were rare. Indeed, focus-group research showed that even early adopters required at least seven points of exposure for an awareness of TiVo to mature into an actual purchase. Thus it was not clear that there existed a segment of consumers who would be particularly easy to target first. Moreover, early adopters did not fulfill their role as effective advertisers of TiVo. A TiVo team asked early adopters to invite friends over for an evening to demonstrate TiVo, only to learn what those early owners told their friends was extremely fragmented. Some described TiVo as a super VCR, others would focus exclusively on the season pass, and others emphasized live TV features. The only consistent element was that TiVo was liberating their daily life.

Now Keast wondered, how should TiVo now segment the market, and which segment would it be most efficient to target most aggressively at this stage? Additionally, what positioning statement could they use as a guide for action, to bring TiVo ahead of the competition?

Elements of a Plan

Despite the ongoing uncertainty about the best way to approach the market, the marketing team at TiVo had started to craft the elements of a marketing plan. Even though each element had its own rationale and sounded promising, the team had to ensure that the elements were strategically consistent. It was agreed that quarterly marketing and sales expenses could be tripled if the marketing plan was deemed capable of capturing a leading market share in the upcoming fall and Christmas selling season, while building brand equity for the long run.

Product DirecTV had approached TiVo, apparently intrigued by TiVo's dedication to a congenial concept of personal television. There was a possibility that DirecTV would become an equity partner. If TiVo was bundled with the DirecTV receiver, consumers would probably face a choice between a DirecTV-Microsoft and a DirecTV-TiVo bundle at some point in the near future. Internet provider and entertainment company AOL was also entertaining discussions with TiVo, but the product implications of this partnership were not yet clear.

Price The TiVo team was determined to let the price of the 30-hour recorder drop from \$999 to \$399. There was a question about whether production of the 14-hour recorder should be interrupted, in which case they could give away the units in inventory for free.

Communications The prevalent idea was to use different media for different purposes. Keast conveyed the thoughts of the marketing team:

TV ads would introduce the notion that you can have your own personal TV network and you don't need to rely on the networks in terms of deciding what you watch and when you watch it. And then in the print ads, where you have a little more space to get into more details, there may be some features and benefits. These get described, but in a different way than technology. We don't want to look like a computer company. Then there is the website, Tivo.com, which offers a deeper educational experience in terms of what the service is about, how does it work, what do you need to get, where can you get it, what it is going to cost—all those kinds of things. Television advertising would be used to raise awareness, interest, curiosity, and to promote the TiVo brand identity.

The "Network Executive" ad was only one of a group of four targeted television commercials under consideration. The other three commercials were described as follows:

"Sports Education"—A sports-obsessed father has a "class" for his son and daughter. He effortlessly skips from sporting event to sporting event, showing his son "icing," the "7-10 split," and the "slamma-jamma." For his daughter, he highlights "the lob" and the "the triple-axle." His son starts imitating the twirling of the triple-axle, and the father says "No, Bobby stop that! Jenny, triple-axle . . . Bobby! Stop that!"

"Cop"—A bumbling police officer voices over scenes of him dropping his gun, getting in a car accident. He claims that "I'm in a high-stress occupation; when I get home, television is my salvation. TiVo lets me create my own TV network." When asked what he watches, he replies, "Mostly cop shows."

"Kids"—"Ahh . . . the joys of parenting. . . ." Scenes of children knocking over vases, destroying houseplants, throwing tantrums. "Sometimes kids and parents need a break. Why not create a TV network just for the kids?" Then the camera shows kids watching TV; now they are calm, passive, and happy. "TiVo. TV your way."

Two print ads were also under review. (See **Exhibit 5** for an example.)

A CBS executive who had heard of the "Network Executive" commercial warned TiVo that his network would certainly refuse to show the ad.

Both ReplayTV and Microsoft were taking another path, emphasizing the amazing features of the digital video recorder. Did that mean that TiVo was trapped in the wrong lane? How would competitors adjust to TiVo's marketing plan?

TiVo

501-038

Exhibit 1 The TiVo Unit and Remote Control



Source: Company documents.

Exhibit 2 Recording Quality and Recorder Capacity

	Best	High	Medium	Basic
"14-Hour" box	4 hours	~7 hours	~10 hours	14 hours
"30-Hour" box	9 hours	14.5 hours	19 hours	30 hours

Source: Company documents.

Exhibit 3 TiVo Results*(Quarterly data, in thousands)*

	Sep-99	Dec-98	Mar-99	Jun-99	Sep-99	Dec-99	Mar-00	Jun-00 ^a
Subscribers (approximate)	0.0	0.0	0.0	1.0	2.5	18.0	32.0	48.0
Revenues	--	--	--	\$8	\$33	\$182	\$424	\$719
Costs and expenses:								
Cost of services	--	--	(689)	(636)	(749)	(1,993)	(4,168)	(4,988)
Research and development	(1,659)	(2,146)	(1,596)	(1,859)	(2,327)	(3,945)	(4,678)	(5,679)
Sales and marketing	(354)	(567)	(2,168)	(1,847)	(5,323)	(15,164)	(9,180)	(11,384)
Sales and marketing-related parties	--	--	--	(382)	(4,946)	(9,844)	(4,547)	(5,349)
General and administrative	(706)	(1,337)	(1,125)	(1,057)	(1,757)	(3,088)	(2,691)	(3,631)
Stock-based compensation	--	--	--	(187)	(501)	(842)	(969)	(919)
Other operating expense, net	--	--	12	(201)	(4,808)	(2,213)	--	--
Loss from operations	(2,719)	(4,050)	(5,566)	(6,161)	(20,378)	(36,907)	(25,809)	(31,231)
Interest income	46	55	53	224	614	2,022	1,824	1,907
Interest expense and other	(7)	--	(2)	(176)	(281)	(7)	(70)	(112)
Net loss	(\$2,680)	(\$3,995)	(\$5,515)	(\$6,113)	(\$20,045)	(\$34,892)	(\$24,055)	(\$29,436)

Source: Company documents.

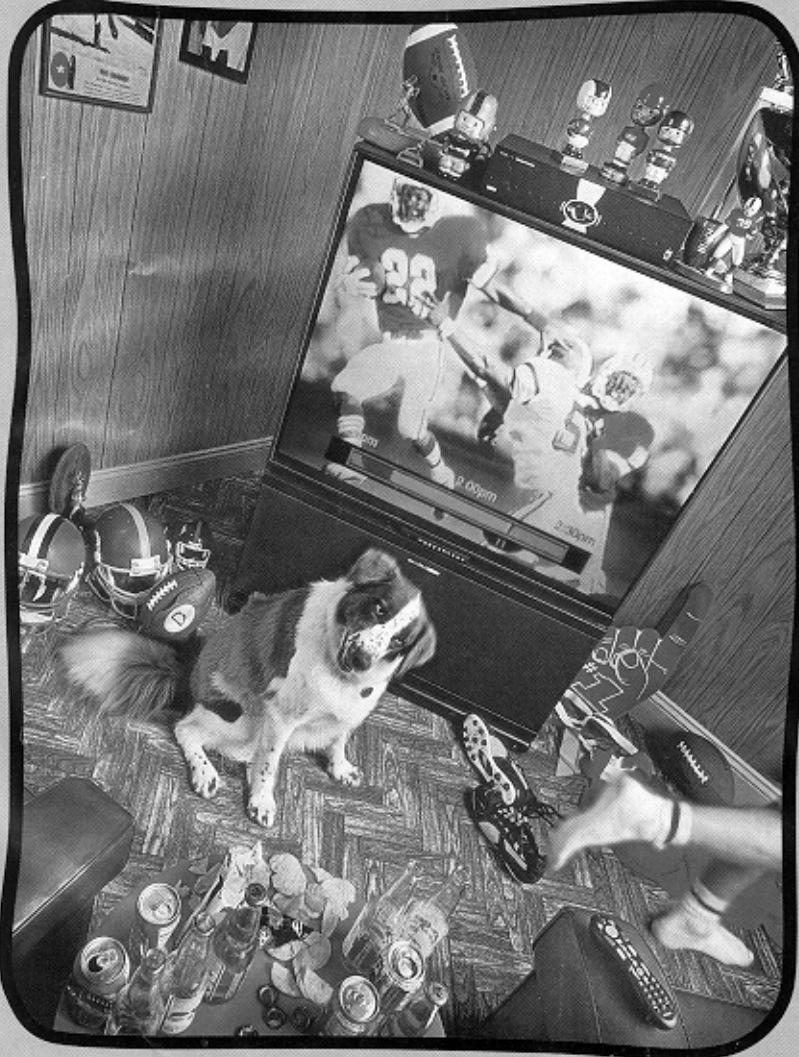

^aProjected data.

TiVo


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Exhibit 4 Early Print Ad

Introducing TiVo.
Now you can pause live TV and never miss a minute of the action again.

Pause live TV. Or rewind it. Even slo-mo it. Record your favorite shows without videotape. Automatically. Every time they're on. Teach it what kind of shows you like and it will search out and suggest others. It's TiVo. The first Personal Television Service. And it's available on the Philips Personal TV Receiver. It's about to change the way you'll watch TV. Forever.




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BEST BUY **CIRCUIT CITY** **SEARS** VISIT THESE AND OTHER ELECTRONICS RETAILERS FOR A DEMO TODAY.

Quantum **quick view**


Source: Company documents.

Exhibit 5 Proposed Print Ad



TiVo helped cure my road rage.

I'm embarrassed to say...I was a mess. Every Thursday I'd leave work early so I could watch my favorite law show. I'd be sailing along, humming the theme song, which I absolutely love, when all of a sudden, gridlock traffic. And...I'd lose it. I, and this is hard to admit as a PTA member, wanted to throw my SUV into low and crush every living thing in front of me. Then my husband got me TiVo, which lets me watch the shows I want whenever I want to watch them. I especially cherish Season Pass,[™] which automatically retrieves my favorite show week in and week out for the entire season. I'm fine now. And you'll be too if you go to tivo.com or your local electronics store.



TiVo, TV your way.[™]

TiVo is available on recorders from Philips or SONY at Best Buy and Circuit City. ©2000 TiVo, Inc.

Source: Company documents.