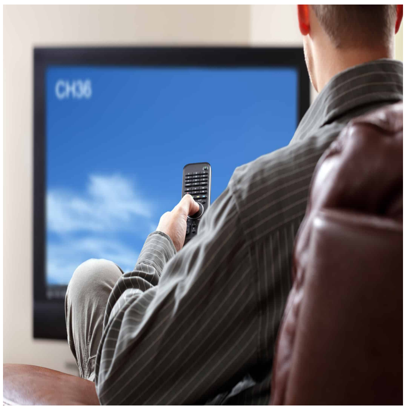

TiVo's New Monetization Scheme

Description

TiVo (NASDAQ: TIVO) built its brand on a product that, at the time of its introduction, was revolutionary: the digital video recorder, better known as the DVR. It allowed users to record shows from cable, which they could then watch later at their leisure.

A crucial part of the attraction: DVRs allowed consumers to skip the commercials. Fast-forwarding through ads on recorded shows became the norm for DVR users, which drove big trends in advertising and TV. The "sports bubble" came into being largely because fans like to watch sports live — making them theoretically "DVR proof" and therefore more valuable to advertisers. Now, TiVo is doing something seemingly contradictory: It's embracing ads.

TiVo's ad rollout

Some TiVo customers who sat down to watch recorded content this September were greeted by ads that played before their program. The apparent trial program, which was first reported by Zatz Not Funny, appears to have gone well: TiVo has since confirmed that it will roll out ads to all of its customers within 90 days.

The ads will be skippable, which may soften the backlash from customers. But there is certainly potential for angry consumers, especially since TiVo charges a subscription fee. Customers are already complaining online.

TiVo, legacy pay TV, and platforms

Rolling out ads on its platform will give TiVo a new source of income, but at the cost of annoying some customers. It seems to think it will work, but the move could certainly disrupt the company's relationship with its own subscriber base.

Whether or not this works out, one thing is for sure: TiVo could use a win. The company hasn't enjoyed the same growth as tech investors have seen elsewhere in the digital/streaming video space. Cable companies and others have created their own DVR products, and customers have grown used to getting their DVR included with, or at least offered alongside, their cable or satellite subscription.

And legacy pay TV as a whole is a shrinking market, meaning TiVo's main business model relies on capturing a piece of a pie that grows ever smaller. It does offer a DVR product designed to work with over-the-air (OTA) antennas, but that market — which is also populated by companies like Tablo and Channel Master — doesn't rival the cable one. Given the lack of channels, it may never compare (a DVR is only as useful as the selection of content it can record); and on top of that, **Amazon.com** is entering the OTA DVR space.

TiVo announced earlier this month that it will split into two businesses: one specializing in patents and another focused on products. The company is also rolling out a new recommendation and content-discovery feature powered by artificial intelligence, and it is launching a device that it says will be its cheapest yet.

Perhaps most importantly, it's starting a service called TiVo Plus. Designed to work as a hub similar to the **Apple** (NASDAQ: AAPL) TV app, this is a service that TiVo hopes will grow its platform in the direction of streaming platforms like **Roku** (NASDAQ: ROKU). If TiVo can become something more akin to a Roku-type platform, its advertising won't look quite as contradictory to its core offerings. But the other guys have the lead: Roku's more than 30 million users eclipse the 22 million who use what TiVo calls "TiVo's advanced television experiences."

TiVo's uncertain future

There's no bright future in a business strictly focused on DVRs, and TiVo seems to recognize this. But entering the platform wars now may be too little, too late: The competition between streaming "hubs," including both device/operating systems like Roku and in-app hubs like the Apple TV app, is already robust. TiVo may be able to leverage its existing user base, but its current monetization plan has the potential to rile up that base. It appears to be on shaky ground with this move.

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