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Commentary: TiVo's survival strategy

DAVID BROWN, anchor: I remember a friend showing me her new TiVo system about a year or so ago. It was magic. There we were on a whatever afternoon watching three straight episodes of "Curb Your Enthusiasm." No commercials, no tapes, no hassles. You can stop a show, grab a soda from the fridge, pick up right where you left off. Sure looked like the next big thing. Today TiVo announced it's slashing prices for its digital TV recorders. The company also announced a new feature to connect TiVo recorders to home computers. But the picture's not pretty in TiVo land. Yesterday Direct TV dumped its stake in the company. In this business of connecting to computers and cutting prices, smells of desperation. So says commentator and innovation expert Ian Ayres.

IAN AYRES:

Direct TV's announcement is just another nail in TiVo's coffin. For one thing, Direct TV supplied TiVo with 75 percent of its new subscribers, and other companies are eager to get their own piece of the digital recorder market. If you're a TiVo shareholder, you've got to be hoping that this is TiVo's Google moment. Like Google, you want TiVo to innovate its way to the top and attract a special brand name recognition and cache. Dream on. While the word Google has now become a verb, a bunch of my colleagues at Yale law school still don't even know what TiVo is. Industry analysts predict that by 2007, 20 percent of households will have a digital video recorder. But TiVo's customer base is still tiny. TiVo did the right thing today by cutting the price of its service. It desperately needs to build market share and market penetration. But today's effort is an example of just too little too late. Google, like iPod, has grabbed a powerful first mover position by creating products with elegant simplicity. But TiVo is still not truly a plug and play system. In degree of difficulty, it's more like setting up a DSL line than plugging in a DVD player. Digital recorders are a wonderful commodity whose price will continue to fall. And the fragmentation of the industry may benefit consumers in another way, too. The broadcast industry had cajoled TiVo into making it harder for viewers to bypass commercials. But it will be harder to reach agreement with the dozens of recorder manufacturers that will soon compete for this market. TiVo stock dropped 15 percent yesterday, and I'm betting that's just the beginning. In New Haven, this is Ian Ayres for MARKETPLACE.

BROWN: Ian teaches law and economics at Yale and is co-author of the book "Why Not?"