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Where next for PVRs?

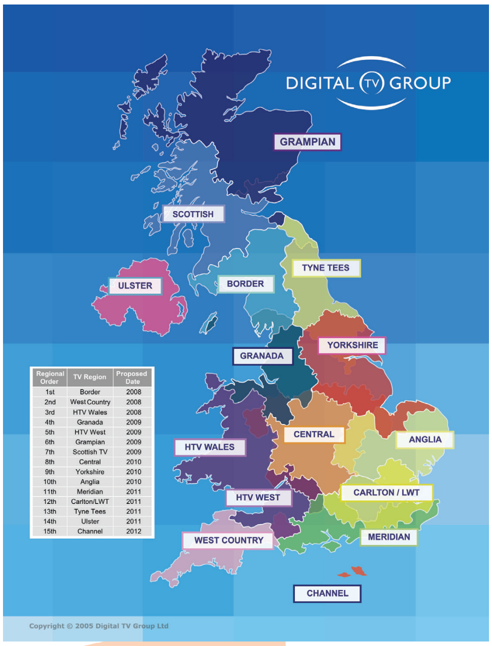
Are you ready for Carlisle?

In February 2005, Ofcom published a proposed timetable for digital switchover. As early as 2008, Carlisle will be the first city to have its analogue TV (five-channels through an aerial) switched off so that all TV becomes digital.

Of course there's a lot of water to flow under a conversion bridge between now and 2012 when the last area – the Channel Islands - gets converted.

At the last count there were 51m TV sets in the UK's 25m TV households. Whilst nearly 70% of UK households have some multi-channel access, this is by no means to every set. Only 6% of Sky households have multi-room subscriptions despite over 60% of those same households having at least two TV sets.

A reasonable estimate is that there are still some 20m sets in need of a digital receiver to become digitally enabled – equivalent to over three times the total Freeview universe at the end of 2004.



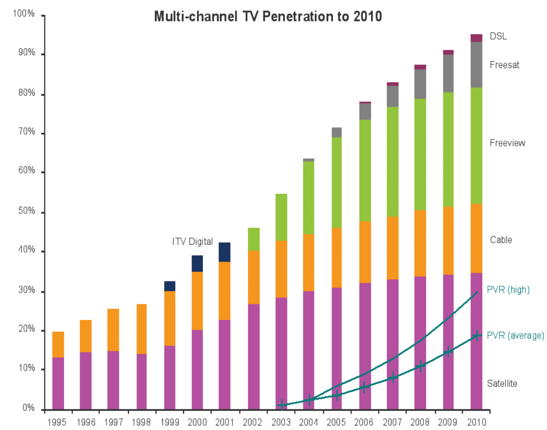
Regional Order	TV Region	Proposed Date
1st	Border	2008
2nd	West Country	2008
3rd	HTV Wales	2008
4th	Granada	2009
5th	HTV West	2009
6th	Grampian	2009
7th	Scottish TV	2009
8th	Central	2010
9th	Yorkshire	2010
10th	Anglia	2010
11th	Meridian	2011
12th	Carlton/LWT	2011
13th	Tyne Tees	2011
14th	Ulster	2011
15th	Channel	2012

Digital switchover will catalyse PVR sales

Not only does every changed set move us closer to multi-channel viewing as the only type of viewing experience, every acquired set-top box presents an opportunity for a household to acquire a *Personal Video Recorder* or *PVR*.

Indeed as hardware costs have already tumbled - a basic Freeview box is now less than £40 - it is reasonable to assume that PVR functionality will increasingly become the norm rather than exception in set-top box equipment. Indeed when Sky launches High Definition TV (HDTV) in 2006, PVR technology will be part of the package.

Conservative forecasts put PVR penetration at 20% by 2010 – the cusp of a majority market. Some forecasts suggest PVR penetration at more like 30% in 2010. Beyond that point the natural replacement cycle for video recorders will be the main driver: Dixons, for example, have already stopped selling VHS recorders.



Source: Mindshare ATG/MEC

It is clear that PVR penetration is a case of "when?" rather than "if"
What is less clear is "how" the majority of viewers will respond.

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PVRs: End of the beginning or the beginning of the end?

As in so many areas, Sky is leading the charge with their Sky+ offer. Sky+ stands apart from other PVRs because it is completely linked – via the EPG (electronic programme guide) – into the viewing experience. PVRs for Freeview come in a variety of shapes and specifications.

By definition, most of what has been written to date about the effect of PVRs has been based on the experience and behaviours of so-called early adopters. Sky+ early adopters have been famously enthusiastic about the innovation. Various reports have suggested that:

- Total viewing levels increase – by as much as 20%
- More channels are viewed
- Churn (cancelled subscriptions) all but disappear
- TV becomes exciting again
- Sky+ itself becomes talked about – with some 40% of sales reported to come from personal recommendation
- Advertising gets routinely excised

Sky+ "It'd be losing a leg if it went"

MediaLab's project: PVRs and the early majority

MEC MediaLab wanted to get beyond these early adopter indications to find out whether these observed trends would be replicated as PVRs move inexorably towards a mass market.

MediaLab commissioned Basis Research to construct a qualitative panel of 'early majority' households: households who hadn't thought about getting a PVR but didn't completely dismiss the notion either. They covered a spectrum of viewing types: five-channel terrestrial, Freeview, established Sky households and more recent Sky converts.

A sample of 20 households had PVR equipment placed with them – effectively upgrading their TV experience with either Sky+ (in Sky households) or with *Which?* magazine's preferred Digifusion PVR for Freeview and previously five-channel only households.

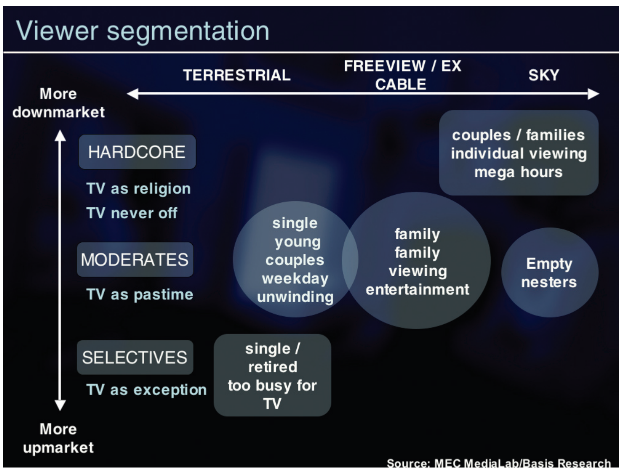
These households were interviewed after 2-3 weeks with the equipment and then again after a further 6 weeks in order to get an understanding of initial and 'settle-down' behaviour.

Finding 1: Not all viewers are the same

When looked at through the prism of PVR acquisition it is clear that households differ – not only in their viewing behaviour but in their attitudes towards TV.

Three types of viewers emerged: **Hardcore** viewers, for whom the TV is central to household life and for whom PVR acquisition was a godsend; **Moderate** households, whose TV behaviour changed with PVR acquisition but to a lesser degree than the hardcore; and **Selective**, who are light TV viewers whose viewing behaviour changed little or not at all.

Hardcores were completely in love with their TV – these were all Sky Digital users and immersed in the multi-channel experience. The Moderates and Selectives were ambivalent about TV and less familiar with multi-channel as they were more likely to be terrestrial or Freeview users.



Source: MEC Medialab / Basis Research

Finding 2: Three steps to PVR heaven

Once acquired by a household, the speed and depth of PVR function adoption are driven by three factors, each of which relates in some way to the Selective, Moderate and Hardcore segmentation of TV household types.

1. **PVR awareness.** The greater the understanding the greater the impetus: Sky's seamless and apparently ceaseless marketing of Sky+ as an extension of the existing service gives Sky households a much more informed start-point. In Freeview and five-channel terrestrial households there is a lack of understanding both of what the offer is and where Freeview ends and PVRs start.
2. **Interface experience.** Again Sky has a head start as the Sky+ handset, functionality and on-screen interface are natural extensions of a (familiar) Sky experience. By comparison the Freeview model we tested was less intuitive and less integrated into normal viewing – presenting a relative barrier.
3. **PVR champion.** Someone in the household needs to lead the way, although there are three different types of champion:

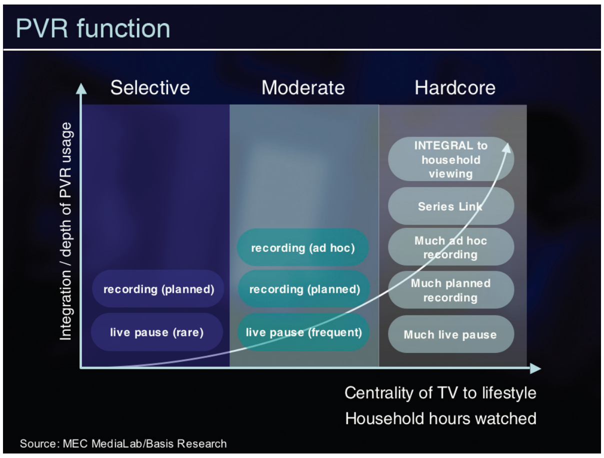
    - **Technophiles** – those impressed by gadgets with an inbuilt desire to use a new toy – almost for the sake of it.
    - **TV obsessives** – clearly centred within hardcore households, motivated to enhance their viewing experience
    - **Household managers** – in particular mums, who found PVRs very effective in settling sibling disputes over remote control ownership – and also found new opportunities for viewing their own programmes away from or despite domestic interruption.

In the absence of any such champion – such as in pre-family or empty-nest Selective households, PVR adoption was both much slower and less deep.

So in Selective households, the PVR eventually replaced the VHS with a little more recording than before but not much else.

Moderate households were recording more both on a planned and ad-hoc basis as well as making frequent use of the live pause function.

Hardcore households were going the whole nine yards, with TV viewing now planned around the PVR and more viewing recorded than watched live.



Source: MEC MediaLab/Basis Research

The change in recording behaviour – driven particularly by the relative ease – is responsible for driving increased channel repertoires, with viewers across all household types recording more on a speculative basis. Indeed, in some households this extended to a 'contingency TV' mode in which an 'OK' live programme was set to record whilst the viewers surfed around to see if there was 'anything better' on – knowing that they could return to where they left off if there wasn't.

New behaviours include – for Hardcore viewers especially – recording for 'Pig-Out' sessions of, for example, three episodes of Phoenix Nights saved for a single sitting.

Mums found the PVR gave them access to their TV away from or despite domestic interruption - as well as providing an easy solution to sibling arguments over the remote control.

Finding 3: Ad break 'chicken' and game-show bluff

All of the sample households fast-forwarded ads during recorded programming. In general, our more selective (Freeview) viewers tended to be less motivated to skip ads – ambivalent as much about what to watch as what not to watch. Hardcore households were using PVRs to cram the most programming as possible into finite time availability – and so were most motivated to avoid ad breaks.

(As a consequence, it is possible that in time we will see heavier viewers' ad viewing decline faster than light viewers, so that advertising schedules might become easier to balance between heavier and lighter viewers.)

> *If watching a film on Channel 4... "you wait for the Stella Artois bit"*

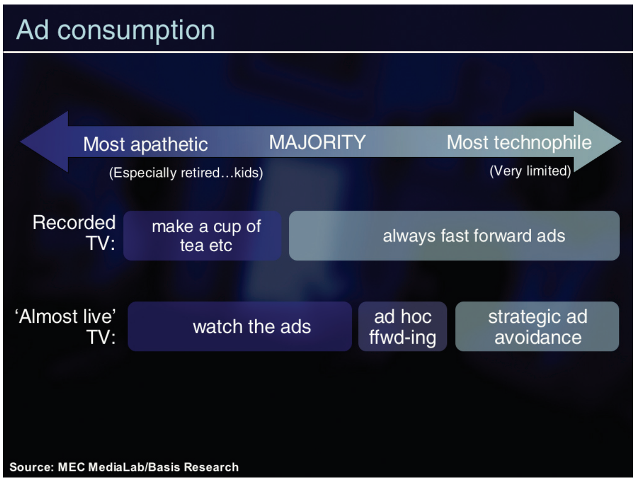
At the extremes new behaviours are emerging – such as where ad break skipping is a competitive sport within households: who can skip the most of the break at 30-times speed but without over-running the fast-forward into the next part of the programme. Similarly, game-shows such as 'Who wants to be a millionaire?' offer extra enjoyment if paused to allow family members to answer before the contestant.

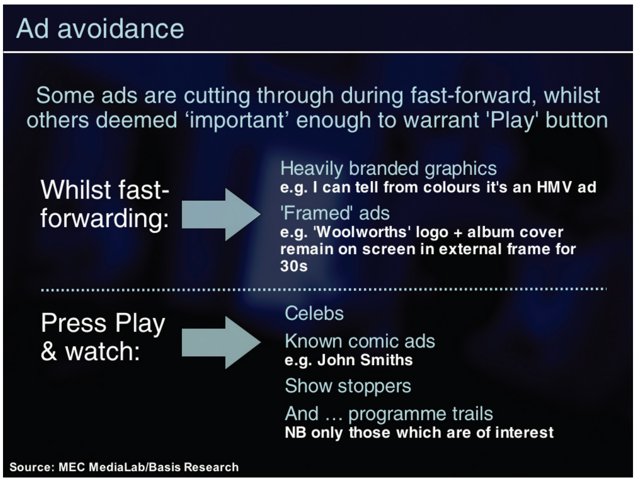
Watching 'almost live' (i.e. after a temporary pause) is a slightly disorientating space for people – a sort of TV hinterland. In particular viewers tend to continue to watch ad breaks 'as live' – at least until a 'bad ad' reminds them of the opportunity to skip through and catch up.

Almost no-one is deliberately sabotaging ad breaks by delaying watching a programme live in order to catch up with 'real time' through surgical removal of the ad breaks. Even where the minority are doing this it is not motivated negatively – rather it is from the desire to 'squeeze 90 minutes of soaps into 65 minutes'

Navigation through the ad break is made easy for viewers by the prevalence of programme trailers and sponsorship idents. Sponsorship credits provide a natural reason to stop whilst programme trailers (typically after the last ad in break but before the sponsor credit) provide a genuine viewer service – especially as the link from trailer to setting the PVR to record the programme is now relatively trivial.

It is still possible for ads to cut through, however, whilst some merit sufficient 'importance' to warrant the 'Play' button. The same applies to programme trails where a particular actor, for example, would prompt full viewing of the trail. In both cases this argues for greater use of 'press red' interactivity to make the most of every opportunity with viewers who have effectively opted-in to a message.





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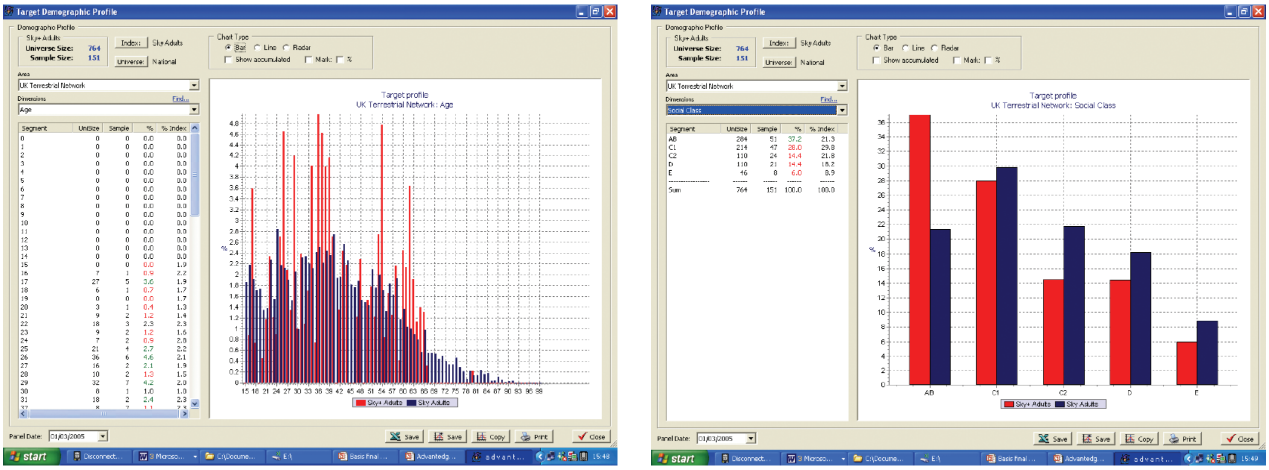
PVRs and BARB: What will the metrics give us?

BARB monitors a wide variety of household measures beyond basic TV viewing by channel. As of 1st March 2005 there were 78 BARB households with PVRs – almost exclusively Sky+. Inevitably this will grow, and whilst the 175 adult panel members don't make for a robust sample size just yet it is useful to know what kind of information BARB will be able to deliver over time.

BARB does not currently measure PVR playback or almost live viewing accurately. BARB is looking to employ new technology which will enable them to start reporting PVR playback in the latter part of 2005. Alongside the live and consolidated ratings a new third level is to be introduced. 'Viewing on same day as live' (VOSDAL) data will be released twenty four hours after live data. This will include live viewing plus any playback viewing (video or PVR) that occurred on the same day as the programme was broadcast.

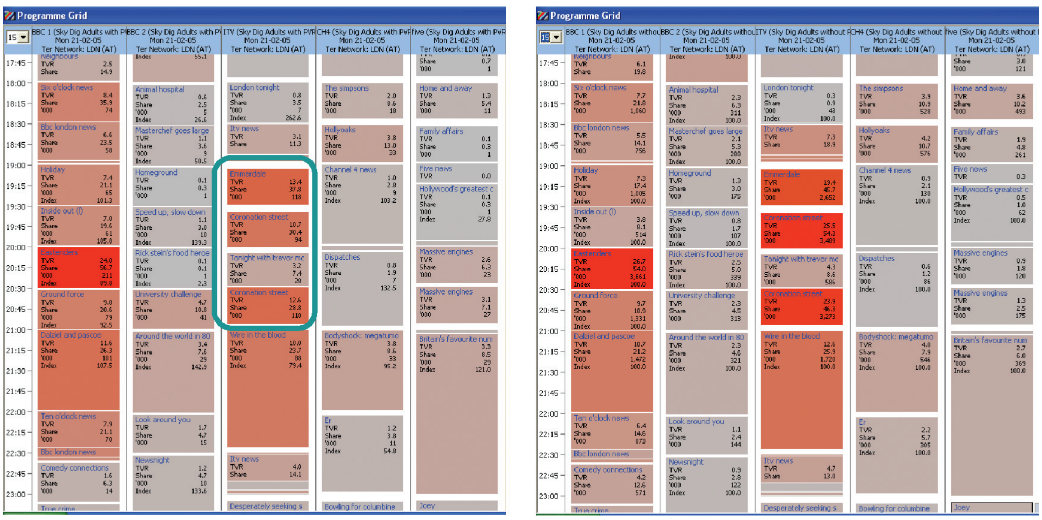
In the meantime, our proprietary BARB analysis system, *Advantedge,* allows us to characterise PVR households on a variety of dimensions.



Age (left) and social grade (right) profiles of adults in Sky+ homes shown against all Sky homes. Source: BARB / Advantedge

The Sky+ audience has a different age profile to all Sky households – in particular not extending beyond 65 and underrepresented amongst under 20s. Social grade appears more ABC1 than C2DE. Similar analysis shows there to be more TV sets in these households and more hours spent out of the home at work.

Whereas we can't yet get to paused/recorded viewing we can start to understand how live viewing is affected. The two grids below – colour coded by audience size and showing Sky+ viewers (left) and all Sky viewers (right) - show how Eastenders holds up in terms of audience but that Coronation Street and Emmerdale have slipped. Presumably this slippage is onto the hard disk and includes the ads but with no guarantee of playback.



Live viewing by programme in Sky+ (left) and all Sky (right) homes. Source: BARB / Advantedge

PVRs – The advertiser's response

Six candidate strategies emerge in response to these findings on PVRs. Not all of them are viable, and individual advertisers' circumstances will suggest different priorities.

1. **Ignore.** The major justification for a 'head in the sand' approach would be that the early adopter behaviour is just that – and won't extend to the majority. However this research confirms our view – PVR technology is intuitive, requires no disproportionate motivation or skill, and whereas not everyone will adopt all functions, a broad majority will routinely avoid advertising.

2. **Augment.** If there's a marginal decline in TV advertising availability then a sensible strategy would be to diversify a media portfolio to include other channels. PVRs present another reason to do this – although in practice this only continues a well established trend. TV solus strategies are now in a minority.

3. **Engage.** If there's less audience availability, we should make the most of the availability that remains. In particular there is an issue for 'low engagement' categories such as finance and a clarion call for these advertisers to look at developing higher-engagement ads that viewers will accept as entertainment rather than skip as intrusion. The natural focus for this is with the creative expression, yet there are a number of media implementation aspects: we can expect high value live programming – least likely to be 'PVR-ed' – to become more valuable.

4. **Enhance.** The same technological revolution behind PVRs also allows us to take the viewer out of the linear broadcast stream via 'press red' interactivity. Interestingly the advent of PVRs allows viewers to do this with impunity as they can follow this diversion and always return to their programme at the point they left it. There are a range of applications here, including response gathering, sampling, longer form information or entertainment and promotional mechanisms.

These four strategies are a response to the decline in advertising volume as viewers have ever more control over what they will spend their time on. The last two relate to the primary motivation for viewing: programmes.

5. **Associate.** Viewers understand the grammar of a break: title – sponsor credit – ads – trailer – sponsor credit – title – programme. Increasingly the sponsor credits provide the navigation by which viewers start and stop any ad break zipping. This helps protect the audience delivery of programme sponsorship. But the real potency of sponsorship lies in the ability to link the values of a consumer brand with the values of the programme brand and the ability to promote between the two - adding value rather than simple discounting. Some forecasters argue that sponsorship costs – currently at a discount when benchmarked against traditional advertising – will increase to be at a relative premium. Whether or not this happens, sponsorship's strategic importance can only grow.

6. **Embed.** The ultimate placement, of course, is inside the programming. This is not only about ad-funded programming and product placement – always likely to be small scale even though Ofcom are starting to consider relaxing the regulation in this area – but also about how sports and entertainment rights are increasingly a mechanism for on-air branding and off-air promotion. Those able to add saliency of association with depth of involvement in a sport or event can enjoy a degree of consumer sentiment that advertising alone has always struggled to deliver.

The same revolution that's driving a PVR drop in advertising audience is also enabling a range of opportunities for deeper engagement with viewers

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