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Transforming the DVR Experience:
A Case Study in Cloud DVR

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Introduction

Digital video recorders (DVRs) have played a key role in shaping video viewing habits for decades. The digital recording industry has come a long way since 1999, where the first DVR was introduced at the Consumer Electronics Show (CES). Tens of millions of DVR units have been sold since then.

The past five years has introduced next generation DVRs, including cloud and network, both of which are supported by Innovative Systems. Network DVR builds an in-home DVR network, allowing non-DVR STBs to access DVR recordings. It's also sometimes referred to as whole-home DVR.

Cloud DVR removes the traditional physical DVR device, and moves that digital recording capability into a service provider's local network or cloud. Cloud DVR is quickly becoming the standard, as service providers and customers alike embrace its convenience, lower cost structure, and advanced technology. At the 2018 CES, industry powerhouse Cisco went so far as to say cloud DVRs are now 'table stakes' for any video service provider (VSP) who intends to compete in the marketplace¹.

Indeed, cloud DVR is on the rise. Compound annual growth for the service has been forecasted to reach 30.59% during the period 2016-2020². VSPs are paying attention. Cloud DVR benefits are numerous, including removing the need for costly set-top-box DVR devices, and removing the need to roll a truck for DVR related services.

The Evolving Video Landscape

One reason Cisco calls cloud DVR table stakes for the pay-TV industry has to do with the rapidly evolving video landscape. Consumers have so many options, including multiple pay-TV providers, new streaming services that mimic traditional pay-TV offers like Sling TV, and of course OTT options. To remain competitive, VSPs must offer a compelling package of video content and features that give consumers freedom to interact with that content on their terms.

Virtually all the new streaming TV options like Sling, PlayStation Vue, and a host of others offer cloud DVR services. The Netflix user experience has conditioned customers to expect advanced features and functionality for their video watching experience. To keep pace, VSPs must introduce their own advanced features, giving customers more flexibility and control over how and when they consume video. Cloud DVR provides these beneficial advances.

DVR service remains an important piece of the overall pay-TV puzzle. According to Nielsen, in Q1 2017, the average weekly usage for DVR service among the U.S. population was just over 3.5 hours³. According to research from Leichtman Research Group, 64% of pay-TV subscribers have a DVR as compared to 49% in 2011⁴. But that same research also points out that Netflix penetration (54%) of all U.S. homes actually exceeded DVR penetration (53%) for the first time in 2017.

¹ CES '18: Cloud DVRs Are Now Table Stakes, Announces Cisco - <http://www.streamingmedia.com/Articles/News/Online-Video-News/CES-18-Cloud-DVRs-Are-Now-Table-Stakes-Announces-Cisco-122552.aspx>

² Global Cloud DVR Market Growth of 30.59% CAGR by 2020 - <https://www.newswire.com/news/global-cloud-dvr-market-growth-of-30-59-cagr-by-2020-analysis-4971214>

³ The Nielsen Total Audience Report – Q1 2017 - <http://www.nielsen.com/content/dam/corporate/us/en/reports-downloads/2017-reports/total-audience-report-q1-2017.pdf>

⁴ LRG: Households with Netflix Now Surpass Those With DVR - <http://www.telecompetitor.com/lrg-households-with-netflix-now-surpass-those-with-dvr/>

“On-Demand and time shifting TV services like DVR, VOD and Netflix have permanently changed the way that people can watch TV,” LRG president and principal analyst Bruce Leichtman said in his report. “Today, over 50% of households have a DVR and, for the first time in the fifteen years of this study, over half of households have Netflix.”

In this ever changing video landscape, DVR is critical, and with its advanced features like allowing any TV in the home to access and interact with valuable recordings, cloud DVR helps traditional pay-TV providers remain relevant.

A Case Study in Cloud DVR

The Celect Communications Cloud DVR Story

Celect Communications of Spring Valley, Wisconsin serves about 8,000 customers throughout six communities in west central Wisconsin. Celect recently converted their IPTV middleware platform to Innovative Systems and the availability of cloud DVR was a key reason. In the summer of 2017, Celect began a ‘cap and grow’ strategy of introducing cloud DVR to their video customer base.

Customers Love It

All new DVR customers are put on the cloud DVR platform, and as legacy DVR STBs fail, they are replaced with the cloud option. According to Celect General Manager Mike Demarce, customers are embracing cloud DVR and appreciate the many differentiated features it offers.

“We can give up to 12 streams of recordings and storage capacity of up to 2 terabytes,” Demarce notes. “That’s very appealing to our customers. It’s really an upgrade.”

Cloud DVR now addresses the number one complaint Celect previously heard with their legacy DVR platform – the loss of recordings. Whether a customer moved locations or a DVR STB failed, losing recordings frustrated Celect customers. Cloud DVR now eliminates this frustration, by storing recordings in the cloud so customers never have to worry about losing them.

Customers also like that any TV with a basic STB can now act as a DVR. That gives them flexibility and is equivalent to offering whole-home DVR, but at a lower cost to Celect. “It saves us money when we don’t have to buy a standard DVR, which cost substantially more than the cheaper set-top-boxes,” says Demarce. Every TV connected with that dramatically lower cost STB is now equivalent to a DVR fed TV.

Demarce loves the fact that these added capabilities also allows Celect to match the features of key competitors, particularly from satellite based TV services. “DISH always advertises the Hopper with the 12 streams, we can do that now and we can compete with them,” says Demarce.

Reducing Costs

A critical priority for all communications carriers these days is finding ways to reduce operational costs, while also looking for ways to increase revenue and ARPU. And in this regard, cloud DVR does not disappoint. The very nature of managing services like this from the cloud affords significant operational savings.

For cloud DVR, it comes down to no longer having to buy expensive DVR STBs, and perhaps more impactful, reducing and even eliminating the need for DVR related truck rolls. Celect has already noticed a positive impact from these benefits.

“With our standard DVRs, we were constantly running into hardware failures with different models, constantly having to do truck rolls as a result,” says Demarce. “With the cloud product, we have to do less truck rolls to install or replace DVRs, which in turn saves us time and money.”

This positive impact cannot be understated. Depending on circumstances, truck rolls can cost anywhere from \$125 each to \$200 or more per instance. Legacy DVR service would bear this cost each time there was a new install or repair. Moving to cloud DVR virtually eliminates it.

Upselling Opportunity

Adding cloud DVR to a pay-TV package does create opportunities. It adds value to a linear video package, giving VSPs additional features to upsell. Traditional video packages remain an important product, especially in more rural markets where options may be limited and demographics favor it.

“We feel like the majority of our customers still want traditional video,” says Demarce. “Features like cloud DVR and others on the middleware package, the look and the feel, make our video better. It gives us an opportunity to help sell video.”

Celect has created two options with cloud DVR. The higher amount of streams (12) and the higher storage capacity (2 terabytes) allows Celect to create a standard and premium DVR service. The premium offers more streams and storage, giving Celect upselling opportunities and the ability to grow ARPU.

“When we get into the higher streams and higher storage capacity, we do have a higher price,” says Demarce.

Historically, offering standard and premium DVR options would involve offering two (or more) different DVR STBs, adding significant CAPEX to the video business model. With cloud DVR, that CAPEX is mitigated, presenting a more attractive return on investment.

“In order to upgrade a DVR customer, we don’t have to upgrade their DVR box and can do it without a truck roll,” says Demarce.

Celect does offer some promotional marketing to upsell cloud DVR, including offering a free month of service to give customers a taste. But Demarce says cloud DVR is an easy sell for customers.

“When CSRs explain the benefits of cloud DVR over the standard DVR, it sells itself,” he says. Celect provides cloud DVR to their CSRs and technicians who are able to get the service at home, so they’re used to the product and comfortable with communicating its value to customers.

Not Looking Back

Celect and Demarce are quite pleased with their move to cloud DVR and there is no looking back. Demarce believes it adds more value to his video offer, giving customers a better product, and Celect a more competitive video offering. The fact that it also saves money over the long run is a huge additional bonus.

“For us, it was well worth the initial cost, because in the long run it’s saving us money,” says Demarce. He added he would recommend other VSPs make the move to cloud DVR if they haven’t already.

Celect also appreciated the smooth implementation and cut over process. “Overall, we expected some hiccups, but we are very pleased how this went,” says Demarce. “Innovative held training for us for the CSRs and techs. That was a big help for everyone.”

Conclusion

In a rapidly evolving marketplace, video service providers are compelled to constantly evaluate their own video offer and ensure it keeps pace with competing feature-rich video services, both traditional and OTT. Cloud DVR is one addition that can help accomplish this task. It provides the types of features that customers are increasingly coming to expect.

Video service providers are faced with rising operational costs, driven primarily by rising content costs. As a result, the added benefits of reducing operational costs like truck rolls and capital expenditures on DVR STBs makes cloud DVR even more attractive. Customers will gravitate towards video offers that give them more flexibility and control over their video consumption. Offering cloud DVR helps meet these expectations, potentially reducing churn and growing ARPU as a result.