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# Case Study

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## Home Entertainment Servers ... The Next Big Thing

### **Independent System Builders and Integrators can take advantage of the burgeoning market for Home Entertainment Servers – and build a competitive edge over traditional OEMs**

Similar to the tremendous growth seen in the traditional whitebox PC market of the 1990s, the market for Home Entertainment Servers is the “next big thing” for System Builders and System Integrators wanting to capitalize on emerging trends.

### **The Market Opportunity**

Consumers are installing Home Networks at an accelerating rate and Broadband penetration now exceeds 50 million homes. These consumers have islands of Digital Media scattered across any number of devices: hundreds, maybe thousands, of digital photos; racks of music CDs and stacks of DVDs. Today’s consumers are in need of a device that leverages their broadband connection and home network to deliver all their digital entertainment where and when they want it. A **Home Entertainment Server** allows the consumer to digitally store and manage all their digital media on a device that is designed to make it easy for them to find what they want and then enjoy it where and when they want.

Home Entertainment Server sales are growing faster than the traditional PC market, presenting a highly profitable opportunity for System Builders. Worldwide sales of Media Center PC and Home Entertainment Servers in 2004 were 150,000 units. Yet, by 2008, Home Entertainment Server sales are expected to be 2.1 million units! Consumers buying Home Entertainment Servers with a terabyte of storage will be considered “common” by 2006.

### **What is a Home Entertainment Server?**

A Home Entertainment Server makes it easy for the consumer to store, manage, access and enjoy digital media throughout their home. The product is designed to fit into the home entertainment center, connect to the television and stereo receiver as well as the home network. It has the following key features:

- **Video Library** – Ability to store and playback DVDs, recorded TV programs, home videos and content that is becoming available over the Internet. Also includes the ability to archive recorded TV programs and home movies onto DVD to free up valuable disk space. All the digital media is catalogued with its related metadata including Cover Art, Program Description, Cast/Credits, Ratings, etc.
  - **Music Library** – Ability to save CDs and downloaded music into a Music Library; organize, search and create playlists within that Library; burn a customized music CD; play a single track, a personal playlist or an entire music collection. Each music track is catalogued with its related metadata including Cover Art, Artist Information, Track Title, Genre, etc.
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- **Photo Library** – Ability to store, search and organize complete digital art and photo albums for playback on the television or distribution to friends and family members via the Internet.
- **PVR with EPG (Electronic Program Guide)** – Ability to watch TV, record programs, pause live TV and easily search a dynamic EPG which lists detailed information about an ever increasing number of channels. Also supports scheduling programs to record from any Internet browser.
- **Web Portal** – Ability to surf the web from the comfort of the couch as well as get interactive information including 5 day weather forecasts, personal stock portfolios, and movie theatre listings.

Interact-TV's Telly is such a Home Entertainment Server. Telly leverages commodity PC components, some custom components, and a sophisticated digital media software platform called EOS (Entertainment Operating System) designed by Interact-TV from the ground up to store and serve entertainment media in the home.

### **System Builder Advantage**

The Home Entertainment Server is the perfect product for the System Builder. They can leverage their knowledge of building whitebox PCs to build Home Entertainment Servers that meet consumer's needs in terms of price, features and functionality. The highly customizable Home Entertainment Server offers the highest margins for System Builders, just as the whitebox PC did when it exploded onto the scene in the early 1990s.

Commodity PC components used in Telly include memory, optical drives, hard disk drives and a mainboard. For the rest, Interact-TV has developed a **System Builder Kit** that includes Telly's Linux-based EOS Media Platform (the heart of the system), a trackball IR remote control and IR receiver, a TV tuner card, and an optional wireless IR keyboard. Interact-TV will provide a variety of chassis designed to fit into the traditional entertainment center.

### **How can System Builders Succeed in the Home Entertainment Server Market?**

System Builders might be cautious about getting into new markets with concerns about barriers such as:

- Price and Profitability
- Customer Support and Warranties
- Brand

### **Breaking the Price and Profitability Barrier**

Since major OEMs are currently delivering PCs such as Media Center solutions, the Home Entertainment Server is a new product that is not available to them. The System Builders can compete with solutions that are well under \$1,000 and can expand to between \$1,000 and \$2,000, giving System Builders the ability to beat the price of branded PC Media Centers. Margins for entry-level configurations range between 20-25%. As systems are upgraded with more storage, memory, etc., margins increase to 35% and above.

### **Breaking the Customer Support and Warranties Barrier**

With new products and when competing against branded solutions from major PC OEMs, there was a concern about increased product returns which could lead to a reduction in profit margins. System Builders now receive better component warranties than the OEMs. For example, Seagate provides a 5-year warranty on hard disk drives, VIA Technologies has a three-year limited warranty on mainboards and Interact-TV offers a one year warranty on the chassis and hardware that they sell. Plus, if the System Builders use recommended suppliers, Interact-TV is often able to isolate hardware issues.

Interact-TV also provides customer support to the end consumer for all Telly software features and functions; this allows the System Builder to focus only on hardware issues.

## **Breaking the Brand Barrier**

The market for Home Entertainment Servers will follow the path that whitebox PCs took in the early 90's. While Consumer Electronics companies will have CE branded solutions, those solutions will have fixed functionality and limited expansion capabilities. Consumers will be looking for a solution that can be expanded and leverages the PC component market. This provides the consumer with competitive pricing and choice.

Just as the first wave of the Internet drove PC sales, the next wave of Internet expansion will be based on Digital Media becoming readily available and downloadable to consumers. This second Internet expansion will drive sales for Home Entertainment Servers, which provide the perfect platform for people to store, manage and enjoy their digital media. Interact-TV is working with partners in the digital media content space to help drive this demand forward.

Being one of the first System Builders to offer a Home Entertainment Server ensures access to a product that is not available from the major branded PC OEMs. Consumers are looking for a retail outlet to "try and buy" a Home Entertainment Server, which is a major value-add that the System Builder brings to the table.

## **The Telly Home Entertainment Server System Builder Kit**

Interact-TV has developed a System Builder Kit that makes it possible for the System Builder to assemble, test and deliver a complete Home Entertainment Server solution to the customer. This kit leverages the System Builders' strengths in the ability to acquire commodity components, assemble complete solutions and configure those solutions to meet their customers' demands. The kit also recommends partners whose components Interact-TV has tested and that deliver the best solution for a Home Entertainment Server.

The Telly Home Entertainment Server System Builder Kit contains the following:

- Telly software, EOS Media Platform and End User Manual  
This Linux-based platform auto-installs from a DVD onto the hard disk drive.
- A full year's subscription to Tribune Media Electronic Program Guide (EPG) TV programming data.  
Consumer will have to continue with a paid subscription after first full year of use at nominal fee. For USA and Canada markets only.
- IR Receiver and IR Remote Control
- TV Tuner Card
- Optional IR Wireless Keyboard
- Optional Chassis designed for a Media Server and a traditional entertainment center. A variety of chassis are available depending on expansion capabilities and desired form factor.
- Optional Mini-ITX Mainboard  
This can also be purchased by the System Builder directly from the manufacturer or their distributors
- Assembly Instructions and list of required system components

The System Builder provides:

- Optical Drive
- DDR Memory
- Seagate Hard Disk Drive(s)

## **Recommended Component Partners**

Interact-TV has worked with a variety of component manufacturers and has recommendations for minimum system requirements and certain manufacturers:

- Interact-TV highly recommends the Seagate Barracuda line of parallel ATA drives for hard disk storage. These drives are quiet, highly reliable and generate less heat than competitors. Also, Seagate is targeting this space providing a line of drives in 80GB, 120GB, 200GB, 250GB, 300GB, 400GB and 500GB sizes. Seagate has a 5 year warranty providing a high level of security for the end customer.
- For main boards, Interact-TV works with VIA Technologies and the Mini-ITX series of boards. They provide the correct form factor, low power consumption and performance required for digital media applications.
- There are minimum memory requirements such as 256MB for standard units and 512MB for units designed to be servers for other Telly clients.

**For more information about the System Builder Home Entertainment Server Kit and our System Builder/System Integrator Programs, please contact Interact-TV.**

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