# How Hollywood Can Out-Apple Apple

## a White Paper from Parks Associates & The Entertainment Technology Center @ USC


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# 1.0 Something New Under the Sun

In 1903 one of the first narrative movies, *The Great Train Robbery,* came to the silver screen. Although only 12 minutes long, audiences flocked to theaters to see it, marking a milestone in the rise of the entertainment industry. For most of the next 100 years, the cinema would remain the primary distribution method for films. Television gradually grew in importance with the advent of more channels, home video and pay-per-view but it was not until the twilight of the century that the number of potential distribution platforms exploded. Computers, mobile phones, and portable players such as the iPod all suddenly became possibilities. The stars of devices, storage and networks aligned in a way that began to significantly alter the distribution landscape. In fact, computers proved to be such a viable distribution method that they soon became a key platform without the industry's consent. Full-length movies and TV episodes became available through unlicensed P2P networks while short clips could be found on video sharing sites like YouTube. Portable platforms (e.g. cell phones and iPods) have proven to be a more elusive distribution channel.

Ninety percent of all broadband users have a mobile phone, but only 10% regularly use it to watch video; just 6% regularly use it to watch live TV. Similarly, one-half of all broadband users have a portable MP3 player but only 10% regularly use it to watch video; roughly one-half the number that have a video-enabled player. Why have consumers not been more receptive to portable video platforms? The answer lies in a mixture of technological and business challenges plaguing the industry

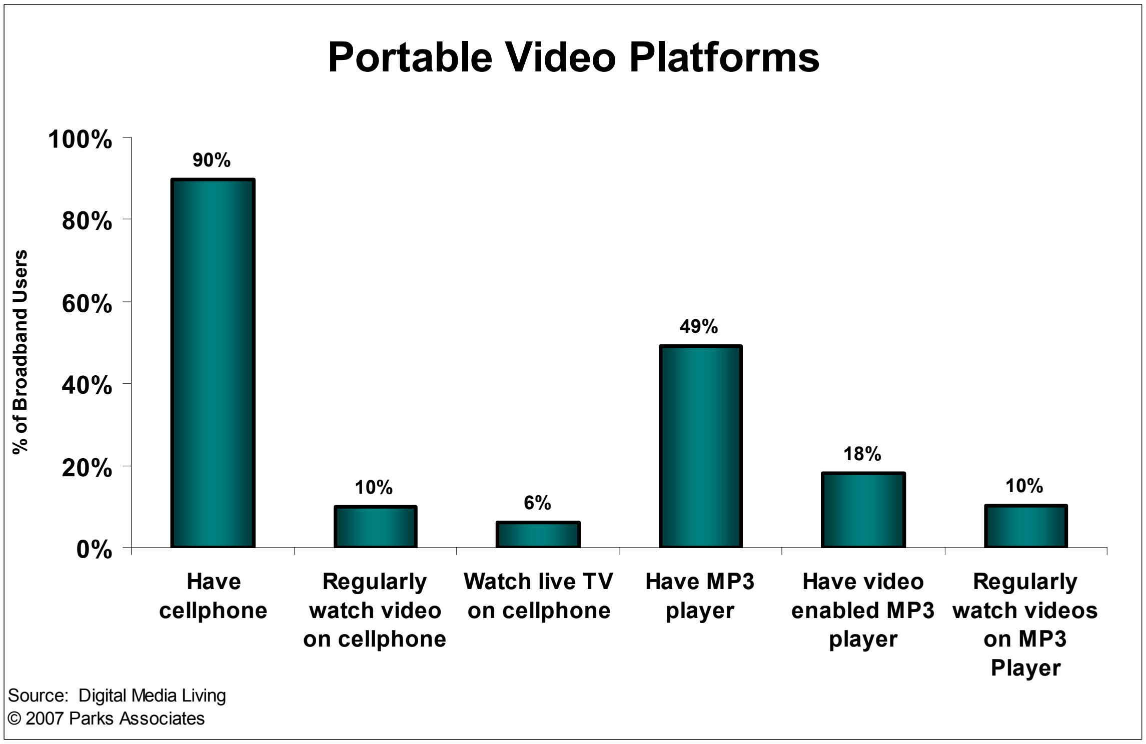


Figure 1 Portable Video Platforms

# 2.0 Portable Problems

The impediments to portable media distribution and adoption are numerous. From a technology standpoint:

- The amount of bandwidth available for mobile phones remains limited, which makes downloading and streaming of content painfully slow. Broadcast technologies (such as DVB-H & MediaFLO) are becoming available but these will only partially solve the problem because they are primarily designed for live TV, not on-demand content.

*"[Portable Video] is good for short video things like trailers or showing things to your friends, but I don't want to watch a two-hour movie on a two-inch screen"*

*ETC Anytime Anywhere Consumer Research*

- Devices capable of displaying 24 or 30 frame-per-second video have not yet reached critical mass.
- The small-form factor of portable devices makes for tiny screens with low resolution; an unappealing combination for watching long-form content.
- Methods for finding/accessing and getting content onto mobile platforms are not as user-friendly as they need to be.
- Interoperability remains a major challenge—content purchased for one portable platform can rarely be used on another.

In addition to the technological hurdles, there remain significant business challenges:

- The amount of high-quality content available is still extremely limited.
- The rights and exhibition windows situation makes for odd comings-and-goings of content (from an availability standpoint)

*"I don't feel that spending $13 dollars on the iTunes music store in order to get a DVD that I could buy for $5 or $10 somewhere else is reasonable since it's in lower quality."*

*ETC Anytime Anywhere Consumer Research*

- Much of the content that is available doesn't suit the device or viewing habits of individuals using it. Few consumers perceive of today's crop of portable devices as good platforms for viewing full-length movies or TV shows.
- Pricing does not always match the perceived value for lower-quality, locked-to-a-system content.
- A consensus has not yet been reached on digital licensing agreements. The 2007 writers' strike and revenue dispute between NBC Universal and Apple provide two cases in point on the business challenges of "re-purposing" content

These technological and business challenges will be resolved (provided that all parties constructively work towards their resolution), but it will take time. The prevailing business arrangements evolved slowly over the movie-industry's 100 year history and cannot be instantaneously re-written. Technological upgrades to networks and devices will likewise require substantial investment—operators and manufactures will not jump on board without some assurances of success. Yet despite the long-term challenges facing the industry, there are more immediate opportunities to drive revenues and adoption.

# 3.0 Long Term Obstacles, Short Term Opportunities

Given these challenges, it is easy to dismiss portable and mobile platforms and marginalize efforts associated with them. At the same time, realizing the potential of portable platforms will obviously require effort and investment. How can companies yield immediate returns while simultaneously preparing the market for the long haul? We believe that Apple provides excellent insight into how this can be done.

*"Apple sold millions of dollars worth of hardware off the back of our content, and made a lot of money" --NBC Universal CEO, Jeff Zucker*

*Variety*

The iPod has transformed Apple as a company and achieved remarkable success. Yet the secret to its success lies less in the technology than the business strategy. For years, big-box retailers have used music and movies as a loss-leading lure for store traffic. Apple adapted this strategy to the digital age by offering content as a low-margin lure for hardware. The company gave away millions of free music tracks in order to prime the market for iPod sales. It likewise offered low-cost price points on movie and TV titles in order to promote 'video' iPods. The strategy has been a great success for Apple, but content producers have been less enthusiastic. The content sold by itself does not generate substantial amounts of revenue[1].

Hollywood need not let Apple make all of the profit. If Apple is effectively using content as a loss-leader (or at least break-even leader), then Hollywood should similarly leverage content to promote sales of its flagship products. The latter must simply employ a different strategy. Rather than asking "How much money can we make on portable content?", the question should be "How can portable content help me make money?"

Hollywood should strive to use portable platforms to generate revenues directly (through the sale of content) and also indirectly by promoting consumption via more traditional channels. The free distribution of scenes, clips and made-for-mobile content will encourage ticket sales and DVD purchases. Highlighting the top car chase scenes of all time, to give an example, can draw

1 NBC Universal, for example, revealed that it had only made $15m from the sales of video content via iTunes.

attention to both new and existing titles. Content distributed to portable devices thus need not always generate revenue directly as long as it generates revenues elsewhere for the studios.

*"When I traveled in Europe, I used my iPod to watch an entire series. Because I was on the train, it made my traveling a lot easier."*

*ETC Anytime Anywhere Consumer Research*

Initially, content producers can simply re-purpose existing previews and clips as a low-cost way to promote viewing in theaters and DVDs. Ideally, however, such efforts will be followed up with content that specifically takes into mind the unique attributes of portable platforms. Fast-paced clips, rapid cuts and panoramic scenes are just a few examples of film techniques that do not adapt well to the current generation of portable devices. "Made for mobile" programming will moreover increase the appeal by offering unique content not available elsewhere. In the end, "advertainment" becomes content in and of itself and a profitable way to provide consumers something to watch when they find themselves in situations where a little diversion is welcomed.

Such a strategy can take advantage of the service providers' desires to distribute value-added content, as well as Podcasting infrastructure, which could well become a significant distribution vehicle for free or advertising-supported content.

Such an approach takes advantage of the current market landscape. For one, it leverages the consumer's ongoing preference to watch movies in the cinema and on DVD. Parks Associates' *Global Digital Living™ II* study surveyed consumers world-wide on how they would like to watch films and tellingly, cinemas and DVDs remain the top choices (see Figure 2).

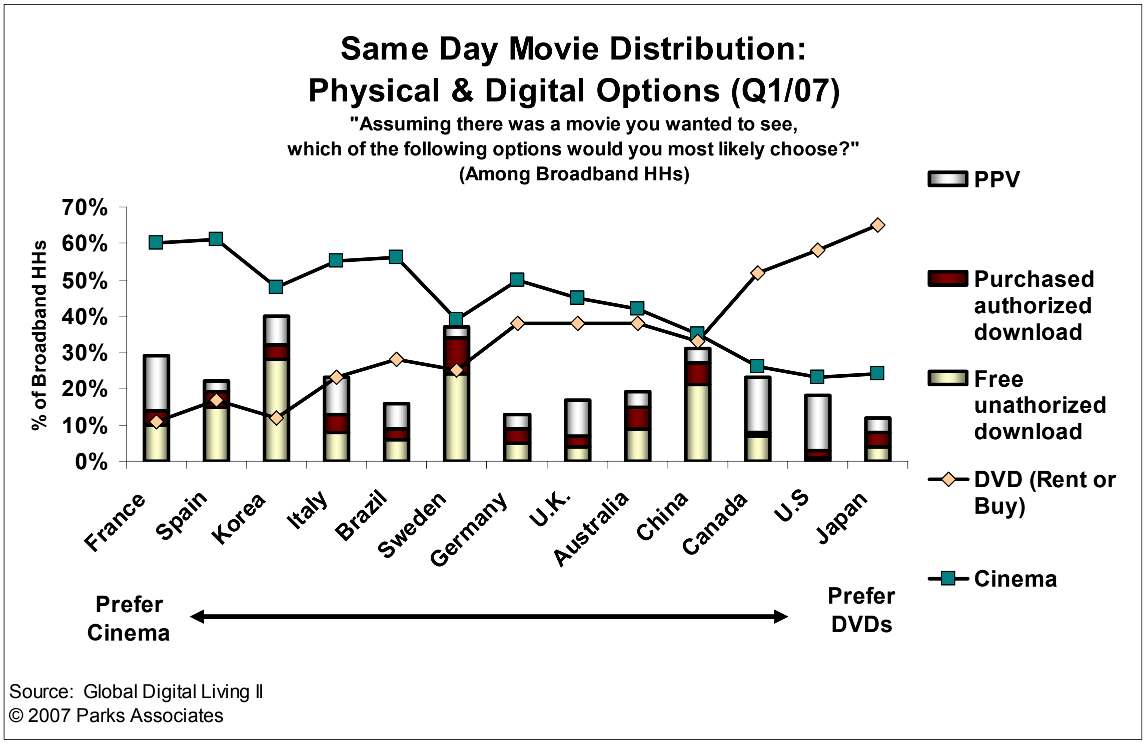


Figure 2 Same Day Movie Distribution

Consumers also show a limited willingness to pay for portable video content. Parks Associates *Digital Media Habits* study, for example, found less than 10% of Internet users would be willing to purchase a digital movie download (from a site such as iTunes) at prevailing price points (see Figure 3). Demand for portable content will grow as consumers become more accustomed to it but their appetite must be whetted with free content. Consumers have not yet established a habit of portable video consumption and cannot be expected to sign up for paid subscriptions right out of the gate. Using portable content as a free, promotion of more traditional channels will help ready the market for the emergence of direct revenue generation from optimized-for-mobile content (whether original or "re-purposed" content). The consumption of free previews and advertainment via portable devices will educate consumers on the potential of viewing premium content, once business and

*"I haven't formed a habit of watching [videos on my portable device]. But maybe if I experienced it and liked it, I could see myself doing it. I don't see myself paying to create a new habit that I haven't found a need for."*

*ETC Anytime Anywhere Consumer Research* technical obstacles have been overcome. At the same time, consumers will have a greater tolerance for a less pleasing, small screen experience if they did not directly pay for the content i.e. expectations for free movie previews will be lower than for paid, feature length films.

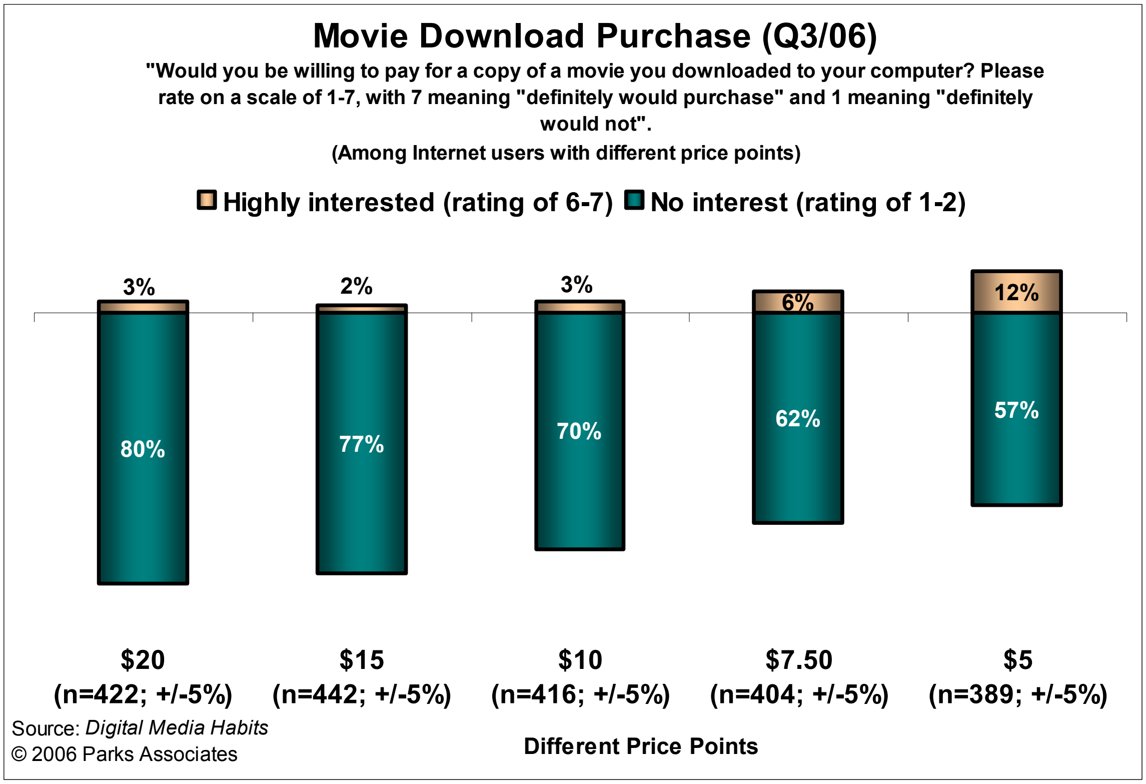


Figure 3 Movie Download Purchase

# 4.0 Conclusions

While growing, the market for selling movies through portable devices and cellphones is not yet ripe. Business and technical obstacles have not yet been overcome and consumers show a low interest in buying and viewing. At the same time, using mobile content as a marketing tool for traditional consumption channels offers Hollywood an opportunity for immediate success in the mobile content space. Moreover, freely distributed, marketing-minded content will prime the pump for premium content offerings further down the road, once technological and business challenges have been addressed. Studios can aggressively pave the way for future profitable mobile distribution models by immediately leveraging early consumer interest.

**About the Authors:**

John Barrett currently analyzes technology-driven products and services for Parks Associates, a digital home research firm and consultancy. He has authored over a dozen industry reports on topics such as broadband adoption, ISP bundling strategies, mobile phone service, digital music, and VoIP telephony. He holds an MA in international economics from the Johns Hopkins University: School of Advanced International Studies (SAIS) and a BS in international affairs from Georgetown University. **Industry expertise:** International Research, Mobile Communications, VoIP, Social Media, User-generated Content, Web 2.0

David Wertheimer was the president of Paramount Digital Entertainment and is now the executive director of the Entertainment Technology Center @ USC. The ETC@USC is a consortium/think-tank sponsored by top filmed entertainment companies, leading technology, consumer electronics and service providers with the mission to understand what consumers want and to bring companies together to ensure they get it. David also founded and ran WireBreak Entertainment, a critically-acclaimed digital production studio. He holds a BS in Computer Science and Business from Duke University.

KC Blake and Bryan Gonzalez drive the research and exploration efforts at the ETC@USC.

**About Parks Associates:**

Parks Associates is a market research and consulting firm focused on all product and service segments that are “digital” or provide connectivity within the home. The company’s expertise includes home networks, digital entertainment, consumer electronics, broadband and Internet services, and home systems.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, multiclient studies, consumer research, workshops, and custom-tailored client solutions. Parks Associates co-hosts CONNECTIONS™ (in partnership with the Consumer Electronics Association) each year.

**About ETC @ USC:**

The Entertainment Technology Center is an organization within the USC School of Cinematic Arts which brings together the top entertainment, technology and CE companies to explore opportunities for new consumer entertainment offerings today and into the future. Our goal is to bring next generation consumers to the table to understand the impact of new technology on the consumer and all aspects of the entertainment industry - technology development and implementation, the creative process, and existing business models.