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School of Business

Welcome to the 2012 USC Marshall International Case Competition.

Each year we invite students from schools around the world to participate in this competitive event. Of the thirty teams attending this year, 20 teams represent schools from outside the United States. We embrace all of you and hope you enjoy your visit to Los Angeles and the University of Southern California.

This year's case presents issues which are current and very real to this business and their competitors in this and related industries. Thus, do not feel that the only relevant and available information is found within the four corners of this document. While some of the information provided here was only made available on the day we went to press, this industry is changing so quickly that there is no doubt in our minds that additional relevant information will appear in the days running up to the time you receive this document. You should feel free to look for, and use, additional information which you may find online in completing your analysis of this case. References to some additional sources of information may be found in the Appendix.

In addition to testing your skills in strategic analysis this year's case seeks to address a topic which is very relevant to each of you as consumers. Your own experience with this industry and with the companies covered in the case will no doubt influence your perspective. Give voice to your own insights. We are certain that the panel of judges and company representatives are willing and eager to listen to your recommendations for today and the future.

We encourage each individual to enjoy the event and admonish each team to follow our motto here at USC: Fight on!

Meeting Consumer Demand for Anytime, Anywhere, Any Device Media Consumption in a Digital World

> *"No question, the younger generation is not as used to a television screen as the older ones. They're much more used to a computer screen. They are much more impatient. We've all heard, 'I want what I want when I want it.' And for every new media device, there are more and better ways of getting content. It is a challenge for us, getting content out there, and getting paid for it."*
>
> *Leslie Moonves,*
> *President and Chief Executive Officer, CBS Corporation*[1]

Each year the annual Consumer Electronics Show (CES), an enclave attended by consumers and industry representatives from around the world, showcases the latest electronic technology. Among the many new gadgets intended to facilitate our consumption of media and entertainment at the January 2012 Conference were several device content providers and media distributors hope will maintain consumer loyalty while encouraging the benefits of media consumption-- and specifically ownership more than video rentals--across multiple devices. Hollywood is hoping that these new options will grow digital movie and television content sales to compensate for the steady decline in the sale of DVDs. [2]

The stakes are enormous. Film studios have historically derived about half of their total revenues from home entertainment sales. Yet overall consumer spending on home entertainment dropped 2% in 2011, the seventh consecutive annual decline, according to Digital Entertainment Group (DEG), which collates digital media sales. Revenue from consumer movie sales, as opposed to rentals, dropped 12%.[3]

Digital Entertainment Group reported that the box office value of films that came to home entertainment during the year was down by 8.7%. Total consumer spending on packaged media, Blu-ray and DVD, slipped more than 13% from 2010. Rental spending (packaged media only) was down 3% from the previous year, with a 28.8% drop in brick-and-mortar rental activity offset by a 31% uptick in the kiosk rental business, mostly Redbox vending machines.[4] A May 2011 report by SNL Kagan says that studio shipments of DVDs fell 43.8% in 2010. "Consumers are now opting to sign up for streaming and/or rental services such as Netflix. They are using video-on-demand services more and more as they discover these services can be cost-effective."[5] DVD sales in the US were reported to have dropped 20 percent in the first quarter of 2011. A Nielsen report attributes this drop to "young people opting to watch programming on their laptops using services like Netflix, rather than buying a TV and subscribing to cable."[6] More than 60% of the 2 billion-plus hours of video streamed by Netflix subscribers during the fourth quarter of 2011 originated on the small screen.[7] Verizon recently announced plans to set up a streaming service later in 2012 in cooperation with Redbox and its DVD rental kiosks.[8]

Consumers with connected devices in the living room are watching about four transactional video-on-demand (VOD) movies a month, according to Sonic Solutions CEO Dave Harbiger in November 2010. He said digital distribution of movies through the internet continues to encroach upon packaged media and the traditional sales model. "We are starting to see a category of customers develop that are using Sonic Solutions as their weekly movie new release store. Once someone goes through the effort of setting up an account and buy or rent a movie, it is rare that they decide to never buy or rent again." He reported in 2010 that consumers overwhelmingly (90%) opted for rentals compared to electronic sell-through (10%), but he expected the ratio to move closer to 80/20 going forward as users become familiar with the concept of digital lockers. A contrasting view was put forth by Screen Digest which forecasts that Internet video on demand (iVOD) sales will surpass revenues from electronic sell-through (EST) by 2013. Rentals will grow to $439.1 million, compared to $396.8 million for digital movie purchases.[10]

Into the Cloud

Mobile internet connectivity makes anytime, anywhere access a reality. Store your existing music, film, and book collections "in the cloud" on a service providers computer servers. Such "digital lockers" have been established by a number of firms and have experienced varying degrees of success. Microsoft included a digital locker with its Windows Marketplace. It was replaced in 2009 by Windows Marketplace Mobile, followed by the introduction of Windows Phone Marketplace.[11]

More recently Apple, Google, and Amazon are establishing digital lockers. Amazon's cloud service would enable users to store their existing music, film, and book collections, even content not purchased at Amazon, on the company's servers. Owners of Amazon's Kindle e-book are able to download e-books to all their devices at any time. Offering space in the cloud for other digital files is a natural next step for the company.[12]

With online content rental on the rise, and content ownership on the decline, studios are building online ecosystems which will allow consumers to buy their digital content once and then watch it anytime on any supported device, app or service. Mobile consumers are also active users of social media. Warner Bros. acquisition of Flixter and the review site Rotten Tomatoes add new elements to the online ecosystem which can be used to introduce new concepts and educate consumers about new methods of content distribution. Warner Bros. is also an industry partner in the Digital Entertainment Content Ecosystem (DECE) supporting use of the UltraViolet digital locker offering.

Asked how you educate or convince the consumer about cloud-based storage lockers, Thomas Gewecke, President of Warner Bros. Digital Distribution said:

> Flixster is a place where people go to make decisions about what movies to watch and buy—to find out information and what their friends are doing. We think that is the

> perfect environment for an independent, studio-agnostic platform for introducing consumers to new services. And we look at strategies like "digital everywhere," which have at their root the idea of helping consumers to create, manage, and use video collections, as the platform for more discovery and more social interaction. We think taking services like that and making them available to a huge audience of movie enthusiasts is a really strong strategy and a great way to bring those services into the marketplace.[13]

DVD sales have been declining the last several years as consumers turn to "free" content from the internet or turn to renting instead of purchasing. At the January 2012 Consumer Electronic Show (CES) The Simple.TV DVR won "Best of CES 2012 Award" in its category. It allows you to stream your live and recorded over-the-air TV outside your home network, as long as you sign up for the $5/month premium service. Think of it as your own personal cloud for your over-the-air TV.[14] Devices like the Simple.TV are providing consumers more independence and freedom for mobile viewing.

Media and Entertainment distributors and technology companies aim to please. Today, the media consumer wants an anytime, anywhere experience. Laptops and tablet devices with a large screen increase the opportunities to view video on a mobile device and most new television sets are being offered with direct internet connectivity. Delivering an always on, always connected experience requires the cooperation of multiple players in what has been described as a media ecosystem combining content, devices, services, apps, and an operating system to connect it all (Figure 1).

Video is available from several sources: physical purchase and rentals, digital downloading or streaming, and via various revenue models such as purchase, subscription ad-supported, rental, and other newer business models such as Freemium. Due to the variety of participants a multi-sided platform brings a complexity of its own in building cooperation and buy-in among all the players in the network. Agreement on standards is often difficult and sometimes has taken years to work through. For instance, the decision to adopt the Blu-ray format instead of HD-DVD format was influenced by considerations of anti-piracy protection methods. Since both formats could hold cinema quality movie content, Hollywood studios were especially keen to ensure that any new format would prevent unauthorized copying. "It's our last chance to get copyright protection right," said Andy Setos, former head of engineering at Fox.[15] In addition to the increased capacity Blu-ray added an extra layer of protection not available with HD-DVD. Content security continues to be a paramount concern-- especially in the digital world.

The migration to digital downloads and online streaming has been coming for several years. In 2007 Bill Gates was quoted as saying: "Understand that this is the last physical format there will ever be. Everything's going to be streamed on hard disk."[16] Blu-ray and other packaged media represented nearly 88% of all media consumed in 2010, with all forms of electronic distribution comprising the remaining 12%.[17]

Consumers are now able to ubiquitously enjoy purchased movie and television content anywhere, anytime, and on any device via an expanding number of channels: online personal library, video streaming, downloads, from sources which are ad supported or subscription based.

Multiple methods of supply are at odds with the traditional business model utilized by the media and entertainment industry. This raises a number of questions: How to work collaboratively with companies outside the traditional value chain? How to encourage customers to build digital libraries? How to get consumers comfortable with cloud storage and delivery of film and television content? How to develop relationships directly with the consumer (moving from B2B to B2C business)? Should studios change/extend the business they are in (more places in the value chain)? Is there a need for more than one business model in order to respond/interact with the multiple players?

Industry History and Evolution of Video Distribution

The media and entertainment world was much less complex before video recorders and the internet arrived. A movie would be released into theaters with a significant marketing investment to ensure interest and box office attendance. After the theatrical run the subsequent rights for viewing could be tied up for five or more years as the movie was licensed to an ongoing chain of outlets over time. These shorter periods of exploitation (referred to as "windows" in Hollywood) create the time-sensitive individual business segments which form the chain of film distribution. Additional rights might also be granted to create video games and merchandising based on the characters in the film.

Intellectual property rights are infinitely divisible, and distributing a film or TV show is the art of maximizing consumption and corresponding revenues across exploitation options. Whereas marketing focusses on awareness and driving consumption, distribution focuses on making that consumption profitable. Distribution is also the art of creating opportunities to drive repeat consumption of the same product. This is managed by creating exclusive or otherwise distinct periods of viewing in the context of ensuring that the product is released and customized worldwide.

In contrast to a typical software product, the global sales of which are predicted on a particular release version (e.g., Windows 98), a film is released in multiple versions, formats, and consumer markets in each territory in the world. Ulin's Rule states: content value is optimized by exploiting the factors of time, repeat consumption (platforms), exclusivity, and differential pricing in a pattern taking into account external market conditions and the interplay of the factors among each other." (Please see Figure 2). [18]

Content value is maximized by releasing a single property in multiple versions and formats to a variety of consumer markets over many years. Specialized markets where a film, divided between domestic and international, is seen may include:

- Movie theatres
- Video and DVD
- Pay television
- Pay-per-view television/video-on-demand (PPV/VOD)
- Cable and free television
- Non-theatrical including Hotel/motel, airlines, colleges, etc.

In the traditional business model ultimate revenue is multiplied as content is passed from one window to the next; sometimes with a resting (black) period in between. By managing the period of time and the date of launch into each of these successive markets the value of a film can be extended on for several years. Figure 3 illustrates each of these windows and historical time periods for each window. [19] The greatest power of the windows is the marketing pitch "only available here," a message that is diluted if not fully undermined when exclusivity is lost; moreover, for a distributor initial consumption must expand enough to offset the loss driven by collapsing repeat consumption windows (e.g., DVD), a proposition that is both risky and unproven.[20]

The time period for each of these windows may be relatively standard, but not fixed. However, industry standards are followed, and several powerful trade organizations such as the National Association of Theatre Owners (NATO) campaign strongly against any shortening of the exclusivity of the theatrical release window. New technologies and platforms have increased the variety of distribution windows and accelerated the launch of the next window in order to maintain consumer interest in the film. The art of video distribution is to maximize the return from each of these windows resulting in a maximum return for the film over its lifetime. If the film lingers too long in a window the buzz may be lost. On the other hand, accelerating the launch of the next window may result in cannibalization of other windows. Figure 4 illustrates the recent trend to accelerate the launch of subsequent windows. [21] In 2010 some filmmakers and studios began experimenting with simultaneous release of content in multiple windows such as VOD and home entertainment (Figure 5).

Loss of Control

Access to films over the internet—whether legal or illegal—disrupt the sequence of the traditional windows and creates tensions among distribution vendors and loses the control which the studios have had in the past. Prior to the widespread use of home video recorders the studios were able to maintain control of the product through the contracts and relationships they maintained with each of the vendors. Everyone was supporting the process. The consumer "paid" for the viewing through purchase of a theater ticket or in subsequent windows through exposure to online advertising by sponsors of the broadcast time. Home video recording machines enabled the unauthorized duplication of the film by non-paying consumers and further dissemination to their family and friends. What was a pure business to business (B2B) model for studios has--with the presence of digital lockers—become more of a business to consumer (B2C) model.

Traditionally, films have been released in specific "test cities" deemed to best match the target audience of the film. This allowed the studios to assess interest in the film and, in some instances, re-edit the film before a wide release to multiple locations around the globe. Studios face a variety of piracy threats from industry insiders as well as consumers. Revenue is lost when someone in the industry value chain releases a pirated copy of a high quality product rather than a low-resolution recording. For instance, movies nominated for Academy Awards are sent to screeners for review. Every year, the Motion Picture Association of America (MPAA) tries desperately to stop Oscar screeners from leaking online. According to one source, the online movie releasing groups are taking longer to pirate movies than [in the past] with the median time between theatrical release to its first leak online moving from 1 to 2 days to over three weeks. The decline in screener leaks may be attributed to tighter controls—personalized watermarks, the aggressive prosecution of leakers, and greater awareness of the risks for Academy voters. But the continuously shrinking window between theatrical and retail releases may be to blame. After all, once the retail Blu-ray or DVD is released, there's no reason for pirate groups to release a lower-quality watermarked screener (See this reference for data and charts tracking early leaks).[22] Victoria Bassetti, a music industry consultant and former anti-piracy chief at record label EMI said: "Anecdotally, when we have pre-release leaks, the first week there is a massive amount of consumer trade that goes directly to [digital locker] Megaupload's door."[23]

Secondly, increased access to hand-held video cameras and to the internet by consumers make it possible for some theater goers to make an immediate--though poor quality--video of the film on its premiere release date. In many instances a low resolution version of the film was available worldwide over the internet within hours.

As a result, box office attendance around the globe declined since many moviegoers who had already seen the pirated version of the movie were no longer interested in watching the movie when it played in their local theater. In response to this threat the studios and the MPAA initiated a variety of actions to subdue or quell this threat. Some studios released a film simultaneously around the world on a single "day-and-date" basis in an effort to thwart video piracy within the theaters. Why would you watch a poor quality pirated copy of a first run film when you could see it on the same day in the theater? Shortening the number of days in the theatrical window may also reduce piracy since consumers do not have to wait long before the movie is available for retail sale. However, shorter windows negatively impact theater owners revenues. Some have refused to show a film if the traditional window is shortened.

The Internet and the Music Industry

The internet had a significant impact upon the music industry. File sharing software made it possible for individuals to share their CDs and other illegal music content with others, thus reducing the need to purchase the CD for themselves or providing any incentive to purchase digital copies. Revenue from CD sales declined drastically. Lawsuits followed. Most prominent was the case against Napster's file sharing software. At stake was whether certain activities were non-infringing legitimate copyright activities or pirate activities that could result in damages of even criminal penalties.[24] Peer-to-peer networks and technology grew so fast that some experts estimated that upwards of one-third of all Internet traffic in 2006 utilized Bit Torrent, a highly efficient peer-to-peer technology.[25] Consumers argued that being forced to purchase the entire CD to obtain a couple of sought after songs did not justify the price being charged by the music industry.

Apple's iTunes library has provided an alternative to the "single song" consumer and marginally improved the music industry profits by returning 70% of the profits on music downloaded through iTunes. This alternative also significantly benefitted Apple since music purchased through iTunes could only be played on an Apple device, which created a market for Apple devices. By providing an à la carte option consumers could select which specific song they wanted. For the consumer this single song download is seen as a convenient approach which avoids piracy at an attractive price.

Online distribution of content presents monetization challenges because simultaneous, non-exclusive, flat-priced access does not allow the interplay of Ulin's Rule factors: use of online platforms tend only to drive value by exploiting the time factor (Figure 2). When thinking about Internet opportunities and different distribution platforms, keep in mind these elements and ask whether the new system is eliminating one or more of the factors: If the answer is yes, then there is likely a tug-of-war between the old and new media platforms, with adoption slowed as executives struggle for a method of harmonizing the two that does not shrink the overall pie.[26]

The release of a new film is driven by the marketing campaign preceding the film's viewing in the theaters, often during peak seasons for movie viewing; such as the end of year holiday period and the summer releases. Theaters owners and distributors count on the exclusivity of this first window to create excitement for the film that will carry it through the successive windows for years to follow. Warner Bros. Home Entertainment has recently extended the window for new release DVD and Blu-ray Disc titles in select channels to 56 days for low-cost rental options such as Netflix and Redbox. Warners is balancing its home entertainment revenue streams by creating different times at which a product is available at different prices. A staggered schedule allows the studio to maximize the sales potential of its theatrical release titles and VOD offerings.[27] "Windows preservation needs to be disciplined," says former Paramount Entertainment Chairman Jonathan L. Dolgen. "The value of the big screen is what starts everything."[28]

But new technologies and distribution platforms are threatening to undermine the window system and with it the fundamental economic underpinnings of the business.[29] In recent years there have been some efforts at "window juggling" which places the traditional model in flux (Figure 4). The primary move has been to accelerate the release following the initial launch at the theaters while retaining the general sequence of the successive distribution windows. If done in the extreme this shortens the exclusive period for theatrical viewing in an effort to extend the buzz from the initial launch into the home video market. Some critics would suggest that the windowing model is the problem and that media and entertainment distribution in a digital world requires re-examining the usefulness of these sequential windows.

Different Business Models/Strategies

Business models refer to the logic of the company—how it operates and creates and captures value for stakeholders in a competitive marketplace. Strategy is the plan to create a unique and valuable position involving a distinctive set of activities. Strategies are a contingent plan and contain provisions against a range of contingencies (such as competitor's moves or environmental shocks), whether or not they take place. While every organization has a business model, not every organization has a strategy—a plan of action for contingencies that may arise.[30]

The traditional Hollywood business model may be viewed as a one-to-many model in that a movie theater is controlling the viewing of the many consumers within the theater during one viewing. This one-to-many exclusivity of the theatrical release and the subsequent market windows of the traditional model are being replaced by a many-to-many business model. For instance, distributors, such as Netflix, are now ordering original programming. In addition, studios are in a position to consider a direct to consumer (B2C) distribution model which would negatively impact retailers of DVDs such as Wal-Mart, Target, and others. This transition has largely been driven by the widespread adoption of personal technology in the form of personal computers, smartphones, and tablets all connected by the internet and also by faster bandwidth allowing for high quality viewing experiences in both the wired and wireless environments.

Alternatives to theatrical viewing have evolved and multiplied in recent years. Viewers began to shift from purchasing video tapes, and more recently, DVD's which they stored in a home library to the ease of renting for a one-time use. Personal video ownership, according to PricewaterhouseCooper's Consumer Intelligence Series, made sense only if it would be watched multiple times such as for a classic film or children’s videos. Additional vendors began to appear. The popularity of neighborhood video rental stores gave rise to rentals from Blockbuster and Hollywood Video with larger libraries for rent.

Netflix modified the movie rental business model with the advent of subscription service providing for an online order followed by delivery of a physical disc through ground mail for viewing at home. More recently, increased household adoption of technology and internet connectivity led Netflix to offer video streaming which can be viewed at any time within the comfort of your own home or on mobile devices. With increased ownership of digital technology the consumer no longer must travel to the theater, nor be bound by the theater hours of operation, nor most importantly, by the movie that is being shown in the theater.

Consumer electronic technology has aided the consumer in wresting control away from the theaters and with the support of the various online services created an anytime, anywhere market. Figure 5 identifies some of the better known providers and distribution convergence now available in the marketplace. The savvy consumer now has several choices in selecting service providers; such as low-cost rentals from Redbox kiosks in shopping centers, increased access to VOD and PPV, and increased availability of ad-supported distribution models such as Hulu+. In this many-to-many model the original distributor has no direct control over the selection of customers or delivery system. When international distribution is included the new distribution windows may look more as presented in Figure 5.

Consumer Preferences

Research by PWC reveals that faster access to content (within four weeks of the theatrical release) is the most appealing paid video on demand (PVOD) feature. But most consumers are willing to pay only an additional $5 to get it, and no more than $10. In a world of instant access, obtaining movie content via on-demand access within four weeks of the theatrical release is the most appealing feature because it means consumers can view the movie on their timetable while it is still “fresh”—when there is still a buzz about the movie. This is compounded by the fact that consumers do not understand and are not interested in the industry’s windowing strategy.[31] (See Figures 3 and 4). These consumer expectations of rapid release do not fit the windowing structure due to the exclusivity of the theatrical window. In addition, the economics of consumer price expectations do not make sense from a business perspective.

Current business models in the new digital world include subscription, transactional rentals, transactional purchases, ad-supported, and newer models such as Freemium. Not all services are equal, and there are widely varying price points. Consumers might select one, or a combination of several providers which facilitate their most often used method of viewing. Recent market research conducted by PWC highlights the preference for access to a variety of video delivery systems in today's marketplace. The most often cited method for weekly viewing is rent online (combined 41%), followed by rent by mail (35%) and stream without paying (31%). Content engagement presented in Figure 7 indicates that these three methods are much more popular than the remaining methods surveyed. The majority of methods across the sample also require an internet connection suggesting that the majority of the consumer market is now digitally connected for home viewing.

Consumer involvement in accessing movie and TV content is increasing—especially with online movie/TV consumption. Free content has influenced this increase. Much of this content is consumed in a multitasking environment across multiple devices. Consumers overall interest in premium services is influenced by the platform on which it will be viewed (Figure 8). Internet connected devices (58%), such as computers and tablets are becoming more influential. Mobile access is a distant third (Figure 9). The exception was content delivered over mobile networks to tablet devices.[32] A summary of characteristics favored by consumers of premium content is displayed in Figure 10. Netflix is refocusing its business. "Amid rapid change in the way consumers watch movies and new threats from competitors including Amazon.com Inc., Hulu and HBO, Netflix is trying to transition its customer base away from DVDs by mail and make them loyal users of its Internet streaming service, which is now available on 700 different digital devices including Internet connected TVs, iPads and smartphones.[33]

Digital Lockers for Everything

With internet connectivity and mobile platforms consumers are able to access the cloud from anywhere, anytime, on (almost) any device. Allstate Insurance has an app on its website which allows a smartphone owner to take pictures of the contents of their house and store the information digitally so that it is available in case of natural disaster or other situation requiring a claim.[34] Many schools and universities use digital drop boxes for submitting assignments. It seems that very soon we may be accessing everything through the cloud—including our entertainment. Will digital lockers be one of the alternatives best suited for media and entertainment distribution? Descriptions of a few current digital services follow.

UltraViolet is essentially a cloud-based, digital rights management system that will create an online virtual library for each consumer. Stakeholders are betting that UltraViolet could have a big impact on the home entertainment industry, because studios are now facing a situation where online content rental is on the rise while content ownership is on the decline.

Mitch Singer, President of DECE and CTO at Sony Pictures Entertainment, told the Hollywood Reporter:

> We've done a lot of research focus groups. Consumers are not telling us that they don't want to own content, but that they don't want to collect it because they are not sure it will play on the devices they buy in the future. So they are staying out of the market in this walled garden because they don't want to be locked in. They want freedom and choice. We are directly addressing the dissatisfaction consumers told us about."[35]

Three years in the making, UltraViolet has finally arrived. Consumers can register multiple devices and multiple household members and choose to stream or download or offline view the purchased content. It is currently a free service. Promising consumers the ability to freely move content across connected devices, along with true ownership on physical disc and in the digital cloud of the content they purchase. UltraViolet may be the home entertainment industry's last, and best, argument that owning is better than renting. "What we are trying to do is bring together the best of two different worlds (physical disc and digital) that don't really exist together today in the consumer view," said Mark Teitell, GM of the Digital Entertainment Content Ecosystem (DECE), the 70 plus member, cross industry consortium responsible for UltraViolet. "The idea is to give consumers complete rights to their content in every form, instead of just a one-off copy in the form of a physical disc or a digital copy," Teitell said.[36]

How UltraViolet Works

UltraViolet's concept is simple: Any Blu-ray or DVD featuring the UltraViolet logo includes a code that can be redeemed after launching an account at UltraViolet's user site, UVVU.com. Once the code is entered, that content is available for use on up to a dozen UltraViolet-enabled devices (PCs, connected HDTVs, Blu-ray players, mobile devices), with a total of six people registered on the account able to access that content at any time. UltraViolet could also be integrated easily into movie distribution channels run by retailers such as Walmart (Vudu) and BestBuy (CinemaNow).[37] "This UltraViolet business model was built to make ownership easier," Sony Pictures Home Entertainment President David Bishop said during a panel following the UltraViolet press conference at CES 2012.[38]

To watch a movie via UltraViolet, consumers have to use a code that comes with compatible discs to register on two different websites. They then need to install two new pieces of software on a PC and a new application on a mobile phone or tablet to download the film.[39] UltraViolet has been in the works for more than five years, as more than 70 movie studios, electronics makers and retailers have tried to build a unified ecosystem for selling and storing movies online. This consortium of members whose interests are not always aligned has experienced difficulty developing and launching a new product.

Currently, the only digital service that works with UltraViolet is Flixster, a movie rating website that Warner Bros. acquired last year as part of its plans to stimulate digital movie sales. Flixster also makes an UltraViolet-compatible application for Apple and Android phones, tablets, and PCs. Best Buy and Wal-Mart, which also sell movies online, have yet to take the leap into UltraViolet.[40]

Samsung Electronics Co. announced a feature on its new smart Blu-ray player line that will allow consumers to upload their existing disc library onto their UltraViolet digital library via the

Blu-ray player. With the Disc to Digital feature consumers can register ownership of their DVDs and Blu-rays and access the content on a variety of devices through UltraViolet. The content will be available through the Flixster application on Samsung's Smart Hub and a range of connected devices such as smartphones, tablets, PCs and smart TVs.

Panasonic has also touted its partnership with Flixster to add UltraViolet to its Viera connected HDTVs, and Rovi announced the launch of the Rovi Digital Copy Solution, which is software that enables compatible CE devices and PCs to recognize movies on disc, authenticate origin, and trigger access to UltraViolet.[41] If authorized, consumers can then purchase access to a digital copy that can be placed in a storefront made available via UltraViolet. Once purchased, the title would then be available from the cloud for downloading or streaming via a range of connected devices.[42] Early consumer responses to UltraViolet have been mixed. Criticisms range from issues of user experience,[43] pricing, bundling with Blu-ray, multiple sign-ons required, lack of a marketing plan and consumer education.[44] In the first half of 2012, DECE will introduce Common File Format for downloads, making download functionality consistent across all UltraViolet retailers and repeated downloads of different file types unnecessary, even when using different brands of UltraViolet-compatible media player apps or devices.[45]

Amazon already keeps online backups of Kindle users' ebooks, and its S3 server business would make it an obvious choice for cloud services. Meanwhile there's the Amazon Video on Demand service for streaming TV and movies. Early indications were that Amazon would allow users to store content not bought from its own store.[46] Amazon.com also announced that it would be the first independent retailer to sell UltraViolet movies directly online, without a disc, although it has not indicated which studio.

Network Effects in Adoption and Compatibility

Executives at 20th Century Fox, meanwhile, are waiting to get aboard UltraViolet until there are more places to buy and store UltraViolet movies online, more devices on which to watch them, and a common file format in which titles can be downloaded and utilized. "We think that mass consumer adoption starts to have a tipping point when all of these pillars are built," said 20th Century Fox Home Entertainment President Mike Dunn, whose studio is officially behind UltraViolet but doesn't expect to launch its first title until late 2012.[47] "To drive consumer adoption, UltraViolet will have to offer a frictionless experience across multiple content and device vendors," said Ed Barton, director of the strategy analytics Digital Media Service. "In the face of entrenched and fierce competition, UltraViolet will have to offer a clear and convincing answer to the question many consumers will naturally pose: Why use it? Consumers love content which offers seamless device portability and have already demonstrated this in their spending: In the absence of cooperation from Apple, UltraViolet must surpass what is already available from competitors…in order to deliver the results such a consortium deserves."[48]

Apple reportedly is working with studios to launch a cloud-based digital locker that would rival UltraViolet and Walt Disney's Disney Studio All Access ("Keychest") platform as early as the end of 2012. Apple is finalizing deals with studios that would allow consumers to buy movies at iTunes, store them in the cloud and access them on any Apple device. Similar to early music downloads, several compatibility issues exist. UltraViolet does not work with Apple's iOS operating system. Apple's system does not accommodate Adobe Flash video, the UltraViolet video format. UltraViolet and Disney's All Access also accommodate storing physical media purchases such as DVDs and Blu-ray discs. For an additional fee, users can upload copies of previously purchased physical media to UltraViolet. Apple, which recently discontinued disc drives in its mini-Macs, would feature only electronic sell-through.[49] Apple's iTunes controls an estimated 95% of the electronic sell-through business, which UltraViolet seeks to expand.[50]

Looking Forward

With multiple players in a digital world new models of collaboration and distribution need to be considered. Digital lockers might not be the only solution. Awareness and interest in building digital libraries through accessing cloud-based content (digital locker ownership) is increasing. Consumers are becoming more informed about cloud technology and generally have a better understanding and appreciation of the benefits. Businesses have an opportunity to focus on the most desirable benefit: the ability to share and store content digitally across devices and among multiple users. Using gaming consoles to access digital lockers may also provide a legitimate consumer-friendly interface.[51]

Failure to attract consumer interest in the cloud-based digital locker system could spell doom for the home entertainment industry and movie production going forward, said Miramax CEO Mike Lang. "It's very difficult for the consumer to know that when they buy something that it works on any device. It's either tied into an Apple ecosystem or best of luck in trying to make it work," Lang said. He said failure to reinvigorate the sell-through model could adversely affect studios ability to finance movies. Strong sales of DVD, Blu-ray Disc and electronic sell-through movies have historically affected whether a title was profitable or not. He has found the digital transaction model, as it stands, to be poorly executed. Ultimately, if we can find a way to make that [physical sell-through] model work, it's good for the entire industry. The value that has been created is that the home entertainment marketplace helps finance the films we all care about. Asked if content ownership died among consumers, would Hollywood just exist as a "skinnier" world? Lang replied that a streamlined retail market would enhance pressure on studio margins in terms of producing and marketing films. He said the enormous resources required to launch a U.S. theatrical release would be adversely affected. "The world is going to have to change, Lang said, adding that the marketing philosophy of "carpet bombing" consumers everywhere before will give way to lower-cost targeted campaigns.[52]

Critics of electronic sell-through (EST) and digital lockers contend that Hollywood, meanwhile, continues to act as if it can make consumers want to buy content simply by making rentals scarce, as HBO did by refusing to renew their Netflix contract. That's the whole principle behind the release windows, which lower the effective price of a movie over time as its distribution broadens.

> Like it or not, however, the studios are competing--in all the revenue models including renting mentioned above-- with more alternatives to their products than before, including free, pirated versions of all of their hit films. So while it's great to read that the studios are planning to make more use of digital distribution, it would be even better to hear that they're rethinking their assumptions about business models for distributing content. As

> the rapid growth of services like Netflix and Redbox indicate, most people are happy to rent films even if it means waiting a few extra weeks or getting stripped-down discs or downloads that have none of the usual DVD extras. Despite their love of movies, these people are not collectors, and trying to persuade them to buy a film may be futile. The studios should instead look for new ways to enhance their products enough to justify a premium price—ways that accept the fact that many consumers want to watch a film or television series and the related premium content just once before moving on to the next release.[53]

In January 2012 the U.S. Department of Justice released an indictment accusing Megaupload's founders and other officers of criminal conspiracy, arguing that they encouraged copyright violations and in some cases copied protected content themselves. Four people involved with the site were arrested in New Zealand. Some 3 million Americans every month used Megaupload, which is among the largest digital lockers, the Recording Industry Association of America (RIAA) said. RIAA spokesman Jonathan Lamy said that "lockers were generally the fastest growing form of internet piracy."[54]

According to Bloomberg Businessweek, some companies that specialize in cloud storage are distancing themselves from Megaupload's lucrative business model. Other companies have made changes to their service in the wake of the arrests. Filesonic.net told users they could gain access only to files they uploaded themselves. Uploaded.to blocked U.S. consumers from its service entirely. A related worry is that crackdown on file storage services could scare away users. Megaupload may have hosted pirated content, but it also stored school reports and home videos that are now inaccessible.[55]

Conclusion

Please develop a strategy and a business case with recommendations for the Media and Entertainment industry which foster their continued profitability amidst continued threats from increasingly diverse distribution technologies. You will present to the chief executive of a major studio who is responsible for Theatrical, TV, and Home Entertainment divisions. Some questions to consider include:

- How can entertainment and media companies continue to produce and distribute film and television content that will allow for historical industry profitability?
- Which business model(s) will allow for revenue maximization?
- How can entertainment and media companies increase pricing of digital content while not losing consumers to illegal consumption?
- What changes, if any, should be made to the current windowing system?
- What must content owners and distributors do to ensure survival and future growth both in the US and internationally?
- How can content owners/distributors incentivize consumers to move from a rental model back towards a purchase model?
- Should digital lockers allow for rental content to be stored in addition to purchased content? Does this make sense economically?
- What should the revenue model look like for digital locker services?

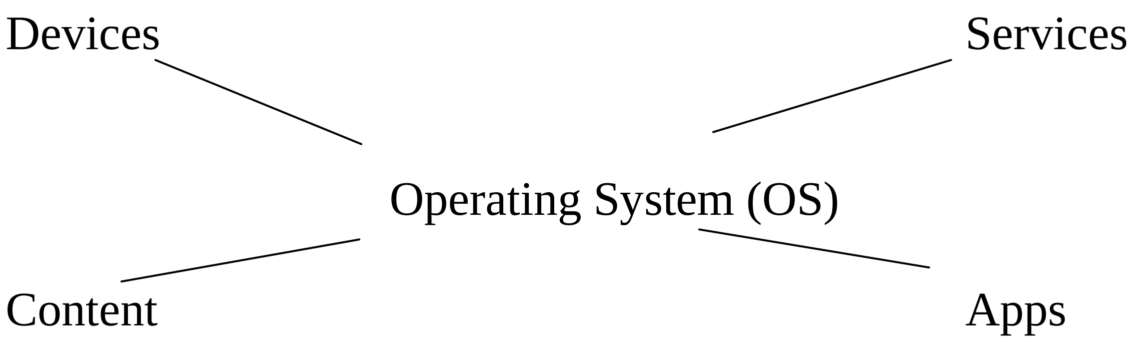

Figure 1. Source: ces.cnet.org

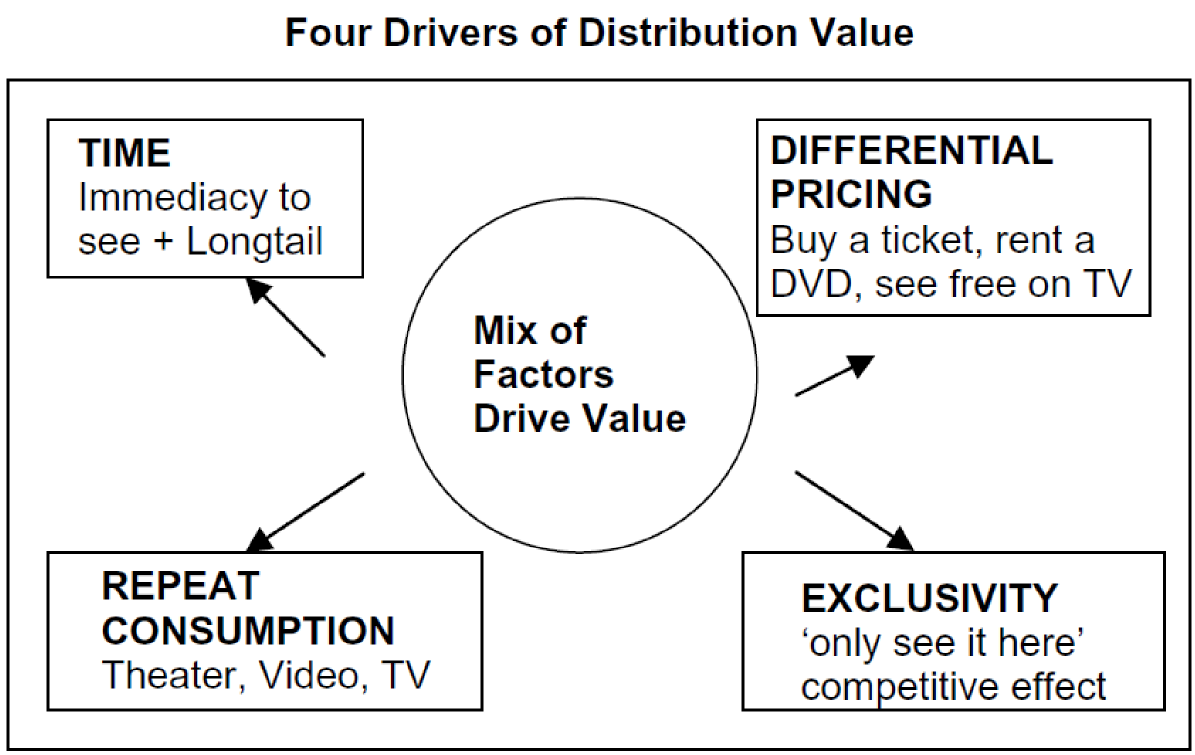

Figure 2. Ulin, The Business of Media Distribution, p. 5.

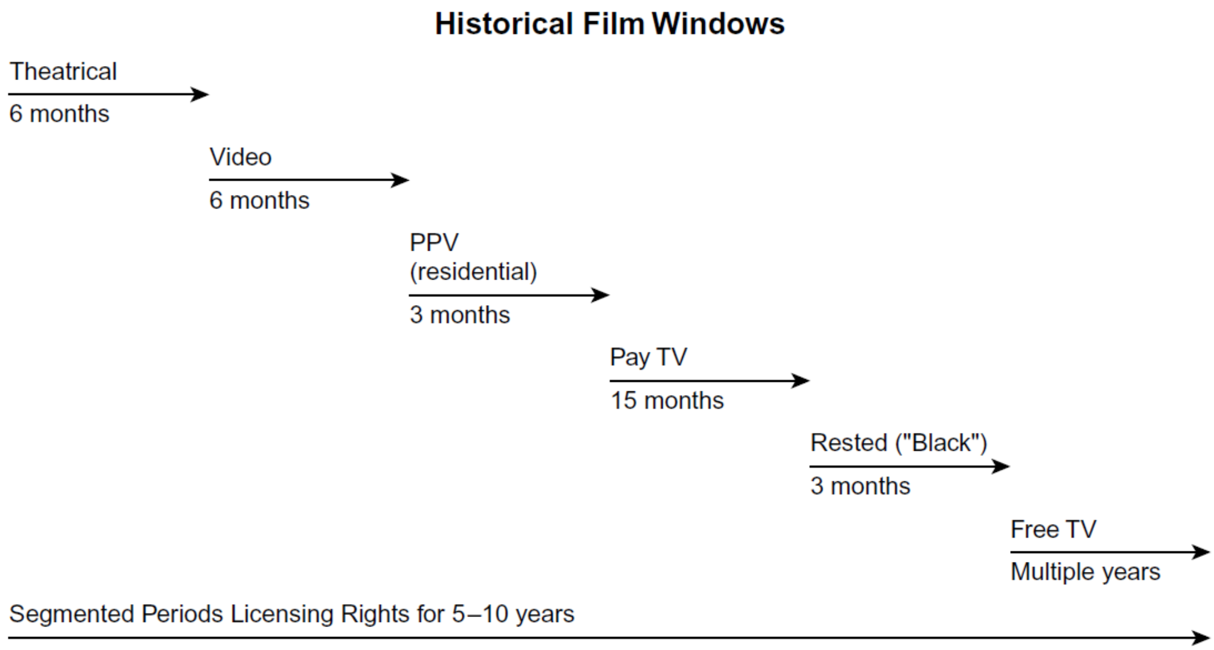

Figure 3. Ulin, The Business of Media Distribution, p. 32.

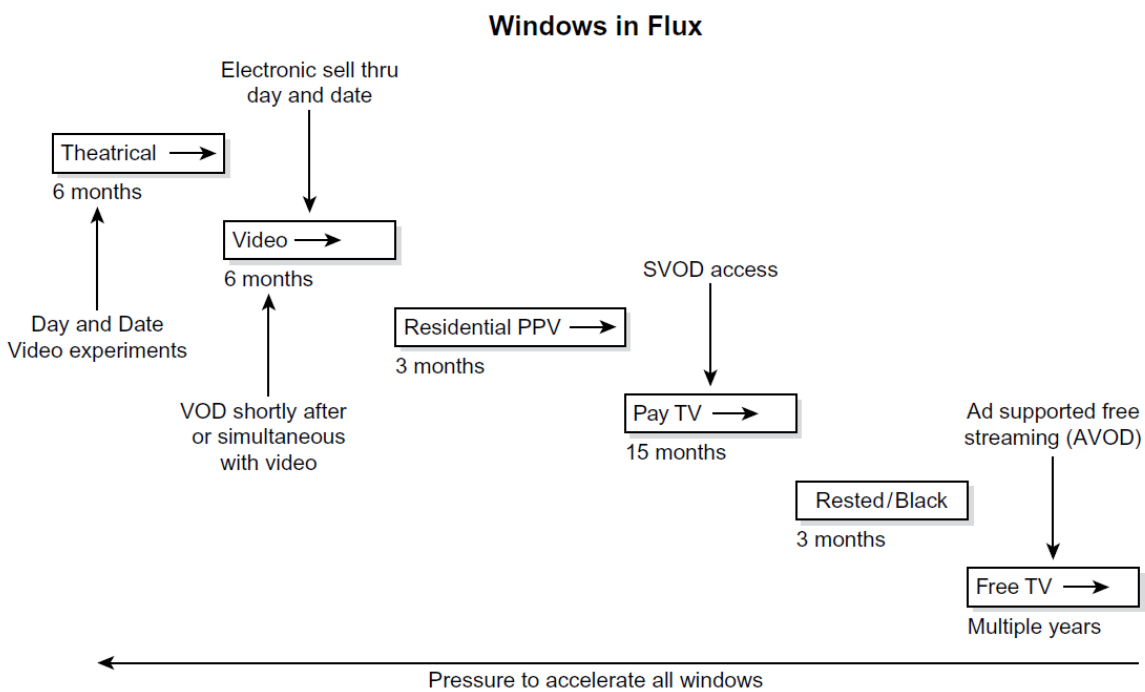

Figure 4. Ulin, The Business of Media Distribution, p. 35.

A Burst of Convergence

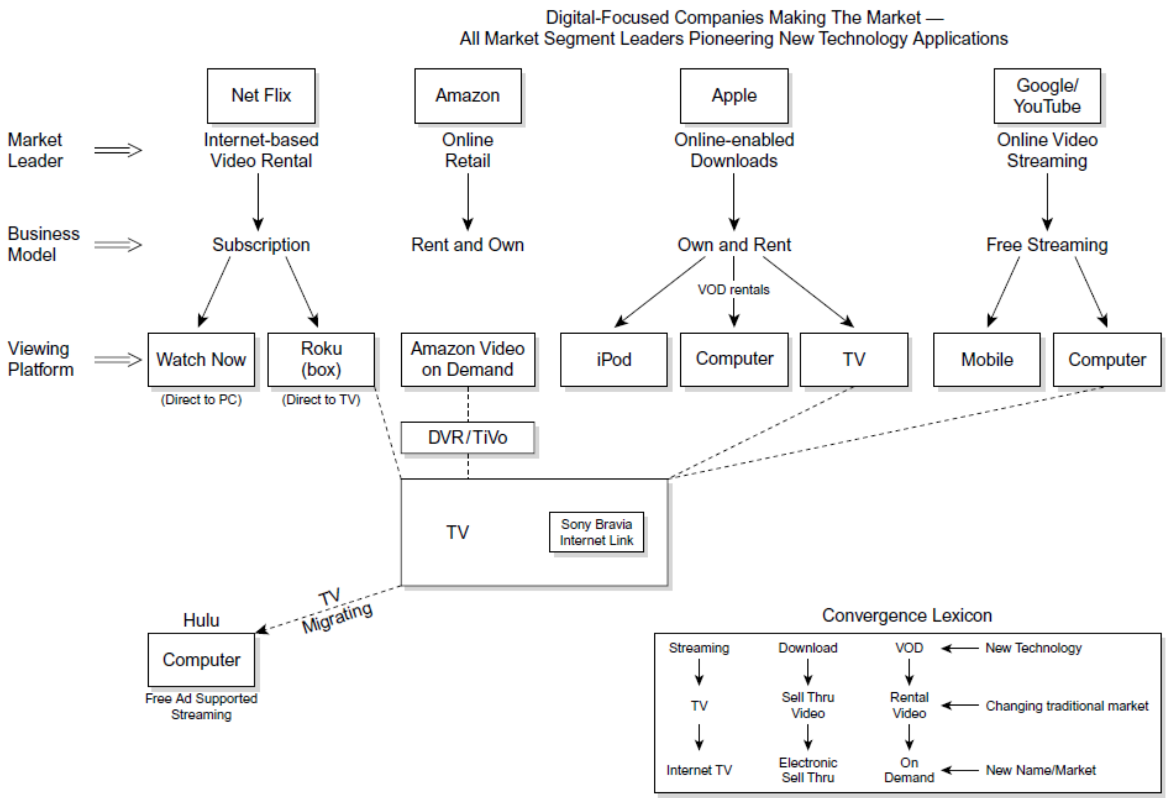

Figure 5. Ulin, The Business of Media Distribution, p. 333.

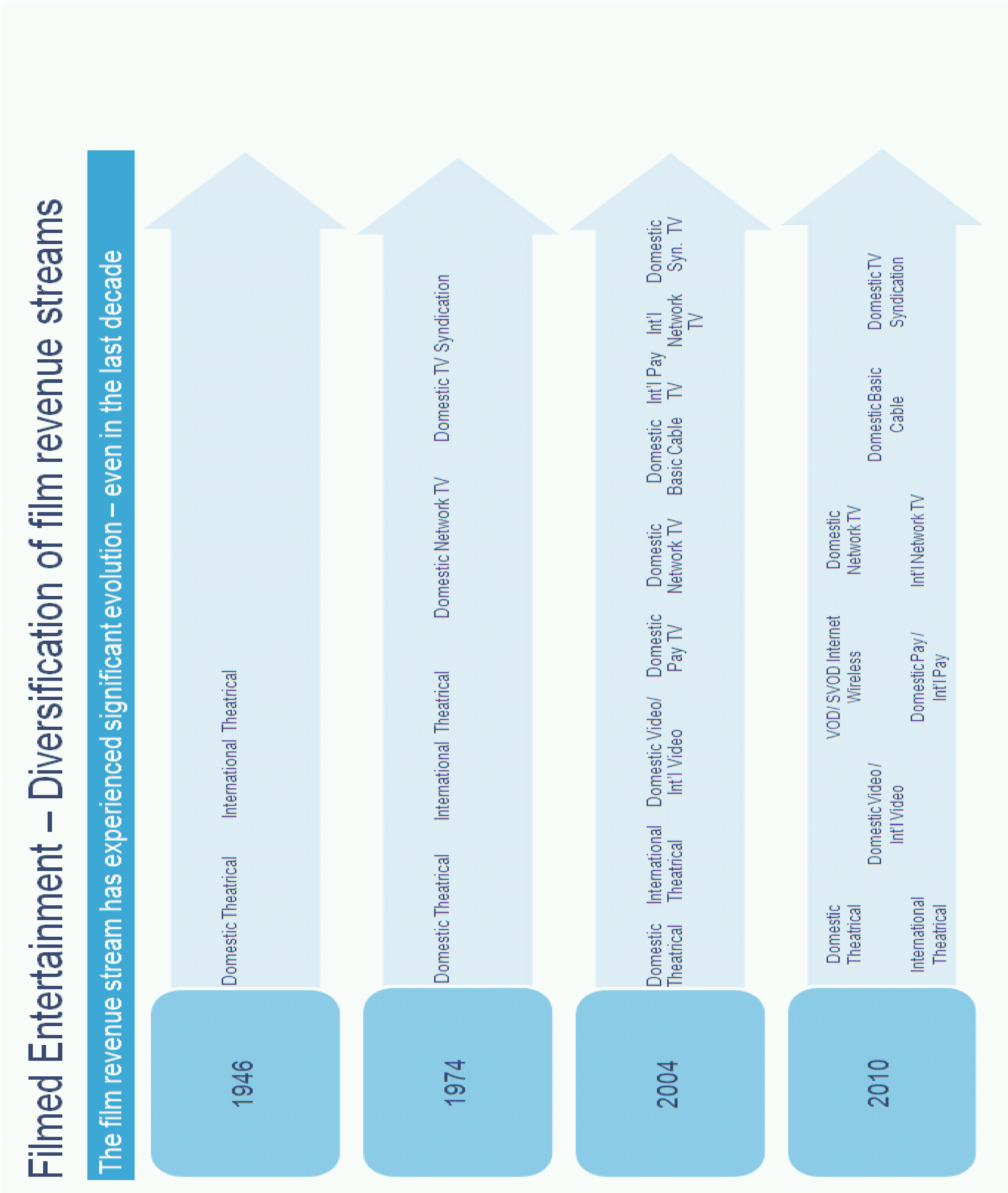

Figure 6. Source: PricewaterhouseCoopers, 2012.

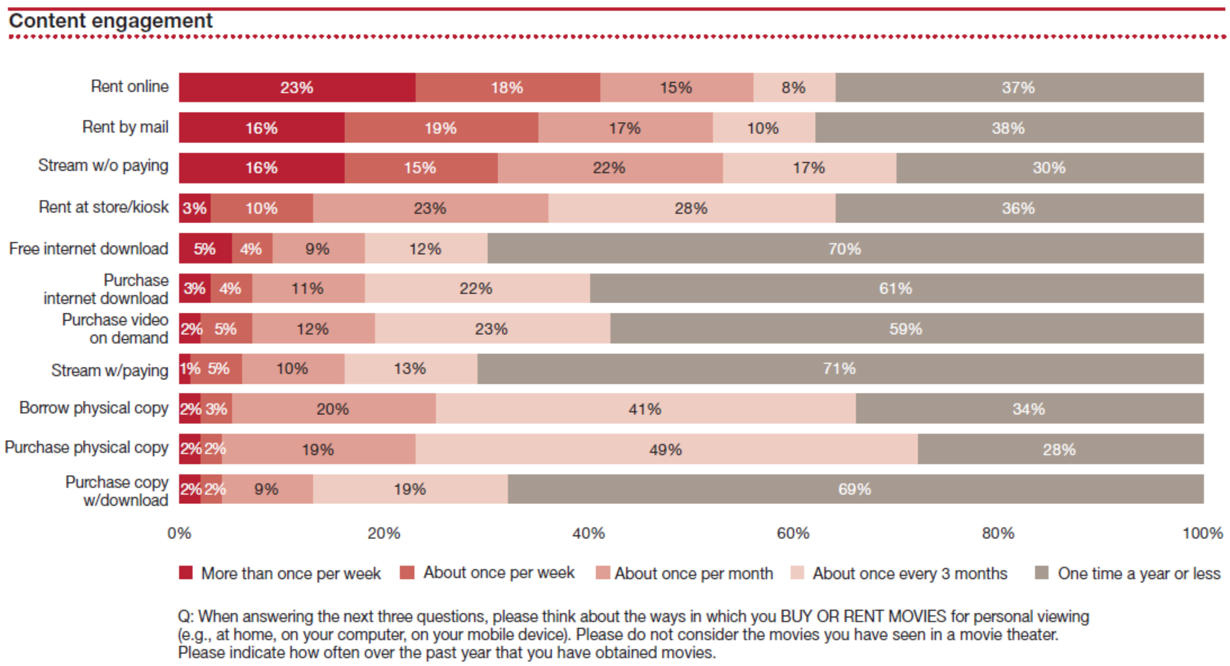

Figure 7. PricewaterhouseCoopers, Premium content consumption: Responding to the "instant access" customer. p. 3.

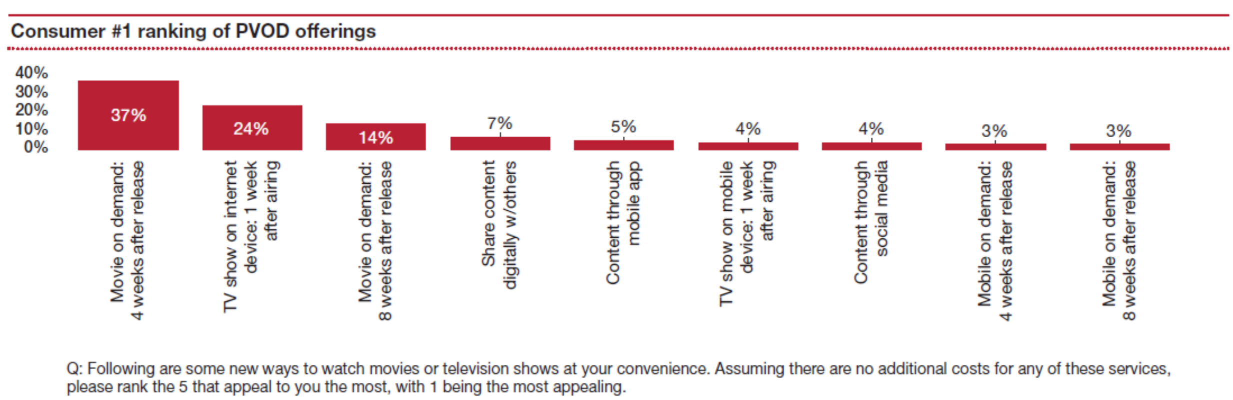

Figure 8. PricewaterhouseCoopers, Premium content consumption: Responding to the "instant access" customer. p. 4.

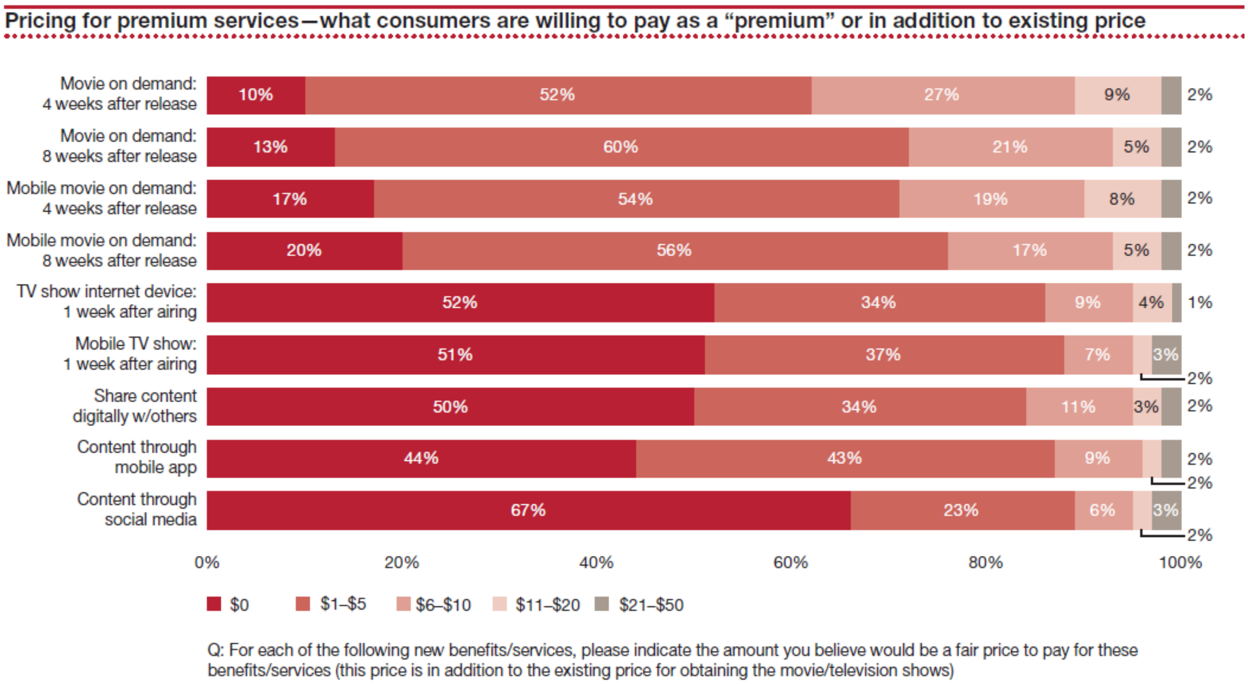

Figure 9. PricewaterhouseCoopers, Premium content consumption: Responding to the "instant access" customer. p. 5.

Quality	Price	Speed of Access
• **Quality image, clarity, sound—** "movie theatre quality" – The higher the quality, the more likely consumers are to watch/ purchase. • **Quality of content—** genre; viewing experience – Movie that has received a lot of praise or "buzz".	• **Based on perceived value** If the caliber of material is high, there's more willingness to pay – But consumers want to limit the amount they pay for something they watch at home. • **Looking for "bang for the buck"—** paying to see a movie that is worth it (such as tentpole releases like "Dark Knight") – Don't want to pay incrementally to what they're already paying for subscription service. • **Pay a specific set price—** per episode or per month – Everything anywhere for under $20 per month.	• **Speed of download = faster access** – The faster the download, the faster the "access". – Most consumers assumed this interpretation. • **Convenience is really important** – The faster the download speed, the more convenient. – Will not wait if the download speed is too slow. • **Quick buffering** – Quick and easy transitions from one episode to the next. • **Access anywhere** • **Access relative to release window** – Readily available soon after it aired or was in theaters. – Today's movies. Right now. Right here.

Figure 10. PricewaterhouseCoopers, Premium content consumption: Responding to the "instant access" customer. p. 6.

Appendix

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