Can Blu-ray Heat Up Hollywood Again?

By Rachel Abramowitz, Times Staff Writer

On a recent muggy afternoon, Best Buy sales specialist Sheikh Ullah lugs out the last Blu-ray player in stock in the cavernous West L.A. store. It's a fluke that the machine is even here, explains Ulla. The store got 10 of the $1,000 Samsung machines last week. This is the only one left, because its intended buyer — who ordered and paid for the machine that plays the new high-definition DVDs — got impatient and ordered another Blu-ray player online that arrived first.

"It's a really hot product," says the salesman, looking for an appropriate way to describe the joy that overcomes a gadgethead when he or she scores one of these players. "It's like they have a piece of the moon in their hands," he says.

ADVERTISE This is poetry to Hollywood's ears. All over the movie business, people are hoping that the new high-definition DVDs — either in its Blu-ray form or its rival HD-DVD — will take off and mitigate the reality that hangs over the home entertainment business. The DVD go-go years are over.

For many in Hollywood, it's as if they just discovered Santa isn't real. No matter how bad the movies, the box office, the marketing costs, the bloated star salaries, there was always salvation in the shiny little disc. The studios could make and market one for $5 and then sell it to consumers for more than $17, a tidy profit of at least $12 bucks per disc. The disc generated rivers of cash. "Finding Nemo" is the all-time bestseller on DVD; it made $340 million at the U.S. box office and $537 million in home video.

The new high-def DVDs allow viewers to see the pores of Robin Williams or Brad Pitt in all their glory. One only has to look at the DVD section at Best Buy to understand the real place that the new high-def DVD holds in the home entertainment firmament. The retail chain features two tiny stand-alone displays of a dozen Blu-ray titles, largely from Sony, and a dozen HD-DVD titles, primarily from Warner Bros. A customer in painter's pants and baseball cap walks over to check out the "Terminator 2" title but quickly leaves when he realizes that he can't play this format in his regular DVD machine.

Best Buy features seven aisles of regular DVDs with hundreds of titles of movies and TV shows, and a handful of consumers are browsing the merchandise.

The DVD business is still growing — it's just no longer giddy.

American homes are now officially crammed with DVD players and copies of everything, including Season 3 of "The Golden Girls," "Fitzcarraldo" and various special editions of "The Terminator." According to the Digital Entertainment Network, 80% of all households own DVD players. The most enthusiastic DVD buyers have generally been new DVD owners looking to build their collections. Many people have rafts of the shiny jewel cases they've never even opened.

"I don't know when you're supposed to watch them all," sighs one marketing honcho surveying her DVD closet. "I could only hope for a long incapacitation."

According to Jan Saxton, an analyst at Adams Media, a consulting firm that specializes in home video business, in the retail-sales DVD market is expected to be up just 3.2% this year, a far cry from 2000-2004, when the retail market was experiencing explosive double-digit growth, at some points almost 25% a year. The entire home video market (which includes VHS) will be up only 0.6%; it was down 2.6% last year. Total consumer spending on DVDs and high-def is experiencing explosive double-digit growth, at some points almost 25% a year. The entire home video market (which includes VHS) will be up only 0.6%; it was down 2.6% last year. Total consumer spending on DVDs and high-def is 

Part of the perceptual problem is the fact that the DVD was the fastest growing consumer electronic product in history.

"The growth curve was steeper than most past technologies, and a steeper growth curve hits its peak sooner. The market started the slowdown earlier than most people anticipated, including us. Now that the market has matured, everyone has to adjust to that reality."

"There's a real sense of unease and uncertainty of where the future is," says Oscar-winning producer Mark Johnson ("The Chronicles of Narnia"). "The old reliable standard has been, 'Of course, we're going to be making all this money in home video,' and now home video is settling down. It can't help but be alarming for everybody. It's not a good omen."

"It's an issue for Hollywood," says Hollywood analyst Lowell Singer, of the A.C. Cowen investment firm. "It's one of the reason's Wall Street is taking a much more cautious view of the film business. There's always been this catchall of the home video,' and now home video is settling down. It can't help but be alarming for everybody. It's not a good omen."

DVD sales constitute 50% to 60% of the revenue on any given picture. Plus, the studios had deemed for themselves the...
right to be piggy with the booty. Generally, the writers, stars and directors earn royalties that are based on just 20% of a DVD's net income, with the other 80% pouring right into the studio's bottom line.

"I think there was a feeling in town that because the DVD was growing, it would cover for sins," notes Ben Feingold, head of home entertainment for Sony.

The DVD revolution did not just boost the studio coffers and fuel the boom in elaborate home entertainment setups, it changed moviegoing habits.

"Millions of movie-literate consumers were created in the early DVD days," says Mike Dunn, president of 20th Century Fox home entertainment. "You see it playing out in many avenues, like the current explosion in specialized theatrical."

Dunn says that his studio first recognized the change in consumer taste with the release of the DVD of "Fight Club," the controversial David Fincher film starring Brad Pitt and Ed Norton as hopeless young men who vent their aggression through underground fight clubs. The 1999 film grossed only $44 million at the box office, but the DVD, complete with interpretation from Fincher, sold a 1 million copies.

Although many have complained that Hollywood caters to young men, the initial DVD revolution showed why that made sense. "The movies that tended to perform miraculously — from an industry perspective — were targeted often to young males," says Feingold. "In the first five to seven years of the format, young males tended to buy a disproportionate number of the DVDs."

The DVD drop-off is part of the climate that has sent the industry on a cost-cutting binge.

"If revenues don't continue to increase, then costs can't increase along with it. One thing the expansion of the DVD market enabled studios to do is to make more expensive movies," says producer Tom Pollock, who ran Universal for many years. "When revenue is slowing down, costs have to slow down. It means you're going to see fewer really expensive movies made and more less-expensive movies made."

While Hollywood experiments with making films available for downloads, the studios are definitely looking at the new high-def disc to boost business. Sony, for instance, is banking on the new Sony PlayStation that debuts in November to drive sales of the Sony Blu-ray discs, which will be able to play on the new consoles.

The future of the new format is hazy, given the fact that studios and consumers are bracing for the coming format war between Blu-ray, which is backed by Sony, Disney, and Dell, and HD-DVD, which is the horse of Toshiba, Microsoft and Universal. Adams Media projects that sales of traditional DVDs will fall by 20% by 2010, as the new technologies take hold. For many, the battle is reminiscent of the war between VHS and Betamax, in which the owners of Betamax were left with a useless technology.

"DVD sales will go down this year because consumers know about high definition but they don't know which format to buy," says Reed Hastings, chairman of Netflix, the online DVD rental powerhouse that has been growing at the expense of traditional video stores. "The problem with picking sides is that creates consumer anxiety, and so they'll just stop buying, period, or slow down their buying. The solution to getting the business growing is to have the studios support both formats. In video games, the two main formats are Xbox and PlayStation, and the market does well with two formats."

At $1,000, the Blu-ray players cost about $500 more than the HD-DVD players, which in turn cost about $450 more than a regular DVD player. Although the new technology provides richer, more detailed imagery, some critics wonder whether consumers will really be able to see the difference if they don't possess gigantic 65-inch plasma TV screens.

Yet hope springs eternal in Hollywood.

"Next Christmas, I would expect you'll be at 10 to 20% household penetration" for the new technology, Fox executive Dunn says. His studio is backing Blu-ray. "Four years from now, you'll have 50% penetration of the new technology."

"Those flat panel high-def TVs, they're selling at unprecedented rates."

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