DreamWorks and Paramount choose the high-definition discs over rival Blu-ray.

By Josh Friedman and Alex Pham Times Staff Writers
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The format war over next-generation DVDs appeared to have a clear winner, but the picture just got fuzzier.

Paramount Pictures and DreamWorks Animation SKG Inc. said Monday that they would offer movies exclusively in the HD DVD format rather than in that of the better-selling Blu-ray -- a surprise move that complicates the technology battle that Blu-ray had been clearly winning.

"I am very late to this party because I was skeptical about high definition," said Jeffrey Katzenberg, chief executive of DreamWorks Animation, "but what is happening in the marketplace is a game changer."

Not included are director Steven Spielberg's films, which the companies said were "not exclusive to either format." Spielberg, Katzenberg and mogul David Geffen sold their DreamWorks SKG live-action operation to Paramount parent Viacom Inc. last year.

Both HD DVD and Blu-ray players produce much sharper pictures than conventional DVD players. Because most people still have standard machines, high-definition discs are just a fraction of the overall DVD market. From Jan. 1 through Aug. 12, consumers bought 2.1 Blu-ray discs and 1.1 million HD DVD discs, compared with nearly half a billion standard DVDs, said Judith McCourt, research director of Home Media Research.

But HD DVD players now retail in some cases for $299 and could be headed as low as $199 by the holiday season, making them affordable to families just as a diverse group of hi-definition movies is going on sale. He further predicted that this summer's Hollywood blockbusters -- including installments of the "Shrek," "Pirates of the Caribbean" and "Harry Potter" franchises -- would make the fourth quarter the biggest ever in home entertainment.

Blu-ray players have come down to $499 today from about $1,000 a year ago.

Despite being more costly, Blu-ray discs have outsold HD DVDs by 2 to 1 this year, and retailers including Blockbuster Inc. and Target Corp. are lining up on the Blu-ray side, according to the Blu-ray Disc Assn.

"Blu-ray is going to win," said Andy Parsons, spokesman for the trade group. "It's just a question of how much longer it's going to take now."

He said the decision "seems oddly timed given Blu-ray's tremendous momentum both with consumers and with retail."

Target will start selling a Blu-ray device this fall for the holiday shopping season, although it will still offer discs in both formats. Blockbuster now stocks Blu-ray discs exclusively at most of its outlets.

Monday's move by Paramount and DreamWorks Animation is sure to further baffle consumers.

The DVD format battle is reminiscent of the videocassette fracas in the 1980s, won by Matsushita Electric Industrial Co.'s VHS technology over Sony Corp.'s Betamax. Many consumers are holding back on hi-def DVD purchases for fear of ending up like Betamax purchasers who bet on the losing format.

Although lower prices will help spur sales of high-definition movie players, consumers will still hold off because they don't want to be stuck with an obsolete machine that won't be able to play new movies from the winning format a year from now, said Chris Roden, an analyst at Parks Associates in Dallas.
"You're not seeing mass adoption right now," said Roden, who projected that consumers would buy 4.9 million high-definition players this year. "People are just frustrated by the format war."

Universal Pictures releases film DVDs exclusively in HD DVD, developed by a consortium headed by Toshiba Corp.

Sony Pictures, 20th Century Fox, Walt Disney Co., Lions Gate Entertainment Corp. and Metro-Goldwyn-Mayer Inc., meanwhile, release titles only in the Sony-developed Blu-ray.

Now, Warner Bros. Pictures and its sibling New Line Cinema will be the only Hollywood studios serving both formats, said Richard Greenfield, an analyst at Pali Research.

"If you want 'Transformers' and 'Shrek the Third,' you'll need an HD DVD player, but if you want 'Spider-Man 3' or 'Pirates 3' you'll need Blu-ray," Greenfield said. "This substantially prolongs the format war."

Paramount had been serving both formats. For DreamWorks Animation, "Shrek the Third" will mark its entry into the high-definition market.

The format battle -- which many had assumed was nearly over -- could drag on for years, one analyst said.

"We don't see an early winner in this," said Jan Saxton of Adams Media Research Inc. in Carmel. "Most people are not aware that the original video format [battle] between Betamax and VHS lasted 10 years."

Katzenberg and Rob Moore, Paramount's president of worldwide marketing and distribution, declined to comment on Internet reports that hefty payments were the motivating factor spurring the two studios.

Nikki Finke of the DeadlineHollywoodDaily.com blog and Greenfield, at his Pali Research blog, said that Paramount would get $50 million and that DreamWorks Animation would receive $100 million for making the switch -- payments that would "meaningfully" boost the bottom lines for both studios.

Katzenberg said he wouldn't discuss deal terms but acknowledged that the Shrek character and the heroes from the studio's upcoming "Bee Movie" and "Kung Fu Panda" would likely be enlisted in marketing efforts to promote the HD DVD format.

Moore also wouldn't comment on deal terms but said, "We think this decision is in the best interests of Viacom and of the consumer."

Moore said Paramount's research showed that those who bought stand-alone hi-def players -- as opposed to the popular PlayStation 3 game consoles that also play Blu-ray movies -- purchase more movie discs.

"Sony got off to a big lead because of the PS3, but we expect that to change dramatically," Moore said.

Sony has sold 1.4 million PlayStation 3s in the U.S. since launching the game console in November 2006, according to NPD Group. Ninety percent of Blu-ray movies are being played on the PlayStation 3, which consumers buy primarily to play video games, analyst Roden said.

Sony will release the first Spielberg film in the hi-def format, the 1977 classic "Close Encounters of the Third Kind," on Nov. 13.

Analysts said that until Monday, Blu-ray had been perceived as the likely winner of the high-definition movie war, with all studios in its camp either fully or partially except Universal.

Monday's announcement gives HD DVD a fighting chance, said Van Baker, an analyst at Gartner Inc. But it also could keep consumers on the fence and ultimately prevent sales of high-definition movies from taking off.

"The customer attitude right now is wait and see," Baker said. "This just prolongs that wait-and-see period."

One reason for the fierce competition is the high stakes involved in owning the technology licenses to the next-generation of DVDs, Baker said.

"It's a winner-take-all battle," he said. "And that's why you see both sides digging in their heels."

"Most consumers are going to choose not to spend their money" when there's a format
war, he said. "They're going to continue to buy [regular] DVDs and say that's good enough."

But lower prices will help the HD DVD eventually triumph, said Blair Westlake, vice president of software giant Microsoft Corp., a backer of HD DVD.

"Consumers want hardware that's low priced in order to enter the high-definition market, and HD DVD is fast approaching that mark," Westlake said. "Consumers know they can buy a standard def DVD player today for less than $100, so they don't want to pay five or six times that to get into a new format."

josh.friedman@latimes.com
alex.pham@latimes.com

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Times staff writer Joseph Menn contributed to this report.

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Comparing formats

The two dueling high-definition DVD formats, HD DVD and Blu-ray, offer far sharper images than standard DVD. Some analysts liken the format war to the old VHS-Betamax battle.

**DVD**
- Data capacity per layer: 4.7 gigabytes
- Maximum image resolution (in pixels): 640 x 480
- Thickness of recorded layer: 0.6 mm
- Studio backers: All
- Retail launch: 1997

**HD DVD**
- Data capacity per layer: 15 gigabytes
- Maximum image resolution (in pixels): 1,920 x 1,080
- Thickness of recorded layer: 0.6 mm
- Studio backers: DreamWorks Animation SKG, Paramount, Universal, Warner Bros
- Retail launch: Winter 2005

**BLU-RAY**
- Data capacity per layer: 25 gigabytes
- Maximum image resolution (in pixels): 1,920 x 1,080
- Thickness of recorded layer: 0.1 mm
- Studio backers: Disney, Lions Gate, MGM, Sony, 20th Century Fox, Warner Bros.
- Retail launch: Spring 2006

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Source: Times research
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