A high-definition fight scene in slow motion

Sony, Toshiba disc formats still vying for studios, retailers

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Raging in the backrooms of Hollywood this summer has been a battle that will play out in the aisles of Wal-Mart and Target.

Until recently, it had appeared that the two camps vying to set the standard for next-generation DVDs would settle the score this holiday season.

But last-ditch maneuvering in recent weeks has all but assured that the format war will extend well beyond December, keeping many home-movie buffs from laying their money down until a winner is declared.

It's no wonder that neither rival -- Asian consumer electronics giants Sony Corp. or Toshiba Corp. -- can bear to give in. Licensing fees on equipment that could be worth $10 billion or more over time are up for grabs.

At the moment, Sony's Blu-ray discs have the edge, with a 2-to-1 advantage since January, thanks to support from Walt Disney Co. and News Corp.'s 20th Century Fox, as well as the sale of 1.6 million Sony PlayStation 3 game consoles that play films in the new high-definition format.

But in an attempt to swing momentum in its favor, Toshiba has struck a flurry of deals aimed at winning studio allegiances and securing prized retail space for its HD DVDs.

Toshiba recently paid a collective $150 million to Paramount Pictures and DreamWorks Animation in a bid to buy their support, according to people with knowledge of the terms of the transactions.

Toshiba spokesman Keisuke Ohmori declined to comment on possible marketing payments, but said the two studios had picked HD DVD on the merits, as "the optimum platform" for consumers and film distributors.

Toshiba's expanded partnership, which had already included Universal Pictures, means that many of this summer's biggest movies, including "Transformers" and "Shrek the Third," will be released in video this fall in the HD format.

The brinkmanship is intensifying. Another major studio, Warner Bros., is being courted by both camps and believed to be mulling over a lucrative offer that could bring such popular titles as "Harry Potter and the Order of the Phoenix" into the HD DVD camp, according to Hollywood insiders who requested anonymity because the talks were confidential.

"Any movement by one of the studios tilts the playing field in one direction or the other," said David Sanderson, head of the global media practice at consulting firm Bain & Co. "It's a bit of jump ball right now."

What's more, Wal-Mart Stores Inc., the dominant seller of DVDs, has been contemplating whether to boot stand-alone HD DVD players from its shelves in favor of Blu-ray. Wal-Mart executives would not talk about the company's conversations with suppliers, but said it would continue to carry hardware and software in both formats until consumers indicate a clear preference.
Nonetheless, they expressed frustration with the continued format race.

"It would be good for the studios or somebody to make the call," said Kevin O'Conner, Wal-Mart's vice president and general merchandise manager for consumer electronics.

The stakes for Toshiba and Sony are enormous. The winner would probably enjoy dominance in the home video market for the next decade, notwithstanding the growing threat to plastic-boxed DVDs from movie downloads over the Internet.

When DVDs supplanted VHS, a who's who of electronics giants collected the royalties. After a fleeting format war, the two camps merged, bringing a consortium led by Sony together with a group that included Matsushita Electric's Panasonic, Toshiba and Warner Bros.

Toshiba and Panasonic collected the bulk of the royalties because they had the most patents, said Jim Taylor, author of the book "DVD Demystified." Manufacturers paid $10 to $20 for every dedicated movie player, game console and computer that incorporated the technology -- major money, he said, given the approximately 1.3 billion DVD players worldwide.

"Even if the high-definition formats are only half as successful as DVD, that's still incredibly successful," said Taylor, senior vice president at Sonic Solutions in Novato, Calif., whose software is used to produce movie DVDs. "That's why the format war hasn't gone away."

Come the fourth quarter, manufacturers and studios will barrage consumers with promotions that emphasize the improved imagery and the new, interactive features of the high-definition discs. Blu-ray discs have greater capacity than HD DVDs, which proponents such as Bob Chapek, president of Disney Studios Home Entertainment, say is important for picture quality and interactive bonus features.

But if the past is any indicator, other factors matter more. Though Sony's Betamax format was technically superior, it lost out to JVC's VHS videocassette format in the 1980s in part because it was more expensive, said Wolfgang Schlichting of IDC, a technology research company in Framingham, Mass.

Sony was reluctant to license its technology to competing manufacturers, wanting to keep hardware sales to itself. But JVC made licensing easy, helping to drive down the cost and flood stores with VHS players. Movie studios followed the supply.

"More and more movies were available on VHS," Schlichting said. "In the rental stores, the selection for Betamax was getting smaller and smaller. The availability of movies was ultimately the undoing of Betamax."

That's why so much cash has flowed in the latest battle for the living room.

Toshiba's internal market research showed that more consumers would buy HD DVD players if it could level the playing field in terms of the number of titles available in the format, according to people close to the situation. That prompted the courtship of Paramount and DreamWorks, whose "Shrek" title promises to give HD DVDs appeal with families.

Without the newcomers, only Universal Studios titles, such as "The Bourne Ultimatum," the high-octane thriller starring Matt Damon, would have been exclusive in that format.

But the additions are probably not enough to win the war. Blu-ray is the leader, with seven of the summer's 15 biggest box-office performers headed for exclusive release in its format, including "Spider-Man 3," "Fantastic Four: Rise of the Silver Surfer," "Ratatouille," "Pirates of the Caribbean: At World's End," "The Simpsons Movie" and "Superbad."

Warner Bros., however, could change the balance of power. The last major studio backing both formats, Warner has the leading market share in high-definition disc sales, giving it clout with retail chains.

Retailers also have contributed to the recent jockeying. Target Corp., the nation's second-largest retailer, announced in July that it would sell only Blu-ray players. Its decision followed a bidding war in which Sony and three studio partners reportedly paid Target what one rival described as a "jaw-dropping" sum for prominent display of its hardware at the end of sales aisles. It will continue to sell the HD DVD drive for Microsoft Corp.'s Xbox 360 game console and HD DVD movies.
Wal-Mart has yet to weigh in. During a review of its space allocation, Wal-Mart, which accounts for 40% of DVD sales, had set a mid-August deadline to determine whether it would continue to carry both Blu-ray and HD DVD, according to people familiar with the evaluation process.

In a recent meeting at Wal-Mart's headquarters in Bentonville, Ark., Toshiba offered details of its new, $299 player and, according to knowledgeable sources, pledged a large cooperative promotional budget to support HD DVD sales.

But Wal-Mart executives say consumer preferences will determine the outcome.

"If they've offered big dollars, we haven't got them yet," said Wal-Mart's O'Conner. "The customer will drive what we're going to do."

For now, most consumers seem confused. As a result, sales have been slower than when the DVD was introduced to replace VHS players, said Jeff Mass, Wal-Mart's division merchandise manager for movies and music. Even the PlayStation 3, the console that Sony counted on as a Trojan horse to build support for Blu-ray movies in the home, has been less than a deciding factor.

"I'm not convinced that people are using those players to play movies," Mass said.

Adoption of Blu-ray and HD DVD has been further hampered by the fact that only about 28% of American households have high-definition TVs that can display video in its highest, most lush resolution, according to sales estimates from the Consumer Electronics Assn. Only half of those have big screens.

"This is an eye chart test," said James Burger, a lawyer who represents technology companies in Washington. "You don't even begin to see the difference unless the screen is larger than 42 inches."

The prices of high-definition players also have discouraged buying by the masses, although that could soon change. Toshiba's first HD DVD player was introduced in April 2006 at $500. Samsung followed in June 2006 with the first Blu-ray player, which sold for $1,000.

Several analysts said $200 is widely seen as a "magic number" in consumer electronics. Toshiba's new HD DVD player -- a $299 device unveiled in early August -- may come close to that price, and Venture Electronics of Ontario, Canada, already has it beat. The company will offer a Chinese-made, $199 HD DVD player in the fourth quarter that analysts say could be the flint that ignites the mass market.

"Once a product drops below $200, it goes vertical," said Rob Enderle, president and principal analyst of the Enderle Group.

Andy Parsons, chairman of the Blu-ray Disc Assn. promotions committee, said it would be foolish for anyone to assume that makers of Blu-ray players won't attempt to compete with HD DVD on price. But he said hardware price alone won't drive adoption.

"If these guys are feeling they have no choice but to lower prices to gain support for their format, it will get attention," he said. "Does that also convince consumers that's a winner format? If you can't watch the 'Pirates' movie, you can't watch 'Spider-Man' on that player, is it really all that terribly compelling to consumers?"

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