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## Hollywood downloads a post-DVD future

The movie studio business model is poised for its biggest shift in years as Hollywood turns to Internet delivery as the only way to boost home entertainment revenues.



Rocket Video, a mecca for L.A. cinephiles, is closing after more than 30 years. It offered obscure art-house and foreign films. Sales plummeted as users switched to on-demand services. (Bob Chamberlin, Los Angeles Times / September 25, 2011)

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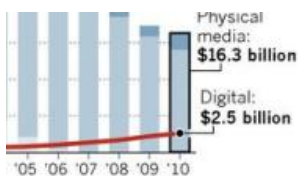
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Graphic: Comparing home entertainment media sales

Ben Fritz, Los Angeles Times  
September 25, 2011

Across Hollywood, a quiet revolution is brewing that's about to transform living rooms around the world.

After desperate attempts to prop up the industry's once-thriving DVD business, studio executives now believe the only hope of turning around a 40% decline in home entertainment revenue lies in rapidly accelerating the delivery of movies over the Internet.

In the next few years, the growing number of consumers with Internet-connected televisions, tablets and smartphones will

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face a dizzying array of options designed to make digital movie consumption a lot more convenient and to entice users to spend more money.

With films that can be accessed on any digital device, downloaded as iPhone apps or shared on Facebook as easily as a photo, it may be the biggest shift in Hollywood's business model since the explosion of the DVD in the late 1990s.

"The days of baby steps on the Internet are over," said David Bishop, president of Sony Pictures' home entertainment unit. "It's now critical that we experiment as much as possible and determine how to build a vibrant market for collecting digital movies."

Though the online movie business has been growing at a healthy clip for the last few years, driven in large part by the majority of Netflix's 24 million U.S. subscribers who stream video, it hasn't come close to making up for the rapid drop in DVD revenue. Insiders attribute that to the lack of selection — thousands of movies available on disc still can't be found online — and to the complexity of downloading a film on one device and watching it on another.

Studios are eager to change that by offering more movies in easier ways, but there's not yet a consensus on how. As a result, people who connect their TVs to the Internet or buy iPads will face a vastly expanded but potentially confusing menu of options to access films from different sources in various ways.

"What you have now is a lot of people pursuing a lot of different paths to figure out how to reverse the trends we've been seeing," Paramount Pictures Vice Chairman Rob Moore said.

One thing is certain: People who like inexpensive movie rentals are going to have to get used to waiting longer than

they do now. Studios are beginning to use the Internet to slice up the market so that people who are willing to buy a movie or pay more to rent it can get it sooner.

Four studios have already experimented with so-called premium video on demand, in which consumers pay \$30 to rent a movie only two months after it debuts in theaters. Recently Sony Pictures began selling some movies online two weeks before they become available on DVD.

At the same time, some studios that make Netflix and kiosk rental company Redbox wait until 28 days after a DVD goes on sale before they can offer it for rent want to lengthen that delay. They believe such a move will encourage consumers to pay more to buy or rent a movie digitally.

By next year, consumers may have to wait two months or longer after a movie goes on sale before they can get it in a Redbox kiosk or Netflix envelope. Those who want to stream films online for a flat monthly fee from Netflix, Amazon or Blockbuster will in many cases wait years until those titles have completed their runs on cable networks like HBO.

"I see movies going down a path over time from premium sell-through all the way to the lowest-price rentals," said Craig Kornblau, president of Universal Studios Home Entertainment. "If we get digital right, consumers are going to get what they're willing to pay for."

Until now, most people have been largely uninterested in buying movies online, no matter the price or timing. Purchasing digitally typically means downloading a file to a single device, less convenient than a disc that can be moved from a bedroom to a minivan to a portable DVD player. Research firm IHS Screen Digest estimates that Internet movie purchases will be flat this year compared to last, while



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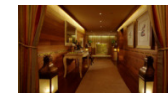


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Hollywood prepares for a post-DVD future

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online rentals will surge 41%.

Hollywood's solution is to put movies in the "cloud," creating virtual copies that people can access, after purchase, from any Internet-connected device. An initiative called UltraViolet will launch this year, when Blu-ray discs for films like "Green Lantern" and "The Smurfs" will come with free cloud copies. By next year, most online and DVD purchases will connect to UltraViolet's "virtual locker," and Apple's iTunes is expected to have a similar offering.

To encourage people to embrace the cloud, studios are even considering offering digital copies of DVDs they already own for a nominal fee.

"Historically when you bought a DVD you were really just buying the physical copy," said Edward Lichty, general manager of Wal-Mart Stores' digital service Vudu. "It's a profound development to say you own the movie itself and it can't be broken or lost."

Studios are rethinking not only how to sell movies online but where. The next frontier, many agree, is Facebook. Some have already started renting movies to people who click "like," but many executives hope to do more. People could use social networks to watch films with friends, share clips and play social games related to movies. They could also get recommendations based on the "likes" of people on their friends list.

Similarly, many in the entertainment industry are hoping that smartphones and tablets will be more than just another screen for watching movies. They're looking for ways to create movie-specific apps, as Warner Bros. has already done for titles like "Inception," and to use the devices as "second screens" with additional content such as director commentaries.

"On these new platforms we have to forget the way we have thought about movies as 'transactions' and think about them more as 'experiences,'" Lionsgate President Steve Beeks said.

On a recent Tuesday afternoon in Los Angeles, the need for Hollywood to make the great digital leap was evident as customers searched for bargains at Rocket Video's going-out-of-business sale.

A mecca for L.A. cinephiles for more than 30 years, Rocket offered tough-to-find art-house and foreign films. But like giant chain Blockbuster, which shuttered more than 1,750 stores in the last year alone, Rocket saw revenue plummet as customers flocked to less expensive and on-demand alternatives.

"I used to buy a lot of DVDs, but since two years ago I've just been using Netflix and iTunes," said Katherine Canipe, a 26-year-old actress clutching a copy of "Pet Sematary" that she had just plucked off the shelf. "I hate to see places like this going away, but I know I'm part of the problem."

As he sold off the store's more than 50,000 DVDs and VHS tapes, longtime store manager Jeff Miller remembered the days when Rocket was packed on Friday and Saturday nights with young people stocking up for a weekend of movie watching.

"It just became obvious we weren't making as much as we used to and there was a shift to an older crowd," he said.

Now the remaining customers have been asking Miller what they should do.

"I don't know what to tell them," the self-professed technophobe admitted. "But recently I've been thinking even I have to figure out how to get movies on the Internet."

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**AryeMichaelBender** at 10:14 AM September 25, 2011

Hollywood has a long, rickety tradition of first fearing the technology change that ultimately opens up vast new markets. Happy to see that ritual still being honored. We might do better if we sped through the fear part as fast as Hitchcock dealt with exposition.

**vaporland** at 8:39 AM September 25, 2011

when it's easier to pirate than go legal, people will pirate.  
piracy = price, quality, service - what we're NOT getting from hollywood.  
Apple figured it out with iTunes - I wish they would buy Netflix and 'fix' it...

**mike\_from\_sgv** at 7:00 AM September 25, 2011

Who cares if I have to wait 2 months to see a Hollywood movie on Netflix. I refuse to pay more to see it sooner. Besides, Hollywood movies are generally poor; the best movies are foreign and independent. The industry needs to know that many of us will go for the most economical scenario. You're not getting more of my money.

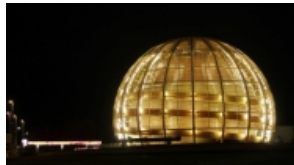
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