For a Thrifty Audience, Buying DVDs Is So 2004

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LOS ANGELES

MATTHEW BOWERS, of Chicago, has been paying to have HBO piped into his home every month for nearly two decades. He tunes in for the occasional episode of "Entourage" and every couple of months orders a movie on demand. Recently, the whole family watched "Sweeney Todd: The Demon Barber of Fleet Street."

But when his company laid him off in September, he started to think about the value he was getting out of the premium cable channel. "It's ridiculous to pay for this service I rarely use when I can get the same stuff online and save a lot of money," he said. The result? HBO is losing a customer.

Does an economy in tatters slow down or speed up the shift to watching TV shows and movies on the Web and mobile devices? The entertainment industry doesn't like the answer that is rapidly becoming clear: A global economic crisis almost certainly means a sharp acceleration in the move to new ways of consuming content, setting the stage for a new clash between consumers and studios.

Historically, the movie factories haven't been terribly afraid of tough economic times. In fact, they have almost welcomed them. During the Great Depression, people continued to turn to the movies for escape. VHS rentals boomed during the recession of the early 1980s, while DVDs got a boost from the downturn earlier this decade.

And a recent gloom has the Hollywood establishment rattled. DVDs are now where the industry makes its money, and Nielsen VideoScan reported a 9 percent drop in DVD sales in the third quarter over the quarter a year earlier — before the economy ran into a buzz saw. In television, crucial car advertisting is driving up.

Moreover, consumers now have cheaper ways to see movies and TV shows. Hulu. Vudu. YouTube. Netflix. Amazon Video on Demand. iTunes. Crackle. FunLittleMovies.com. Movielink. CinemaNow. The list goes on. As a result, movie and television studios seem more intent than ever on protecting their established businesses from cannibalization by new media, which are growing rapidly but still generating very little revenue comparatively.

Warner Brothers Television, which supplies “The Mentalist” and “Eleventh Hour” to CBS, recently asked the network to pull full-length episodes from its Web site, along with the comedy “Big Bang Theory.” The thinking is that they were potentially too hurtful to old-fashioned syndication sales to television stations down the road.

Metro-Goldwyn-Mayer’s recent deal with YouTube to stream full-length movies and TV episodes did not include any of the studio’s prize assets like the James Bond movies or “Rocky.” Instead, MGM is giving YouTube movies like the flop “Bulletproof Monk” and reruns of the original “American Gladiators” series — a safe deal for this stage of the game. (MGM says that more-sought-after content will follow, and notes that it has been one of the more aggressive movie studios when it comes to disseminating content on new platforms.)

Studio experimentation in digital distribution is going by the wayside, too. When DVD sales were booming a couple of years ago, for instance, companies could afford to stream a TV show here and a movie there. But with operating income at 20th Century Fox down 31 percent in the recent quarter over the year-earlier period, and Walt Disney Pictures down 42 percent, studios are newly afraid.

“The days of studios making little digital deals so they can put out a press release and look enlightened are over,” said Steve Mosko, the president of Sony Pictures Television, who also oversees digital distribution of Sony films. “The days of making this a real business are here,” he said.

The problem is that consumers are clamoring for the product even if it doesn’t make money for the studio. “I see people demanding an enormous acceleration in professionally produced Web and mobile video,” said David van Eyssen, an independent film producer who recently signed a production deal with Paramount Digital Entertainment. “The low-cost alternative to traditional media is the Internet.”

A JupiterResearch study, released in late September, asked consumers how the troubled economy would affect their media spending habits. Among adults ages 25 to 34 — the group of young adults cherished by media companies — movie tickets and premium cable channels were the first to go. The last was broadband.

Think nobody wants to watch a two-hour movie on a computer or hand-held device? When “Iron Man,” starring Robert Downey Jr., became available on iTunes in late September, it sold more than $1 million in $2.99 downloads in its first seven days of release, analysts say. That’s almost pure profit, because the cost of delivery is so low, analysts note. But it’s still a drop in the bucket compared with the $140 million in DVD revenue that “Iron Man” racked up in its first week.

“We’ve been pleasantly surprised at how much revenue is starting to come from sites like Hulu,” said John Sloss, an entertainment lawyer and founder of Cinetic Rights Management, a firm that helps independent filmmakers distribute their work on new platforms.

Not all studios are circling the wagons. Sony, for one, increasingly believes that new and old media businesses are complementary. “When TV came along, people thought it would ruin movies, but it didn’t,” said Mr. Mosko. “It’s the same situation here. These businesses can coexist.” (Sony, of course, makes a lot of money from digital devices.)

Most media companies are in a tighter spot. But James L. McQuivey, an analyst at
Forrester Research, predicts that any renewed efforts by studios to dig in their heels will be futile. “At this point, slowing down the flow of movies and TV shows to new platforms would be a little bit like cutting off a drug from a junkie,” he said. “People want more, more, more.”