Movie Downloads, Coming Soon to An IPod Near You

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It is not a stretch to say that the iPod changed, and helped save, the music business. One in five Americans has owned one of Apple Computer Inc.'s sleek little iPods. Consumers have filled their iPods with more than 1 billion songs from Apple's Internet music store, where tunes go for 99 cents each. In the five years since the iPod's rollout, Apple has locked down the online music business.

Now, Apple founder Steve Jobs may try to revolutionize another industry: motion pictures. Today Apple plans to debut an online store for movies. The company has cloaked the event in secrecy, but a number of Hollywood sources have confirmed that Apple will begin selling movies from the Walt Disney Co. and Lionsgate Films for play on iPods, computers and perhaps televisions. Financial analysts expect the films to cost from $9.99 to $14.99 each.

Selling full-length movies over the Web has been an industry grail for half a decade -- the profit margins would be high, as there are no manufacturing costs -- but the effort has been thwarted by slow Internet connections, software glitches, studio concerns about piracy, a limited library of films and a collective yawn from consumers, who remain perfectly happy to drive to Blockbuster or open an envelope from Netflix containing an easy-to-use DVD at an affordable rental price.

Five years ago, only a few executives and designers inside Apple had heard of an iPod. Five years from now, will one-fifth -- or more -- of Americans buy their movies from Apple?
"If anybody could pull this off with movies, it has to be Apple," said Tim Bajarin, president of technology research and consulting firm Creative Strategies Inc.

Apple's key to success is the creation of an easy-to-use "ecosystem," Bajarin says, that lets users find, buy and listen to music on a cool-looking device with just a couple of clicks.

But if Apple is to extend that success to motion pictures, the Cupertino, Calif., company faces a number of hurdles not present when it entered the digital music market:

· Who wants to watch a two-hour movie on a 2.5-inch screen, currently the largest available on an iPod?

If there is one thing that technology analysts agree on, it is that despite the explosion of video cellphones, hand-held game devices, laptops of all stripes, consumers still and will continue to prefer their television for watching video of more than a few minutes. Many Mac users say they buy television shows from iTunes for $1.99 but watch them on their computers, not their iPods.

"I have been wracking my brain thinking when I would use" the new Apple movie-download service, said Gary Shapiro, president of the Consumer Electronics Association, which represents 2,000 technology companies, including Apple. "If you're going to watch a movie and pay for a movie experience, unless you're stuck in an airplane . . . you would prefer to watch it on a bigger screen with surround sound. If you can't transfer that experience easily to your TV set, then it's going to be challenging."

As usual, Apple has declined to discuss the nature of its announcement, but the company may seek to anticipate the small-screen problem by introducing a new iPod today with a bigger screen or a wireless device for the home to let consumers easily beam movies from their computers to their televisions, much like a WiFi system. Such a device would differentiate Apple's service from the online movie store launched last week by Amazon.com, called Amazon Unbox, and would be key to consumer acceptance, as more households buy high-definition televisions and speaker systems to create home theaters.

Shapiro's research shows that about 30 percent of consumers with portable entertainment devices are interested in buying movies online. But even with high-speed Internet connections -- present in 45 percent of homes with Internet access -- downloading a feature film will still take about an hour, analysts say.

· Is there anything to watch? So far, Apple has agreements to sell
movies only from Disney (where Jobs sits on the board of directors) and Vancouver, B.C.,-based independent studio Lionsgate Films, which needs the distribution. And it's not clear which of all of Disney's studios -- which include Touchstone Pictures and Miramax Films -- will make their films available for sale. This means that films from the other major studios -- Sony Pictures Entertainment Inc., Universal Studios Inc., Paramount Pictures Corp., 20th Century Fox and Warner Bros. Studios -- will not appear on Apple's new service.

When Apple launched iTunes, it had noticeable gaps in its catalogue -- no Beatles, for instance -- but all of the major labels were represented. When iTunes began selling television shows, only programs from ABC -- also owned by Disney -- were available. Now, shows from many networks are for sale, even though the catalogue remains thin.

· Whither Wal-Mart? Unlike the music industry in 2001, which was being hammered by illegal downloading, the movie industry is healthier. Much of the health comes from DVD sales, which now provide more studio dollars than box office revenue. And the big seller of DVDs is Wal-Mart Stores Inc., which uses DVDs and CDs as loss leaders to lure shoppers into the store to buy bigger-ticket items.

Wal-Mart is leery of any enterprise -- say, an Apple online movie store -- that could bleed away its DVD revenue, especially when the retail giant has acknowledged it is considering launching its own online movie store.

The tension -- Wal-Mart on one side, Apple on the other -- has created an "emotional" time in Hollywood, one studio executive said on condition of anonymity because negotiations are ongoing. Studios recognize that DVDs sales have flattened and are eager to get a foothold with a proven seller of online content. But they fear angering Wal-Mart, the No. 1 customer of most studios' wholesale DVD sales.

· Finally, consumers use movies differently than music. Parents of small children often know their kids can watch the same movie dozens and dozens of times. For them, it makes sense to spend $14.99 for "Finding Nemo" on the new Apple service. But will grown-ups want to watch other Disney offerings, such as "Bridget Jones's Diary" or "Gangs of New York," the way they listen and re-listen to "Born to Run" or "Ol' Blue Eyes Is Back"?