Oct. 14, 2004

Gates: Broadcast model faces irrelevancy

By Chris Marlowe

Bill Gates, head of the world's largest software company, predicts a future for the entertainment industry in which traditional broadcast television is rendered irrelevant. It's a positive vision, however, because new and better business models made possible by technology are emerging.

In an interview with The Hollywood Reporter, Gates, Microsoft's chairman and chief software architect, recalled a conversation in 1991 during which Larry Tisch was having buyer's remorse over his investment in CBS, noting that the impending changes were evident even then.

"Broadcast TV is under a challenge. That's news to no one," Gates said. "You know, ABC was more valuable for its (ESPN) sports franchise than its broadcast franchise even years ago. That was recognized. The networks have a still super-interesting position, but it won't be like it is today."

The fundamental difference, he said, will be the demise of today's concepts regarding channels and schedules. "The idea of just having that one linear thing -- you don't change your channel, so the local news leads to the whole lineup getting this great popularity -- that's on its way out," Gates said. "But slowly."

This change is being caused today by DVRs and by the breadth of available cable and satellite channels, he said. In the near future, however, the advent of Microsoft Windows XP Media Center Edition 2005 and other technologies will offer more options and flexibility to creators and audiences alike.

"The ideal for many content people would be that they just put their content on the Internet and then they have a direct relationship with the viewer," Gates said. "That model for low-volume content is the future."

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This means, Gates said, that Microsoft is working more closely than ever with studios and distributors, taking such steps as creating a Media/Entertainment and Technology Convergence Group and bringing in entertainment veteran Blair Westlake to head it (HR 6/20). Gates added that he and Microsoft CEO Steve Ballmer have been talking to heads of studios, while Westlake and Hank Vigil, corporate vp consumer strategy and partnerships, have been reaching out to their counterparts as well.

"We're talking to them about new forms of creativity," Gates said, adding that it was important to "make it clear that their role and our role are quite distinct and complementary. I feel very good about our relationship with the studios. We also need to work with the distributors, the cable companies and the satellite companies. You can't ignore any part of the ecosystem."

He mentioned some of the projects ABC has undertaken, including two-screen interactivity that involved the consumer using a computer and watching television simultaneously and one-screen interactivity made possible by Windows Media Center. But he is excited to see what the creative minds of the entertainment industry come up with as the tools become more widespread.

"We've done as many futuristic-looking panels of that stuff as anybody, yet it's still kind of an unknown," Gates said. "I believe in it totally."

Microsoft has identified several issues that need to be addressed in order for its vision to become reality. One is the willingness of studios to make content available, Gates said. "We're trying to get them to be more aggressive in putting video titles out on the Internet at better and better resolutions," he said. "And we're going through the various digital-rights approaches and how they ought to look at that."

Another is working with content owners to determine the next generation of physical media, which will offer high definition probably in either the Blu-Ray or Advanced Optical Disc format. "It would be nice to have a generation after DVD, but I think they're rightly insisting that this time, they're going to want better rights protection than the DVD ended up being," Gates said. "They didn't think the DVD was as vulnerable as it turned out to be."

Influencing all of these considerations is the issue of advertising. "You really affect things when you change their economic source," Gates said. "So you've really got to think about advertising to know how the value of these franchises will change."

Advertising that consumers either skip or don't see until it's too late is financially "the equivalent of piracy" for over-the-air broadcasting, he said.

"We're saying to them that technology will change ... the advertising model and allow for personalized, targeted advertising," Gates said. "To make the ads more interesting so you're less likely to skip them and (give) them more impact because they're delivered to the people the advertiser wants them to be delivered to."

Another Microsoft project takes this individualized approach even further and with even wider potential. "Since you've asked a few technical questions, I'll just say I hope you're following what we're doing with TV2," Gates said. "This idea that we can send a high-
def stream that's individual to every home. That is an amazing thing."

Also known as IPTV (HR 8/25), this technology delivers television directly into the home via the Internet and therefore bypasses existing satellite and cable television services. Microsoft is undertaking a trial in partnership with Swisscom subsidiary Bluewin in Switzerland -- SBC in the United States, Reliance Infocomm in India and other broadband companies are planning to roll out trials before the end of next year.

"The infrastructure of cable and telco has to be built out, but that's where you can deliver personalized ads," Gates said. "It doesn't cost you anything to say, 'OK, for this household, let's send these, for these households, let's send that.' And if they want to stop and interact with the ad, that's fine -- the show is going to be there."

Microsoft is of course involved in many other activities entwined with entertainment. Among other things, Gates spoke about video games and how they will inspire new forms of interactive entertainment, particularly through the Xbox and its broadband networking capabilities and convergent devices like mobile phones that can manage and play a music collection besides their communication and organizational functions.

He's also examining fundamental things like the changing roles of set-top boxes, game platforms and computers. "Those are three different beasts today, and they can't be in the future," Gates said.