Entrepreneur thinks disposable DVD technology a keeper

By Rachel Abramowitz, Los Angeles Times   |   October 27, 2004

To some consumers, the self-destructing DVD sounds like a device out of "Mission: Impossible." To Atlanta entrepreneur Jeffrey Arnold, it sounds like money.

The 34-year-old multimillionaire recently purchased the patents for the disposable DVD and the Los Angeles-based company, Flexplay, that manufactures them. Now, in a gambit to overcome consumer resistance to the new technology, Arnold is turning to the kind of mass-marketing approach that he has already used successfully within the music and video-game industries through a company he launched last year called LidRock.

His experiment begins Nov. 12 when his company, the Convex Group, releases "Noel." The feel-good Christmas movie starring Susan Sarandon, Penelope Cruz, Paul Walker, and an uncredited Robin Williams will open in 20 cities across the country. On that same day, consumers can buy the movie as a disposable DVD for $4.99 from Amazon.com.

A couple weeks later, on the Sunday after Thanksgiving, consumers can catch a "sneak peek" of the movie on TNT for one night only. Arnold is also leveraging other proprietary technology he owns through LidRock to further drum up interest: A CD-ROM teaser, with a song by Oscar winners Alan Menken and Stephen Schwartz, will be attached to the tops of 2 million soda cups to be sold in the Regal theater chain during the Christmas season.

The strategy flies in the face of the Hollywood business model, which gives each medium -- theatrical, television, and DVD -- its own window in which to release a film and maximize profits. But the Convex Group is trying to market the 4-year-old technology more than the film.

Arnold says he isn't trying to thumb his nose at the studios -- in fact, they are exactly the ones he hopes to persuade to supply the content for the technology. He says he intends to prove that the disposable DVD won't cut into the lucrative sales of regular DVDs and may in fact offer studios a new revenue stream.

Response to the technology has been mixed, mostly because consumers remain highly suspect of discs that can be used for only 48 hours after opening. And some wonder whether consumers will want to buy something that's disposable when they can spend a few more dollars for the real thing.

But Arnold says he's convinced there's money to be made by targeting the new technology at the video rental market, which has been flat for the past six years as DVD sales have boomed. There are consumers, he says, who want a movie but don't want the hassle of returns or late fees or the $20 price tag.

"We're a good complement to a Blockbuster. We think we could either be an alternative, or we could be a partner," he said. "We're big believers that more awareness is a good thing and will grow the overall pie, and that motivates us for everything."

"Noel" is about five strangers who each experience a miracle on Christmas Eve. Directed by Chazz Palminteri, it's the kind of holiday experience that tends to please audiences more than critics.

Convex Group's chief strategic officer, Dan Adler, hopes it's also a film that will help audiences get past their reservations about the disposable DVD technology: The experiment will "empower an audience, allowing them to choose how best to experience the film."
Amy Jo Smith, executive director of Digital Entertainment Group, a Los Angeles-based trade association, says the tactic has potential.

DVD sales have been “great for the studios, but you lost all those people who were Friday-night renters,” she said. “This is a great way to get those people back into the fold. The research is that it won’t cannibalize the market. The consumer who wants to buy the product is still going to buy the product.”

Advocates note that regular DVDs will still include “sweeteners” such as extra footage and games that won’t be included on the more spartan Flexplays.

For Amazon or traditional big-box retailers such as Wal-Mart or Target, the disposable DVD would also allow them to compete with Blockbuster’s rental market without the hassles and expense of tracking inventory.

Blockbuster spokesman Randy Hargrove downplayed the technology. “We believe the [disposable DVD] is an interesting novelty item, but we don’t see it going anywhere. . . . It’s confusing to the consumer, and it’s not in the financial interest of the studio. A DVD sells at retailers for $15; they’d have to sell about three disposable (DVDs) just to break even.”

Disney has been intrigued enough by the disposable DVD technology that it has been conducting its own consumer test in eight markets over the past year. The entertainment giant uses Flexplay technology to brand eDVDs by Disney, which are sold in a variety of outlets, including convenience stores. The releases, $5.99 to $6.99, follow six to eight weeks after the regular DVD has gone on sale.

Although early research indicates high consumer satisfaction with the convenience of disposable DVDs, there are hurdles in the real-world marketplace, from the environmentally conscious (both Disney and Flexplay are part of disc-recycle programs) and the technology-suspicious.

The technology behind Flexplay is fairly simple. An adhesive is baked into the DVD that when exposed to oxygen will prevent the DVD from being read after 48 hours.

"The technology works like a charm,” said Bob Chapek, president of Buena Vista Home Entertainment, North America. The trick is figuring out "how to drive awareness for a product that's revolutionary in nature. . . . It always brings up myriad questions. 'Does it hurt my machine? Is there a way to stop the process?' It's a slow acceptance to adopt the product, but once they do, they love it.”

Arnold hopes his "Noel" experiment will allow him to position his company as a marketing entity on behalf of studios that want to use the new format.

Regular DVD sales have middlemen, giants such as Blockbuster and Wal-Mart, Arnold said. "We can be the vehicle," he said, "we become the middleman that makes everyone come together."

"Noel" producer Zvi Howard Rosenman said the Convex Group was a tantalizing -- and lucrative -- alternative to traditional studio distribution.

Rosenman, maker of such family fare as "Father of the Bride" and "Family Man," said he was planning to sell the $8.5 million movie to an independent distributor when he happened to have dinner with Adler, who was looking for a movie to launch with Flexplay.

Convex offered the opportunity to promote the film on a number of fronts and it was a chance to draw attention to a small movie that could otherwise get lost in the $100 million juggernauts released during the holiday season. Best of all, there was no studio distribution fee.

"I would never make money with a studio," Rosenman said. "You're creating another venue. For a guy like me, the possibilities are limitless."

For the energetic Arnold, the "Noel" release is just the beginning. He envisions a day when consumers can pick up a movie and a latte at a place such as Starbucks, or dinner and a flick at a local pizza parlor. He hopes the Convex Group can pave the way for even more unusual marketing methods.