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Desperate Hollywood, Reckless Pirates

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What Should Be Done?

Hollywood studios have several things to cheer about nowadays. For one, *Star Wars: Episode III - Revenge of the Sith* grossed \$271 million in the U.S. in its first two weeks (ending on Memorial Day). If worldwide box office is added, total sales surpassed half a billion dollars. But studio officials are equally excited about another development. Last week, federal agents shut down the Elite Torrents Website (a file-swapping network that purportedly offers the pirated version of the *Star Wars* movie) and took over the site's main server. In a prepared statement, the Motion Picture Association of America's (MPAA) CEO Dan Glickman said, "Shutting down illegal file-swapping networks like Elite Torrents is an essential part of our fight to stop movie thieves from stealing copyrighted materials."

Bravo! I applaud Hollywood's artistic creativity and perseverance in hunting down crooks who want to have a bite of the big pie. But wait a minute, something does not seem right. Again, Hollywood chose to shoot down the easy target, the site and the server, instead of the perpetrator who uploaded the pirated movie in the first place. (Did I mention that one copy actually originated from within the movie-producing industry?) I'll bet that users of Elite Torrents will become infuriated and more determined than ever to use another P2P network. After all, they do not see themselves as "movie thieves," and many other networks are out there for them to explore.

In a year when the word "desperate" means something good (think about how *Desperate Housewives* almost single-handedly revived ABC's ratings), I see a dangerous trend where a desperate Hollywood could help create more reckless pirates.



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Hollywood creativity, if applied in developing business strategies, could effectively counter the piracy problem.

The pattern is there. Hollywood’s anti-piracy war is going personal. Clerks working on behalf of MPAA have been serving court papers to individuals globally, often to those who manage or host popular P2P networks but not to the originators of the pirated works. By eradicating the soil of piracy, Hollywood hopes to nip the “flower of evil” in the bud. In spite of all these, P2P activities have been on the rise every year since the technology’s birth. Old P2P sites have withered, but newer, more advanced ones have blossomed. In the process of meeting market demand and shielding attacks, the P2P technology has shown strong resilience and incredible adaptability.

Don’t be mistaken. Hollywood has the right to shut down the sites that support illegal content distribution. People who intentionally distribute copyrighted content (including Hollywood insiders) need to be punished. But beyond chasing after thieves and shutting down markets for stolen goods, why not start thinking about ways to make better use of the technology? Maybe invent new business models and services to appeal to this group of Internet diehards? I am always marveled by Hollywood’s artistic creativity. Some argue that digital piracy will destroy this creativity. On the contrary, I believe this creativity, used properly in business strategy development, could effectively counter the piracy problem. Why not be innovative with new online movie delivery models? Why not be creative in supporting movie downloads to portable devices? Why not start experimenting with superdistribution over the P2P networks?

Maybe I am being too optimistic about the Internet. But think about the Bit Torrent technology specifically and in a broader context about P2P technology or the Internet in general. All these fit nicely into consumers’ lifestyle and usage patterns. Such a good fit means outside forces are unlikely to uproot or alter them.

Over one-fourth (27%) of Internet households currently download videos from the Internet on a monthly basis, and pending advances in DMA technology, they will be able to watch these online movies on their big-screen TVs. At the same time, 20% of U.S. consumers admit to having used file-sharing services at least monthly. And listen to this: heavy users of file-sharing services are also heavy purchasers of CDs. We haven’t asked respondents about movies or videos, but I’ll bet a good portion of the total take from *Star Wars* came from fans who have used file-sharing services before. The point: you can’t blame your fans for using the P2P service – you’re the one who made them want that

content in the first place. You need to study their behavior patterns and know what services can pull them away from P2P networks or, even better, what services can create legal distribution through P2P networks to these people.

So far, Hollywood has viewed the Internet as a third-tier distribution channel. But think again what has happened in the music industry. Piracy forced the industry to end its anti-Internet inertia and open up this channel. Now CD sales are declining, and online music sales are soaring. The record industry had to adjust its views on the Internet and change its distribution strategies. Will the same trend happen in the movie industry? Will the staged release model that Hollywood uses in its current movie business become obsolete, replaced with a new Internet-based model? Very likely.

While the record industry can blame porous content protection technologies for its initial reluctance toward digital distribution, Hollywood cannot use the same excuse today. Although not as “perfect” as Hollywood might expect, today’s digital rights management solutions are adequate enough to protect content and afford consumers a good user experience.

But Hollywood still keeps a tight rein on its titles and insists on dictating the ways its consumers can view its content. At Movielink, a legitimate movie Website supported fully by the major Hollywood studios, only 1,100 titles are available for consumers to download, compared to more than 40,000 titles from popular DVD-in-the-mail service vendors like Blockbuster and Netflix. Consumers are required to accept the terms and pricing set by the studios: \$3.99-\$4.99 per movie, 24-hour viewing window and/or 30-day downloading window. There are also restrictions on what device a consumer can download movies to. For instance, Movielink’s titles cannot be downloaded to portable multimedia devices now on the market.

If Hollywood wants to use the Internet to offer a legal alternative for movie consumption, why not make it a more pleasant experience with more titles and more flexibility? Yes, “free” is a tempting proposition from P2P networks, but by limiting the selection and flexibility of online content, Hollywood kills an even bigger advantage: convenience. At present, Hollywood is inadvertently pushing its potential customers, at least a portion of them, to the free, but often low convenience, P2P world.

How to play the convenience card? It is about more choices, more delivery models, and more flexible pricing. Parks Associates has tested different delivery models on Internet users, and the data came back encouraging. Nearly one-fourth (23%) of U.S. Internet households are highly interested in spending \$15 to burn an online movie; 15% are willing to view commercials as part of an online movie in exchange for free burning; and 8% are willing to sign up for a monthly subscription service at \$15 per month (similar cost compared with Netflix's or Blockbuster's offers) for unlimited movie burning. The point: there will be huge opportunities for online movie distribution. Don't miss it and don't spoil it.

I have bet twice so far, and I am going to make my third bet: I bet that, in fifteen years or less, 80%-90% of all new movies are going to be distributed first through the Internet, next in HD-DVDs or another disc format, and only people who feel nostalgic for the big screen and popcorn will line up for tickets at the local theater. The Internet offers ubiquity, instant gratification, low cost of distribution, and potentially a larger audience group than movie theaters. Big-name musicians like Mariah Carey, Coldplay, White Stripes, and U2 have already started releasing their albums or singles either exclusively through online music stores or simultaneously through both retail and online venues. So why not movies?

Perhaps I do sound a bit desperate. Or do I?

In Summary: Data Points

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- 8% are willing to sign up for a monthly subscription service that offers unlimited movie burning at \$15 per month
- 20% of U.S. consumers admit to having used file-sharing services at least monthly
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About the Author

Harry Wang is a research analyst at Parks Associates studying telecom and entertainment service industries with a focus on digital rights management, portable entertainment device, and digital imaging.