Online Movie Strategies:

Competitive review and market outlook

screendigest

Online Movie Strategies:

Competitive review and market outlook

screendigest

Online Movie Strategies: Competitive review and market outlook

Published September 2007 by
Screen Digest Limited

Screen Digest Limited
Lymehouse Studios
30/31 Lyme Street
London NW1 0EE
telephone +44/20 7424 2820
fax +44/20 7424 2838
e-mail sales@screendigest.com

Author Arash Amel
Data Dan Cryan
Research James Garlick, Sarah Johnson
Editor Ben Keen
Layout Tom Humberstone, Anna Gover

Printed by Screen Digest (A)

Table of contents

Tables and charts

UK, for example, average marketed speeds in 2006 were 5.2Mbits/s, but customers could rarely achieve higher than 2Mbits/s.

Movie downloads: how big and how long?

The net effect of commoditization and rising broadband speeds is that large movie files can now be economically distributed over the Internet to end users, either streamed or downloaded. However, the time taken for downloading content still remains a factor.

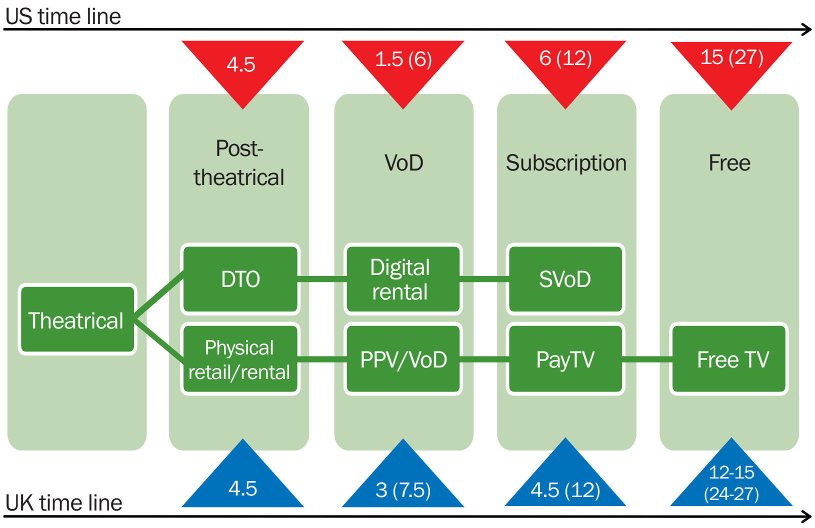
A typical movie file can range from 700MB to 1.5GB for standard definition titles. The variation is accounted for by length of title and encoding quality. On iTunes, for example, standard definition movies are encoded at 640 by 480 at around 130kbit/s, 1.2GB in size, and sit somewhere between VHS and DVD in viewing experience. On average, a 2GB file would be more than ample to recreate the full viewing quality seen on a DVD. HD titles are a different proposition. With the emphasis on visual quality, this results in considerably larger files. For example, a typical HD title on the Xbox Live Video Marketplace is between 5GB-9GB in size depending on the movie.

The average time taken to download a 1GB movie file at an 'advertised' speed of 4Mbits/s would be around 30 minutes. However, on a typically contested 4Mbits/s broadband connection, the reality will be that the time taken could be as much as 1 hour. As such, a 9GB HD file can take anything up to 10 hours, and therefore becomes an overnight download proposition.

The evolving value chain: windows and business models

The film industry is based on a business model which involves a complex series of release windows. This model maximises profits by exploiting film content via three key

Months between windows (months after theatrical)



Source: Screen Digest

Months after theatrical release

	Post-Theatrical		VoD		Subscription		Ad-Supported
	Physical retail/rental	DTO	PPV/VoD	Digital rental	Pay TV	SVoD	Free TV
US	3-6	3-6	4-8	4-8	9-12	12	27-30
France	6	6	9	7.5	12	12	24-36
Germany	6	6	9-12	6-9	18	18	30
Italy	3-6	3-6	:	6.5	12	12	24
Spain	4-6	4-6	12	12-14	14-16	12-14	24
UK	4.5	4.5	8	6-9	12	12	24-27

Notes: For DVD, PPV, Pay TV and free TV
1. France: French release windows are mandated by law. Video release is 4 months for films with under 200,000 admissions. The Free TV window is 24 months from theatrical release for TV co-production (French films).
2. Germany: Based on agreement/legislation. Legislation is applicable to productions which have received a film subsidy. Release windows can be reduced following an application by the producer.
3. Italy: Based on industry practice/agreement. Video release windows are decided on a case-by-case basis between theatrical distributors and video publishers.
4. Spain: Based on industry practice. Video release windows are legislated. The SVoD window is currently under review.
5. UK: Based on industry agreement. Extension possible at each pont in the value chain for films produced locally for less than £2m ($4.1m). The trend is towards shorter windows.

Source: Screen Digest

The DTO market has so far been shaped by indirect propositions – such as the iPod. The VoD market however has been shaped by the direct services delivery via the Xbox, and elsewhere through living room services such as Deutsche Telekom's T-Online Vision Home Media Centre platform in Germany.

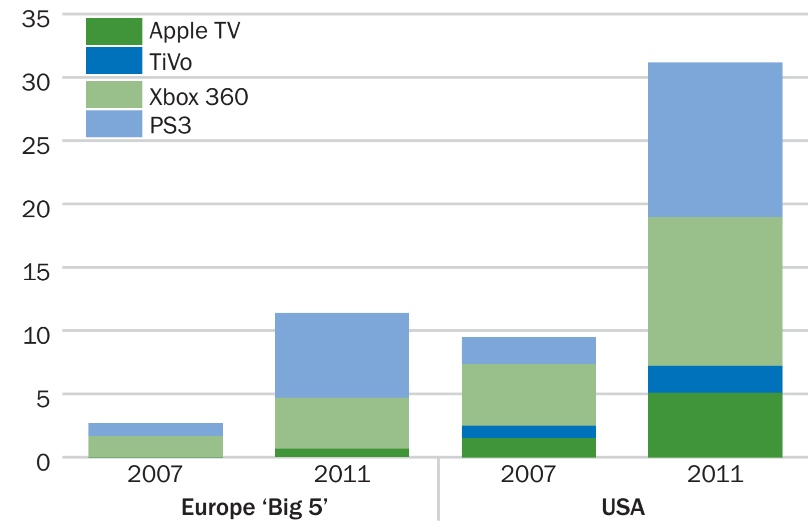
The key distinction between the browser-based models downloading to PCs, and the device delivery concept, has been storage capacity of living room boxes. As of mid 2007, consumer PCs typically shipped with a maximum storage capacity of around 1TB (1,000GB). At 1GB per movie, this is equivalent to a little over 1,000 movie titles. Living room boxes, in contrast, operate around the 40GB-320GB range – equivalent to around 40-300 titles (Apple TV at mid 2007 had 160GB as the upper end box). On an ownership model, this means the consumer will have to periodically back up their movies from the device – or risk losing titles should there be a system failure. On the rental VoD model, the downloaded files naturally expire following viewing, so there isn't a similar concern.

Nevertheless, consumer hard disk capacity is increasing exponentially. In mid 2007, the highest performance consumer PC marketed by Dell provided 1.5TB of storage space.

In terms of indirect connections, much has been made of DVD burning. Download to burn services have been around for some time, but uptake has been restricted by the lack of a consumer solution that supports CSS (Content Scrambling System -- the copy protection system used on commercial DVDs). Without CSS, download to burn is unlikely to win universal acceptance from all the Studios -- if for no other reason than it will mean burnt DVDs will be protected by the US DMCA legislation. That is, users attempting to circumvent the copy-protection on the burnt DVD would be committing an illegal act.

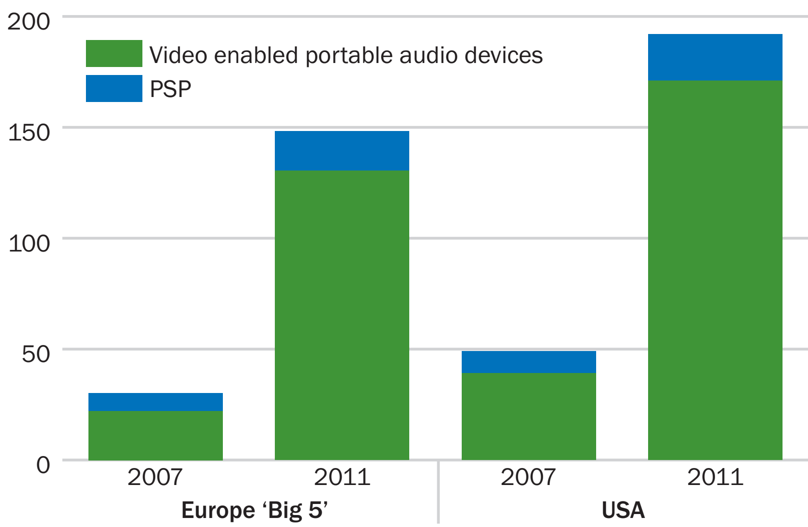
The technical requirements for download to burn with CSS have been agreed, but the solution requires specialist DVD burning drives and dedicated blank media. Such devices are not expected to make it to market before 2008. Moreover, the specialist knowledge required to install a new drive into a computer means that uptake is likely to be tied into the purchase of a new PC rather than consumers going out and buying CSS DVD burners. Screen Digest believes that the average lifespan of a PC is between 3-5 years, with the result that download to burn is not likely to have a significant impact on the online move market until after 2011.

Installed TV-connected broadband capable devices (m)



Source: Screen Digest

Portable video player installed base (m)



Source: Screen Digest

Streaming platforms: making advertising work?

It is useful to note that future market development won't necessarily be just about downloads. Streaming movies, though still at an early stage, is developing into an interesting opportunity in both the subscription window and the free window – the latter intriguingly brings advertising revenues into the online mix.

Already gaining traction in Asia-Pacific, the streaming model has been deployed in its most high profile format by Netflix, as well as a number of key Japanese online