The Future of Media

This is a document that I put together after having a conversation with a friend of mine regarding the future of media, and what a content company should be thinking about as they move forward post recession and during the digital upheaval the industry is in.

Overall, I've only touched upon the issues and players that will govern the future of media. There is a great deal left out, and in order to understand the media landscape better I would advise that a more complete analysis should be done (i.e., paid for) on each of the businesses I've discussed below and the models they are using. There are also a number of new startups, models, and experiments that are worth keeping track of, since the new media industry is (if nothing else) a driver of rapid change.

A detailed report should also include a more detailed analysis of Cable and Satellite economics, Social Media and its effect on media creation, distribution, and consumption, an exploded view of new technologies Limitations and Technical hurdles, the status and value of Content Libraries, the development of Cross Platform narrative techniques, the evolution of Web Television, the explosion of Mobile media access, new models in advertising around Behavioral targeting, Branded Entertainment, and Cookie/Set Top Box Data, Regulation and its expected effect on the different businesses, Independent Film and Niche Content, and Audience Fragmentation.

I would use this report as a jumping off point to a greater understanding of the media landscape, and how to fit your company into it.

If three main points can be drawn from this report they are that; 1) The owners of content libraries, and the controllers of Intellectual Properties hold the power in negotiating distribution models, 2) The current and future media landscape is marked by an incestuous relationship between varied and disparate entities, and 3) These relationships are being created around the struggle to replace the choke points, or gatekeepers, with a more democratic distribution system. Or conversely, to protect them (and their huge revenue streams from fees) from change.

The organizations that can succeed will be: content producers that can create compelling and high production value story and character, owners of content libraries who control their IP, and licensing profit, and distributors who offer both mass audience and economies of scale to content producers and libraries, as well as easy access to the audience.

SUMMARY

Since the future of media is a huge and ambitious topic, I will merely attempt to paint a big picture that touches on some of the important topics that affect media, specifically motion media (referred to as media), in order to reach some broad educated conclusions. Just for fun, with the caveat that if I was doing this for work, it would necessarily be much more detailed.

Some elements of the future will be the same, such as the need for talent, financing, story sources, distribution, marketing, audience, and profit; and some will be hugely different as the media landscape is changing radically. The major factors of change are the internet, cheap cameras, piracy, new business models, changing advertising budgets, shifting audiences, bad content, the recession, huge cost structures, and corporate layers and culture.

A great deal of noise is made in the mainstream press around the changing landscape; some assumptions that are easily bandied about are that theatrical revenue is down, DVD revenue is down, TV advertising revenue is down, Digital is replacing DVD at a lower price point and cannibalizing audiences, and web piracy is hurting media sales. Some of these assumptions are true and some are false, but more importantly most are much more complex than they sound. I've explored some of these assumptions, and also looked at some of the digital businesses that are causing all of the fuss.

Generally it's true that every legacy media and new media business model is in flux, under pressure. The recession has so far been very generous to a number of these companies as revenues have continued to increase for multiple business models. However, there are many stress points; including DVD sales, pay TV revenues, splintered advertising revenues, shifting audiences, and numerous technological hurdles.

The future of media will continue to support multiple ad supported, transactional, and subscriber based business models. There will be a consolidation phase following the 2009 recession, it's already started with Disney/Marvel, Comcast/NBCU, and Walmart /Vudu, not to mention the rainbow of startups failing and selling. However, the major issues of technological complexity, cost, and a bewildering array of choices will continue to confuse the consumer; until an easy solution appears the industry will continue to struggle. Whoever makes it easier will have tremendous success.

The future of media will also continue to be characterized by a rapacious need to fill the multiple channels and screens with content. Mobile is exploding, home entertainment systems are increasingly connected and advanced, broadband capacity continues to increase, and business models continue to evolve. Content producers who can both create compelling stories and navigate the landscape will continue to find their content valuable.

The future of media is already a struggle between studios, networks, and cablers determined not to follow the music industry down the Napster path. TV Everywhere is charged with collusion between cablers in order to stymie online video providers. Hulu has been accused of giving up advertising revenue in order to protect the higher CPMs and inventory of television. Redbox and the studios are almost in hand to hand combat over DVD rentals. Netflix, Itunes, the download/stream networks (PS3, Xbox, Amazon), and the studios are slowly learning to play together but are governed by a labyrinthine process of windows and rights, as well as varying degrees of quality and access and zero compatibility.

What is important to remember, in all of the breathless reporting and shifting seas, is that compelling entertainment will always have an audience, and the audience will pay for it. Audiences will continue to go the movies, buy DVDs, watch TV, subscribe to cable and internet, and buy video consoles for games and content. What they will be less inclined to put up with is egregious attempts to protect past business models of higher per unit prices (DVD), arbitrary rate hikes (cable), a flood of advertising (television). However, these models will last longer than most people predict; since shipping a DVD is still a more efficient way to deliver content to the most people at the same time than online, and cable and television can still deliver more content at higher resolutions than streaming technology. Plus they are easy to understand and use; an underutilized concept in the overall landscape.

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SAME

"[It] doesn't matter what screen content is watched on, what matters is that you watched it, it is counted, and the content producer is paid for it. This process will take years [to realize]."

- *Quincy Smith, ex-CEO CBS Interactive*[1]

In some ways, the future of media won't be much different, since the *process* will remain largely the same:

Talent is without a doubt the most important element of media. Actors, Directors, Writers, and Artists will always be the key to creating the drama, comedy, rich visual experience, and unique voice that we want.

Financing is and will continue to be required for all types of media and media companies. On one hand, the barrier to entry for action/FX driven tentpoles has gotten higher; while on the other it's incredibly easy and cheap to make and distribute online content. However competition is fierce for entertainment dollars; consumers have a wide array of choices, and content producers not only need to develop and create good shows but need to secure robust distribution and marketing, which requires financing.

Story Sources have traditionally been Books, Comics, Articles, and Original ideas. With the proliferation of media and platforms, ideas are generated from a wider array of sources; including Video Games, Facebook, Twitter, Webshows, etc. The economic necessity of generating profit for features and television obliges content producers to find properties that will bring an existing audience or have a recognizable brand that is easy to market.

Distribution is perhaps the second most important element in profitable media. The legacy media gatekeepers for theatrical, broadcast, and DVD have seen their power and profit change as cable, internet, piracy, new consumption patterns, new software, new hardware, and changing advertising revenues have grown. It is more important now than ever for all types of media producers to have a robust distribution strategy, especially as media has proliferated to more platforms and audiences have fragmented.[2]

Marketing is a close third to distribution in the value chain. Audiences will find the content they want to watch either through their trusted brands (director, actor, studio, network, channel, friends), through their own interest, or through a well executed marketing campaign. Marketing is an art, not a science, and is most effective when spread over the three disciplines of traditional, online, and social.

Audience is the consumer and drives profit. The modern media consumer has too much to choose from; every week a new film, 24/7 broadcast, cable, and satellite channels in the thousands, DVD purchases and subscriptions, hours of video game entertainment, endless webpages and online video, mobile video and apps, print publications, etc. In addition they have school, families, and careers which compete for their time and attention. With so many choices there's only so much the audience can consume, and as a whole has fragmented dramatically. In addition a fundamental shift in consumption patterns has happened with younger gadget and internet-enabled audiences.

Profit is self explanatory. Media is a business, and the economics require financing and investment in order to turn a profit in order to make more media. When a producer creates a profitable show it can have an amplification effect that supports the industry (studios, distributors, networks, crews, etc.) and also has a symbiotic relationship with the greater marketplace of products and ideas.[3]

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1 http://paidcontent.org/article/419-video-quincy-smith-on-hulu-the-service-is-freakin-badass-but/

2 http://adage.com/digitalnext/post?article_id=142457

3 http://www.mpaa.org/EconReportLo.pdf

DIFFERENT

"The media landscape is changing, and fast. Its future size and shape in the medium to long term is unknown and that is a daunting prospect for those responsible for managing a media organization. It also represents a real challenge to managers tasked with planning a strategy where the existing business models, and practices are under pressure to deliver audiences, revenues and profits."[4]

In other ways it will be radically different. Legacy media is collapsing. This is causing great upheaval in the players; from studios, television networks, agencies, and new media startups, to tech companies and hardware manufacturers. It's also creating amazing opportunities for creating new business models around and players in the areas of story sources, financing, distribution, and marketing.

Internet: Responsible for a wide range of changes; creating a new delivery system, creating new formats, creating whole new ways of interacting with and consuming media, fragmenting and empowering audiences, changing audience behavior, enabling new hardware and software technologies, and creating new media companies that can compete with big media companies. Legacy media is not wired for the new world, may not understand the changes, and cannot move fast enough.

Ubiquitous and Cheap Hardware: It used to cost hundreds of thousands of dollars for the equipment needed to make movies. This was a highly specialized field, with a high barrier to entry. Current technology has lowered the barrier to entry to almost nil, allowed cheap and ubiquitous cameras that records video and sound, and enabled free distribution to anybody that has an internet connection and laptop or smartphone and data plan. This has had the effect of cheapening video, since it's so ubiquitous.

Piracy: The internet isn't policed 100%. Along with other illegal activity, one of those things that has affected big media is copyright infringement.[5] Napster, arguably one of the main reasons for the end of the music industry, enabled a free exchange of digital copies and cultured audiences to expect content for free. Legacy television and film companies may be headed down the same path unless a new model can be created. Of course, owing to piracy a vigorous defense has been mounted; big media is petitioning world governments and courts to support digital copyright laws, bringing legal action against Pirate Bay, sending cease and desist letters to copyright violators, digital watermarking, uploading bunk torrent files, etc. And in some cases piracy has won, as some studios essentially have closed DVD operations in the once-profitable Spanish and South Korean territories.[6] And it's more than just the finished product being pirated, it's the whole magic box process that is being challenged; from extras blogging or posting photos on sensitive sets, to actors/agents and bloggers/friends giving away project or plot details, to footage leaking online, to detailed breakdowns on the process and the art.

New Business Models: Media is no longer only distributed through the triumvirate of theatrical, broadcast/cable, and DVD. The internet, and digital formats, have created a multitude of different distribution models, including Itunes, Hulu, Netflix, Google, Twitter, Facebook, Youtube, Xbox, and PS3 which have been able to build an ecosystem that returns much smaller profits to content producers and has reduced theatrical, broadcast, and DVD consumers.

Changing Advertising Budgets: With the advent of more advertising placement opportunities; search, banners, and web video, the fragmentation of audiences, and DVR's enabling fast forwarding

[4] http://eprints.bournemouth.ac.uk/9571/

[5] http://www.edwardjayepstein.com/Quivering.htm

[6] http://articles.latimes.com/2009/oct/06/entertainment/et-moviebiz6?pg=2

through commercials, revenue from advertising has been reduced, affecting bottom line and affecting budget for quality shows.

Shifting Audiences: Audiences have shifted, and been fragmented and will continue to do so. They have a wide range of choices. Partly it's the choice. Partly it's the quality. It's a bit of a self fulfilling prophecy.

Bad Content: The quality of film and television content has suffered for a number of reasons. Studios and networks insist on creating shows by committee, eliminating individual voices and controversial topics. The popcorn economy[7] of feature tentpoles create a small number of profitable action adventure tales and a majority of chick flick, drama, comedy, and art films that lose money. Video games have siphoned off male audiences from television, and increased expenses coupled with decreased ad revenue have decimated budgets for scripted narratives in favor of reality television. Profit from DVDs is decreasing and foreign TV sales are drying up which reduces the desire to take risks.[8] The internet and web devices and apps have siphoned the general audience away from passive viewing of television and film. Although the quality of online original content is, for the majority, also pretty bad due to the minimal budgets and talents of the vast majority of participants.

Recession: The recession has decreased pay models (DVD, cable subscribers, online media purchases) as cash strapped consumers are tightening their wallets, and has reduced the main sources of financing for the big media companies; wall street banks, hedge funds, SWFs, and lucrative foreign tax loopholes (like Germany) going away.

Huge Cost Structures: The studios are setup as clearing houses and need a large overhead to support the army of lawyers, accountants, and MBA wonks that need to keep track of past and present contracts, collect and allocate fees, raise and spend large sums of money, operate an international corporation with industrial accounting and hedging operations, enter into financing, production, distribution, and profit sharing agreements with other large corporate entities, etc. This requires defense of profit models that will feed the beast, and does not support quick creation and adoption of new, potentially less profitable, models.

Cumbersome Corporate and Cultural Layers: Big media companies, and their army of employees, have convoluted internal relationships that necessitate a methodical and complete accounting of every decision that is made and every dollar that is spent. In addition they are owned by even larger corporate parents through which strategy and approval need to constantly be discussed, rehashed, and ferried back and forth. This all means that they mostly move very slowly, which is a disadvantage in a rapidly changing world and creates opportunities for newer or more nimble media companies.

NOTE: Most of these arguments are the prevailing wisdom in the mainstream media; there are some that argue that they are very convenient if you happen to be a big studio and you are downsizing, or negotiating contracts with talent, unions, crews, or locations. A more complete analysis of the following points should be made to determine validity:

- Theatrical is down.
- DVD Revenue is down.
- TV Advertising Revenue is down.
- Digital is replacing DVD at lower price.
- Web Piracy is hurting Media sales.
- Digital is cannibalizing audiences and ratings.

I'll take a look at a few of these briefly.

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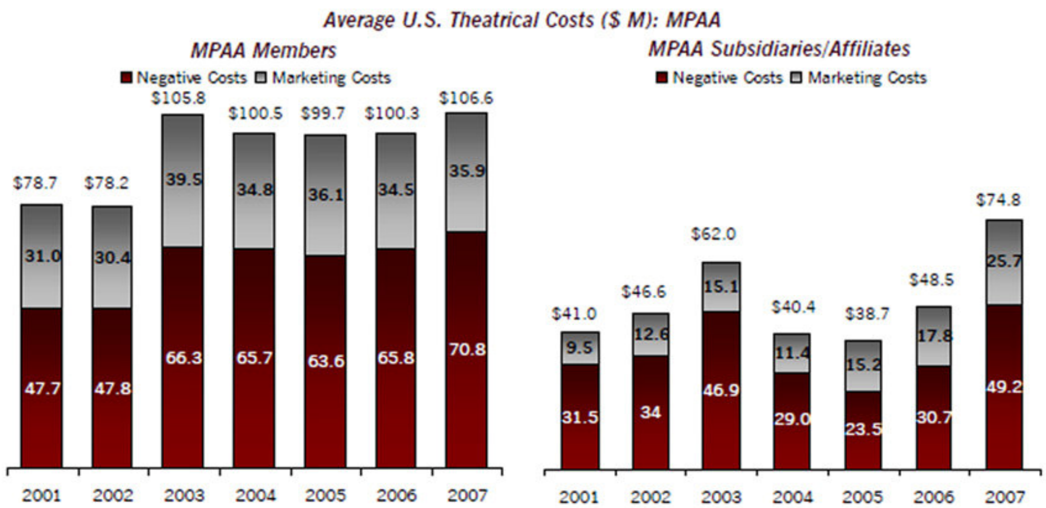
[7] http://www.edwardjayepstein.com/archived/popcorn.htm
[8] http://whiskeys-place.blogspot.com/2009/10/hollywoods-financial-collapse.html

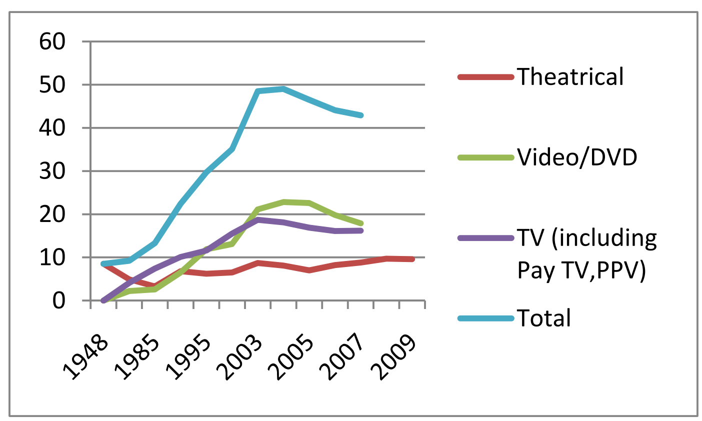
Examining Assumptions: Theatrical Revenue is Down.

This assumption is not true; more accurately; Adjusted Theatrical Revenue, or the amount the studio actually receives, does not cover the expense of producing, marketing, and distributing the film. Not to mention the overhead. Average US Theatrical costs, as reported by the MPAA, are higher than studio receipts, as seen in the following tables.[9] This makes theatrical more like a marketing campaign for the DVD and TV windows.



Worldwide MPAA Studio Receipts (Inflation-corrected, in billions)[10]

Year	Theatrical	Video/DVD	TV (including Pay TV,PPV)	Total
1948	8.5	0	0	8.5
1980	4.9	2.2	4.1	9.22
1985	3.3	2.6	7.4	13.3
1990	6.8	6.5	10.1	22.4
1995	6.2	11.9	11.6	29.7
2000	6.5	13.1	15.5	35.1
2003	8.7	21.1	18.7	48.5
2004	8.1	22.8	18.1	49
2005	7	22.6	16.9	46.5
2006	8.2	19.8	16.1	44.1
2007	8.8	17.9	16.2	42.9
2008	9.7			
2009	9.6			



[9]http://www.mpaa.org/USEntertainmentIndustryMarketStats.pdf
[10]http://www.edwardjayepstein.com/MPA2007.htm

Boxoffice magazine reports that 2009's total domestic box office now stands at 9.668 billion, which is higher than 2008's 9.626 billion.[11] Worldwide box office in 2008 was 28.1 billion.[12] Clearly box office revenue, and the studio's share, has been increasing since 1985.

However, the theatrical revenue is split with theaters, and marketing and distribution costs are subtracted before revenue can be used to pay back production and above the line costs. Since this amount is much smaller than the total box office, the studios need to depend on TV and DVD revenue to sustain the business.

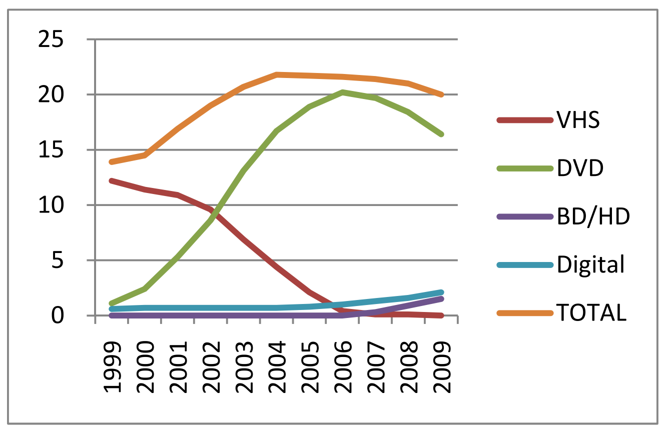
Currently the business is in crisis because the TV and DVD revenue streams are declining rapidly. In the short term this will mean that the studios will reduce the number of films that they finance, and will defer to the big budget spectacle films, which have a better chance of getting closer to break even in the theatrical window before pulling in revenue from subsequent windows.

DVD Revenue is down.

This is noticeably true. See the numbers below from the Digital Entertainment Group, an industry non-profit made up of the majors. [13] DVD revenue has been decreasing since around 2006, and the small uptick in Blueray and Digital sell through has only helped to soften the decline.

US Consumer Home Entertainment Rental & Sell-through Spending (DEG)

Year	VHS	DVD	BD/HD	Digital	TOTAL
1999	12	1	0	1	14
2000	11	2	0	1	15
2001	11	5	0	1	17
2002	10	9	0	1	19
2003	7	13	0	1	21
2004	4	17	0	1	22
2005	2	19	0	1	22
2006	0	20	0	1	22
2007	0	20	0	1	21
2008	0	18	1	2	21
2009	0	16	2	2	20



This trend will only continue in the future. Wal-Mart, who accounts for nearly a third of DVD sales in the US, is scaling back DVD displays. The negative impact will not be replaced in the near term by the combination of alternative revenue streams; DVD rentals, Digital sales and rentals, low cost rental kiosks, and VOD channels. All of which these are growing rapidly, just not at the scale needed.[14] The only bright spot is the increasing adoption of Blueray technology and sales of Blueray discs, which have the potential to increase revenues along with a future adoption of 3D technology in the home.

[11] http://boxoffice.com/featured_stories/2009/12/early-weekend-predictions-39.php
[12] http://www.mpaa.org/2008%20MPAA%20Theatrical%20Market%20Statistics.pdf
[13] http://www.degonline.org/pressreleases%5C2009%5CREVISED_FINAL_Q409.pdf
[14] http://online.wsj.com/article/SB125470337132563199.html

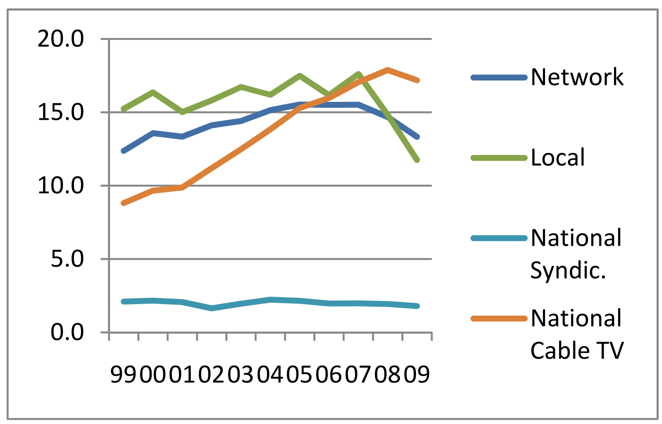
TV Advertising Revenue is down.

Advertising Revenue for traditional media suppliers has always followed the general economy, two indicators in a particular; Industrial Production and Personal Consumption. Since 2000, Ad Revenue growth rates have declined; however, revenue has increased if you widen the view to 20 years, minus the recessions of 2001 and 2009.

The future will see similar declines in total ad spend, as more advertising dollars flow to banner, search, online video, apps, and other online media suppliers. However, television will continue to be a viable eco-system for content producers and advertisers; television has dominant reach and frequency, with close to 100% daily reach and 6 plus hours of daily viewing. In addition, web is still an inferior and more expensive high quality video distribution platform from cable and broadcast TV, and the negative DVR effect may be tempered by population growth and household media consumption growth.[15] This will likely prove that the decline will stabilize lower along with the economy and the industry consolidation post recession 2009[16], until a subscription business model for cable, the internet distribution puzzle, and retransmission consent is worked out.[17] This process will take years.[18]

Historical US TV Ad Expenditures (in billions) (Magna Global)[19]

Yr.	Network	Local	National Syndic.	National Cable TV
99	12.4	15.2	2.1	8.8
00	13.6	16.4	2.2	9.7
01	13.3	15.0	2.1	9.9
02	14.1	15.8	1.6	11.2
03	14.4	16.7	2.0	12.5
04	15.1	16.2	2.2	13.8
05	15.5	17.5	2.2	15.3
06	15.5	16.2	2.0	16.0
07	15.5	17.6	2.0	17.1
08	14.7	14.8	1.9	17.9
09	13.3	11.8	1.8	17.2

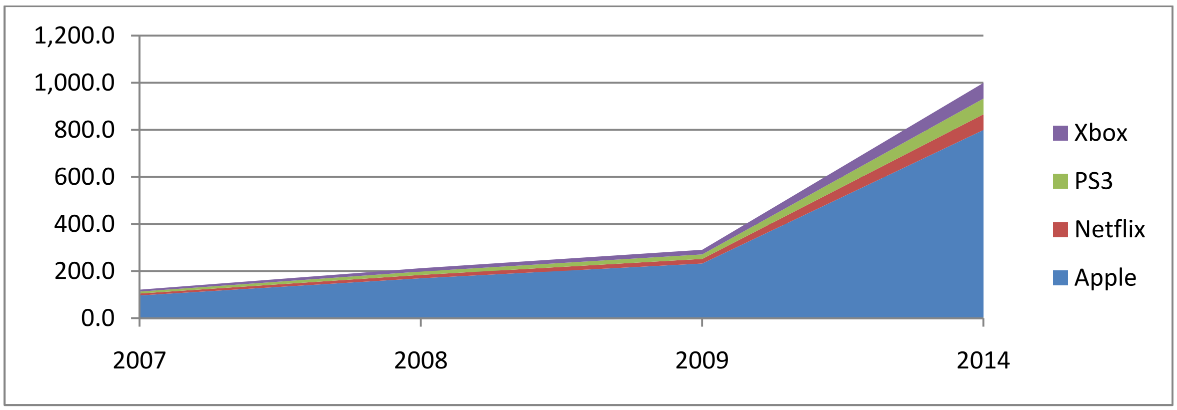


15 http://www.magnainsights.com/docs/MAGNA_Media_Forecast_July_2009.pdf
16 http://shar.es/mHzyV
17 http://www.thewrap.com/ind-column/cable-companies-take-retrans-complaint-fcc-congress-15108
18 http://www.nytimes.com/2010/03/09/opinion/09tue4.html
19 http://www.tvb.org

Digital is replacing DVD at lower price.

The Digital sales and rental revenue stream, usually exploited after a theatrical, DVD, or TV release, is searching for a price point and business model. Technology and contractual hurdles remain. Most of the new businesses that dominate the news are enjoying rapid growth, at the expense of the windfalls the studios have gotten used to. These include streaming through Netflix, electronic sell-through in Itunes, VOD offerings on cable and internet providers, media downloads and streams on the Xbox and Playstation networks, mobile networks to handheld devices, and a myriad of ad or subscription supported internet video providers that stream or download to computers and internet enabled televisions through a broadband connection. All of which these are growing rapidly, but certainly not enough to replace the rich revenue streams of the past. Furthermore, a big problem is the array of competing online platforms that prevent consumers from watching freely, on multiple devices. Screendigest has reduced estimated Download and Streaming income in 2014 from 1.5 - 1 billion.[20]

Download and Streaming Rev (millions) (Screendigest)[21]

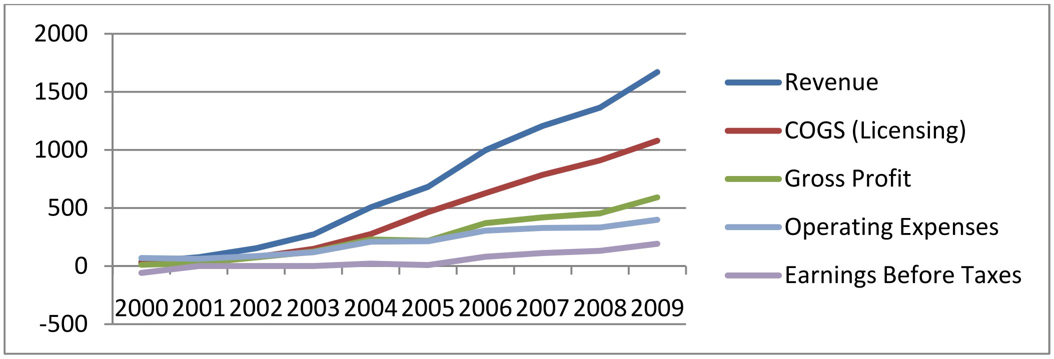


Following is a brief look at the major businesses.

Netflix is positioned well. Its main business, DVD rental by mail, has been successful to date, with an estimated 100K titles available. It has seen dramatic subscriber growth to 12mm, and also implemented a streaming service that has seen 20% growth over the last year, and is available online and through Xbox Live, Playstation Network, Wii, Tivo, Roku, and is hard wired into multiple televisions and Blueray players.[22] However, the business will have huge hurdles as it continues to grow; the studios already require a big chunk of revenue (see the Cost of Goods Sold in the graph below) and will demand more as their DVD and TV income decreases, and as streaming usage increases. The streaming service has been relatively well received, but with a rights limited stream library of 17K titles, high streaming costs (see Operating Expenses), bandwidth hurdles, and a Hollywood as a reluctant media supplier[23], its revenue growth will only be slow and steady.[24]

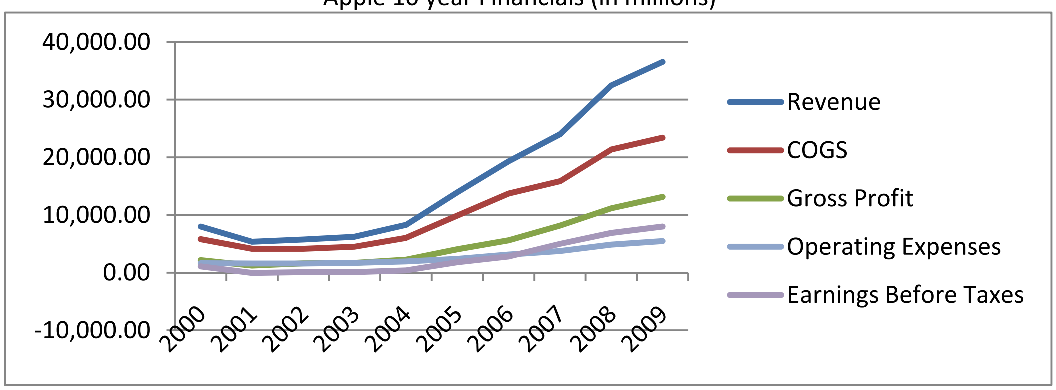
[20] http://www.ft.com/cms/s/0/ca3e9bb0-24d2-11df-8be0-00144feab49a.html?nclick_check=1
[21] http://paidcontent.org/article/419-movie-downloads-windfall-fails-to-materialize-is-hulu-to-blame/
[22] http://www.netflix.com/NetflixReadyDevices?lnkctr=mf_nfrd&lnkce=nrd-ofm&lnkceData=17&lnkce=ftrlnk&trkid=921401
[23] http://online.wsj.com/article/BT-CO-20100106-710531.html
[24] http://www.ft.com/cms/s/0/63eb95a8-24a9-11df-8be0-00144feab49a.html

Netflix 10 year Financials (in millions)[25]



Itunes is an Apple's online store that is primarily designed to provide cheap content in order to sell Ipods, Iphones, Apps, and soon Ipads. Apple has been hugely successful with negotiating deals with the music industry, creating a walled garden for their customers to play within, and selling huge numbers of hardware devices.

Apple 10 year Financials (in millions)[26]



Not so with the studios. Digital sales of music was highly successful, but dented album sales, and while Apple has been pushing to reduce television and movie pricing on Itunes, to spur growth, it's been largely unsuccessful; and it's sales through Itunes have been marginal.[27] The Ipad release, and Apple's 120mm active accounts, may open the gates for the studios to cooperate with lower pricing for television shows at least, and an all you can eat subscription model is also being discussed.[28] Apple is well positioned to take advantage of any increase in revenues, and because of its dominant position will likely end up convincing the studios to play ball.

Amazon VOD is a rent or buy on demand service, with a smaller number of more titles (50K) than Netflix, more new releases, and a higher price point. They have made deals with a wide array of device manufacturers, and are now available on Roku, Tivo, and new TVs and players from Sony and Panasonic. Their income is currently pretty limited, but they are considered a competitor to other broadband video companies. It's likely, as revenues increase in this space, there will be room for both a subscription model (Netflix) and a buy to own model (Amazon); indeed, some hardware boxes, like Roku and Tivo, enable both.

Xbox Live/Zune Video Marketplace is Microsoft's answer to Apple/Itunes hegemony, in addition to being a gaming platform competing with Nintendo and Sony. Primarily an online store for music, video games, and movies (6mm items) that can be accessed with the Xbox or Zune HD, it currently has a small amount of film and television

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[25] http://quicktake.morningstar.com/StockNet/Income10.aspx?Symbol=NFLX&Country=USA
[26] http://quicktake.morningstar.com/StockNet/Income10.aspx?Symbol=AAPL&Country=USA
[27] http://www.ft.com/cms/s/0/fa35a512-09fb-11df-8b23-00144feabdc0.html
[28] http://www.ft.com/cms/s/0/14856f08-168e-11df-bf44-00144feab49a.html

titles available. But it is wired with third party applications such as Netflix, Twitter, Facebook, and Last.FM, and there have been over 28mm consoles sold worldwide, and an Xbox Live active user base of 17mm.[29] Though market share for film and television content is small, Microsoft is a huge company, and will be able to ride out losing money for a long time as they build out the service. Xbox live revenue increased 84% from 2007 – 2008, and Microsoft says they have made a billion dollars total on the network as of 1/2009.[30]

Playstation Network (PSN) is available to Playstation 3 and PSP owners, an installed base of 60mm+ users[31], with 30mm+ user accounts registered on the network, and over 780mm downloads to date.[32] PSN now offers HD titles from all six major studios in the US, and others, including Lucasfilm, and will be offering 3D downloads soon, in addition to offering an array of other services, from Netflix to Original Programming. Sony is competing with both other game console business, Microsoft and Nintendo, but also investing in PSN and rolling out an expanded service, temporarily called Sony Online Service, as an attempt to catch up to Apple. Sony Online Service will attempt to offer the same amount of content as Itunes, in addition to games, cloud storage, and third party applications like Netflix and Facebook, that will have standardized access across all Sony hardware (Vaio, PS3, PSP, Sony Smartphone, etc) with a free and paid tiers.[33] They are investing a lot into this, however will move very slowly as they are hindered by their size.

Hulu is an online video aggregator, focusing on premium content, and selling large demographic bundles to advertisers. Originally a joint venture between News Corp and NBC Universal, Disney recently came onboard, and Comcast has bought NBC Universal. Content is primarily provided from the three owners, although Hulu also distributes content from 150 other producers. Comscore reports that it is currently second only to Youtube in video views, and has continued to grow from 227mm video views in November of 2008 to a billion in 2010, along with a YOY increase of unique viewers from 22 – 44mm.[34] The service is at an inflection point, with a critical mass of content, viewers, and awareness it's only pulling in a quarter of the same advertising revenue that broadcast and cable can get;[35] also, News Corp has said that it needs to change to a paid service, and Comcast may like to pull the plug when it completes its takeover of NBC Universal. Comedy Central has already pulled the Daily Show and Colbert Report. Without a stronger business model, or a partnership, Hulu's growth will plateau.[36] Perhaps the most telling quote is from an unnamed industry insider, "[The corporate owners are] still figuring digital out, and they need to find a way to increase those digital dimes to at least quarters or 50 cents. They'll give up an additional $20-50 million in ad revenue rather than get the model wrong and cannibalize themselves."[37]

Redbox is a low cost DVD rental service that operates rental kiosks in fast food restaurants, pharmacies, grocery stores, and convenience stores. Started by McDonalds in 2005, and now owned wholly by Coinstar; Redbox originally bought DVD's at retail, and started renting them out, but now has deals with the studios and content providers with varied terms around revenue share, wholesaling, and windows. Currently they have over 22K kiosks operating nationwide, each kiosk holds up to 700 DVDs, and they report renting a million DVDs a day in 2009.[38] Profit, from Redbox alone, increased from 388mm in 2008 to 773mm in 2009, with an estimated 1.4 billion

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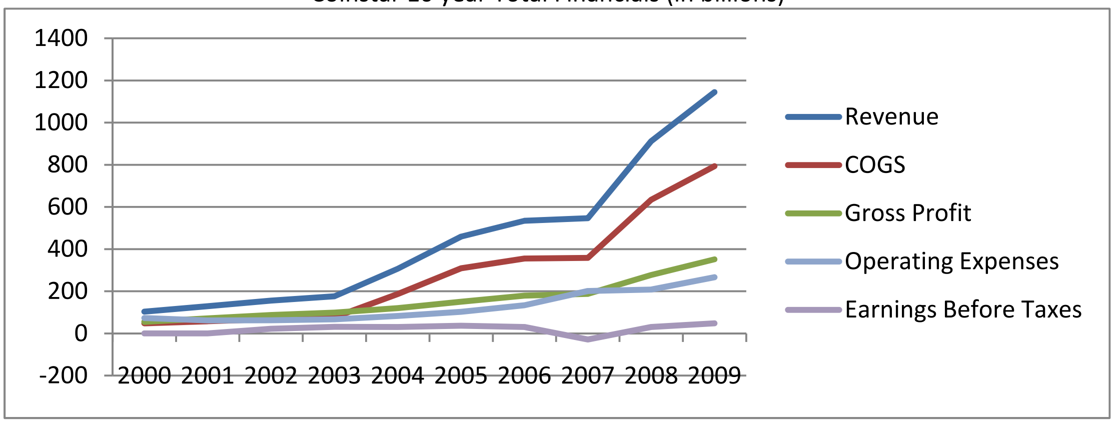
[29] http://multiplayerblog.mtv.com/2009/01/06/microsoft-releases-xbox-stats-we-annotate
[30] http://latimesblogs.latimes.com/technology/2009/01/microsoft-xbox.html
[31] http://www.qj.net/psp/news/ces-2009-psp-and-ps3-userbase-breaches-61-million-mark-21-million-new-psn-accounts-in-december.html
[32] http://ps3.ign.com/articles/105/1058816p1.html
[33] http://www.sonyinsider.com/2010/01/08/the-evolution-of-the-playstation-network-sony-network-entertainment-inc
[34] http://www.fierceonlinevideo.com/story/2010-ascent-hulu-shadow-google/2010-01-06#ixzz0hkyGfNIS
[35] http://industry.bnet.com/media/10002440/seven-often-stupid-reasons-hulu-doesnt-have-more-ads
[36] http://industry.bnet.com/media/10004792/why-news-corp-is-right-in-saying-hulu-needs-to-charge
[37] http://www.adweek.com/aw/content_display/special-reports/other-reports/e3i15f4e2b3b4a487b3cbb6ddcfb338c9e7?pn=2
[38] http://www.homemediamagazine.com/kiosk/coinstar-reports-revenue-1-billion-plus-2009-18443

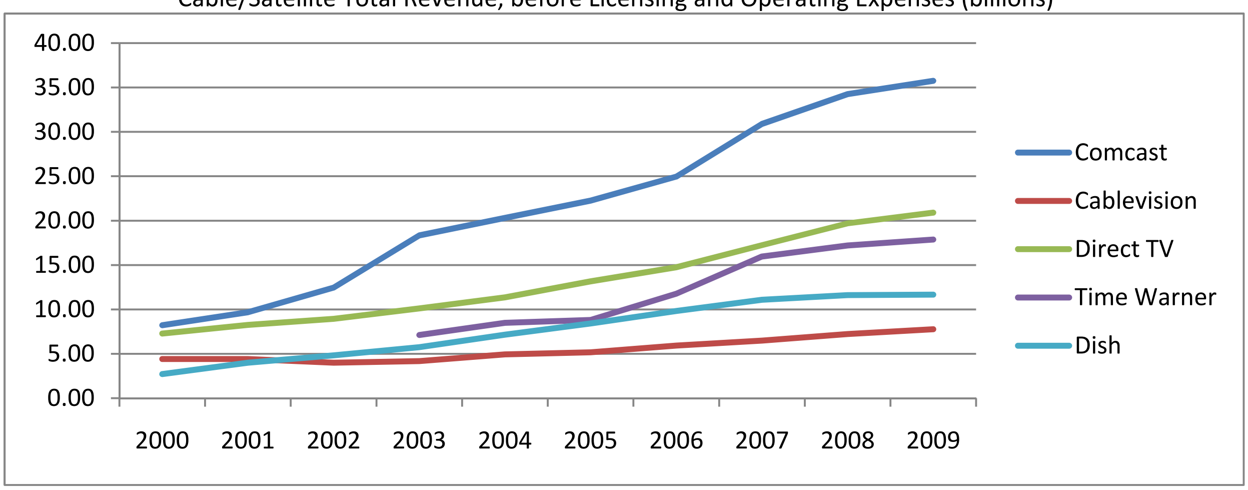
expected in 2010.[39] This is a huge surge of revenue, but with increased studio pressure, bulk buying limits at DVD retailers like Walmart and Target, and extended window requirements; Coinstar's already thin earnings margin and growth will be challenging.

Coinstar 10 year Total Financials (in billions)[40]



Cable/Satellite VOD includes providers such as Comcast, Cablevision, Direct TV, Cox, and Verizon FIOS. They are a huge source of revenue for content producers, have a sophisticated and technically superior transmission network installed, and will fight tooth and nail to protect their ecosystem.

Cable/Satellite Total Revenue, before Licensing and Operating Expenses (billions)[41]



Traditionally these businesses have been subscriber based, and have paid content providers and cable networks license fees to rebroadcast television and film over cable to consumer households, bundled with internet and voice services. In addition, they have offered transactional VOD and PPV, which costs per show. Recently they've begun experimenting with authentication based internet delivery of their content, with such initiatives as TV Everywhere, OnDemand Online, Xfinity, which promise to have most of the shows that is currently available on cable accessible online for subscribers. Likely the subscription and ad-supported parts of their business will not be threatened by online video in the short term, but PPV will.[42] NOTE: cable and satellite has been successful in deregulation, which has allowed arbitrary rate hikes, which has lead to across the board consumer dissatisfaction, and has been a major cause of the rise of alternative distribution platforms.

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[39] http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9NDE3OHxDaGlsZElEPS0xfFR5cGU9Mw==&t=1
[40] http://quicktake.morningstar.com/StockNet/Income10.aspx?Symbol=CSTR&Country=USA
[41] http://quicktake.morningstar.com/StockNet/Income10.aspx
[42] http://www.tvweek.com/news/2009/04/online_video_seen_as_biggest_t.php