



Can Hollywood Be Saved?

Thoughts from Jeff Turner, CEO, NUMETRA, Inc.

Now that the Hollywood self-love festival known as the Oscars® is over for another year, it's time for me to ask the Hard Questions – what's wrong with Hollywood, and what can be done about it?

No, this isn't more complaining about content. This is about delivery and distribution, which is where Hollywood has traditionally made its money, and where Hollywood today is most at risk.

So the short answer to Hard Question #1 is, the cash cow's seriously injured, perhaps mortally so. The short answer to Hard Question #2: the Internet. Specifically, a tiered online distribution strategy.

Slightly longer answers to both Hard Questions follow.

The Problem

Hollywood didn't get, and still doesn't get, what's going on online. Consumers are weary of waiting for Hollywood to get it and/or for Steve Jobs to finally accomplish with Hollywood the kind of strong-arming he did with the recording industry. One result: growing piracy. Or as some put it, "non-monetized" online content.

In November 2006, Mary Meeker and David Joseph of Morgan Stanley, quoting a study conducted the previous year by online content delivery vendor CacheLogic, said 60 percent of Internet traffic was peer-to-peer (P2P) file transfer. They also said that 62 percent of that traffic was video.¹

Also, the increasingly bi-directional nature of video production and consumption – "user-generated content" (UGV) or "viewer-created content" (VC², as Current TV calls it) – is contributing to increased piracy as well. A Jan. 15, 2007 *New York Times* story by Laura M. Holson stated that 30 to 70 percent of the video on YouTube is pirated content². And according to a blog at the Web site of *The Australian*, a national newspaper, the first four episodes of the latest season of the hit Fox TV show "24" were posted online at LiveDigital and YouTube a week before appearing on TV in the U.S.³

¹ "The State of the Internet, Part 3: The World's Information is Getting Organized and Monetized," a presentation given at a Web 2.0 conference in San Francisco, Nov. 8, 2006; available online at <http://www.morganstanley.com/institutional/techresearch/pdfs/Webtwopto2006.pdf>.

² "Hollywood Asks YouTube: Friend or Foe?," *New York Times*, Jan. 15, 2007; available online at <http://www.nytimes.com/2007/01/15/technology/15youtube.html?ex=1326517200&en=cf8bfb13b379a286&ei=5088&partner=rssnyt&emc=rss>.

³ "Laws close on Net video pirates," "Gotcha with Gary Hughes" blog, *The Australian*, Feb. 16, 2007; available online at http://blogs.theaustralian.news.com.au/garyhughes/index.php/theaustralian/comments/laws_close_on_net_video_pirates/.

The Impact

Yet only today, literally, has the Hollywood establishment begun to craft partnerships with P2P "market leaders" such as BitTorrent. The BitTorrent Entertainment Network, a legal downloading service, went live on Monday, February 26, 2007. Whether BitTorrent can convert its reported 135 million users into paying customers, even with partners such as MGM, remains to be seen. Little wonder why Apple's Steve Jobs went directly to consumers with iTunes, rather than doing business with and potentially legitimizing an incumbent P2P distributor.

Google paid some \$1.65 billion for YouTube, hoping to make an honest service out of the company. However, the Wall Street Journal recently reported that a deal in the works between YouTube and CBS that would have put CBS content on YouTube has fallen apart, perhaps to be resurrected on a more modest scale in the future.

Meanwhile, Viacom, after demanding that YouTube remove all Viacom content, cut a distribution deal with start-up Joost. This after Fox and NBC had their own disputes with Viacom, as widely reported. (A great story on the disputes in North Carolina's *Wilmington Star*⁴.

Now, if the audio entertainment industry is any kind of reliable guide, these deals seem less than likely to succeed. Despite attempts to legitimize P2P networks such as iMesh, the "new," legal Napster, and the late, lamented CenterSpan CStarOne⁵, the recording industry still claims illegal downloads are killing sales of new recordings. This makes the latest online moves by Hollywood look more like acts of desperation than agile, forward-looking evolutionary steps.

In the interim, media and entertainment companies estimate that they lose \$60 billion in revenues annually to pirated copyrighted video, according to an article by Diane Mermigas in the Oct. 10, 2006 issue of the Hollywood Reporter⁶. And every successfully pirated piece of video content weakens the negotiating position of the major Hollywood studios. YouTube is being berated by those studios for proposing to offer anti-piracy tools only to those companies with which it has inked distribution deals⁷.

What to Do (and How to Do It)

What the popularity of online video, legal and pirated, says most clearly is that companies and individuals will leverage what might be thought of as the "best effort

⁴ "The Old Guard Flexes Its Muscles (While It Still Can)," *Wilmington Star*, Feb. 18, 2007; available online at <http://www.wilmingtonstar.com/apps/pbcs.dll/article?AID=/20070218/ZNYT01/702180470/1002/business/>

⁵ "CenterSpan opting for hibernation," *Portland Business Journal*, May 30, 2003; available online at <http://portland.bizjournals.com/portland/stories/2003/06/02/story1.html>.

⁶ "Google-YouTube deal expands broadband nation," *Hollywood Reporter*, Oct. 10, 2006; available online at http://www.hollywoodreporter.com/hr/search/article_display.jsp?vnu_content_id=1003255470.

⁷ "YouTube anti-piracy software policy draws fire," *Reuters*, Feb. 16, 2007; available online at <http://www.reuters.com/article/technologyNews/idUSN1321663620070217?pageNumber=1>.



Internet," to deliver and obtain an experience that may be sub-optimal, but is free. However, this approach simply cannot offer consumers the desired experience they ultimately want, and that content producers really want to deliver. Higher quality almost always equals higher satisfaction for consumers and producers – which almost always translates into greater producer-consumer engagement and repeat demand.

So what's needed is producer partnerships with Internet service providers (ISPs), partnerships that enable higher-quality video services through direct, high-bandwidth access to consumers. In other words, a tiered online distribution model, one that supports both direct and indirect delivery of content from producers to consumers.

Indirect models, such as those reliant upon P2P networks, lead to lost control of content and related revenues. They also require negotiations with Web site portals, not ISPs, for distribution of content. This leads to thin margins on advertising splits. Also, to the consumer, the content does not look like a "TV channel" offered by the content producer, but like a channel offered by the intermediary carrier. Good, but not great – and not going away any time soon, either.

The "magic" happens at the direct tier, which "looks and feels" more like the connection consumers perceive with their DVD rental providers, their cable and satellite television services, and their movie theaters. A high-quality experience, with low distribution costs for carriers and producers, and greater convenience and choice at reasonable prices for consumers creates that "magic."

How best to get there? One option is the InterStream Transit Protocol (ISTP) and the InterStream Association (www.interstream.com). With the ISTP technology and InterStream members, NUMETRA provides the technology infrastructure that will let Hollywood insiders build a new "open broadcast television" system for the Internet.

ISTP basically enables high-quality delivery of online video, over current and future Internet connections, in ways that delight consumers and make sure that everyone in the value chain gets paid what they're owed⁸.

But the ability of ISTP to deliver TV-quality video or better over ordinary broadband connections is just the beginning. Members of the InterStream Association offer ISTP portals, for direct access to and relationships with consumers. Content producers can choose the quality levels they want to deliver, while ISPs can get the best possible pricing for providing "premium" bandwidth to content providers. All parties receive accurate settlements for each transaction, thanks to features built into the ISTP architecture. And consumers gain free access to software that can act like a "broadband TV tuner," analogous to the familiar tuners in their regular television sets.

⁸ More details about the ISTP and the InterStream Association are available via the Association's online wiki, at <http://interstream.com/PmWiki/pmwiki.php?n=Main.HomePage>.



Caveats and Conclusions

To be sure, there are still a lot of blind spots, bumps, and cul-de-sacs to watch out for in the move to the future of the Internet, the Web, and how they are used to deliver content and other entertainment. For example, the specter of anti-trust challenges already looms over this entire discussion as ably dissected by Esther Dyson in *The Huffington Post*⁹. Some would argue that Google's dominance of online distribution facilities is already so complete, it makes no sense to try to compete¹⁰.

However, there are nonetheless already some things that appear to be inescapably inevitable. One is that consumers want to produce and consume video, the higher quality, the better. Another is that content creators and ISPs have at least \$60 billion annually worth of vested interests in finding ways to enable satisfaction of those desires, but that most current approaches have already proven inadequate. The tiered Internet approach offered by ISTP and InterStream may be the first – last – and best hope Hollywood has of saving itself from being marginalized into irrelevance.

About the Author

Jeff Turner is CEO of NUMETRA, a company dedicated to using innovative technologies such as the InterStream Transit Protocol (ISTP) to enable powerful and scalable multi-tiered distribution solutions for Internet Service Providers (ISPs), content producers and consumers. The company is also a founding member of the InterStream Association, a community of companies promoting and delivering upon the promise of ISTP. More information is available online at www.numetra.com and at www.interstream.com.

⁹ "Net Neutrality (Yet Another Take)," *The Huffington Post*, Feb. 4, 2007; available online at http://www.huffingtonpost.com/esther-dyson/release-09-net-neutrality_b_40384.html.

¹⁰ "When Being a Verb is Not Enough," Robert X. Cringely's blog, Jan. 19, 2007; available online at http://www.pbs.org/cringely/pulpit/2007/pulpit_20070119_001510.html.

