

IBM AND THE FUTURE OF MOVIES

WASHER: Welcome to an IBM podcast on the Future of Movies. I'm Tim Washer. Our guests today are Yair Landau, President of Sony Pictures Digital; and Saul Berman, IBM's global strategy lead for the media and entertainment practice. Thank you for being here, gentlemen.

BERMAN: Thank you.

LANDAU: Thank you.

WASHER: So what we'd like to do is get an understanding of over the next three to five years how technologies will make a difference in how people view movies and some other forms of entertainment. But generally we'll speak about movies, both film in the theater and also on television as well.

One thing I wanted to ask is, there seems to be a drive of, you know, this consumer demanding more customization -- they want to watch when they want to watch. And we're seeing that with video on demand, DVDs, that type of thing. What are your thoughts on that trend and that movement.

LANDAU: Well, I certainly think that we've seen that trend over entertainment as a whole. Certainly the whole nature of the music industry has been transformed by customers wanting to unbundle songs and wanting them when they want them, how they want them. And really not waiting for the music industry to figure out how to migrate post the CD but really using the Internet to transform the music industry.

I think that we're at the infancy of seeing that in the motion picture side, where we have built an industry on segmenting when the consumer gets to see it in what medium, and that has built the movie pie tremendously.

So what I mean by that is, it comes out theatrically both in the United States and internationally often in different timeframes than it becomes available on pay per view and VOD. Then it becomes available on DVD, and then it becomes available on pay TV, and then it becomes available on free TV.

In each of those windows, we charge the consumer either directly or indirectly through a service provider like HBO or ABC for the airing of the product. Now, historically that's been all well and good, but customers today want it in their homes the day we make it available in theaters.

And with the proliferation of broadband and the ability for people to digitally copy our films very quickly, if we as an industry don't address that need, there's a host of external forces that will be glad to fill the void.

BERMAN: The consumer wants to increasingly be able to move the content from device to device. They want to be able to watch it on whatever screen they happen to be in front of at that point in time in which ever way they want. So the industry needs to figure out as the music industry did, as Yair suggested, how to monetize what the consumer wants to do as opposed to standing in the way of what they want to do.

The problem is that breaks down all the traditional business models in terms of how you repurpose the content, make money from it many times over. So if we look at the movie industry again, lots of problems but some interesting things along the way, that we had an album online at 9.99, we had a song online at 99 cents. But oh, by the way, if you want a 10-second clip of that song, it's two, three or \$4. We call that a ringtone.

So now all of a sudden scenes or assets that we have can be divided into their bits and we may be able to monetize those bits in ways we didn't before.

So what I anticipate happening in the next three to five years is a continuing compression of what we call the windows.

WASHER: Okay.

LANDAU: And that ultimately I think we're migrating towards a day and date availability across all medium. Even though I personally believe that the theater as the movie-going experience will remain dominant, and that is, I don't think anything will replace sitting in a large darkened room with a bunch of people sharing a common experience.

So three years from now, five years from now, people's preferred means of experiencing a blockbuster movie is still going to be to go to the theaters and see it together opening weekend.

WASHER: Yair, can you give us an example, maybe, on how Sony is thinking about approaching some of these?

LANDAU: Well, I think that, you know, Saul was saying there's potential opportunities and there's also risks. So, for example, some of the things that Sony's been doing for a long time now is actually, for several years, we've been licensing the content to mobile carriers.

We just announced doing that in the US, but we've been selling movies on a stream and a download basis in Italy on 3G phones for three years now.

We sell Monty Python and The Holy Grail on a very small scale memory stick in a UK retailer called Car Phone Warehouse, sold thousands of copies of that for people to watch on their cell phones in the UK.

WASHER: The full movie?

LANDAU: The full movie. Now, granted, the image size is like this, and obviously you don't get the great grandeur of the coconuts sliding together on your little screen like that, but there are people who want to consume it that way.

So we have been very open to experimenting with a lot of different business models. None of them -- and this is the interesting dynamic, and this is kind of the tragic part of what's happened in the music business, is none of the digital business models yet come close to the scale of the traditional analog model.

There's nothing that comes close to pay television, for example. All of the digital business models combined are a fraction of what our [Stars Encore] deal provides Sony

pictures for an individual movie.

WASHER: Do you think that's because the audiences haven't been aggregated enough to compare?

LANDAU: I think some of the audience is still in its infancy. But also I think online and the audiences are more fragmented. I think that if you look at pay television, it's a 20-plus year old model when really hit its peak when there were 50 cable channels out there.

Now with, you know, a thousand plus cable channels the value of an individual...the ratings on an individual pay movie are diminished as a function of fragmentation. I think online they'll never reach that level. I don't think you're ever going to reach the level where you get two, three million people watching a movie simultaneously online.

WASHER: But can we get a more targeted audience that we can charge, get more revenue per head for?

LANDAU: Well, I think when we ultimately compress windows, as I think inevitably we will, but I think it will take a while, you know, when it comes out day and date, yes, I think people will pay a premium for that. I think that people today have evidenced that they'll pay a premium if you could watch a movie opening night in your house, I think people would pay 20, 30, 40, maybe even \$50 for that.

I don't know whether that will match up and ultimately make up for what we lose in box office and what we lose in the other markets. That's the big kind of industry question, is will these digital markets ultimately aggregate to the value of the historic analog markets or not.

I mean, Tower Records is out of business. Tower Records is essentially done. Right? And for the music industry to do what it could to protect Tower Records and it couldn't save Tower Records and it couldn't save itself.

I mean, it's kind of the inevitable evolution. So fighting to protect shelf space there is kind of a losing cause. Inevitably we have to migrate to the Internet.

Advertisers in my opinion haven't woken up to...well, they've woken up to the Internet, but they still haven't really.... They haven't shifted enough dollars there, in part because it's just easier to buy TV spots.

It's easier to monitor, you cut one spot and you air it multiple times. It doesn't require the same amount of work. But you know, it's harder to sell a movie today than it was when all you needed to do was buy a spot on Friends.

You know, you can't do that anymore. You used to be able to buy a spot on Friends on Thursday night and you knew you reached 30 million people who are going to the movies that weekend.

You can buy a spot on American Idol, that's about as close as it gets, and you still can't get to the same place. You still have to really reach the Internet audience, as Saul said.

I mean, the average, the target demo for a lot of our movies is not watching TV.

BERMAN: And even if they do record the television set, the video on the television like American Idol because they weren't able to watch it in person doesn't mean they watched it before they went to the movies this weekend. They may end up watching it next week because we've done the time shift and when they watch it next week they may skip through the advertising.

So the advertisers are uncomfortable with that. We're starting to develop new measures; that's key. There's no standards around that. That's going to take time.

But as Yair said, it's inertia. And the people in the leadership of a lot of these businesses, they ought to do business the way they've been doing it for many years. They don't know how, and most of us don't know how to do it successfully in the new model.

So I think in the movie business -- and Yair can comment on this probably better than I can -- I think you're going to see a dichotomy where we continue to spend big bucks on special effects, big event kinds of movies, but I think the cost of making the other movies is going to have to come down.

We're going to see more amateurs, non-professionals as we historically call them, that have sophisticated VH, HD DV cameras and have the editing tools to do a lot of things they didn't used to be able to do. We're going to see semi professionals making professional product and competing with the established interests who are going to have to transform how they do their business.

WASHER: That reminds me, I want to pitch a few ideas to you after we finish this.

LANDAU: We also don't take any solicited presentations. You need an agent.
[LAUGHTER]

And I say that jokingly, but I also say that in truth. And that's actually, there are serious barriers to entry for individuals who want to create content and distribute it through a major motion picture company.

And so I think Saul is absolutely right, I think that they're going to be more and more people making independent films. And they're going to try to get them out there.

The question whether any of them are going to be worth seeing, I mean, there's lots and lots of people who can write a book and can't get it published. And most of those people don't have something worth reading.

There's lots and lots of people who can play a couple of cords on a guitar, but you're not going to buy anything they record on iTunes. So I think what you're going to see is a democratization of the ability to make video content. That doesn't mean that everybody is talented enough to tell a good story. And it certainly doesn't mean that people are going to want to go see that story.

WASHER: But with the democratization, I mean, the ability to get it on YouTube,

those small few good storytellers who can put a good short together and get it out on YouTube, I mean, I've read about some of these deals that have been signed, just some, they just shot it with this little mini DV camera.

LANDAU: I think that the next generation of talent that emerges as kind of major film making talent, as directors, as screen writers, as cinematographers will definitely come up shooting on DV by themselves, editing it themselves and posting it on YouTube.

And yes, I think it's entirely possible to get discovered on YouTube. That isn't to say that YouTube is going to become a distribution vehicle for feature-length films.

I think that the three- to five-minute clip is a great way to tell a joke but it's short form. It's not long form narrative. It's not a 90-minute movie. It's not a two-hour movie. It's not a multi-act, complex character story.

BERMAN: We see some of the studios trying to develop short form content. I don't know if you're all doing that. But do you see that as a way to build a brand coming from the short form content whether it be for the individual, or the characters, or the story?

LANDAU: I don't know that it's the best way to introduce a character. And I don't know that it's the best.... It's a great way to extend somebody's relationship with an existing character.

When we launched Spiderman, the first major piece of marketing we ever did way back in 2001 was we launched the trailer online. And we had six million people download it in the span of a weekend. And that was back then.

More recently, they put out the new Raiders of the Lost Ark trailer and eight million people downloaded it in like two hours. They reached their market much more effectively by sharing their marketing materials and making them available online.

So I believe that the Internet as a whole, that kind of digital network effect is really the most powerful entertainment medium ever invented, because you have the ability to reach most of the people on the planet, frankly, today, when you think about cell phones as an extension of the Internet experience.

You have the ability, essentially anybody who has got any sort of discretionary income on the planet online today. And there's nothing that comes close to that.

BERMAN: And you also have the ability to have some of the camaraderie -- although it's different in social networking -- because people are commenting on it. They're writing blogs, they're posting pictures, they're making comment. So before he even opens the movie anymore, we can know whether people are going to like it or not or what audience segments...

LANDAU: Or whether they think they're going to like it.

[LAUGHTER]

WASHER: Right.

LANDAU: Which is just as good in terms of opening it but not necessarily as good as their experience.

WASHER: Right.

LANDAU: The interesting thing, the whole Facebook/MySpace thing, that to me is an evolution of the online community to the theatrical community and the offline community.

If you look at where the Internet is evolving to, it's evolving to more of a communal experience that, you know, people check their Facebook pages, you know, every 15 minutes. And they're making sure that they're attached to their community. They're using online as a means of staying communal.

WASHER: You made the point earlier about this value of this community, seeing a movie in a theater with people. Help us understand a little bit more about that value, about what it means to us to see that versus watching it on a DVD at home.

LANDAU: I think all you have to do is ask yourself, you know, the last time you saw a comedy that really made you laugh and you sat in a room full of people and really laughed and laughed hard.

And I'll give you an example. Last year when I went to see Borat and there are moments in that movie where the audience are just laughing continuously. And that collective experience of sitting in a room with a couple hundred people just laughing, is, yes, you can watch Borat on DVD and you can sit with three or four people and laugh or you can download it on to your PC and sit there by yourself and chuckle. It's not the same communal experience.

And I think that human beings are communal animals and that there's fundamental aspects of social dynamics that will remain. That isn't to say that people don't want to consume and watch movies every which way.

But I think that the fundamental social experience for certain types of films in particular like major event films and like comedies is going to remain a big factor in people's lives and is a big factor in people's lives in all cultures, I mean, Bollywood Cinema as much as Hollywood Cinema.

People are still going to watch movies as a dominant form of entertainment, just like they still dance to music and listen to songs. And I don't know whether the revenue streams are going to continue growing. And that's a big question mark, and whether or not the whole cost structure of the movie business is going to have to change as a function of that.

I don't know. In the same way that it's harder to be a rock star today than it was 20 years ago. I think it's going to be harder to be a movie star 20 years from now than it is today. It is not going to mean the same thing.

BERMAN: I think you're going to have the choice of whether you watch the long form story or you watch the Cliff notes version, because a lot of people are still going to want to be entertained with the long form story but there will be people who want to go to

work tomorrow and talk to their friends about the movie they couldn't go see this weekend. And you know, they may watch the scenes out of it on some short form content device as opposed to long form.

WASHER: So an ADD version?

BERMAN: We live in that world. Instant messaging is the way to go. Absolutely.

WASHER: Right. Well, Saul Berman, Yiar Landau, thank you for being with us.

BERMAN: Thank you.

LANDAU: Thank you. It's our pleasure.

[END OF SEGMENT]

Continue the discussion at the [GIO blog](#).