

IT WAS 20 YEARS AGO TODAY...

Less than an hour after this summer's Live 8 concert, which Paul McCartney opened with the title track to the Classic "Sergeant Pepper's Lonely Hearts Club Band", Universal issued it as a digital single. Mind you, you won't find the original version, or any other Beatles track, on iTunes or any of the other online digital music services.

Twenty years ago today, pre-Live Aid (the original one) you wouldn't find any songs online. In fact, it used to be so simple – to enjoy entertainment, that is. You could turn on the TV and take your pick from four channels (Channel 4 had just arrived in 1982). You could listen to one of a handful of radio stations. You could put on an album or cassette or watch a video. That was pretty much it, unless you were one of the early adopters who had a CD player.

Fast forward to today. Now it's not quite so simple. In fact, for many people it's becoming downright confusing. With the advent of satellite there are more TV channels than it's possible to watch, and there are radio stations catering for every taste. Unfortunately that keeps Chris Moyles in a job, but you can't have everything ...

Want to watch a movie? If it's not available on VOD (video on demand) or sitting on your DVR (digital video recorder), then take your pick between VHS and DVD. If you're on the move, you might be able to watch it on a portable DVD player, PSP (PlayStation Portable), Portable Media Centre or your mobile while you sit on a train or plane. Expect a Video iPod in the not-too-distant future.

Want to listen to your favourite music? Where do you want to listen? On your hi-fi? Your computer? Your television? Maybe you want to listen while you're on the move? Choose between your iPod, MP3 player, portable CD, minidisc player or mobile (again). The choice is increasing all the time.

Meanwhile there's a whole gaming culture that didn't even exist twenty years ago. Over 45% of UK homes have a games console such as a PlayStation or Xbox.

Now go back to the 80's, and consider how consumers purchased entertainment. TV was free apart from the license fee – remember the constant reminders that there was a TV License Detector Van lurking on every corner? (Someone once told me that detector vans never existed, and it was all a story was made up by the Government to scare people into buying licences – can anyone confirm or deny?)

I digress. Back in the 80's, if I wanted to buy an album I went to Virgin, HMV or just as likely to Our Price, Boots or WH Smith, handed over my cash and became the proud owner of a vinyl single, album or cassette. Until the mid-80's, if I wanted to see a classic movie at home, the only way was to go to my local rental store. That changed mid-decade thanks to Woolworths, VCI, Jimmy Stewart and John Wayne, when customers could buy selected classic movies to own, and the sell-through market really kicked off when BBC and the major studios entered the market in 1985 through a distribution agreement with Pickwick (ah, heady days – 75% market share...).

Today, the number and variety of points of purchase for music are mind-blowing – for those who are prepared to pay, that is. There are hundreds of websites offering downloadable content. Apple, the clear market leader, has sold 500 million songs, and similar stores are run by Microsoft, Yahoo, Sony, Real Networks, MusicMatch, Tesco and even Coke.

While Apple has opted for a pay-per-download model, other sites are offering “all you can eat” subscription packages. For just \$4.99 per month (introductory offer) US internet users can listen to a selection of over 1 million tracks as often as they like, courtesy of Yahoo! Music. The “celestial jukebox” that was mooted so frequently in the early dotcom days is now on its way. Subscriptions to “Napster To Go” can be linked to portable players so that while you are a subscriber you can carry any music you like with you on your MP3 player. Of course, as soon as you stop paying, the songs disappear – you’re effectively renting your music.

In the video market VHS is all but dead, and the DVD cash cow is just about at its peak. The format war between Blu-ray and HD-DVD is about to erupt, and meanwhile Sony is estimating 2.5 million sales of its UMD (Universal Media Disc) format, playable on handheld PSPs, by March 2006. But will any of this matter in a few years time? Are on-demand services the future of entertainment delivery?

Currently, online video services are few and underwhelming. The studios have been slow to release titles, and the experience of downloading large files over anything but the fastest connections is less than spectacular. Services such as CinemaNow, MovieLink and Starz Ticket have yet to break through in the US, although new players such as MSN and Sony are entering the market, and as the user experience improves the online sector will gain momentum.

When it does, will CDs, DVDs and other forms of physical media become obsolete? The answer to this question is one of the fundamental issues for the whole entertainment industry.

The truth is, nobody really knows what the future holds. What is clear, however, is that entertainment and technology are from this point forward inextricably linked. Everything is digital. Every title currently available on DVD can be delivered digitally directly to consumers’ homes, and many more that didn’t make it to DVD.

The time is coming when file sizes, transfer speeds and storage will become irrelevant. When that time comes – and it’s only a few years away – the barriers to a killer online experience will no longer be technological ones, but purely commercial ones.

Picture the networked home, with a media server acting as the access and delivery point for all the data consumed in the home. This server will communicate with a variety of devices including computers, televisions, PVRs, hi-fi, portable devices and will even synchronise with in-car entertainment centres and mobiles. Television will be delivered via broadband connections (IPTV) and will be truly interactive. From an almost unlimited catalogue of music, video, games and information, consumers will be able to choose what they want to listen to, when and where they choose to do it, and they will be able to interact with many of the programmes they are watching.

Far fetched? Not in technological terms – all of this is possible today. But how and when it happens will depend on two key issues. First, the extent to which programme makers, content owners and publishers embrace this new future. And second, whether the technologies and delivery models will satisfy consumer demand for the content they desire.

Let's look at the picture from the point of view of content owners and programme makers. At its simplest, the growth of the internet and digital distribution creates a global market that on the one hand is massive in size, but can also be segmented into discrete niche segments that are connected by interests and lifestyle rather than location. The 24 fan in Fulham is no different from the 24 fan in Forfar, or for that matter, Philadelphia (are there any American cities beginning with F?).

The problem, as we all know, is that the same technology that allows publishers to distribute globally also allows anyone to share files via peer-to-peer (P2P) networks. Record companies claim that illegal downloading has knocked more than \$6bn (£3.32bn) off the value of worldwide music sales between 1998 and 2003, or 22% of the entire market. And with broadband penetration on the increase, video is the new battleground. According to the BVA, the number of internet users illegally downloading films and TV programmes has tripled over the past year, rising from 570,000 to an estimated 1.67m people. This amounts to £45m in lost DVD sales.

Net analysts CacheLogic have reported that video now accounts for 61% of all files shared, followed by audio (11%) and "other" files (27%) such as games and software. On the release of one major Hollywood blockbuster, 30% of the P2P traffic at one ISP came from a single 600MB file.

As Bob Wright, CEO of NBC Universal, said recently: "The internet may be more convenient, but it is Dodge City."

Meanwhile, where does the consumer sit in this connected, always-on future? With an almost infinite amount of entertainment to choose from, how will consumers decide how to spend their entertainment time (and their entertainment cash)? How will they find the programmes, movies, games, music, or information, that they want? Electronic programme guides coupled with advanced search engines will support the kind of intelligent software that recommends music on music services like Rhapsody and Yahoo! Celebrities, fashion leaders and style gurus will amass devotees who follow their recommendations through their blogs.

As for delivery, a battle is about to take place for ownership of the gateway into the networked home. Microsoft, BT, the cable companies, ISPs, Sony and a host of computer and consumer electronics companies are all vying for the role as "Gatekeeper" for incoming entertainment. The mobile phone operators will also have something to say.

So where are the opportunities for publishers? The concept of "The Long Tail", coined by Wired Magazine's Chris Anderson, is one vision of the possible. Unlimited availability combined with negligible incremental costs of delivery creates a market that can satisfy consumer demand for anything, not just the hits. While a retail store might stock tens of thousand of titles, Amazon can stock hundreds of thousands and purely digital services can stock millions of files. In retail, when a title stops selling enough to justify its shelf space, sales go to zero. On the Long Tail, these titles sit on a server, costing nothing, waiting for consumers to discover them – and the evidence suggests they will; the more customers explore, the more they find.

Take RealNetworks' Rhapsody music service. Not only is every one of Rhapsody's top 100,000 tracks streamed at least once each month, the same is true for its top 200,000, top 300,000, and top 400,000. This principle applies to all online entertainment services. Get rid of the economics of scarcity and the potential market explodes.

This is just one example of the opportunities created by the internet and new technologies – there are many more. And the most exciting (or scary – depending on your point of view) thing is that in less than ten years' time businesses and revenue streams will exist that were hardly thought about today. The launch of Halo 3 out-grossed the latest Harry Potter movie in its first weekend. A few years ago, who would have predicted that mobile phone ring tones would account for 10% of global music sales? And did you know that SMS text messages, the "killer app" of the mobile phone industry was originally created to allow engineers to send messages if they couldn't get a decent signal? Now this market is bigger than the whole music industry.

So the future offers great riches for those who embrace it with boldness, creativity and intelligence. One thing will never change, however. You can release as much crap, in as many formats as you want, at as low a price as you want, even give it away – it still won't sell. So while the possibilities are unlimited, never forget that the delivery vehicle is only detail. What is important now, always has been and always will be important, is doing what the entertainment business does best: giving consumers a product that delights, informs, touches and inspires them.

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