

# Mise au point

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## Hollywood and the Digital Revolution: New Consumers, New Markets, New Business Models

ALEJANDRO PARDO

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### *Abstracts*

Français English

L'histoire d'Hollywood est intrinsèquement liée à l'histoire du développement technologique. Mais la révolution numérique a transformé l'industrie du film et de la télévision d'une façon inédite jusqu'à présent. Les studios hollywoodiens ont été contraints de répondre à l'incertitude - notamment en ce qui concerne leurs profits - créée par l'apparition de l'internet et le succès des nouvelles plateformes numériques parmi la jeune génération.

En conséquence, Hollywood est face à un dilemme fondé sur deux évolutions fondamentales : d'un côté, l'émergence de nouvelles fenêtres de diffusion des produits audiovisuels (à lier à la théorie de la « longue traîne »), de l'autre la constitution d'un nouveau type de consommateur, connu comme la i-génération ou la net-génération. Ces évolutions introduisent deux questions : quelles sont les nouvelles habitudes de consommation qui définissent le profil de ce public émergent ? Et en conséquence, quel modèle d'affaires dominera ce scénario numérique ?

Cet article tente de répondre à ces deux questions en dépeignant le cadre des bouleversements présents et passés auxquels fait face l'industrie du divertissement. Dans un premier temps, j'examinerai les traits dominants du consommateur émergent et les éléments les plus significatifs de l'économie numérique au regard du modèle de la « longue traîne ». Dans un second temps, je décrirai les réactions d'Hollywood à ce nouveau scénario numérique et les nouveaux modèles d'affaires adoptés par les grands studios hollywoodiens relatifs aux téléchargements des films et des programmes de télévision. Enfin, je conclurai par quelques remarques destinées à tracer le cadre mouvant de l'industrie du divertissement et sa recherche de nouvelles stratégies de rentabilité.

The history of Hollywood runs in tandem with the history of technological development. However, the digital revolution has transformed the film and TV industry in ways never foreseen. Hollywood studios have been forced to respond to the uncertainty – and potential for profit – prompted by the popularity of the internet and the success of new digital

platforms, especially among young people.

Thus, Hollywood is standing at a new crossroads, charted by two basic movements: on the one hand, the emergence of new windows for the exploitation of audiovisual products (linked to “long tail” markets; on the other, the consolidation of new type of consumer, known collectively as the i-generation or net-generation. The two related questions in this regard are: What new consumer habits define this emerging viewer/audience profile? As a consequence, what business model will rule this new digital scenario?

This article tries to respond to both questions, tracing the framework of present and future challenges facing the entertainment industry. First, I will examine the defining features of the emerging consumer profile and address the most significant elements of the new digital economy, epitomized by the ‘long tail market’ model. Secondly, I will describe the Hollywood reaction to this new digital scenario and discuss the business models adopted by major American studios in relation to the downloading of films and TV programs. Finally, I will make some concluding remarks to reframe the changing face of the entertainment industry and the search for the right business strategies.

## ***Index terms***

**Mots-clés** : distribution online, Hollywood, modèles d'affaires, théorie de la longue traîne

**Keywords** : business models, Hollywood, Long Tail Theory, online distribution

## ***Full text***

# **Being or Not Being Digital**

- 1 In the mid-1990s, Nicholas Negroponte announced in his famous book *Being Digital*: “I am convinced that by the year 2005 Americans will spend more hours on the Internet (or whatever it is called) than watching network television” (Negroponte, 1995: p. 98). Although this prediction has not yet been fulfilled to the letter, the truth of what he argued is likely to be confirmed in the near future. Effectively, as *Newsweek* graphically illustrated in July 2010, under the provocative title “How the Digital Revolution Changed Our World”, time spent on the Internet by the average US citizen has grown from 2.7 hours per week to 18 hours in the last decade. And the amount of downloads for entertainment content on iTunes surpasses 10 billion (*Newsweek*, 2010).
- 2 Something is changing in our planet. To get a glimpse of it, let’s take a look at the rapid expansion of the “Apple ecosystem”. Since 2001, Steve Jobs’ company has sold more than 140 million iPods—which amount to more than 30% of the company’s annual income. In addition, the success of the iPhone has no precedent. The company forecast the figure of 100 million iPhones in the whole world for 2011. The recent launch of the iPad has surpassed all expectations (15 million sold in the first year). As a result, following the market-launch of the iTunes Music Store, the Apple brand has commercialized more than 4 billion songs, more than 3 million feature films, and approximately 100 million TV programs and series since October 2005. In 2010, Apple accounted for 48.8% of all online movie revenues outside the US (McBride, 2006; Fritz, 2007; *Screen Digest*, 2007, 2011; Grover, 2008; Hesseldahl, 2008a, 2008b). This iPod/iPad generation epitomizes the new profile of users whose audiovisual experience is based on all sorts of media platforms and whose profile mirrors to a large extent that of the cinema-going public and of those who play videogames. For that reason, Apple competitors (Microsoft, Samsung, Google, etc.) are trying to catch up the train of present-and-future technology.
- 3 How will such a revolution affect the movie business? According to some recent market indicators, there is no reason to be worried. According to *Screen Digest*, consumer expenses on online movies and TV series in the USA doubled (from 200 to

400 million US dollars) between 2008 and 2010—making rental returns more solid than retail. Similarly, revenues from the Western European online movie market were worth 50 million euros in the first half of 2010, twice the amount made in 2009 (*Screen Digest*, 2009, 2010a, 2010b). Finally, the total online revenues for international territories (outside the US) increased to more than 276 million US dollars in 2010, a 117.5% rise over 2009 (*Screen Digest*, 2011).

- 4 Hollywood is thus standing at a new digital (and global) crossroads, charted by two basic movements: on one hand, the emergence of a new market for the commercialization of audiovisual products (Internet, IPTV, digital reproduction devices, mobile telephones), referred to as the long tail market; and, on the other hand, the emergence of a new type of consumers, known collectively as the iPod or Net-generation (Taspscott, 2009). The two questions set out below sum up the challenges facing the major studios in Hollywood: What are the new consumer habits that define this emerging viewer/audience profile? As a consequence, what business model will define the network of relations on the Internet in regard to the commercial practices of the film and TV series industry? In other words, what are the rules governing this new market?

## New Consumers for New Markets

- 5 Marketing experts are convinced that this generation of new technology users has now reached a critical mass in numerical terms, and that their consumer behavior is markedly different. The following aspects of new consumer behaviors might be highlighted: a) a more participative and active attitude with respect to audiovisual and entertainment contents (user-generated contents); b) multi-tasking skills; c) new forms of socializing through virtual communities; d) a preference for versatility and portability over quality in consumer use –“platform agnostics”, in the words of David Denby, the renowned film critic at *The New Yorker* (Denby, 2006); e) new consumer behavior as a catalyst for the creation of new market niches (low demand, personalized and individually tailored consumption); and f) unconventional understandings of the free circulation of audiovisual material (piracy).

- 6 This matrix of aspects has been distilled into the well-known slogan taken as the motto for the new media scene: “What you want, when you want, where you want and how you want”. As Michael Gubbins —editor of *Screen Daily*— calls it, remembering an iconic advertisement of the 1970s, this is the ultimate expression of ‘the Martini culture’ in our “ubiquitous leisure society”. In regard to this term, he explains:

It is the sexier big sister of the more prosaic term ICE (information, communication and entertainment) coined in India during the dotcom boom to denote a marriage of information technology and entertainment. And to an extent, both dreams have come true. It is barely impossible to walk 100m in a city in any developed country without seeing the distinctive white earphones of an iPod. Mobile gaming is expanding quickly and telephones have lost their dowdy role as a means of speaking to people, to become portable electronic leisure centers (Gubbins, 2008).

- 7 The following question inevitably arises in this context: What rules govern business in this new world of commercial opportunities? Chris Anderson, editor of *Wired*, christened this recently discovered “gold mine” with the name ‘the long tail’, a term that has since become common currency (Anderson, 2004, 2006). His argument, which soon drew on empirical evidence from an analysis of several companies in the sector, runs as follows: commercialization on the Internet is not a marginal market; rather, it is an emerging market whose value constantly increases. This argument for Internet commercialization differs for three reasons: a) the

Internet brings together a dispersed and fragmented audience which, as a whole, constitutes a significant market; b) distribution costs are eliminated and product consumption becomes more personalized and attuned to the demands of these 'digital natives'; and c) popularity is no longer the key factor in market value; in fact, the Internet is especially apt (and profitable) for the sale of relatively unknown or minority interest products (Anderson, 2004: p. 174-177).

8 Thus, the emergence of this new virtual market undermines one of the classical laws of consumer goods economics—20% of products account for 80% of sales (the Pareto principle). Having analyzed the online services of companies such as Amazon, Netflix and Wal-Mart, Anderson concludes that the proportion of products that contribute to overall profitability in virtual markets might be as high as 98%. This conclusion does not mean that the most successful titles in conventional distribution channels cease to be so in the virtual world; however, less well-known or minority interest products also become more easily available and are acquired by the fragmented audience(s) of which the virtual market is composed. As a result, a specific catalogue of audiovisual goods may repay on the outlay involved in their production, and profit margins may rise.

9 Finally, Anderson outlines three rules to govern this new business model, entirely focused on the leading role and singularity of the consumer: 1) availability of a wide range of titles (“make everything available”); 2) competitive pricing in comparison to other distribution channels (“cut the price in half; now lower it”); and 3) personalized consumption (“help me find..”) (ibid.: 174-177). And he concludes: “The companies that will prosper will be those that switch out of lowest-common-denominator mode and figure out how to address niches” (ibid: 177).

10 However, this theory has been criticized by some well-known scholars. Founding her reflection on her own empirical research, Anita Elberse (Harvard Business School) states that the tail may be long but is equally flat in terms of benefits. In addition, she affirms that compared with heavy users, light users have a disproportionately strong preference for the more popular offerings, while both groups appreciate hit products more than they like those in the tail. As she concludes:

It is therefore highly disputable that much money can be made in the tail. In sales of both videos and recorded music—in many ways the perfect products to test the long-tail theory—we see that hits are and probably will remain dominant. That is the reality that should inform retailers as they struggle to offer their customers a satisfying assortment cost-efficiently. And it's the unavoidable challenge to producers. The companies that will prosper are the ones most capable of capitalizing on individual best sellers (Elberse, 2008: p. 96).

11 In my view, both interpretations can be compatible. On the one hand, it is clear that Internet has widened the commercial exploitation for all sorts of products and, therefore, has given opportunity to those considered “marginal” or “obscure”—with no chance of commercial exposure through the conventional windows. On the other hand, hits will always be hits. They will continue to act as the locomotive for entertainment consumption and will therefore remain as the hard core of the business.

12 In this regard, after a few false starts, a number of the changes to business strategies adopted by Hollywood studios in recent times have attempted to take the above-mentioned principles into account. For any key player in the entertainment industry aimed at a ubiquitous leisure society, the challenge is to understand this new scenario, where the ‘Martini culture’ meets the ‘long tail’ markets.

# Hollywood at the Digital Crossroad: A Management Clash?

- 13 Contrary to what may be assumed, Hollywood has been quite reluctant to face up these profound changes. Two insiders, Peter Dekom and Peter Sealy, asked in 2003:

How has Hollywood responded to the huge changes afoot? Unfortunately, not very well so far. First, Hollywood has ignored the facts both inside and outside the industry... [It] has fought to put the technological genie back in the bottle. The Hollywood approach: change must be legislated or litigated to a stop (Dekom & Sealey, 2003: p. 2-3).

- 14 Another expert analyst, Joseph D. Lasica, pointed to this resistance from the Hollywood majors, assessed in 2005:

Media companies need to learn to let go. Successful entertainment companies will create new products and pricing schemes, embrace fair use by giving customers flexibility in choosing how they want to view or listen to a work, and give outside innovators the freedom to tinker with and improve existing products. Media companies should embrace their digital destiny, even as their business models suffer short-term dislocation (Lasica, 2005: p. 265).

- 15 From inside Hollywood, oppositional voices can be heard. Although the majority of studio executives assume the need for change, others despair of the slow rhythm of the decision-making process within the huge and bureaucratic corporations. This is the case, for example, of David Wertheimer, former Paramount Digital Entertainment Head and current President at Digital Fox. Remembering his years working for the former studio, he assesses:

In the studios... you end up doing things that are slow and incredibly safe... In order to move quickly enough, you have to think like a startup and that means you have to be a startup and run like a startup. The studios are always going to be followers rather than leaders (in Rose, 2000).

- 16 Why does this fear of change exist? Someone as significant as George Lucas explained it in a very clear way:

The consortium of rich corporations that used to control this entire medium are now doomed... In some ways we're moving to a world without borders. We are seeing a paradigm change in how movies get made, how they get distributed, and the Internet has pretty much wiped out those borders. Now you can get people around the world to see your film (in Screen Daily, 2010).

- 17 In other words, what is at stake is the current Hollywood status quo as unbeatable oligopoly of production and distribution of branded entertainment contents. Executives at the major studios acknowledge that the existing commercial models are in terminal decline. Box-office takings in 2005 amounted to only 14.2% of total income. The other 85.8% was generated through the sale of audiovisual products designed for use at home and/or in an individualized way. In the last two decades, the highest percentage of income has been raised by DVD sales and pay-per-view television, but the digital revolution is also likely to radically transform the market in this regard. The physical copy of the audiovisual product will disappear, and the existing distribution channels along with it. Nevertheless, the industry response to this prospect ought to be measured.

- 18 Hollywood studio executives have now taken careful note of the rules detailed above. Having been initially resistant if not openly hostile to the development of television and video, and thus slow to adapt these new media to their existing

business model, the response of such executives to the emergence of new technologies has been markedly different. Nowadays, no one is reluctant. “We have to adapt”, says Barry Meyer, Chairman and CEO of Warner Brothers Entertainment, “or we’ll become dinosaurs” (Denby, 2006). However, prudence must rule the progressive incorporation of new business models. As Bob Iger, CEO of The Walt Disney Company and one of the most committed defenders of change in Hollywood, explains: “I have tried to keep two obvious philosophies: first, that our current business does not get in the way of adopting new technologies; and, second, that our business belongs to these new platforms” (Swisher, 2010). In other words, the quid of the question is how to incorporate new business models without killing the most profitable window (DVD and home entertainment).

19 If the Hollywood reaction to the digital scenario shows anything, it is a sort of management clash: the new and challenging versus the old and conservative; or, in other terms, the ‘digital’ mentality versus the ‘analogical’ one. This is one of the conclusions made by Andrew Currah (2006) after interviewing 150 Hollywood members. He summarizes in detail three concluding remarks. First, Hollywood’s strategy has been one of preserving the current sequence of commercial windows, rather than exploiting the disruptive power of new technologies (protectionism born of oligopoly). In his words, “this has been the case of the collision between Hollywood (a mature oligopoly overseen by six studios) and the Internet (a decentralized P2P [peer-to-peer] architecture)” (Currah, 2006: p. 463). Similarly, Frank Rose, editor of *Wire*, pointed out at the turn of the century: “Hollywood exists to feed the proven bottom line, not to invent the next one” (Rose, 2000).

20 Secondly, we should also understand the main reasons argued by Hollywood executives for their reluctance. On the one hand, the risk of DVD cannibalization—killing the most profitable window—and the subsequent pressure exercised by big retailers’ like Wal-Mart or Blockbuster (until recently, DVD sales accounted for 55% of total income). Despite the fears and reluctances, there is no doubt that the future of the Internet as window depends on Hollywood involvement (ibid.: p. 463). As *Variety* stated at the beginning of this decade,

Hollywood is suspicious of technology. It always has been. But when it comes to the World Wide Web, it turns out that Hollywood has actually taken over the reigns of Internet entertainment—it just hasn’t done it the way everyone thought it would (Graser, 2000: 22).

21 In summary, the new digital scenario demands a change of business and management mentality: the old assumptions of limits on creation and access, typical of an economy of content scarcity, must give way to the new value drivers of free access, an almost infinite variety of products, customized consumption, content aggregators and search engines, typical of an economy of abundance (although with time and expense restrictions).

22 The move from analogical to digital has been slow. At the beginning of the new millennium, the alliance between Hollywood and Silicon Valley became more intense. Technological companies were looking to create Hollywood relationships and a number of industry players moved to ‘dot-com’ companies. Nevertheless, “Hollywood’s new Web-friendly stance and new deals don’t necessarily mean that Hollywood understands the ways of the Web” (Graser, 2000). In fact, these deals were more a question of using the Internet as a testing laboratory for commercial exploitation (Graser, 2000; DiOrio, 2000). This attitude towards new markets is quite typical in the case of oligopolistic industries, as Currah explains:

The commercial developments of new markets and technologies often take place in a bifurcated fashion, particularly in oligopolies. Specifically, it is possible to make a broad distinction between processes of exploration and exploitation (Tushman & Anderson, 2004). First, the exploration of

emerging markets tends to be pioneered by smaller firms, outside the orbit of incumbent firms... Second, a tipping point occurs when emerging markets obtain a critical mass, attracting the interest of incumbents. In a few cases, this process of exploitation might lead to the displacement of incumbents and the ascendance of innovative 'first movers'... In most cases, however, the growth of a new market actually depends upon incumbents given their assets and market power. Generally innovators are more likely to 'sell out' rather than challenge the ruling oligopoly (Currah, 2006: p. 463).

23 Effectively, the never-ending strategic movements of mergers, acquisitions and alliances that have taken place along this decade exemplify this dynamic: Fox + MySpace, Disney + Pixar + Apple, Blockbuster + MovieLink vs. Walt Mart + Netflix, Google + You Tube vs. Hulu, Amazon-Unibox + TiVo, etc. These strategic initiatives provide ample evidence of the determination of Hollywood studios not to miss the boat on so-called gear-media. The alliance between Hollywood and Silicon Valley is becoming tighter (Lawson, 2007).

## Business Models: What Did Go Wrong, What Should Be Right

24 For the Hollywood studios —as well as for the rest of the key players in the entertainment industry— the search for the right Internet business model has become harder, but also as crucial as the quest for the Philosopher's Stone. As one industry expert states,

Once upon a time... the movie business was about making movies. Nowadays, it is about creating intellectual property that can be licensed in a raft of different markets... The [Hollywood] studios stand to gain even more from huge audiences willing to pay to download movies from their libraries... [Therefore], the real issue for Hollywood studios is how they can dig into this potential gold mine without undermining their existing revenue streams (Epstein, 2005).

25 Apparently, the theoretical principles have been always clear, but reality has widely proven that this new market (or new consumer) has its own rules. Back in 2001, a *Variety* expert stated,

Advertising, development, syndication and subscription. The seeds have been planted for profitability, but all these business plans are facing a dot-comeuppance. The basic problem? Nobody can quantify or define the type of content people are willing to pay for... Netizens are willing to pay for content if they get something in return that facilitates their Internet experience, and this realization is starting to dawn on traditional entertainment outlets (Donahue, 2001: p. 18).

26 As we have mentioned before, surprising though it may seem, the failure of the first business model adopted by the Hollywood studios in response to the commercial potential of new technologies—Cinema Now and MovieLink—was attributed to an error at the level of first principles: if the Internet is to be a new entertainment platform capable of competing with the conventional media (DVD rental and pay-per-view TV), then either the audiovisual experience it offers should be more attractive and user-friendly, thus selling at a correspondingly higher price, or its products should be sold at prices considerably lower than those of the existing media. With a wisdom based on common sense, *Billboard* analyst Michael Greerson wrote an article prophetically entitled "Movie Downloads: Why This Model Won't Work"... (Greerson, 2006). Only the emergence of the iTunes model—first for music, then for movies and TV episodes—marked a turning point (Pardo, 2009: p. 77-82).



27 In any case, as a number of industry commentators have pointed out, the future of the film download business model will be dependent on a hybrid financing structure, involving a combination of direct (pay-per-view and subscription) and indirect (advertising and sponsorship) funding (Fritz, 2007). The three current business models to consolidate are: a) *Transactional*: consumers can buy a permanent download ('download-to-own', DTO), rent a temporary download or buy temporary access to a stream (VoD rental); b) *Subscription*: consumers can subscribe to an 'all-you-can-eat' rental service offering temporary downloads or streams in return for a single monthly fee (SVoD); and c) *Ad-supported*: consumers can download or stream titles for free in return for watching video ads within the content (FVoD) (Screen Digest, 2007: p. 270-271).

28 In fact, it seems that Hollywood has finally learnt the lesson. At the 2010 Consumer Electronics Show at Las Vegas, a consortium of the major Hollywood studios, retailers, cable operators, hardware manufacturers and rental services (with the exception of Disney and Apple) known as Digital Entertainment Content Ecosystem (DECE), announced the launching of UltraViolet, an online content locker that stores and plays movies and TV shows on a variety of devices.<sup>1</sup> This platform enables consumers to purchase a film from any provider and store it online in order to view it using any device with an Internet connection—computers, TVs, cable set-top boxes, Blu-ray players, videogame consoles, smartphones and tablets.

29 The most significant change is that this new online device really meets the consumption habits and demands of the 'digital natives'. Every single household can create an account for six family members to access their movies and TV shows, and later music, books and other digital contents, from retailers, cable operators and streaming services. Up to 12 different devices can be registered—to cover most of the hardware options on the market—, being possible up to three streams at a single time. In addition, content can be downloaded and transferred onto physical media, like recordable DVDs, SD cards and flash memory drives.

30 "We've tried to emulate consistent consumer behavior [in developing this service]", says Mitch Singer, DECE president and chief technology officer of Sony Pictures Entertainment. "What we found was that consumers were getting contents from the Internet for free and burning DVDs for friends or playing them across every device. We looked at what consumers are currently doing and gave them that with UltraViolet" (Graser, 2011). For his part, Thomas Gewecke, president of Warner Brothers Digital Distribution confirms: "We believe that UltraViolet will provide consumers with an easy-to-use way to buy and watch digital entertainment across multiple devices". And he adds: "Making interoperability possible meets a key consumer need and fundamentally improves the digital video experience. With UltraViolet, consumers will be able to purchase a title once and enjoy it anywhere and anytime they wish" (Graser, 2010). With Hollywood looking for a bright light to reverse a dark downturn in home-video sales over the last several years, the UltraViolet name couldn't be more fitting.

31 Meanwhile, Disney—the only self-excluded studio in this venture—has recently announced a new rental deal with YouTube. The Google-owned video online platform will offer Disney films for rental on its website, ranging from 1 to 4 US dollars depending on whether they are library titles or releases timed with the home-video window. This rental deal is just one step forward in the increasing cooperation between the two companies, whose strategic plans include a co-branded channel with original programming that would reside both on YouTube and Disney.com (Wallestein, 2011).

32 As can be noticed, the studios are still taking positions on the digital game board, but no one exactly knows which rules will actually be applied and who will finally succeed in offering the golden formula to win the consumer's confidence.



# The Future is Now: Movie Business in Digital Hollywood

33 In order to summarize some of the most significant transformations Hollywood is undergoing to adapt to this new digital scenario, we should mention the following:

1. *Customized consumption*: As explained before, the new generation of consumers ('digital natives') demands a personalized way to enjoy online entertainment content—music, movies, TV series, videogames—which means complete freedom of choice, flexibility and portability. This 'Martini Culture' meeting the 'long tail' market requires the right targeting, pricing and technological infrastructure (broadband) strategies. Initiatives like UltraViolet show a change of mentality on the part of the Hollywood studios, in their effort to accommodate these new consumption habits.
2. *Redefining the window sequence*: This profound transformation in consuming entertainment—consumers' new habits and disappearance of the physical copy—is definitely changing the current sequence of commercial windows. On the one hand, the time period of exclusivity is narrowing in order to avoid market competition and piracy effects; on the other, customized consumption obliges simultaneous release—product availability in several windows at the same time with price discrimination (Ulin, 2009: p. 33-36). As a consequence, the distribution sector as we know it is condemned to disappear or to be dramatically transformed—into online content aggregators, for instance. Physical copies will soon disappear, and 'virtual markets' will end up as the preferred option—as the iCloud option recently announced by Apple (Morris, 2011).
3. *Content is still king but it needs adaptation*: Despite recent advances in technology, creativity is still the cornerstone of the audiovisual industry. No matter how fast technology is evolving or how dramatically distribution is changing, "if you have a great story to tell, it will work on any delivery system", affirmed Michael Eisner a few years ago (quoted in Tartaglione-Vialatte, 2008). Nevertheless, this new market physiognomy is leading to a polarization of entertainment content: on the one hand, the big-budgeted Hollywood blockbusters, with high production values, especially design for a 3D cinema experience; on the other hand, the small and target-specific niche films, aimed directly at home entertainment. This polarization also justifies the need to create franchises and brand-entertainment contents in order to feed a regular market (Ulin, 2009: p. 18-29). Finally, fiction and entertainment contents must be developed from their earliest stages for multimedia and interactive consumption. From this perspective, the keys to develop successful content are related to the capacity for multiplatform distribution and consumer customization—i. e., interactive options, potential to create a prestigious brand and capacity to tell an original 'transmedia' story (Jenkins, 2006).

## Conclusion: From Reluctance to Prudent Embrace

34 'Convergence' is a fashionable word in this new environment (Jenkins, 2006; Pavlik & McIntosh, 2011). The Hollywood executives are facing the most challenging transformation in the whole history of the entertainment industry. The

digital revolution is shaking the traditional-conservative business models (analogical) and new (online) options are emerging with unavoidable impetus. The discussion is open: access vs. content, franchises over distribution channel, free vs. pay/premium content (or a mixed model), user-generated-content vs. professional work, etc.

35 The previous pages show how Hollywood has progressively moved from a reluctant attitude to a prudent embrace of new technologies. At the present moment, there is some noticeable evidence. Firstly, the consolidation of an emerging market—consumer expense on online movies & TV series has doubled in the last year both in the USA and in Western Europe, and it is steadily increasing throughout the world (*Screen Digest*, 2009, 2010a, 2010b, 2011). Secondly, the search for the right business model is still a pending issue—hybrid models, including transactions, subscription or ad-supported formulas; all of them offering a good price-quality relation. In the third place, new products are needed for new consumers—more innovative and participative forms of audiovisual entertainment, expressed in multiplatform products. And finally, the entry of new players and new forms of synergies and competition—Hollywood alliances with Google-You Tube, Hulu, Apple TV, TiVo, etc.; the transformation of distributors into search engines or content aggregators; of retailers into ‘e-tailers’ (Netflix, Blockbuster, Amazon or Wal-Mart) and even beyond—into pay TV channels, like Netflix.

36 At the same time, uncertainties remain. As said before, Hollywood studios are willing to embrace new technologies but without ‘cannibalizing’ their most profitable windows to date (cable TV and DVD). There is no evidence that cannibalization always exists. When *Iron Man* became available on iTunes in September 2008, for instance, it sold more than 1 million US\$ in 2.99 US\$ downloads in its first seven days of release—almost pure profit, because of its low cost of delivery. Nevertheless when the same movie was released in DVD, it achieved the 140 million US\$ revenue figure in its first week (Barnes, 2008).

37 Hollywood studios won’t abandon their reluctance to license their contents to online services in the short term. As chief content providers, they own the key to digital changes. Recent ups-and-downs of successful online platforms like Netflix and Hulu, together with their strategic moves, show to what extent contents are still crucial (Goldsmith, 2011; Wallestein, 2011b). In this regard, I would like to conclude by paraphrasing *Screen Digest*.

38 If the movie industry is to build an online business, major content owners must emulate their counterparts in TV by loosening their grip on content and experimenting with services and business models. Until they do, online services will continue to represent a nominal revenue stream for the movie business (*Screen Digest*, 2010b).

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## Notes

1 DECE is made up of 60 members, which covers most major entertainment suppliers and device manufacturers. Founding members include Best Buy, Netflix, Comcast, Cox Communications, BSkyB, Intel, Microsoft, Cisco, Dell, IBM, HP, Toshiba, Samsung, LG, Nokia, Motorola, Dolby, Adobe and Sonic Solutions. While Fox, Warner Bros., Paramount, Lionsgate and NBC Universal are supporters, Disney is focusing on its similar Disney Studio All Access offering. Apple is also holding out from joining the organization, although it's likely that DECE's companies will create apps that will play UltraViolet content on devices like the iPod, iPhone and iPad (Graser, 2011).

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## ***About the author***

### **Alejandro Pardo**

Professeur de production film et TV et de management de projets audiovisuels à l'Université de Navarre (Espagne). Il est diplômé de UCLA et de la Media Business School de Madrid. Il a publié *The Europe-Hollywood Coopetition: Cooperation and Competition in the Global Film Industries* (2007) et dirigé *The Audiovisual Management Handbook* (2002). Il est l'auteur de nombreuses contributions à des ouvrages collectifs sur les industries du film et de la télévision, dont *La nueva era de la televisión* (2001) et *Cinema Do Mundo : Indústria, política e mercado : Europa* (2007). Il a publié dans des revues comme *The Journal on Media Management* (Taylor & Francis) and *Film International* (Intellect). Alejandro Pardo est membre de l'European Media Management Association (EMMA), de la Society of Cinema and Media Studies (SCMS) et de l'European Network for Cinema and Media Studies (NECS).

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