

DVD is dead – long live DVD!



"1986 – a year to remember? Well, I do remember quite well this meeting between Warner Home Video and Philips executives at a restaurant on the heights of Montreux, Switzerland." A Warner executive at the time, TIMMY TREU, now a consultant, was there at the birth of DVD.

The meeting was for me and many participants (especially WHV executives) the birth of DVD as we know it today. At that particular event, Warren Lieberfarb, at the time President of WHV (hence my boss) and later crowned as the "Father of DVD", summoned all the worldwide Managing Directors of WHV in order to explain his future vision of our business.

The reason Philips executives were at the meeting was because CD had been on a winning streak, and Lieberfarb wanted to get their attention for his ideas. By now, Philips had already launched 12" LaserVision Discs and CD-i.

At the time, we at WHV were in the business of distributing films on VHS, in an environment that was quite hostile to us, even internally, since the theatrical departments feared for their business (bear in mind that in those days the studios were still quite compartmentalised). Even at corporate level (Warner Communications Inc.) there was a fear that home video would potentially turn into another "ATARI disaster."

So, the stakes were high. But Lieberfarb saw beyond. His words were simple: "Invent a 5-inch disc that can store a whole movie in digital high-resolution format with CD-quality sound! Do you want to be part of this revolution? If you don't, tell me right now. I shall buy you out, and get out of my life!" Guess what, we all accepted! We knew Lieberfarb was serious!

It is remarkable to note, however, that of all the MDs who were present at that momentous dinner in Montreux, only a few (me included!) would still be part of Lieberfarb's team at the launch of DVD more than 10 years after.

That was surely an important moment since we all knew that VHS, although a fine system, had its problems. And we had seen how CD was gradually taking over LPs.

That said, it then took more than 10 years to come up with the first mass-produced DVD, and home entertainment just began – a revolution that started back in 1986.

These years until 1996-97 were essentially occupied with sustained efforts to

avoid a new VHS/Beta/V2000 format war. The fact that Lieberfarb was also running the day-to-day operations of WHV was not making our lives easier! After all, we had to deliver the numbers, carry out the business as usual, yet preparing the launch of DVD, without knowing whether the market would accept it.

Our market research effort in the early years was remarkable, even if the numbers did not stack up to the reality. I do remember how we constructed our first two budgets for DVD. We multiplied the installed base of DVD players – a very inconsistent number across Europe – by a factor of 25, on the assumption that the owner of a new DVD player would buy at least two discs a month.

The title that really made DVD happen was *Matrix* (1999), and with good reasons. It was a movie that was great to be watched on DVD, with the extra content. For those who remember, we all followed the "white rabbit," didn't we?

By the time DVD hit the marketplace the old rental VHS model started to decline. DVD could be mass-produced, easily and at a low cost. And the rapid fall in price of DVD players created the conditions for DVD to become a sell-through commodity.

The studios have been rightfully blamed for pushing the DVD price down too fast, and kill the rental business too soon. However, the fall in DVD price was necessary as a response to a sudden shortening of the theatrical-to-TV windows to accommodate the new, and for the studios, very lucrative Pay-TV, VOD, NVOD deals.

I recall vividly how Lieberfarb's view that DVD would eventually be selling for less than €10, was badly perceived by others in the industry, who feared that a fast price erosion would make the product less attractive. He called it the paperback price.

Let's face it. It is only today, in 2010, that we witness a real price erosion of DVD

falling even below €5. The reason of this further erosion is principally due to the fact that some studios, not happy with their Blu-ray sales performance, are *shlocking* Blu-ray discs below the €10 mark. (Shlocking was the expression used by long-time WHV executive Ed J. Byrnes to mean devaluing a product by selling it at stock prices).

DVD had emerged as the winning formula concocted by Warner and Toshiba. Sony and Philips had lost this original format war with their MMCD. However, the home consumer market became a new, heated battleground for the next format – Blu-ray vs. HD DVD.

Did we need High-Definition to enliven the market? Surely, we did, especially after the 16:9 fiasco of the early years. Adoption of the 'cinema-like' widescreen TV format has been extremely low. Only France was adopting it, whereas the rest of Europe and the US were lagging behind heavily. Not only were there few TV broadcasts in 16:9 (with the exception of the Olympics) but also the studios were not attracted to a format that would still require letterboxing for showing cinemascope movies in the 2,35:1 on the small screen.

When Blu-ray finally emerged as the new HD standard for packaged media, and more and more studios agreed to release wide-screen titles, HD-ready TV sets became the market leader in consumer electronics.

This is all history, so far. Will Blu-ray replace DVD? Is DVD dead? Where is digital download going? Has TV lost its punch? Will 3D cinema be the new trend-setter? Will the "cloud" make all these obsolete? These are, today, the key questions asked by both consumers and industry executives.

Well, having been in this business for about 30 years now, I confess keeping a cynical smile on my face. History is



Warren Lieberfarb, WHV President

supposed to repeat itself, but it does not!

With the exception of mobile phones, the only consumer electronics device that has sold over 1 billion units worldwide is the DVD player – in less than 15 years!

Will they be losing ground fast enough to leave room for Blu-ray players? A definitive “No” and the reasons are manifold: (1) movies on DVD are cheaper; (2) DVD is a standard that is embraced the world over, even in China, which is not the case with Blu-ray; (3) before the Blu-ray standard has even settled, new technologies point on the horizon, like 3D-enabled players, Ultra HD TV, NAND Flash, and others.

What this all means is that the consumer’s willingness to upgrade to a new standard is questionable, especially in the current economic climate, likely to persist for the next few years.

There are still more reasons not to upgrade. For one, some 70% of movies sold today on packaged media are deep catalogue titles for which a Blu-ray treatment would add nothing. Unless, that is, the objective is to sell the same content, once again, at a premium!

Certainly, *Avatar* and *2012* look great on a Blu-ray/HDTV home entertainment equipment set. They were filmed to be optimised for these viewing conditions.

I find it amazing that one of the most innovative makers of computers, Apple, still has not (yet) considered offering Blu-ray drive for iMacs or MacBookPros. The latest kid in the Apple family, the iPad, does not even have a DVD player.

Let’s go back to 1986. VHS had being around for just a few years when DVD was being conceived. Video was about to bury the movie star system, a threat badly lived by the Hollywood studios who had seen television killing that star system a decade earlier.

But was this worry justified? No. Although the slice of the pie became smaller (the box office takings as a proportion of total

revenue), the pie itself grew larger. Though Blu-ray is not yet making up for the fall in DVD revenue, let’s remember that there is a global installed base of 1.5 billion DVD playback devices!

It was a sad moment for the industry, when in late 2003, Lieberfarb was ousted, probably because Warner feared he would become too powerful. Too many company executives, used to running ‘normal’ operations, feared they would be bossed around by a visionary continually pushing for innovation.

Today, the growth of Blu-ray is unfortunately happening mainly by “inertia” rather than by innovation – not even marketing innovation. Price seems to be the only driver. This echoes Jeremy Rifkin’s latest book *The Empathic Civilization*: “No matter how much we put our minds to the task of meeting the challenges of a rapidly globalising world, the human race

seems to continually come up short, unable to muster the collective mental resources to truly ‘think globally and act locally.’”

The film industry, with a few exceptions on the artistic side, does not seem to grasp that innovation is not simply evolution, but revolution, like the invention of DVD for packaged media.

I mentioned earlier the ‘cloud.’ Well, this cloud is hanging above our heads. I guess it could potentially become the next revolution. Both a content revolution as well as a technological revolution (if the industry can agree on a single standard, that is).

The ‘cloud’ could offer new, flexible ways for consumers to access content, and provide the industry with new distribution vehicles. All this in a nearly hardware-less world!

Sounds too good to be true? There will

always be hardware, if only for accessing this ‘cloud.’ We are just humans who need to touch what we own, so we will download and transfer our own content from our corner of the ‘cloud’ to our earthly devices. And since there will still be hundreds of million of DVD players out there, we might as well record the accessed content on DVD-R discs. The need for backing up our ‘cloud’ content might be the excuse to still use disc.

I guess the SD Card could be the major back-up competitor to DVD. It is small and it



The author running the WHV operations at WEA Austria with his Atari 800

stores a lot of information – although the price per GB is still high compared to DVD. But development is speedy, with talks of SD-XC standard accommodating storage of up to 2TB – the equivalent of 40 Blu-ray films at similar transfer rates.

But, then again, all of these are just evolutions, not revolutions, and it is a question of standards. When all is said and done, there has only been one single major standard in home entertainment for the past 15 years: DVD!

BIOGRAPHY

TIMMY TREU has been in the video industry since the inception of VHS (the ‘70’s). He saw the format war with Beta and V2000, the transition to DVD, the launch of HD Video, all while managing Warner Home Video’s operations in Austria, South America, Southern Europe to finally settling in Italy as President of WHV Italy. He also served as Vice-President for Pozzoli. Contact: timmy.treu@yahoo.com

The clearest picture of the global media markets



Screen Digest’s **Video Intelligence** is the leading source of market data and research on the global video industry. To find out more about all our services, contact:



+44 (0)20 7424 2820
sales@screendigest.com
www.screendigest.com