QOL at 10 keeps on innovating

QOL, Europe's first independent manufacturer to take the plunge into Blu-ray, celebrates its 10th anniversary. In a candid conversation, its CEO LAURENT VILLAUME shares with JEAN-LUC RENAUD his memories, on-going concerns and how market realities are shaping his strategic vision and present new opportunities.

This year, QOL celebrates its 10th anniversary. What did turn out the way you expected and what did come as a surprise over this period?

What I did not plan, and turned out to be difficult, was in terms of human recourses. It was putting together an experienced team. I though it would be easy, it was not. One cannot achieve the success we eventually did without a strong team. I am indebted to those who took the risk of joining me and Sylvie [Binard] ten years ago, on a project that, at first, looked far-fetched. So, my best memories are my collaborators.

The second surprise was the upheaval in the industry. Coming from the VHS industry we were used to a media we thought would be around for one or two decades, and we did not query about what was going to follow the next few years. We had a clear vision of the future because the media was not challenged. Today, we discover that any media becomes very quickly obsolete. Blu-ray is barely entering the market that we already talk about 3D. And I am sure that, when 3D BD will be there, we will hear very quickly about holography!

Today, our craft is called into question. It means that investments committed for the medium and long-term need to be short-term. That is something that drastically changes a strategy in terms of behaviour and investment.

Thirdly. We hear a lot of things about the future of our business, but we have difficulty positioning the physical support vis-à-vis 'dematerialised' digital delivery. It is therefore important for companies like us to be present in the entire audiovisual supply chain. We need to be even sharper at anticipating developments in the next decade, we might have to take even bigger risks, put ourselves in question. In this fast-changing context, it is ever more critical to guarantee our clients' total satisfaction. Our clients need to continue seeing QOL not as a service supplier, but as a partner that helps them make sense of the changing industry.

QOL's latest Blu-ray Disc productions

Replication is a crowded market. What is the 'unique selling proposition' of QOL?

Unlike our competitors, QOL never described itself as a replicator. We do not service the music, the games or the recordable markets. We do not produce USB memory sticks as well. We are not horizontally integrated. We also stay out of the adult market.

We have chosen a different path – to develop closely-knit partnerships with the cinema and the video publishers. This strategy has led us to become the world's Number 7 in Blu-ray manufacturing, the result of our decision to invest in high-definition technologies since 2005. We produced the first HD DVD title in 2006 [Kar Wai Wong's *2046*]. We were the first company to set up a Blu-ray line in Europe, now we have three lines fully operational. This is the best message sent to our partners. To the film studios, video publishers and producers, we say: "Concentrate on making films, don't worry about technologies, leave this to us, we will continually provide you with answers to challenges. Focus on DVD, Blu-ray sales."

This is a strategy we intend to develop even further in 2010. For example, unlike our competitors, we will not enter the solar photovoltaic business, a move, by the way, that I fully understand, but it's no for us. The niche we chose to occupy has brought us luck so far and I think it will continue to bring us luck in the future.

QOL is an official European Blu-ray Disc test centre. We tested *Avatar* for Fox. Don't forget that QOL boosts a three-year experience of Blu-ray, and this experience will be brought to bear during the very busy fourth quarter of the year when demand for Blu-ray will be at its peak.

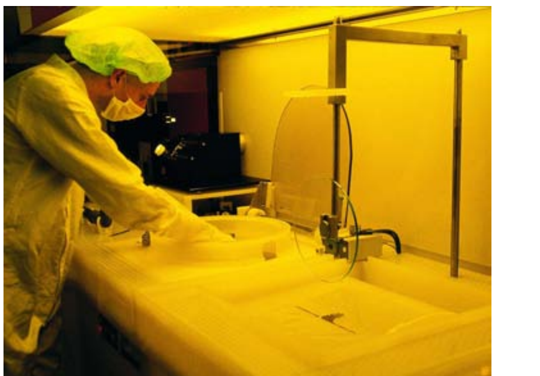
I have been elected vice president of Blu-ray Partners, the industry body promoting BD in France, in recognition of the role QOL has been playing in the promotion, education and training for the format. We are taking an active part in the training of shop assistants in retail chains, for example.

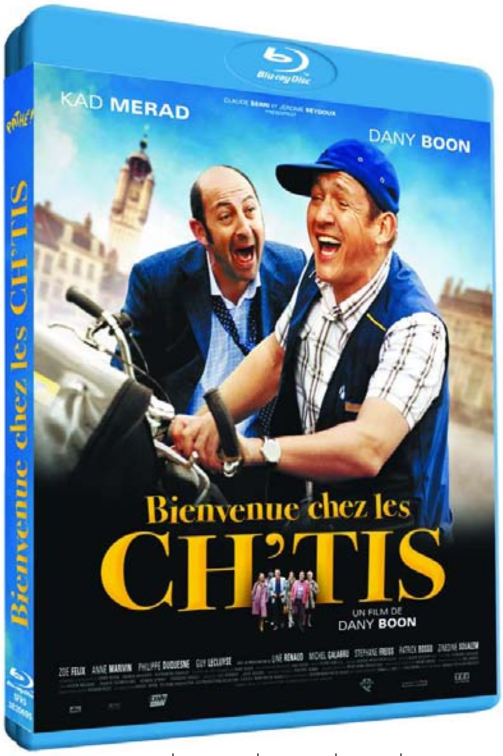
We now intend to bring 3D high-definition technology to our clients. We are about to produce our first 3D BD titles in partnership with major partners like Panasonic and Mastery International using Roland Garros Tennis tournament footage.

Is it the right time to introduce 3D when BD has yet to consolidate its foothold in the market, where a lot of education remains to be done and where consumers have just bought equipment that will become obsolete quickly?

I disagree. Blu-ray is an evolution on the DVD, an improvement noticeable depending on the TV set you have at home. It is absolutely not a revolution. Proof is that DVD is picking up in France once again, whereas, if BD had been a revolution it would have taken over much quicker. It is not a VHS-to-DVD transition.

What is missing to BD is 3D, which is





truly a revolution, akin to the transition from black & white to colour in the 1970s.

Perhaps 3D arrives a bit early, but we should be very satisfied to see it emerging. By offering new perspectives to CE manufacturers, studios and consumers, it is 3D that will make a success of Blu-ray.

Put it in another way, if 3D had not arrived, I am not convinced of the long-term success of Blu-ray. Even if 3D will enter timidly into the homes – one speaks of 20% penetration in 2014 – it will provide a critical and much-needed communication impetus for the success of Blu-ray. And the industry cannot do without BD, that's the guarantor of its economic health. DVD is already 12 years old. BD offers us 4 years of growth, and then 3D will be taking over, followed by ultra HDTV by 2017.

What does 3D means for a replicator?

It means, foremost, that the replicator has already a complete knowledge and mastery of the entire BD production process. A newcomer to BD will need 9 to 12 months to get up to speed and then only become operational. It's going to be tough to compete in the 3D market with those replicators like us who have already acquired a long experience and can provide reactivity. Beside that, technology, processes, injection and control are identical to 2D.

What is QOL in terms of numbers today?

It is 200 collaborators, 30,000 square meters of plants, large printing capabilities, big logistics infrastructure, very substantial activities in B2B and B2C website development and management. So much so that, today, our original activity of replicator is no longer our core business.

Two reasons for that. Pressing DVD is no longer a revenue-producing activity. The extortionate royalties imposed by the large groups, combined with the sharp fall in price cannot cover costs. With prices significantly below €0.40 for a DVD in its box with sleeve, it's an untenable equation!

Our main activities today are Blu-ray, 3D BD and logistics. We have a BD capacity which translates into 1m discs per month, single- and dual-layer combined. It means a total capacity of 12m discs per year. We are not yet pressing 12m BDs, though! The split is 40% BD25 and 60% BD50. BD is still expensive to produce, with a yield of 60% for 50GB. We have already done 500 titles.

Based on three years of experience, we are able to offer our clients today the same turnaround, the same reactivity in Blu-ray that we offer with DVD. We can produce a test disc in less than three days and can manage an order of 10, 20, 30,000 units in three days, and we can re-issue 5-10,000 units in 24 hours. Reactivity, just-in-time is a unique selling point.

Do you have expansion plans?

QOL was big in France, but small in Europe. The acquisition of Belgium's VTV last year changed the equation.

Stuart Mansfied has been named CEO of QOL Belgium (QOL Europe du Nord). We intend to bring to the UK, Germany and the Benelux the quality of services we have attained in high definition in France. A foothold in Belgium at a few hours drive from those markets give us a truly European stature. We cannot bring a highly reactive service at 24-48 hours drive from your clients.

This acquisition brings into the QOL group a large printing capability, with 25 years experience, integrated into the packaged media chain. As we see growth in 3D over the next five years, it will require heavy investment for four to five BD lines. We plan already three lines in Belgium, bringing our plant there on a par with the French plant.

This is still packaged media. How does QOL intend to expand into the online market?

After three years of development, we just launched a brand new service called microédition (micropublishing). Close to the manufacturing-on-demand (MOD) concept, it enables video publishers and distributors to sell directly to their consumers titles no longer available in shops, whose sales potential would not justify re-issuing and shelf space.


Laurent Villaume with Kar Wai Wong

This service is designed to meet the demand of film fans looking for hard-to-find titles, which will be individually pressed (not recorded!) and tested exactly like mass-produced DVD titles. QOL brings a totally integrated solution: a customer orders his or her particular title through our various clients' web portals; we press the disc and dispatch it directly to the customer. In short, we bring to publishers and distributors the entire supply chain. They can concentrate on creating attractive Internet portals for online shopping through which they can offer simultaneously a DVD, but also a Video-on-Demand version.

We also launched a gift services with the title wrapped with a birthday card, for example. This is a B2C service catering specially for cinema fans. For example, Gaumont just published the Blu-ray of Michel Audiard's *Tonton flingeurs*. Book publisher René Château has released the best book of Audiard's memoirs. So, we are able to dispatch to the customer a combined BD + book package. High-street retailers are not


Laurent Villaume with Guillermo del Toro

able to match this service as discs and books are generally not located on the same shop floors.

It now becomes possible for a customer to build a collection of all the titles from a director that would be coming from a variety of distributors as all of a director's films are rarely distributed by the same studio. We are thus creating a single "virtual point of sale."

The minimum order is one disc! QOL has the masters of the titles from all the studios with which we have developed a strong partnership. The biggest microédition contract we have is with none other than Warner, along with some 15 studios that have decided to work with us.

This system will help us understand better consumer behaviour – When do they buy content as a packaged media or as a VOD transaction? This will show that these two methods of distribution do not compete, but complement each other, something which some Internet services providers like to overlook.

Going forward is learning to take and share risks with your clients.

Some replicators are expanding into the solar photovoltaic sector. Are you considering such a move?

A replicator who has suffered the free fall of music CDs, the slow disappearance of

recordable media (replaced by hard disk), the move away from PC games and toward proprietary formats like PS3, Xbox, Wii (no longer accessible to third party replication), the fall of CD-ROM (now computer files), and all this combined with the fact that the company may not have entered the video market because others were already there, like Technicolor, Sony, Cinram or QOL, this replicator has to change fundamentally its strategy.

The solar industry, which is growing, is becoming the saving grace for these replicators as well as for the key Blu-ray toolmaker Singulus. Given that, faced with Sony DADC/Technicolor stranglehold on the BD market, sales of its BD lines to independents are likely to be modest for the foreseeable future, Singulus has branched into the solar energy. It make attractive offers to disc replicators who want to convert their lines into photovoltaic cell production that share technologies with disc production.

It is not QOL's vocation. But if I had been active in CDs, games, recordable media and CD-ROM and that these markets are collapsing, I would surely want to move into greener pastures.

With DVD, many complained that there was no level-playing field between the big patent-owning consortia and patent-paying independent replicators. Is the situation different with regards to Blu-ray?

Sadly not. I regret that the independent replicators do not seem to be able to organise themselves and take a common stand as regards royalties from the big consortia. Sony DADC and Technicolor do not pay royalties because they own them. Lessons have not been learned. We will be subjected to costly BD licenses like with DVD, without regards to the heavy investment BD necessitates and the lackluster performance of the format so far. Extracting onerous royalties – BD4C, Blu licensing, MPEG – in these tough economic conditions is the best recipe to kill the golden goose.

Once gain, we do not foresee a global license, especially a licence calculated as a percentage of revenue. This is a catastrophic scenario that worries me a lot. While the investments required are huge Blu-ray is not DVD, it is not a revolution. Owner of patents do not seem to have understood the market in which they wanted to monetise their patents.

I have proposed at Mediatech that the independents speak with one voice, that nobody signs a license until we are satisfied with the terms. A preliminary agreement from the EU Competition Commission is indispensable this time around. While I respect the rights holders, it comes down to a question of level-playing field where independents can successfully compete.

Any regrets?

I have two regrets. First. The French and European governments have not taken seriously early enough the destructive impact of piracy on our business, and it took 4-5 years for decision-makers to act on the professionals' warnings. And the economic crisis has added insults to injuries, so to speak.

Second. QOL had believed in Toshiba and its HD DVD, and we made big investment, some €3 million over the 2005-2007 period. It leaves a bitter taste to read that today Toshiba has become one of the owners of BD patents, with Warner and Technicolor, asking extortionate fees to BD replicators like us.

It is disrespectful, even indecent, of Toshiba vis-a-vis those who have had confidence in them and worked closely to support their format for three years. We cannot be a partner one day and a victim at the receiving end another day.