Digital Content Delivery

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Abstract:
Online purchases for entertainment as digital copies are starting to replace physical media not only as another form of content delivery, but also changing the nature of the contents themselves. By providing alternative routes to obtaining these goods, content providers can tap into previously unexplored market segments and gain additional revenue through selling the contents to new customers or even same customers. Thus, what has traditionally been one purchase from a customer can turn into multiple purchases. However, there are many factors that affect the user acceptance and viability of pushing contents digitally. It is the intention of the author to examine some of the obstacles that content providers are facing and how they can be overcome.

1. Introduction
While digital piracy has been blamed by major entertainment companies and organizations around the world as the reason for low sales in the traditional physical media market, legitimate sales of digital contents are in fact rising. The most prominent example is the Apple iTunes store, which has been making progress in the 5 years since it started. It became one of the top 10 US music sellers in 2005, and in April of 2008 has surpassed Wal-Mart, one of the biggest chain store retailers, as the number 1 seller of music in the US [1]. While this is only for music sales in the US, it marked the first time that a digital distribution has overtaken the traditional brick and mortar sales. Looking at the Japanese market, mobile phone downloads for music is also leading the traditional CD sales, and many new releases are touted as mobile download only, going as far as using a different mastering to provide better experience suitable to mobile music listening.

This trend is not unique to the music industry, as many other forms of entertainment are also facing similar shift in distribution. For example, in the gaming industry there appears to be a strong shift from store sales toward digital downloads. While some have focused on the decline of the PC gaming retail market, NPD analyst stated that retail does not show a complete picture of the industry as it merely show a shift toward digital distribution. The CEO of EA, one of the biggest game software company, also stated in a recent conference call regarding the company’s financial results that “The fastest growing [sector] is subscription, microtransactions-based and casual games, many of which are pretty much centered on the PC” [2].

However, just because the content is provided in a digital method does not guarantee it will become a success in the digital age. There are many factors involved in creating a healthy and profitable alternative to the existing distribution, and user acceptance and technology have a mutual influence on each other. The TV market will be the focus of the following section in order to explore the intricate complexity of moving toward digital content delivery and what obstacles are present for this business model.

2. The Shift toward Digital Distribution in US Networks
Traditionally in the US, TV shows are only broadcasted once, except for reruns as filler episodes between seasons or syndicated after a few seasons have passed. Eventually, DVD versions are released for the fans to purchase. Revenues are generated mainly through the commercials shown during the show or product placements within the programming. With the change of user habits and evolving technological trends, however, new ways to distribute and attract customers are emerging in the TV market. Digital Video Recorders (DVR) such as Tivo and computer TV tuners/software such as MythTV provide viewers with the ability to manage and time-shift, meaning they can skip through parts that are not interesting to them, such as the commercials. While skipping ahead itself is
nothing new, after all VCRs have existed for a long time and the viewer to manually skip and pay attention to when to resume normal viewing, with digital recording however, it is easy to skip the commercials only quickly and effortlessly. In recent years, video contents such as TV dramas from the big networks in the US are also moving toward digital distribution. Even movie publishers are considering selling digital copies of new releases as a way to combat the so called “zero day” release of illegal copies that is often distributed online when, or even before, a movie is screened at the theaters.

2.1. The iTunes Effect and Evolving Model

Similar to the deals with music labels, Apple’s iTunes store for videos has a one price fit all pricing structure. Each episode is sold for the same price regardless of the popularity, and buying a season pass would allow the user to buy the whole season at a discounted rate. If one were to simply consider it as an alternative to buying DVDs, than it seems to be a simple difference in distribution method. However, what is different to the consumers is that users are able to purchase shows as they are aired, instead of waiting for the DVD releases months after the shows are over. As less time is spent on TV and more on computer, this method provides consumers with the convenience of owning the show in addition to just watching the latest episode, viewable on a variety of devices capable of displaying video. While some TV networks do provide free video contents on their websites, it is mainly for promotional purposes and using a partner such as Apple or Amazon to provide the actual digital contents is an easier solution than investing heavily on creating their own web stores.

Again, similar to the music industry, not all networks are satisfied with Apple’s one price fits all policy and the anti-piracy methods used. In August of 2007, NBC decided not to renew its contract with Apple and thus no more new episodes would be made available to iTunes users. NBC was the number one video content provider to iTunes and accounted for 40% of the video store downloads [3]. However, in the latest development Apple has finally backed down from its policy and recently announced HBO shows will be released at a higher price than the standard $1.99 and only after a whole season has been aired [4]. It is worth noting that two of the popular shows planned for release both ended their airing already and the DVDs have been available for some time.

Apple’s iTunes store also carries movies at two different price points; $9.99 for old catalogue and $14.99 for new releases. As the HBO deal shows, Apple is slowly moving away from the single price point strategy and moving toward multiple pricing. However, this can also be attributed to the maturing market. When the market is relatively young, a single price would allow consumers to embrace this new digital distribution without strong hesitation. Had iTunes turned out to be unsuccessful and folded, the consumers could end up with many contents that may no longer work and no more contents on the platform, similar to the DIVX player and discs that failed in the US in the late 90s or the more recent situation with HD-DVD now that Toshiba has conceded defeat, leaving Blu-ray as the winner of next generation optical format. Now that the market has matured, the content owners can negotiate a better deal with Apple since this business model has been proven to work and consumers are willing to pay for the convenience.

2.2. Shifting toward HD Contents and Digital Broadcasting

With the mandate of ending analog broadcasting in 2009 and moving toward digital broadcasting only, major networks are already providing shows in High Definition and sales of LCD/plasma TV sets are outpacing traditional TV, just as LCDs have replaced CRT monitors in the computer world. Digital broadcasting also provides the opportunity for more interactivity between the viewer and the show, and new opportunities for closer cross promotion for product placements. Some typical examples would be displaying information and link to where an article of clothing can be purchased that a character is shown wearing if the viewer is interested or allowing viewer to participate in quiz shows, which has also been showing up in some Japanese TV programs as well.
3. Applying the Model in Taiwan

Taiwan has traditionally followed the same standards and policies as the US, yet this new business model has not made much headway. At first glance, Taiwan has a high level of technology availability and while the internet speed maybe not be as fast as US or Japan, it is certainly adequate. In fact, CHT, the local incumbent telecommunication service provider has been pushing MOD, a setup box service providing digital delivery and on demand viewing of movies and TV programs. The service is not yet commonly adopted and there appears to be no similar downloading services similar to the iTunes video store. It would appear that there is a void to be filled and potential new revenue stream; TV stations and content providers can expand into a new business segment. However, through talking with TV industry veterans, there are many obstacles in such a venture.

3.1. Obstacles

One of the big differences between Taiwanese market and US or Japanese market is that cable providers have a strong dominance of the market. The majority of viewers receive TV channels through local cable providers instead of over the air broadcasting. Even the channels that are provided over the air are carried by the cable providers and watched through cable. It is common for commercials on TV channels to be replaced by the cable providers’ own. The MOD service mentioned earlier faces the problem where cable providers can lock the content providers into agreement to not provide same contents for the service. According to an insider, MOD currently has around 500 thousand subscribers and estimated to double by the end of the year to 1 million while the cable TVs are around 4 million currently. While as a company they would like to get into the market, alienating the cable providers would not be in their best interest.

Tivo had tried to promote its service in Taiwan as well, but failed to make a big splash in the market. The nature of TV programming in Taiwan is different from US, and a show could be aired repeatedly, sometimes even 2-3 times in the same day. This, it eliminates the usefulness of recording a show to watch later. The viewers simply watch during the time slots that are convenient for them. Dramas are often run continuously for several seasons, sometimes years, making it difficult to define a season compare to a typical show in US where a season ends with some resolution to the main theme within the season while exploring new developments for the next. In fact the TV show with the highest rating currently is a two hour long drama that is aired daily on weekdays for the last few years. Another popular type of programing, comedy shows, is usually low on repeated viewing values, so not much is missed if one show is skipped.

With regard to interactivity, many talk shows have explored different ways for the audience to express their opinion and interact with the show, from online BBS to voting system or even emailing in comments. However none of them seems to replace the traditional call-in method. MOD also has the 4 colored button scheme used in Japanese digital broadcasting, where audience can interact simply by pressing a particular button to send back a response, such as answering choices for quiz shows. However it also has not been used widely in the programs offered.

Some of the stations do provide a membership based web streaming of their shows; a flat monthly fee enables the members to watch all the shows offered by the station. However, the number of users and the revenue generated is insignificant compared to the TV broadcasting viewers and revenue from advertisers. The prevalence of P2P and websites that offer illegal downloads or viewing is only part of the obstacle. The shows are already repeatedly shown on TV, thus giving users even less incentive to go with a paying service similar to iTunes video store. “Why pay for something that is normally free already?” Contrasting with the TV offering on US iTunes, which users are willing to pay for the convenience and ability to watch on multiple and mobile devices, there is little to offer to the users. It is simply more convenient to watch it on TV, and mobile viewing is not a norm. The high operation cost is also a major deterrent for TV stations when considering expanding into digital content delivery over the web. Debating what DRM to use is even less of an issue and few stations worry about this problem, in sharp contrast to the US content provider’s high concern over protecting their property in the online
world.

3.2 Opportunities

While the previous section seems to paint a gloom picture of expanding into new delivery services in Taiwan, there are cases where new model can succeed in this market. Taiwan is also moving toward digital broadcasting only in 2011, but currently the programming is lacking in new and original contents that take advantage of the possibility. For example, news programs are usually just the same content from its analog equivalent. By using a different crew and announcers, they can provide a separate channel even if the news reported is the same. Also, longer or shorter clips of footage and sound bite can be provided depending on the medium. Normally each story is about one minute long. On a mobile device, each story could be trimmed down to 30 seconds or less, while for web based content the whole segment can be shown to provide viewers with the full context of normally choice parts. Stock information and analysis is another type of program that users are willing to pay for, since the information is relevant to the current market, and can affect investment decisions. With money on the line, paying for the information is a trivial cost compare to the actual transaction amount involved.

While some of the concerns and obstacles appear to be the same everywhere, such as piracy and quality of the show, others are more complex than just categorizing it on user habit or cultural difference. Another interviewee stated that “simply looking at the overall situation will not be sufficient. The problem is multilayered and even local students in the telecommunication studies cannot easily identify all factors” [6].

4. Conclusion

With the music entertainment showing growth in the digital distribution and other media embracing digital content delivery, it is easy to assume that digital and information age has changed the way traditional media conduct their business as easily as the change from shifting from buying goods or getting services online instead of the traditional physical outlets. As the author has learned, digital content distribution may not always be the most logical expansion for businesses that wish to capture a new market. While in US and Japan, contents such as music, video, gaming and even literature have made positive progress toward digital content delivery, the same cannot be said for Taiwan. The technology is there, but the content is not. “If the show is good, people will find ways to watch it. If the show is not good, putting it all over the place won’t make any difference” [6]. While this statement holds true for most goods being sold, in the current Taiwanese TV ecosystem downloading content may not a sustainable business. In order to grow, the business model must adapt to the local conditions and the content providers must evolve both the contents and the service model in order to succeed. For now, their focus are mainly on providing better content and maintaining the delicate balance between traditional content provider and content aggregator while carefully evaluate the new opportunities presented by digital content delivery.

Reference

[5] Interview conducted by author on May 9, 2008
[6] Interview conducted by author on May 12, 2008