



Delaying content leaves money on the table

BY MICHAEL D. SMITH AND RAHUL TELANG — 11/29/11 11:34 PM EST
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As the House Judiciary Committee moves ahead on the Stop Online Piracy Act (SOPA), with markup scheduled shortly, it is important to remember that while media piracy remains a major problem for Hollywood, it's unlikely that enforcement alone is the solution. Instead, Hollywood should try to give consumers more and better ways to buy content legitimately. This advice stands in contrast to efforts Hollywood is making to lock some services and markets out of content access — efforts that could be costing the industry millions.

Studios have long released movies first in theaters in the United States, only later to be followed by video and international releases. In a pre-Internet era, this made good business sense, as they could charge higher prices to different sets of consumers.

Today the value of this approach has run its course. Consumers expect ubiquitous, easy and immediate ways to buy: Consumers in international markets hear about blockbuster U.S. releases immediately, long before they can pay to watch them, and free pirated copies are available almost as immediately.

The industry has used lawsuits to try to stop piracy, but that only addresses part of the problem. Sure, piracy is driven in part because consumers love a free lunch, but that can't be the sole motivation; otherwise, such services as iTunes and Netflix would never have made a dime.

Rather, these services succeed because they help consumers conveniently buy content whenever, however and wherever they wish. Sweden is home to The Pirate Bay — yet, since 2009 and the rise of the innovative service Spotify, illegal downloading has dropped 25 percent. At the same time, global online music sales have grown to \$4.6 billion, and Netflix is paying Hollywood billions in licensing fees.

Nevertheless, our research suggests that Hollywood is leaving money on the table — and is in turn failing to address a root cause of piracy — by preserving its separate release windows. Based on our analysis of seven large nations, we find that in most countries, every week customers have to wait before they can buy a DVD translates into, on average, 1.8 percent lower DVD sales. Given that good-quality pirated versions are available close to 14 weeks before the legal versions, the losses can be in the millions of dollars. Not surprisingly, a 14-week delay also translates to a 70 percent increase in pirated movie downloads in those countries.

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And there are similar trends in several other settings. When NBC removed its content from the iTunes store for about nine months in 2007 and 2008, there was an 11.4 percent increase in piracy, but no increase in NBC's DVD sales — a loss of close to \$20 million, given 23,000 lost sales per day at an average price of \$3. And when ABC added its content to Hulu in July 2009, piracy dropped by 30 percent. Likewise, when a major book publisher stopped selling new Kindle titles on Amazon in 2010, there was no increase in hardcover sales, and when the Kindle titles were finally made available, their sales were 50 percent lower than they otherwise would have been.

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Together these results suggest that delaying content in the presence of digital channels is likely to cause consumers to lose interest in the product at best, and lead consumers to alternate pirated channels at worst. A better strategy would be to do the opposite: Make it easier for consumers to buy the content in physical and electronic channels. For motion picture studios this might mean selling content in theaters, on DVD and on digital services at around the same time, perhaps at different price points.

We don't mean to blame the victims of piracy here, nor do we suggest that adjusting long-held release windows will be easy — to the contrary, it's likely to be a wrenching shift in traditional business practices. But it's the kind of shift that the media industries have weathered in the past.

When VCRs first came on the market, they were initially lamented by Hollywood as tools of piracy. Then-Motion Picture Association of America President Jack Valenti said to Congress that "the VCR is to the American film producer and the American public as the Boston Strangler is to the woman home alone." VCRs went on to enable the home video rental industry, which has accounted for the majority of Hollywood's revenues over the years.

More recently, we have seen significant shifts in release strategies in India, one of the world's largest movie markets. The rise of digital film distribution has allowed Bollywood studios to save money — and fight piracy — by releasing movies simultaneously in large and small markets.

In short, technology required the industry to adapt then, and it requires the same now. If Hollywood and publishers can do so, they stand a much better chance of thriving in a global digital marketplace.

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