

Tom O'Reilly

## Discs not ready to bow down

The recent IRMA Summit laid out some convincing arguments that optical discs have plenty of life left in them before downloading takes over



**THE DAY WILL COME WHEN** optical media dies. But speakers at last month's International Recording Media Association (IRMA) Management Summit in New York City made a case that that day is still several years off, at least for the entertainment side of the disc business. The one-day conference was produced by IRMA in co-operation with Understanding & Solutions.

"Packaged media will continue to dominate the entertainment media landscape for many years to come," said CfM's Paul Scott, outgoing IRMA chairman of the board. "Digital media has significant hurdles to overcome before it becomes practical and easy to use," added new chairman Dave Rubenstein of Cinram. "Some day, DVD will meet its maker," offered Charles Van Horn, IRMA president. "For now, consumers and retailers still want DVD."

For starters, the case was made that the DVD format is far from dead, despite the recent launch of next-generation formats HD DVD and Blu-ray. "DVDs are the fastest-growing consumer electronic format ever introduced," said Rubenstein, adding that there are more than 60,000 DVD movie titles available.

Rubenstein also backed up Van Horn's point about retailers needing DVD. Wal-Mart is the top seller of DVDs, according to Rubenstein, selling roughly one-third of all DVDs sold. DVDs represent \$4.7 billion a year in revenue to Wal-Mart, or 1.4% of its total sales.

Let's not forget Hollywood, which generates 56% of box office movie revenues from home video sales, according to Rubenstein. Rubenstein also predicted at least another three years of packaged media growth for the videogame business, despite the growing ability to download games in new gaming hardware.

As for the CD, Tim Herbert from the Consumer Electronics Association (CEA) noted that while 79% of online consumers have bought a CD in the last 12 months, only one in five have purchased a digital download from an online music service.

Some of the key reasons consumers still prefer physical media to downloading, according to the CEA, include:

- They wanted to play it immediately without any hassle;
- Physical copies are easier to share with family and friends; and
- They were afraid something would happen to the digital copy.

"It is happening, but it will take some time," said Herbert of downloading. "It is still in the early adopter phase."

Herbert and Understanding & Solutions' Jim Bottoms offered an array of statistics outlining the past, present and what they believe will be the near-term future of physical media and downloading, as they relate to the distribution of entertainment content.

The average spend by US consumers on consumer electronics hardware rose to \$1,251 in 2005, up from \$833 in 1995. In that same



New IRMA chairman Dave Rubenstein: DVD is important to retailers – it contributes 1.4% of Wal-Mart's revenue

**"We are moving into a much more fragmented world. It's no longer just CD or DVD"**

timeframe, the number of consumer electronics products in the US home – ranging from CD audio players to digital cameras – has nearly doubled from 13 to 25.

US DVD sell-through volume, according to Bottoms, will be approximately the same in 2006 as it was in 2005. The value of that DVD sell-through for the same time period will be down 1%, predicted Bottoms, indicating that DVD-Video retail prices are slowly decreasing.

"If you read the press, you'd think that the packaged CD music business had fallen off a cliff," opined Bottoms. Rather, music downloads represented just 9% of total US music revenue in 2005, according to Bottoms. That percentage will grow to 35% by 2010, he predicted.

It is a new world for CD and DVD, according to Bottoms. While both formats will exist for several years going forward, they will need to co-exist with other forms of digital entertainment content distribution. "We are moving into a much more fragmented world," he said. "It's no longer just CD or DVD."

### On demand

Sonic Solutions' Jim Taylor, author of the *DVD Demystified* series, spoke about on-demand DVD solutions. Echoing other speakers in his prediction that it will take digital downloading a while to become widespread, Taylor believes there will be a market for on-demand video content in the

interim. There are 65,000 DVD movie titles available, he said; even the largest movie speciality stores can only stock 15,000.

Taylor believes the ability to store content on a media server and burn it as needed will be a hybrid solution that grows while discs and downloading co-exist over the next several years.

MOD Systems' Anthony Bay agrees with Taylor. MOD already offers the ability to deliver music and video direct to consumers' mobile phones and other portable devices at retail locations such as Starbucks and Best Buy, and is working on being able to burn DVDs on demand in these locations and others.

### Pirates, beware

Disney's Richard Atkinson offered an update on the Hollywood studio's efforts to curtail movie piracy. Movie piracy costs the six major movie studios \$6.1 billion annually, and \$18.2 billion for the entire supply chain for those movies.

"We're trying to make the pirates/thieves work harder," offered Atkinson. "Historically, we've made it relatively easy for them."

Atkinson displayed a timeline of how quickly and widely a movie such as the recent box office release of *Pirates of the Caribbean: Dead Man's Chest* is pirated. Low-quality versions of the movie – shot on a camcorder at a movie theatre – were circulating within 24 hours of the movie's theatrical release, despite significant effort to curtail just that. Higher-quality versions, that are both burned onto DVD-Rs as well as distributed electronically via the internet, soon follow.

### One attendee's perspective

The statistic that surprised me the most at the IRMA conference was that US DVD sell-through volume will be approximately the same in 2006 as it was in 2005, and the value of that DVD sell-through will be down just 1%.

I am not questioning the validity of the statistic. As someone who makes his living selling replication services, talking to colleagues, and generally analysing trends such as DVD replication, it just seems to me from all I've seen and heard that replication demand here in the US has been less than what it was a year ago. The only fact I can back that up with is Cinram's most recent financial report, in which the company noted DVD replication revenue was off 10.1% for the first nine months of 2006.

I realise there is a big difference between units replicated and sell-through, and there are many other factors I am probably not taking into account. But as one of the guys fighting the battle on the front lines of the industry, it does seem like the DVD replication business got a little more challenging this past year.

**Tom O'Reilly has spent 10 years in the media manufacturing industry. A past-president of the American Independent Media Manufacturers Association, he is currently regional sales manager for US CD and DVD replicator Inoveris.**