Interview with Peter Levinsohn

Carsey-Wolf Center at UC Santa Barbara

18-22 minutes

In May 2010, Peter Levinsohn, President of New Media and Digital Distribution at Fox Filmed Entertainment, sat down with MIP for an interview. In the excerpts below, Levinsohn discusses his role running a division that reaches across a variety of Fox businesses. Charged with finding opportunities to leverage Fox content in 'non-traditional' ways, a key challenge his division faces is growing new opportunities without cannibalizing existing businesses. Levinsohn discusses three different approaches to building new business around Fox properties, and balance of creative and business perspectives necessary for the role. In addition, Levinsohn discusses strategies for building digital businesses. He discusses the challenges of balancing new businesses with old, and some of the various merits and potentials of new models of support.

Peter Levinsohn is President of New Media and Digital Distribution at Fox Filmed Entertainment. Levinsohn is responsible for developing strategies and businesses that move Fox content through non-linear distribution channels and the creation of digital products that enrich and extend Fox brands.

Working across film, television, specialized Internet video, and games, Levinsohn's group interacts with mutliple parts of the Fox conglomerate.

Balancing New and Existing Business

Friday, May 21, 2010

LEVINSOHN: My title is President of New Media and Digital Distribution for Fox. The responsibilities are broad, primarily because digital impacts everything that is happening at the company. Specifically, the film and television production and distribution companies are under one roof, and I work out what the digital exploitation strategies should be for all of our content – film, television, specialized Internet video, games, etc. Content moves through a life cycle, and as it does it encounters a range of business models. Each one of those needs to fit together like a puzzle. I work to avoid things like conflicting distribution windows and business models in an effort to extract the most value for our content.

I deal with anything that involves non-linear consumption, including ad-supported, subscription and transactional business models; the production and distribution of original content for new media like the internet, portable devices, and gaming consoles; the development of games and applications, and the creation of massively multiplayer online games leveraging our intellectual property. My group is responsible for anything where we can use and exploit our content in non-traditional ways.

A digital copy of the Family Guy "Blue Harvest" special is

available with purchase of the DVD. Digital products like this are an extension of the traditional DVD business. (Image: 37Prime via Flickr, CC). Each and every one of Fox's businesses has been or is going through a digital transformation, so on some level it is a little weird, for lack of a better word, to describe certain businesses as "traditional" and others as "digital." For example, there are digital copies and managed copies and e-copies all attached to the DVD format. There are transactional businesses delivered electronically over cable, satellite and telephone infrastructures, as well as via the Internet. You could call each of these new digital businesses, but really they are an evolution of traditional businesses.

You could also say that we are a digital production facility. We are creating storylines, or taking existing ones, and reformatting them for smaller screens and a different consumer experience. We focus on smaller, bite-sized content because that is the content people tend to consume on portable devices, gaming devices, and over the Internet. Is that digital media or is that just another aspect of traditional production? Unfortunately, because of the complexity of the marketplace and the ever-changing technological advances, people in "traditional" businesses mightn't necessarily have the expertise or passion to drive new media experiences. That is why most of the media companies now have digital divisions to focus on the changing landscape.

MIP: To what extent does this division create original IP, and to what extent does it packge existing IP?

We distribute many different types of intellectual property. The

first and the easiest one is the exploitation of content that has already been produced by one of the company's major production units. This is when you take television episodes of a series like *Family Guy* or a film like Avatar and make them available via all the different distribution outlets, including digital platforms like iTunes, X-Box and Amazon. Or you might sell a film to a subscription service like HBO that produces a non-linear programming model through its HBO-on-Demand offering. All these are digital experiences.

Another example of content distributed via digital distribution would be the exploitation of derivative works, which can include taking content or elements from an existing piece of intellectual property and developing spin-offs that live in the digital world. In the case of television content, these spin-offs not only support the existing broadcast show, but can also spawn completely new, original ideas and opportunities. On the film side, there are many ways to develop alternative storylines and characters centered around existing franchises. Sometimes its referred to as added value materials that are created to support the existing property. Other times derivative content may be created in an effort to develop completely new IP by gauging audience reactions to specific characters and/or plots that may have substantial value in the traditional businesses.

The third model is to create completely new and original programming for digital exploitation. To some extent this is the one that is the most difficult, because we aren't leveraging someone else's hard work. But it is also, in some ways, the most exciting, because we have to figure out a way to produce

interesting storylines with real production values in very inexpensive ways. We also have to develop strategies for getting the content noticed in a very complex fragmented marketplace. Popular sites like YouTube streams billions of videos a month now, making it very difficult to get original content noticed in that environment. So we really have to work hard to create content that resonates with viewers.

What is the balance between creative and business activities in this role?

We are very fortunate at a company like Fox to have unlimited access to some of the most talented creative execs in the world. I like to think of myself as creative, but my background is very much business. I have been at Fox for over 20 years and have played a major role in the development of many of the company's businesses, especially the global pay television and video on demand units. I also managed all the company's Internet properties before I came back to the studio in early 2009.

But I also have a passion for the creative side of things. There is something inherently unique and fun about creating content for a new space. It's very exciting.

There aren't a lot of pre-defined business models in this space, and you need to make sure the creative elements are designed in a way that truly leverages the unique properties of the medium. I was at the parent company of MySpace at its peak a few years ago, and producers/distributors were constantly trying to push content that was initially created for another platform,

like television. The content often consisted of pilots that failed to find a home on a traditional network or cable outlet in hopes that they could find new life on the Internet. Although there are always exceptions, it clearly wasn't the best strategy. What you really want to do is create content that is designed specifically for digital exploitation. That is when you will find real success.

Thinking about the content that has been successful on the internet, putting aside dogs on roller-skates and the like, successful content usually features arcs that are relatively short -- 5-8 minutes long – that have the ability to integrate brands. Or content that has some mythology and mystery to it, like *The Blair Witch Project*. Those projects strike a chord with audeinces. As great as *Modern Family* is, and it's one of my favorite shows on TV, it doesn't have that same sort of feel.

But as I'd said, a big part of my job is trying to figure out how to take the *Modern Family* that already exists and make sure it succeeds on electronic delivered services like iTunes, Hulu, Netflix and X-Box.

At what point do you begin thinking about how to extend or build brands out? Does that begin from the very moment Fox decides to pick up a series?

We have very large pre-existing distribution networks that are already set in place to accommodate successful series, like *Modern Family*.

Once a decision has been made for a series to be "picked up" by the various broadcast networks and cable outlets here in the US and around the world, the ancillary exploitation strategies

(which include digital) begin. On our side, we focus on the digital transactional destinations like iTunes, Xbox, PlayStation, Amazon, etc. where the series can be retailed on a per-episode or per-season basis in both standard and high definition. Our content also goes to ad-supported sites like Hulu and Fox.com, where consumers can avoid transactional fees if they are willing to engage with advertisements.

These channels are already in place and they're ready for the series to flow through them.

Once the broadcast season comes to an end, there are also mechanisms for the content to be distributed on DVDs and Blu-ray discs. And after two or three seasons are in place, there is a whole strategy for licensing the subscription, basic cable, and syndication rights. That is the windowing process that goes on; the puzzle that I referred to earlier.

One reason that I find the exploitation of original content so compelling is that it is not subject to any of the traditional exploitation mechanisms. For example, in some instances you might elect to distribute the content first to subscriptions services like Netflix or Amazon. Or maybe it makes more sense to go first to a transactional store like Xbox or iTunes, or even an ad-supported video portal like Hulu or Yahoo. There are clearly opportunities to change the model that can be very exciting.

Netflix has begun competing for first-run syndication deals.

All of the non-linear services like Netflix and Amazon are now

starting to compete as buyers in the syndication world, which makes us very much a part of those discussions.

DVD is a separate organization, but if we sold a show to Netflix for its streaming service, that would be within our domain.

Your job is to get them thinking about what they aren't generally thinking about, or to suggest other kinds of content?

The role is a combination of many different areas. It definitely includes a corporate strategy component to ensure that all the traditional licensing divisions are thinking about the potential impact that digital technologies will have on their units. But it is also very much an operational position in that most of the digital licensing activity is handled from within the group. And we not only suggest what types of content might work better in the digital space, but also have our own digital production team.

Building Future Digital Business

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MIP: What are the challenges in balancing new digital distribution options against existing windows, ensuring everything fits together?

Hulu, a partnership between NBCU, Fox, and Disney-ABC, is a website and over-the-top video business, launched in 2008.

Hulu is a great example. When Hulu was created, it was for the right reasons because we were staring down the cannon of piracy. The networks are very valuable, but they historically

haven't been as profitable as one might expect. Fortunately, retrans should dramatically change the economics of this business in a very positive way. But Hulu was created in a world that predates big retrans changes.

Anybody will tell you that one of the best ways to stop piracy is to offer legitimate alternative in the marketplace. When I started at Fox 20 years ago, there were a number of territories like Russia and China that didn't have real legitimate theatrical experiences, and piracy was rampant. Although still an issue, today we generate significant revenues from these countries as a direct result of the markets being opened.

iTunes?

iTunes, sure; There are issues with iTunes but look at what it has done to that business -- people are buying instead of stealing. It is a great example of the idea Hulu was founded on. To stay one step ahead of the pirates, put something in the marketplace that consumers really embrace. Be very conscious of the amount of advertising, the video quality, the user interface, the amount of content up there, and make a great experience.

I think that part of the problem with Hulu is that it may have gone too far. It may be too much of a positive experience that it's actually having an adverse effect on other businesses. The problem is that we don't know how much to attribute some of the decline in our other businesses to Hulu's impact. There are also other factors that are also having an impact at the same time, like piracy, ubiquity (or a lack of scarcity), global economic

conditions, pricing, etc.

Storage issues? I know a lot of people who just stopped buying because they don't want the stuff.

Storage is an issue, yes. However, as the market moves more towards electronic delivery, there is a big opportunity to move storage into the cloud.

Fragmentation?

Sure, I am sure that market fragmentation has also had an impact. There are so many more choices for entertainment than there were 10 years ago.

We have created an interesting asset in Hulu, but we need to make sure that the business model remains accretive to our overall distribution strategy. We still have a lot of work to do, and are exploring alternative business models, like subscription to ensure we get the right product offering.

What about micro-payments? So you have three models: subscription, micro-payments, and advertising–supported. You are saying that none of them is a significant enough revenue stream to really replace broadcast, cable, or syndication-type revenues. None of them are going to be substantial enough to carry major content?

While I do believe that the digital transactional models are interesting, and can provide great value to consumers, I do not expect them to replace the bundled services provided by the broadcast networks and cable channels. The economics of these traditional businesses are extremely compelling,

especially as the networks develop duel revenue streams from retrans. However, the non-linear nature and portability does make them very complimentary.

Digital subscription services are now starting to compete directly with the traditional syndication businesses. Again, we don't see them replacing the traditional players, but actually creating new competition in the marketplace that should drive up programming values.

Our students don't watch anything on television; they watch it all on a computer. Do you think they are going to become cable subscribers and broadcast viewers at some point? Or do you think this is a generation where there may be another path forward for their consumption? The assumption is that they get to a certain age and they become just like the rest of us.

They get a job.

There is the possibility the future is one in which they can select from the digital universe rather than having things packaged or pushed to them.

Generally speaking, I believe that most consumers really do enjoy having their content programmed to them. It's a very passive experience that is not likely to go away any time soon. These trends are being watched very closely to see if there really is any mainstream evidence of chord cutting. So far, we don't believe so. My guess is that you live in a little bit of a bubble as part of a university ecosystem.

We do.

It's an environment where everyone has high-speed broadband connections to PCs and relatively little access to multichannel television. My 17-year-old daughter hasn't gotten to college yet, so she still watches television on big screens in our home. However, my expectation is that she will go through the same viewing transformation when she goes off to college in the fall. Will she come back to TV? I don't know, but I do know the following – that the theft model is unsustainable in the long run. If professional content is ubiquitously available for free over the Internet, there won't be any funding resources available to continue producing.

Future consumers will pay at a certain point but how are they going to pay and what are they going to pay for? Maybe they aren't going to pay by sitting still for advertising, and maybe they aren't going to pay via a cable subscription. What is the next turn? They are very ad averse, in my experience, and as you suggested, they're also cable averse but they will start paying at a certain point. They get a job, they don't have time to go surfing, and they don't have time for BitTorrent. There will have to be a new model, but what is that model going to be? What kind of consumers are they going to be and how does a company like Fox prepare for that?

Once again, these are such complicated questions. Content remains king, so the ultimate task has to be to make the right types of content that is most appealing to consumers. The more someone steals it, the more you know you are creating the right content because it is resonating. You have to create content that

people want to see, that is the first step in the value-creation chain.

Then you have to think about how to monetize and distribute that content. Today, the models we have actually work pretty well. There have been a bunch of deals done recently with Netflix in the subscription business that might change the way consumers will watch television content. Right now, we've created Hulu which his primarily an ad-supported business, and it lives along side the transactional businesses where we sell individual episodes and full seasons during the broadcast season. We have physical DVDs and electronic delivered subscription services coming out after the broadcast season. We also continue to sell our programs to cable networks and television stations. In other words, we have a lot of licensing activity taking place.

What is most complex is working out how all of the new business opportunities are impacting the existing business models and managing the transition. That is the real challenge. We don't have a crystal ball; it's more like moving pieces in a chess game.