Content Libraries Reap Revenue Despite DVD Collapse

By Ethan Tussey

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In June 2010, American billionaire Carl Icahn began a hostile takeover of Lionsgate Studio after its board expressed interest in purchasing either Miramax or MGM. Icahn criticized these potential acquisitions on the grounds that both Miramax and MGM's content libraries were overvalued, exclaiming, *"There seems to be near universal agreement in the industry that library values are melting away like ice cubes." The cause of this decline, he claimed, was the steady downturn in DVD revenues*.

Although DVD revenues are indeed decreasing, studio content libraries have the potential to generate enormous profit through off-network syndication, content licensing, and the emerging digital distribution market. These markets do not yet match even the present profitability of DVDs, but they are sources of revenue and areas of growth that significantly contribute to a library's value.

Here are five things you need to know about content libraries:

1. Netflix's streaming video service is establishing a new market

for content libraries.

2. Record-setting off-network syndication deals are increasing the value of content libraries.

3. Content libraries are essential to the adoption of new entertainment technologies.

4. "Digital lockers" give consumers more options for accessing content libraries.

5. Studios are finding digital markets for their content libraries

1. Netflix's streaming video service is establishing a new market for content libraries.

Netflix is proving there is big money for content libraries in streaming services, having seen the value in paying over $1 billion in fees to its licensing partners Warner Television, NBC/Universal, Starz!, Paramount, Lionsgate, MGM, EPIX, and Relativity Media. Netflix's original streaming deals were financially akin to television syndication deals, but in 2010 the company was able to negotiate discounted pricing through experimental deals with studios and pay cable services like EPIX, agreeing to a 28-day waiting period for new releases in exchange for cheaper streaming rights. As the streaming video market matures, however, these licensing deals will become more expensive.

Time Warner CEO Jeff Bewkes claimed at the end of 2010 that the success of streaming video services means an end to so-called "experimental" deals, and soon Netflix will be treated like any other syndication or licensing entity. Edward Epstein at

TheWrap predicts that during the next wave of negotiations, content libraries will be sold to streaming services for their full television market value. This price increase will mean larger profits for libraries and greater costs for streaming services. In the meantime, Netflix and integrated entertainment provider Starz renegotiated their licensing deal in March 2011, with Starz instituting a waiting period on new film and TV series' releases for 90 days. The companies' partnership is set to expire completely in 2012; whether it will be renewed then is still in question. Naturally, industry analysts are keeping close tabs on their negotiations to see how they may anticipate future streaming video licensing deals.

For more on Netflix Streaming Service please read 5 Things to Know About Netflix Streaming Service

2. Record-setting off-network syndication deals are increasing the value of content libraries.

Record-setting off-network syndication deals for leading television shows could lead to lucrative library revenues, since these deals serve as a baseline for future library sales. For example, TV hits *The Big Bang Theory, Glee,* and *Modern Family* each earned huge profits in the first-run syndication window. Once this content has traveled through various distribution windows it becomes a library asset after seven years. In 2011 *Family Guy* and *Two and a Half Men* are two of the highest rated shows in off-network syndication and have subsequently signed lucrative second cycle syndication deals. Future shows will need to perform as well as these two titles in order for the price of subsequent library deals to increase.

TBS advertisment for Conan O'Brien

According to Paige Albiniak of *Broadcasting and Cable*, off-network syndication was among the first industry markets to rebound from the U.S. economic downturn that began in 2008. The cable industry is largely responsible for the growth in the market; previously minor networks such as TBS, for example, are now becoming larger industry players. For TBS, which has rebranded itself as "Very Funny," acquiring established hit comedy brands is essential. Hit comedies are especially coveted at the present time, as few highly rated sitcoms have appeared in the off-network syndication market during the past decade. Warner Bros., which owns *The Big Bang Theory*, and 20th Century Fox, which owns *Glee* and *Modern Family*, can expect the value of their libraries to increase if these comedies perform as expected in off-network syndication.

For more on this subject please read Media Week's predictions for the 2011 TV Syndication market.

3. Content libraries are essential to the adoption of new entertainment technologies.

Technology companies seek deals with content libraries because popular content can help sell new technology and services. The development of online video websites Hulu, Crackle, and Fancast eachrepresent efforts by the entertainment industry to lure consumers to digital destinations. Fox, NBC, and ABC co-own Hulu, providing it with television shows. The aggregation of three networks' worth of popular content has helped Hulu become the second most popular video destination on the Internet behind YouTube. Similarly, Fancast attracted consumers with content from Comcast, and Crackle has used Sony's library to develop its online video destination.

Sony is also using its content libraries in its efforts to sell 3D televisions. According to digital media industries scholar Bryan Sebok, Sony's combination of content libraries and video game consoles has helped their Blu-ray disc outlast HD-DVD as the format standard for high-definition DVDs. In addition, as Sony moves into 3D technology, the company has agreed to partner with IMAX and Discovery Communications to launch a 3D television channel. Sony has suggested it will program this 3D network with classic 1950s 3D content from their Columbia library as well as the *Men in Black* franchise. Sony's ownership of the Columbia library in particular may give it the advantage it needs to conquer yet another emerging format.

4. "Digital lockers" give consumers more options for accessing content libraries.

Over the past two decades, online communities have provided unsanctioned online access to previously off-line content by creating file-sharing communities and streaming services. Consider, for example, the pirate streaming service Megavideo, a "videolocker" where users can stream television episodes from current hit series and classic titles for free. In response, the entertainment industry has developed its own digital lockers in hopes of converting pirate streamers into "legitimate" consumers. As of this writing, there are two competing digital locker — or digital rights management (DRM) —

systems: Keychest, developed by Disney, and UltraViolet, created by the consortium of the remaining major studios previously known as Digital Entertainment Content Ecosystem (DECE). These systems deter piracy and restore value to content libraries by giving consumers greater control over where and in what format they can view content.

Ultra Violet promises to liberate libraries

UltraViolet's media participants are dedicated to making sure its system will offer advantages over pirated content, such as interoperability standards.[1]The expected launch date is late 2011. Disney, who chose not to participate in the DECE consortium, instead created Keychest, which launched in 2010 and will become part of Disney Studio All Access, also set to arrive late 2011. Disney's early decision to eschew membership in the DECE is not entirely surprising given the studio's impressive history with leveraging its own content library and using a moratorium strategy to create product scarcity and as a result, higher pricing and profits. Disney's relationship with Apple is another key factor that could influence its future success. Apple also resisted membership in the DECE, opting instead to stick with its own FairPlay DRM. In fall 2010 Disney announced Apple as one of its exclusive Keychest partners, suggesting Disney will soon be offering its tightly distributed content on Apple devices.

To learn about the relationship between digital lockers, copyright laws, and creative practice, read Siva Vaidhyanathan's influential book on the subject

[1] The complete list of DECE participating companies includes: Alcatel-Lucent, Ascent Media, Best Buy, Blueprint, BT, CableLabs, Catch Media, CinemaNow, Cineplex Entertainment, Cisco, Comcast, Cox Communications, CSG Systems, Deluxe, DivX, Dolby, DTS, ExtendMedia, Fox Entertainment, Hewlett-Packard, Huawei Technologies, IBM, Intel, Irdeto, LG Electronics, Liberty Global, Lionsgate, LOVEFiLM, Marvell Semiconductor, Microsoft, MOD Systems, Motorola, Nagravision, NBC Universal, NDS Group, Netflix, Neustar, Nokia, Panasonic, Paramount Pictures, Philips, RIAA, Red Bee Media, Rovi, Saffron Digital, Samsung, Secure Path, Sonic Solutions, Sony, Switch Communications, Tesco, Thomson, Toshiba, Verimatrix, VeriSign, Warner Bros., Widevine Technologies, and Zoran.

5. Studios are finding digital markets for their content libraries

Eric Hoyt's June 2010 *Jump Cut* article "The Future of Selling the Past: Studio Libraries in the 21st Century" offers a keen analysis of the continued importance of content libraries to entertainment studios. Hoyt compares the value of MGM's library to the at the time only proposed NBC Universal/Comcast library in order to highlight the opportunities each company has to monetize its content.

As digital platforms have emerged, MGM has partnered with third-party distributors to bring its content to the digital TV market via a digital channel called ThisTV. Profits from these distribution deals have been hurt, however, by the channel not being included in most TV cable and satellite packages. By contrast, Hoyt believed the proposed NBCU/Comcast merger and its ownership of multimedia platforms would give Comcast the promotional muscle to successfully exploit its content library.

During negotiations, U.S. Senator Al Franken (D-Minn.), a member of the Senate's antitrust subcommittee, voiced concerns that Comcast could restrict competition across platforms if it were to aggressively leverage the NBCU content library. Hoyt echoed those concerns but also recognized that digital technology is giving entertainment conglomerates the ability to make their library content more available to audiences than ever before. Consumers want access to these libraries and conglomerates may be best able to provide that access because they can present content across multiple platforms. The NBCU/Comcast merger received federal approval in January 2011.