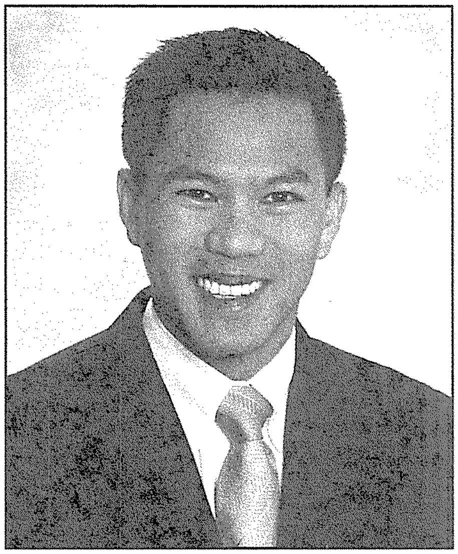
The Moving Picture



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TURNING MAGIC INTO MONEY: NEW MEDIA BUSINESS MODELS

New media technologies have created magical new ways to distribute content and engage consumers. But content owners and technology companies have struggled to find ways to convert that wizardry into viable revenue-generated business models. While there are numerous possible variations, here are the four main business models currently being used to distribute new media content.

#1: Advertising Supported Business Model

In this well-known business model, a content owner delivers content (*e.g.,* audio recording, video program) over a new media technology platform, without charge to consumers. Revenue is derived from advertising sales, with that revenue often split between the content owner and the provider of the technology platform. For example, many content owners have begun creating "branded channels" on online video services such as AOL Video or the Joost platform. Content owners provide content; advertising is sold by the platform provider; and the advertising revenue is split according to a negotiated percentage.

Of course, there are different ways in which advertising can be displayed and revenue generated:

(a) **Pre-roll ads** are played before the media content chosen by the consumer, so the consumer must watch the advertisement before receiving the content.

(b) **Banner ads** involve embedding an advertisement (which contains a link to the advertiser's web site) into an Internet web page, such that the advertisement would be displayed at all times as the media content is played.

(c) **Pop-up ads** involve opening a new web browser window on top of the original web browser window, such that the new window displays an advertisement while the original window displays the media content.

In addition to partnering with other technology platforms, many content owners provide content through their own web platforms. For example, MTV and CNN provide their television programming content at MTV.com and CNN.com, using both pre-roll and banner ads.

Consumers have typically been willing to accept advertising in exchange for free content. However, users have become increasingly resistant to pre-roll and pop-up ads, while advertisers typically view banner ads as lower in value because they can easily be ignored.

For the future, I foresee that advertising will become more subtle. For example, brand integration will bring advertiser and sponsor messages incorporated into the content rather than having separate ads. "Overlay" advertising may replace pre-roll ads on the Internet with simply the name of an advertiser in a line overlaid at the bottom of programming, of course providing a link to the advertiser's web site. Content providers will and should also take advantage of new media technologies' capability to customize advertising for users, based upon the user's profile and interests. This unique ability to customize promotional messages to consumers makes new media platforms prime territory for advertisers.

#2: Purchase Business Model

Quite simply, consumers pay a fee for receiving a permanent copy of an individual piece of entertainment content. Users can also pay for the right to unlimited playing of that content on the personal computer or other device they use to purchase the content. Examples of this business model include pay-per-download and download-to-own. Apple's iTunes service provides song recordings for $.99; music videos for $1.99; TV programs for $1.99 per episode; and motion pictures for $9.99-$14.99. CinemaNow is an online movie service, whose licensors include the major motion picture studios and mini-majors such as Miramax; its films cost from $9.99 to $19.95. Major retailers, such as Amazon.com and Wal-Mart, are also getting into the market.

Content owners can control how their content is distributed in various ways. The purchased content is typically *burnable* (*i.e.,* the consumer can burn a copy to a CD/DVD for backup storage or transfer to another PC). However, content owners may impose restrictions as to the number of personal computers or other devices on which the content may be played on. For example, a movie obtained from CinemaNow might only be played on up to three PCs, whereas iTunes music tracks may only be played on up to five PCs. Likewise, content owners may limit the type of device on which the content may be played—*e.g.,* a Movielink movie can not be burned to a DVD and played on a standard DVD player connected to a home TV.

Likewise, the purchased content may or may not be *transferable to certain portable devices.* A music recording from iTunes may be played on an unlimited number of iPod players; however, a movie from CinemaNow movie may not be played on a video iPod or Sony PSP device.

This business model is akin to consumers purchasing a physical copy of a music CD or video content DVD. Advertising is kept to a minimum (though of course trailers and pre-rolls ads might be included), which affords fewer opportunities to technology platform providers to share in revenue.

#3: Rental Business Model

Instead of owning, consumers can rent content. In rental business models, the provider will provide a timed-out copy of content under certain time restrictions, on an individual basis for playback on the personal computer or other device used to rent the content. This business model is most often used in the online video rental market. CinemaNow provides rentals for $2.99 to $3.99 per film; Vongo charges $.99 to $3.99 per film; and other providers include Movielink (founded by the major motion picture studios and mini-majors, but now acquired by Blockbuster), Guba, and Amazon Unbox.

A consumer's use rights are typically restricted by various factors, such as the time period during which the copy must be watched (*e.g.,* 30 days from purchase); the time period to complete viewing after initial play (*e.g.,* 24 hours); and the number of times the copy may be played (*e.g.,* one time). For example, a Movielink film must be played within 30 days of purchase and can be viewed an unlimited number of times during the 24-hour window after initially playing the film.

The rented content is normally not burnable, so consumers cannot burn a copy to CD or DVD for use or transfer to another personal computer or playback device.

This model is akin to physically walking into a video rental store (such as Blockbuster Video) and going home with a rented copy of a movie. Lower prices can be charged for rentals, but of course, consumers may not like the various time restrictions imposed on when they are allowed to watch the rented content.

#4: Subscription Business Model

In this business model, a content owner or technology platform provides consumers with a content service for a periodic subscription fee (typically monthly or annual). During this subscription period, the user is permitted to download unlimited content and continue playing the content as long as the subscription fee is kept current.

Content providers will typically provide either a *device-tethered* subscription or a *portable* subscription. With a device-tethered subscription, the content is only playable on the user's personal computer, handheld or other playback device. The programming may be delivered to users either via streaming or downloading and then playback of a time-out copy. Examples of this type of service include RealNetworks Rhapsody Unlimited music service (available for $12.99 per month) and the revived Napster music service ($9.95 per month). For films, Vongo offers a subscription service for $9.99 per month.

A portable subscription allows users to obtain a timed-out copy of the programming, and then transfer and play that content on a compatible portable device. For example, music tracks from Napster may be transferred to a Creative Zen Vision player. If the consumer does not continue to pay the periodic subscription fee, the license associated with the copies expires and the content becomes non-playable. Both Rhapsody and Napster have "To Go" services which use this model, each charging approximately $15.00 per month.

Subscription models give consumers the advance of a set price for unlimited content. However, not all consumers like to pay a subscription fee when they only want certain popular pieces of content.

THE FUTURE

Each of these four main business models and their variations present opportunities and challenges. And of course, there are more possible business models being envisioned as content owners and technology providers experiment in this fast-moving world of new media. There is no magic answer about which business model is the best. The answer will be unique for any given business and will depend on numerous factors, including: the market strength of the content owners and technology platforms involved; the attractiveness of the content available; the capacity and desire of the business models to earn advertising revenue; the technological protections and limitations which copyright owners want to impose upon distribution of their content; and whether the content distributed through any given new media platform will be interoperable with different playback devices.

The short history of new media has taught us that the most successful business models provide technology platforms that are easy to use, compelling content that consumers want, and flexibility in terms of ways to obtain content. In the future, those features will continue to be important. In addition, content providers will increasingly take advantage of ability to customize messages to users. They should find ways to give users more flexibility by delivering content files that are interoperable with numerous playback devices. Content owners, technology providers, and advertisers will also benefit by exploring creative ways to share revenue and incentivize each other to maximize their contributions to that pot of gold.

It's amazing what new media technologies are able to deliver to consumers, and

SEE *Moving Picture* PAGE 67

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CONTINUED FROM PAGE 29

more awe-inspiring technologies will continue to pop out of the magician's hat in the years to come. With some creativity, smart risk-taking, and experimentation to meet consumers needs, all the players in this magical world will find ways to share in the riches of new media. ▪

The contents of this article are the opinions of the author only, are not intended to provide specific legal advice, and should not be relied upon as such.

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