

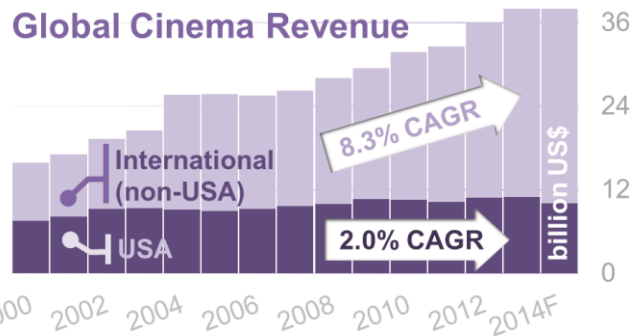


## Is it Victory or Defeat for Entertainment?

The success of internet video is attributed to the culmination of several developments, thanks to the internet:

- New protocols that were invented to stream video such as Apple's HTTP Live Streaming (*HLS*), Adobe's HTTP Dynamic Streaming (*HDS*), and *Microsoft's Smooth Streaming*.
- Internet bandwidth grew to the point where it was able to support streaming video.
- Cloud platforms were established that enabled an end-to-end supply chain of entertainment – from creation to consumer delivery.
- The evolution in consumer behavior: There has been a gradual move away from the ownership of physical media, in favor of licensing (or "borrowing") content via the internet.

With these developments the global expansion of the world-wide-web has also had its share of blame from the entertainment community. For example, in the development of Peer to Peer networks<sup>2</sup> (P2P), cyber lockers<sup>3</sup>, and more recently, illegal streaming services. This has resulted in the music and movie industry pointing fingers at copyright infringers, for their revenue underperformance. But is it really doom and gloom for the entertainment industry?



## THE NUMBERS Box Office Mojo

Figure ii – Global Box Office Ticket Revenue

International box office figures in Figure ii show more promising growth. Revenue on a global basis is a healthier 8.3% per annum, to nearly 38 billion US\$ in 2014 according to Box Office Mojo. Over 70% of global cinema revenue is generated from non-US releases. Notable markets include China at 3.6 billion US\$ which has maintained 35% growth year-on-year, for the past decade.

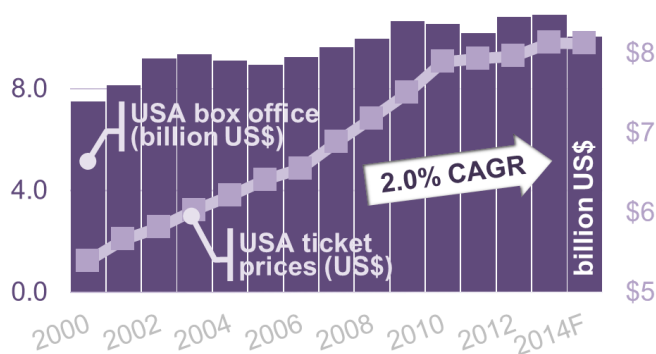
#	Country	'13 Revenue
1	USA	10.9b US\$
2	China	3.6b US\$
3	Japan	2.4b US\$
4	UK	1.7b US\$
5	France	1.6b US\$
6	India	1.5b US\$
8	South Korea	1.4b US\$
9	Russia	1.4b US\$
7	Germany	1.3b US\$
10	Australia	1.1b US\$

Figure iii – Top 10 Countries for Cinema revenue

In broadcast, cord cutters (that are cancelling their pay-TV subscriptions), and cord shavers (those that are reducing their spending), continue to be a cause for concern. Nevertheless, this sector is expected to increase steadily at 5.6% on a global basis, according to *PwC* (PricewaterhouseCoopers, Figure iv).

*Informa Telecoms and Media* forecast similar year-on-year growth of 3.8% through to 2017 (Figure v). This study looks at a much broader TV and Video market segment. Here the market is expected to exceed 400 billion US\$ by the end of this decade. For comparison, OTT services are growing at a whopping 29% per annum. Even though the OTT market will reach 37 million US\$ by 2017, it will still be just a fraction of linear television.

## USA Cinema vs. Ticket Prices



## THE NUMBERS Box Office Mojo

Figure i – USA Box office vs. Ticket Prices

For starters, cinema goers in the USA have seen a steady rise in ticket sales over the years. When compared to attendance, it is clear that the U.S. market is attempting to maintain an increase in box-office sales against a modest 2% annual growth rate (Figure i, *The Numbers* and *Box Office Mojo*). But this doesn't tell the whole story.

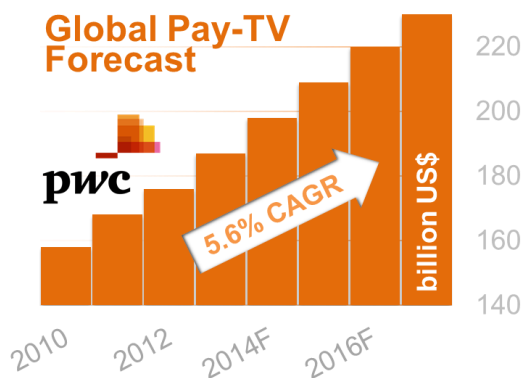


Figure iv – Global Pay-TV Forecast

The music industry has gone through its own growing pains throughout the internet era. *Napster*<sup>5</sup> was blamed at the end of the 1990's for the decline in CD sales. Music had a tough first decade in 2000. Physical media sales were 10.8 billion US\$, down from 28.1 billion US\$ ten years earlier. Digital sales had grown to 4.6 billion US\$, but didn't compensate for the loss in physical media revenue. In any case, the International Federation of the Phonographic Industry (*IFPI*) reported that the overall industry was worth 168 billion US\$ at the end of 2010<sup>6</sup>. This means that over 90% of music revenue was generated from other monetization baskets other than just disc and single sales.

Even more promising, the music industry is expected to growth at 5.3% per year through to 2017, according to *PwC* (Figure vi). There are now more than 450 licensed digital music services operating worldwide, offering 37 million tracks to consumers, in over 100 territories, according to *IFPI*'s Digital Music Report 2014<sup>8</sup>.

that services such as YouTube<sup>10</sup>, Dailymotion<sup>11</sup>, and Vimeo<sup>12</sup>, fuel social interaction and leads to extending their global reach. "Nine of the 10 most viewed videos on YouTube are music videos," according to *IFPI*'s Digital Music Report 2013<sup>13</sup>.

Business models in the music industry have been redefined by focusing on initiatives that drive multiple revenue streams. "There are over two dozen revenue streams available to US-based musicians," according to Kristin Thomson, The Future of Music Coalition<sup>14</sup>.

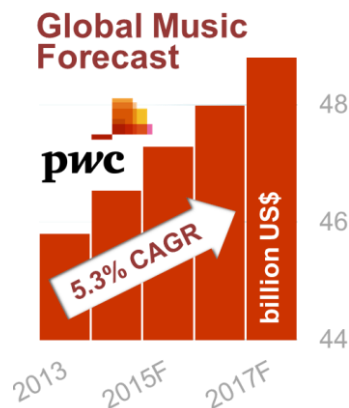


Figure vi – Global Music Industry Forecast

The global video gaming industry has also performed extremely well over the last decade. According to studies from *PwC*, *Gartner*, and *Digi-Capital*, this segment reached nearly 100 billion US\$ in 2014, and expects double digit growth through most of this decade (Figure vii). Video gaming continues to expand, thanks in part to the success of the Android and Apple iOS platforms. Mobile app developers have a cost effective and relatively quick means to publish games. At the top end of the market, game development has rivaled movie production costs, with some budgets easily exceeding 20 million US\$<sup>15</sup>.

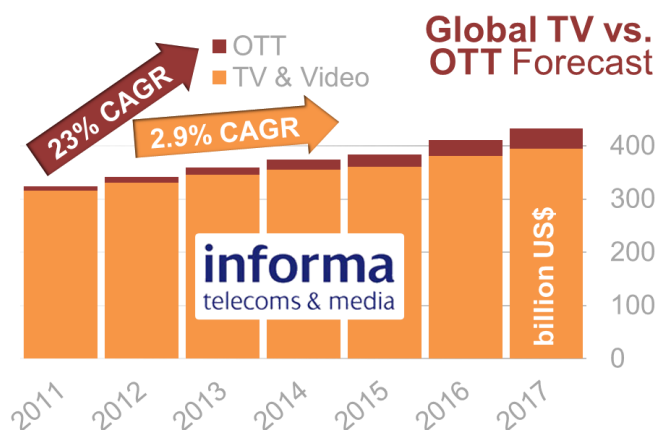


Figure v – Global TV vs. OTT forecast '11-'17

Looking at the music industry from the decline of CD sales may show an industry that is suffering, but that's not the big picture. In the days of vinyl, the main profit center for artists was album sales. Concert tours were meant to promote the album, but alone didn't generate much profit. These days' musicians are accepting new business model where success is measured by the number of "followers" and "likes", on *Facebook*, *Twitter*, and other social networking sites. Artists are refocusing their energy on live events and other monetization channels that reach fans directly<sup>9</sup>. Some artists recognize

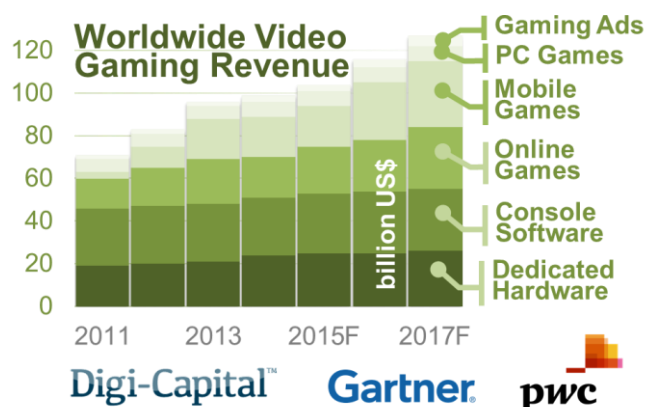


Figure vii – Global Video Gaming Industry Forecast

Overall, the entertainment industry continues with healthy growth, whether it's movies, television, music, or gaming. When all segments of entertainment are consolidated, the overall industry is expected to exceed 2 trillion US\$ by 2017 (Figure viii).



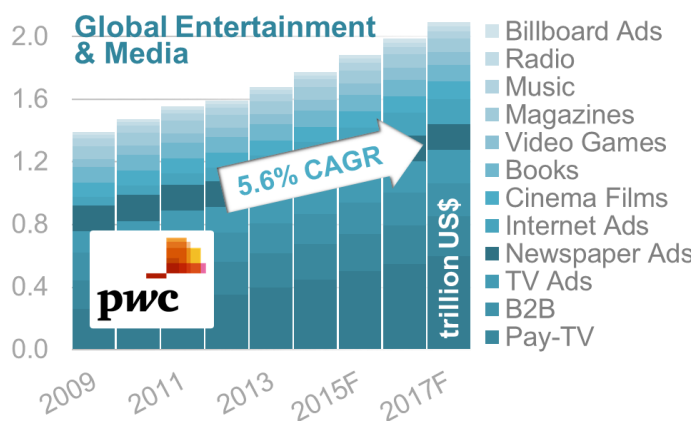


Figure viii – Overall Global Entertainment Industry

## Reality Check

The entertainment landscape has changed significantly over the past twenty years. We could thank the Internet for this global expansion, just as easily as point fingers at it for any revenue shortfall. Some will continue to blame internet piracy, but likely no one will thank the invention of P2P file sharing for their successes.

Even though these industries show healthy growth, there will always remain the argument that sales could be better if piracy was eliminated. The journey to reducing piracy will likely be long and arduous. Even if successful, measuring the end result will be controversial and unlikely to meet the entertainment industry's expectations. A complete eradication of piracy is a lofty goal. Multiple factors must synchronize to minimize criminality, and maximize revenue potential for artists, studios, and those driving the supply chain.

There is no silver bullet. Even with established solutions in place, any measures won't completely solve copyright infringement with one fell swoop. There will always be a select group that will take any means necessary to download poor quality content, just for the bragging rights of seeing it first. Not everyone is a candidate for the legitimate purchasing models.

A more reasonable approach may be to reduce theft levels down to those found in brick and mortar stores. If piracy levels were brought down to manageable levels, then any calculated loss will be relegated to the cost of doing business. Brick and mortar retailers have built this into their business models since commerce began.

## Read Additional Articles in this Series

### I. Consumption is Personal

- <http://dusil.com/2013/02/28/consumption-is-personal/>

In the days of linear television, broadcasters had a difficult task in understanding their audience. Without a direct broadcasting and feedback mechanism like the Internet, gauging subscriber behavior was slow. Today, online video providers have the ability to conduct a one-to-one conversation with their audience. Viewing habits of consumers will continue to rapidly change in the next ten years. This will require changes in advertising

expenditure and tactics.

### II. Granularity of Choice

- <http://dusil.com/2013/04/01/granularity-of-choice/>

The evolution from traditional TV viewing to online video has been swift. This has significantly disrupted disc sales such as DVD and Blu-Ray, as well as cable and satellite TV subscriptions. With the newfound ability to consume content anytime, anywhere, and on any device, consumers are re-evaluating their spending habits. In this paper we will discuss these changes in buying behavior, and identify the turning point of these changes.

### III. Benchmarking the H.265 Video Experience

- <http://dusil.com/2013/04/22/benchmarking-the-video-experience/>

Transcoding large video libraries is a time consuming and expensive process. Maintaining consistency in video quality helps to ensure that storage costs and bandwidth are used efficiently. It is also important for video administrators to understand the types of devices receiving the video so that subscribers can enjoy an optimal viewing experience. This paper discusses the differences in quality in popular video codecs, including the recently ratified H.265 specification.

### IV. Search & Discovery Is a Journey, not a Destination

- <http://dusil.com/2013/05/13/Search-and-Discovery-Is-a-Journey-not-a-Destination/>

Television subscribers have come a long way from the days of channel hopping. The arduous days of struggling to find something entertaining to watch are now behind us. As consumers look to the future, the ability to search for related interests and discover new interests is now established as common practice. This paper discusses the challenges that search and discovery engines face in refining their services in order to serve a truly global audience.

### V. Multiscreen Solutions for the Digital Generation

- <http://dusil.com/2013/06/24/multiscreen-solutions-for-the-digital-generation/>

Broadcasting, as a whole, is becoming less about big powerful hardware and more about software and services. As these players move to online video services, subscribers will benefit from the breadth of content they will provide to subscribers. As the world's video content moves online, solution providers will contribute to the success of Internet video deployments. Support for future technologies such as 4K video, advancements in behavioral analytics, and accompanying processing and networking demands will follow. Migration to a multiscreen world requires thought leadership and forward-thinking partnerships to help clients keep pace with the rapid march of technology. This paper explores the challenges that solution providers will face in assisting curators of content to address their subscriber's needs and changing market demands.

### VI. Building a Case for 4K, Ultra High Definition Video

- <http://dusil.com/2013/07/15/building-a-case-for-4K-ultra-high-definition-video/>

Ultra-High Definition technology (UHD), or 4K, is the latest focus in the ecosystem of video consumption. For most consumers this advanced technology is considered out of their reach, if at all necessary. In actual fact, 4K is right around the corner and will be on consumer wish lists by the end of this decade. From movies filmed in 4K, to archive titles scanned in UHD, there is a tremendous library of content waiting to be released. Furthermore, today's infrastructure is evolving and converging to meet the demands of 4K, including Internet bandwidth speeds, processing power, connectivity standards, and screen resolutions. This paper explores the next generation in video consumption and how 4K will stimulate the entertainment industry.

## VII. Are You Ready For Social TV?

- <http://dusil.com/2013/08/12/are-you-ready-for-social-tv/>

*Social TV* brings viewers to content via effective brand management and social networking. Users recommend content as they consume it, consumers actively follow what others are watching, and trends drive viewers to subject matters of related interests. The integration of Facebook, Twitter, Tumblr and other social networks has become a natural part of program creation and the engagement of the viewing community. Social networks create an environment where broadcasters have unlimited power to work with niche groups without geographic limits. The only limitations are those dictated by content owners and their associated content rights, as well as those entrenched in corporate culture who are preventing broadcasters from evolving into a New Media world.

## IX. Turning Piratez into Consumers, I

- <http://dusil.com/2013/10/25/turning-piratez-into-consumers-i/>

## IX. Turning Piratez into Consumers, II

- <http://dusil.com/2014/07/15/turning-piratez-into-consumers-ii/>

## X. Turning Piratez into Consumers, III

- <http://dusil.com/2015/05/12/ott-multiscreen-digital-video-series-10-turning-piratez-into-consumers-iii/>

## XI. Turning Piratez into Consumers, IV

- <http://dusil.com/2015/05/26/ott-multiscreen-digital-video-series-11-turning-piratez-into-consumers-iv/>

## XII. Turning Piratez into Consumers, V

- <http://dusil.com/2015/09/22/ott-multiscreen-digital-video-series-12-turning-piratez-into-consumers-v/>

Content Protection is a risk-to-cost balance. At the moment, the cost of piracy is low and the risk is low. There are no silver bullets to solving piracy, but steps can be taken to reduce levels to something more acceptable. It is untrue that everyone who pirates would be unwilling to buy the product legally. It is equally evident that every pirated copy does not represent a lost sale. If the risk is too high and the cost is set correctly, then fewer people will steal content. This paper explores how piracy has evolved over the past decades, and investigates issues

surrounding copyright infringement in the entertainment industry.

## About the Author



Gabriel Dusil was recently the Chief Marketing & Corporate Strategy Officer at Visual Unity, with a mandate to advance the company's portfolio into next generation solutions and expand the company's global presence. Before joining Visual Unity, Gabriel was the VP of Sales & Marketing at Cognitive Security, and Director of Alliances at SecureWorks, responsible for partners in Europe, Middle East, and Africa (EMEA). Previously, Gabriel worked at VeriSign & Motorola in a combination of senior marketing & sales roles. Gabriel obtained a degree in Engineering Physics from McMaster University, in Canada and has advanced knowledge in Online Video Solutions, Cloud Computing, Security as a Service (SaaS), Identity & Access Management (IAM), and Managed Security Services (MSS).

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## Tags

- ACTA, Adobe HDS, Apple HLS, Box Office Mojo, Broadcast, Connected TV, Copyright Infringement, cord cutters, cord nevers, cord shavers, cyber lockers, Digital Video, dusil.com, File Hosting Services, File Sharing, Gabriel Dusil, Global Internet Phenomena Report, IFPI, Informa, Informa Telecoms and Media, International Federation of the Phonographic Industry, Internet Governance, Internet Piracy, Internet Video, Microsoft Smooth Streaming, Multiscreen, Napster, Net Neutrality, New Media, Online Video, OTT, Over the Top Content, OVP, P2P, Peer to Peer, PIPA, piracy, Piratez, PricewaterhouseCoopers, PwC, Sandvine, Skype, Smart TV, SOPA, The Numbers

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  - Recorded music sales
  - Musical instrument sales
  - Live performance revenues
  - Portable digital music players
  - + a few other income categories
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