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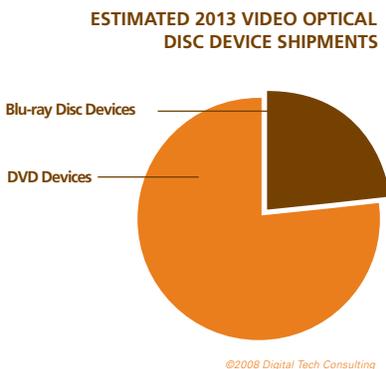
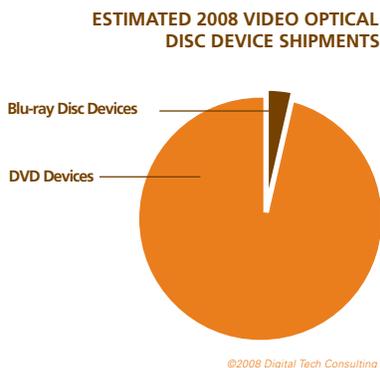
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## The Future of the Video Optical Disc

For years packaged video has been a dominant player in the video content delivery landscape with few new distribution technologies that threatened that dominance. And at the advent of the high-definition era, a high-definition DVD format was seen as the groomed heir to its massively successful Standard Definition (SD) predecessor.

Yet even with a victor in the high-definition format battle, sales are moderate at best, and are likely to ramp up at a slower pace than what was initially expected. DTC estimates that in 2008, global non-PC Blu-ray deck sales will represent only 3% of all DVD devices sold. DTC believes this percentage will increase to only 31% by 2013. (For more analysis on the proliferation of the high-definition video optical disc format, please visit DTC's website at [www.dtcreports.com](http://www.dtcreports.com))

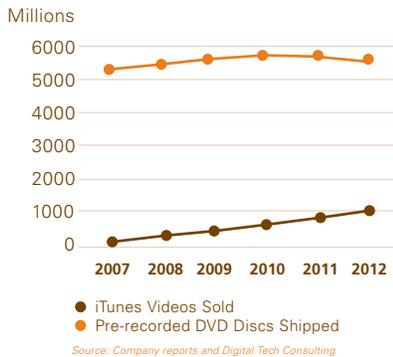


So where does that leave packaged video in the content delivery pecking order? It's likely to continue to have a healthy life, but as with all other incumbent delivery systems it now has to contend with the Internet. Although advanced pay TV services like video-on-demand (VOD) represent a credible threat to the packaged media business, Internet video delivery to the TV is the video content market's David, aiming to slay the Optical Disc Goliath. With increases in available content and advances in video delivery technology, the amount of content being viewed over the internet has to be seen as a credible threat to optical disc and Pay TV providers. The chart on the next page illustrates how electronic video distribution will be a significant part of the video-entertainment landscape. Although pre-recorded video optical discs will continue to ship in the billions of units annually, there will be little or no growth in the overall video optical disc business. Yet iTunes video sales will experience significant growth, and Apple represents only one service provider at the onset of a new market for pay video delivered over the internet.

Even with new channels of distribution booming, and existing pipelines making their services more attractive, it will be some time before the video optical disc format is laid to rest. It is no doubt that internet delivered video is steadily eating at the dominance of pre-recorded video optical discs, but total annihilation will prove to be a large feat. The legacy of SD optical disc and the looming passing of the torch to Blu-ray Disc will keep the practice of viewing media on a pre-recorded disc significant for years to come.

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### iTunes Video Sales vs. DVD Shipments



Despite the new high-definition BD format underperforming as compared to initial expectations, DTC estimates that the category will still exhibit noteworthy growth in the coming years. In our newest report "Video Optical Disc, Devices and Media: Worldwide Shipments (2006-2012)," DTC estimates that nearly 3 million BD PCs will ship in 2008 and grow to over 15 million by 2012, experiencing a 5 year compounded annual growth rate (CAGR) of 62%. Similarly, BD consumer-electronic products will experience a CAGR of 111% over 5 years, with just over 5 million shipments in 2008 growing toward 36 million units by 2012. With a CAGR of 257% between 2007 and 2012 for pre-recorded BD discs alone, there is no real argument against the prediction that the BD format will be a success, and keep the video optical disc format viable far into the future.

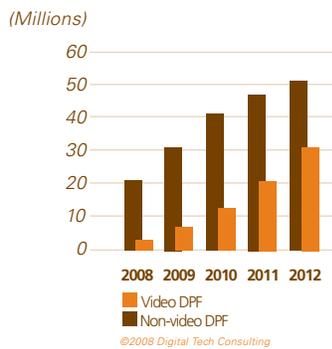
## Video Playback on Digital Picture Frames: Useful Application or Gimmick?

Digital video continues to pop up in places it has never been before, such as still cameras and mobile phones. Advances in video-compression efficiency, storage capacity, and transmission technology are enabling some surprising applications such as video playback on digital picture frames (DPFs).

The DPF category presents a whole new application of digital products and since frames hit the market, tens of millions of units have shipped into the distribution chain. DTC estimates that more than 11 million DPFs shipped into the market in 2007 and projects a 117% growth rate with more than 24 million to ship in 2008.

The vast majority of these frames simply display still photo files, but a handful have the ability to display video files. DPF makers are using the video application to offer "full-featured" frames that can command a price premium over the frames that only display still photos. Whether or not this differentiator will really drive greater sales, and more importantly, better margins, is yet to be determined. Sales of video-enabled frames have been quite modest. In 2008, DTC estimates that only about 14% of DPFs shipped will be able to display video. But by 2010, DTC estimates that about 35% of these units will be able to decode digital video.

### DIGITAL PICTURE FRAMES ESTIMATED WORLDWIDE SHIPMENTS



The growing availability of video doesn't necessarily mean that it's an application that consumers are demanding, however. In cases where video decoding can be added at a relatively low incremental cost, manufacturers may use it to pump the features list to justify higher price tags. Over time, and with greater manufacturing economies of scale, the cost will decline and more and more frames will include video capability.

Because the frames haven't been designed or marketed to appeal to the "tech-savvy" customer – the target user is more the average consumer with an interest in home décor products – video features may have less appeal as many users may resist tackling additional steps to activate add-on features.

As it becomes cheaper and easier for digital video to be distributed with the help of the Internet, simple networking, small form-factor storage devices, and wireless technologies - digital video is going to show up in all kinds of seemingly strange places. In some cases, it will be useful and in some it won't. Who knows what is next, though? Watching video on a microwave oven or in an electronic book or magazine may become commonplace. Would those applications be more useful or entertaining than watching video on a digital picture frame? The chances are good that the marketplace will get the chance to answer that question as DTC anticipates the marketplace will get to test out many new video applications.

## Alternative Video Platforms and the New (non) Aftermarket

by Antonette Goroch, Senior Analyst

Hollywood content has been a distribution system all about the so-called "aftermarket" for some time now. Heated debates over whether the VCR, would eat into movie box-office sales have long since given way to a more powerful and organized chain of home

video/DVD, pay-per-view, broadcast and cable syndication releases, which generate annual revenues well into the billions of dollars.

That “aftermarket” distribution has resulted in a straight and rigid line from cinema to international cable syndication occurring in measured time intervals. But walking a straight distribution line is likely to give way to considerable zigzagging as Internet- and mobile-delivered programming completely scramble the existing roadmap.

Internet delivered video on-demand (VOD), Internet Protocol Television (IPTV), peer-to-peer networks, digital video recorders (DVR) and mobile video (to name a few), have industry players wringing their hands over how these new platforms will impact that aftermarket order. Once the hand wringing is done the stark differences between the old and new orders will radically change the Hollywood aftermarket landscape, requiring new ways of thinking about the production, definition and flow of entertainment video content—even the concept of an “aftermarket” itself.

Personalization and mobility of content are fundamental commonalities of today’s emerging alternative video platforms, whether mobile, Internet or pay TV, fed by the very nature of the new technologies that power them. Even in today’s transitional state of video distribution, the tightly controlled value chain of how content is securely purchased and narrowly consumed has already been irreparably ruptured, as consumers can now easily use DVRs for time shifting, schedule recording over the Internet, downloading and watching movies or TV shows on their phone, etc...etc.

This means that players all along the value chain must rethink their approach to their entire video content life cycle. Many are cautiously doing this, already. Both premium-pay and basic cable networks are increasingly creating original programming which generates revenue on a “long tail” basis, premiering on basic cable, then moving to Internet VOD (a la iTunes or Xbox Live?) and finally DVD. Examples include shows like *Weeds* from Showtime, *Project Runway* from Bravo or *Mad Men* from American Movie Classics (AMC). Rather than shying away from new platforms to protect existing revenues, these shows are tightly integrated with both their online and mobile presences in the form of promotional activities and alternative distribution. They employ different levels of content security at different points in the chain, allowing for ad revenue/promotions (sponsored free clips online for upcoming episodes, cast interviews, etc.) and VOD revenue (content protected files delivered over the Internet or closed-network pay TV). Central to these efforts are the threads of personalization (how consumers can watch and interact with the show) and multiplatform mobility (consumers can have interaction on either the TV, PC or mobile device).

There are many examples of more protectionist policies in which content owners make their products less attractive on new platforms, whether in terms of quality or ease of use, thus dooming their own initiatives in the hopes of protecting existing franchises. The necessity of a change in thinking and approach, however, to embrace rather than repel new formats, is unavoidable. As DTC’s research on video markets has echoed for some time now, new platforms such as mobile and Internet will make up an increasing share of an exponentially larger video market over the next decade. Success in the aftermarket of tomorrow depends on not thinking of a linear aftermarket, but rather an interconnected web of delivery that puts content in the hands of consumers to enjoy as they choose.

“Personalization and mobility of content are fundamental commonalities of today’s emerging alternative video platforms.”

## Navigating the Maze

Being in the business of producing, distributing and receiving digital TV is complex and constantly changing. Industry players must navigate through multiple delivery platforms, shifting business models, and dramatic shifts in the way some consumers view digital TV. To the untrained eye, it would seem that the role of over-the-air TV might be insignificant. But the combination of a large installed base of over-the-air TV households, precious spectrum, and new terrestrial technologies guarantees digital terrestrial TV (DTT) a place at the DTV table.

DTC provides forecasting and analysis services for companies looking to be competitive in the DTT market. We analyze and forecast activity in the ATSC, DVB-T, ISDB-T, and SBTD-T markets. In addition, DTC now tracks the U.S. ATSC digital-to-analog converter box market with estimates on box shipments and vendor market share. For more information on this service and others, please contact Myra Moore at [myra@dtcreports.com](mailto:myra@dtcreports.com)

## NEW RESEARCH!

### DivX: Embracing the Open Eco-System A Digital Media Case Study

July 2008 US \$395

DTC presents a look at a company on the cutting edge of new media. The case study provides insight into the innovative work DivX is doing in the industry as well as the challenges it faces. A look at the public technology and digital-media services company provides an interesting example of how one company has evolved and positioned itself to benefit from prevailing trends in digital media, rather than watch its core business become obsolete as the digital landscape changes.

*Digital Tech Consulting is a market research firm providing strategic information and analysis to help companies succeed in the consumer digital marketplace. To learn more about DTC and how our analysts might help your company, please contact us at the information below.*

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