

NETWORK IN THE NEWS – MID JULY 2006

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We were originally contacted by Channel Nine to comment for an item on the imminent death of the rental industry. Fortunately, Keran was one of the first interviews for the story, so she was able to affect both the slant and outcome of the piece, and point the journalists to Chris Chard, who was able to offer another reasonable perspective on the rental industry.

Video killed?

Business Sunday, June 25, 2006

"They've been saying that we were going to be put out of business for 25 years."

Video and DVD rental stores say reports of their death are greatly exaggerated. It is, after all, a market nudging \$1 billion dollars per annum, up from just \$630 million only a few years ago. With pay TV now gaining real traction and movies on demand via broadband becoming a reality, how long have the Video Ezys of the world really got? Katrina Nicholas reports.

FULL TRANSCRIPT

KATRINA NICHOLAS: Ads like these getting really annoy the video rental stores, they say they are false and misleading, and they're considering legal action. But times are changing. Now, movies are delivered over the internet, and right into your living room.

JOHN KARANTZIS, CEO, Reeltime Media: As you can see we just scroll through, come through and chose a title...

NICHOLAS: And you get the price there and away you go. It's simple to use, and best of all, there are no late fees

KARANTZIS: I would say that ultimately the convenience of this will eventually replace video stores whether it'll be 10-15 years or longer I don't know but it is yet another electronic delivery mechanism to get that real world product more conveniently.

NICHOLAS: Reeltime Media hasn't actually launched yet, but it's got some big name backers.

KARANTZIS: We would see that the uptake in year one should be about 60 to 70,000 customers initially and really a lot of that will depend upon the marketing and logistics of getting the box out and then ultimately we see this business growing to around 3 to 400,000 subscribers in the next three to four years.

NICHOLAS: But Reeltime's set top box, required to access their movie library, doesn't come cheap. A good one will set you back more than \$800 dollars.

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CHRIS CHARD, managing director, Roadshow Entertainment: Reeltime essentially would be a Foxtel without the additional channels. It's really just a movie delivery service via a set top box.

NICHOLAS: Roadshow Entertainment's Chris Chard sees other problems too.

CHARD: At the moment they're dealing with just a defined number of studios, they don't have if you like the selection that the video stores would have.

NICHOLAS: But video stores do have one big plus.

CHARD: They have a tremendous advantage over the internet offering at this point in that they'll get the movies first, straight after theatrical the next place that you can view movies is from your video store. The revenue that the studios make from the video window is certainly on a lot of films the biggest part of the revenue that they get back on a film, in some cases it's as high as 50 percent of the revenue.

NICHOLAS: Now this is something that you won't be able to get on broadband?

KERAN WICKS, managing director, Network Video: That's exactly right, films traditionally go through release windows — what we call them, it will be released theatrical first then three to four months later it'll come to DVD both for rental and for retail in most cases, and then it's normally up to 90 days before it's available on any other service, either pay per view video on demand which is broadband.

NICHOLAS: Keran Wicks is the founder of Network Video, a group that now has more than 400 stores Australia wide. She's sceptical of reports the \$900 million dollar rental and DVD sale market in Australia is in decline.

WICKS: They've been saying that for 25 years. I've been in this business for that long now and if I had a dollar for every time I heard we won't be here in five years I wouldn't have to work, that we were going to be put out of business by the reworking of cinemas, by pay TV, by DVD and every one of those has given us more of a boost. On your average weekend in Australia there's 2.5 million rental transactions, that means 40 percent of Australian households are renting movies, clearly the consumer wants to rent. You like to be able to walk in and shop, look around the shelves and touch and feel things and read the synopsis and ask Tom at the counter 'what's a good movie'.

NICHOLAS: Wicks also says that until broadband speeds in Australia really pick up, renting videos will win hands down.

WICKS: The time it takes to download a movie, the current time is four to six hours, the size of the file is huge, a movie file is a very big file, so the cost you have to have a subscription to an ISP, you then have to pay to download the movie and then you probably have to pay excess data charges depending on the plan you're on because of the size of the file.

CHARD: The big challenge for internet delivery is the speed at which movies can be delivered, there is a lot of talk about Telstra improving the quality of its network. We see that as taking sometime. I guess best case scenario is probably three years.

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NICHOLAS: Right now, there are two ways to get movies from Telstra. You can download them using broadband from \$1.95 per title, or have them delivered the more traditional way, via post to your front door. But it's Telstra's online service Bigpond head Justin Milne expects will really take off.

JUSTIN MILNE, group managing director, Telstra Bigpond: I think it'll run pretty much the same way that the music business did which started with a bang being illegal and then companies like us and the music record labels got together and found a legal way of doing it and that's exactly what's going on all over the world with the movie business as well. The speed of downloading a movie depends of course entirely on the speed of your connection. At home I downloaded a movie last night called Girl Interrupted, which is a pretty good movie, I watched it on my TV in my lounge room and it took me six minutes to download it.

NICHOLAS: If you had just a 256 garden variety connection how long would it take?

MILNE: That'd take about six hours.

NICHOLAS: Then there's Telstra's other bugbear, Foxtel. The pay TV company also offering movies on demand it owns half of. The two do have some non-compete agreements, but the now very real threat of cannibalisation isn't a topic Milne's keen to discuss.

MILNE: Essentially Foxtel is a broadcast TV with a pay piece to it so it's a different kind of experience so I don't see us as being competitive with Foxtel at all. I use Foxtel for certain things and I also have Bigpond movies which I use for other things, I also get DVDs and believe it or not I occasionally go to the video shop.
