



NATO'S POSITION ON THE PREMIUM VIDEO ON DEMAND WINDOW

With the FCC's approval of the use of Selectable Output Control (SOC) technology, there has been a lot of discussion and speculation in the media regarding the overall issue of release windows and, in particular, the prospect of the introduction of a premium Video on Demand (VOD) window into the marketplace. From the first introduction of ancillary revenue streams, release windows have played a vital role in the studios' development of economic models related to the production, marketing, distribution and exhibition of movies. Although film making is at its core a creative process, it is also a business model that requires financial risk-taking and discipline to support and reward the creative talent upon which business success depends.

While we understand the decision of the FCC to allow content protection of valuable movies in a marketplace rife with piracy, NATO and its members have long maintained that a robust theatrical release window is vital for the health of theatrical exhibition and the movie industry as a whole. The FCC decision changes neither that view nor exhibitors' resolve to protect the window. The "traditional release window" of 120 days to the home the MPAA acknowledged in its FCC petition continues to serve the industry well. The distribution side of the industry recognizes its value as well. Indeed, in the last six years, the average theatrical release window has not varied more than nine days (between 131 days and 140 days).

While exhibitors understand the new pressures that a weakened DVD market creates for their studio partners, four decades of box office growth and three straight years of record-breaking theatrical box office argue for caution in tampering with a business model that clearly works.

Sequential release (higher value release formats come earlier in the sequence and command a premium) is well understood by the consumer and works for the industry. Collapsing windows muddies the value proposition for the consumer, blurs distinctions between theatrical and "straight-to-video" and undercuts one of the important selling points for theatrical exhibition – the timeliness of the exclusive event.

Every ticket sold in the theatrical window can be effectively priced, something that cannot be said for the ancillary windows—even a "premium" early VOD window.

How many viewers per household will watch each premium-priced offering? Three? Five? More? At what price point? The studios have been unable to resist the inexorable downward price pressure and commoditization of its products in later windows. Why move that pressure forward to the one window that has been free of it?

The studios seem to understand this – as their battle to carve out a DVD sell-through window against the \$1-a-night kiosk rental services demonstrates. It is baffling that they would try to introduce the same kind of profit-cannibalizing self-competition into their highest value distribution channel. A premium VOD window will neither solve the DVD slump nor end the problem of film theft. If past is prologue, technological locks will be overcome with technological crowbars, and earlier availability of pristine digital copies will facilitate and proliferate illegal duplication. The solution to the industry's problems is to grow the revenue pie, not change the size of the slices.

Theater owners around the world are investing millions of dollars to make available to filmmakers, audiences and studios the latest in digital and 3D projection. They have made that investment in the interest of the cinematic arts and with the understanding of a reliable product flow from their distribution partners. Studios are supporting this revolutionary transition through virtual print fee payments. Unilateral tampering with the business conditions that make such investment possible threatens the logic of the industry's investments.

While some proponents of "new media" make promises and predictions of large profits, they ignore the bigger picture. The revenue stream from motion pictures can best be optimized by intelligently integrating new technologies and ideas such as premium video on demand with other existing, proven revenue streams. Theatres offer the most control of the product and the most revenue. A short window with the potential to siphon off a significant number of moviegoers benefits neither the studios nor today's high-tech theaters.

Many observers point to the lessons to be learned from what is left of the music industry. The lesson is not that new media should replace old media, for that has been shown to result in smaller overall revenues. Rather the question to be answered is how can revenues be maximized by integrating new and old media?

In introducing a new VOD premium window it is incumbent upon the studios to start a dialogue with all elements of the industry: creative, production, finance, distribution, exhibition and home media. Any promotion, advertising, marketing or testing of premium VOD needs to be done within the existing in-home window time frame. After a period of time, results should be measured to evaluate the impact on the other windows and adjustments made accordingly.

While individual theater companies must and will make decisions about release window changes in their own company's interest, three things are essential as our industry evolves:

- **Public negotiation creates confusion and bad blood between partners.** We are keenly aware of the irony in using the media to call for an end to negotiating through the media, but the point is no less valid. Recent trial balloons and public statements regarding possible windows and price points are harmful to the industry.
- **No surprises.** Exhibitors cannot be blind-sided by unusually short windows after they have already booked and begun playing a movie in their theaters.
- **A seat at the table.** The release window on a movie is as important a consideration to exhibitors as any other element of booking a movie. Whatever changes the studios seek to make to their release window models, it is absolutely essential that theater owners be fully involved.

It would be irresponsible to put today's successful model at risk by introducing a potentially destabilizing change in the existing windows platform that has allowed the American movie industry to develop into the preeminent movie industry in the world.

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