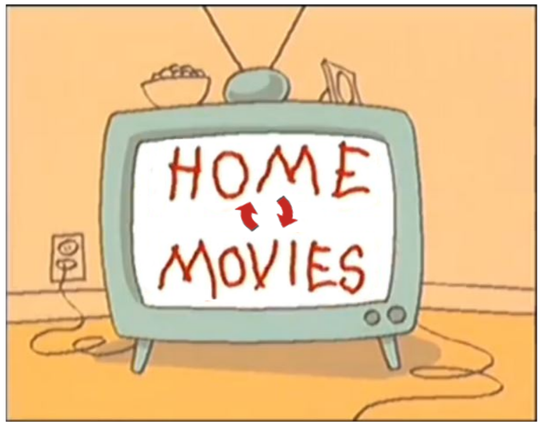
Considerations for In-Home Movie Rental in the Theatrical Window



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Why Read This

This presentation is not a pitch.

The filmmaker-distributor-theatrical model works. Any change to the model requires stakeholder participation and oversight. These slides are presented to encourage discussion among stakeholders and assist in the evaluation of models for in-home movie rental during the theatrical release window.

This presentation is online at:
http://mkpe.com/publications/presentations/Considerations-for-In-Home-Movie-Rental_MKPE_20160601.pdf

If sharing, please share this presentation in its entirety.

The Many Questions

- Is a third party needed?
- Who controls pricing?
- Who licenses the content?
- Who times the in-home release?
- How is exhibitor revenue attributed?
- Who determines the exhibitor-distributor revenue split?
- Does the model encourage the right behaviors?
- Is the model additive?

Is a Third Party Needed?

- The 3rd party licensing entity would obtain content rights from multiple studios.

- The 3rd party licensing entity can either be independently operated, or by an exhibitor-distributor JV.
  - The 3rd party establishes price to the consumer.
  - The 3rd party influences timing of the in-home release.
  - Legal constraints could impact the make-up of the 3rd party.

- A single exhibitor could license and rent movies for in-home rental. But acting in this manner, the exhibitor would encroach on the markets of competing exhibitors. Multiple exhibitors operating independent services would confuse the market.

In-Home Box Office Attribution

- The exhibitor for in-home box office attribution can be determined algorithmically or determined by the consumer.
- Algorithmic determination offers a few methods:
  - Attribution in proportion to share of in-theatre box office across a defined market or territory, or
  - Attribution determined by geographic proximity of in-home renter to exhibitor.
- With consumer-selection, the consumer chooses an exhibitor for attribution from a list.

Pros and Cons of Revenue Attribution Methods

- Box-office rev share: consumer behaviors vary by market, therefore, effectiveness is driven by market or territory definitions. Consider if the calculation is per title or over a defined period.
- Geographic proximity: can lead to conflicts in tight markets. Proximity defined by clearance areas can be contentious.
- Consumer-selection: invites an opportunity for exhibitors to market the service to consumers. Conceptually simple and non-contentious.

The Studio-Exhibitor Split

In-home rental revenue collected by the 3rd party can be managed in a few ways.

- Revenue (minus 3rd party fee) $\xrightarrow{x\%}$ Studio
  $\xrightarrow[y\%]{}$ Exhibitor

- Revenue (minus 3rd party fee) $\xrightarrow{100\%}$ Exhibitor
  Exhibitor books revenue as box office
  Exhibitor $\xrightarrow{x\%}$ Studio based on rental agreements

Is it Possible for an Exhibitor to Not Participate?

- Non-participation implies that an exhibitor's site is protected from in-home rental in that market.
- A problem occurs when Consumer A can rent the movie in-home, Consumer B cannot rent the movie in-home, and Consumer A and Consumer B are in the same neighborhood. By restricting consumer options, such action could be labeled as collusion to chasten non-participant rivals.
- Non-participation only works when uniformly withholding the service across a market or territory.

Does the Model Encourage the Right Market Behaviors?

- Does the model preserve the unique, premium experience of cinema, or does it commoditize the first release window?
- If the in-home model is designed to attract a certain age demographic, will those consumers be forever detracted from the cinema?
- What is the impact on neighboring business if there is a reduction in cinema foot-traffic?

Is the Model Additive or Subtractive?

- All in-home movie rental models will have an impact on in-theatre attendance. Consideration should be given to the ability to mitigate negative impact and maximize additive potential.

- A premium in-home rental model has a lot going for it:
  - Does not encourage cannibalization
  - Maximizes additive potential
  - Not a commodity
  - Technology can be pricier, with better security

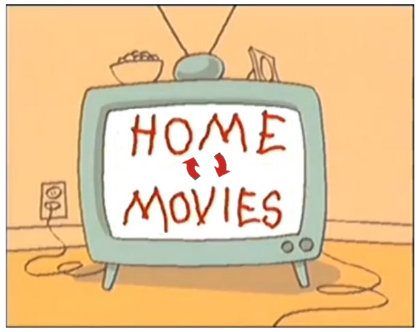
My Suggestion

- Establish a 3rd party operator owned by stakeholders in the first release window (exhibitors and distributors).
- Sign a capable infrastructure service supplier that can provide secure storage, session-marked streaming, validation of device security, and security logging.
- Price as a premium day-and-date service. Set the rental fee high. Very high. Think 2M views annually, not 200M.
- Don't limit the service to one make of device. Don't target the usual < $200 OTT boxes. Go high-end A/V. Establish a rigorous specification and compliance program for security. Use HDCP. Keep the OTT box under $5,000 retail.

Is Now theTime?

Whether an in-home rental service should be offered, and whether now is the time for such a service, are certainly questions worthy of debate.

This presentation addresses the primary issues when constructing an in-home movie rental business model for the first release window. There are other business and technology options that are not addressed in this presentation that I would be happy to discuss if contacted.



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