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Business as Unusual: Conglomerate-Sized Challenges for Film and Television in the Digital Arena

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By Alisa Perren

Abstract: This article examines the diverse strategies that the film and television divisions of media conglomerates have employed in circulating their properties online. The author shows how historical relationships as well as long-standing business practices tied to both theatrical motion pictures and prime-time television series have affected decisions about what, where, when, and how content is offered on the Internet. Comparing the Internet-related activities of these different divisions sheds light on the distinct challenges each medium faces in the online realm and also points to the complex nature of the responses of contemporary media conglomerates to new technologies.

Keywords: business models, Internet, media conglomerates, motion picture distribution, television distribution
On Tuesday, 19 May 2009, the Fox network followed its broadcast of *American Idol* with a preview of its new high school comedy-musical series, *Glee*. Within hours of its broadcast premiere, those viewers who had missed it—or who simply wished to watch it again—could, in a variety of ways, see it immediately online, legally and free of charge. One could go to several Web sites owned by Fox’ parent company, including Fox.com, MySpace, and Hulu (coowned with GE-NBC and Disney) and stream the episode. In addition, one could download it from iTunes and view it on their iPod or personal computer. Or one could place an order online through Amazon.com’s Video on Demand and have it sent directly to their television by way of various set-top boxes (e.g., Tivo, X-Box, and Roku).

Fox eagerly used the Internet as a means of promoting the new show—a show that would not return to the network with its second episode until an as-yet-unscheduled time in fall 2009. Interestingly, just a few weeks earlier, Fox displayed a very different attitude toward the Internet from their motion picture division. In late March, an incomplete version of the studio’s not-yet-released $150 million-budgeted feature film, *Wolverine*, was illegally leaked online. Fox quickly tried to halt its online circulation yet had only limited success. Ultimately, by the time *Wolverine* opened in theaters in early May, the company believed the film had been downloaded more than four million times worldwide. It estimated that that piracy cost it close to $30 million in lost ticket sales.3

Both *Glee* and *Wolverine* were released by the same media conglomerate, News Corp., within weeks of each other. Yet two divisions of this same media corporation interacted with the Internet in dramatically different ways: one division sought to distribute a television program as widely as possible, while another tried to prevent any circulation—or even discussion—of a feature film. What can explain these differing responses? How do conglomerates decide what material to offer online and when to offer it? To what extent are the online strategies employed by Fox in the distribution of its film and television content representative of the behavior of the film and television divisions of entertainment conglomerates at large?

This article proposes some answers to these questions, and in the process, provides a snapshot of the activities of filmed entertainment divisions of the media industries in a time of transition. An examination of this particular historical moment indicates the complex ways that well-established business models, decades-old social and institutional relationships, long-standing cultural practices, and variant formal and narrative strategies all affect what, where, how, and when specific types of Hollywood product have been offered to consumers. Entrained relationships and practices tied to both theatrical motion pictures and prime-time television series have done more than simply structure decisions about what, where, when, and how content is offered on the Internet. Indeed, they have also affected the types of films and television programs that conglomerates choose to finance and distribute in the first place.

In the few years that have passed since the major media conglomerates first began to make their content available online in 2005, certain patterns of behavior have emerged. Although, of course, exceptions to the tendencies outlined below can always be found, in general, the television divisions—especially the broadcast television divisions—of the major media conglomerates (especially the Big Seven) have reacted in a far more proactive manner in terms of their online distribution efforts than have the theatrical motion picture divisions of these same companies.4 Comparing the Internet-related activities of these different divisions sheds light on the distinct challenges each medium faces in the online realm—and also points to the complex nature of the responses of contemporary media conglomerates to new technologies.5

First it is important to underscore that there are only a limited number of ways that media companies can generate revenue. The most prominent economic models depend on (1) advertising or sponsorship (broadcast networks, Hulu), (2) direct payment for a single product (iTunes, theatrical movie-going), and (3) paid subscription for bundled content (Netflix, cable).6 As *Glee* illustrates, broadcast networks such as Fox, ABC, CBS, and NBC have pushed some of their content out to viewers on a variety of different platforms, albeit not indiscriminately. CBS, for example, does not make its content available on Hulu, opting instead to offer it through its own TV.com Web site. Further, only a limited number of fresh episodes along with a larger supply of older library titles (whose syndication value has already been exploited for the most part) are made available online. Typically, sites such as Hulu and ABC.com provide roughly four of the most recently aired episodes of a series and remove the rest.

There are several benefits to making recent episodes of broadcast series available online. First, there is a promotional value attached to this strategy: new viewers can be recruited online. Those online viewers are seen as precisely the kind of younger viewers with the expendable cash so desired by the networks and their sponsors.7 Second, providing the latest episodes helps viewers stay up to speed on recent developments in a series. For the more serialized programs on the broadcast networks such as *24, Heroes*, and *Lost,*
missing an episode or two can make keeping up with the narrative difficult. Placing the content online following a program’s initial broadcast marks an effort by the networks to combat viewer erosion. Third, it enables distributors to compile more precise measurement figures for viewership on multiple platforms—something increasingly important as more people have access to higher speed Internet service and opt to view their video content online. This migration of audiences from the television set to the computer is an issue of primary concern to conglomerates. The companies are well aware that to remain economically viable they need to have content set up and waiting for viewers as they continue to change their television consumption habits.

At present, online video earns relatively little from advertising—as of 2009, of the $23 billion spent on Internet ads, only $734 million was spent on digital video. However, that number is quickly growing. Also on the rise, of course, is the number of people viewing the most popular online video sites (Atkinson, “Analysis”). In April 2009, for instance, Hulu streamed 373 million videos, a sum that marked a 490 percent increase from just one year earlier (Shields, “Nielsen.”). Although the networks are not yet able to extract substantial advertising revenue from streaming programming online, they see the need to be able to do so in the future. As such, they are increasingly pitching the value of a multiplatform advertising strategy to sponsors. NBC, for example, issued a report stating that brands experienced a “14 to 17% rise in brand awareness and purchase intent when marketers use both TV and online ads” (“NBC Focuses”).

The decision by the broadcast networks to offer recent programming online has not come without challenges. Problems can emerge if the network-distributors are not also the owners of a program’s copyright. Such was the case with the Warner Bros.-produced ER, which NBC had difficulty gaining the rights to show on its own platforms such as Hulu and NBC.com (Steel). This issue has diminished somewhat in recent years as networks have incorporated rights to online streaming into contracts. In addition, increasingly, the networks have vertically integrated, favoring those programs in which they have an ownership stake. With the networks both producing and distributing more of the programming they air in prime-time, the wrangling over online streaming rights has been reduced (Andreeva).

One notable conflict that has developed in recent years has been between the networks and their affiliate stations. Affiliates have objected to the online streaming of programming on the grounds that it devalues their status as the initial site for original network content. The networks have been able to mediate this issue to some extent by arguing that streaming serves primarily promotional purposes. The networks’ position has also been strengthened because they also own broadcast stations and are subject to the same issue of devalued content that is faced by their affiliates (Schechner and Dana).

The conflicts between the major media conglomerates and various other stakeholders over streaming broadcast content are far less pronounced than are the conflicts taking place between the conglomerates and cable’s multiple system operators or MSOs (e.g., Comcast). Although programs aired on basic cable such as FX and TBS generate revenue from advertising, a substantial source of those program services’ income comes from subscriber fees parcelled out by MSOs. This dual revenue stream has led cable-programming services to be one of the most consistent sources of income for media conglomerates during the recession. A cable (or satellite) service’s value to subscribers comes in part from its offering programming unavailable elsewhere; however, this service is diminished if an entity such as the News Corp.—owned FX opts to stream their programming for free online. Thus, although FX may build interest in a series such as Rescue Me by streaming it on Hulu—and thus potentially boost its DVD sales—doing this increases the possibility of “cord-cutting” (canceling cable subscriptions), thereby placing the subscriber fees it takes in from MSOs at risk (Lawton).

Growing anxiety about cord cutting has led the cable industry to heighten its call for authentication—in other words, to demand that consumers prove they subscribe to cable before they can gain access to programming online. Interestingly, one of the conglomerates that has been most supportive of developing some type of authentication process is Time Warner—a company whose television investments are predominantly in cable services such as HBO, TBS, TNT, and CNN (Learmonth and Hampp). (Time Warner has half ownership in the CW broadcast netlet.)

In spite of the hesitancy that both MSOs as well as cable program services such as TNT have about offering their content online for free, it is worth noting that neither party is fundamentally opposed to making their programming available online. It is simply that MSOs do not want to lose subscribers and program services do not want to lose carriage fees. While these two sets of stakeholders continue to wrangle over the authentication process, a great deal of cable programming (especially basic cable programs) remains available online, though for a price. For instance, those wishing to see the latest episode of the USA cable series In Plain Sight can view it commercial-free within hours of its airdate for a cost of $1.99 through either iTunes or Amazon’s Video on Demand service. (Viewers can also buy...
“season passes” to programs for a fixed fee.) What, where, how, and when content is made available depends on the licensing agreements that are made for each individual series or program.

The motion picture divisions of media conglomerates do not make their feature films available online nearly as quickly as do the television divisions. Since the studios began to release their films on videocassette in the 1980s, they have adhered to the same release strategies. First, films appear in theaters, followed by DVD/VHS, then pay-per-view, pay cable, and finally basic cable and/or broadcast television. In general, as more time passes, the films cost consumers less to view.

Limited adjustments to the system have occurred in recent years. Gradually, the windows between each step have narrowed a bit. For example, it once took six months or more from the time a film was released in theaters for it to appear on DVD. Now it might be available within three months of its theatrical release. Recently, the window between DVD release and on-demand has gone down to a week or two in many instances (Miller). Nonetheless, in general the studios have remained quite resistant to making more substantive adjustments to either their windowing strategies or business models. It is here that the distinction between film and television distribution online is most pronounced as of 2009.

Why have conglomerates’ film divisions thus far remained unwilling to make the changes so successfully instituted by their television counterparts? The first reason involves the historical relationship between studio-distributors and theatrical exhibitors. Theater owners have fought vigorously against making any changes to the existing system that gives them exclusive rights for varying windows of time. The major theater conglomerates (e.g., Regal Entertainment and Cinemark) typically will not show movies that have previously been made available either on television or online (Rosefelt). Given that only a handful of companies control most of the theater screens in the United States, studio-distributors cannot afford to alienate any of them. Issues with windowing and exclusivity arise with home video and pay cable as well. For example, video retailers such as Blockbuster have long fought against the studios’ making their content available on-demand, quite rightly seeing it as a threat to their economic livelihood. Only as Blockbuster’s market power has now started to wane have the stu-
Television critics have reviewed select Web series, and television-centered awards such as the Peabodys and Emmys already have been given to Internet content. The extent to which the phrase made-for-television movie suggests aesthetically inferior fare speaks to the continuing power of cultural hierarchies for film and television.

Although for decades most of the revenue for motion pictures has come from home consumption (e.g., DVDs, television licensing, etc.), Hollywood has regularly promoted the myth that people watch movies mainly in movie theaters. For online consumption to be facilitated, changes have to take place in how films are positioned culturally. Yet, the motion picture studios seem unlikely to make-for-television movie suggests an aesthetically inferior fare speaks to the continuing power of cultural hierarchies for film and television.

Although these are clear patterns that are cultural in nature. Despite the fact that films and television programs often employ the same talent and similar production practices and have comparable aesthetic traits, culturally they remain positioned very differently. The movie-going experience has been privileged in American culture for many decades. A certain elevated cultural aura around cinema has been crafted and sustained not only by the promotional machinery of Hollywood itself but also by journalists, critics, awards organizations, and film schools. Film critics typically only review movies that have appeared first in theaters, and awards organizations only honor those that have had at least a limited theatrical run. Conversely, television critics have reviewed select and unwilling to risk demythologizing the theatrical experience at present. This is in part because of the ever-increasing emphasis the studios have placed on big-budget franchise films such as Transformers and Wolverine (Schatz).

Since these costly films are the primary economic drivers of the motion picture divisions—and the theatrical release now serves as an exercise in marketing and branding that establishes films for all future ancillary markets—it is in the conglomerates’ interest to continue elevating the value of the theatrical experience. In fact, the present push by both exhibitors and distributors for more IMAX screens and 3-D projection indicates that their current mindset is toward “upgrading” the spectacle and heightening the aura of movie-going even more.

Much like the case with the move toward widescreen and 3-D in the 1950s, these endeavors are defensive measures designed to combat the threat posed by new technologies. The technologies that jeopardize traditional movie-going practices are many, including piracy and the heightened quality of home entertainment systems. To fight these threats, the conglomerates’ film divisions as well as exhibitors have worked hard to position movie-going as an unparalleled experience.

The Big Seven may be invested in keeping their feature films away from the Internet during the first several months of their release. However, the same is not the case for other media corporations. In recent years, companies such as Magnolia Pictures and IFC Direct have aggressively experimented with releasing feature films in theaters as well as on demand through the Internet and cable/satellite systems. These companies are able to take these chances with “day-and-date” releasing because they are not only distributors but also theater owners and can release the films on their own screens as well as on screens in independent theaters across the United States (“Distributing”). Significantly, the companies testing day-and-date distribution are smaller operations that have much more modest financial expectations for their films. Early indications suggest this strategy has worked. For example, while Magnolia’s Demi Moore–Michael Caine crime drama Flawless earned $1.2 million in theaters, it earned more than $2 million via video on demand.20

In part because of the collapse of the specialty film business, both Magnolia and IFC have been among the most active buyers of completed films in recent years (“Distributing.”). They acquire a wide range of lower-budgeted American independents and imported films on the cheap from producers desperate to make even a small amount of money back on their investments. Significantly, one of the biggest buyers at the Cannes Film Festival in 2009 was not a studio specialty division (e.g., Fox Searchlight). Rather, it was IFC, which acquired such films as Lars Von Trier’s Antichrist and Ken Loach’s Looking for Eric to feed into its various cable, Internet, and theatrical pipelines (Kaufman, “At”).

From this discussion it becomes clear that the first content made available online is mass appeal broadcast fare and highly niche-oriented feature films. Although these are clear patterns that
have emerged thus far, many different strategies for online distribution continue to be tested every month. Some will succeed, others will fail. Even *Glee*, which received a high profile multiplatform marketing push by Fox, is far from a guaranteed hit (figure 1). Further, approaches that are unanticipated at present will develop. Even as I concluded writing this article, two intriguing articles appeared that reinforce how much the current system remains in a state of flux. First, the chief digital officer of News Corp., Jonathan Miller, suggested that Hulu may yet shift from being advertiser-supported to being at least partially a paid service (Bercovici). Less than twenty-four hours later, YouTube announced that it would premiere its first live broadcast of a feature film, Luc Besson’s *Home*. The film would appear online on the same day it appeared in theaters (Maher).

Both of these events underscore the anxiety and instability that characterize the media industries at present. The distribution bottleneck that the conglomerates used to maintain over film and television in the analog era is gone; now their old ways of producing media, marketing content, and connecting with their audiences are shifting as well. Precisely how—or to what degree—they might maintain their hegemony remains to be seen. As I have shown in this article, rather than interpreting the Internet distribution activities of media conglomerates as monolithic and their responses as uniform across their various divisions, we can find a high degree of variability. A wide range of economic, cultural, political, and formal factors are at play; different entities have distinctive stakes in online distribution. Regardless of the shape of things to come, it is worth pausing to consider how and why different strategies have been employed, and what their successes and failures might mean for the future viability of different types of film and television content and the companies that produce them.

### NOTES

1. Depending on the site on which the show was viewed, there may have been a limited number of advertisements.

2. Disney became a partner in Hulu in late April 2009. See Weprin. Hulu’s content is syndicated across numerous platforms, including MySpace, AOL, Sling.com, TV-Loop, First on Mars, and MeFeedia, according to Healey.

3. According to the *Hollywood Reporter*, “at last year’s average ticket price of $7.18, the piracy could conceivably—though not likely—have cost Fox $28.7 million.” Such figures, though useful in terms of getting headlines, should nonetheless be taken with a high degree of skepticism. It is impossible to determine how many people viewed the film and whether or not they would have paid to view it legally at any rate. It is also possible that they could have liked what they saw and wanted to see it in theaters. Significantly, in spite of the high degree of anxiety expressed by Fox—and the degree to which the company fretted about diminished ticket sales—*Wolverine*'s box office did not seem to suffer. Ultimately, its domestic office for its first weekend in theaters totaled an impressive $85 million. See Bond.

4. The Big Seven include Disney-ABC, GE-NBC Universal, Time Warner, Viacom, CBS, News Corp.–Fox, and Sony. They were discussed as the Big Six until recently, when CBS and Viacom separated. For a discussion of them as the Big Six, see Holt. The companies that have at least an ownership stake in broadcast networks are Disney, GE, News Corp., CBS, and Time Warner.

5. Lotz offers a comprehensive account of how the television industry responded to new technologies in the early 2000s. However, much has changed even since her book came out in 2007. No similar account has been offered on the film industry yet.

6. This is obviously highly simplified, but for the schematic purposes needed here, it proves sufficient. For more detailed information, see Lotz. Also see Budd, Craig, and Steinman.

7. According to *Variety*, as of March 2009, young adults aged 18–24 watched an average of five hours of on-line video a month. The number is consistently rising. See Littleton.

8. As of March 2009, 30.6 percent of households in Nielsen’s People Meter Panel had a DVR. One hundred thirty-one million Web users watched some on-line video during the first quarter of 2009, an increase of 13 percent over the same time one year earlier. See Shields, “TV.”

9. The issue of revenue from streaming is tense not only with production companies but also with labor more generally. Labor unions such as the WGA, SAG, and the DGA continue to wrangle with the conglomerates for fair compensation for on-line streaming. See McNary “WGA” and “SAG.”

10. For example, see Farrell. See, also, Sanders.

11. Compared to basic cable and broadcast programming, pay cable programming tends to be much more difficult to access online. The windows of pay cable most closely resemble the windows for theatrical films. This is because pay cable’s primary value proposition to consumers is its original programming. Offering it online would make subscriptions far less likely.

12. For a history of the VCR and the diffusion of videocassettes, see Wasser.

13. Among the most thorough discussions of film industry practices can be found in Epstein. See, also, McDonald and Wasko.


15. Trying to remain competitive, Blockbuster has tried to get into the video on demand business but has been faced with strong competition from other companies including Netflix, Amazon, and Apple. See Lieberman. For additional discussion of the decline of the DVD business, see Atkinson, “DVD.”

16. For example, in 2008, Peabodys were awarded to YouTube, www.nytimes.com, and theonion.com for their video content. An Emmy was given in 2008 to *The Heroes Digital Experience* offered on www.abcs.com.

17. Some of the mythologies surrounding Hollywood are discussed in Perren.

18. For a discussion of recent efforts to upgrade the theatrical experience with 3-D, see Schuker; Zacharek.

19. In some instances, such as the Joaquin Phoenix–Gwyneth Paltrow drama *Two Lovers*, Magnolia released the film on demand before opening it theatrically. For a discussion of indie companies’ ventures into on demand, see Kaufman, “Indies.”

20. Figures are for the United States and Canada (see Horn).

21. This is often a critique made by certain types of political economic approaches to the media industries. For a discussion of some of the shortcomings of political economic analyses, see Kellner.

### WORKS CITED


Alisa Perren is assistant professor in the Department of Communication at Georgia State University. She is coeditor of Media Industries: History, Theory, and Method (Wiley-Blackwell, 2009) and her work has appeared in a range of publications, including Film Quarterly, Journal of Film and Video, and The Sage Handbook of Media Studies.