

Convergence:

Constructing Media Deals

in

multimedia

film

television

music

books

&

software

Joey Tamer
Lonon Smith

Testimonials for **Convergence**

“Comprehensive and extremely well written, this book is a must read for communications professionals and students from diverse backgrounds and various industries. It allows them to speak the same language and therefore open new channels of communications.”

Marde Gregory, Associate Director, UCLA Center of Communications Policy

“*Convergence* is the best book on multimedia I have ever read. I finally understand the confusion now. It’s about time someone made sense of these industries. I go back to it again and again for information. Each time I learn something new.”

Pam Sansbury, former Vice-President of Sales and Marketing, AGI, Inc.

“In all the years that the convergence of multiple industries has been predicted no one has provided the insight into those industries and how they contribute to today’s booming multimedia business—until now! Joey Tamer and Lonon Smith have provided the ultimate guide to the diverse businesses that make up a complex, but exciting market. More than that they have provided crucial information and guidance for anyone trying to span the many disciplines.”

Vicki Vance, former Manager of Business Development, Apple Computer: New Media and Entertainment Group

“In an industry characterized by misinformation and confusion, Joey Tamer and Lonon Smith provide clarity and context. *Convergence* puts it all together. This book will help people from different backgrounds understand one another and get down to business.”

Janet Wikler, President, Wikler and Company; formerly Group Vice President and Director of Advanced Media, HarperCollins Publishers

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TERRAIN

Lately a lot of mergers — usually called off later — have been announced between cable companies, phone companies or some other part of the telecommunications infrastructure. A lot of software companies have been acquired. Every movie studio, record company and book publisher seems to have its interactive development arm.

It's the sound of heavy hitters covering their bets.

Barry Diller, a man who's headed both a movie studio and an interactive shopping network, is less than impressed. Speaking at a television symposium in Edinburgh, Scotland (back in 1994), Diller attacked what he called "media imperialism." He described the numerous acquisitions and convergence moves by various giant industries as their "doing truly stupid things in anticipation of enormous markets that don't currently exist."

Calling most multimedia development a "computational Cuisinart," Diller said that simply digitizing and then repurposing video, text, and audio *wasn't* creating new product. "Silicon chip companies look at convergence and see a giant micro-processor. The telecommunications companies look at it and see some huge multimedia network. The movie studios and book publishers are trying to define it only in terms of the content they've already created ... but nothing really new or interesting will be created in this jerry-built, repackaged way."

There's certainly enough hype on the subject, usually followed by muttered announcements about stalls, postponements, and cancellations. Measures to reform the relationship between and the restrictions on cable and telephone companies are driven onto the rocks by the hot winds of Congress. We're promised a "500-channel" future with neither a real definition of what the term means, what product will fill such a black hole, nor an extrapolation of what impact such a change will have on us.

The average American family, of course, doesn't care about any of that. They're waiting to embrace multimedia. It's infiltrated our language. "CD-ROM" is a form of media storage, but we use the term to describe an entire industry and its emerging market. "Multimedia" is used in a similar way. This appropriation of the media to name the technology demonstrates the impact that this technology and new business opportunity has had on the country and the world. About three-fourths of all the computers sold into the home now are multimedia capable. An average family with kids already knows about Nintendo and Sega Genesis. Parents buy computers and CD-ROM players because they think it might be an edge for their kids in a competitive world. Americans began to spend record amounts for educational software beginning at Christmas 1994, causing Toys R' Us to increase its space for learning-oriented games by 40 percent that year.

Couch Potatoes

But multimedia isn't core to the lives of American families yet. They're still waiting for it to do *something interesting*. That may be the hardest gulf to bridge between the advocates of multimedia and the average consumer. Trying to explain to some game developer why one isn't orgasmic over "Myst" is like trying to discuss matters with the guys who come up the driveway to tell you their version of the revealed truth of Jesus.

New Tech

The world that is already technological will accept new technology more quickly than it did the television or the telephone when they were released. Only older Americans remember party lines and local operators and watching T.V. through the department store window. The resistance even 20 years ago to ATM's and answering machines is now in the distant past. This was early digitization. The technological world accepts change and new technology much more quickly now.

The non-technical world (rural areas of America, China and Russia for example) will move from virtually no technology directly to the latest developments in computing (just short of cutting edge) and the new world that awaits them there.

That monitor sitting on the desk in the family room looks a lot like a television. Game cartridge hookups utilize real TVs. But, if you're not a game player or into destroying aliens, the remaining multimedia titles look a lot like an encyclopedia or a true-life nature documentary. It's data presented rather flatly.

Which leads the average guy to wonder why, if this is so high-tech, why isn't it at least as compelling as a re-run of "Murphy Brown."

That's why the convergence of industries is so important. Multimedia looks like other media that have given us drama, excitement, and characters to care about, characters that are a reflection of us and not just an extension.

The buzzword for that is "content." It's the thing that multimedia producers are thinking about when they wonder out loud where to find a writer. Or as Robb Lippincott, speaking at the National Association of Broadcasters convention, had it: multimedia is a three-legged stool and the legs are content, community and commerce.

The current *lack* of content may explain the attraction of the Internet and the incredible growth of services like America Online and Microsoft Network. People are looking for something in the interactive realm that they can care about. We hear regularly now of people who have given up cable TV because they've substituted the Net instead.

Passive vs. Active Viewing

Whether that's a trend or not remains to be seen. There's an essential difference between an evening with the Internet and prime time TV. Not to get too elementary here, but with a personal computer, you do things to it and it reacts. With your basic television, cable or otherwise, all you can do is turn it on or off and change channels. It does something and the viewer reacts.

For most of history, things that we've interacted with have been considered sports (we'll include gambling), or work. Entertainment has been passive. That's the ever-present question when it comes to interactive/multimedia as entertainment. Does that average family want to interact with their television? Wouldn't they rather just sit there and be entertained in the tradition of vaudeville, theater and the movies?

Right now we get close to the monitor to be interactive. Even with a game cartridge-TV hookup, the player is in a tight relationship with the screen. But we sit back to watch a traditional television program. Eight inches is personal. Eight feet is passive.

Different Names for the Same Job, the Same Name for Different Jobs

Our initial orientation to the delivery system then affects, however subliminally, how we perceive the end product. It's cultural. **Developers** are the creative team in software, but the heart of the book business is an **author/editor** team while in film the creatives are **writers** and **directors**. In television the **producer** holds the major creative reins, as well as the business ones. The music business is stuck with **composers**, creative producers, and ... well, **musicians**. Marketing has its jobs down to two names: **publisher** and **producer**, the first in the software and book industries, the latter in film, television and music. While the distribution system may vary widely, distributors are called **distributors** in all the industries except when they are called wholesalers or merchandisers.

An Overview of the Process of Multimedia: What's So Hard?

Given the diverse nature then of the industries that are converging, it's no wonder that their expectations of what the end product should be or should do can be sharply varied. These conflicts stem from the core business assumptions of the various industries.

What is acceptable in the film industry, for example, the pre-selling of distribution rights to gain the funding to create the title is considered "vaporware" in the software industry. Bundling, considered a preview mechanism and revenue generator in software and multimedia, is considered "early-remaindering" to a book publisher.

Software publishers release upgrades at a significant discount below the initial software application knowing that "the installed base," the majority of the owners and users of the software, will buy the upgrade. Film studios, on the other hand, release sequels, also designed to attract "purchasers" of the initial piece of software, the film, but do so at full ticket price. These different approaches to what is arguably the same business practice make for fascinating war stories, but they do not further the creation of a new industry. They only make its path more rocky.

How the Industries View Each Other as a Source of Conflict

Software developers moving into multimedia view the film, television and publishing industries as both condescending and far too cautious. Does Hollywood even appreciate what multimedia can bring to entertainment and publishing? These software developers may come to believe justifiably that their film-TV-publishing counterparts simply discount software's vision and expertise, finding in its technology only one more special effect or promotional point.

Yet the converse is true for publishing and entertainment. Their own suspicions are too often justified. The Silicon Valley based software industry may demonstrate a skill with technology, but that ability doesn't necessarily bring with it a storyteller's ability or a sense of the "production values" needed to do justice to content provided out of New York or Hollywood.

This sense that software industry spokesmen have a very ill-defined vision of an emerging, evolving multi-media makes some film/TV and publishing professionals uneasy. The multimedia software developers seem to change their vision of the market (and even the very definition of multimedia) depending on the funding sources. This is admittedly the pot calling the kettle black. Hollywood's producers and writers have been known to change the "pitch" for a potential project in mid-sentence to accommodate the whim of a studio or network executive.

This finger pointing gets personal rather quickly. And all these cultural conflicts can become unexpected deal breakers. A diversity of product is crucial to expanding multimedia's appeal, but that very diversity only exacerbates misunderstandings, making it hard for the various participants to pin down what exactly is a "good deal" in multimedia. It's sometimes difficult for the potential content providers from entertainment and publishing to understand what any particular multimedia company wants to do and what rights it needs.

That leads to hesitation, and hesitation on the part of their potential partners only confirms the software industry's perception of the entertainment and publishing industries.

As the content providers come to a new understanding of a given multimedia product or market, they can also realize that they need to change the terms of a deal that they had seen previously from a different standpoint. That's great for the content contingent. But this shift in terms can leave the multimedia software companies feeling gouged. That makes it all the harder to achieve a result that both sides agree is fair and reasonable.

Then there's licensing and rights. The various industries all have licensing models, however arcane, but they're mostly inapplicable when it comes to multimedia. For one side to attempt to impose its licensing measure on another industry can lead to a bad if not completely unworkable deal. Let's say the license is based on size, for instance, or the number of reproductions (as with a photo) or on the amount of time something is used (as with music). How are those measures to work in interactivity where time is non-linear and the consumer often controls things like "size."

The problem with most rights usually starts with their fragmentation. Both publishing and the entertainment industries have bought and sold rights for years as a part of doing business, rights often allocated before multimedia existed. Just for starters a novel can be broken up into audio and book club rights, first serialization rights, foreign language rights, hardcover and softcover rights, and the rights to make the various theatrical, film and/or television versions. Music rights are so fragmented that it is often impossible to track all the owners of rights around the world.

In film, producers routinely sell off foreign distribution rights. There are electronic rights and character rights across the industries. We mentioned Sonic the Hedgehog earlier. Once the game was established and very successful, the television rights to the character were then licensed. (Game developers often see the film rights to their games as ancillary, an anathema to the film industry that can only conceive of film as the core product. The value judgments are implicit.) On the other hand, Disney's hugely successful animated film, "The Lion King," served as the basis for both a Sega game and a CD-ROM title. Since a lot of contracts don't use multimedia terms, it's often hard to determine just who controls what.

This licensing and rights confusion results in two trends, both aimed at simplifying this problem. One is that multimedia title developers are independently creating as much of their content from scratch as is possible. The other trend is that some developers are focusing on projects where virtually all the rights needed for a project are provided by one other party.

There is also an attempt by the content providers, developers and publishers to define co-publishing. This is a form of collaborative publishing in which the risks and rewards in a particular project are shared by all the participants. In an attempt to find a workable deal, they are, in effect, re-creating the independent film production business model.

Provincialism

All of these conflicts, however advanced our technology, stem from the oldest division of all: provincialism. Provincialism is the secret poison that destroys companies and possibilities and divides us by cultures, by languages, by industries.

Consider a sidebar by a software industry columnist that appeared in a Hollywood trade paper. It purported to explain Silicon Valley's culture to the film industry. No limos, the article advised, no Armani jackets, no expensive hotels. Have a Power Book, show up wearing Levi 501s and beat-up running shoes, and be sure to make grease a dietary staple.

What was being suggested, in other words, was come up here and be just like us because we won't talk to you otherwise. And above all bring nothing that might seem like the trappings of a successful adult.

Except lots of money.

The article's bottom line was simply that power in multimedia is in the hands of the industry that controls the source code. Marketing and distribution are available all over, but only Silicon Valley has technology.

If the article was intended as humor, it failed. Nowheredid the writer even hint that he understood what "content" was, and content is what the mythical Armani jacketed Hollywood producer brings with him to Silicon Valley and its multitude of outposts.

The article succeeded in generating cold smiles on a few Hollywood faces, along with the fantasy of dragging a lot of technoids out into the light of day, taking away their Ho-Ho's and telling them to learn to dress like a grown-up.

What happened was that, in mocking the Hollywood stereotype, the columnist managed to reinforce the Silicon Valley one. We reinforce each other's provincialism. There are a lot of Armani jackets in Hollywood. There are a lot of 501 Levis and running shoes, too.

Just as there are some brilliant production studios in Israel. The head of one, with the company's first titles about to enter the U.S. market, was told he needed to ship his product by September 15th. He didn't understand what was so important about the fourth quarter. It was explained to him in one word: Christmas. In his form of provincialism, (understandably) he heard "Christmas" as a religious occurrence rather than as a retail event. "Oh, this Christian thing," he said while making a small, dismissive gesture with his hands, missing the point completely.

Some production studios in Toronto believe that they work in the art center of the universe and that the United States is nothing but a large country to the south waiting for their Canadian genius to arrive.

The provincial road runs both ways, however. A high-ranking executive of a film industry company showed up in Silicon Valley a couple of years ago to "pre-sell" the distribution rights to some titles that were being developed by her company. The Silicon Valley folks asked the obvious question: "where's the prototype?" When they were told that it would show up after the deals were done, the software experts stopped listening. The woman from Hollywood was annoyed that Silicon Valley would treat the dealmaker of a company as important as hers so rudely. But for the software industry, the company she worked for was irrelevant. They knew that prototypes are the proof that multimedia projects can work. The woman from Hollywood had shown up, assuming that her Hollywood business model was universal and that she could impose it on an industry where hawking "vaporware" is a cardinal sin.

That's Hollywood's arrogance. It's used to being the center of attention. But, on a larger business level, most of the film studios are themselves parts of conglomerates (and, in a couple of cases, suffering from serious misunderstandings with owners shaped by entirely different cultural and business traditions). If Hollywood's studios are often subsidiaries of multinational corporations now, we can anticipate the same for Silicon Valley.

It's the nature of Hollywood to use its glamour and illusion to fleece newcomers. Remember that movies started as a sideshow attraction — and a buck's a buck. If its executives weren't dazzled, why did Sony pay a couple of billion extra for Columbia and Tri-Star? But it's another form of provincialism to laugh at the Japanese investors. Clearly one of the motivations for Seagram's acquisition of MCA from Matsushita is its CEO's infatuation with the movies. And, looking at the horizon, it's a good guess that five years from now the film industry will have been engulfed again, and it'll be the telecommunications industries that Hollywood is quietly taking to the cleaners.

But provincialism isn't just bad, it's expensive. The less two sides know about the other's business, the more rigid bargaining positions can become. We need to become educated about our potential collaborators, enough so that we don't make assumptions about industries other than our own. And we need to stop assuming that those other industries know our preferred way to turn visions into reality and to sell the results.

Hollywood sells experience (with image and perception as its side effects); New York publishers sell intellectualism;

Silicon Valley sells technology. But all the various industries of multimedia have the same agenda: to change the world and to entertain it, both at once.

We need to come to an understanding of each other. The place to start is in the former prune orchards at the bottom of the peninsula south of San Francisco near the once sleepy town of San Jose where software took root and flourished.