

# Price question looms for Apple iTunes films

June 20 2006

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As Apple negotiates with movie executives about the possibility of offering full-length films on iTunes, one looming question will be finding a suitable pricing model, experts agreed.

Variety.com and others have reported that Apple Chief Executive Steve Jobs is personally negotiating with several major studio executives and is hoping to have an agreement in place by late-summer, when Apple is expected to unveil a new iPod with enhanced video capabilities.

The biggest sticking point seems to be at what price the service could be provided, both in being profitable for the companies and affordable for consumers. Apple, which has been very successful with a flat 99-cent

price on music MP3s on iTunes, wants to do something similar for movies with a \$9.99 price.

Michael Gartenberg, vice president and director of research at Jupiter Research, said that the flat 99-cent fee, which was opposed at first by the music industry, was an unsung hero of iTunes' success.

"The 99-cent model was not just a victory for Apple, but a victory for the record labels," he said. "It reinvigorated the online music industry."

Mike McGuire, research director at analyst firm Gartner, agreed that the flat rate was significant in consumers embracing Apple.

"99 cents was a nice psychological price point for consumers," he said. "The reliability of the set price point makes it easier for consumers."

McGuire said that a more nuanced pricing system can work for movies, as long as customers understand why newer releases cost more.

"That exchange of value has to be put very obviously to consumers," he said, adding that "there's a logical trade-off of incentives" between paying more for a new release and less for an older film, he added. He pointed out that this trade-off is not present in online music sales.

"That was a bit of a problem with the music industry," McGuire said. "There was no exchange of value for the consumer. It didn't make a lot of sense" to have different price schemes.

On the other hand, consumers have been conditioned to understand the cycle of films, from the theater to Pay Per View to DVD sales and rental.

Gartenberg said consumers need the simplicity of pricing in order to

comfortably begin a relationship with iTunes or any online film-downloading service.

"The challenge is making the process simple," he said. "Over time it's likely that we will get to some variable pricing model. There's every reason to think that \$9.99 is a good price right now."

Gartenberg said that a key to the success of an Apple movie-downloading service will be an iPod or similar device on which to watch them.

"No other device has resonated on the market quite like Apple's," he said. "They'd need to make a device that could lend itself more to the video experience."

However, McGuire said he is not sure a portable device will be a difference-maker.

"A whole load of people are using iTunes on their Windows notebook or their iBook or MacBook," he said. "People are happy watching on their notebook."

If Apple makes an iPod with a bigger screen, they run the risk of creating it with an "in-between size," too big to easily carry in a pocket but not big enough to be a good viewing option compared to a laptop screen, McGuire said.

"If I'm looking for extra screen real estate, I'm thinking laptop," he said.

Gartenberg said he thinks Apple has already proven somewhat that people will watch video content on small-screened mobile devices.

"Apple has demonstrated an ability to sell millions of dollars of

television content on portable devices," he said.

Gartenberg said that even if iTunes got in the film market, it would not have much effect on the DVD industry.

"DVDs are not going to go by the wayside, just as CDs did not go by the wayside," he said.

Gartenberg said that DVD-purchasing was a "different buying experience," with high-quality picture, extras and the ability to easily watch on a television screen. McGuire agreed.

"We still have a lot of people that have a conventional DVD player hooked up to a nice television," he said.

Online movie sales won't be able to replace DVD sales and rentals until there is a simple and easily available way to get the digital movies onto a television screen, McGuire said.

"The last part of the chain is non-trivial," he said.

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