

\$10 is the 'magic' digital-media figure

July 8 2010, By Brier Dudley

The digital-media business has a new mascot: Alexander Hamilton, the treasury secretary on the \$10 bill. Hamilton sorted out the nation's financial policies during its chaotic early days.

Entertainment companies are doing the same thing now that the [digital revolution](#) has happened -- they're finding their footing and figuring out standard ways to make money. Their solution appears to be charging \$10 a month for access to the most desirable content.

This crystallized when Hulu announced its \$10 per month premium service. Hulu Plus offers full collections of current TV shows in high definition, making them available through some phones, game consoles and TVs with Internet connections.

It's roughly the same template that Netflix has used to build a streaming movie service, Rhapsody used with subscription music and Amazon.com is doing with Kindle books.

Those companies all assembled huge media libraries in the cloud and are making them available through every possible screen connected to the Web.

Netflix and [Rhapsody](#) cost about \$10 per month. Kindle books are mostly \$10, although the software and online access to your Kindle library is free.

A pioneer was TiVo, which charges people a little more than \$10 a

month for a service giving people more control over their TV consumption and ready access to a collection of shows.

Apple is also onto the Hamilton thing. It nudged iTunes App prices up when the [iPad](#) arrived in April, with flagship-productivity apps costing \$10 apiece.

Apple is believed to be working on its own streaming-media service in the cloud, which probably won't cost much more than \$10 per month.

Ten bucks here and there might not seem like too much, but it adds up.

Especially since it's on top of the \$100 or more that people pay every month for Internet and phone service to access these media services.

Still, lots of people are ready and willing to sign up, according to Hulu Chief Executive Jason Kilar, a former Amazon.com executive.

Kilar said Hulu talked to thousands of consumers while developing its plans and found plenty of support for its \$10 service.

"We think this has the potential to attract a very large number of subscribers because of the value it offers," Kilar said.

The appeal for TV fans is the promise of full collections of popular shows, instead of the rotating selections that will continue to appear on the free Hulu site.

SUCCESS STORY

Hulu has been an amazing success story since it began offering free TV shows and movies online two years ago, supporting the content with advertising before and during the videos.

It drew 38 million viewers who watched an average of 25 videos apiece in April, making it the second largest online-video-content site by views behind YouTube, according to comScore research. It turned profitable at the end of 2009 and Kilar said going public someday is "certainly an option for us."

From the start, Hulu has been a sort of online laboratory for major media companies backing the venture -- NBC Universal, News Corp. and Disney.

With a Los Angeles-based team largely recruited from Seattle tech companies, Hulu experimented with ways to make money online from current shows and studio archives.

The key was offering a service with enough quality and features that viewers wouldn't mind the ads.

Now it's built something that it believes is worth \$10 a month, and still has ads.

For the networks, Hulu Plus creates a stopover for hot shows where they can make a little extra before being released more broadly.

It's similar to the way movies work their way from the theater to hotels and airplanes, then video stores and DVD sales and eventually onto TV broadcasts.

But networks are being careful about how they dole out TV content, ensuring that no \$10 service will completely replace what you get from cable TV for \$50 to \$100.

Kilar said Hulu Plus is intended to supplement cable-TV service, rather than replace it.

"It would be grossly inaccurate to think that Hulu Plus could replace the cable, satellite and telco pay TV services," he said, noting that the service won't have the latest news and sports content.

NEW NETFLIX DEAL

A related example came in April, when the Fox and Universal movie studios formed a deal with Netflix. The studios -- owned by Hulu's investors -- decided to withhold DVD releases from Netflix for a month, apparently giving priority to distribution channels offering greater return during that crucial first month.

In return, [Netflix](#) was allowed to stream more of its digital libraries to its monthly subscribers.

This is also a good opportunity to clarify what ESPN and Microsoft's Xbox Live network worked out. They announced last month that Xbox Live subscribers will get access to more than 3,500 live sports events broadcast by ESPN3 -- which is owned by Hulu's other major investor, Disney.

PREMIUM CONTENT

That sounds like another option to replace cable-TV service, at least for Xbox owners. But it turns out ESPN will only come to Xbox Live subscribers who get broadband from a company such as Comcast (but not Qwest) that partners with ESPN. It's similar to the way NBC's full, online Olympics coverage was only available to people with premium-cable plans.

One way or another, you've got to pay a monthly fee to get the premium content.

Kilar said the arrival of Hulu Plus isn't the big sign that online media is shifting from free to paid subscriptions.

"If anything, it's a statement that there's going to be a variety of models with regards to media in the future," he said.

No single model will prevail, and "the consumer is going to choose what is best for them."

But I'll bet the best stuff and the most useful services are still going to cost around \$10 a month.

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