

Question:

Business Week recently reported that Rupert Murdoch is ordering 20 million Tivo-type Digital Video Recorders. Why does Murdoch need 20 million recorders?

Answer:

Since modern Hollywood makes most of its money not from the box office but home entertainment (See [Table 1](#)), Murdoch has set his sights on increasing his share of that critical home-entertainment market, and the digital video recorder (DVR) is his weapon of choice.



Murdoch currently controls a major movie studio (Twentieth Century Fox), a television network (Fox Television), 30 cable channels (including Fox News, FX, and Fox Sports), and an armada of satellites that beam movies, sports, and programs to television sets on five continents reaching 26 million subscribers overseas and 14 million subscribers in the U.S.

The key to his new strategy lies in his recent acquisition of a controlling interest in the satellite company DirecTV, which has the potential to deliver entertainment into homes in North America via so-called video-on-demand. Murdoch has also given DirecTV CEO Chase Carey, a former college rugby player with a Harvard Business School MBA and a brilliant marketing strategist in his own right, a mandate to, as an insider explained, "double the DirecTV subscription base, making it the number-two distributor of programming after Comcast, and then number one. It's that simple." Even before Murdoch had bought control of DirecTV, he promised, at Morgan Stanley's Global Media Conference, that "every subscriber will be getting either a free digital video recorder (DVR) or one for nominal amounts of money, with no subscription fee at the other end."

Why the DVR giveaway? To equip his satellites with a video-on-demand capability. Since there are not enough transponders on satellites to stream movies to individual subscribers, Murdoch needs DVRs in every home to make video-on-demand work. With DVRs, the satellites can download movies in the middle of the night onto subscribers' hard discs (without their having to do anything or even be aware of it). Then, to "rent" the movies, the subscribers need only click on their remote control (which will charge their account via their telephone line).

Once it's possible to go no further than one's couch to rent a movie, why would any viewer choose to make two trips (one to get the movie and one to return it) to the video store? Until now, video stores have enjoyed one decisive advantage over the available

pay-per-view options: a 45-day head start. There is currently an informal agreement among studios to delay the electronic delivery of movies until 45 days after their release in video stores, and Wal-Mart has pressured the studios to maintain this buffer. But Murdoch, who famously crushed the British newspaper unions, is not one to bend to pressure from even a retailer as powerful as [Wal-Mart](#). By ignoring the 45-day window and releasing his Fox movies on DirecTV the same day as their release on video (and DVD), Murdoch's empire would profit in two ways. First, his Fox studio would get almost twice as large a share of the rental revenue from each movie (since studios get a 70-percent cut of video-on-demand revenues vs. only 40 percent from store rentals). The remaining 30 percent would go to DirecTV, which would also happily carry films from other studios that eventually joined Murdoch in breaking the 45-day embargo. Making a sweet deal even sweeter, almost all of Fox's share would be profit (since, unlike video-store delivery, electronic delivery entails no manufacturing, packaging, or return expenses). Second, and more important to his strategy, his DirecTV satellite company would gain a powerful advantage over rivals in recruiting new subscribers. The view from the top is that the increase in subscribers--a possible doubling--would more than compensate for the temporary loss of video sales at Wal-Mart.

Once Murdoch implements this strategy, his main rivals in the delivery business--including Echo Star, Comcast, and Time Warner Cable--will be faced with a Hobson's choice: they can either match his electronic delivering of movies on the same day they are released to video stores or lose customers. Presumably, they will match him, and since the other studios will not want to cede this lucrative market to Fox, they will have to go along, spelling the end of the 45-day advantage that video rentals have historically had over Pay-Per-View release and, with it, the end of the store-driven video-rental business.

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