

GartnerG2 Says Internet Video-on-Demand Success Still a Long Way Off

SAN JOSE, Calif., January 30, 2002 - As more U.S. households invest in broadband connections, Internet video-on-demand is being hyped as "the next big thing", but substantial Internet video-on-demand services will not roll out in the United States until 2005, according to GartnerG2, a research service from Gartner, Inc. (NYSE: IT and ITB). Even then, only 2 percent of movie distribution revenue will come through Internet video-on-demand.

"It will take at least three years to deliver the level of service required for high-quality entertainment programs via broadband. Studios are embracing Internet streaming and download technologies today in order to deliver the business models of tomorrow," said P.J. McNealy, research director for GartnerG2. "However, many business model issues as well as consumer-side issues must be resolved for Internet video-on-demand to succeed."

GartnerG2 says the good news for Hollywood is that 10 percent of the 106 million U.S. households have broadband access. However, according to a GartnerG2 survey, as of June 2001 only 2 percent of U.S. Internet-using adults had purchased a digital movie or video download in the three months prior to the survey. Three-quarters of those who had not used a PC to watch a downloaded movie said they were "not very" or "not at all interested" in doing so.

GartnerG2 recommends that motion picture owners and delivery infrastructure companies create quality-of-service guarantees for home viewers. Until there is guaranteed bandwidth to the home, delivering movies that must be streamed for two hours will be problematic and consumers are unlikely to tolerate a loss in quality unless there is a big price difference.

While some consumers are showing interest in getting movies over the Internet, they are looking to get them for free. GartnerG2 recommends that movie content owners monitor peer-to-peer software activities and lobby the Motion Picture Association for more stringent copyright enforcement.

"The biggest threat to any Internet video-on-demand service is to compete with free, and the sources of free will be new peer-to-peer services and networks," said Gale Daikoku, research director for GartnerG2. "The Motion Picture Association is paid to play police dog and chase down the copyrighted movies being exchanged illegally over peer-to-peer networks."

Internet video-on-demand provides a new window of distribution. The danger to the movie industry is that every distribution window after Internet video-on-demand, especially home entertainment products for rental and sales, could face revenue losses because more consumers may view a movie before it gets to the rental market. Major brick-and-mortar retailers and rental stores, such as Blockbuster and Hollywood Video are concerned that their business may be cannibalized if enough consumers start using the new Internet video-on-demand services.

GartnerG2 advises brick-and-mortar retailers to market the convenience and quality of rentals/purchases to ward off Internet video-on-demand. Retailers should market ease-of-use/quality of service factors to customers and emphasize the ease, low cost and reliability of renting vs. streaming a movie over the Internet.

Additional information is available in the GartnerG2 report "Coming Not-So-Soon: Online, On-Demand Movies." This report provides analysis on Internet video-on-demand, as well as the business model and consumer-side issues that must be resolved for Internet video-on-demand to succeed.

GartnerG2 is a new research service from Gartner that helps business strategists guide and grow their businesses. For more information on the report visit www.gartnerg2.com.

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