

## Beyond the Book

A Podcast Series on the Business of Writing and Publishing

**Content Rights & Technology Solutions  
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*The viability of the entertainment and media industry's future rests on its ability to manage content and control distribution, while making it available to an ever larger customer base. In November 2010, in New York City, Copyright Clearance Center's **Chris Kenneally** explored the potential for Digital Rights Management (DRM) and content protection in the evolving media landscape with a panel of senior industry executives. His guests were **Mridula Palat**, Director, [RSG Media Systems](#); **Michael Petricone**, Sr. VP, [Consumer Electronics Assoc.](#); **Kent E. Sahin**, President & CEO, [REAL Software Systems](#); **Alex Terpstra**, CEO, [Civolution](#); and **Steve Tranter**, VP, [NDS](#).*

TRANTER: Thank you. This is very interactive – it's good. OK, so, DRM. So, the whole point of a DRM system, a good DRM system, is that it's invisible to the viewer. It's enabling them to access content where they want it, on the device they want it, where they want it.

So when you say that DRM has failed, that customers don't like it, that's only in the situations where it's not a good DRM system. Where it's working, the viewer doesn't know that they've got DRM associated with that service.

So it's a bit of a false thing to say, that DRM isn't working, because you're only ever going to hear about those cases where it doesn't work, or it has been an obstacle. In all the cases where it works very well, and it enables premium content to get to all the devices and lets the viewer access that content, it works incredibly well, because no one knows it's there. That's the whole point.

So you can't really – you know, there's no positive sign, this DRM is great, because I'm not seeing it. It's an invalid sort of statement. That's my first point on that.

And then the second thing is, talking about hacking, piracy on content, there's all different ways. I mean, the whole point of DRM, the whole point of any sort of protection is, there's two things you're doing. You're protecting the digital content from redistribution. That's very hard to do, especially with the worldwide Web, the Internet – it's very easy to distribute content around.

I mean, you can get to any – you go to Pirate Bay, you can see all the content on there. There's different ways you can actually access content within the value

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chain. It could be from early releases, from early screenings before it even gets to the movies, so the movie time. It's – there's different steps.

And the whole point of a good DRM system is, it's protecting that content, and it's protecting the business rules for the operators who are actually delivering it. It's protecting there the way they want to set it.

I mean, that way, it is an enabler, and it does actually generate new ways for viewers to access that content, whether they want to move it around, start watching on one device and then continue watching on another, DRM actually enables new business models, and better ways to do it.

KENNEALLY: So is it a PR problem? And I was thinking, you were talking about DRM, and you were saying, you know, if it works, people don't know, which is, again, like PR. If it's working, people don't know. They know when it's not working, because somebody is yelling at you, right?

In the case of this DRM, though, is it – has it got a bad name from its previous incarnations? And anybody is welcome to answer this. And that what we're talking about today, and I know, Mridula Palat, that your solution offers a way to identify the ways that a copy – a file can be monetized, that that's more rights management, in your terminology, than this naughty word, DRM.

PALAT: Well, so – can you hear me?

KENNEALLY: Everybody is going to have to get close and personal with the mike.

PALAT: All right. You can hear me now?

KENNEALLY: Yes.

PALAT: OK, good. So just an introduction to what we do, I work with RSG Media Systems, and the product that we are talking about today is RightsLogic, which is actually a rights management system. So, just a little bit of separation between what exactly a DRM system does, and what a rights management system does.

The rights management system, essentially, is the place that stores. It's the repository for your rights information. It tells the DRM systems what they should do. It's where you store your rights definitions, around what territories can I sell this in, what media, what terms, to who, what genre, etc. And that feeds your DRM system.

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It's key in working with a DRM system, because it helps you monetize your assets. So for example, let's say you own a library of video games. One of our clients is a video game publisher. He has a library of video games, and they're a huge international publisher. And they not only need a DRM system that encrypts their content, and make sure the users are using it in a particular way, but more than that, before you access a DRM system, you need to know what you have available to sell. You need to know what rights you have, that you can even ask your DRM system to go ahead and start working on.

And that's really where rights management comes into the picture, and why it works very closely with the DRM system.

KENNEALLY: Right. So you're not seeing it as a lock, but really, as an enabler for monetization. And I wonder if I can turn to Kent Sahin. Kent is President and CEO of REAL Software Systems. And Kent, your view of things is, trying to grapple with this combinatorial complexity – and I think I said that right. Combinatorial complexity, which I think is what Mridula was just referring to, really, right?

SAHIN: Right. I mean, essentially, just to try to address the divide between the – on the left and the right of me here – and I'll get to what we do in a minute. But as Mridula had mentioned, one has to define what the products are. And there are these systems out there, both people processes and software, that do that.

Once you've defined what products you have to sell, you transact with distributors, in most cases. And those distributors have obligations, contractual obligations. And I think that's what is mostly at play here. Whether the consumers like it or not, the products have to be defined. It would be as if – in Costco, you went and you were able to take 50 bags of potato chips for the price of one. You can't do that. They've defined the product volume, the context, just the definition.

And so, absolutely, one has to have systems that describe what the products are and how they can be sold, so you can do that. But I do wonder, what world could we have, where there are no protective definitions of a product.

PETRICONE: You're in that world, (inaudible) know, right?

KENNEALLY: Michael, lean in. Yes, go ahead. Michael Petricone.

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PETRICONE: No, no. He – the question was, what kind of world would we have, if products were not protected? I mean, the fact of the matter is, that I could open this up, and I could download an unauthorized copy of any major Hollywood panel before the end of this panel, but I don't. And I don't, for a number of reasons.

First of all, I think it's not right – but as a moral aspect. Number two, there are all kinds of systems that make it very easy for me not to. I love getting on iTunes, and downloading a movie for \$5.00, \$10.00. I've got a Roku Box, I've got Netflix – you know, wonderful options at what I consider to be a reasonable price, and they're non – they're friction free, and they're low hassle.

So, I just think generally, and for those who make their business plans around DRM, that's fine. But I think, generally speaking, if businesses – if content businesses succeed, they're succeeding despite the DRM. They're succeeding because they're doing something that make people want to buy. And if we want to be successful, I think we need to spend more energy trying to convince – or, try to figure out what makes consumers want to participate in the authorized systems, as opposed to, how we can restrict.

KENNEALLY: Right. And what I think I'm hearing is this tension between security and monetization, and that as the balance is shifting, it sounds like it's more about monetization than it is about security, where again, in that first generation, DRM was seen as a lock, as security.

And I want to bring in Alex Terpstra on this. Alex is Chief Executive Officer of Civolution, and you can tell us what Civolution is, Alex. But it seems to me that you're the bridge, if you will, between these two pieces. The kind of watermarking that you enable is what happens once the DRM wrapper is opened.

TERPSTRA: Yes, we're kind of in the middle – can you hear me? Is this microphone working? OK.

We're kind of in the middle of this whole discussion, so maybe I should sit in the middle. (laughter)

We take a slightly different approach to this. So, Civolution is a technology company that is providing new technologies to approaches, this topic. Watermarking and fingerprinting technologies are generally known as content identification technologies.

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So the approach that we take is that whether content is being distributed with DRM or without DRM, we can identify contents either in a positive sense, to add value to applications, or in the sense of anti-piracy, if copies do leak, whether this is because the DRM system has failed, or whether this is because the DRM system at some point needs to let go of the contents at some point, especially on – for instance, take video. Once the video is rendered on the screen, the DRM system has to let go of content. But it doesn't mean that that's the end of piracy risk. There still is a significant piracy risk, especially now that content is improving in quality tremendously. And things like camcorder capturing off a screen is kind of the new piracy threat entering into the consumer space as well, which is a known threat from the cinema space, where (overlapping conversations; inaudible) –

KENNEALLY: I think that's a critical point you made, is that piracy is on the move, if you will.

TERPSTRA: Exactly. It is moving. And I think there are quite a few companies, including some of the content owners and operators, who have not yet fully addressed this – this upcoming threat that is certainly moving into the consumer space, which is basically kind of a copy of what is happening in the cinema space already for years, which is – the major source of piracy of movies is actually camcording in the cinema.

And that becomes so easy in the home, with HD television, and all of your nice home cinema sets. You can buy for a very decent price an HD camcorder, and basically copy it right off the screen.

So why would you go through the trouble of hacking a security system, commercial access system, DRM system, if it becomes so easy to capture a movie off the screen? And I want to give one example, where that it is, especially now, being interesting.

I think we've all read in the newspapers in the past weeks or months this discussion about these early window movies coming into the market. The movie studios are all now talking about this topic, and in discussions –

KENNEALLY: But Alex, just for those who might not understand, tell us about windowing, and day and date, and all of that.

TERPSTRA: OK. So, we're all used to a scheme of windowing, in terms of releases of movies. So, first, movie goes to the theater, then movie goes into hospital

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environments – hotels and airlines. It comes on DVD, it comes on television, and this is all a predefined way of releasing movie content to the consumer.

There is a recent discussion that studios are willing to launch a new window, if you will, which is HD movies on pay TV platforms prior to the DVD window. So that's kind of a major shift, actually, in the movie industry.

Now, imagine you could order, through your video demand service, a movie in your home, an HD movie, prior to DVD. That movie might actually still be in the cinema, in its last weeks of cinema screening.

Now, imagine that you could make so easily, like I just described, a copy off your screen of such a high value movie. That could upset the whole value chain of a movie. So we need to have a different approach to security. DRM commercial access will not be able to protect that.

This is where we come in. This is where companies like us come in with technologies called watermarking. Watermarking basically makes content copies, individual content copies, traceable. It is invisible for the consumer, it does not interfere with the normal consumption experience of the consumer, unlike some of the disadvantage of DRM.

But if you do take a copy of a movie, and you do distribute that in an illegal way, the copy basically became traceable back to its source. So –

KENNEALLY: So the honest person who doesn't commit the piracy act is unable to watch the movie. The dishonest person can be tracked down.

TERPSTRA: Correct.

KENNEALLY: Kent, I see you raised the microphone. But I want to just, if I can, before I get to do, Mridula, when we were talking, some of the clients that RightsLogic has are not the traditional players that we're hearing about. Right? I mean, there's the cinema, there is television, and so forth. You work with Major League Baseball, and video game providers. And how are they grappling with all of this?

And I think your point is that it's about not only selling what I have, but knowing what I have, that becomes critical.

PALAT: Yes, so just a few things. When we're talking about the industries that rights management works with, interestingly, right up front and from the beginning, they

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were very focused – the companies that we work with were very focused about the cable assets that they own. So they had these giant libraries of movies and TV shows, etc., and they were concerned about monetizing those shows, and stamping those with the DRM.

But then they realized, well, if you own *Harry Potter*, what can you do with *Harry Potter*? If you break just that IP, *Harry Potter*, down into its tiny, minute combinations, you can make a *Harry Potter* storybook with an audio. You can make a *Harry Potter* video game. And you can also make *Harry Potter* t-shirts.

But all these things come back into – well, with rights management, you are able to say, OK, who owns the license for these things? Which of my different merchandisers, or retailers, or cable companies, or network providers, has the ability to provide a *Harry Potter* video game? But then, does that same person have the ability to create *Harry Potter* t-shirts?

And coming back to DRM, well, you can track, for example, the video games, and you can say, well, these kids are allowed to download the video games, and they're allowed to create a little character on their own, but that's it. It stops there.

But then, how do I monetize – like, how do I make sure who's doing what with the t-shirts? We're having a huge problem with that.

Like you – once you send the IP out, we can track the rights, and we can see what you are doing, we can see the visibility into the assets you own. But once you let an IP out, and this is where DRM systems and different security systems come in, the piracy is abundant.

KENNEALLY: Right. And Kent Sahin, I see you nodding. And this gets back to your point about combinatorial complexity. And I would say that the media owners are obviously going to be looking towards making the deal happen, making it possible, rather than preventing it from happening.

SAHIN: Yes. I'll just give you some context. So my company, REAL Software, has an integrated software platform that's used to manage not just rights, and which rights you have, as Mridula has been mentioning, but also, the payment side of it. So my context in this discussion is, seeing our customers both pay and receive fees related to licensing of content, largely speaking, in this context.

And I guess what I hear developing, or bubbling up here, is somewhat of a philosophical debate, whether the communications providers should be the revenue

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winners here, or the content providers, or content generators. Because to say that content should be free flowing through the community of users who want to access it, and they will decide, effectively, the value of said content, really is an argument for subscription based models, where you go and download anything you want or stream anything you want, at any time that you want, and that's advantage telecommunications versus the content generators. So who's to answer this? I don't know.

KENNEALLY: Well, Michael Petricone from CEA, you're shaking your head.

PETRICONE: Well, no, just a couple of points. I know the rhetoric, we talk about piracy, the rhetoric often gets quite heated, and a lot of claims get thrown around. But I think it's important to ground these discussions on a basis of fact.

First of all, you were talking about camcording as a source of piracy. There are also, on a number of studies, that show –

KENNEALLY: Lean into the mike, if you would.

PETRICONE: There are a number of studies – you know, it's a small room, I'll just shout. All right? A number of studies that show the largest source of unauthorized copies on the Internet, of unauthorized copies of movies on the Internet, are studio prints that happen to walk out the back door of the studio.

And I'm just saying that, because it's – you've got to figure out what the source is, before you figure out (overlapping conversations; inaudible) –

KENNEALLY: The same is true with book publishing, by the way.

PETRICONE: Right. And (overlapping conversations; inaudible) –

TRANTER: And we address that in the same way, actually. Exactly in the same way.

PETRICONE: Right. Number two, despite the huge challenge of unauthorized content all over the place, the movie industry, this year, in the midst of the worst economy in like 80 years, had their largest box office year ever. Ever. And not to say that piracy isn't a problem, but it is to say what they figure out how to do is kind of use the infinite goods as a way to spur people to want to see the scarce goods.

In other words, I could download *Avatar* from some sketchy site and watch it. Right? But that is no substitute for seeing a 60 foot 3D pterodactyl coming at me

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on a screen. And I'm willing to pay good money for that. And that's why – and there are a number of movies like that, and that's why the box office was so good.

And so again, it's an issue. But you know, judging from how well they're doing in the marketplace, it's not apocalyptic.

SAHIN: So device content should be advertising for theatrical?

PETRICONE: Sometimes. Let me give you another example.

KENNEALLY: It's a good question, Kent.

PETRICONE: No, no, no – but that's a legitimate question. Let me give you another example. All right, how many of you are White Stripes fans? The music group? All right. So presumably, you could very easily go online and find all of their albums someplace for free, and download it if you wanted to.

I got this e-mail from the White Stripes list the other day, and what they are selling, for \$500, is a set. And it is a White Stripes – and this is all – you've got to see this stuff, it's all like white and red painted – a portable record player, a turntable material, headphones, White Stripes headphones, a record – a vinyl record of Merry Christmas songs from the White Stripes, including *White Christmas*, an LP carrying box, and a White Stripes red and white record cleaning brush, for \$500.

And I've got to say, my finger was kind of hovering over the (inaudible), like, that's so cool.

KENNEALLY: That's for the raving fan, though. That's not for everybody.

PETRICONE: But it's like – maybe you've got to see the picture, but it's neat stuff. But what they figured out – this is just like one example of how to use their infinite goods as a way to get people interested in the very expensive scarce goods, which they're then going to sell, because you can't download the record player over the Internet.

KENNEALLY: Steve Christian, you started us off with a bang. You've been listening quietly now. What's your response?

CHRISTIAN: Plenty to say, but I'm going to try to keep it concise. So, first of all, if you look at the TV operators – the DirecTVs, the cable guys, and everybody else, they spend something like \$30 billion a year for that content every year. So they are

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paying – that content's got value, and that's in addition to any advertising revenues. That's how much money is going into them, and they need to recoup that. There's a reason for it. It's a business chain.

If you say you just open it up and let them give that content for free, then all of a sudden, the value of that content is going to disappear.

PETRICONE: Nobody is saying it should be for free.

KENNEALLY: Well, let Steve just go on for a second, then, OK?

CHRISTIAN: Well, you're saying that people should have easy access on whatever device, without any rights associated with it, so therefore, your – because the other thing is, just be very clear what DRM does. It doesn't just protect content. I mean, I haven't discussed about protecting the business rules.

So whether content is a subscription, whether it's avoiding people being able to do fast forward over the ads, searches on the Internet content, that's a form of DRM. Whether it's pay-per-view, whether it's a different rule, whether you're watching it on a small device, small screen, as opposed to a big screen – there's a lot of different differentiators for the same content.

So actually, DRM is all about enabling these ways to purchase content.

KENNEALLY: Well, in fact, that's –

CHRISTIAN: I've got one more point.

KENNEALLY: OK.

CHRISTIAN: So – and the other thing is, we keep hearing about piracy and that. So let's be very clear what's going on here. It's all about keeping honest people honest. I mean, that's always a statement that comes out at some point in a powwow like this.

And the important thing is that the people who are doing the pricing are organized crime. I mean, we go ahead, we have an operational security division which goes after organized crime, who actually are selling. So it's not – when people are accessing pirated content, the majority of the time, these honest people do not know it's illegal. It's the guy in between, who has hacked the system, and he's trying to resell it – you know, in what looks like a legitimate manner, and getting those

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honest people to purchase a service from them, rather than from the person who's actually putting themselves together.

So let's be clear on this. It's that middleman. And we're not trying to stop people viewing things, we're trying to keep that supply chain going. So that money gets fed back into where it needs to go, which is the people producing the good quality content today, that's keeping this whole world perpetuating, and keeping the sales of TV sets and CE devices, because without that content, there's going to be – those devices aren't needed.

KENNEALLY: Right. Mridula, I think that's your point, really, isn't it? That it's about these business rules that the DRM software will enable, on a global scale, and down to that granular level.

PALAT: You're right, completely. And I also want to go back to something Michael said.

So, I think one of the key issues is not – really, is DRM necessarily or not, but it's really from the content providers, from the cable companies, from the large licensors that we work with. The key question is, how do you monetize it in such a way that the consumer is driven to actually acquire what's legally available?

And one of the answers is something that Michael came up with, is in using a clever way to monetize things. So it's not just providing you with a download, but what else do you get with that? Do you get a package? Do you get something that a – like someone who is illegally selling that content is not going to be able to put together?

And as a fan – and we're all fans of some band or some show or the other, you will jump that little extra step. You will pay that extra dollar to get that.

And that's really where we're seeing a lot of our focus on the product and our services. We also have, as Kent was saying, a whole way to track back the payables. So we're very interested in seeing how much these bundles of content, bundles of IP – so like a product, a consumer product and a video, together, are earning, because that goes back to the providers.

KENNEALLY: Right. And Kent Sahin, when we were chatting before the panel, you were talking about, as the number of transactions go up, so does the cost of all these transactions. And that's going to be critical moving forward for all of these companies, to be able to see what it is they're spending on all of this.

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SAHIN: Yes. I mean, particularly, another way of thinking about this question is to work backward from some conjectures. And so, one conjecture I have is that with 4G coming on line – this is the superfast mobile devices, which I have read about, and I think are actually what we thought 3G was going to be.

There will be this forced transition from downloadable files related to – whether it be book, former book publishing content, or film, or whatever it is, is going to really move towards streaming, if that's – if you agree with that, then a lot of these technologies become even more efficable (sp?), because they're controlled at the head ends and the cable systems, and at the switches and the telecommunications networks and so on.

The conjecture to work backward from and see, are we all OK with this is, when you upgrade your iPad to the wireless version, and you bring your iPad or whatever device you're using with your favorite show, or song, into a pub in New York, and you start watching it, that's OK – perhaps.

In this future world, where that really constitutes a performance – and some of our customers deal with this in the music space – your iPad or your device goes up into the sky. It gets the business rules from some engine that's probably going to be embedded in the switches or devices that control telecommunications, and that then tells your device, stop playing. Because that's not the product. The product that you purchased, or you're streaming, is a personal use product. It is not a performance product. If it is a performance product, that pub or that bar needs to pay something for it.

M: (inaudible)?

SAHIN: So unless this gets worked out – excuse me?

M: How does it know that you're in a pub or a bar watching this?

SAHIN: Because that's a wireless device, and when you turn your mobile phone on –

KENNEALLY: And it's going to – right.

M: Yeah, within 500 meters, or (overlapping conversations; inaudible) meters.

SAHIN: Oh, no.

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M: Not in this room, but within three meters.

SAHIN: My iPad does.

M: So I can't watch it in this room, but I can go in the closet and I watch it?

SAHIN: If you're in a pub, in this future scenario, you couldn't watch it.

CHRISTIAN: But let me just give a real world scenario, because if you do this today –

KENNEALLY: (overlapping conversations; inaudible)

SAHIN: (overlapping conversations; inaudible)

KENNEALLY: Steve, hang on a second, because we have a wireless mike, and I'm going to go down to the audience at some point to get questions from the audience. But if we can, hold those questions until we've had a chance for the panelists to tell us what they think. So, Steve?

CHRISTIAN: Just very quick. I mean, we do this today. It's actually with satellite distribution, where you buy a subscription, a home subscription for sports packages. The same packages are available in bars and clubs and so on. And I put little logos on it – I usually like a little pint glass, to indicate it's in a pub. And we do fingerprinting, which is a similar thing to watermarking, such that when it's in the pub, we actually have people in certain regions, certainly around Asia and the pubs there, and the bars, where the soccer in particular is very big, and they just look for the information coming up to see if it's a regular subscriber account, or whether it's a bar account, because obviously, they pay a lot more money for the rights, because they charge people to watch this. And then they turn them off instantly – actually, while the game is on the air, and they can do that.

So this is an area where it's a – you're not protecting the content, you're protecting the business rules now, because the amount of money generated from live sports events in large arenas now is getting more and more popular, and so they have to have a way of differentiating between what is a residential account, and what is a public display.

KENNEALLY: Right. Alex Terpstra from Civolution, it seems to me that this technology evolution we're talking about serves up a great opportunity for the kind of watermarking that you're offering.

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TERPSTRA: Absolutely. I think we need to find, kind of the new balance in the industry, if you will. I think on the one hand, the discussion is good, that you need to have enough legitimate alternatives for consumer to find content, to purchase content at a reasonable price, in an easy way, that is easy to go from one device to another or from one place to another, the discussion we just had here.

On the other side, you need to catch the bad guys – the discussion that we had just now with NDS, as an example. There is – the dark side of all of this is not the individual consumer that is doing something that was maybe not initially intended. The dark side of all of this is to our criminal organizations making millions and millions and millions every year, by actually stealing content and redistributing that in an illegal way. I think those are two different sides of the discussion.

Watermarking is a technique that certainly addresses the dark side of this industry. But at the same time, techniques like fingerprinting – and I'm talking about a slightly different version of fingerprinting than NDS in this case, an invisible system – is also addressing a lot of added value to the consumer, to make content even more attractive. Because if we can identify content in an automated way, we can actually make all sorts of associations with content in an automated way.

KENNEALLY: Right, I was going to get to that, actually, but Michael Petricone, you seem to want to contribute here. Lean into the mike, and tell us (inaudible).

PETRICONE: There's a few clarifications. Number one, I'm certainly not saying that all content should be free. I think that's (inaudible). I don't think anybody ever says that.

KENNEALLY: Well, actually, it's funny. Can I do what I always do at these programs? You know, everybody quotes Stewart Brand, right? And he said, information wants to be free, but – quote – continues. It says, information also wants to be expensive.

PETRICONE: Right. And nor am I saying that nobody can make money at it. I think, despite the fact that many of our members are struggling to keep their heads above water, I am pleased that the movie industry had their biggest box office year ever this year. I think that's terrific.

As far as the whole organized crime, Al-Qaeda, (inaudible) piracy, my concern is that that rationale – the other one that's often used is child pornographers – is often used to justify restrictions on individual consumers. If we're going after the Mob, let's go after the Mob, but let's not use that construct as a way to crack down on what consumers are doing.

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I think my big, my uber point is, that – yeah, I mean, DRM may be helpful in versioning and so forth. But for any business model to succeed, we just need to spend a lot more time in today's world figuring out how to seduce consumers, as opposed to restrict them. And I think that the one amazing example – Mridula, one of your clients is Major League Baseball. They have figured it out.

I spend a huge amount of time watching Boston Red Sox games streamed on TV – on the Internet. I could probably find some sketchy website from China that shows them. But instead, there's this marvelous application that I know –

M: (inaudible).

PETRICONE: Yes. And it costs – for the whole season, it costs like \$50 or something, which I believe to be quite fair. And it streams beautifully on my iPad, and it comes up with the statistics and the information, and it's ingenious. And I spend a lot of summer nights sitting out in the backyard watching my Red Sox games.

But it's easy, it's a fair price point, and I'm happy to pay.

And the Red Sox just bought Liverpool (inaudible).

KENNEALLY: (laughter) Yes, indeed.

(overlapping conversations; inaudible)

PALAT: Just a quick –

KENNEALLY: Please.

M: (inaudible) a championship for the next two or three –

KENNEALLY: (laughter) Some people would say, \$50 is too much, or not enough, depending on how big a fan you are. Mridula, what – tell us more about your experience.

PALAT: Just a quick word on that. I think one of the key things that Michael said was, fair price point. Those are economics in here, when it comes to what your fans are willing and able to pay for the ability to access their favorite games. And I think with that app, and with the fee that they charge, they have come to the conclusion that it is a fair price point.

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Now, what we've been able to do is look at their inventory, and look at how much they have as inventory. When you're – another thing that you need to do when you're accessing DRM systems is figure out, how can I make this so attractive that the guys watching it have no incentive to look at some – like some illegal version coming from China? How can I make it so attractive to them that if they were willing to pay \$35, they'll now pay \$40, but I'll give them access to my inventory? And anyway, what was my inventory doing, besides being stuck in the library?

So now, what we're able to do is, look at everything you have in your inventory, figure out ways to monetize it, figure out an effective rate that meets a consumer's sweet spot, and put it out there, so that's an attractive alternative for them.

KENNEALLY: Yes, Kent Sahin, what about that – that DRM is a way to sort of differentiate product?

SAHIN: You know, again, I think this is – DRM – pardon me, because I know this is a term you use. To me, it really is product definition. So this end-all-be app sounds really great – I'm a big Red Sox fan myself. But it's unique and valuable up until the point, per your argument, that it's copyable. And so, when the app – apps which on the iPad really are protective elements of content, when that app is copied, or there's something competitive that has – you know, the sketchy sites you refer to are probably granular and difficult to watch, etc. When there's something that is competitive, then what happens, without these protections?

Without product protection, if anybody could walk into a Target and take goods and there were no video cameras and police, etc., etc., the honest consumer pays, because pricing goes up. Shoplifting is built into the pricing of all products in the retail business, so that will happen, and is happening here.

Theatrical, the reason they had one of the better years is, theatricals – what does that cost for a film now, in Manhattan? It's like \$14, \$15. It's being priced out.

KENNEALLY: I want to fill out a question that kind of takes us beyond some of the usual discussions here at Digital Hollywood. It seems to me that there's been a watershed moment. The *New York Times* announced this week that they're going to begin to include an eBook bestseller list. Right? And every month, or almost every week now, we get a report out of Amazon, we get a report out of Apple, or some publisher, major publisher here in New York, is moving further and further and further into the eBook space.

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And so, digital content now isn't just films and music – it's going to be books. It's the publishing world, it's the entire media industry, the creative industry.

A toss-up question to anybody here. What are some lessons and some pitfalls, if you will, that you would want – if you had a book publishing colony in the room here, that you would tell them about, in your experience?

TRANTER: I'm going to jump in. So, when it comes to content, I think it's very clear, there's a differentiation between the music industry and the film industry, because –

KENNEALLY: Tell us what you mean.

TRANTER: Well, so with films, you watch the content once, and the value of that movie really drops by that 95%. You're not going to want to watch it a second time. So once you've watched it once, that's it, so it's got –

M: You haven't seen *Caddyshack*, have you?

(laughter)

TRANTER: There are a few exceptions, that's OK. Obviously, music has a repeat value. So when you're talking about electronic books, I'd put them somewhere in between, but closer to the movie side. You read a book, you rarely go back and read it. But the differences with books, similar to music, is that they're a bit more viral. You read a good book, you recommend it to your friends. And even better, if you've got it sitting here, you're going to give it to your friends. So there's sort of this viral aspect to books, where you want to distribute it.

Now, here's a great example where DRM isn't going to obstruct that, because we're actually doing this – we're actually going to encourage it. We want you to pass that book to your friends' eBook reader. We want you to pass it on. And the rights for you – because what you're doing is buying the rights –

KENNEALLY: The "we" in this case is – ?

TRANTER: I'm not sure of the name of it, it's an eReader. I know we do it on the iPad as well. But it's not the Nook, and it's not the Kindle.

That's – so anyway, our whole point is that the content of the book stays encrypted, but the rights to that are in the cloud. So when I get it virally from my friend, I can't access it unless I then buy the book. So the distribution chain is now from friend to

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friend, great. And now, I'm going to get the rights, as I would – go to the store or go online to buy it, so that's the whole point. I'm just buying the rights to that book.

And this is the big thing about the consumers (inaudible), is understanding what you have the right for – the right to view, the right to access for a period of time, or the right to own, such as buying a DVD.

KENNEALLY: But a critical distinction for businesses, particularly publishers, to understand, is that you're not buying the book anymore, you're buying the rights to the book. This changes the model entirely.

TRANTER: Exactly.

KENNEALLY: Kent Sahin, when it comes to book publishers, you've got some sort of contradictory notions, I think. On the one hand, they're forward thinking. On the other hand, they're kind of lumbering. Tell us what you mean.

SAHIN: Yes, we deal with quite a few, especially in the educational space. I think it should be noted that book publishers were among the first to operationalize the area of royalties and commerce, if you go back, literally, 900 years. But they – I think the difficult thing, I'd be interested in what you guys are doing for them, is that while music and video content is inherently, I believe, moving toward the streaming world, where things can be protected and there can be such a thing as a cloud, the file transfer mode, which is where book publishing is going with eBooks, is inherently more difficult to control.

There's also, the publishers really are dealing with the emotion around this, because there's a long history that goes back those same 900 years, of people passing books from each other to their friends, and there's no concept of a restriction. So pricing needs to come down, which is going to be very difficult in the value chain, and we're seeing that.

KENNEALLY: Right, and interesting note from history. There's a new book out by a professor from the UK, and he's talking about the first 150 years of book printing. And the fact of the matter is that Gutenberg died broke. He had invented a printing press, but he hadn't invented a publishing industry. And it took 150 years to move from the printing press to a publishing industry. And it strikes me that that's the same place we're at right now. We've invented digital distribution, but we haven't quite worked out all of the kinks in a digital business model.

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Alex Terpstra, you're smiling, because I think you come from a place not too far from Gutenberg. So what do you think of that? Are we getting closer? And how much more time before we're out of the woods?

TERPSTRA: I hope it doesn't take 150 years, because that would be bad for my company. (laughter)

No, I think we're in a different world today. Things are progressing much, much faster than any time in the past, I would think.

If you see the development of these new technologies, if you also see the development of different behavior, also, in the content industry, people are much more open today, investigating and experimenting with new business models, than, I think, a number of years ago, where especially in the movie industry, it was a pretty solid way of distributing content. There was very little variation in that.

I think today, that that's very, very different, and the Internet is certainly challenging that every single day to be creative and to be responsive to what consumers want.

I think what is important in this discussion is that – and I do believe there is a space for DRM, whatever the meaning of DRM is, because for me, it's a much more larger thing. But I think the fundamental thing here is that, as a consumer, you want to be able to access your contents – you know, there we go again – on any device, any place, anywhere. You know, (inaudible) martini (sp?) way of consumer content.

And a good approach to DRM would be an approach where a consumer can take his content and go from one device to another, listen to his music on his iPod, but also in the car, access your movies on your iPad or on your TV, and therefore, you need to have some form of interoperability of those rights you just purchased. And I think there, initiatives like ultraviolet come into play here, where global rights loggers can keep track of your rights that you have purchased once, and every time you access your content, (inaudible) streaming, or on your iPod, on your TV, that right is still up there in the cloud, so you can reconnect to what you already have purchased, and consume it again.

I think that is absolutely key to making this technology a success.

KENNEALLY: Right. Kent Sahin, that takes a combinatorial complexity thing to a whole new level.

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SAHIN: Absolutely. For some of the reasons Mridula mentioned, if you granularize these products, and you go from *Harry Potter* to all of the unthinkable permutations of what that property might mean, you've got – not one product, but hundreds of thousands of products, particularly, and then different exploitation rights for those particular products, whether it be a mug, let's say. There's not just a mug, there is a mug in different regions, there's probably different shapes, different uses of the image.

And now you go from hundreds of thousands of transactions in a typical commercial setting, to hundreds of millions. And so, indeed, the transaction cost of doing business is going up every day. Attorneys and business development people get in rooms and do lots of creative, interesting deals, but don't often contemplate the transaction costs.

Same thing happened in telecommunications, quite a bit. We went from simple phone calls with call detail records that were 50, 60, 70 a month for somebody to – the need to measure on that session, all sorts of complex multiparty calling, voicemail, etc.

KENNEALLY: And all those text message my daughter sends.

SAHIN: All the text messages my daughter sends is right. (laughter)

KENNEALLY: Let me try to get into the audience here. I'm hoping there are questions. If you raise your hand, I'll come to you with the microphone. If you can, tell us who you are, and tell us who the question is for. OK?

F: Hi, my name is Jacqueline Ross (sp?). (Inaudible) industry, mainly content acquisitions. I have a question, but first I would like to tell Mike that yes, you can watch any sports game online for free. And I guess you don't know the site. I was going to ask you – I think it's illegal. You have never heard of Justin TV?

PETRICONE: That's not the point. There are lots of them. And can I tell you – can I just tell you a quick secret? Like within this room?

F: OK.

PETRICONE: So, I was saying that the Major League Baseball app is wonderful, and conveniently priced, and I use it happily, and I pay for it happily, and lots of people do, I guess.

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Major League Baseball, I think, is much more progressive in this than any other sport. And I was at a ski house with a friend of mine over the winter, and this guy is a fanatical Pittsburgh Penguins fan. And there was a – the Penguins were playing a huge game, and he really wanted to see it, but there was no TV in the house. We had Internet. And we looked everywhere – everywhere – for some authorized way to watch this game. This guy would have paid \$500 to see this game, but no way to do it.

And he ended up – like watching it on, you know, BeijingPenguins.com, whatever. (laughter) And it was like a small little square, and the video quality was crap, and he watched it. And he watched the whole thing.

And I was sitting there thinking, what a terrible lost opportunity. There was so much money to be made. And there was an authorized purchase that could have been made. And it's just – it's a shame that they hadn't figured that out.

KENNEALLY: Jacqueline, what's your question?

F: OK, my question. Is there a way to control forwarding e-mails with paid newsletters, for instance? How can you – there's a publisher that was telling me recently that they send their newsletter by e-mail to each subscriber, and of course, they found out that the subscriber is forwarding it to a bunch of people.

KENNEALLY: That's a question for me, which I can take offline with you. Copyright Clearance Center, that's some of the things that we get involved with when we work with text publishers – licensing, all of that. But again, this is the area I think has been covered here. It's a voluntary thing. You have to get – you have to go and get that license.

It's hard to stop people. It's more about enabling responsible businesses to do the responsible thing, keep honest people being honest.

Well, I think the point Michael made is that it's going to – I'm not sure about that, we can talk about it offline. But I think the point that Michael made is that the legitimate and the unauthorized are going to be in competition for some time to come – and I'm seeing everybody nod.

More questions here from the audience? Sure. Hang on one second.

M: I'm interesting in advertainment models and branded content, and things like that. With more of that happening all the time, how do you feel that all these issues come

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into play? Because the advertisers want people to see things, and so pirating is not a problem. People can get rid of the commercials on their PVR if they want, but if it's integrated content – you know, advertising plotlines and things like that – do you have anything to say about that?

TRANTER: I'd say that – I mean, everyone knows why a soap opera is called a soap opera. I mean, the advertising industry has changed – it's gone from a 30 minute program to 30 seconds, and now it's potentially going back again.

So I think with the digital explosion, that entertainment and the idea of programming and move is changing. So it is incorporating sort of branding, indirect advertising, and I think games as well, the actual console games, are going to be more and more involved, where – and I think it's a matter of commentary about are you streaming or are you downloading to own? So even when it comes to things like games and movies, it's going to be – you see more and more episodic things. Keeping – we have – people's attention span is shorter, and they want to keep the brand experience going, the whole experience, whether it be a program again.

So I think just the whole concept of engaging the person more is going to happen, and certainly, it's like watermarking, from a technical point of view. You can't take that out without ruining the experience.

But it's certainly not the be-all and end-all. It's going to be a small percentage of programming. You're still not going to – you're still going to have your *Lost*, and you're still going to have your NFL. I mean, you can't incorporate into everything.

So you've really got a case for everything, the whole spectrum.

KENNEALLY: Right, and I think, Steve, what you're talking to is the point Alex made earlier, which is, right now, we're at a moment when there's almost no bad idea, that really, everything needs to be experimented with, to work out what works, what doesn't work.

TRANTER: I wanted to add one point to Alex's, just to try and clarify the difference between DRM and watermarking from an operator point of view, from a platform operator, because really, it's to add to operations. What DRM is doing is a preventative, stopping people who are unauthorized accessing content, so there's no (inaudible) about it. It should be seamless – you shouldn't even know it's there.

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With watermarking, it's a little bit like the opposite. What you're doing is saying, it's all (inaudible), let's not apply any DRM, but we'll put watermarking on. But if you access this illegally, you know, let's pass this on to somebody else, we're going to know who you are, so there's a threat.

So it's a bit like putting the detectors on a store, so that if you're walking out with goods, it's going to go off and everyone's going to look at you, sort of thing.

It's an operational issue, with watermarking. I believe in both, to be frank. But the issue is, you have to prosecute. You have to go in and make a big scene to show that somebody's illegally accessed this content, we know who they are, we've got a problem. That's what's been happening with all the music industry. All the big cases of the large file sharing, it puts off all the other honest people, knowing they shouldn't be doing it. And it's –

KENNEALLY: And it goes back and forth, and again, it's that tension between security and monetization, and really trying to find the right balance there.

Mridula, you also work with video game –

M: A question (inaudible)?

KENNEALLY: I'm sorry, is there another question? OK, I'm going to ask about video games in just a minute, but we'll turn to you. Tell us your name, and what's your question?

M: Mark Achin (sp?). Well, I find it a bit humorous that we're sitting here. Number one, there's – the term DRM is being massively overused, and in many cases, misused, because there's a distinct difference with doing digital rights management and service production, conditional access, etc. There's a whole chain that's in operation.

In another room here, we've got IVI-TV, who is in the process today of scamming – from the perspective of a local broadcaster, scamming our content and making it available freely, streaming across the Internet.

So my question – clearly, that's a rights violation, contractually and otherwise, and yet, it is still happening.

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So to your point – no, I'm just emphasizing a point you made, which is that we're in this – we're in a period where there is certainty, but there's uncertainty about how those rights are conveyed and passed on the consumer.

So my question to the panel as whole would be, how would you solve that issue today, if there is a solution, of an Internet provider taking local content, which is clearly owned by an entity, and streaming it to the world?

M: And I have a question for you. Do you believe the Slingbox is illegal?

M: Depends whether you own one or not. (laughter)

M: Should the Slingbox be banned? And then my follow-up question is, how is IVI-TV different?

TRANTER: It's different, because a Slingbox is a point to point. You have one person at a time connecting to a Slingbox. So I've got a Slingbox at home, which I can connect – I live in Orange County. So I can connect to it, and no one else can, while I'm connected to it.

But IVI is actually streaming content to hundreds of thousands of people.

M: But you're still watching your local stations when you are physically –

TRANTER: I pay for those channels – I pay for those stations. That's exactly (inaudible) TV everywhere, and that's allowed.

KENNEALLY: But to sharpen the question if I can, and offer it to anybody here, so I think you were asking, how do you catch a thief? So, I mean –

M: We can help you with that. (laughter)

KENNEALLY: I mean, again, this is a case – Alex, (inaudible).

(overlapping conversations; inaudible)

KENNEALLY: Take that point.

TERPSTRA: Yes, if there is legal grounds to actually address the issue, if there is a legal grounds, then we can help you with technology to prove where the source is of that streaming.

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KENNEALLY: The unique source of that content.

TERPSTRA: Yes, yes.

PALAT: And I'd actually be – sorry.

TERPSTRA: (inaudible), go ahead.

PALAT: I'd also be interested in finding out contractually, one of the things that you definitely capture when you acquire rights and you give them out is, what can – what are the possible combinations you've acquired, and what are the possible combinations of technologies now known or will be developed in the next ten years that you can license it out on?

And I can tell you that companies now are getting very, very – they're becoming very particular about what combinations they've given out. Also – this is recent, right? So we're looking also at some times where content was licensed out where they didn't know there were going to be all these new technologies. Who knew about the iPad like seven years ago?

KENNEALLY: Right. A question that comes up at Copyright Clearance Center all the time. It all comes down to the contract, and what you acquired, and what was left of the table.

PETRICONE: Can I –

KENNEALLY: Michael, lean in, please.

PETRICONE: This may come back to the heart of our philosophical differences here.

But these people who want to watch their local markets, their local stations without a market, you call them thieves, and we talk about how to stop them.

I may have a better idea. How about you call them customers, and figure out how to monetize them?

KENNEALLY: All right, and Kent, try and –

SAHIN: This is a free service, right?

PETRICONE: Well, so is (overlapping conversations; inaudible).

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TRANTER: No, exactly, because it's on cable. Cable, you have to pay, as you know – Cablevision or Fox. I mean, it's the whole thing. So everyone was going to IVI, because –

M: But get back to – I mean, we're smart people and bet ads (sp?). Do something.

SAHIN: I think the gentleman over there – OK, the gentleman over there mentioned something about advertising. I think you were asking, do we collectively see a role, or an increase of the role of advertising in all content distribution?

I think the degree to which there will be, will be the referendum on this issue, ultimately, that if consumers – and this is a pious statement, but if consumers' morality, and our responsibility is to educate around this morality – if their morality is such that they feel – and I'll concede that there's never going to be enough controls to truly lock this down. If their morality ends up being to be – you know, sort of a highly consumptive – I'll just spare the judgment, a taking morality, there will be a lot more ads, because the content has to be paid for.

And there – you guys, we will be living in a world of advertising saturated content, whether it be in the content itself, seeing people drink Coca-Cola every five seconds, or whatever it is, or surrounding it. So it's up to us.

KENNEALLY: Did you want to add something?

F: I'm just very vocal, I'm sorry. I don't have a question.

(laughter)

LENNON: Hi. My name is Susan Lennon. I'm with Corbis. And I don't really have a question, I actually have a statement. This week, I was fortunate enough to teach a group of seniors at the School of Visual Arts photography department about copyright. These kids are seniors in college, and had – and they are photographers, and they had no clue about copyright.

I think it's up to all of us sitting in this room to educate people, because they don't know. They have no clue.

F: I agree with education, but I want to say (inaudible). Everyone (overlapping conversations; inaudible) – yes.

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KENNEALLY: Right. I don't want this thing to evolve into a conversation about how much we need to teach people copyright, because we do that at Copyright Clearance Center. (laughter)

F: I think that I'd like to ask a question. How much education do we actually have in the innovation department? Because we're evolving as a human civilization. I mean, to really be able to think outside of the box – how much of that sort of mentality or education is happening?

KENNEALLY: Well, maybe not for this count, but I think what we're seeing is a lot of innovation. I guess that gets back to the point. We have come to this moment that is like the invention of the printing press, where we've invented the means, but we haven't quite figured out the way to put a business model to that.

And I really think that everybody here has contributed some great thoughts on it. I'm going to ask one last question and go down the line, and then we can all talk about this offline.

But – so, to a pointed question, what is DRM good for? Mridula?

PALAT: I think DRM gets bashed about a bit, from a consumer perspective. But really, DRM is very useful these days, because we don't want to go back to the days of the printing press, where we don't know how to monetize, and we don't know the value of our content.

DRM allows you to take very, very good content, allow you to break it up into its infinite combinations, and then somehow, allow users to access that. The key to this is for users to access it seamlessly.

KENNEALLY: Steve Tranter, what's DRM good for?

TRANTER: It's good for making sure the money goes back up the supply chain to the content providers, to keep making good content and keep the industry going.

KENNEALLY: Kent Sahin?

SAHIN: DRM is good for preventing us from devolving into a – sort of a flat fee content world, versus a value based world.

KENNEALLY: Michael Petricone?

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PETRICONE: DRM, like airport security, is good for making us feel like something is being done.

(laughter)

KENNEALLY: We're going to take a vote on who is winning. Alex Terpstra, last but not least. What is DRM good for?

TERPSTRA: Final vote here, yes. DRM is good for deploying the actual business models, but it should not, in any way, limit the consumer of getting access to his content in a way that he wants to access it.

KENNEALLY: All right. Well, I want to thank everybody on the panel for a really candid discussion about a very important issue. I want to thank you in the audience.

My name is Chris Kenneally, again, from Copyright Clearance Center. Thank you all.

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