

Online Video Now

Executive Summary & Key Findings
With Sample Service Profile

Spring 2011



By **Pam Allison**

REPORT SUMMARY

If 2010 seemed like a year of great change in the online video sector, 2011 is shaping up to make it look sleepy. This may be the year where online video achieves critical mass. Online video services that were limited to just one platform a year ago have expanded to encompass computers, game consoles, televisions, Blu-ray players, mobile devices, and tablets. Large aggregators like YouTube, Netflix, and cable and satellite companies with “TV Everywhere” strategies are pushing content distributors tied to one platform out of the game and changing market dynamics. Just as Netflix seems to be emerging as the dominant player, Facebook steps into the game. One thing is clear, consumers expect to be able to access online video services everywhere. Services that are not able to do this will not likely be able to compete in the future.

To help analyze this complex and evolving landscape, Baseline Intelligence, a part of Baseline and the New York Times Company, is proud to announce the 2nd edition of its flagship digital media research report: **Spring 2011 Online Video Now**

This comprehensive online video comparative study analyzes 26 of the most prominent services distributing professionally generated online video content. Available in both bound copies and PDF, the report is organized into four main categories: **Streaming, Video on Demand, Live Streaming, and Video Service Aggregators**. It is designed to offer media, investment, corporate development, and strategic planning professionals a global overview, profile, and analysis of the major contenders vying for the crown in the new home video stakes.

This 142 page report is a key tool for investors and content professionals working to understand both the present state of affairs and future path of online video distribution. Detailed service-by-service breakdowns provide insight into key features, business models, content deals, and analytical outlooks. The report features 26 online video service profiles – each containing service statistics and professional analysis on platform strategy, current activity and long-term growth opportunities.

Author Pam Allison, a digital media strategist, assists companies in assessing the monetization of online content. Pam has occupied key roles at anti-piracy firm DtecNet, DIRECTV, Disney’s New Technology Strategy Group, and Movielink. Her strong acumen in developing business opportunities – especially those that involve disruptive or enabling technologies – has enabled her to help clients develop effective “digital age” strategies for a rapidly changing market ecosystem that fulfill customer needs.

The Spring 2011 Online Video Now Report appeals to a wide array of professionals, including:

- Media Investors
- Corporate Development Departments
- Strategic Planners
- Advertisers
- Hedge Funds
- Venture Capitalists
- Producers
- Studio Execs
- Law Firms
- Academic Institutions

Spring 2011 Online Video Now – A Baseline Intelligence Report

This second edition includes profiles of:

- Amazon
- Apple iTunes Store
- AT&T U-verse Online
- Blockbuster OnDemand
- Boxee
- CinemaNow/Best Buy on Demand
- Crackle.com
- Dish Online
- Epix
- Fancast Xfinity TV
- Google TV
- Hulu
- Justin.tv
- Livestation
- MobiTV
- Netflix
- PlayStation Network
- Stickam
- TiVo
- TV.com
- Ustream
- V CAST
- VUDU
- YouTube
- Zune Marketplace

Key Report Topics:

- High-level Service Description
- Content
- Content Licensors
- Investors/Owners
- Key Features
- Business Model
- Revenues
- Visitors / User Data
- Key Milestones
- Geography
- Type of Player
- Key News
- Analysis

Also included in each report are four video service matrices: charts which compare the video services within each major category against each other in key areas. Each major section of the report features a section introduction explaining the category that the service falls within. An overall introduction begins the report, introducing the analysis. The report concludes with a Services to Watch section examining promising new digital video services on the horizon.

Report Specs:

Single Issue - \$695

Page Count – 142

Video Services Covered – 31

Format – Hardcopy; Perfect Binding, PDF

Delivery – Approx 2-3 days from order

ANALYSIS BITS AND BYTES:

- VUDU** -- VUDU focuses on high quality playout, which is a differentiator. It has made a significant number of deals with HDTV manufacturers to get distribution. VUDU's content library is limited – it needs to expand to continue to be competitive. The service is not well-known, but ownership by Wal-Mart can change that.
- PlayStation Network** -- The PlayStation Network has access to millions of gamers who use the PS3. The Windows app was smart – it extends who can watch PSN content. The Qriocity service, which gets content to TV from a PS3, was also a smart move. They are positioned to have a good VOD business, but may want to extend to devices beyond those made by Sony.
- Zune Marketplace** -- The Zune Marketplace focuses on the Xbox 360 console, which gets content directly to the TV, which people want. Microsoft should look into over-the-top deals for distribution. Zune Marketplace is a strong presence in the VOD space and will continue to be. This service has opportunity to grow as it continues to expand to multiple platforms.
- Ustream** -- Ustream is the leader in online streaming. They have very low streaming costs, which is partly the key to their success. Ustream has made key partnerships with entities like CNN and MTV and their white label product is a valuable asset. One threat is Facebook and its live streaming partners since Facebook has a huge following.
- Fancast XFINITY TV** -- Fancast Xfinity TV's biggest strength is that it is part of Comcast's "TV Everywhere" strategy. Comcast owns broadband pipes to many customers, so it can bundle services. One weakness is Fancast isn't well-known. It offers streaming and VOD, so it can go after more than one type of customer. Fancast's main opportunity to grow is with existing Comcast customers who want content wherever they are.
- YouTube** -- YouTube's VOD feature is great but is not well promoted. This service, if marketed, could bring in significant revenue. Live streaming is also a big area of opportunity as Google and YouTube have the technological resources to provide low-cost solutions. YouTube has changed mobile video and will continue to do so. They are likely to become a larger destination for studio produced content as they make more deals and promote them.

Purchase the Report For Much More Analysis
www.baselineintel.com



Zune Marketplace

Zune video is Microsoft's media marketplace. The marketplace offers movies, television, and music for the Xbox 360, Windows XP (or later) PCs, and the Windows Phone 7. Content can be streamed or downloaded to these platforms.

Content

- Thousands of movies and TV shows can be downloaded.
- Large library of music and music videos (in HD) available for streaming.

Content Licensors

- Movie partners include 20th Century Fox, Comedy Central, Focus Features, Image Entertainment, Lionsgate, Magnolia Pictures, Marvel Studios, MGM, MTV, National Geographic, New Line Cinema, Paramount, Rogue Pictures, Sony Pictures, Starz Media, Summit Entertainment, The Weinstein Company, Universal, VH1, and Warner Bros.
- Television partners include A&E, ABC, AMC, BET, Bravo, Cartoon Network, CBS, Comedy Central, Discovery Channel, Fox, FX, IFC, Lifetime, MTV, NBC, Nickelodeon, Oxygen, Spike, Syfy, TBS, TLC, TNT, USA Network, and VH1.
- Regional agreements with broadcasters, including BSkyB in the UK and Canal+ in France, enable users in specified territories to stream content to the TV set via Xbox 360.

Key Features

- Movies can be rented for 14 days, but once the user hits play, she has 24 hours to watch the content. Content can be either downloaded or streamed. Television content can be purchased and downloaded. Downloadable content is available in both standard definition and high definition and can be downloaded to multiple devices. The HD content is 1080p with 5.1 Dolby surround sound.
- Users who pay for Xbox Gold and have a Netflix subscription can stream Netflix movies to the Xbox 360 console.
- Movie parties on Xbox 360 allow friends to sit in a virtual theater and watch the same video together, whether the content had been downloaded and played or is streamed on Netflix.
- Music can be streamed via Last.fm on the Xbox 360.

Geography

- The service is available to users in the United States, Canada, U.K., Ireland, France and Germany.
- In November 2009, Zune Video went international via Xbox LIVE in 18 countries. The Zune HD, Zune Pass and the Zune service remain only in the United States. The 18 countries include the U.S., Canada, most of Europe, Australia, and New Zealand. (Note: content and partners vary by region).

Investors/Owners

Microsoft (NASDAQ: MSFT)

Type of Player

The Xbox 360 supports a variety of video types including AVI, H.264, MPEG-4, and WMV.

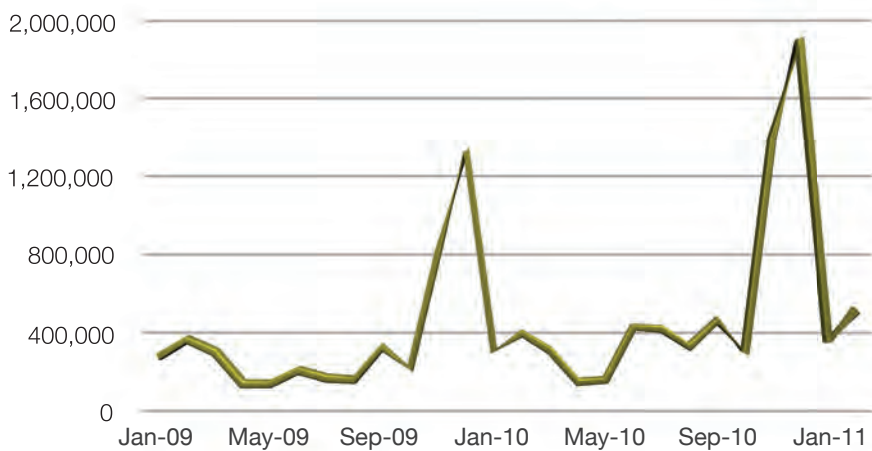
Revenues

- Revenue for Zune Marketplace content is not broken out by Microsoft. Microsoft's Entertainment and Devices division earned \$8.1 billion in 2010.
- Zune Marketplace had 17.9% of the download video marketplace in 2010, up from 11.6% in 2009, according to IHS Screen Digest.

Business Model

- Zune content is purchased through the use of Microsoft points. These points may be purchased through the Zune Marketplace, or redeemed from gift cards purchased at retailers. Microsoft Points are sold in each country in the local currency. Points allow users under the age of 18 to make purchases on the console without needing a credit card (or a parent’s credit card). This enables more users to purchase videos, music, and other content.
- Movies can be either purchased or rented. The purchase price for a movie is usually about 800-1200 points. This equates to \$10 - \$14.99. Movie rentals are typically \$4 for the standard definition version and \$6 for the HD version.
- Zune points must be purchased in increments of 400, 1200, 2000, 4000, or 6000, which increases the likelihood a consumer may have “leftover” points.
- Zune Pass gives unlimited access to the music in the Zune marketplace. Cost is \$14.99 per month, \$44.97 for 3 months, or \$149.90 for one year.

Xbox Unit Sales



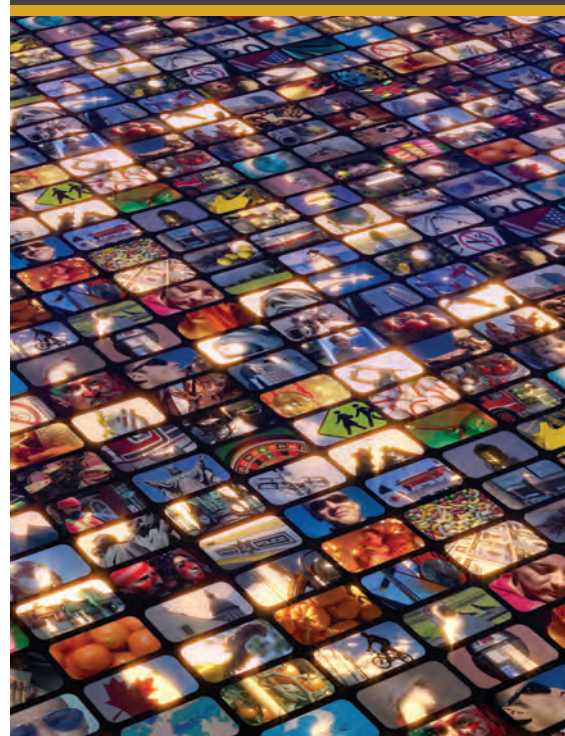
Source: NPD Group

Site Visitors

- As of September 2009, there had been more than 42 million downloads of entertainment content which includes nearly 12.3 million hours of video content from the Zune Video Store.
- As of February 2011, 51.9 million Xbox 360 units had been sold worldwide with 30.5 million being sold in the United States, according to VGChartz.com.

Key News

- **March 2011**
Announced that Microsoft will no longer sell Zune players.
- **October 2010**
AT&T’s IPTV service U-verse now integrated into Xbox 360.
- **August 2010**
Announced that the cost of the Xbox LIVE subscription price will increase by \$10 a year on November 1, 2010. The monthly Xbox LIVE Gold service will now cost \$9.99 while a three-month service will cost \$24.99 and the annual price will be \$59.99 a year.
- **November 2009**
Microsoft booted as many as 1 million players from its Xbox LIVE gaming service due to the company’s belief that they modified their consoles to play games illegally downloaded from file sharing sites.
- **February 2009**
Announced that 1 million Xbox LIVE Gold members had activated the Netflix application launched in November 2008 to watch movies and TV shows through the online rental service.





Zune Marketplace

Key Milestones

• November 2009

Zune streaming service launched on Xbox 360 extending its content offerings. Zune Marketplace enables users to purchase movies as well as rent them.

May 2009

British broadcaster Sky struck a deal with Microsoft to put live football, TV and film content on the Xbox 360 for users in the U.K. The deal marks the Xbox's first move into live, linear broadcast TV.

November 2006

The Video Store service was launched in USA via Xbox LIVE.

July 2004

Xbox LIVE reached 1 million subscribers.

November 2002

- Xbox LIVE service debuts.

Analysis

Microsoft's strategy around the Zune Marketplace is very smart. The focus is the Xbox 360 console, which is used by over 30 million consumers in the United States alone. The console gets content directly to the television – where consumers want it – on a device that is already connected to their televisions and that is an integral part of the consumers' entertainment experience. The Zune Marketplace on the Xbox 360 enables quick and easy access to VOD content.

Microsoft has the infrastructure, relationships, and brand to get video to consumers both efficiently and effectively. In fact, they are already offering what people want and they are providing the content and service not only to the game console (and therefore to the television), but also to the PC, the Windows Phone 7, and Zune media players (though admittedly the Zune player is not that popular).

If Microsoft wants to continue to expand the Zune Marketplace, one good opportunity is to do over-the-top deals like Netflix, VUDU, and others have done so that people would not need a special device like the Xbox 360 to watch Zune content on the television. Microsoft is obviously a well-known brand and has significant relationships with hardware manufacturers, so expanding into an over-the-top platform for televisions or for other devices connected to the television is very natural – especially given Microsoft's desire to expand their presence both in the digital home and the digital living room.

Microsoft has very strong relationships with content owners and has made a significant number of licensing deals. This will continue to make Zune Marketplace a strong presence in the VOD space. One opportunity is to expand into streaming, as Amazon has done. Microsoft has the technical infrastructure and strong relationships with content owners, so this would be an easy next step.

There have been rumors as recently as February 2011 that the Zune name brand will be discontinued. Even if that does happen, Microsoft will continue to have a strong service. The reality is that many consumers do not know Zune – but they do know Microsoft. Branding the service as Microsoft may in fact help as that is a name that people know – and people gravitate to brands they already know.

The Zune Marketplace is a key player in the online video market. While it does not have a large presence today, it has the opportunity to be a game changer by offering content on multiple platforms. Expanding into a subscription service could enable Microsoft to become a key aggregator and destination for content. This service is one to watch closely as it expands its reach.