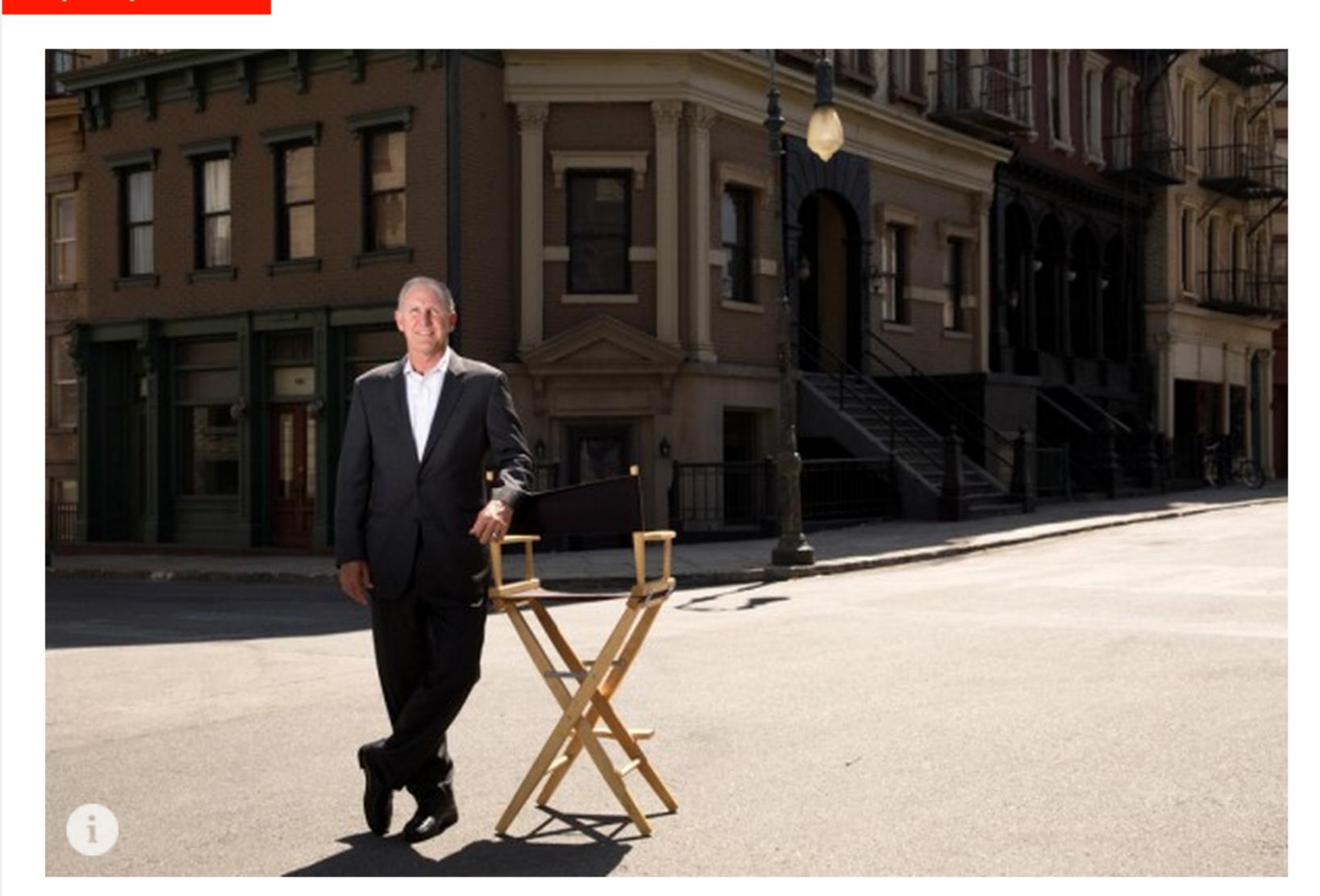


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Films Without Film

Twentieth Century Fox is replacing its physical media with digital assets. CFO Dean Hallett shares a director's cut of the transition

By Matt Alderton

Coups are as common as cosmetic surgery in Hollywood, which is to say, they happen every day. One studio executive unseats another. A young celebrity outshines an old one. One movie swims at the box office; another one sinks. When DVD replaced VHS as the king of home entertainment in 1997, it wasn't a question of if it would lose its throne; it was a question of when and to what.

Dean Hallett saw it coming. A former executive at The Walt Disney Studios, he joined Twentieth Century Fox in 2001 as executive vice president and CFO. When he was promoted to executive vice president of operations and strategy and CFO in 2005—the same year YouTube was launched, and a full five years before Apple introduced the iPad—he approached chairman and CEO **Jim Gianopulos** with his vision. "I saw the business starting to evolve," says Hallett, who began his career in 1980 as a public accountant atErnst & Whinney. "Our business units were focused on developing a new digital marketplace, but there was little focus on the structural changes needed to support the new business models. I knew we were going to have to modify our entire infrastructure to support these changes. So, I went to dinner with Jim one night and said, 'I think we need a digital-media management strategy."

Twentieth Century Fox's

Path to Digital

2005

Twentieth Century Fox commences

its transition from analog to digital

distribution.

2005

The creation of a digital-asset

management system allows files to

be catalogued next to marketing

materials, giving each business

unit access to relevant information.

2010

A cloud-enabled media framework

allows digital assets to transfer

directly to the customer while

maintaining metadata, usage

rights, and other relevant

components.

2010

An enterprise operations group is

formed to manage the changing

digital workflow.

2012

Twentieth Century Fox's digital HD,

or DHD, initiative allows customers

to buy the digital version of new

releases 2-3 weeks prior to their

rental release.

2014

Twentieth Century Fox completes

the conversion to a digital-cinema

distribution model.

Despite the advent of new technologies like DVD and Bluray, movie studios were producing and distributing their products in virtually the same way in 2005 as they had in 1985, when Blockbuster Video opened its first video rental store in Dallas: Film crews captured movies in analog format on 35-millimeter film. When the films were ready for release, studios made physical prints that were distributed to movie theaters. After a theatrical window of approximately 16.5 weeks, movies were released to the home-entertainment market for purchase or rental. Several months later, movies were licensed to subscription television services like HBO, ultimately ending up on broadcast television some two years after their theatrical release.

"Things used to be done piecemeal," says Hallett, who calls himself an operational CFO. "Theatrical focused on their markets and associated product formats, then home entertainment on theirs, and finally television distribution on theirs."

At each stage of the distribution life cycle, teams would duplicate effort, creating not only their own version of the product, but also their own marketing and distribution plans to support it. For Twentieth Century Fox—which runs a lean operation—this created a tremendous amount of inefficiency across the organization, according to Hallett.

"There was a lot of re-creation of product," continues Hallett, who recognized redundancies and saw in digital entertainment an opportunity to eliminate them. "We saw an opportunity to realize real efficiencies in our infrastructure by adopting an enterprise-level focus instead of the individual business-unit focus we'd had in the past."

Efficiency was one driver of digital strategy; survival was another. Hallett, along with the Twentieth Century Fox management team, predicted that digital entertainment

would render certain aspects of existing distribution models moot. In order to grow its audience—and, therefore, its revenues—Twentieth Century Fox would need to replace piecemeal distribution with a holistic approach that maximized not only efficiency, but also agility. "For years now we've heard that consumers want it 'how they want it, when they want it, where they want it," Hallett says. "We could feel that coming, and we knew that the only way to achieve it was to have things in a digital format."

Thus began a digital transformation that has been underway for the past nine years. Step one involved creating and executing a digital cinema strategy to replace film stock in theaters. "It took us a long time to get here, but we're at the point right now where we're going to stop distributing movies on 35millimeter [film] completely," Hallett says.

Step two was building new infrastructure. In an analog world, different distribution channels lent themselves to discrete products. In a digital world, however, integration and coordination are key principles, as studios can essentially use a single digital master to generate digital files to screen movies in theaters, stream them on demand, or broadcast them on television. To that end, Hallett consolidated relevant personnel from individual business units within a new "Enterprise Operations" group that manages digital distribution from soup to nuts, utilizing a digital vault that provides centralized storage of digital content for use by various divisions.

"Our entire workflow changed," Hallett says. "We created a digital-media management system where we store all our files—not just finished product, but marketing product as well—and started manufacturing them in such way that they're now available to each of our business units when they need them."

Twentieth Century Fox likewise changed its delivery mechanism. "We've created what's called the enterprise media framework," Hallett continues. "It's a cloud-enabled smart pipe. If we need a piece of product delivered to a customer, it passes through this pipe, where we attach metadata, usage rights, and other relevant information, delivering all the components in one package to the customer."

With the right people, processes, and technology in place, the final piece of the puzzle was strategy: digital entertainment catalyzed not only new distribution channels, but also new consumption habits that demanded fresh thinking around customer acquisition and revenue growth.

Under the old distribution model, customers could rent movies but had to go to the video store to do so; the inconvenience factor, among other things, incentivized them to buy movies and build personal collections. The rise of video on demand (VOD)—through satellite and cable TV providers, as well as companies like Apple, Amazon, and Netflix—means customers no longer find renting to be inconvenient. For movie studios, that factor alone could result in lost revenue.

Twentieth Century Fox's solution is called digital HD or DHD: Beginning in 2012, the studio began offering high-definition digital releases to the home-entertainment market—through Amazon, CinemaNow, iTunes, PlayStation, VUDU, and Xbox—two to three weeks prior to their release on DVD, Blu-ray, and VOD. The only catch is that customers can't rent the titles during that early window; they have to buy them. "There are lots of people who will rent a movie if it's available to rent," Hallett explains. "But if they really want to see a movie, and the only way to get it is to buy it, we're betting that they're going to buy it."

In the near future, Twentieth Century Fox believes new technologies will allow consumers to easily buy, store, and move films within and outside their homes, and play them back any time in multiple formats on multiple devices—which will persuade customers to start building collections again. "I'm not kidding myself thinking people are going to buy the number of titles they bought on DVD, but I do believe there are people out there who would love to build digital collections," Hallett says. "I think that's going to be a significant growth area for us over the next several years."

Twentieth Century Fox isn't clinging to the past. It is, however, respecting it. "We cannot protect our old revenue stream and miss the chance to develop a new revenue opportunity going forward," Hallett says. "At the same time, we can't give up on our old revenue stream and throw everything into the new one, because the old one is still a major profit center. We have to invest in both." It's a lesson in adaptation not only for movie studios but for all businesses: prepare for tomorrow, but stay grounded in today.

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