Behind the Hollywood Strike Talks

It's all about business models. The Internet and digital media are changing the landscape of the movie biz and both sides should seize the opportunities

by Henry Chesbrough

On a recent talk show, well-known film producer and former Sony Pictures Entertainment Chairman Peter Guber described the Hollywood screenwriters' dispute with the movie studios, which could lead to a strike at any moment, as a "jihad" over the distribution of future revenues from digital media. Certainly, a strike has the potential to affect thousands of people and cost the industry millions of dollars. The last such strike, in 1988, resulted in losses of $500 million, according to some sources.

What makes the often fractious negotiations particularly interesting this time are the underlying business-model challenges confronting both sides. Business models enable companies (and organizations such as the 12,000-member Writers Guild of America or the Alliance of Motion Picture & Television Producers) to create and capture value. Once established, successful models often take on a life of their own. This can lead to inertia, and a prevailing model can drift out of alignment with the future needs of an industry.

That's what has happened here. The traditional business models of both sides worked well when there were a handful of movie studios and three major TV networks. But now everyone can be a writer or a producer, and every computer is potentially a studio, able to create and publish content. More than 1 billion people on the planet are connected to the Internet, a healthy portion of them via high-speed broadband.

WHO BENEFITS FROM ONLINE EXPOSURE?

Much of the conflict in Hollywood today comes from the emergence of online distribution of entertainment content by studios to viewers over a wide range of Internet-enabled devices such as mobile phones and computers. These innovative media lie outside the domain of the screenwriters' previous contract with the AMPTP (which was pretty much restricted to TV and theaters), so they feel that they are not earning as much as they should from the new value streams.

For their part, producers argue that there's no money in supplying either promotional materials (movie trailers or segments from TV shows and movies) to online media. And while big media companies seem keen to protect their copyrights on the one hand—see the ongoing discussions with YouTube (GOOG)—they are also quick to point out that they often don't receive acknowledgment, and certainly don't get payment for intellectual-property rights from sites such as YouTube, MySpace (NWS), or Facebook. If no one makes any money, what's to share?

Each side has a point. The studios are not (yet) receiving any significant new revenues from these online forms of distribution. They want greater insight into what kinds of revenues might be forthcoming before they commit to giving away a healthy portion of them to the screenwriters. But the screenwriters are right in that new value streams are being created, and they ought to be able to participate in them. Given the decades-long life of these contracts, the screenwriters know that waiting for another round of negotiation would be waiting far too long. Reinvention of business models—on both sides—is crucial.

A COMMUNITY OF IDEAS

As it happens, consensus between the studios and the writers is not even necessarily the biggest challenge each faces. Much of the new online entertainment content is not coming from professional writers or producers at all. Rather, as others have noted, it is coming from users and user communities that stimulate one another to create content. Doubtless, many are not paid-up members of the Writers Guild or the AMPTP.

And, as Eric von Hippel of Massachusetts Institute of Technology writes in his recent book, Democratizing Innovation, users often do not share their ideas in exchange for compensation, at least not directly. Rather, they want to proclaim their skills, to see what others might do with their idea, and to look at what further ideas might be shared in return. Contracts are not involved.

If I were advising the screenwriters, I'd be thinking hard about this trend. It cannot be stopped, certainly not by a new contract. Instead, the screenwriters could insist on full attribution and recognition for the work they do, since that work is likely to be reused and recomposed in other ways later on. This is quite in keeping with the ethos of online communities.

INCREASED ImitATION AND PARODY

But they should be careful not to make the royalty per "play" too high. That would simply inhibit the broad distribution of work at a time when broad distribution is available like never before. And they should keep the compensation formula simple: Anything complex would stifle the creation of business
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models that earn a return, and would anyway be defeated by the accounting "innovations" of some studios that will attempt to avoid the letter of a contract.

For the studios, there is also good and bad news. The bad news is that the clutter that goes along with the marketing of new entertainment will only increase. Costs of building compelling stories through traditional approaches (such as a TV script brought to full studio production) are also rising. And anything that is successful is likely to be quickly imitated—or parodied—and posted online, making it challenging to make a decent profit off the original.

The good news for the consumer is the proliferation of channels. And now there are tools and technologies that help consumers easily and publicly express what content they find most valuable, tools such as Digg.com. Monitoring the research, rather than fighting it, could help reduce guesswork for both screenwriter and studio, and increase the commercial success rates of both.

ONLINE ON THE SIDELINES

As Walt Disney Co. (DIS) has demonstrated so vividly, the most successful entertainment properties have a very long tail, to use Wired Editor Chris Anderson’s term. Content can be repackaged and sold for decades. Disney has even created value streams by producing brand-new content based on old movies, such as Cinderella III: A Twist in Time. And other studios’ movie franchises have provided opportunities for fresh profits, such as the recently launched online game based on The Lord of the Rings. Content can be a gift that keeps on giving.

How this will shake out in the negotiations between the screenwriters and the AMPTP is hard to say. Both sides need to change some strongly held business models to seize new opportunities—a process that has many risks, but potentially lucrative rewards. However, if Hollywood cannot rise to the challenge, the independent, online creative communities stand ready to pounce. The one thing that seems sure is that neither side has a choice.

Henry Chesbrough is Executive Director of the Center for Open Innovation at the Haas School of Business at UC Berkeley. He is the author of Open Business Models: How to Thrive in the New Innovation Landscape (Harvard Business School Press, 2006). He is an authority on open innovation, open business models, and more open approaches to intellectual property management.