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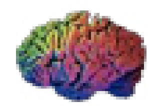
STANDARDS BLOG:

Here We Go Again: Video Standards War 2010

Think of the words "standards war," and unless you're a standards wonk like m...oh, never mind...you're likely to think of the battle between the Betamax and



VHS video tape formats. That's because videos are consumer products that just about everyone uses, and therefore the bloodshed in that standards war was not only shed in public view, but the some of the blood that was shed was shed by the public (i.e., those that bought video players supporting Betamax, the losing, but arguably superior, format). Fast forward (pun intended) to the present, and the trademarks "HD DVD and "Blu-ray" may ring a bell - and that's no coincidence.

Why? Because different industries have different business models and strategies that involve standards, and these often perpetuate over time - decades, in this case. In the case of the consumer electronics sector, that culture has too often been one of a patent-based, winner take all effort to cash in big time while your competitors take it on the chin. And it's not just media formats, either. As I noted in a blog entry a few weeks ago, we're seeing the same type of behavior in eBook readers. Since there's only one market, and the market demands one format to win in the end, that means that the camp that owns the bundle of patents underlying the winning format standard wins a bonanza.

Why? because the losers must pay through the nose for the license rights to build the players that implement the format standard that wins. The winners, on the other time win twice: once, by receiving the royalties, and again, because their own

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players have a lower cost to produce, because they don't have to pay royalties to themselves.

So guess what? Here we go again, but with a bit of a twist this time.

One thing that is different this time around is that it's the content owners, and not the consumer electronics firms that are pushing hard for a solution, so it's not patent royalties and the ability to sell a new generation of electronic devices that is driving the action.

Instead, what's involved are two different approaches intended to help content vendors somehow survive in the face of plummeting revenues and a continuing plague of piracy while allowing legal content owners to watch videos on whatever device they want, wherever and whenever they want, without having to carry around the original media on which they purchased, for example, a movie.

That's a hard problem to solve. If the content vendor wants to protect itself by using "Digital Rights Management" (DRM) technology to prevent you from sharing a single purchase with your 1,000 closest friends, it may also add a feature that may prevent you from transferring the same movie to your laptop as well, and especially if you download the video, rather than buying it on fixed media. Yes, the technology is getting more sophisticated, allowing you to perhaps copy a video or music download (or a copy of Word or an eBook, for that matter) to an approved number of devices, or share it with a certain number of friends, but that still isn't the same as being able to use your purchase as you wish without thinking about it.

> *Why have two different approaches at all?*

That's becoming more of an issue, because as consumers get more and more used to listening and watching content on more types of devices, they become more and more unhappy about having their freedom to make use of their purchase as they wish restricted. As a result, they may be more likely to opt for an illegal copy than a legal one. Meanwhile, broadband Internet services have now become widespread enough that streaming media has become widely feasible, so "cloud" hosting of your purchases has become practical as well, so there are even more reasons why you'd like to be able to watch that video on every device with a screen you own. Finally, with the advent of MP3 downloads, a whole generation of consumers is quite comfortable with never purchasing music or videos on fixed media at all.

In the face of this reality, the industry has come up with a pretty practical solution: pay once for a video, and the seller will track your ownership for you, and make that information available to anyone who hosts the same content anywhere. If you're in a hotel, say, and want to watch a video you've already purchased, the video service provider for that hotel can just check your record to see if you've already purchased it, instantaneously and invisibly. If you have, then you're good to go. Or, if you're sitting in an airport, just log on to the Internet and watch it on line.

Pretty neat solution, if you think about it. But how to make it happen?

That's where the standards war, or in this case, a variation on the theme comes up. In one camp, we see a several years old alliance called the Digital Entertainment Content Ecosystem, or DECE, which includes five out of six of the major movie studies (Warner Brothers, Paramount, NBC Universal, Sony and Fox), together with an impressive array of players in almost all of the affected sectors: software and hardware companies (e.g., Microsoft, Intel and Cisco), consumer electronics vendors (Sony, also a content owner), mobile device vendors (like Motorola and Apple, cable companies (including Comcast, Cox Communications and Liberty Global) and video and player distributors (e.g., Netflix, and Best Buy).

That's a pretty imposing lineup, by any measure, and I can vouch from personal experience that this represents quite an accomplishment. Why? Because each of these companies had to be convinced by the founders that DECE would make money for them, that the project was viable, and that they should support this approach rather than another, or be content to just sit on the sidelines and watch what happened before making a commitment.

This week at the mammoth Consumer Electronics Show in Las Vegas, DECE announced 21 new members, as well as the fact that its members have agreed on the format specification they will use to enable the program (so far, it will support Adobe's Flash Access, CMLA-OMA, Marlin, Microsoft's PlayReady and Widevine). The "digital rights locker" that will hold purchaser data will be hosted by a company called Neustar, which is developing the backend software now.

And in the other camp? Well, to start with, there is the remaining major studio: Disney. And then there's, well, maybe nobody. But everyone's expectation is that Disney's partner in combat is Apple, which has not joined the other group. Apple CEO Steve Jobs, incidentally, remains Disney's largest single shareholder, as a result of the sale of Pixar to Disney (Amazon is also notable by its absence from the DECE member roster). According to one report, the Disney plan may rely on an Apple approach called MobileMe. Disney also made an announcement last week at CES, saying that it would take KeyChest live before the end of the year, and would announce other participating companies shortly.

In principle, the approaches are somewhat similar, but technically each takes a different in approach. The similarity is that each is based upon a "digital rights locker," or central repository of purchaser data. In the case of Disney, that repository is called the "KeyChest."

After that point, however, the two approaches diverge. In the case of the Disney approach, existing standards will be used to make the system work. But in the case of DECE, both content and devices will need to implement a new format standard created by DECE. And while the DECE format will rely on DRM, the KeyChest system will not - or not necessarily, anyway. But it isn't incompatible with DRM, either, so a content vendor can still add DRM features to the content that it sells. And, of course, just like DECE, the Disney approach will only work with download services that decide to participate in the KeyChest program.

Why have two different approaches at all? I expect that there are multiple reasons, but from what I've read, one is that the DECE approach is intended to make it more likely that consumers will want to buy, rather than merely rent, new videos, while the Disney approach will work well with rentals, which some think will be the wave of the future.

The fact that Disney is pushing a different technology doesn't make this a standards war from a purely technical sense, because Disney stresses that its approach would be compatible with DECE. Unfortunately, it comes out the same way, because for a new standard like DECE to succeed, it almost has to become universally adopted. The fact that Apple, which has soundly thumped the content owners with its iTunes store, isn't in the DECE camp has that group concerned, because if Disney and Apple don't actively implement DECE, then content purchasers may never get on board the DECE bus. After all, if Apple and Disney don't implement DECE, then someone buying DECE compliant content won't be able to fully take advantage of DECE's portability on. And if consumers don't demand DECE, then why bother to implement it at all?

So there we are. With the multiyear HD DVD Blu-ray battle still a recent memory, we have a new standards face off in video, just as we do in eBooks, and just as it looks like we may in on-line print, where a new consortium led by the News Corporation and others is launching a standards-based "digital newsstand." All of these devices, of course, are targeted at you and I, and each has the potential to not only extend the woes of the music/video/print vendors behind these standards battles, but to waste your money and mine as well.

Does that strike you as a shame? Me to.

So if you've still got a Betamax in the back of your closet, you might want to finally throw it out. After all, you may need the storage space soon for yet another wave of consumer electronic equipment that has been rendered obsolete by a needless standards war.