

**If "Information Wants to be Free," How Are We Supposed to Make Money?**

by Zachary James Brown and Bernadine Tsung

Innovations in the technology of entertainment content distribution are likely to transform the entertainment industry radically. At a recent Beverly Hills Bar Association luncheon, two speakers outlined their visions of the future of entertainment.

Peter Dekom, a management consultant with a background in entertainment law, argued that producing content will become increasingly less profitable. Consumer access to broadband Internet connectivity already facilitates the transfer of content, most notably music files in MP3 format. Faster connections and improved compression schemes will soon allow end users to share video files as easily as they share audio files today. Encryption cannot be relied upon to protect content copyrights. He noted that, on the very morning of his lecture, several "unbreakable" encryption algorithms devised by the Secure Digital Music Initiative, an entertainment industry consortium, had been defeated. Given the new technology, content producers will be unable to control the dissemination of their intellectual property. The title of Dekom's upcoming book, "Content is Garbage," reflects his opinion that content is not as valuable as it used to be.

In Dekom's opinion, the new technology will make traditional content distribution business models obsolete. He described how the Asian film industry was decimated by the introduction of a new digital video format in the 1980s. Twenty years ago, more than 300 big budget feature films per year were produced in Hong Kong; last year, fewer

than 20 were produced. He attributes the decline to widespread piracy made possible by the new format, and he predicts a similar outcome for the United States market.

Dekom suggested content aggregation as an alternative business model. Aggregators could add value to content by organizing it to meet the needs of end users and making it ubiquitous via the Internet. Consumers would pay for the convenience of having access to Internet-based personal content libraries.

Matti Leshem is experimenting with a different kind of business model. His company, Anteye.com, solicits short films from the public and posts them on the Anteye website. He attempts to sell the films that are most popular with the Anteye audience to film, television and Internet distributors, and he splits the profits with content producers. Leshem's firm is not turning a profit yet.

Dekom pointed out that Leshem's plan relies ultimately on a traditional content distribution paradigm. Dekom believes the paradigm has been undermined by new capacity for file sharing among end users, and, consequently, Leshem's opportunity for success is limited.

Leshem's production company collects short films by sending out "mobile, digital production studios" to cities around the country and soliciting work from less traditional markets. Anteye.com believes that a traditional format of film production can be successful, but the entertainment industry needs to be more innovative in the content it develops. Leshem believes that content is still valuable, because the public is eager to watch the films he has put out. His website gets thousands of hits a day. However, his audience has been unwilling to pay. The technology that makes the digital

entertainment frontier possible is the same technology that makes it unprofitable using traditional marketing formats.

Some people believe the public has grown too accustomed to gratuitous entertainment on the internet. Venture capitalists, who were eager to jump on the internet entertainment bandwagon in the 1990s, are beginning to realize that Hollywood and the internet are not of the same generation, and a swift, seamless meld is unlikely, if not impossible. Most venture capitalists have been too short sighted, relying on the "irrational exuberance" of the market to make their schemes profitable. Now many entertainment entrepreneurs are finding that less financing is available. Leshem described internet entertainment venture capitalists as "institutional manic depressives."

Leshem said that despite the growing cynicism in Hollywood, some companies, typically firms that are more youth-focused, are forward-thinking enough to continue endeavoring to develop content for the internet. The cable television network HBO, producer David O'Russell (*Three Kings*) and comedian D.L. Hughley are all notable for their work developing such content. Leshem believes that he is at the forefront of developing a new industry. Like any industry in its nascent years, the audience is still relatively small. However, the audience is quickly growing, and while it is currently an audience of freeloaders, it is a vast audience of freeloaders. Unlike Dekom, Leshem is not ready to abandon the idea of marketable content. The audience is out there, and whoever finds a way to open the door to profit-taking will hold the keys to the largest market the world has yet to know.

While Dekom and Leshem disagree about the value of traditional content in tomorrow's Hollywood, they agree that both human behavior and the current laws

governing entertainment and technology must be reformed before entertainment can exist as a full-fledged industry in the internet realm. The world is awash with copyright violators whom the law is ill-equipped to punish. Dekom believes that content is garbage because it will never again be profitable since it cannot be protected and marketed. Leshem has a more optimistic view. He believes that content is not garbage; it just needs to be re-packaged. The industry has to experiment with making that package profitable.