

The digital delivery of home entertainment is inevitable, says Bill James, and the battle is on to control the customer interface

Digital media - capturing the value

We are way past the point where broadband access in the UK was enjoyed only by the few and as always when we cross the chasm from early adopters to the majority we experience a shift in consumer expectations. Let's call it the shift from utility to entertainment - today speed is no longer a hinderance, tomorrow content and services (digital media services) will be the differentiators.

The broadband internet has created tremendous opportunities for new digital media services to develop in music, video, photo, games and gambling. At the same time pirated distribution and downloading has taken the early advantage and many new brands have appeared, often with disruptive business models. Some of these models worked, some didn't, some are purely disruptive rather than commercial, many achieve high usage volumes with little marketing commitment. We all can and should learn from these new applications and services where they highlight and open up clear customer demand. Indeed, as more consumers

look for interesting and exciting digital downloads so the popular consumer brands will take their place and supplement the 'cool' service with the 'trust' factor- Shelley Taylor calls it "converting pirates to pilots".

PRESSURE TO MOVE INTO CONTENT

The impact of these early entrants is important and there is a real increase in consumer awareness and a growing demand. Research from Strategy Analytics shows high levels of interest among consumers for legal and convenient subscriptions services for music, video and networked games. Ovum research demonstrates a willingness to pay for such services, with video on demand, games and adult entertainment attracting the highest potential subscription values.

As broadband adoption increases, price competition is rising and average revenue per user (ARPU) will decrease, so what will operators do to counter that problem? Three approaches seem inevitable - more bandwidth with new pricing models such as 'pay per megabit', premier band-

width services with reduced contention and improved quality of service protection and premium content and applications.

FIRST, THE MUSIC...

So premium content will be important to the operators business model and consumers are showing an interest, where does the momentum start? Let's look at music downloading as the most established example of the digital media phenomenon. Illegal peer to peer services kicked off demand, Apple turbo-charged it with the iPod and now everyone wants a piece of the action. In the coming year we will see some terrific next generation music services offered by established online brands and some neat IP enabled music devices on the high street to move your virtual music collection away from your PC to your HiFi. So what's that all about?

Well, it's a form of evolution. As we move more and more of our personal music collection to the hard-drive and the network, we will want to control our own entertainment experience rather than feeling that everything is locked up and inaccessible. So aside from

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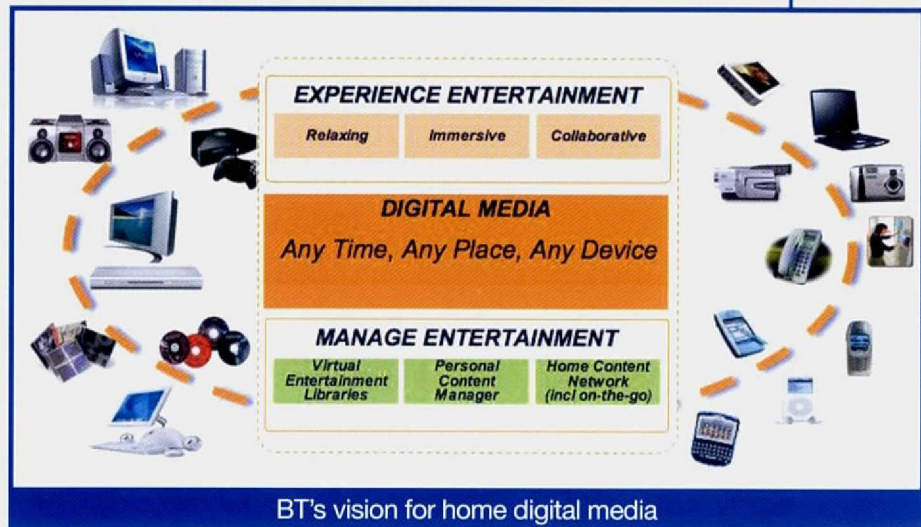
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the technology development that's moving quickly enough for most of us there's also a demand for a simple, intuitive customer experience built around us rather than focused on the service providers product. The experience includes where and how we access our music. Some of these experience issues are about the customer interface, these issues are not new and fortunately there is a lot we can learn from how the most successful e-commerce companies have persuaded customers to buy products online through intuitive web page design, simple transaction processes, effective merchandising and attractive pricing and promotions.

So - we have broadband service providers, we have content and application providers, we have portals plus the specialist web-sites and we also have consumer electronics and computer companies - all involved in this evolution of the digital entertainment experience. It seems like the battle-lines are being drawn in the war to 'own' the consumer relationship in the digital home.

...NOW THE PICTURES

And if that wasn't enough we have the blurring of the lines with television as well with telco's around the world now moving into the TV space. In part this is to counter the predatory attacks of the cable companies into their traditional communications space but also because the next generation broadband networks provide the opportunity to add new and innovative functionality to television viewing. If you fancy scheduling your own viewing for the evening the opportunity could be closer than you think, particularly in the UK



BT's vision for home digital media

where the analogue switch-off timetable provides an immutable impetus for change.

The digital home is inevitable and the consumer is powerless to resist. The big guns of marketing are rolling out even now. The combined value of the consumer electronics industry and the online entertainment market runs to hundreds of billions - whether it's in dollars, pounds or euros. Consumer electronics and computer companies are converging on the digital living room, major computer companies like HP and Dell, and household names like Philips and Sony aren't planning on leaving without a fight. At the same time the telcos, broadband service providers and ISPs like BT, SBC, Yahoo! and AOL all expect to deliver the services that bring this digital home to life via a broadband pipe and a wireless network.

INTEROPERABILITY

Consumers are rapidly adopting large LCD displays, high-powered multimedia PCs, and portable devices, but connecting them all is still a work in progress. But the UK now has over 6million broadband connections and the rate of adop-

tion is accelerating fast. Once the fat pipe and the wireless network is in place and these fantastic multimedia devices surround us in our homes we come to the question of where the digital living room begins and ends. With mobile phones, PDAs, and portable game players becoming more powerful, the four walls that once housed all of our movies, music, and photos are breaking down. The time we spend on entertainment now blends into the workday, helping us stay closely connected to business associates and family. The broad use of the Internet, which spawned the previous tech boom, and the increasing number of high-speed connections will inspire new generations of technology and a huge wave of digital entertainment services. The convergence or interoperability of fixed-line and mobile networks will open up our digital home and extend our personal digital world, but that's a subject for another day.



Bill James will be examining the synergies between fixed and mobile services in the next issue of Intermedia