

# Reality check: will the HD format war be a non-starter?

There's been very little media fanfare over next-generation software and hardware releases in the US, reports *Larry Jaffee*

The so-called next-generation DVD format war will shortly make it to store shelves after years of rhetorical sparring between the HD DVD and Blu-ray camps.

On April 18 three Warner Home Video (WHV) HD DVD titles and the first players were available at selected US retail locations. And Blu-ray is poised to make its retail debut late June, but pundits believe that the real Blu-ray marketing blitz will coincide with Sony's release of the PlayStation 3 video game platform this November.

According to press reports, Toshiba has initially delivered 10,000-15,000 HD DVD players to 3,000 US stores.

So does HD DVD's slight headstart give it any kind of real advantage to win over home entertainment enthusiasts? Hardly. Early adopters of new technology traditionally don't represent large numbers of people. Back in March 1997, DVD-Video received a slow rollout, and the format didn't really gain traction until two or three years later.

In the case of HD DVD versus Blu-ray, most industry observers concur that going to market with two new formats might not be the wisest decision, especially with the recent bad memory of DVD-Audio versus Super Audio CD – neither of which has turned out to be more than a blip on the radar screen. You would think that industry leaders would step back and consider that two formats will lead only to consumer confusion, retailer alienation, and two non-starters.

Thirty years ago, VHS versus Beta provided a leisure-time revolution that would win over consumers' hearts and minds. DVD-Video was a winner because eventually a compromise was struck between similar, agenda-minded factions who ended up supporting a single product. And guess what? Everyone made money – at least until shrinking margins, consolidation over capacity and market saturation negatively impacted many whose livelihoods are dependent on the manufacture of an optical disc.

At this stage, it must be noted that neither the HD DVD nor Blu-ray camp has made a particularly compelling case to consumers for a must-have purchase. Consumers are fairly pleased with the quality of their current, progressive-scan DVD-Video players. The average consumer likely will not be swayed by the rhetoric emanating from the Blu-ray and HD DVD camps, such as this one from WHV that its "HD DVDs offer resolution six times higher than standard definition DVDs, extraordinarily vibrant contrast and colour in addition to beautifully crisp sound." Meanwhile, the Blu-ray literature notes that whereas HDTV broadcasts can reach 19Mbps, Blu-ray Disc clocks in at 48Mbps.



The launch of *Million Dollar Baby* on HD DVD received scant newspaper advertising in New York, except a mention in a Best Buy flyer

## You would think that industry leaders would step back and consider that two formats will lead only to consumer confusion, retailer alienation, and two non-starters

At least as far as the US is concerned, a need for a next-generation DVD will not be clear until February 2009 when the government's mandate for terrestrial television broadcasters to switch over exclusively to HDTV transmissions kicks in. But since the late 1980s, various deadlines for that transition have passed and it remains to be seen whether it will be enforced this time as well.

The transition from VHS to DVD-Video was huge, in terms of quality, as was LP/cassette to CD. However, a mass market was not to be found for Super Audio CD or DVD-Audio, not to mention DAT and Dataplay, as well as other new media format non-starters.

That's not to say that interim technological advancements should be ignored, and there's nothing wrong with audiophile/videophile niches for the time being, while the mass market catches up.

For the replication sector, developing new optical disc formats is obviously necessary for ensuring the industry's future, especially with

shrinking margins, increased consolidation and an undeniable shift to electronically delivered media content.

The cynic might wonder if this next-generation format war is mostly about royalties, egos and copy protection.

Although there were some attempts at unity, a technological compromise – similar to the one that gave birth to DVD-Video, by the way – was not to be. As recently as April 21 Kazuhiro Tsuga, an executive officer at Matsushita, told Reuters, "We are not talking and we will not talk" to hammer out a unified standard. "The market will decide the winner," he said.

Adrian Alperovich, Sony Pictures Home Entertainment executive vice president of international sales and worldwide business development, stated at the March IRMA conference, "Many people made significant attempts to avoid two formats. The industry doesn't want to come to market with two new formats. Nobody wants to have a format war."

### Manufacturing concerns

So what are the replicators and equipment vendors to do? If you're not among the top echelon of disc pressers, most likely you will do nothing until a clearer picture of the market emerges.

Estimates suggest that from a manufacturer's perspective, Blu-ray equipment will cost about 30-40% more than upgrading an existing DVD replication plant to HD DVD.

In announcing that it replicated at its Olyphant, Pennsylvania facility, the first HD DVD titles, Cinram obviously chose its words carefully by referring to "production and development of the new high definition formats," as if to suggest it's betting on both horses.

After the initial HD DVD product launch, the company stated, "High definition discs will be manufactured in other Cinram replication plants around the globe."

When Cinram acquired the former WAMO replication facility in Olyphant, it also inherited its capability to manufacture the two-sided DualDisc, which intermittently gets a push by the music industry. WHV adopted the technology for the May 9 release of *Rumor Has It*, the first HD DVD on one side and Standard Definition DVD (DVD-Video) on the other, day-and-date with its Standard Definition version. The studio's target audience for this "Combo" product is apparently consumers who realise that they will eventually buy an HD DVD player, so they won't have to buy a new movie release again.

Denon Digital president/CEO Brian Wilson at last December at IRMA's conference conceded that a mid-sized replicator, not unlike Denon, might want to see if there's a winner in the format war before investing significant amounts of money into a format that, at best, will initially appeal only to early adopters.

Disc Makers president Morris Ballen tells *One to One* that he doesn't take the plunge for any new format "until 20% of my customers are calling for it. That's my model."

Ballen also is sceptical to what extent either format will win over consumers in the short term. "People are satisfied with [DVD's] current quality."

There are, of course, exceptions to the next-gen replication fence-sitters, such as entrepreneurs like Erick Hansen, who was a DVD-Video pioneer in southern California back in 1997, and has announced his plans to open



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late this year a Blu-ray manufacturing plant, for which he's privately raised \$10 million.

"The future of this market though is all about high definition DVD players based on 'blue-laser' technology; however, the future may be farther off than we would like," commented In-Stat analyst Chris Kissel. "There will be some casualties, companies and consumers alike."

### Next-gen in the trenches

HD DVD has received scant newspaper advertising since its launch, at least as far as New York, save a half a page in a Best Buy

flyer plugging a \$499 Toshiba HD DVD player and HD DVD versions of three movies:

*Million Dollar Baby*, *The Last Samurai* and *The Phantom of the Opera*.

In *The New York Times*, local consumer electronics retailer J&R every Thursday advertises a full-page of the latest new gadgets. On April 27 not a word was mentioned about HD DVD, either players or movie discs.

Visits to Manhattan Best Buy and Circuit City stores a week after the HD DVD debut might well be a microcosm of the uphill battle either next-gen DVD format faces.

At Best Buy, there was on display the advertised Toshiba player coupled with a 62-inch widescreen projection HDTV for \$3,199, and about a dozen units for each of the three movie titles. When *One to One* found the display, there was a lone customer checking it out. He said he wasn't that impressed with the picture quality, and admitted that he was biased towards Blu-ray, which he was planning to buy as soon as it was available. This reporter enquired if he was an employee of Sony or any of the other companies backing Blu-ray; he said he wasn't. Asked whether he was prepared to re-buy his current DVD collection in Blu-ray, "Of course, isn't that what it's all about?" he replied rhetorically. I bet the Blu-ray Group would love to clone him.

The Circuit City visit was far less sanguine. The supposed HD DVD display didn't even have a real HD DVD player, although it had two copies of *The Last Samurai* and one 62-inch widescreen projection HDTV for \$3,199. I flagged down a salesman to ask about the whereabouts of the HD DVD player. He said, "Look for the Sony against the wall." Giving him the benefit of doubt that he merely mixed up the brand, nevertheless there was no HD DVD player to be found, although there were a few models claiming to be high definition TV-compatible. I told the manager that just because it says HDTV does not make it HD DVD, which is a completely different format. She didn't believe me.