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HD DVD-BLU RAY BATTLE LEAVES VIEWERS FRUSTRATED

People who own an HD DVD player can forget about watching *Spider-Man 3* in high definition when it goes on sale during the holiday season. The movie from Sony Pictures will be available only in the Blu-ray DVD format.

Likewise, people with Blu-ray players won't be able to enjoy the action-thriller *The Bourne Ultimatum*, which Universal Pictures will release only in HD DVD. These exclusive arrangements, plus aggressive price cuts for high-def DVD players, are designed to persuade consumers to finally embrace one format or the other.

But analysts wonder if the moves will anger consumers, just as the studios and consumer electronics companies are hoping to boost high-def DVD sales as growth in standard DVDs stalls.

"The frustration for consumers is not knowing what format is going to win," said Chris Roden, an analyst at Parks Associates.

Consumers, many of whom are still smarting from the VCR format battle between VHS and Betamax, need to know their expensive equipment won't become obsolete if the competing format wins, said Steven J. Caldero, chief operating officer of Ken Crane's, specialty electronics chain in Southern California.

"People are still frustrated there is a format war to begin with," he said. "The studios are making people choose. What consumers want is something that will play everything so they don't have to choose."

Blockbusters are lure

Until recently, many consumers were able to defer the choice because players have been so expensive. But prices have been slashed by about half — Sony Corp.'s Blu-ray player now sells for \$499 and Toshiba Corp.'s cheapest HD DVD player sells for \$299, with both likely to include up to five free movies. (Players that read both formats remain expensive.)

Both sides also are releasing blockbuster titles — such as the new *Pirates of the Caribbean* movie — aimed squarely at the demographic most likely to upgrade to high-def.

The stakes are high for Hollywood, which has seen sales of traditional DVDs, once a reliable profit engine, slow to a trickle. Direct digital delivery online, while promising, is still years away from profitability because current Internet capacity can't handle the huge high-definition files.

Yet consumers remain profoundly confused by the two formats, both of which deliver crisp, clear pictures and sound but are completely incompatible with each other and do not play on older DVD players. Many haven't even heard of either format.

HD DVD, developed by Toshiba and backed by powerful companies including Microsoft, has the lead in standalone players sold because they are cheaper and hit the market first.

In the United States, stand-alone HD DVD players have 61 percent market share, while Blu-ray players have 36 percent share and the few dual-format players have a 3

percent share, according to market research company The NPD Group Inc.

But Blu-ray, backed by Sony and a majority of Hollywood studios, got a big boost when Sony introduced its PlayStation 3 game console, which comes standard with a Blu-ray drive. Counting those machines, there are more Blu-ray players out there.

Although Microsoft's Xbox 360 can play HD DVD movies, the drive has to be bought separately. Only 160,000 drives have been sold so far, compared with 1.5 million PS3 consoles, according to NPD.

Blu-ray leads in sales

In terms of discs sold, Blu-ray has always led. Time Warner Inc.'s Warner Bros. and Viacom Inc.'s Paramount Pictures release movies in both formats, and in such cases Blu-ray has outsold HD DVD by nearly 2 to 1.

Blu-Ray is getting an even bigger boost as Blockbuster Inc. announced it would stock only Blu-ray titles when it expands its high-def DVD offerings this year. Target Inc., the nation's second-largest retailer, said it will sell only Blu-ray DVD players in its stores in the fourth quarter.

Sony Pictures, News Corp.'s Twentieth Century Fox, The Walt Disney Co., and Metro-Goldwyn-Mayer are releasing only in Blu-ray. Universal, owned by General Electric Co., is the only major studio to back HD DVD exclusively.

Warner Bros. believes both formats can coexist and has been urging Blu-ray backers to support HD DVD as well. The studio has developed a dual-format disc and said it would license the technology to other studios willing to back both.

"The fourth quarter is critical for the formats to show growth and momentum," said Steve Nickerson, Warner Home Video's senior vice president of marketing. "It's more than about winning or losing. If you can continue to show growth (in both formats), that's a positive in a situation where standard DVD sales aren't growing."

Ad campaign planned

To counter Blu-ray's recent gains, the HD DVD camp is planning an advertising campaign touting the interactive elements of the format, which allow users to connect to the Internet to download special features.

"This is not about a high-def movie on a disc," said Craig Kornblau, president of Universal Studios Home Entertainment. "It's about a fully immersive experience, connected interactivity. That's what is going to separate these high-def formats."

Kornblau said he isn't worried about Blu-ray's momentum and doesn't see a need for one to knock out the other.

"To call this market nascent is to a degree to pay it a compliment," he said. "The people who have bought so far aren't early adopters, they are early, early adopters."

Analysts said even lower prices for players could be the key to determining a format winner. Some believe that until prices hit the \$200 range, consumers won't upgrade from their current machines, many of which cost less than \$100.

Chinese-made HD DVD players selling for \$199 are expected to hit store shelves by December, while Sony is widely expected to cut the cost of its Blu-ray machine to as low as \$299 by year's end.

"When that occurs, the studios and Sony are going to pull out the big guns," said Phillip Swann, president of the technology-oriented Web site TVpredictions.com. "They are going to release more titles, big titles, and really go for the kill this holiday season."

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1500 Harbor Blvd., 2nd Floor . Weehawken, NJ 07086
Tel 866.412.0866 . Fax 201.348.1761