

A Whole New World

Stung by Technology, Disney Rethinks How It Reaches Audiences

BY MERISSA MARR

Staff Reporter of The Wall Street Journal

Robert Iger, the new CEO of Walt Disney is shaking up his company by pushing a digital-age mandate: Consumers must be able to use Disney content whenever and wherever they want it.

The latest example is the announcement that Disney's ABC network is selling episodes of hits such as "Lost" and "Desperate Housewives" online like songs on Apple's iTunes Music Store. Mr. Iger is also floating the idea of releasing movies in theaters and on DVD at the same time. And he is negotiating with telecommunications companies about ways to deliver entertainment over cellphones.

Mr. Iger faces enormous challenges as he rethinks Disney's business model. The anytime/anywhere strategy could erode traditional revenue from theaters, DVDs and broadcast TV and presents new piracy risks.

Mr. Iger, who took over the company from CEO Michael Eisner, inherits a company whose old way of doing business has been blown up by technology. Legal technologies such as fancy home theaters and digital video recorders are driving down movie attendance and sapping TV ad sales. Piracy is eating into entertainment sales at home and abroad. And Disney has lagged in businesses like videogames that have become popular with young consumers.

High-Pressure System

Under Mr. Eisner, Disney took a more conservative approach to the growing digital media world, intent on protecting such traditional revenue sources as advertising and home video. Mr. Iger believes Disney's future still lies in its entertainment content, but he wants the company to move to deliver it in new ways, in spite of the short-term turmoil it might bring.

"If we sit back and rely on old technology, the consumer is going to pass us by," Mr. Iger says, noting that the music industry made that mistake. "It's extremely important as I enter this new role that I not let that happen to the Walt Disney Co. We're not a technology company, but we need to be the closest thing to that."

Mr. Iger says his biggest obstacle may be the business habits of Disney's own employees and the habits of theater owners, mass retailers, television affiliates and others. "We need to create an atmosphere that tolerates experimentation, even if it's at the expense of near-term economics," he says.

Having risen from a job as a TV weatherman to head of ABC, Mr. Iger sees television networks as being at particular risk from new technology. Some viewers today watch video

clips on cellphones and use digital recorders that skip ads. Others watch entire seasons of a TV series on DVD, missing advertising altogether. These developments are shifting control to viewers, forcing Disney to think beyond the 30-second ad. So even though Disney's TV unit is doing well, Mr. Iger is examining new delivery models, like the sale of TV shows on iTunes. "In the future, there will be a percentage of people who only receive our content on devices other than television sets," predicts Disney-ABC Television Group President Anne Sweeney.

Mr. Iger says the movie industry also needs to rethink its business model by narrowing, or even eliminating, the gap between a movie's theatrical release and its availability on DVD or pay-per-view. His suggestion took aim at two problems plaguing the industry: declining movie attendance and an apparent plateau in DVD sales.

Theater owners lashed back at Mr. Iger, blaming bad movies for Hollywood's problems. "If the entire industry went to a simultaneous release, that would mean fewer movies, fewer movie theaters, and consumers will have fewer choices," says John Fithian, president of the National Association of Theater Owners.

But Mr. Iger isn't backing down. "The message I want to send internally is that we must ask the right questions about current business conditions," he says, "and we have to be innovative and willing to test new ideas and new strategies."

Disney's movie studio is leading an effort to push another change on theater owners: digital distribution of movies. Disney and other studios stand to save some \$1 billion a year in film print and distribution costs. But theater owners have less incentive to go digital. They question, for example, whether improved digital picture quality will bring more people to the movies.

Consequently, Disney and other studios may have to bear the brunt of the cost of installing digital equipment in theaters, estimated at \$80,000 to \$100,000 per auditorium.

Evil Dinosaurs

Another popular debate inside Disney has been whether the company should buy a major videogame publisher to bulk up in what has become a \$25 billion industry. Disney is currently a modest player with videogame revenue estimated at about \$150 million. Mr. Iger knows that if Disney wants to become a serious player, it must reach out to adult gamers who have little interest in Disney's traditional family fare. These days, adult players outnumber kids.

At a meeting with Disney's head of videogames earlier this year, Mr. Iger green-lighted a dinosaur-hunting game

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called “Turok,” which calls for the player to gather weapons and kill evil dinosaurs and reptiles.

The game is edgier than anything Disney has done—Disney had never before released a “first-person shooter” game—and is likely to carry an “M” rating for mature audiences. But Mr. Iger says that Disney will not venture into the violent and graphic territory of games such as “Grand Theft Auto.” The victims in Turok are not human, he reasons, and there is not much blood when they are killed. Nevertheless, it will not carry the Disney brand name.

“I can support fare on the edgy side so long as it’s high quality,” says Mr. Iger. “That needs to be the Disney approach.”