

A QUESTEX PUBLICATION

JANUARY 1-7, 2006

# Home Media RETAILING

BRINGING DIGITAL ENTERTAINMENT HOME

VAIO XL1 Digital Living System

## CREATING THE DIGITAL MEDIA HUB

A home entertainment mix of PCs and digital media centers

By Kurt Indvik

The digital media hub still is a dream in most households, but the consumer electronics and PC industries are working feverishly to change that.

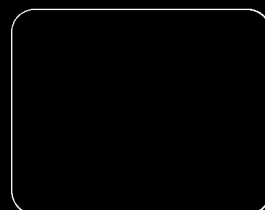
Industry observers may argue whether the convergent digital household will revolve around the PC or a console set-top system. But most analysts say consumers don't really care and will

use any platform to create their own home entertainment ecosystem.

The full range of options will be in force during this week's Consumer Electronics Show.

So far, the PC has the edge, driven largely by some 4 million PCs in the market with Microsoft's Windows Media Center Edition (MCE) software. Consumers are storing their digital

See **MEDIA HUBS**, Page 42



## Seeing Blu! A Special Section

It's been a year since the last Consumer Electronics Show, at which Blu-ray Disc (BD) and competing high-def disc format HD DVD held joint press events heralding the advances made by their respective groups.

During the past 12 months the two formats have been on a race to gain content and technological advantage as each head for a launch sometime in the first part of 2006.

While earlier in 2005 *Home Media Retailing* ran a seven-part series comparing the two competing formats on a variety of issues, this week we devote a special section to the format many industry analysts, and most studios and CE companies, believe to have taken the lead in the high-def disc format front: Blu-ray Disc.

In the section is an analysis of BD's advancements in content development and capabilities, security and digital rights management, replication, and hardware preparations.

See **BLU-RAY**, Page 26

## Warner Tops Biz For 2005



Buena Vista's 'The Incredibles' Top-Selling DVD for the Year

By Thomas K. Arnold

The sky may not have fallen on the fast-maturing DVD business in 2005. But the double-digit revenue growth that studio home entertainment divisions enjoyed almost since the format's 1997 launch did come to a grinding halt.

Final numbers on consumer spending won't be available until later this week. But the consensus among studio executives, analysts and other observers is that it may be hard to top the record \$24.5 billion consumers spent on home video purchases and rentals in 2004.

While final year-end revenue numbers haven't yet been tallied, two things that have been decided are the annual market-share derby among studios and the year's top DVD sellers.

Analyzing Nielsen VideoScan unit data, *Home Media Research* gives the market share crown for 2005 to Warner Home Video, with a 19.8 percent share.

Meanwhile, *The Incredibles* was the year's top-selling release, generating

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### 2005 TOP 10 DVD SELLERS

Title	Supplier	Units Sold in Millions
<i>The Incredibles</i>	BV/Disney	17.38
<i>Star Wars: Episode III - Revenge ...</i>	Fox	10.36
<i>Madagascar</i>	DreamWorks	10.00
<i>Shark Tale</i>	DreamWorks	10.00
<i>The Polar Express</i>	Warner	8.13
<i>Meet the Fockers</i>	Universal	7.21
<i>National Treasure</i>	BV/Disney	7.20
<i>Cinderella</i>	BV/Disney	6.56
<i>Ray</i>	Universal	6.53
<i>Batman Begins</i>	Warner	6.15

Home Media Research Projections

## Pace Quickens on Mobile Entertainment

By Erik Gruenwedel

Increasingly, consumers like their entertainment to go. They're migrating from the living room, bedroom and family room to the open road and the friendly skies.

They're watching movies, listening to music and playing games on cell phones, laptops and portable digital media players such as Apple

Content, mobile network and hardware players all stepping up activity

Computer's iPod and Sony's PlayStation Portable (PSP).

A recent Nielsen Entertainment study found 52 percent of mobile phone users said they intended to buy a new phone within the next year, with 37 percent saying



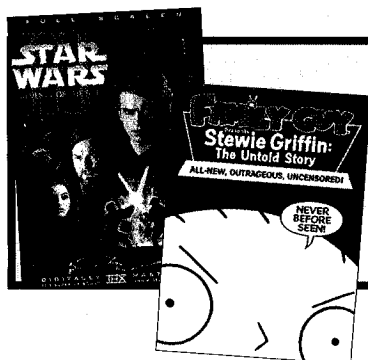
extra features, including the ability to watch video and listen to music, will figure prominently in their decisions to buy.

Sales of portable MP3 media players soared in 2005. Consumers spent \$2.1 billion on more

than 11.2 million units through November, compared to \$854 million and 3.8 million units in 2004, according to The NPD Group.

The Consumer Electronics Association (CEA), the CE trade group, is more bullish, maintaining 4.6 million units shipped in October alone. That's nearly half 2004's total shipments.

See **PORTABILITY**, Page 44



### NEWS

Retailers take issue with new studio piracy policies against sending DVD screeners.

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### National Entertainment Buying Group

### NEWS

The National Entertainment Buying Group's 2005 studio report card isn't passing out a lot of 'A's for DVD.

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### PRODUCT

*Jarhead*, Universal's \$62 million gripping Iraq war film starring Jake Gyllenhaal and Jamie Foxx, comes to video March 7.

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# Year-End Market Share

Continued from page 1  
 an estimated 17.38 million units sold for Buena Vista Home Entertainment.

## Deep Discounts to Drive Higher Unit Sales

Year-end results may be buoyed by a late-year surge that saw soaring sales for some titles released late in Q4, including Universal Studios Home Entertainment's *The 40-Year-Old Virgin*, which sold 3.7 million units the first six days after its Dec. 13 release.

"We're now at almost 5 million units," said Craig Kornblau, president of Universal Studios Home Entertainment. "This tremendous surge at the end of the year shows consumers embraced DVD as much as they have in prior years. When it comes down to giving gifts for the holidays, DVDs still are one of the premier choices."

Most observers attribute the flattening of the market to deep discounting at retail rather than consumer disinterest — although the down box office didn't help matters. Over the holidays, Wal-Mart stores sold top theatrical titles like *Shark Tale* and *Shrek 2* for as little as \$3.99. On Black Friday, Circuit City had a selection of hits, including *The Incredibles* at \$8.98.

For the year, "unit sales will almost certainly be up," Kornblau said. But for now, the jury's still out on accurate revenue totals. In November, the most recent month for which numbers are available, Nielsen VideoScan point-of-sale data showed a 13.6 percent uptick in unit shipments but an overall video revenue gain of just 6.3 percent from November 2004.

Benjamin Feingold, president of Sony Pictures Home Entertainment, said a studio analysis of VideoScan data pegs unit sales for 2005 to be up 5.9 percent from 2004. The revenue picture, however, remains unclear,

pending the receipt of final sales data through Dec. 31.

Feingold fingers "catalog pricing" as the big revenue-buster, but maintains there's little studios can do about it. "It's difficult to arrest price declines on an existing format," he said. "Historically, that's not something that has been a successful strategy."

That's why it's so important to bow a new format, Feingold maintains.

"Projections I made for Sony [corporate] four years ago were that the market would top out in 2005, and that's why I was so anxious for a new format to be introduced," he said.

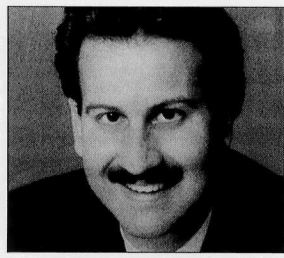
## The Market Share Derby

Warner Home Video had some huge DVD titles in 2005 to drive it to No. 1, including *Batman Begins* and *The Polar Express*, but owes its victory more to the mass of product it pumped into the market, including well-received special editions of such classics as *The Wizard of Oz* and franchise properties in TV DVD and kidvid.

Buena Vista Home Entertainment came in second, with an estimated market share at 14.8 percent. The studio's video coffers were fueled by *The Incredibles* and strong performances by special DVD editions of *Bambi* and *Cinderella*.

The race for third place was a neck-in-neck finish between Universal and 20th Century Fox Home Entertainment, each with 13.5 percent.

Universal's figure includes its distributed DreamWorks Home Entertainment titles, which included such top sellers as *Shark Tale* and *Madagascar*, although the studio scored big with *Meet the Fockers* and *Ray* in the first half of the year and *The 40-Year-Old Virgin* in December. Broken out, Universal's 2005 market share is pegged at 9.2 percent, while Dream-



**«WHEN IT COMES DOWN TO GIVING GIFTS FOR THE HOLIDAYS, DVDS STILL ARE ONE OF THE PREMIER CHOICES.»**  
 CRAIG KORNBLOU, UNIVERSAL STUDIOS HOME ENTERTAINMENT

Works checks in at 4.3 percent.

Fox fielded a slate of big sellers throughout the year, with such Q4 titles as *Star Wars: Episode III — Revenge*

*of the Sith*, *Mr. & Mrs. Smith* and *Fantastic Four* maintaining momentum throughout the holiday selling season.

Sony Pictures Home Entertainment finished at No. 5 with a 13.1 percent market share. The studio's marquee title in 2005 was *Hitch*. Sony's video profile was heightened in July when it took over distribution of MGM titles.

Paramount Home Entertainment came in sixth place with a 9.9 percent market share. Paramount's big title was *The Longest Yard*, although much of its market share came from its TV DVD output, which included the year's top TV DVD seller, *Chappelle's Show: Season 2 Uncensored*, with unit sales estimated at 2.84 million by *Home Media Research*.

Lionsgate finished the year with a 4.1

percent market share, while Sony Music/Sony Wonder came in at 1 percent.

Behind Buena Vista's top-selling *The Incredibles* was Fox's *Star Wars: Episode III — Revenge of the Sith*, with year-to-date sales pegged at 10.36 million units. DreamWorks' *Madagascar* and *Shark Tale* tied for third place with sales of 10 million units each.

Warner's *The Polar Express* came in at No. 5, with estimated sales of 8.13 million units, followed by Universal's *Meet the Fockers* (No. 6, 7.21 million units), Buena Vista's *National Treasure* (No. 7, 7.2 million units), Buena Vista's platinum edition of *Cinderella* (No. 8, 6.56 million units), Universal's *Ray* (No. 9, 6.53 million units) and Warner's *Batman Begins* (No. 10, 6.15 million units). **HMR**

## JUST ANNOUNCED A Weekly Product Update \*



Jarhead



Dreamer: Inspired by a True Story



Zathura

TITLE	STREET DATE	PREBOOK	BOX OFFICE (MILLIONS)	GENRE	PRICE
<b>Jarhead</b>	3/7	1/24	\$62.3	Drama	DVD/UMD/VHS \$29.98
Universal. 2005. Jake Gyllenhaal, Jamie Foxx, Peter Sarsgaard, Chris Cooper. Third-generation Marine enlistee Anthony Swofford's story is told, from boot camp to active duty and harsh service in Iraq. An unrated collector's edition is available for \$39.98.					
<b>Dreamer: Inspired by a True Story</b>	3/21	1/24	\$32.4	Family	DVD/VHS \$29.99
DreamWorks. 2005. Kurt Russell, Dakota Fanning. A trainer and his daughter nurse a horse back to health with hopes of racing it in the Breeder's Cup.					
<b>Zathura</b>	2/14	1/12	\$28.1	Fantasy	DVD/UMD \$28.95
Sony Pictures. 2005. Tim Robbins, Dax Shepard. Two young brothers discover an old board game, but when they start playing it they are drawn into an intergalactic adventure when their house is magically hurtled through space. Includes commentary and additional scenes.					
<b>Good Night, and Good Luck</b>	3/14	2/7	\$22.6	Drama	DVD \$28.98
Warner. 2005. David Strathairn, George Clooney, Robert Downey Jr., Patricia Clarkson, Jeff Daniels. Broadcast journalist Edward R. Murrow looks to bring down Sen. Joseph McCarthy.					
<b>Capote</b>	3/14	2/9	\$11.2	Drama	DVD \$28.95
Sony Pictures. 2005. Philip Seymour Hoffman, Catherine Keener, Chris Cooper, Bruce Greenwood. Truman Capote researches his book <i>In Cold Blood</i> , and in the process, he develops a close bond with one of the killers. Includes commentaries and featurettes.					
<b>Everything Is Illuminated</b>	3/21	2/21	\$1.7	Drama	DVD \$27.95
Warner. 2005. Elijah Wood. A young Jewish-American man endeavors to find the woman who saved his grandfather during World War II in a Ukrainian village that ultimately was razed by the Nazis.					
<b>Where the Truth Lies</b>	2/28	1/26	\$0.87	Drama	DVD \$26.96
Sony Pictures. 2005. Kevin Bacon, Colin Firth, Alison Lohman, Rachel Blanchard. A young journalist is consumed with discovering the truth behind a long-buried incident that affected the lives and careers of a showbiz team. Available in 'R'-rated and unrated versions.					
<b>Cake</b>	2/14	1/17	DTV	Comedy	DVD \$26.98
Lionsgate. 2006. Heather Graham, David Sutcliffe, Sandra Oh, Taye Diggs. A travel-writer who begrudgingly assumes control of her father's wedding magazine finds the new experience might change her take on love. Includes deleted scenes, bloopers and a featurette.					
<b>The Real Ghostbusters</b>	2/28	1/26	TV	Animated	DVD \$9.95 each
Sony Pictures. Three individual volumes contain four episodes each of the cartoon series based on the "Ghostbusters" movies.					

\* In order of box office, then prebook date

# Circuit City DVD Sales Rise

Continued from page 10  
 to improve the customer experience helped increase the overall ticket size, even though the drop in DVD price is reducing margins, McCollough said.

An increase of \$16 million in ad spending for the quarter vs. last year's third quarter, led by two catalogs sent to consumers — a home theater catalog and a gift catalog — got more people into stores, executives said.

"Our direct sales channel, led by circuitcity.com, continued to post impressive sales gains," McCollough said. For the quarter, Web sales grew 74 percent over 2004.

The chain's new 24/24 policy, which gives customers a \$24 gift card if their

Web purchases are not ready for pick-up at a nearby store within 24 minutes after the order is placed, helped drive the increase, executives said.

Xbox 360 was a hit and appears on track to help sales in other categories.

"For us to win in home entertainment, we have to have the whole family on board, and we think high-definition gaming brings it back to the living room," McCollough said, adding it could help drive sales in other areas such as CDs and DVD hardware.

For the quarter, total sales increased 14.7 percent, to \$2.91 billion, from \$2.53 billion in the same period last year, with consolidated comp-store sales up 13.1 percent from 2004. **HMR**