The Money Factor

Towards a free market for digital media business models

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In summer 2006 the soccer World Cup will take place in Germany. The matches will be transmitted by television broadcasters around the world. Of course the World Cup also raises the hope of the CE industry that many soccer fans will buy a new TV set.

To watch all 64 games of the World Cup live, German soccer fans need a subscription with the Pay-TV provider Premiere. Premiere also broadcasts the live matches of the European Champions League as well as the German soccer league. About 3 Million Germans already own a digital television receiver which is ready for Premiere. To ensure that only paying citizens can watch soccer. the Premiere set-top boxes have embedded a proprietary DRM system named Nagravision. As the first Pay-TV broadcaster in Europe, Premiere will transmit the World Cup in High-Definition quality over satellite. Currently being the market leader in Germany, Premiere acts on the assumption that customers, who already own a Premiere set-top box are not willing to spend money for a second, incompatible receiver. Therefore the market entry barrier for new Pay-TV service providers in Germany will be high. The soccer associations (e.g. DFB in Germany) are licensing the distribution rights to broadcasters who control the TV channels. The price of the distribution rights for the German soccer league has persistently grown over the last 25 years. Currently the most expensive rights are for Pay-TV (about 240 Million Euro per year only for Germany). However, in December 2005 Premiere lost the Pay-TV rights for the German soccer league. This caused a 42 percent fall of the Premiere stocks.

The new rights owners are the German cable TV providers. They will broadcast the German soccer league primary on their cable networks. Even if a consumer is already paying for Premiere, he will need to buy a second smartcard and spend another 20 Euro monthly to receive the new soccer channel. The cable TV providers expect that soccer fans will switch to the new Pay-TV service and that those customers who already receive television, Internet access and telephony from one cable provider will not use a second network provider in order to receive a competing service. This strategy will create a market barrier for new network providers. Initially the cable TV providers will not broadcast High Definition TV. Even if a soccer fan bought a Premiere High-Definition set-top box for the World Cup, the matches of the German soccer league will be delivered only in Standard Definition quality.

The German Telekom is a network provider who competes with the cable TV providers. T-Online has acquired the Internet distribution rights for the German soccer league. With a subscription to the T-Online-Vision service, consumers can watch live soccer matches via broadband DSL-lines. T-Vision receivers may look like ordinary set-top boxes, but inside they are Windows/Intel machines using Windows Media DRM for protecting the soccer content. Unfortunately Windows Media DRM is not compatible with the Nagravision DRM of Premiere or cable receivers. The T-Vision receiver gives access to Video-On-Demand services - consumers can download the matches and watch them later. But although the receiver is a full blown internet computer, consumers will never be able to share soccer matches with friends living in other European member states.

Let's consider a German soccer aficionado who wants to follow his favorite teams playing in different national and European soccer leagues. He needs to subscribe to several service providers and network providers who own the exclusive distribution rights to the respective soccer leagues (e.g. Premiere over satellite, cable TV and T-Online over DSL). By virtue of proprietary DRM systems, soccer fans must spend a lot of money for buying incompatible receivers and subscribing to unnecessary programme packages. Still the chance is good that their favorite team will not appear on their TV screen, if it plays in the national league of another European member state.

The industry uses DRM as a weapon against competitors, trying to lock consumers into a particular DRM scheme and particular business models. By controlling consumer devices, content providers can exert market power along the value chain. Innovative media usages like sharing content amongst soccer fans from different European countries are impossible.

The motivation of the industry to get involved with standardization of DRM systems is to reduce the cost of the technology they need to control their content distribution value-chains. The motivation of device manufacturers and the chip industry is to feed patented core technologies into the standards.

So what can consumers do? Many consumers find that they can do nothing. Every couple of years the soccer leagues make their license deals with three or four major players who represent the distribution monopolies and this means for the soccer fans: accept their proprietary DRM systems or stop watching the matches. My suggestion is that consumers should get involved in DRM standardization with the goal to create a standard for DRM that is acceptable for consumers and rights holders and whose evolution is in the hands of all digital media users, instead of three or four major players. Today consumers are tied to non-interoperable DRM systems. An open standard for a DRM system could lead to a free market of business models, for example by enabling consumers to pay directly for watching their favorite soccer teams play instead of supporting the media moguls who own the distribution monopolies.

I am a contributor of the Digital Media Project (DMP). The DMP process is open to the public. It starts with the identification of needs from which basic DRM functions are derived. Then the DMP issues public calls for proposals for technologies to implement these functions. The result of the DMP Process is a toolkit of standardized DRM components. Users can build DRM solutions picking the tools they need and interoperability is provided at the tool level. Reference implementations of the tools will be provided by the DMP as Open Source software.

One of the reasons why I started to work for DMP is that I intended to defend concepts like privacy and End-user Rights in a DRM standard. Amongst the Traditional Rights and Usages (TRU) of digital media users that have been identified by the DMP are the freedoms of consumers to select the providers of networks, services and content, freedoms to edit and modify content as well as privacy and continuous access to content. Perhaps because it was too obvious, the authors of the TRU documents overlooked the “Right to Read” as presented by Hugh Huddy in todays workshop.

DMP is looking for technologies to transfer these TRUs to the digital space. DMP does not claim that established Traditional Rights imply that a consumer has a right to a particular digital media usage - it could be well possible that some TRUs will not be for free. However, it could also be possible that governments mandate that certain TRUs must be supported.

Some interesting proposals how DRM systems could possibly cover these TRUs have been made only recently. Bi-directional REL (Alapan Arnap) or Rights Offices (Nicholas Bentley) could allow content producers and consumers to negotiate rights and usages. Licenses could be considered the result of bilateral or multilateral agreements between value-chain players. Licenses could also reflect consumer protection and quality aspects.

To create industry standards for an Interoperable DRM Platform (IDP) is the objective of the Digital Media Project (DMP). Interoperable DRM could eventually lead to a situation where many independent producers can offer their content on television - employing business-models and licensing schemes of their choice. A growing percentage of consumers would spend less time receiving commercial TV and more time with non-commercial content.

In their INDICARE report “Digital Media Project - Part II: Chances of an open standard”, Ernő Jeges and Kristóf Kérény concluded that, “because this common interest [of the industry] does not seem to exist, it is not surprising, that the current big players are not on the list of the members of the Digital Media Project”. I agree with their conclusion - it’s a moot point whether open standards for DRM will be accepted by the industry.