THE BLOG 04/26/2010 05:12 am ET **Updated** May 25, 2011

The End of Hollywood as We Know It

By Marty Kaplan

This is not a happy time to be an entertainment industry executive.

If you work for a movie studio, a television network or a cable provider, the question that keeps you awake at night is, will we be the next domino to fall?

The first two dominoes were the music industry and the newspaper industry, and the tap that tumbled them was digital technology. Whatever the Internet, broadband and wireless brought to the party, they were accompanied by a catastrophic plunge in album sales and ad revenues that decimated the music and newspaper businesses. Now movies at TV are wondering whether they're next.

If you listen to entertainment executives, there are three causes for their concern, from which they have gleaned three purported lessons.

The first is piracy. Whether it's the DVDs that you can buy for a couple of bucks on streets from Lahore to Los Angeles, or the movies and series that anyone can download for free, the top reason they believe their businesses are on the brink is the theft of their intellectual property. As they read it, the recording industry was too slow to shut down Napster and to nail consumers for stealing. The scorched-earth lesson learned: this time, take no prisoners.

The second cause for industry insomnia is how handily technology can defeat advertising. Digital video recorders, now on their way to being ubiquitous, make it a snap to zap commercials; there's even a simple hack for TiVo remotes that programs a button to fast-forward 30 seconds at a time. Lesson learned: if you depend on ads, force viewers to watch them, whether they want to or not.

The third nightmare is the consumer belief that content ought to be free. By putting newspapers online without charging subscriptions or metering usage, publishers devalued journalism. They gambled that they could build a new business model on Web advertising: more readers, more ad revenues. Instead, search engines and aggregators make it easy to decouple the ads from the articles, and the articles from the newspapers' brands. The lesson? Forget free. That's why Comcast is backing a "TV Everywhere" strategy that forces online viewers to buy a cable subscription. No wonder Comcast's purchase of NBC-Universal has been called a "Hulu killer": the free TV that hulu.com offers, including NBC programming, is now on the endangered species list.

The problem with these lessons is that they ignore how digital technology has transformed the people formerly known as the audience. Today's consumers refuse to be passive targets of top-down marketing and distribution, and they bridle at corporate definitions of choice, convenience and fair pricing. If movies and TV want to avoid the epic collapse of music and print, they need to transform their business models as radically as digital technology has transformed the way that their customers interact with entertainment.

Illegal file sharing and piracy hurt artists, workers, businesses and national economies. So why is it so pervasive? Did honest people become lawbreakers overnight because digital technology put a dangerous tool in their hands?

Maybe piracy is a symptom, not a cause. Maybe the root problem is illustrated by how the music industry tried to ram its business model of $17 CDs down the throats of its customers, despite their clamor for a convenient way to buy individual songs at a fair price. The industry couldn't have come up with a more effective plan to drive those customers into the arms of Napster. No wonder Apple wiped the floor with the music labels when it introduced the iPod and iTunes: it gave people what they wanted, and it invented a business model for doing it.

The movie industry could learn something from that experience. Hollywood clings to its "windows" system of distribution, which dictates to consumers when they can see movies, on what media platform, and at what price. The result has been a disastrous reliance by the studios on DVD sales, and a burgeoning resentment by consumers who are fed up with being pawns in Hollywood's dying business model. If the studios don't want to keep losing customers to BitTorrent and LimeWire, perhaps they should come up with a distribution strategy that doesn't depend on frustrating, inconveniencing and infantilizing their customers.

TV is no less hobbled by a failing business model. People loathe advertising, and they'll do anything to avoid it. They also loathe cable companies for their monopolies, their soaring pricing and their indivisible program bundling. Networks and cablers have been terrified to discover that the same generation that grew up assuming that content like journalism and YouTube is supposed to be free is now insisting on an equivalent arrangement from TV. The Internet emboldens and empowers the audience to demand that. No wonder the TV industry is madly scrambling to prevent broadband from untethering their customers from coaxial.

None of these rear-guard actions is working very well. That's why the entertainment industry is threatening the audience with the nuclear option: pay up, or else. Or else what? Or else the kind of content we're hooked on will become prohibitive for them to keep producing. The suits just can't imagine a world where executives, stars, directors and agents don't make gazillion-dollar salaries, and where skyrocketing special effects budgets aren't the only way to win audiences. Nor can they imagine that social media and smart phones are mortal threats to their power to monetize our attention. The studios, networks and cable companies are betting that we'll do anything to save the old business models in order to keep the old content coming. Looking at what's happened to music and newspapers, I'm not sure it's such a shrewd bet to place.