

Part One

Everything's Up for Grabs

*Why There Will Be New Rules, New Players,
and Much Bigger Jackpots in the Digital Age*

**Nothing less than the birth of
an entirely new form of
entertainment. One that will
incorporate elements from all
existing forms, but in
powerfully surprising new ways.**

Chapter 1

What's Going On?

"The innovator has for enemies all those who have done well under the old conditions, and lukewarm defenders in those who may do well under the new. This coolness arises . . . from the incredulity of men, who do not readily believe in new things until they have had a long experience of them."

— NICCOLÒ MACHIAVELLI, *The Prince*

"The reasonable man adapts himself to the world; the unreasonable one persists in trying to adapt the world to himself. Therefore, all progress depends on the unreasonable man."

— GEORGE BERNARD SHAW, *Man and Superman*

"It's good enough to criticize."

— ROB GLASER, webcasting pioneer

Grab your pencils. It's time for a pop quiz that examines some prevailing assumptions about entertainment—and what the future (or nonfuture) of traditional media looks like when mated with emerging technologies.

Are the following statements true or false?

- Television is something you play.**
- Newspapers are something you listen to.**
- Television is something that watches you.**

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- Radio is something you watch.
- It is now possible to build an entire broadcast network without dealing with the FCC or any other government agency.
- It is now possible to offer an unlimited number of radio and/or television channels without having to change the laws of man or nature.
- Eventually, it will be possible to have personalized versions of favorite mass entertainment media products delivered directly to you—versions no one else will necessarily see, hear, or experience.
- Eventually, media advertisements will be another form of retail—a place you buy products, not just watch, listen, or ignore.
- Eventually, you'll be able to throw away your CDs and CD players (not to mention your VCRs and videotapes), yet still get every music recording or every movie you like—whenever you want it.
- Much of the above will be given to us absolutely free, if we choose.
- Often, we'll choose to pay for entertainment even when it's optional.
- Computer games are a niche market for hobbyists and boys (of all ages); most of us will never be interested in using our PCs to play games.
- Technology is a socially limiting, isolating sort of plaything—the more we depend on computer-based fun, the less we will interact with other people.
- For most consumers, cable will remain a vehicle for delivering broadcast and cable TV channels; the telephone will primarily be a mechanism for making phone calls and providing Internet access; and the television will always be best suited for passive entertainment.

This book will help you understand the answers to these, and other questions. (For your information, all of the preceding can be answered “true” except the last three statements.)

■ WHY EVERYTHING'S UP FOR GRABS

Ken Rutkowski, standing six feet two inches tall in his socks (he hates wearing shoes), as fit as a marathon runner (which he is), and sporting a three-day beard, is on his fifth conference call of the day. This one is to Melbourne, Australia, where his technology correspondents Down Under are planning new shows to syndicate.

It's a cloudy Tuesday morning on the South Side of Chicago, and what's on Rutkowski's mind is whether the time is right to move from broadcasting shows that focus on technology to a broader, more interesting—and more lucrative—selection of music, talk, or other mainstream entertainment content. The weather is typically muggy for August, but Rutkowski won't notice until he goes out for a quick run at 2:00 A.M. tomorrow morning. It's only 5:00 A.M. now, and Rutkowski is pacing about his office—well, kitchen—simultaneously working his three phone lines, his satellite uplink, and four computer workstations. He'll wrap up another 50 or so conference calls before his workday ends after midnight. Then, he'll grab a quick snack before his daily (nightly?) run, and finally, some sleep. However, if he could, Rutkowski would cut out the eating and sleeping stuff. It wastes too much time. He's on a mission.

Rutkowski is one of the pioneers currently defining the future of entertainment. A prototypical techie-turned-entrepreneur, what he's building will change the world of broadcasting forever. His company, PlusMedia, is about to launch a new kind of network. It's not radio, not televi-

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sion, not a newspaper, nor a magazine; however, it will incorporate all these various ways of getting entertainment and information to the masses. In fact, what Rutkowski is doing is hard to classify because it crosses the boundaries of all traditional entertainment media. (He wanted to use the more appropriate name CrossMedia, but it had already been snapped up by some other techno-savvy entrepreneur.)

In many ways PlusMedia is just like any other broadcast network, delivering programming content to satellite uplinks, cable head-ends, and radio transmitters around the country. But every one of the programs it delivers to its affiliated radio, satellite, and cable operators differs fundamentally from anything that has ever been broadcast before. No, it's not because of excess violence, or sexual content, or any of the usual ways that media conglomerates try to shock prospective audiences to tune in. And, it's not just because PlusMedia broadcasts the material via the Internet. What makes what Rutkowski is doing so unique? His programs are fully interactive in a way that broadcasting has never been before. When PlusMedia is fully operational, anyone located anywhere in the world will be able to make a local phone call to appear live on his shows. When PlusMedia is broadcasting a hot new band, let's say live from a popular dance club in Santa Cruz, California, the worldwide audience gets the live video broadcast as it's happening (or later, if they're watching a copy of the show that has been archived on the web site)—just like any live broadcast. But what's more, anyone in the audience can make a local phone call—from wherever they are in the world—and talk to the club's host about the concert and talk with the band during breaks. If anyone is in the mood, it's only a few clicks away to buy the band's CD, to check out the really cool posters and T-shirts, or to sign up for the club newsletter and e-mail updates on the band's next gig. Or, they can simply applaud loudly with the live club patrons when

the song is over. It will create, in short, a total free-for-all in the live broadcast audience.

► Pay Close Attention Now

Why what Rutkowski is doing should matter to anyone, let alone to the established and profitable companies (i.e., the massive conglomerates such as Disney, Sony, Time Warner Turner, Universal, and Viacom) who currently dominate the entertainment world, is at the heart of this book.

The major companies in each entertainment segment, including television, radio, recorded music, and movies, have been acutely aware that changes in technology are driving enormous economic and regulatory changes in their respective businesses. But, most of them hadn't begun facing what an enormous change was in store—until now. Whether PlusMedia succeeds is not the issue for the majors; it's the very fact that similar broadcasters are springing up literally all over the globe. The future of broadcasting has already begun and nothing can stop it.

Everything is about to go up for grabs. In the United States alone, more than \$100 billion in annual revenues is at stake, not to mention domination of the entertainment industries of the future. Here are the three main reasons why the current entertainment playing field is about to be leveled:

1. First and foremost, there's a new technology that has created a new kind of network—the Internet. Many of the laws of man and nature simply do not apply to this new network; with the old rules, the old limitations are also banished. It's the Wild, Wild West all over again.
2. Second, this new network is global in a way that no network or market has been before. It creates a sin-

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gle market, one that anyone in the world can participate in. This market spans all national, cultural, and geographic boundaries. It's the biggest new market opportunity in history.

3. Finally—and most important—the Internet enables *interactivity*. Interactivity was made possible by the still-ongoing transition between analog and digital technologies, and it will create entirely new ways for people to relate to one another. As you'll see, this interactivity translates into new ways to efficiently enter new markets, new ways to entertain, new ways to generate profits.

Existing players will either adapt or die.

■ CALIFORNIA DREAMING

You would think you'd died and gone to heaven. David Kessel works at home, which just happens to be right on the beach in Pacific Grove, California. He's a few miles north of picturesque Carmel-by-the-Sea, a few miles south of historic Monterey, and literally just a stone's throw from the world famous Pebble Beach Golf Course. It's a mystery how anyone can concentrate on work in such a serenely beautiful setting, but Kessel manages quite successfully.

Five years ago, before the Internet phenomenon had reached the attention of the world at large, Kessel had already figured out how to change the music business using the Web. In fact, he sees more changes coming over the next two years than have been seen in decades. (And he knows the music business as well as anyone.)

To say Kessel has a strong background in music is an understatement. In his 25-plus years of working with Phil Spector Productions, Kessel has been involved in virtually every aspect of music production, publishing, songwriting, and management—not to mention his myriad perfor-

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mances as a session musician and background vocalist on countless recordings, including records for John Lennon, Bob Dylan, The Ramones, Cher, and Celine Dion.

If all this isn't enough to make anyone envious, he owns an independent record label, which has recorded co-productions with Brian Wilson of the Beach Boys and other famous artists. And now, Pacific Grove, the scent of Monterey pines, and the soothing sound of lapping ocean waves as he works on the *next big thing*—for Kessel, not surprisingly, this involves the Internet.

Five years ago, a few of his college buddies got together and founded the Internet Underground Music Archive (IUMA) to wrest control of the music business from the grips of the Big Five companies, who tightly controlled every aspect of the industry. (The Big Five include Universal, Sony, Warner, Bertelsmann, and EMI.) Soon after, Kessel joined IUMA as chairman.

IUMA was the first—and remains the largest—hi-fi music site on the World Wide Web. Tens of thousands of unique visitors a day keep IUMA one of the most popular places on the Web. At the center of the IUMA site are more than 1,000 independent bands from every corner of the world. Anyone with a basic Internet connection can hear CD quality songs, view images and text from the artists, and in most cases, get direct access to the artists themselves via e-mail. Through secure on-line sales of recordings as well as the truly revolutionary next step of digital distribution via the Internet, IUMA promotes and sells its artists' music to a global audience. In addition to its original band members and their related content, IUMA also provides sites for nearly 30 independent record labels, each one a complete web site unto itself. Just click to jump from IUMA to any of these exciting new global music ventures.

IUMA's mission is simple: it wants to empower the independent musician through a complete reinvention of the music industry. We're talking a revolution here. Because using the Internet is an affordable and universally

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accessible performance-and-sales space for musicians and their audiences to meet and interact, IUMA provides services and technologies that circumvent—and, therefore, have the potential to destroy—the traditional food chain of music creation, promotion, distribution, and sales. So, the creative artists themselves get to keep more of the profits. Not surprisingly, the major record companies hope this falls flat.

■ ADAPTING LIKE CRAZY

Here's another example. Evans & Sutherland, the staid Salt Lake City-based maker of high-end graphic systems and real-time simulators for military and commercial aviation customers, might seem an unlikely harbinger of the New World Order of mass market entertainment. Yet, that's what it hopes to be. In 1997, it founded its Interactive Theater Division, with precisely that in mind, and it brought together an impressive team of gurus from a variety of entertainment segments—film, computer games, theme park, live theater, and television industries, even Las Vegas—to make it happen. In December 1998, Evans & Sutherland debuted the first product from this venture at the Adler Planetarium in Chicago. And it offered a glimpse into the future of interactive entertainment in a way that few mainstream entertainment providers had yet to achieve.

So, just imagine: you're leaning back in a comfortable, padded chair. Above you stretches a 300-foot dome that provides you with a breathtaking 360-degree view of the star-studded night sky. But you're not just seeing a static picture, or even a film, but 3-D images generated in real time. Now you've left the earth and are flying over Mars. With the help of your fellow travelers, you navigate down

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into the surface of the planet. You spy an intriguing-looking canyon and decide to plunge into the abyss at breathtaking speed. You just miss the cliff edge and careen off into another crevice, then out again into the stratosphere. You slow down, relax a bit, take some time to look around you. Wow, the solar system is truly a miraculous place!

Sound like a scene from the latest movie? It could be. The only differences are that it's happening in real time (it's not a canned film); it would be different each time you sat down in the chair; and, most important, you're not just a passive observer, but actually part of the experience. That's what Evans & Sutherland's StarRider Theater already does in Chicago, and what it promises to do for other venues, other kinds of entertainment.

Adler's visitors are no longer just being educated (yawn). Neither are they passively enjoying what is admittedly a spectacular show. They are part of the show. How? Buttons located in the armrest of each seat in the audience allow viewers to react to the program in real time. They can change direction as they move over the surface of Mars, select a different destination (let's dive into the rings of Saturn today), slow down, speed up, whatever they choose. At this point, audiences are, in effect, voting to come to a consensus on changes in direction, speed, and altitude.

But, as Stanley Walker, head of E&S's new Digital Theater Division, is quick to point out, this is just the first baby step in audience participation. What Walker and his team eventually plan to do is change the sort of mass-market entertainment experience we've come to expect—everything from TV to amusement parks to movies—from merely a passive, or even active-passive, experience to a truly interactive one.

What's the difference? Everything. In a completely passive experience, such as watching broadcast television, you merely sit and absorb. An active-passive experience

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means that a lot is being done to you: you are being hurled down a slope of a roller coaster or bombarded with extreme audio or visual stimuli, as in a large-screen 3-D IMAX theater, but nothing you do changes the nature of the experience itself. That is, although you can certainly react (yell, scream, laugh), whatever you do won't change the nature of the experience. The experience goes on exactly as planned, no matter what you do or say.

But with truly interactive entertainment, of which StarRider is an early sign, the audience affects the experience itself. This has long been the case with interactive digital entertainment, such as computer games. How you react in the game *Myst* to the various puzzles and sensory clues placed in your path will determine the outcome of the game.

What's different about what Evans & Sutherland is attempting to do, and what makes it worth special note, is that this interactivity is occurring within a group. "It's not an individual experience. It's a group experience," stresses Rick Hinton, the creative director, who brings a rich background in film production to the E&S team. And the biggest challenge resulting from this difference is that the success of an interactive entertainment experience—like the Adler one—built for a group, depends on "giving the individuals a sense of control and satisfaction even though they are acting as part of a group."

This is no mean feat. Although early interactive trials like the Adler one involve voting via individual keypads located in the chairs, voting is not the most fulfilling way to go, stresses Walker. His goal is a more sophisticated form of interactivity that gives the group "tasks" that they can only accomplish together, such as navigating a submarine through a lunar valley and successfully avoiding dangerous objects in that valley. In a hypothetical case like this, "A group would be working with each other, shouting to each other, trying to make this thing happen," says Walker. Voting won't do that—"It won't get you work-

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ing cooperatively with the guy sitting next to you,” agrees Hinton.

If this sounds hard, that's because it is; and this isn't E&S's first attempt at this. “Many many millions of dollars have been lost in pursuing so-called interactive entertainment, and Evans & Sutherland has been one of the big losers,” admits Dean Fox, director of marketing for E&S's Interactive Theater Division.

A case in point was a virtual reality (VR) experience that E&S designed in the early 1990s for theme parks. Called “The Loch Ness Monster Experience,” it involved a group of people donning VR headsets and working together in a virtual submarine in a virtual loch to help find and protect the eggs of Nessie before they were destroyed by predators. In theory, it was a great idea—people got to go someplace they wouldn't ordinarily go (the bottom of Loch Ness in Scotland) and do something they wouldn't ordinarily do (steer a submarine and hunt for monster eggs), and they got to do it in a social setting. That is, it was a group, not an isolating, experience.

Commercially, however, Nessie was a flop. Evans & Sutherland tried to sell it to theme parks, like Six Flags, and other entertainment sites, but managed to install only two versions. For starters, says Celia Pearce, an interactive media designer who worked on the project, it was prohibitively expensive, making it difficult for amusement operators to see a return on their investment.

Secondly—and this is the important reason, according to Pearce—“LBE [location-based entertainment] is not just a product business, it's a service business,” she says. The attraction of places like Six Flags and Disneyland is not just the rides contained there, but the entire experience. “It's a complex business,” she says.

Indeed it is, and Walker, for one, is confident E&S is now on the right track to infiltrate it. For starters, there's the mix of skills and expertise. Rather than depending on technicians or engineers, Walker has pulled together a

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staff that includes representatives from virtually every entertainment media segment. Fox spent years at game manufacturer Atari; Walker himself comes from Universal Studios; Clifford Hay, program director for the Digital Theater Division, hails from the glitzy corridors of Las Vegas. And under these senior executives are scores of other writers, actors, theater and film directors, game designers, and theme park ride experts. "You need this spectrum of talent if you're trying to define entertainment in the digital age," stresses Walker. And his job over the next 12 months is to *evangelize*, to explain E&S's vision to players throughout the entertainment and technology world.

One possible application of the E&S technology is in live theater. Actors (yes, live ones) will interact both with the audience and with the environment, maintaining a sense of artistic integrity and plot while allowing the experience to be molded according to the audience's wishes.

The balance between a linear story and an interactive entertainment experience is a delicate one. We devote an entire chapter to this topic (Chapter 12). Fox is quick to point out that dabbling with this new interactive entertainment media is still a primitive art. "Look how long it took us to understand the new media of film," says Fox. "It took 20 years that you could get better effects by moving the camera." It's the same thing with interactive entertainment: it will take time before we understand it, according to Walker.

At the time the book went to press, Walker was in negotiations with a major entertainment provider that had plans for a mass-market interactive television product. That is, a form of entertainment that would be broadcast into homes but that was truly interactive in nature.

How would this work? (As we'll see in Chapter 7, previous attempts at so-called interactive TV have failed miserably.) Walker wasn't free to say, other than, "until I heard the details, I was pretty skeptical myself. Interactive in the

context of TV usually means viewers are able to respond to advertising.” But, if this project works out, he says, the truly interactive nature of entertainment as experienced within the context of broadcast TV “will be truly revolutionary.”

■ IT'S HARD TO SEE WHAT'S COMING WHEN YOU'RE FOCUSED ON THE PAST

It's hard for most people to imagine that something new is truly new—that it's not just a more powerful, more jazzed-up, more feature-ridden version of what we're already quite familiar (and comfortable) with. That is how movies got their name: they were, at first, simply *moving pictures*; they were not something completely new, with completely new possibilities, but simply something we were already comfortable with—pictures—that also happened to move.

Of course, it's never easy to predict the future; there's a particular challenge in recognizing the potential effect of technologies still in their infancy. Many people took a long time to comprehend the importance of the personal computer; even a decade after the introduction of the first PC, it was still considered a toy by an astonishing number of otherwise very savvy businesspeople. Today, it's unthinkable to do business without a computer and an e-mail address. Intel and Microsoft understood right away; however, IBM took more than a decade to see this—an oversight that put the entire company at risk. Still, you hear the same sorts of things today:

- The PC will never be any good for entertainment—it's a business and information access tool only.
- The TV is good only for *passive* entertainment.

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- ▶ The Internet won't ever become a mass medium for entertainment, in the way that broadcast TV and radio are.

Granted, these are quite reasonable assumptions held by successful people, already at the helm of thriving businesses, who have seen the litter of corpses of those who have tried to circumvent or contradict them.

But, this is *not* the attitude taken by the people spotlighted in this book. Some of them are already quite big names in their field: Douglas Adams, Mark Cuban, Michael Eisner, Rob Glaser. Others are currently nobodies—they may remain so, or they may become the spearheads of a new revolution.

Rob Glaser had it right when he referenced Alan Kay's remark about the 512K Macintosh computer when discussing the current state of web-based entertainment. Although not the first version of the now-famous user-friendly interface, it was, nevertheless, finally "good enough to criticize," Glaser reminded us. This means that not only were they worth *not* ignoring, but they showed significant promise. And, indeed, the Apple Macintosh changed the history of computing, and though Apple Computer was not the main beneficiary of that success (Microsoft was), it pushed out into the world the concept of the *graphical user interface*, now used in hundreds of millions of PCs worldwide.

The point of Glaser's remark is that the same is true of today's emerging entertainment media technology, called *streaming*. It's good enough to criticize. As we'll learn, it's not there yet—you can't watch *Seinfeld* via even the fastest Internet connection today. But soon you will. For today, it's enough that entertainment media on the Internet is (finally) good enough to criticize.

This book is about the people who see and understand this concept and the opportunities they're pursuing—like David Kessel, who sees a way to revolutionize the recorded music business, or Rutkowski, out to shake up broadcasting. As far as the naysayers who don't believe that big

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changes are coming, Evans & Sutherland's Walker says there are enough signs—everywhere about us—for people in all entertainment segments to begin paying close attention. “True, the increments of change are so small that at the time you might not be aware of the eventual implications,” says Walker. “But they're coming.”