

Wal-Mart Pulls Plug On Movies Via The Web

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NYT December 29, 2007. SAN FRANCISCO — Nearly a year ago, Wal-Mart Stores grandly announced plans to enter the movie download business. It has exited with much less fanfare.

Wal-Mart posted [a short message](#) on the Web site of its movie download service saying that operation had closed as of December 21. The move went largely unnoticed for a week, an unmistakable sign that the service had not caught on with consumers. [Gizmodo.com](#), an equipment review site, was one of the first to point it out Thursday with a [headline](#): Wal-Mart Kills Video Download Store Before Christmas, No One Notices.

In a statement provided Friday, Wal-Mart said it had ended the business because [Hewlett-Packard](#), a chief technology partner, had decided to discontinue essential infrastructure for the service. Hewlett-Packard confirmed it indeed has scrapped the project. “The market for paid video downloads has not performed as expected, and the broader Internet video space continues to remain highly dynamic and uncertain,” the company said. H.P. said it has decided to redirect its research and development dollars into higher-growth areas.

Wal-Mart is the nation’s largest seller of DVDs. Its quiet abdication of digital downloads at the height of the holiday shopping season, while a stark contrast to the ballyhooed announcement of the service, was consistent with the ho-hum reaction by many consumers to the downloadable movie concept. The technology can require relatively fast broadband speeds to download movies to a computer, and then quite a bit of technical knowledge on the part of the consumer to transfer the movie to a television for viewing on a larger screen.

Only [Apple](#), which has sold more than three billion songs through its iTunes online store, seems to have had any success in selling movies. The company is expected soon to add digital movie rentals from 20th Century Fox to iTunes. It already lets users purchase films from [Disney](#) and MGM, and the company is reportedly talking with other movie studios to add their libraries to Apple’s online store.

Josh Bernoff, a technology industry analyst with [Forrester Research](#), said that consumers were not nearly as enamored of movie downloads as they were of music downloads. With music, he said, consumers can download a song and listen to it many times in the convenient format of a portable digital player.

With movies, he said, “the experience of watching on an [iPod](#) or a computer is significantly inferior to what you get from a normal DVD.”

The problems are surmountable, but not soon, he said. “All these things can potentially get resolved, but we’re a long ways away from the simplicity and convenience that made iTunes such a success with music.”

[Wal-Mart.com](#)’s offering may have been further hindered by its digital rights management software, known as D.R.M., meant to protect the movie from being copied. It prevented downloaded movies from being watched on more than one computer or on popular mobile devices like the iPod. Wal-Mart.com’s digital movies were protected by [Microsoft](#)’s anticopying software and could be played only using Microsoft’s Windows Media Player program.

In a research note published Friday, Rich Greenfield, an analyst with Pali Capital, said the D.R.M. might have doomed Wal-Mart’s movie service. “We suspect a key reason behind Wal-Mart’s decision to exit the digital video download business was the need for D.R.M., which prevented the content from working with iPods,” he wrote. “Anywhere you look, Apple’s devices are winning, forcing content holders’ hands.”

High prices also hampered the service. Prices to buy a movie, a copy of which resides on the hard drive of the buyer’s computer, ranged from \$12.88 to \$19.88 on the day of the release; older movies cost \$7.50. But it costs just a few dollars to rent a DVD or watch a movie through a cable system’s on-demand services.

Another challenge for the likes of Wal-Mart is that large, general-merchandise retailers seem to struggle to compete against entertainment-focused companies on the Web, according to [Henry Blodget](#), an Internet industry analyst, in a [blog post on Silicon Alley Insider](#) about Wal-Mart's decision to abandon the download service.

"One e-commerce refrain we've heard since 1995 is that once the established real-world brand get their act together, the online pure-plays will be toast," he wrote. "We're still waiting."

There continue to be a number of companies offering movies for download. Apart from Apple's iTunes, [Amazon](#)'s digital movie store, Amazon Unbox, allows customers to download movies to their computers or to transfer them to their [TiVo](#) set-top boxes. The Web start-up BitTorrent, which is more closely associated with the free software commonly used to make illegal copies of movies around the world, also has a legal digital movie store.

There continues to be many alternatives for movie renters and buyers, including expanding mail-order services like [Netflix](#) and [Blockbuster](#), and expanding pay-per-view menus from cable and satellite providers. This fall, Silicon Valley start-up [Vudu](#) began selling a set-top box that lets users download movies from all the major studios and watch them on their television sets.

What set the Wal-Mart effort apart was its own brand name, its strength in the traditional DVD business and a Web site that had nearly 800 million visits this year.

Several studio executives contacted about Wal-Mart's decision said that the discontinuation would have little impact on studio profits, given the paltry size of the download market. One executive said Wal-Mart's initiative had been experimental at best. The executives declined to be identified for fear of upsetting Wal-Mart.

This year, retailers and studios alike feared that online piracy, which has undermined the music industry, would devastate the television and movie businesses, too. As such, both groups sought to come up quickly with digital strategies that would make it easier for consumers to buy movies and television shows online. The television industry was quick to act, and now many of the networks, including ABC, NBC and [CBS](#), offer various shows online as well as on DVD.

Movie studios, though, have been more cautious in their approach, particularly when dealing with [Steven P. Jobs](#), Apple's chief executive, who has been a leader in the move to offer entertainment online. The fear was that Mr. Jobs would undermine studio's traditional DVD business in a bid to sell more iPods. With the exception of Walt Disney, where Mr. Jobs is the largest shareholder, the studios have been holding out for better financial terms.

In announcing the service last February, Wal-Mart said it had the participation of all six major Hollywood studios — Walt Disney, Warner Brothers, Paramount, [Sony](#), 20th Century Fox, and Universal. The deal made Wal-Mart the first traditional retailer to sell downloadable movies.

Its failure in video downloads is not Wal-Mart's first misstep in its effort to extend its profitable in-store movie business. In 2003, the company introduced a rival to Netflix's mail-in rental service. Two years later, the company gave up the effort and said it would direct its customers to Netflix's service.

In an interview last month, Raul Vazquez, chief executive of Wal-Mart.com, emphasized that the movie download service was still experimental: "This has been in beta. We want to understand what the customers want. And I think what we learned is that the initial experience of buying and downloading content needs to be better. We thought it was going to be easier for the customer to understand."

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