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INTERTAINER ASIA (A): PROGRAMMING AND DISTRIBUTING HOLLYWOOD MOVIES ON-LINE IN THE ASIA-PACIFIC COUNTRIES

Olaf Rieck and Shirley Tan

In late 2002, Andrew Yap, Chief Executive Officer and Executive Vice Chairman of Intertainer Asia pondered over the future of his company. The idea of setting up this new company was mooted in 1998 when Andrew Yap and Greg Coote discussed the business of home video distribution. The new company licensed its basic video-on-demand (VOD) platform technology from Intertainer, Inc., the forerunner of VOD service based in Santa Monica, United States, but negotiated content deals directly with the studios. Over the next two years, Intertainer Asia developed itself into a leading entertainment-on-demand company, streaming Hollywood movies on-line to homes via a television or personal computer in Hong Kong, Singapore, Taiwan, and later, in China, Australia, New Zealand and Korea. An unexpected event, however, occurred in October 2002. Intertainer, Inc. announced the suspension of its service in United States, after filing an anti-trust lawsuit against the studios. Although the service suspension did not affect the management and business operations of Intertainer Asia, it triggered some concerns, which Andrew had to address.

This case was written to provide an understanding of the activities and linkages among players along the telecommunications value chain. It provides a rich context for students to analyse the market forces at work in the broadband industry. In addition, the case traces the start-up process of Intertainer Asia and documents how the two entrepreneurs identify, evaluate, and approach market opportunities, form opportunistic relationships in gaining access to critical resources, and bring together those resource components necessary to set up this business.

Content digitalisation is clearly setting the wave of the future. We are proud to be known as a forerunner in advancing customised broadband entertainment-on-demand solutions for the consumers in the Asia-Pacific, and in creating new business demands and opportunities for the digital service providers in this region.

Andrew Yap
CEO and Executive Vice Chairman
Intertainer Asia

INTRODUCTION

One evening in late 2002, Andrew Yap, CEO and Executive Vice Chairman of Intertainer Asia, was sitting at his desk and reflecting on a meeting between Greg Coote, Robin Payne and himself, held right after the establishment of the new entertainment-on-demand company in 2000, in which a key decision had to be reached. Intertainer Asia was set up to distribute Hollywood movies and other interactive media content on-line at a time when long negotiations opposite the US-based Intertainer, Inc. ended in the signing of a territorial licensing agreement. The licensing agreement involved the transfer of Intertainer, Inc.'s proprietary technologies to Intertainer Asia for streaming media content to homes in the Asia-Pacific region. After the deal was signed, the three founders met to discuss the potential pitfalls that might confront them in the future. Andrew Yap recalled:

We started discussing potential problems, such as what would happen to Intertainer Asia if Intertainer Inc. were to be closed down or acquired. We knew that we would never be secure until the technology was brought in-house. Intertainer Asia is all about content and technology. We arranged content agreements directly with the Hollywood studios, so we were pretty secure about that. But, the technology was what worried us most, because it was a licensed technology from another company, Intertainer, Inc. That day, after the initial licensing agreement was signed, we decided to go independent on our technology.

This was a revolutionary undertaking, but Andrew Yap and his co-founders never once turned back from it. From there, they went on to recruit a highly qualified chief technology officer, Steve Hogben, who gathered a team of engineers to build a new streaming platform technology from ground up, one with multi-character sets to suit the Asian market requirements. Within a short span of two years, Intertainer Asia had developed itself into a leading Asian entertainment-on-demand company operating in Hong Kong, Singapore and Taiwan.

In an unexpected turn of events, on October 21, 2002, Intertainer, Inc. announced the suspension of its services in North America indefinitely, after filing an anti-trust lawsuit against its content providers, the four major entertainment companies which controlled more than 60 percent of the theatrical motion picture business and above 60 percent of the music business in United States. When the news from the United States reached him, Andrew Yap announced in a press release that Intertainer Asia's business operation was not affected by the US suspension. The content deals were signed independently with the studios, the technology redevelopment had been completed, and Intertainer Asia had been functioning with its own set of technology architecture which they had developed. Greg Coote, the founding Executive Chairman of Intertainer Asia, also clarified:

Intertainer Asia licensed technology from Intertainer, Inc. under an all-Asia, Australia and New Zealand agreement. Under that arrangement, Intertainer Inc. holds a minority stake in our Singapore based Intertainer Asia, with no involvement in day-to-day management. Likewise, we play no role in the US operation.[1]

Nevertheless, the suspension raised some questions concerning the viability of the video-on-demand business. Andrew Yap, however, remained confident of the company's business propositions. He looked forward to addressing many challenging questions ahead.

ANDREW YAP'S ENTREPRENEURIAL JOURNEY AND BUSINESS VISION

Andrew Yap graduated from University of the Pacific, Los Angeles, with *summa cum laude* in

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1   Intertainer Asia. (2002, October 22). Intertainer Asia announces that it is not affected by Intertainer Inc.'s suspension of service in the United States. Retrieved August 15, 2003, from http://www.intertainerasia.com/news00000103.htm

Engineering Physics and *cum laude* in Electrical and Electronic Engineering in the late 1980s. His academic accomplishment earned him seats in two of the university's most prestigious engineering societies, Phi Kappa Phi and Tau Beta Phi. After his graduation, Andrew Yap went on to study International Law and Finance at University of California, Los Angeles. Andrew's father, who uprooted his family from Indonesia to Singapore, was the founder and CEO of YTC Corporation, a family-owned corporation headquartered in the more politically stable country, housing an international financial centre, world-famous port and airport.

In 1989, when his father died unexpectedly, Andrew Yap returned to Singapore to assume leadership of his family corporation. At the tender age of twenty, he learnt to manage a wide spectrum of businesses including several hotels, venture funds, properties, industrial chemicals plants, restaurants, and café franchises all over Asia and the United States. Although the initial years which followed this crucial succession were marked by intense pressure, fast-learning and hard work, Andrew Yap gradually stepped out of his father's shadow to become an Asian entrepreneur in his own right, widely known for his acumen, risk-taking mindset and mathematician's mind. Drawing from the wealth of his family entrepreneurial history and his acquired expertise, Andrew Yap articulated his own perspectives on entrepreneurship:

> *Entrepreneurship, in my opinion, is a matter of mindset. An entrepreneur is quite the opposite of a professional manager. A professional manager, so to speak, analyses risks and returns. He puts in money and expects to get back a certain amount of returns based on how much he has invested in. An entrepreneur is also concerned with risks and returns, but the mindset with which he approaches a project is different. It is not just about realising a return, but accomplishing a vision. An entrepreneur identifies an opportunity, believes in it, and is willing to put money at risk, even though he may not necessarily see the light at the end of the tunnel for that amount of money he has invested. The way an entrepreneur thinks is, therefore, how much money he is prepared to lose to believe in his vision.*

Andrew's interest in developing a business that combined film and technology was well established

before his graduation. This dream from his youth was resurrected in the 1990s, a decade which witnessed the most pervasive commercialisation of satellite and communications technology, opening up countless opportunities for technopreneurs. Although massive capital from investors was mainly flowing towards cable and infrastructural businesses, Andrew Yap did not follow the popular tides. He said:

> *When I saw many people launching satellites and investing in cable businesses, I began to ask myself, 'What do I fancy in these machinery?' My answer was, 'Nothing.' I didn't care about the machinery, as much as the content. I was looking at the highest profile content, the Hollywood movies. But Hollywood is a big place. It is an established place. I was a new guy from Singapore, with no film industry background. I needed to climb the ladder to get to Hollywood. I began with studying the film markets in Hong Kong, Taiwan, China, Australia, and the United States. I made sure that I understood the key differences of the various markets. I noted the level of professionalism, the level of nepotism, whether there is any 'hanky-panky' - the superficial world of Hollywood. I made sure that I understood the film culture before I got myself in there.*

In 1994, Andrew Yap embarked on his first foray into the Hollywood filmmaking industry, through the YTC Corporation's film subsidiary, YTC Motion Pictures Investment Limited. He became the executive producer for Paradise Road, a poignant historical movie about the Japanese invasion in Asia during World War II, starring Oscar nominee Glenn Close and Frances MacDormand, and directed by Bruce Beresford. This inroad to Hollywood proved to be expensive and rocky, as Andrew Yap recounted:

> *I looked at the script, I loved it, and then I went to my lawyer in Los Angeles. I discussed it with him. The film had already been discussed in Hollywood and what they needed then was a bridging financier. That was my role. My vision of doing this movie was two-fold: first, I wanted the financial returns; second, I wanted my access to Hollywood. I wanted to get in there, to be among the few Asians that broke into the Hollywood circle. However, because*

of my lack of knowledge in the industry, I actually spent a lot of money trying to protect myself. I engaged four lawyers - two entertainment lawyers - just to be my bodyguards. They sat with me all the way through the negotiation sessions, which took us about three years.

THE BROADBAND BREAKTHROUGH AND INTERTAINER, INC.

Meanwhile, the broadband revolution had opened up a potentially new channel for Hollywood studios to distribute their movies. Traditionally, narrow band access was unable to transmit rich media content at a viewing quality acceptable to both home viewers and Hollywood studios. Low bandwidth, transmission delays, interruptions, and poor viewing quality were among the key problem issues of streaming movies on-line. With broadband, a convergent platform capable of supporting a multitude of digital multimedia streaming applications emerged. Unlike dial-up services, the technical characteristics of broadband technology could stream rich content through the high-speed, two-way data communication pipelines linked to homes, without compromising on viewing quality. Broadband truly supported television and personal computing convergence.

At the earliest stage of broadband technology, the production and key technical component costs associated with distributing movies on-line were enormous. As a result of Moore's law[2] improvements, the costs of access and application components associated with broadband digital streaming rapidly decreased over time. By 1996, technology costs had lowered substantially. Jonathan Taplin, an award-winning producer decided that the time was ripe for him to leave his job to establish a new company developing a new streaming technology for distributing media content on-line through broadband networks. Together with the two other founders, he founded Intertainer, Inc. in Santa Monica, California. They firmly believed that the broadband revolution had the potential to change the way future entertainment would be distributed and consumed.

THE LICENSING OPPORTUNITY

One year later, in July 1997, Paradise Road was launched in cinemas worldwide. Its box office performance was, however, lacklustre. Andrew Yap remained positive despite the lack of immediate returns. He said:

I always believe that an entrepreneur must be prepared to lose a certain amount of money and get on with it. I believe in this industry and that's why I get on with it. I don't shrink back just because I lose one time. Out of the production deal on Paradise Road, I found my road to paradise. You may have heard that Hollywood is full of sharks, but I found dolphins - people who really help me out.

One of these 'dolphins' whom Andrew Yap met was Greg Coote. An industry veteran with decades of experience in the movie and television production industry in the United States and Australia, Greg Coote was, at the time of their meeting, the President and CEO of Village Roadshow Pictures in Los Angeles. The two entrepreneurs quickly developed an opportunistic relationship because they had similar business interests. Greg Coote had solid networks in the Hollywood industry and having observed how the studios functioned, Andrew Yap knew that good personal connection was essential to facilitate access to resources and potential partners in Hollywood, as in Asia. "People in the Hollywood don't usually scout around for foreign partners. They prefer to deal with people they know. This is where the nepotistic style of Hollywood kicks in," he said.

After the attempt, Andrew Yap decided to venture out of the movie production industry as he discovered a golden rule. "The rule is either you make twelve movies in a row, or you don't make one at all," he said. Hollywood production costs were too prohibitive for him to stay on forever. When broadband services deployment began to gain momentum in the most advanced Asian economies, Andrew Yap and Greg Coote knew there would be a great demand for a business that could provide on-line digital Hollywood movies streamed directly to

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2   Moore's Law states that the transistor density on integrated circuits doubles every couple of years. This exponential growth, as well as ever-shrinking transistor size, results in increased performance and decreased cost. The law, named after Intel's co-founder Gordon Moore, has been applied extensively into areas beyond transistors and traditional computing, into new areas of innovation where computing and communications converge. Source: Intel (2003). Silicon Moore's Law. Retrieved September 20, 2003, from http://www.intel.com/research/silicon/mooreslaw.htm

the homes in Asia. The Asian infrastructure providers, in their efforts to recover their investments, would look for value-added services to accelerate their Returns-On Investments (ROIs). Increasing Average Revenue Per User (ARPU) was the only way to increase their ROIs as data prices dropped. This was the time when they first conceived the vision of starting up an entertainment-on-demand company in Asia.

Meanwhile, Intertainer, Inc. had successfully completed its second technical trial in Buena Park, Southern California. The first technical trial was held in Northern California over Pacific Bell's digital subscriber lines in late 1997. The company then began to launch its services countrywide with funds secured from a panel of highly visible investors, such as Comcast, Intel, Microsoft, NBC, Sony and Qwest. Within the next few years, the company's services were made available in the top 35 broadband markets, including Los Angeles, New York, Boston, San Francisco, Chicago, Washington D.C., Seattle and in selected Comcast Cable and Adelphia Communications markets. The company charged a basic subscription fee of US$7.99 per month, and an additional US$3.99 for a new release film and US$2.99 for a library title.

There were three possible delivery options. The first option was streaming digital programmes to home computers via broadband. The second and third options were streaming content to television sets either via cable television networks and cable modems or via digital subscriber lines and set-top boxes. Intertainer, Inc., however, decided to focus their efforts on the first option.

Greg Coote and Andrew Yap then took up an offer Jonathan Taplin had earlier made and started discussing the possibility of licensing Intertainer, Inc.'s patented technology for commercialisation in the Asia Pacific region. On the discussion table were issues relating to terms of licensing for the transfer of technology and territorial rights.

MOVIE DISTRIBUTION IN THE UNITED STATES

There were seven major studios, namely, Walt Disney Company, Sony Pictures Entertainment, Inc., Metro-Goldwyn-Mayer (MGM), Inc., Paramount Pictures Corporation, Twentieth Century Fox Film Corp., Universal Studios, Inc. and Warner Bros Entertainment, Inc. The seven of them controlled nearly all movie production businesses in the United States. On average, the studios spent US$55 million producing one movie and an additional US$27

million in marketing and advertising, but 40 percent of the movies made every year never broke even. To maximise their revenues, the Hollywood studios relied on a carefully managed release circle. They first released a movie for exhibition in cinema theatres, then to video kiosks such as Blockbuster, then to pay-per-view operators, then to pay TV operators such as HBO, and finally to broadcast television stations. Among them, video kiosks were the largest revenue window, earning more than twice the amount of cinema sales. See **Exhibit 1** for information pertaining to the release cycle.

Video-on-demand services posed a major threat to the long-term survival of traditional "brick and mortar" video kiosks, according to some industry observers. This gave rise to the war over release dates. Hollywood studios typically released their latest movies to video stores between three to six months after the movies were exhibited in cinemas. Pay-per-view operators received their screening rights between six to twelve months later than video stores. To improve their competitive position and achieve faster penetration, video-on-demand operators fought hard for the advancement of their release schedules. At this stage, however, studios were reluctant to comply with their requests. Andrew Yap explained, "The studios are hesitant to replace the videocassette store because they represent the largest revenue generator and that VOD is still a new business and still very small. Video stores garner revenue equalled to 2.5 of cinemas' sales." However, with the delay in movie release, some questioned if video-on-demand operators would be able to compete meaningfully with video stores.

Another major issue facing video-on-demand companies concerned the choice of delivery partners. Technically, video-on-demand services could be deployed either through cable television or telecommunication companies. The reality, however, was quite different as various forces related to regulations and infrastructures came into play. Andrew Yap elaborated:

> *The telcos in the United States are burdened by the fact that media delivery requires a bandwidth of 750 kbps or more, the bandwidth required by the Hollywood studios that they do not presently have. The cable companies in the US are more ready than the telcos. They have digital cable infrastructure. All they have to do is to change the existing set-top boxes in the US homes into digital boxes, and they would be able to offer on-demand*

services. However, the cable companies' services are usually based on monthly subscriptions. Thus, their billing systems are not as established as to be able to handle on-demand purchases. Unless they invest in new billing software, which can be very expensive, they would not be able to operate on-demand services.

Statistics released by the Motion Picture Association (MPA) showed that the video-on-demand penetration rate in the United States remained slow. In 1999, the video-on-demand market was almost negligible, although some signs of growth began to show in 2000, as the penetration rate reached 0.2 percent per television household. The industry grew to hit 3 million households in 2001. In comparison, pay cable households maintained a substantial growth with penetration rate of 32-39 percent per television household in the past years to reach 34.1 million households in 2001. The success of the video-on-demand field-test trial in a New York's cable network in 2002 marked the beginning of a new era as studios, operators and consumers finally understood that convenience and control could be offered economically.

MOVIE DISTRIBUTION IN ASIA

In Asia, Korea was the leader in broadband deployment, achieving broadband penetration rates of 16.7 percent, well above the 12.0 percent in Hong Kong, 7.2 percent in Taiwan, and 4.4 percent in Singapore, and surpassing that of the United States. **Exhibit 2** presents, in detail, the broadband penetration statistics in Asia. As a result of the phenomenal speed with which broadband networks were developed, bargaining power began to shift from downstream to upstream content providers. Andrew Yap said:

As broadband technology matures in Asia, there is an explosion of delivery choices downstream. The infrastructure providers lack good content. In the upstream, there are still only seven Hollywood movie studios. The studios have higher bargaining power as a result. Revenues of the telecommunication companies are fast dropping as they are becoming more like commoditarians. For improved revenues, the telcos are moving into value-added activities.

Although there was much excitement about video-on-demand services, the expectation on how fast the service would be available should have taken into account real market constraints. Despite the fact that technological constraints associated with streaming movies had been overcome, other factors, including regulatory constraints, continued to hinder deployment. Andrew Yap elaborated:

In Asia, all telecommunication companies will need to have appropriate licenses to offer media services. The Asian telecommunication companies, unlike their US counterparts, are more ready to offer media services because they have the required bandwidths and are moving quickly into the media space to seize the opportunity. The authorities in Asia are also rapidly liberalising legislation to allow them to do so. Many Asian cable companies, on the other hand, are less advanced than their US counterparts. Almost none of the cable companies in Asia has digital cable and most of the boxes at homes are still analog. The process to replace the existing set-top boxes would take about five to seven years because the costs of these boxes had to be amortised over a certain period.

The Piracy Issue

A major challenge unique to the movie distribution industry in Asia was piracy. Piracy was rampant and extremely damaging to mainstream distributors. As such, the Hollywood studios were concerned about security issues. If their digital movies were distributed on-line, perfect copies of the original movie could be replicated without dilapidation in quality. By giving permission to digital distribution, the Hollywood studios could in fact widen the doors for high-tech movie pirates. These movie pirates could reproduce high quality movie files and mass distribute them through the Internet or other physical means.

However, the weak DVD markets, as well as the huge revenue erosion in cinema sales, were compelling the Hollywood studios to seek various ways to increase their sales revenues. One way was to raise prices on movies sold through legitimate means, but this option gave the illegitimate copies an extra price advantage. Another alternative was to flood the markets and open up the on-line distribution channel. Hollywood studios favoured the second alternative, but they would not release their

master copies without sufficient protection. Traditionally, the studios relied solely on legislation to combat piracy. "Now, the studios begin to impose new security requirements at the source to prevent illegal theft," Andrew Yap said.

STARTING UP INTERTAINER ASIA

In 2000, Intertainer Asia was incorporated with its headquarters in Singapore. In 2001, Intertainer Asia and MPA jointly developed a security technology known as the Digital Verification and Protection (DVP) technology, which was successfully tested and demonstrated. A brief of this technology is presented in **Exhibit 3**. Satisfied that their security requirements were met, the Hollywood studios extended their content deals with Intertainer Asia to include new titles, which were released 30 to 90 days after cinema screening. At the same time, the negotiations with Intertainer, Inc. were finalised, leading both parties to sign a territorial licensing agreement, under which the US company would release all its technology source codes in exchange for royalties and a minority stake. The management, business strategies and operations of the Intertainer Asia remained separate from Intertainer, Inc., despite having the same name.

Intertainer Asia was incorporated in Singapore, and from there, the company conducted strategic planning, alliance, finance, investor relations, regional marketing, business development, production and general management. The corporate head office was located at City Hall, inside the Central Business District of Singapore. After the company's incorporation, the foremost task was to identify business partners. Andrew said:

> We believed in the setting up of this business, we would need people who are strong in making business plans. That's why our discussion led us to talk to Macquarie bank to be our partner and to commit manpower to help us develop our business plan and advise us in legal, financial and administrative matters.

Start-up Financing

Intertainer Asia's initial start-up funds were supplied from three main investors, who contributed risk capital, as well as resources, in exchange for equal proportion of shares in the new venture. The three dominant shareholders were YTC Corporation, with Andrew Yap as Chief Executive Officer; Coote Hayes Productions, with Greg Coote at the helm;

and Macquarie Bank, a leading technology bank. Each investor played a synergistic and complementary role in the company. Andrew Yap explained:

> The YTC Corporation, with wide spanning networks in Indonesia, Malaysia, Taiwan, China, Hong Kong and Singapore, plays a critical role in clearing the Asian space, finding partners and dealing with infrastructure providers, media industry regulators and censorship boards. Because of its wealth of experience in the film industry, Coote Hayes Productions is responsible for content sourcing. Macquarie Bank, Australia's leading technology bank, advises in legal matters and business affairs.

Andrew Yap assumed the position of Chief Executive Officer and Executive Vice Chairman, and Greg Coote became the Executive Chairman of the board of directors. Robin Payne from Macquarie Bank became the President of Intertainer Asia.

Technology Redevelopment

Steve Hogben, with 21 years of experience in the telecommunications industry, was the first employee to join the company as Chief Technology Officer. The company functioned with a lean, flexible and entrepreneurial team of four in the first year, just to save costs. Tony Manton and Carl Segal, with 26 and 17 years of media experience respectively, were the next two members in the company's senior management team. **Exhibit 4** presents a snapshot of the senior management team.

On Steve Hogben's recruitment, Andrew Yap commented, "We want to stay on the cutting edge of the entertainment-on-demand technology. We believe this guy stays on top of things, and that's why we hired him." With him, Andrew Yap discussed the idea of developing Intertainer Asia's technology from scratch. He added:

> We realised that we had to make some major amendments to the licensed technology which was not capable of multi-character sets. We need multi-character sets for the different languages in Asia, and it might be cheaper for us to rebuild the whole thing. We redeveloped the technology in such a way that we did not violate our contractual terms with Intertainer, Inc.

and we continued our royalty payment to the company.

The Intertainer service was delivered to consumers over Internet Protocol (IP) within closed networks. **Exhibit 5** presents the technology flowchart of delivering the entertainment-on-demand services.

THE BUSINESS MODEL AND VALUE CREATION

The business model is driven by the business you are in. Our service is video-on-demand, which means we get paid with every movie purchase. Ideally, our business is revenue-sharing.

Andrew Yap
CEO and Executive Vice Chairman
Intertainer Asia

Value Proposition - "Prime Time, All the Time"

The company's business model addressed some fundamental questions, including what were the benefits to the consumers, how this company made money in this business and how it went about creating values for players in the industry. "Video-on-demand is about giving the control back to the consumers. Consumers always want control. That's why DVDs and videocassettes are selling very well. The people buy DVDs so that they can watch them anytime they want," Andrew Yap said. Perceiving that a consumer would prefer active control, the company's service gave each consumer an alternative gateway to decide what kind of entertainment content should be shown at his home.

The company focused on delivering customised and quality programmes at affordable prices in the following ways: First, the user interface was easy to navigate and it included the full VCR functionality of stop, pause, fast-forward, rewind and replay. As such, the company offered video rental services at the convenience of a home. And the consumers no longer had the hassle to return the tapes they borrowed and there were no late charges. Second, its large content offerings allowed subscribers to access a huge and varied selection of up-to-date movies and classics from home anytime, everyday. The consumers generally paid only for what they selected and each programme was made available for a 24-hour period. Third, the service was extremely friendly and highly personalised, as separate passwords could be created to allow each family member an individualised entertainment gateway through the user interface. The head of

the household, likely to be the one paying the bills, was given the authority to set programme restrictions, parental controls, and budget limits.

Key Revenue Streams

The company's business model was developed to provide multiple entertainment-on-demand services. Business revenues would be solicited from more than one avenue, including games-on-demand, fashion-on-demand, on-line advertisements, and electronic transactions, even though the company's business revenue was solely from video-on-demand service at this moment. Music videos of popular performers were first available free-of-charge as baits to acquire eyeballs. The music service would soon be offered for a low monthly fee. The management largely believed that image and status-conscious Asian consumers would readily look at fashion videos. Fashionable wear and products featured in these films and Hollywood movies would eventually be made available for consumer purchase through shopping icons embedded on screen. This represented a new revenue stream for the company. On-line interactive advertising would be developed once the company's subscription base hit a critical and stable volume. Systems that monitored purchase habits would build up a consumer profile, which the advertisers could use to tailor their advertisements. Although a variety of local and specialised content would be available subsequently, the company expected Hollywood movies to still be the key revenue driver.

Value Creation and Partnership

Intertainer Asia played an effective intermediary role in the telecommunication value chain, creating values to both the upstream and downstream players. Sales generated from entertainment-on-demand services would be split with both upstream and downstream partners, while advertising and video revenues were shared between the company and downstream infrastructure providers. Andrew Yap explained:

Carriers are good in networks; consumers want content, and they want them at affordable prices. To offer a proper service, carriers would need a lot of good content providers. There is a role for Intertainer Asia, as we source content from different providers. It's not easy to get a deal from a few studios. The studios would not sit down together on a table because they all have vested interests - all wanted to push as many

of their products as possible. Both content providers and national telecommunication carriers are big companies, and big players have big egos. They also have different agendas. Carriers want to sell network, not contents, and they don't care about what the users do with the contents. A carrier may give consumers unlimited movies, but Hollywood studios want them to pay for every single title. The interests of both sides are in conflict and they need us because of a few reasons. First, we understand what the carriers and the studios want; we give the carriers the 'pull' that they need and the studios the additional revenues per title that they look for. Second, we bring in programming expertise that the carriers do not have. Third, we build and update the security technology constantly to protect against piracy, and help the studios maximise their revenues. Furthermore, we have the support of the studios. The carriers can't get the price we are getting now. Because of that, consumers didn't have to pay expensive prices for our movies.

1. Upstream Content Providers

Intertainer Asia had concluded deals with Universal Studios and MGM by 2001. Recognising that regional content was important in driving local demands, comprehensive deals were negotiated and signed with Shaw Brothers, the Asian equivalent of MGM; Village Roadshow, a feature film distributor in the Asian markets; and Singapore's national broadcasting company, Media Corp. The negotiations led by Greg Coote were successful as he managed to secure some privilege terms, giving the company a significant price advantage over its competitors. The presence of a long-term and trusting relationship between Greg Coote and the studios was the reason why the studios preferred to work through him rather than dealing direct with the various telecommunication companies in Asia where culture, business environments, and legislation were highly diversified from country to country.

Intertainer Asia obtained their first release titles at about the same time as video stores. Although that had significantly improved its position over video stores, Andrew Yap preferred to view video stores as partners rather than competitors:

Some people are of the opinion that we will replace video stores, I don't think so. We will impact them and they will not like us coming in. However, if we can be friends, we can help each other. Our technology goes into everybody's home, but we cannot deliver physical movies, the DVDs. We can connect our electronic gateway to video stores. That's how we can partner with them.

2. Downstream Infrastructure Providers

Intertainer Asia's main partners in the region were the national telecommunication companies. The partnership deals with the telecommunication companies were based on co-promotion and revenue sharing. The agreements provided for joint marketing and sales effort. Promotional efforts were at present limited to print and on-line advertising, participation in targeted events such as regional trade exhibitions, and country-based publicity such as joint press conferences with cable companies. The infrastructure costs and consumer bills processing were borne by the telecommunication companies.

Video-on-demand service provided an extra revenue stream for the telecommunication companies. There was no other investment required from them, except in servers, to enhance streaming quality. Market statistics illustrated that the availability of video-on-demand service had a positive impact on broadband subscription rates. A US report showed that 5 percent of subscribers would terminate subscription of a digital service line in each month when video-on-demand services were excluded from the package, but the figure dropped to less than 1 percent per month when video-on-demand was included. While there was no similar figure compiled for Asian markets, the similar assumption could be applied because of the worldwide appeal of Hollywood movies and similar consumer habits.

The company positioned itself to be access neutral so as to achieve as many access points as possible. As such, it did not enter into any exclusive agreement with the downstream telecommunication partners. Andrew Yap further elaborated on this point, illustrating it using the Singaporean market as an example:

We do not have any exclusive dealing with telecommunication companies,

unless they are willing to pay us a large guarantee sum. In Singapore, we are now available on Singtel Magix Premium Surf and will soon be available on other carriers and service platforms. Without entering into exclusive deals, we are open to partner with Pacific Internet or other telcos, if they meet our minimum bandwidth requirement.

THE LANDMARK ALLIANCE WITH HEWLETT PACKARD

In July 2002, Intertainer Asia signed a landmark deal with Hewlett Packard (HP) to mark the beginning of a three-year strategic alliance between the two companies. Andrew Yap recognised the importance of maintaining technology leadership and set his company to take the lead in establishing technology protocol standards for delivering entertainment-on-demand solutions. The rationale for this strategic alliance was that the publicity generated from it would serve as an endorsement for Intertainer Asia in this early stage of development at which gaining market acceptance was extremely important. However, because of the close collaboration between the Hollywood studios and Intertainer Asia, the latter served as an effective intermediary agent between the Asian hardware equipment manufacturer and the Hollywood studios. Andrew Yap explained:

> *Hewlett Packard realised that it was crucial for them to have computers that are capable of showing media content. Hollywood is the driving force for the world's media industry today and we are constantly discussing with the Hollywood studios on their on-line security requirements. The partnership allowed Hewlett Packard to understand critical information pertaining to security and other technical specifications through us. With the information they would be able to build computers compatible with the studios' security requirements. A consumer who buys computers from HP doesn't have to download additional software to view Hollywood contents. This creates a competitive advantage for HP. Moreover, HP makes good equipment. With the collaboration, we get discounts for their equipment. HP is a big company and the alliance also gives us a stamp of approval.*

The two companies also partnered to develop entertainment-on-demand technology components for leasing to the telecommunication carriers. Instead of committing time and additional resources to upgrade its technology infrastructure, a telecommunication company partnering with Intertainer Asia had the option of utilising Intertainer Asia-Hewlett Packard solutions for a fee. This leasing option allowed the telecommunication companies to gain faster time to market, as well as lowering its upfront investment costs, which further enabled them to achieving greater ROIs.

THE SITUATION IN LATE 2002

In late 2002, Intertainer, Inc. filed an antitrust lawsuit, alleging that the Hollywood studios engaged in price-fixing activities, which substantially reduced competition. The Hollywood studios were also alleged to deprive Intertainer's access to the latest theatrical motion pictures, a fact which affected the company's ability to compete meaningfully in the movie distribution industry. All the company's services were suspended and the employees were laid off. At the time of the crisis, Intertainer Asia had launched its services in Singapore, Hong Kong and Taiwan. In the aftermath of the suspension, Andrew Yap refused to comment on the lawsuits, but offered some of his views concerning the situation:

> *The US market is crowded with content already with so many top quality films being made every year. The actual need for on-demand video services is not significant. This is unlike in Asia where the programmes are relatively poor. I can hardly survive a night without good movies. There are key differences in our business models. Intertainer, Inc. has never believed in digital television and we never understand why it is so. Everybody knows that movies are best viewed on televisions. We have two terms in the industry - lean back and lean forward. A personal computer is for the leaning forward consumers and a television is for the leaning back. Movies are for TVs more so than PCs. Intertainer, Inc. has always emphasised on the PC market. They wanted the PC viewing market to feel like the television market. I believe Intertainer, Inc. would have survived if they concentrated on the cable TV market in the US.*

We have always believed that we want to be on the TV. But the technology is not ready yet. Therefore, we go into the PC space to establish our name, to be first in the market, and to become the solution for many carriers which are hungry for our services now. We are determined to sign up all major deals and lock out our potential competitors. If we manage to get the carriers to trust us, then our competitors would have no way in. We want to get our name associated to video-on-demand like Xerox is to paper copier.

We know that it is a matter of time before broadband services get onto television through digital set-top boxes. We know that the limiting factor is cost. The technology is there but it is just too expensive now. We just have to bet on that and hopefully it is not too long before that happens. Fortunately, as of today, we can say that we are early. The set-top box market will open sometime in 2003. By the end of 2003, we will be on television.

While Andrew Yap strong believed that he offered an attractive service to his customers, was there any player in the industry who would eventually make a claim to Intertainer Asia's market niche? He might have a strong case to claim that Intertainer Asia would be able to survive even if Intertainer, Inc. could not. But, could others be persuaded to take his side?

EXHIBIT 1

THE HOLLYWOOD RELEASE CYCLE

Release window	Timing	Revenue Index
Cinema (reference)	0	1.0
Video	3 – 6 mths	2.5 – 2.8 x
Pay per view	12 – 18 mths	1.3 – 1.6 x
Pay TV	18 – 36 mths	1.0 – 1.2 x
Free-to-Air	> 36 mths	0.5 – 0.7 x

Source: CEO presentation, June 26, 2003.

EXHIBIT 2

BROADBAND PENETRATION IN ASIA

	1-Sep		1-Dec		2-Jul		Growth ratio (Dec 01 to Jul 02)	Population (millions)
	%	Subscribers	%	Subscriber	%	Subscriber		
Korea	13.3%	6,251,000	16.7%	7,805,000	18.8%	8,800,000	12.7%	46.7
Hong Kong	6.0%	415,000	9.2%	623,000	12.1%	'820,000	31.6%	6.8
Taiwan	2.9%	890,000	5.2%	1,130,000	6.0%	'1,300,000*	15.0%	21.7
USA	3.5%	9,616,000	4.1%	10,134,000	5.7%	'14,000,000*	38.1%	247
Japan	1.0%	1,258,000	2.2%	2,824,000	4.4%	'5,624,000	99.2%	128
Singapore	2.8%	100,000	3.4%	120,000	4.3%	'150,000*	25.0%	3.5
EU	1.8%	685,000	2.3%	860,000	2.7%	'1,000,000*	16.3%	37.3

Source: Korea: Ministry of Information and Communication; Hong Kong: Office of Telecommunication Authority (OFTA); Taiwan: Institute for Information Industry (III); US: Federal Communications Commission (FCC); Singapore: various sources; EU: Development of Broadband Access Platforms in Europe, The European Commission, Japan: Ministry of Home Affairs, Public Administration, Post & Telecommunication.
*: Estimated

Source: Aizu, I. (September 29, 2002). *A Comparative Study of Broadband in Asia: Deployment and Policy.* Retrieved April 23, 2003, from http://www.anr.org/web/html/output/2002/bbasia0929.pdf. Reproduced with permission from Izumi Aizu, Asia Network Research.

EXHIBIT 3

DIGITAL VERIFICATION AND PROTECTION

Digital Verification and Protection (DVP) protects digital content from being exposed to aggressive software and from hardware recording devices. DVP is able to identify hardware that users may have connected to their PC (or set top box) during any stage of streaming or downloading that would enable them to copy content without authorisation. Upon detection of such a device, DVP suspends the download or streaming until the device is removed. The same process is applicable for software. DVP is able to ensure content security while also maintaining user privacy.

BENEFITS OF DVP

DVP essentially fills existing security gaps in the delivery of digital content through broadband connections. The currently available encryption solutions provide a level of security for content transporting between destinations. Once decrypted, however, there is nothing that can prevent a user copying the content in digital or analogue format. DVP now provides this security. The benefit of this security layer is substantial as content providers can be assured that the value of their content will be maintained by preventing unauthorised copying and distributing, thus removing a major barrier to the licensing of this content.

The prevention of users copying content provides significant commercial benefits as well. Authorised channels can now compete without the risk of facing pirate distributors providing content without appropriate licenses and undercutting pricing. The user experience is non-threatening as DVP works in a way that is (i) non-intrusive and customer friendly; (ii) maintains complete privacy of users; (iii) requires no special technical knowledge or training of users. The maintenance of DVP and the extensive list of authorised and unauthorised hardware and software is administered by Intertainer Asia, allowing distributors and content providers to remain focused on their core business knowing that their security requirements are being maintained. Content providers and distributors have the opportunity to determine which and hardware they consider to be a risk.

HOW DOES DVP WORK?

DVP is highly flexible and responsive to the fast-moving development of new copying software and hardware devices. Intertainer Asia maintains a list of authorised and unauthorised software and hardware updates this list in real-time via a self-learning database. If a new content copying application becomes available, DVP can be updated within 24 hours and implemented to prevent unauthorised copying from these newly identified devices. This is without the time-consuming and costly efforts of Distributor and User software upgrades and hardware installations. All updates are performed on the DVP system, maintained by Intertainer Asia.

DVP maintains a database of device (software and hardware) configuration information. DVP then uses this database of information to determine if a user's PC or STB contains any authorised device that may pose a threat to the content requested by the user. For example, the user may have a digital recording device attachment to their PC. In this case, DVP would determine that a threat does exist and deny the request to view content until the device is removed.

The DVP database consists of a list of all known devices and places them into three categories: White, Grey and Black. A "White" list device or application is approved for use on the user's PC or STB whilst viewing content. "Grey" devices are those that are not recognised by DVP or the content provider and distributor are in the process of determining the risk to their product. In this case, business rules can be set to allow viewing, suspend viewing for an interim period or not allow viewing at all. These rules can be tailored to meet individual customer requirements. "Black" devices are those that have been identified as unacceptable and are not permitted to be present on a user's PC or STB whilst accessing the Intertainer Asia service.

Source: Company Document.

AsiaCase.com
THE ASIAN BUSINESS CASE CENTRE

EXHIBIT 4

THE PROFILE OF INTERTAINER ASIA'S SENIOR MANAGEMENT

Name	Position	Yrs Exp.	Experience
Greg Coote	Executive Chairman	31	Village Roadshow, Ten Network (Aus), Columbia Pictures
Andrew Yap	Chief Executive Officer	13	YTC Group
Robin Payne	President	16	Macquarie Bank
Tony Manton	SVP - Programming	26	Viacom International, Turner International, New Skies Satellites
Steve Hogben	Chief Technology Officer	21	OTC (Telstra), Cable and Wireless
Carl Segal	SVP - Production	17	Intertainer, VDI Multimedia, The Hit Factory

Source: CEO's presentation, June 26, 2003.

EXHIBIT 5

TECHNOLOGY PROCESS FLOWCHART
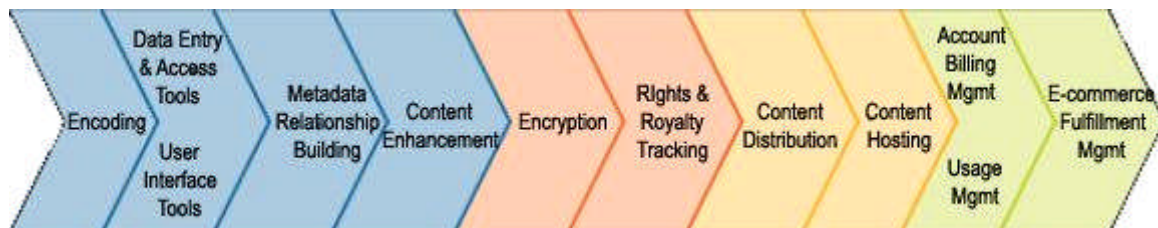
Content Management

Intertainer Asia utilises its own Content Management System (CMS), a proprietary, secure, web-based application, to manage content rights, metadata and royalty reporting.

The CMS automates the content management workflow from receipt of source materials through encoding, quality control, metadata entry and release of content to local servers for streaming to users. CMS manages Intertainer's vast library of digital content in three stages: preparation, programming, and publishing. It also ensures the quality of the content before it is ready for viewing. Content is encoded using the standards developed by MPEG (Moving Picture Expert Group) committee at Intertainer Asia's production facility in Singapore.

Digital Rights Management & DVP

User access to the Intertainer Asia service is based on user accounts and passwords. For security reasons, user passwords are not stored in the clear. To purchase an item such as a movie, the customer must satisfy a verification process that authenticates the customer as a subscriber of the broadband provider.

Intertainer Asia also utilises Microsoft's latest Digital Rights Management (DRM) to provide the highest level of security available. Content is encrypted during the preparation phase and then distributed to media servers, where it is stored in an encrypted format. Once a user selects a specified program, a license server issues the DRM license along with a decryption key.

Intertainer Asia's obligation to international studios and other content partners includes the protection of their intellectual property from piracy. In order to achieve the required security level on open computer platform devices such as personal computers, Intertainer Asia developed a leading edge technology called Digital Verification & Protection (DVP).

DVP allows Intertainer Asia to ensure that digital content is not subjected to either software processes (e.g. media ripping software or hacked media players) and / or hardware devices (e.g. digital recording devices or devices that remove copy protection) that attempt to duplicate the streamed content. DVP & DRM allow Intertainer Asia to provide users with the latest Blockbuster movies online.

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EXHIBIT 5
(CONTINUED)

TECHNOLOGY PROCESS FLOWCHART

Content Deployment Process

Intertainer Asia is accessible to customers via Broadband Service Providers. The content deployment process begins when a user initiates the service through Intertainer's user interface (UI). Intertainer's UI is accessible through the Service Provider's portal or the Intertainer icon found on the desktop once the required operating software is successfully installed.

While some of the technologies used within Intertainer Asia are IP based and the underlying platforms are open standards based NT and Unix platforms, there is no similarity with Internet Service Provider (ISP) type businesses. Intertainer Asia does not stream content through the World Wide Web.

In addition to Intertainer Asia's partnership with DSL providers, Intertainer also partners with HFC providers to deliver the service to cable modem environments. These deployments will be supported via a load control technology developed by Intertainer to minimise network congestion.

Subscriber Management

The Intertainer Asia Subscriber Management System (SMS) is a proprietary web-based application used to administer the customers' accounts, billings and reporting. The SMS also allows Intertainer Asia to manage customer accounts in real-time, provides usage data and detailed royalty reports to content providers.

Source: Intertainer Asia. The Management of Intertainer's On-Demand Services. Retrieved September 15, 2003, from http://www.intertainerasia.com/sect02.htm