DIGITAL+

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KEY DIGITAL PLAYERS LOOK TO STREAMLINE THE COMPLEXITY OF THE SUPPLY CHAIN TO BETTER ADDRESS ROYALTY MANAGEMENT

Aptitude SOFTWARE

"Where two people are writing the same book, each believes he gets all the worry and only half the royalties."
AGATHA CHRISTIE

The Business of Managing Royalties

In the days of video rentals, the process of the entertainment supply chain was relatively simple. Physical copies of a film were ordered, printed and delivered en masse to retailers no different from any other product. The films themselves were constrained to their physical medium (VHS/DVD) and could be either rented or sold to the customer. Any agreements concerning royalties were a great deal simpler due to the fewer number of transactions that were involved. Today, where services such as Netflix offer a seemingly infinite catalogue of content to a global audience, the potential for profits in the entertainment industry has never been greater. However, the process of managing and operating the agreements about who gets a share of these profits has grown along with the potential to make them.

So how has the digital method of media consumption and distribution made everything so complicated? One of the most prominent reasons is the number of business models used to sell a single piece of digital content. For example, it could be paid for, downloaded and kept, rented, streamed for a one-off fee or accessed as a result of an annual subscription. This means a number of different prices for a single piece of content which means the royalties will need to be calculated differently for each purchase variant. Build in a range of differing charges based on customer type, bundling and jurisdictional/geographical regions as well as the sheer volume of transactions and you end up with the unenviable challenge of having to figure out exactly who's owed what and why...per download. If this wasn't enough, digital distribution channels are much more dynamic, with prices fluctuating constantly and digital service providers bundling content in a greater variety of ways. These changes will almost always affect royalty calculations.

Before services such as Netflix, the issue of organising royalties was largely the preserve of the studios that had curated the content. For a provider such as Netflix to host studios' content, they have to pay a huge license fee – for example, hosting Disney's movies for a year costs upwards of $300 million. However, once they've paid that, it is up to Disney to organise any participation and residual payments to producers, actors, writers and other contributors. These are often calculated through a wide range of complicated metrics including the magnitude of each person's contribution to the film as well as the depreciated value of the movie. A new film loses value in the same way a new car does. This challenge affects the entertainment industry at a time when providers are striving to reduce the cost of getting content to market.

Business Requirements

- Track counterparty relationships and rights (contracts)
- Tracking sales against contracts
- Granular sales reporting
- Calculate revenue shares & royalties
- Post accruals
- Reconcile invoices from supply chain
- Manage payments made to supply chain and collected from consumers
- Management reporting and analysis

For more information call us on
+1 617 273 8289 (US) • +44 (0) 207 496 8100 (UK)
or email info@aptitudesoftware.com

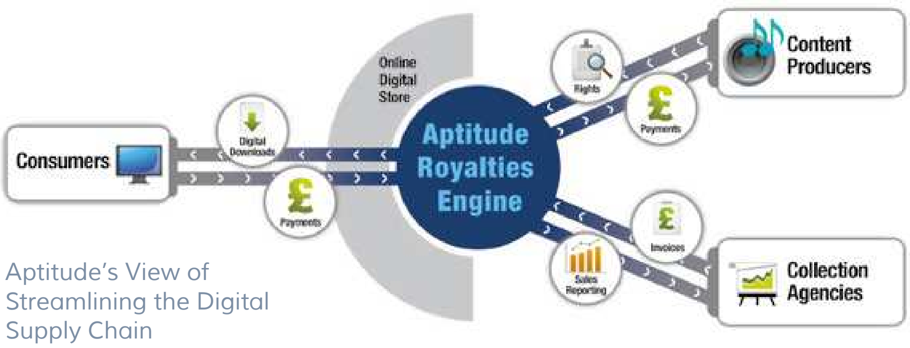
The Pressing Challenge

Royalty management challenges are no longer limited to the big studios. Take House of Cards for instance, Netflix's initial foray into the creation of its own material. It cost around $100 million to produce the series and get it in front of the public (a lot less than the cost of a Disney or Warner Bros license) and also helped them grab around 2 million new customers which significantly contributed to a 17% increase in revenue from the previous year. With such positive results, it seems likely providers will look to offer more home-grown content in the future although, for the time being at least, they'll be dependent on studios for the majority of their catalogue. However, providers who choose to offer their own content will have to tackle the same royalty management issues as the studios, while continuing to pay for licenses and reimburse collection societies and agencies such as Harry Fox who aid in the provisioning of the material. To do this effectively will require an increasing focus on optimising or upgrading the systems in place to deal with royalties.

The Current State of Play

Digital music providers have led the way in developing systems to calculate royalty payments to the various collection agencies and claimants who require a percentage of the sale of any given song. Aptitude works with digital service providers to implement systems that can accurately calculate and efficiently report to rights holders and collection societies about which songs have been sold. In the digital music industry, existing systems can limit how efficiently suppliers can report sales, reconcile representation rights and calculate royalty expenses. Inertia in the adoption of global communication standards (like DDEX) and the lack of universal song identifiers burden this process. Managing cash flow is often a major challenge for digital service providers who need to accurately forecast outgoing royalty expenses. With new purpose-built royalty management systems, many providers have cut sales reporting time from weeks to hours, and can more easily resolve disputes with rights holders, ensuring that they are paid promptly and correctly.

So, what can be done to streamline your royalty management processes?



Aptitude's View of Streamlining the Digital Supply Chain

In many ways, the challenges are the same regardless of whether you're selling digital movies, applications, music, news or books. A royalty management system should automate the process of generating sales reports, ingesting invoices from content providers, reconciling rights, and generating accruals. An appropriate solution should be flexible enough to manage new business models and ways of selling content in an industry that has the potential to do anything but remain static.

The current state of the digital media industry is characterized by complex supply chains, widely distributed content and varying rights agreements. The arguments rage on about the fairness of how royalties are calculated and distributed but regardless of their value, they still need to be accurately reconciled to avoid disputes and potential costs later on. By the support for and use of supply chain messaging standards and by getting the systems in place to deal with these and future business processes efficiently, content creators, distributors and providers can better work together to get great products in front of a paying audience.

For more information call us on
+1 617 273 8289 (US) • +44 (0) 207 496 8100 (UK)
or email info@aptitudesoftware.com