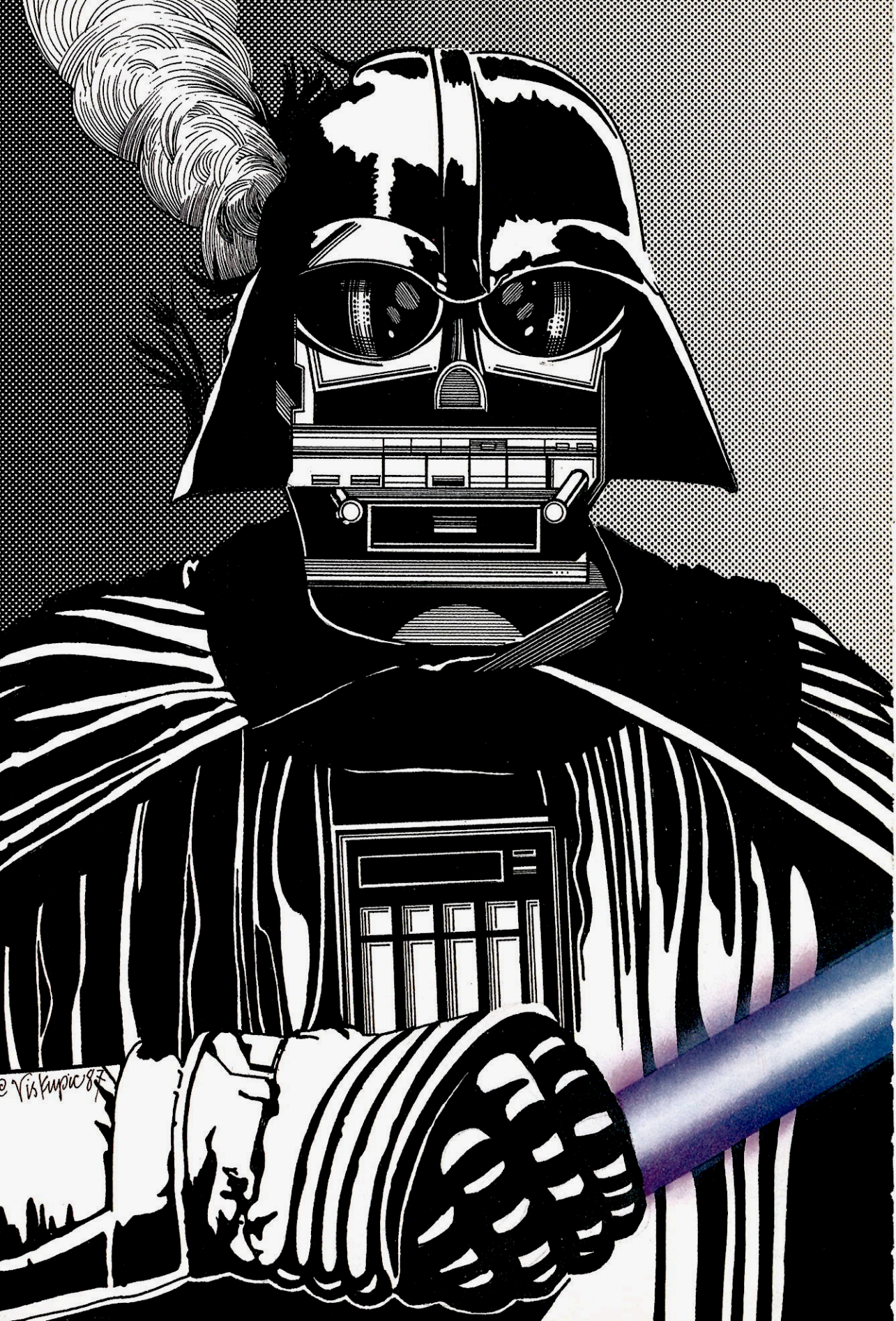


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THE PERFECT VISION





THE SAD LIFE AND HARD TIMES OF BETAMAX

by Rob Sabin

Let's start by getting one fact straight: Betamax is not dead; Betamax is not dying. What Betamax is doing is changing.

This is worth noting up front, because all the indicators seem to spell demise for Sony's 1/2-inch format. Down in the street, it is being squeezed out by the Video Home System, VHS, as it has for 10 of its 11 years. As you read this, Beta is choking; gasping for breath in a frenzied retail arena ruled by numbers and bottom lines. Hardware is difficult to find. Prerecorded software is drying up, as manufacturers and distributors face the grim reality of their bar charts. In pro-Beta pockets of America, rental shops are feeling the ire of customers who view themselves as video orphans.

It's almost hard to believe. All of this, despite a series of innovations that are at best heroic, at worst, too little too late. Today, after Beta, Beta II, Beta III, Beta-movie, Beta hi-fi,

Super-Beta, Super-Beta Theater and Super Hi-band Beta, the end—at least in the mass-market sense—appears to be drawing near.

And this time it looks like nothing in the doctor's bag of tricks, not even Sony's, will make a difference.

But then, these inventions never mattered from a business standpoint, except to slow the entropy; and they barely did that. The Electronics Industry Association, the industry spokesgroup, conducted a major study on the VCR market last year. The research confirmed that only 9 percent of 10.75 million VCRs sold in 1985 were Beta; 90 percent were VHS and 1 percent was 8mm.

The EIA figures showed a steady drop in Beta's market share from 1980 of about 4 percent a year. One anomaly was in 1984, when the format slid only 2 percent—possibly a result of its exclusive on hi-fi sound. The only other was in 1985, when it slipped 6 percent. Apparently Super-Beta, which hit the market in mid-1985, didn't even blip the screen on market share. If we assume a four-point drop during 1986, Beta captured about

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5 percent of all VCR purchases last year, or 650,000 of 13 million units.¹

The software figures are nearly as depressing. Sony's own tape division estimates that of 232 million blank video cassettes sold in 1985, 32 million units were in the Beta format. While it's too early for the 1986 numbers, industry execs put total US blank video cassette sales at around 280 million units, with Beta capturing about a 10-percent share. The conventional wisdom is that software sales follow the hardware. But if we review the activity in the pre-recorded tape business over the last year, the line becomes hazy. It's the classic question turned on its ear: Which dies first, the chicken or the egg?

We'll get to that later. But these stats are offered here to support a point: Beta is a story with no middle. It has only a beginning, set in the distant electronics history of the mid-70s, and a metamorphosis, which formally began last year but has not yet followed its course. The only thing notable between was the landmark Betamax case, in which Sony stood alone against the Hollywood studios, successfully protecting the industry that ironically passed it by. Other than that, the years from 1977 to 1986 were just one long ride down hill.

The Beginning

The Japanese do business in funny ways. They are as ruthless as any American executives who find themselves in furious battle for an emerging market, but they are honorable.

This is important, because it was ultimately honor—and a little slip in technical judgment—that nailed Beta back at point one. When the book is finally written on the home-video business, it will show that the tragedy of Betamax was not what Sony did throughout its history, but what it didn't do at the start.

The world's oldest video-cassette format is the 3/4-inch U-Matic, which was intended for the professional market and is still used in the broadcast and audio/visual fields. It was conceived by Sony, but actually brought to market by an historic agreement between three firms. The three were the giant Matsushita—which today owns Panasonic and Quasar in the US—

¹ The real figure is probably worse. Sony has said publicly that it sold about 300,000 Beta decks in the US last year. Since the firm is virtually alone in actively marketing the format here and producing stock specifically for sale in the US, industry-wide US Beta sales for 1986 may not be much more than the Sony number. Based on this, the industry newsletter Video Week recently gave Beta a 2.3% share of market for the year.

Sony, and an independent Matsushita subsidiary, the Victor Company of Japan (JVC).

In 1970, representatives of these three firms sat down at a trade show to discuss the 3/4-inch VCR prototypes each was working on. The decision was made that all three would share their research, then focus on the technology that showed the most promise. According to Arthur D. Little researchers P. Ranganath Nayak and John Ketteringham, who tracked the development of VHS



for their book *Breakthroughs!*,² there was also an agreement made that day to share future research on new video technologies.

The machine the group chose to iron the kinks from was Sony's U-Matic, which became a reality years before any VCR might have otherwise been possible. The agreement is said to have called for free use (then and in the future) of each firm's VCR-related patents, which immediately guaranteed a unified launch. More important, the agreement also bore an industry-wide standard that was clearly the best for the time, and it still exists today. Had that marketing ploy been followed later by the same three principals, the Beta/VHS battle would never have developed.

After the launch of U-Matic, all three firms went back to their labs to fulfill the dream of an affordable home deck. With the stakes now considerably higher, they stopped sharing information about the emerging generation of 1/2-inch recorders. Sony and JVC both began by using the U-Matic system as a base, trying to bring the price and size down to consumer level. But when Sony eventually succeeded and invented Betamax, JVC

² Published by Rawson Associates, New York, NY, 1986.

junked U-Matic entirely, opting instead to design the thing from scratch.

It was this difference in technical approach that led to Sony's release of a machine that, like U-Matic, recorded only one hour of program material. Meanwhile, JVC worked to bring its two-hour VHS to market quickly thereafter.³

As JVC set out to develop VHS, its engineers produced a set of interlocking guidelines, which came to be known as "the matrix." These were 12 rules they believed must be met for a successful home VCR. Among them were two critical qualifications which went beyond having an affordable machine with cheap software. First was that it must record up to two hours—long enough so consumers could tape a typical feature film. But what turned out to be more important later on was JVC's vision of a VCR industry. Any home deck, the engineers believed strongly, should be compatible with other manufacturers VCRs so the tape would be interchangeable.

This last point led JVC to work hard—very hard—at rallying other electronics makers behind its invention. For Sony, it was this marketing reality, not the relatively mundane matter of a simple technical limitation, that became Beta's Achilles Heel.

There were other technical differences between the original Betamax and VHS models that made VHS the better mousetrap. The VHS model was smaller and lighter, weighing about 29 pounds compared with Beta's 46 pounds. From the start, the VHS format had a built-in timer, while early Betamax decks required a clunky outboard device for unattended time shifting. And JVC engineers claim that VHS was also easier to produce, making it more attractive to other manufacturers.

Still, these things might not have been enough to unite the likes of Matsushita, Hitachi, Sharp, and Mitsubishi had they already been locked into Beta. As the first in the marketplace, Sony might have convinced these firms to join it in establishing the format. But by the time JVC began making the rounds in early 1976 with a VHS prototype, Sony—through shortsightedness or arrogance—had

³ The trade magazines of the day indicate that there were actually two other incompatible VCR formats with two-hour record capability that came to the US market after Beta and before VHS. First was Sanyo's "V-Cord II," the world's second consumer VCR. The other was a Matsushita format known as VX-2000; it was sold here as "The Great Time Machine" under the then recently acquired Quasar label. Both systems appeared only momentarily. Matsushita quickly switched to JVC's VHS; at about the same time, Sanyo sided with Sony on Betamax.

unknowingly knocked Beta right out of the big picture.

Sony did offer Beta to a few select manufacturers before it was launched. According to the weekly industry newsletter *TV Digest*, Sony took Betamax to the United States and showed it to executives at RCA in 1974, about seven months before its US debut the following June. As the leading television brand in the US, RCA would have made a powerful ally. But RCA didn't bite. Nayak and Ketteringham suggest that RCA's execs saw the machine's faults right away. But more important, the researchers learned—and others have confirmed—that Sony's approach was inflexible. Sony was not prepared to work with RCA or anyone else on improving or reworking the technology. Betamax was a take-it-or-leave-it offer.

After trying unsuccessfully to sell Beta to RCA, Sony went back to the other two companies with which it had signed the original U-Matic agreement—Matsushita and JVC. But by then, Matsushita, which owned (and still does own) just over 50 percent of JVC, knew what was going on in JVC's lab, and saw the weakness in Beta's short record time. Furthermore, Matsushita's venerable old chairman and founder, Konosuke Matsushita, was said to have been dismayed that Sony had committed itself to a one-hour limitation without asking his company's opinion.

Though VHS was still many months off, both firms respectfully declined Sony's offer—but not before asking whether Sony intended to call a meeting like their earlier U-Matic conference, to share the technology and standardize an industry format. The answer was no. *Fortune* magazine quoted a spokesman for one of the early lookers in a 1985 Sony profile: "Morita's attitude was, 'We completed this one, so why don't you follow.' There was no scope for advice or joint development."

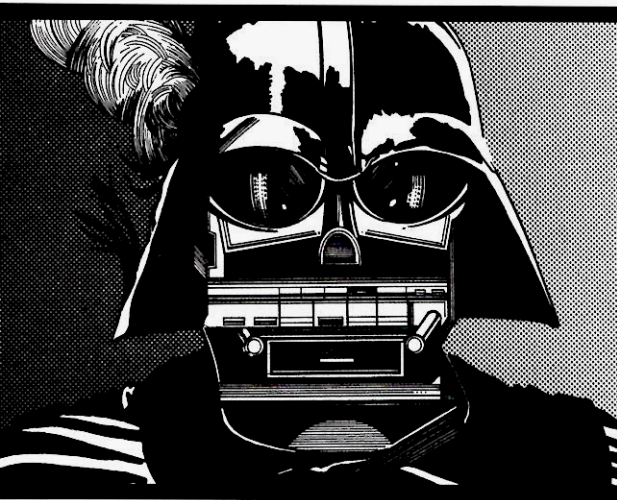
Years later, Akio Morita, Sony's chairman, painfully admitted his mistakes with Beta. "We didn't put enough effort into making a family," he told *Fortune*. "The other side, coming later, made a family."

Betamax was formally introduced in the US in May of 1975, and hit the market the following October. The first Betamax unit was offered only in a console with a 19-inch Trinitron color TV. List price for the system was \$2,295; a 60-minute tape went for \$15.95. It was later followed by a deck-only package that carried a list of \$1,300.

In early 1976, when an advanced VHS prototype was ready, JVC carefully approached Matsushita, Hitachi, Sharp, and Mitsubishi, who together

represented a huge powerbase in Japan's electronics business and overall economy. But JVC's approach was conciliatory; it knew that these firms would be too proud, and have too much invested in their own prototypes, to concede a great breakthrough to a small company like JVC. Unlike Sony, JVC offered to accept the best technology from among the group, as long as they all worked together. With only limited manufacturing facilities of its own, (and confident that VHS was the answer), JVC needed their support in establishing a format. So the company did whatever it had to do to insure its slice, right from the start, of what would surely be a large enough market for all of them.

The rest, as they say, is history. VHS was shown publicly for the first time in Japan on September 9, 1976; it reached US shores about a year later. By then, Sony had managed to convince Sanyo



and Toshiba in Japan, and Zenith in the United States, to market Betamax. They were later joined by Nippon Electric Company (NEC) and Aiwa. But JVC had added RCA to its already strong allies, which launched the product in the US with a massive marketing effort that is still viewed with awe in the industry.⁴

Other VHS manufacturers followed, drawn partly by development of a four-hour VHS machine, marketed first by RCA and Panasonic (Matsushita). This enabled for the first time the recording of lengthy sports events. By late 1977, VHS backers in the US included Matsushita companies JVC, Panasonic and Quasar; RCA; General Electric;

⁴ Reports say that after the introduction of VHS, Sony's Morita visited Konosuke Matsushita once more and asked the great industrialist to recall JVC's format and join Sony in establishing Beta. The old man declined.

GTE Sylvania; and Magnavox (owned by the dutch giant Philips). VHS also managed to get a better stranglehold on the European market than Beta.

At about the same time VHS came here in October of 1977, Sony showed a two-hour Betamax to US retailers, though the tape for it would not be available until the following spring. That innovation was too late by then to stop the massive VHS marketing machine, as were the others that followed. In the early 80s, when prices on the decks finally came down low enough and the video boom started in earnest, VHS hardware and software were far more entrenched than Beta. Despite what was regarded by many as better picture quality, and its now-acceptable record times, the American consumer was unimpressed. If Beta was truly the superior technology, it didn't matter. Thirsty for video, they drank from the first stream they came to. They did not stop to shop for Perrier.

In their book, Nayak and Ketteringham best summed up JVC's success—and Sony's failure. "The JVC policy," they wrote, "of very delicately bringing competitors into their confidence, and then inviting them to help build, sell, and refine VHS technology, was the stroke of humility that finally standardized a format for the home-use video cassette recorder, and opened the marketplace."

Beta Today

So let's go back to the top: Beta is not dying. Rather, it is evolving from a mass consumer item to the videophile product that Sony has been pushing since 8mm became the Great White Hope for its mass market woes.

What's causing this transformation are changes in the prerecorded software business—reactions to the declining market which may also be forcing Beta from the video stores. The format has finally deteriorated so far that software suppliers, distributors, and most retailers have completely lost their economies of scale. Beta has gone from being an adjunct of the business to a royal-pain-in-the-neck. Nobody in the channel, except the consumer, can afford it anymore.


This has been evidenced by some recent moves that amount to yanking the power cord on Beta. Since the beginning of 1986, portions of the industry have begun to slowly turn their backs on the format, while others have rushed to supply the equivalent of a video tourniquet. What's interesting is that this activity seems to have picked up steam in the waning days of 1986 and these first few weeks of '87. Beta's Day of Reckoning, it appears, is fast arriving.

To understand these moves, which we'll review shortly, put yourself in different shoes. If you're a duplicator, your customers are the studios and independent programmers. Your orders for Beta have been shrinking steadily, while the demand for VHS has gone up and up.

These days, you've got an overabundance of Beta duplicating machines, but only so much space available in your plant. Just as a retailer worries about dollars generated per-square-foot, you may find it more cost effective to put off your short Beta runs until more orders make it worth setting up the machines. Or you'll just run fewer Beta decks at one time. The result is that your customers, the studios, wait for their Beta titles while you churn out their high-demand VHS tapes. In turn, their customers, the distributors and retailers, also wait, as does the Beta consumer.


This is not to accuse the duplicators of creating a supply problem with Beta tapes. It's important to note that many of the Hollywood studios and even smaller suppliers have their own duplicating facilities, or at least work closely enough with their duplicators to have some say in what gets delivered first. But when demand is high for a certain title, it becomes important to satisfy the huge and growing VHS customer-base before worrying about comparatively small pockets of Beta users.

One catalyst of this thinking is probably the advent of video sell-through. For the first time in history, 1986 saw every major studio launch a year-end promotion in which popular titles were offered for sale, as opposed to rental, at prices ranging from \$19.95 to \$29.95. These programs have attracted tremendous business from mass-merchants, department stores, and other sale-only outlets. But with only limited floor space for video, these high-volume movers tend to stay out of the Beta business. Meanwhile, their very important VHS-only orders, coupled with those from most video specialty stores have, at times, overtaxed the duplicating capacity of the industry.

 VidAmerica, an independent video label that does much of its business in sell-through, also duplicates its own titles through a subsidiary owned by its parent company. Gary Needle, VidAmerica's vice president/general manager, explains that there are no tangible extra costs involved with duplicating the shorter Beta runs. But he confirms that the hardest part is juggling resources to meet the delivery dates. "It's not a materials factor," says Needle. "It's a question of replacing VHS and Beta machines. You've got your facility space, and it's a matter

of whether you're economically using the space properly...we have to make sure our duplicating facilities are running efficiently."

From the standpoint of the video supplier, the Beta burden is more concrete. When a title is initially announced, there is a pre-order period that allows the manufacturers to judge how much of each format they should produce. Afterwards, this "catalog" title will be supplied to the distributors based on availability. For VHS titles, the demand usually warrants that suppliers keep a healthy stock. But these days, Beta reorders are spotty to the point that a large inventory could be left sitting on the shelf indefinitely—if not forever. So Beta inventories for catalog titles have become shoddy at best.

 Needle notes that his firm does keep some limited inventory on Beta titles, but that it "runs into more backorder situations" with Beta. When Beta was a more stable market, there was no problem maintaining stock. But now the realities of the market are forcing him to keep Beta inventories low, or else suffer the consequence. "Certainly, on an economy of scale, it makes sense to manufacture to greater quantities," he explains. "However, then you're sitting with inventory, so what have you accomplished? I'd rather forego the economies of scale and manufacture to suit and fill a need."

If inventory management is a problem, the packaging problem may be even more severe. The four-color packaging for video cassettes is a major expense for suppliers. To save money, print runs are usually large, with any leftover held in inventory for later use. But small Beta demand means that a large run for Beta packaging could leave the supplier sitting with a lot of very costly, very useless cardboard. At the same time, shorter runs become too expensive.

As an independent with a tighter budget than a large studio, VidAmerica was nearly forced out of the Beta market by this dilemma. The firm considered releasing its new *Power Profiles* biography series in VHS-only, Needle says, "But then we looked at it and said, 'We can't ignore this market, it's not fair to the consumers.' " So VidAmerica has become the first* supplier in the industry to develop a dual-package with a spacer that can be used to accommodate either format. The company now stands committed to Beta. "We think we've found the solution," Needle says.

* *Thought I'd seen some CBS like this.*

Further along in the chain, videotape distributors—the middlemen between the suppliers and the video specialty stores—are also feeling the Beta pinch. As a sort of clearing house for the rental stores, distributors have traditionally offered stock-balancing programs. These allow retailers to switch any sealed video cassette they've purchased for another, more popular title. The distributors then offer these titles to another retailer, or return them to the supplier for credit.

But with Beta declining so rapidly in the marketplace, it appears that retailers can't get the hang of what and how much to order. So distributors get stuck holding a lot of returned Beta stock that they can't unload, and attempt to send these tapes back to the suppliers. But the suppliers don't want them either, and so have started tightening up their Beta return policies. The distributors, in turn, have been forced to restrict their Beta stock-balancing programs.⁵

Schwartz Brothers Inc., a major video cassette distributor based in Lanham, Maryland, followed the lead of some of its competitors last December, when it eliminated Beta stock-balancing from its business vocabulary. According to the statement issued by the company, Beta accounted for less than 15 percent of SBI's overall sales, but over 75 percent of its requests for stock-balancing. "Due to the ever-tightening policies from our manufacturers, we will no longer be able to stock-balance your tapes in the Beta format," the firm informed its customers. "This is not an attempt to kill a format, but is a realistic approach to dealing with changes that are occurring in our industry."

Without stock-balancing, Beta becomes a less attractive proposition for the video specialty stores. The squeeze is on for the mom-and-pop rental shops these days. They've got 7-Eleven renting the hits for 99 cents a night right up the street. Around the corner, the mass merchants may be knocking a buck or two off the list price on the sell-through titles. Many of these rental operations just don't have the money to keep dual inventories anymore, especially when they could get stuck eating Beta.

Furthermore, even when they want Beta, the wait could be a long one. Like the manufacturers, many distributors have taken to keeping little or no Beta stock, preferring instead to order from the manufacturer as they receive orders from retail-

ers. To get their economies of scale, however, they may wait until enough Beta orders come in to constitute a quantity purchase. And even small orders may not get filled quickly at the manufacturer level if inventory is tight.

The end result of this vicious cycle is that the existing Beta customer can't get what he wants, and eventually adds a VHS machine, as many already have. Much worse, the new VCR shopper interested in renting movies may not even stop to consider Beta.

Gary Messenger, who owns the 11-store North American Video chain in the Raleigh/Durham, North Carolina region, is an outspoken advocate of Beta who still derives much of his income from the format. "The distributors are stocking so tight, you can forget about getting extra copies if you need to exchange for a defective tape," he told the trade journal, *MART* in November. "Sometimes I don't get 100 percent fill on a blockbuster title. I was shorted on [Paramount's] *Indiana Jones* in Beta, and had to wait three months for the complete order." Messenger had a similar experience with [MCA's] *Brazil*. "Five days after it was out, you couldn't find a Beta copy on the distribution level anywhere on the east coast," he said.

Even as early as last August, Beta was showing signs of scarcity. At the Video Software Dealers Association convention in Las Vegas that month, an independent retailer stood before a panel of manufacturers and distributors, and complained about her inability to get the Beta titles her customers requested. The room full of dealers reacted with resounding agreement.

1986 — A Very Strange Year

If Beta titles are tough to come by right now, it's likely to only get worse. At the beginning of 1986, Beta was minding its own business and quietly fading. But suddenly, the format began appearing in the trade headlines, and for the most part, the news was not good:

- In March, video duplicators at the International Tape and Disc Association seminar in Palm Springs were extremely pessimistic about Beta. According to president Larry Bennett of duplicator Premiere Video, his firm's Beta output had declined from 24 percent of the total in 1984 to 17 percent in 1985, with Beta reorders dropping to the 4- to 7-percent range. Edwin Pessara, vice president/general manager of Creative Video Services, reported that VHS's share of his company's output had risen to between 85 and 90 percent in 1985, up from 75 percent in late 1984. He told the industry newsletter, *VideoWeek*, that he received

⁵ In all fairness, it's likely that the distributors have been guilty of over-ordering Beta as well.

“virtually no Beta orders at all” from mass merchant accounts interested in his major customer’s line of \$9.95 cassettes. Another duplicator, Alistair Knox of Rank Video Services in Britain, predicted that Beta would soon be unviable in the U.K. “Small quantity orders get outrageously expensive,” Knox said, suggesting that retailers and duplicators will eventually cease to bother with it.

- Also in March, NEC became the first charter member of the original Beta group to discontinue Beta sales in the US. Today, Sony is virtually alone in its marketing support of the format, though



Toshiba, Aiwa and Sanyo may still be selling from inventories or on special order.

- The Electronics Industry Association-Consumer Electronics Group released the results of an exhaustive survey in April, confirming Beta’s slide to a mere 9 percent of VCR sales in 1985. As noted earlier, that figure is probably less than 5 percent today.

- Early in the year, independent programmer Kartes Video Communications, in an effort to encourage sale-only retail outlets to try video, offered a 100 percent return guarantee offer to new customers. The firm announced in July that less than 20 percent of what it sold was returned, but 95 percent of what came back was Beta. Kartes stopped selling Beta to its retail accounts, but continued to offer it to members of its mail-

order video club. Upon taking a survey of the club, however, Kartes found that only 30 percent owned a Beta machine, and 90 percent of those people also owned a VHS model.

- The Video Software Dealers Association announced the results of its annual dealer survey in August, citing information gathered during February ’86. The survey showed that the average inventory (number of tapes) among its membership stayed about the same from the year before, increasing marginally to an average of 2,589 cassettes. But the average number of titles went up by 390 to 1,958. One of various interpretations of the disparity was that stores are liquidating Beta inventory, and so are maintaining a steady volume of tapes despite the increase in titles.

- Also in August, Warner Home Video announced that it would not offer its new Jacques Cousteau series in Beta, saying the company did not anticipate sufficient demand in that format. (The firm later reneged after vehement dealer protest.) Similarly, Warner Reprise, Warner’s music video label, said it would produce new releases in VHS only, starting in September. A spokesperson said Beta had declined from 20 percent of sales when the firm was formed two years before, to less than 10 percent last summer.

At the same time, Gary Messenger, owner of the 11-store North American Video chain mentioned earlier, stated that he would not stock any titles that were not available in both formats. Messenger said nearly half of his 40,000 customers had Beta machines, and that Beta accounted for 48 percent of his sell-through business, which in turn accounted for 39 percent of his total revenue. Besides the two Warner firms, Messenger told *Video Week* that MCA and Vestron had both begun limiting Beta exchanges for distributors. With such policies, he said, the death of Beta would become a self-fulfilling prophecy, since distributors would stop buying Beta titles to keep from being stuck with them.

Video Week further reported that Prism Entertainment had stopped issuing its \$11.95 Video Collection sell-through series in Beta. The company said “Mass merchandisers don’t want Beta.”

- In recognition of an overstock problem, RCA/Columbia held a one-day Beta sale in mid-September, offering 200 catalog titles for \$7.75 each. The firm indicated that it was not getting out of the Beta business, but just wanted to clear the warehouse. In November, Alan Caplan, another strong Beta advocate and owner of the 18-store Applause Video chain in Omaha, Ne-

braska, noted he was still waiting for RCA/Columbia to make good on a delivery from the sale—for tapes that should have been sitting on their shelves. “To me, that says there’s more demand for Beta than the studios and distributors care to admit,” he told *MART*.

- In late September, the newsletter *TV Digest* published the results of its Early Warning Report service, which plugs into the hardware marketplace through dealer questionnaires. The report showed that 94.7 percent of all VCR sales among the respondents were in VHS. Only 36.8 percent of the respondents actually stocked Beta; of those, the format represented an average of 4.4 percent of total VCR unit sales (the highest quote was 15 percent, the lowest was 2 percent.) *TV Digest* said probably about 15 percent of all machines in place among consumers at that time were Beta decks.

- As October rolled around, *VideoWeek* reported that HBO/Cannon had become the first major software supplier to exclude Beta from a sell-through promotion. 13 horror films being reissued at \$29.95 for Halloween would be available in Beta, the company said, but only at the regular \$59.95 or \$69.95 price. Projected lack of demand for the format was the stated reason, though the company stressed that it was not getting out of Beta.

At the same time, independent supplier World Video said it would begin packaging every VHS cassette with a free Beta version, starting with catalog titles and new releases in November. A company spokesman estimated that three of every four video stores still carried Beta.

- In an effort to breath some new life into Beta, CBS/Fox offered distributors four weeks in December to exchange all their unsold Beta inventory on a dollar-for-dollar basis with any VHS titles. The idea was to “clean up the system” by letting the middlemen dump old stock and make room for new Beta titles in 1987. But company execs admitted it’s still up to retailers to give the format a shot by going back to ordering and stocking wide Beta libraries—and that’s an unlikely scenario. CBS/Fox, the industry leader in sales, said only 5 percent of its business is in Beta.

- Just three weeks after CBS/Fox announced its exchange program, RCA/Columbia began offering a similar format-for-format exchange to distributors. The special, one-shot deal was a follow-up to RCA/Columbia’s ending its regular Beta return program on December 19. Like CBS/Fox,

RCA/Columbia said it intends to continue offering all titles in Beta.

The same week, as noted earlier, distributor Schwartz Brothers Inc. pulled its Beta stock-balancing program for retailers. (New York-based Metro Video is another major distributor which has reportedly stopped stock-balancing Beta.)

Video Week also reported that week that starting February 1, independent supplier Video City Productions would offer a 50-percent discount on the Beta version of any new release that was ordered alongside the VHS version of the same title.

- TDK, the blank tape manufacturer, said in late December that it had experienced an unexpected surge in Beta blank tape demand. A company official, who said the format accounts for about 10 percent of TDK’s business, speculated that the demand was a function of consumer fear that Beta was on its way out.

- As the Consumer Electronics Show opened at the beginning of January, reports surfaced that Sony was negotiating a Beta distribution deal with Bell & Howell/Columbia Paramount Video Services, a large-scale duplicator. If the deal comes off, B&H/CP would move into the mail order fulfillment business, and become a direct source for consumers of Beta titles. As of February 1, the talks were continuing, and Sony was said to be speaking to other firms as well about “enhancing distribution.”

- Two weeks into the new year, HBO/Cannon announced that, starting in March, it would stop producing Beta on those titles which preordered less than 3,000 tapes total for both formats. Company execs said they expect 75 percent of HBO/Cannon’s first-half year releases to be in both formats. The company cited extremely low Beta demand on certain earlier titles as its motivation. One HBO/Cannon official noted that the time has come for the software manufacturers to start cutting back on their Beta production. Likening Beta to 8-track audio cassettes, sales director Don Rosenberg told *Video Week* that the demise of 8-track was marked by huge early returns, which the record companies were luckily able to sell as cutouts. If the video software companies “wait until everyone with a Beta deck gets a VHS deck, they’ll be stuck,” he said.

- MCA Home Video’s president Gene Giacinto reportedly told the *Hollywood Reporter* in January that MCA’s new policy was to no longer stock Beta inventory, and only produce Beta when preorders showed demand of at least 1,000 Beta units.

What Next?

There is tremendous irony in the fact that the Betamax market that Sony had all to itself 11 years ago, Sony has all to itself today. As the only hardware maker left that's actively promoting the product or attempting in any way to keep it alive, the fate of an estimated 7 million existing Beta users has become the firm's responsibility.

Despite the recent happenings in the industry, Chaz Fitzhugh, Sony's national sales manager for Betamax, is decidedly bullish on the future. He sees cries of Beta's death as not only premature, but incomprehensible. He sees the moves within the software business as caution, not abandonment. And he sees a new group of consumers growing up to take the Beta baton from those who were first to step into video back in 1975.

Fitzhugh notes first that Sony is completely committed to the hardware market. The current Betamax lineup has seven VCRs and a camcorder, with a second high-end camcorder on the way. "Our official line, and unofficial too," says Fitzhugh, "is that as long as there's a half-inch market, we will produce [Beta] machines for it."

Judging from the looks of Sony's newest VCR, he's not kidding. The device is staggering in its sophistication. Dubbed "Super Hi-band Beta," the model SL-HF1000 features a switch that kicks in an additional shift in carrier frequency over normal SuperBeta, in effect making it a super-SuperBeta deck. On top of that, it has more professional features than the average Joe could possibly ever want, today or in the 21st Century. The machine is the ultimate 1/2-inch recorder/player/editor, and it will surely find a market, perhaps from the videophile time-shifters and home-movie shooters who demand the very best image quality or dubbing capabilities.

This is good news, because these are the customers who will keep Beta alive. With camcorders becoming more commonplace, and the overall sophistication of the video consumer on the rise, Sony is counting heavily on "prosumers" and their various lesser offspring to create demand for Beta. But Fitzhugh says Sony will also continue to introduce mid- and low-end decks as well. There are substantial pockets of loyal Beta



High-tech Beta machines such as Sony's SL-HF1000, introduced late last year, should help keep the format alive.

users throughout the country—in Raleigh, Chicago, Omaha, and Cincinnati, to name a few, not to mention significant numbers in most major metropolitan areas. Many of these users already have large Beta libraries, and are expected to be looking to update their machines. At the same time, the second-VCR buyer will become widely visible for the first time in 1987, and Sony hopes to grab a chunk of that business too.

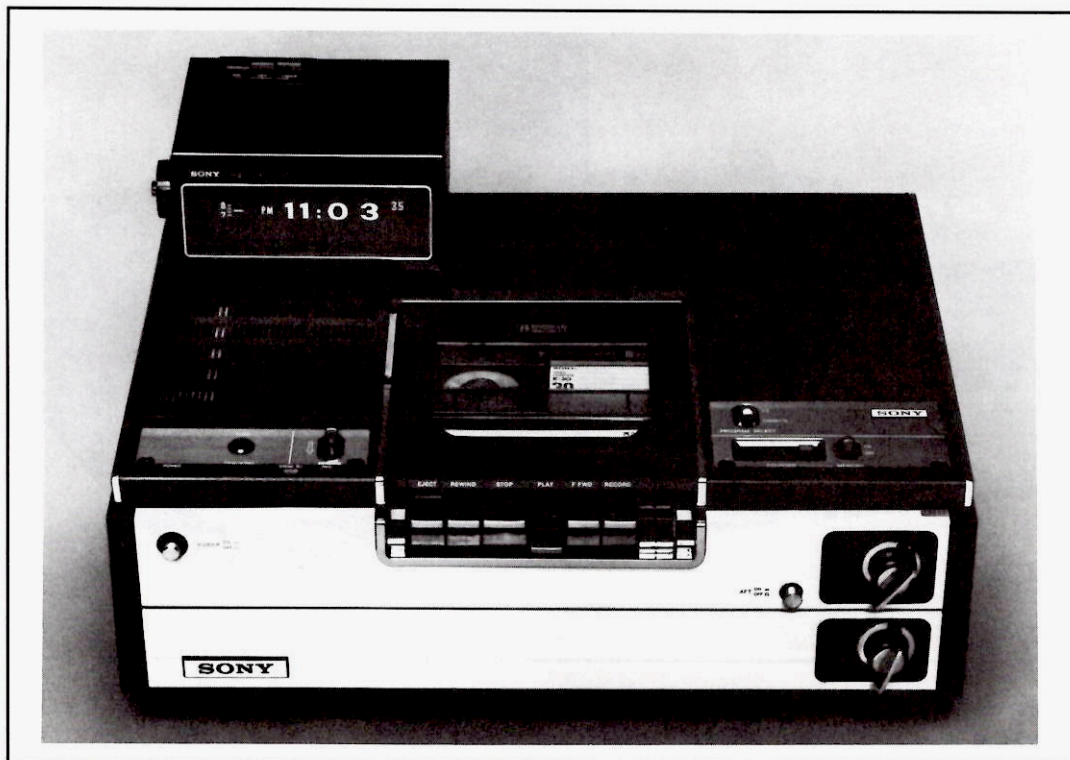
To push the format, the company has embarked on a promotional campaign which, at various times and places throughout the year, will feature Beta Clinics—essentially drawing Beta users out to have their machines checked and to introduce them to the latest gear. There will be continued advertising, possibly beginning this spring, which will pick up on Sony's sale of Beta systems to the NFL for use in training. There may be software/hardware tie-ins involving electronics retailers and local rental shops. And perhaps most important, Fitzhugh says Sony will continue to talk with—well, anyone who'll listen—to insure a flow of Beta software titles to consumers.

Will any of this help? Who knows. But consolidation of the existing Beta marketplace appears right now to be the key to Beta's survival.

The negotiations with Bell & Howell/CP mentioned earlier may be a first step in this direction. Giving consumers a small group of direct suppliers for Beta makes a great deal of sense if the format continues to lose its attraction for the average retailer. Such a system would free up anyone who didn't want to mess with the stuff, leaving the market open for a few bold entrepreneurs. Despite the lopsided VHS/Beta ratio, those 7 million Beta VCRs represent a nice business for a few hearty souls, even if they do not, by themselves, represent an industry.

North American Video's Gary Messenger seems to feel the same way. Even before CBS/Fox and RCA/Columbia offered their one-shot return deals for Beta, Messenger was calling for the studios to take back all the Beta titles that distributors wanted to unload. Afterward, he suggested, they could assign just a few distributors to handle all the Beta business. With so few distributors directly targeting the market, the return factor would be low, and the studios could expect higher profit margins as well.

The thought of serving a small but hungry Beta market has also drawn many of the smaller software labels to Beta's aid. Some of the firms mentioned earlier that have begun offering special



Sony followed its first Betamax product, a \$2300 TV/VCR console, with this outboard model. The SL-7200 was introduced in 1976 for about \$1200.

Beta deals to "support" the format are doing so because they see an opportunity. "If [the studios] are going to pull out of Beta and just not deal with it," explains VidAmerica's Gary Needle, "our product will become more meaningful in the market."

By the same token, that existing base of loyal Beta fans is also why Sony's Fitzhugh believes the studios will never fully turn their backs on Beta. Sure, some of the majors are pulling back on returns and cutting production on low-demand titles. But Fitzhugh correctly points out that none of the big players have stated any intention to get out of the Beta business entirely.

Fitzhugh sees their moves as the guarded caution of businessmen reacting to a trade media blitz and the chaos of the changing market. But what's to say that it won't settle back into a more predictable and manageable customer base? "[A prerecorded supplier] may say, 'I feel a little uncertainty here, so I'm going to pull back this program and see what happens,'" he says. "We've often seen that in American business. Someone can do something and they turn around tomorrow and say, 'Guess what fellas? Stock-balancing's back.' It's not a closed door forever."



Let's hope not, because forever is a long time, and Beta may not have that long. Fitzhugh says he just can't see Beta dying: "People would have to throw quality completely out the window," he asserts. That may be true, but while Sony pounds away on the quality theme, right around the corner is Super VHS, a recently announced advancement from JVC that could turn out to be Beta's worst nightmare. Expected

to be on sale here and in Japan as early as next summer, the system uses a wideband recording concept similar to that used in SuperBeta. When released, it will be capable of somewhere between 400 and 430 lines of horizontal picture resolution. The latter figure betters the now-reigning laser disc by five lines.

With formal specs for the system still sketchy, and practically no witnesses who can say what it looks like, Fitzhugh is reserving judgment. But whatever Super VHS turns out to be, he feels fairly confident that Sony can emerge from its labs with something that's at least its equal. Certain quarters of the industry, meanwhile, have taken to calling it "the Beta killer."

But even if JVC's latest invention *should* manage to put Beta away for good, it'll never really live up to that infamous title. Because if Beta follows the path of the 78 rpm, Super VHS will only be the last place to pin the blame. There will be those who will accuse Sony of having fouled up at the start. And there will be others who point a finger at the software industry and cry collusion.

But there's a saying in the home electronics business: The consumer makes the ultimate choice. And if Beta is the best, it is the market that has chosen otherwise, and now stands by unconcerned as it slips away. The conspiracy to kill Beta, if one exists, is a conspiracy of the masses. And it is, ultimately, a conspiracy of silence.

Bio Note: Rob Sabin is associate editor for *MART* magazine, a trade journal serving consumer electronics retailers.
