

Philips and AVC Licensing

Jan van der Meer

Potential Licensee

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Overview

- **Licensing situation within Philips**
 - Licensor
 - Licensee
- **Some Licensing issues**
- **Thoughts on AVC Licensing Structures**
 - Basics
 - Type of AVC devices
 - ◆ Bundling with MPEG-2
 - Usage fees
 - ◆ Distinguish “free” and “user-paid” content
- **Conclusion**

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Licensing situation within Philips

- **Philips is potential AVC Licensor**
 - “Interesting” patent portfolio

- **Philips is potential AVC Licensee**
 - **Active in many markets**
 - ◆ Broadcast Receivers (STBs, DTVs, ...)
 - ◆ Broadband Streaming over IP Receivers (STBs, “Streamium”, ...)
 - ◆ DVD players
 - ◆ Mobile devices and products
 - ◆ Other...

- **This presentation from potential licensee perspective**

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Some Licensing Issues (1)

- **Evolution of (proprietary) competitors since MPEG-2**
 - No obvious dominance on market place anymore
 - ◆ Many standards to choose from
 - Licensing terms become (one of the) determining factor(s) for acceptance of a standard

- **Still... added value in a single widely deployed standard**
 - Licensing terms *must* be available in a timely manner
 - Can only be achieved if licensing terms are accepted
 - ◆ Impact of licensing terms on business models *must* be acceptable to the market place

- **Evolution towards a far more complex market place**
 - Application “spaces” merge more and more

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Some Licensing Issues (2)

- **Licensing Terms must be S—I—M—P—L—E !!!**
 - **Easier said than done**
 - ◆ **Complex market place**
 - ◆ **Obvious attitude of licensors:**
 - ↳ **first solve simple cases with an immediate need**
 - ↳ **take care of more complex cases later**
 - ↳ **conditions (mobile, broadcast, ...) determine which terms apply**
 - ◆ **Result:**
 - ↳ **Regulated “safe” area’s**
 - ↳ **(many) area’s with undefined terms**
 - **When market evolves, license scheme gets more and more complex**
 - ◆ **Customers don’t understand which terms apply**
 - ◆ **License conditions easily become “controllers” for market take-off**
- **Licensing terms need broad coverage, not a narrow scope**

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Thoughts on AVC Licensing Structures

-- Introduction --

- **Objective: simple and widely deployable terms**
- **Philips suggestions for**
 - **Per device fee**
 - **Decoder / Encoder combinations**
 - **Type of AVC devices**
 - ◆ “AVC + MPEG-2” devices
 - ◆ “AVC-only” devices
 - **Licensing program per type of AVC device**
 - ◆ Bundling with MPEG-2 licensing program
 - **Usage fees**

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Thoughts on AVC Licensing Structures

-- *Device Fee* --

- **Two device fee options**
 - **HW based (“MPEG-2 like”)**
 - ◆ One fee per HW device
 - ◆ Typically paid by device manufacturer
 - ◆ Free download of decoder / encoder software once fee is paid
 - ◆ Probably no (annual) caps
 - **SW based (“MPEG-4 like”)**
 - ◆ Fee per player of company X, same for new version, same for player of company Y, etc
 - ◆ Typically paid by software provider
 - ◆ Annual cap likely to apply

➔ **Philips has preference for the HW based approach**

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Thoughts on AVC Licensing Structures

-- *Decoder / Encoder combinations* --

- Evolution towards decoder *and* encoder per device
 - PVRs
 - DVDs
 - Mobile phones

 - Little practical value in separate terms
 - Decoder
 - Encoder
 - Decoder and Encoder
- ➔ Single fee for any decoder / encoder combination

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Thoughts on AVC Licensing Structures

-- *Type of AVC devices* --

■ Two type of AVC devices

● “AVC + MPEG-2” devices

- ◆ Devices with AVC and MPEG-2 video capabilities, such as

- ↳ STBs

- ↳ DVD players

- ↳ PCs

- ◆ Rapid penetration of DVD functionality in PCs

● “AVC-only” devices

- ◆ AVC capable devices without MPEG-2 video capabilities, such as

- ↳ Mobile phones

- ↳ Video phones

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Thoughts on AVC Licensing Structures

-- Licensing program per type of AVC device --

■ Philips suggests two licensing programs

- “AVC + MPEG-2” program
 - ◆ Combined licensing fee for AVC and MPEG-2
 - ↳ Combined (AVC, MPEG-2) fee = MPEG-2 fee
 - ↳ Covers major application area's
 - ◆ AVC / MPEG-2 patent holders to decide about sharing license income
 - ↳ Sharing method to be agreed by patent holders
- “AVC-only” program
 - ◆ Fixed fee that is sufficiently low to compete with alternative proprietary codecs

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Thoughts on AVC Licensing Structures

-- Usage fees --

■ Usage fees

- Controversial
- Sometimes reasonable
 - ◆ 0.03 USD per DVD disc
- Impact on business model(s) *must* be acceptable to the market place
- Practical to implement
 - ◆ minor administrative overhead

→ **Strict conditions *must* apply on usage fees**

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Thoughts on AVC Licensing Structures

-- *“Free” and “user-paid” content* --

- Distinguish “free” content from “user-paid” content
 - “Free” content
 - ◆ Content that the user does not explicitly pay for
 - ◆ P2P, Free to Air broadcast, Free Internet content
 - Philips suggestion: do not apply usage fees for “free” content
 - “User-paid” content
 - ◆ Content that the user explicitly pays for
 - ◆ “Content package” paid by subscription
 - ↳ Pay-TV, DVD subscription
 - ◆ “Specific content” paid per item (movie, sport event)
 - ↳ DVD disc, VoD
 - Philips suggestion: consider usage fees for “user-paid” content only

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Thoughts on AVC Licensing Structures

-- Usage fees and “user-paid” content --

■ Content paid by subscription

- Number of subscribers known
 - ◆ Annual fee per subscriber is practical
- Unknown viewing time per subscriber
 - ◆ Per minute use fee not practical

→ Philips suggestion: consider annual use fee per subscriber

■ Content paid per item

- Number of sold items known
- Playback duration per item is known

→ Philips suggestion: consider per minute usage fee

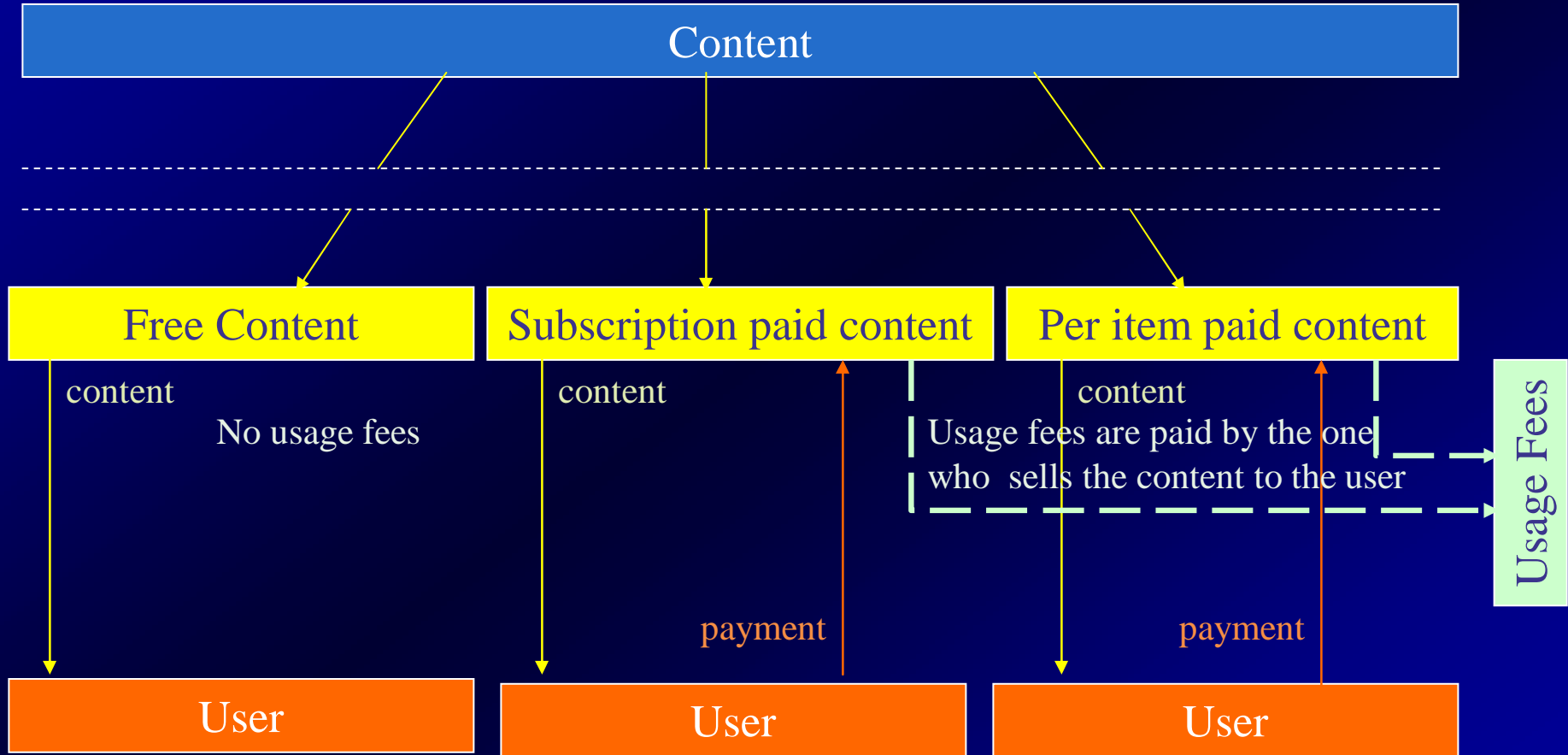
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Thoughts on AVC Licensing Structures

-- Usage Fee Model --



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Thoughts on AVC Licensing Structures

-- *Usage Fee Conclusion* --

- **Why usage fees ...**
 - Usage fees *can* be acceptable
 - Usage fees *can* be the most “fair” licensing tool
 - Usage fees *can* be very simple to implement

- **BUT... Usage fees *can also* be very un-reasonable**

- ➔ **Handle usage fees with extreme care**

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Conclusion

-- Philips Proposal for a Licensing Structure --

- **Per device fee: HW based**
 - Same fee for any decoder / encoder combination
- **Two AVC Licensing programs for per device fee**
 - “AVC + MPEG-2” devices
 - ◆ Bundling of AVC Licensing with MPEG-2 licensing program
 - “AVC-only” devices
 - ◆ Fee sufficiently low to compete with proprietary codecs
- **Usage fees**
 - Only for content that user explicitly pays for
 - ◆ By subscription
 - ◆ Per item
 - Handle with extreme care

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