

A CINE-REGIO report  
In collaboration with Filmby Aarhus

# DIGITAL REVOLUTION ENGAGING AUDIENCES

By Michael Gubbins  
MCG Film & Media  
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## EXECUTIVE SUMMARY

**THIS REPORT IS the third edition of the *Digital Revolution* series, first commissioned by Cine Regio in 2008. It argues that we are now in a period of revolutionary transformation, driven by changed consumer patterns which digital technologies have enabled and supported.**

The film industry is struggling to come to terms with these changes, in part because the term 'industry' in Europe does not refer to a single entity but a conglomeration of overwhelmingly small-and-medium-sized enterprises, involved in discrete aspects of an elongated value chain.

Different parts of this fragmented business are trying to find an impossible balance between protecting existing business models while grafting on incompatible digital elements.

The 'industry' is trying to replace an economic system based on scarcity – release windows, territorial rights etc – with 'artificial scarcity' models aimed at controlling the tide of demand.

The lesson of the music and other media industries suggests that this approach is doomed. The alternative lies in innovation and a greater understanding of a new highly demanding active audience.

But success in this on-demand world is every bit as challenging as the sceptics claim. The disruptive effect of digital change on other industries, notably music, proves the point.

This report argues that the European industry and public policy-makers at regional, national, European and international levels need to face up to the reality of change. Film needs a holistic view of strategy, a changed mindset, new skills and a sense of direction that is missing today.

### BACKGROUND

- Existing models have been crumbling, not just because of digital change but because the industry has been caught in a 'perfect storm' of a global economic downturn, a banking crisis, challenging new technologies, piracy and rapid changes in consumer behaviour
- Consumer demand for film has remained robust even in a recession, but Hollywood films remain dominant with few signs at this stage that digital change will narrow that lead in the short term
- Film has become increasingly polarised between ever-bigger global Hollywood franchises at one end and smaller budget independent work at the other
- The response to digital has been highly protectionist and insular. The digital discussion has been less about the future of film than the maintenance of the existing industry.
- The balance of the 'film industry' has changed as the 35 mm world disappears and deep divides are becoming apparent

## EUROPEAN FILM

- The bulk of European film has always struggled to make itself visible, particularly beyond its national borders, but it is becoming more marginalised, opening up a worrying generation gap
- The market for European and arthouse film is ageing and attracting young audiences is a major concern

## THE ACTIVE AUDIENCE

- Audiences are increasingly demanding choice in what they watch, where and when
- Technologies are constantly creating new ways to consume and each innovation has an impact on patterns of demand
- Engagement with audiences may open up new business models only with a complete rethink of existing practice
- A 'net-native' generation is growing up which demands choice and thinks differently about how they interact with all forms of entertainment, and with each other
- Online interaction and social networks are opening up new opportunities for film
- We are all now part of the active audience

## NEW APPROACHES

- Cross-media experiments are trying to create content that is more in tune with the way that an increasingly media-agnostic audience consumes entertainment but success stories remain scarce
- New forms of finance are opening up but remain untested
- Too much attention has been given to VOD platform building, while the underlying problems, especially digital rights, remain unresolved
- New business models need to be unchained from current restricted models. New models cannot be simply integrated into the old ones
- The fight is not between media but for consumer time against an ever-growing range of alternatives.

This third edition of the report adds 20 pages of content to the second edition, including more than 100 footnotes and new examples from digital developments.

## CHAPTER ONE: INTRODUCTION

**THE UNDERLYING TONE** of the digital debate in film has shifted in the last few years from 'if' to 'when'. Everyone now understands the inevitability of change but, for all the enthusiasm of advocates, film still seems stuck with the economics of the oil slick: we know the value is out there, we just can't work out how to pick it up.

The industry, with increasing impatience, wants to know when digital belief will turn into action.

The first step, however, is to do away with the prevalent misconception that we are in the process of 'digitisation' of the threadbare analogue industry; and to understand that we are facing a revolution in consumer behaviour with profound consequences for film itself.

We are right to ask tough questions of early adopters and technophiles: the first wave of revolutionaries often start with their head in the clouds and end up with their heads in baskets.

But until we realise that this period of change will be driven by active audiences not industry, the genuine opportunities will remain out of reach. Change will be experienced as a series of storms; and the experience of other creative industries, including music and publishing, shows how devastating to existing models demand-driven digital change can be.

What will accentuate the pain for European film is that there is no coherent single film industry in most countries. Instead it is a collection of overwhelmingly small-and-medium-sized businesses (SMEs), fragmented into specialised disciplines along an elongated value chain.

As the first edition of this report at the beginning of 2008 predicted that we were going to see old models break down much more quickly than new ones emerged.

That breakdown is being experienced in different ways by different parts of the industry, meaning that the response to digital change is further fragmented.

What has been lacking is a holistic response on which to build a strategy for the future of European film.

### WHEN

Few now doubt that profound change is coming because it is already having an impact on existing processes, and because belief has turned into action in the unwelcome form of piracy.

There is an argument that earlier action to create legitimate alternatives to piracy might have made a difference to the explosion of illegal counterfeiting. That is open to debate.

What we can be sure of is that the industry should have taken digital change much more seriously at a time when it had the financial means to support innovation.

But when times are good, it takes a force of will to focus on the future. Back in 2008, when the first edition of this report was presented at the 2008 Berlinale, the digital debate was very much on the margins.

The big discussion back then was more about how Europe could share in a multi-billion-dollar hedge-fund boom that had been fattening up Hollywood production over the preceding couple of years (before the bubble burst as the year wore on).

One could have got good odds back then predicting bank bailouts and a global economic crash but with a lack of incentive to change, there was inadequate investment in the future.

Now the economic squeeze in 2009 and 2010 has turned attention inward, centred more on protecting struggling traditional models rather than exploring new ones. Even those enthusiastic about digital potential have been working head down on trying to keep the day-to-day business afloat.

Without investment in innovation, digital change becomes wholly short-term, introspective and reactive. The timetable for digital change now seems set into a three-stage pattern:

- **Short-term resistance:** trying to protect the existing business as far as possible. This is an understandable reaction to change because the business models and infrastructure for digital transformation are not yet in place, and no one wants to be an early adopter in straitened economic times. This approach is about managing decline but inevitably opportunities are lost.
- **The transition:** limited commitment to digital ensures a hybrid period, in which analogue and digital services run side by side. The experience of digital cinema reveals how running a dual system kills off savings and sometimes increases costs while bringing few of rewards (See Chapter 7). A fragile European industry needs as short a period in transition as possible.
- **Acceptance and adaptation:** the scenarios outlined above ensure that final adoption of digital processes will come not as a result of strategy but because there is no longer any choice. This is likely to be a combination of an unacceptable decline in the traditional business, rapid changes to consumer demand and because Hollywood has decided to seize the initiative.

This is not a criticism of the specialised businesses that make up the European industry. It is that those businesses do not have the scale, the skills or the time to make the major changes necessary to drive digital change, least of all in a downturn.

And the European industry is yet to wake up to the fact that the pace of change is not in the gift of the industry – as music and publishing discovered – but in the hands of the active audience.

## HOLLYWOOD

Hollywood has significant advantages in this digital revolution. The studios have a stronger control over their destinies because they control development, production, marketing and distribution and have the muscle to influence exhibition and retail.

Most are also part of multinational conglomerates with interests in other media, games and music. Hollywood then has the scale to innovate and, following the bursting of the hedge-fund bubble, is pursuing a strategy, centred on fewer but bigger global blockbusters, increasingly in 3D.

The 3D plans remains high risk, relying on consumer willingness to pay premium rates – at least in the short term – and an accelerated rollout of digital screens worldwide.

The global blockbuster strategy is also dependent on building major franchises but the stock of winning brands with worldwide recognition, including most of the major comic superheroes and *Harry Potter*,

are rapidly being exhausted. How much mileage there is in remakes remains to be seen.

But the studios have at least the financial means to innovate. Over the last year, a number of studios have pushed aside senior executives and ditched old strategies.

Hollywood nonetheless remains an essentially conservative group of institutions and while they have driven some of the more ambitious and adventurous excursions into new media marketing, these are generally still a marginal part of the overall business.

The studios suffer from the familiar problem of big corporations. They have the money but, to use the cliché, have the manoeuvrability of supertankers.

## US INDIES

For the US independent sector, however, innovation has been more a necessary response to a slump over the last three years, summed up by former Miramax exec and Film Department chief Mark Gill in a much-quoted 2008 speech, claiming “the sky is falling.”<sup>1</sup>

The sector has struggled to get back on its feet but there have been signs of a fightback. Lower budgets, fewer productions and smarter business plans have contributed to, albeit patchy, signs of improvement.

But there has also been a willingness to experiment with new forms of distribution and marketing, driven by commercial necessity at one end and creative entrepreneurialism at the other. There has also been a growing link between producers and exhibitors in a self-distribution and DIY culture.

The active audience has certainly been at the centre of attention for many up-and-coming film-makers, excited by digital opportunities and without much of a stake in retaining the old order. This new wave does not have the backing of public funding but it does have some powerful supporters, notably among the festivals.

The Sundance Film Festival has made big strides into digital experimentation in the last couple of years and in recent years, films have been released straight to VOD or debuted on YouTube during the event itself. (See Chapter 8). Other major events have taken a position at the forefront of digital change, including South By South West (SXSW) and Tribeca.

## EUROPEAN FILM

In Europe, public funds at regional, national and European level have held back the falling sky but there is a serious debate about how far the strength of subsidy is also a weakness.

Effective public policy and business strategy must be built on clarity of purpose, but regional, national and European policy has understandably struggled to balance cultural and business objectives, not least because it operates under serious limitations, such as international trade laws, not to mention its own financial restraints.

The profound digital challengers come on top of the already all but impossible take of marrying heritage and progress; protection and reform; sustainable businesses and art. A strong set of vested interests have grown up around each of these positions that are difficult to combine into a single

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<sup>1</sup> [http://www.indiewire.com/article/first\\_person\\_film\\_departments\\_mark\\_gill\\_yes\\_the\\_sky\\_really\\_is\\_falling/#](http://www.indiewire.com/article/first_person_film_departments_mark_gill_yes_the_sky_really_is_falling/#)

strategy for film, never mind a holistic plan for the demand-driven digital economy.

As previously mentioned, the European industry is itself a confused mosaic of small-and-medium-sized specialised businesses. Few markets have the scale to create a broad strategy. The French had perhaps the most coherent industry structure, tied to a political commitment to film culture, but it is difficult to replicate, particularly in smaller countries.

So it is not surprising that the response to change from policy-makers and industry is confused, exposing not just the faultlines in today's business models but contradictory interests in moving forward. For all the endless discussions, there are few signs of a coherent conversation.

Disparate national industries are fragmented into low-margin and high risk specialisms. The rollout of D-cinema, for example, has created tensions between the component parts of the industry, particularly between distribution and exhibition. (See chapter 7)

In these debates and arguments, there has been little sense of a bigger picture. We are still talking largely about the future of the existing film industry, rather than about the future of film itself and the audiences that will decide its future.

## THE PERFECT STORM

The response to digital challenges has tended to be reactive and protectionist – or at least defined by the effect on the current models.

But it should be noted that the industries of Europe are facing a number of genuine threats, which have converged in something approaching a perfect storm:

- Over-production in relation to available conventional distribution is now a bigger problem than ever; between 2005 and 2010, the number of feature films produced in Europe increased by more than 28%<sup>2</sup>, while admissions for the period fell, DVD declined and film was pushed to the outer edges of the programme schedules. (See Chapter 5)
- Governments at regional, national and European levels are facing cuts and reorganisation in many countries. The decision to axe the UK Film Council in 2010 is perhaps the most dramatic but support for film will have to fight for public support around Europe over the coming years
- The lack of clarity and direction in a generally negative digital debate has continued. We are to a greater or lesser extent fighting fires, such as helping small cinemas go digital and introducing piracy laws; but the idea of a digital strategy is too flattering (See Chapter 7)
- While cinephiles have easier access to more content than at any time in history, the visibility of European film among younger people outside their home territory is poor. Research from Professor Elizabeth Prommer, of the University of Vienna shows that the arthouse audience is ageing and that traditional marketing is failing to connect with new audiences<sup>3</sup> (See Chapter 6). There is the danger that film becomes, in the words of Francois Truffaut, “le cinema de papa” – an art form that is irrelevant to youth

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<sup>2</sup> European Audiovisual Observatory Focus Report 2010

<sup>3</sup> Professor Elizabeth Prommer: Audience research University of Vienna

- Television, under pressure of an increasingly competitive and specialised market, has pushed film out of peak-time schedules and vital pre-sales have become very hard to find
- Widespread piracy reaching extremely high levels in some countries of Europe and new laws have yet to make a mark
- The global economic downturn has sucked private finance and investment out of the market
- There has been a general contraction of US opportunities with a crisis in specialised film
- The decline of DVD with the Blu-ray upgrade unable yet to fill the gap, despite strong growth in 2009 and 2010 and the integration of the format in to some games consoles and laptops
- And there has been a general increase in competition for customer time with new technology developments

Not all of these changes are inspired by digital change and not all are directly associated with changing customer behaviour.

But then, the catalysts for revolution often emanate from a wide variety of events. The question is how these changes are being handled. The industry may feel a single sense of pain but it should be careful not to take action that simply alleviates the symptoms rather than thoroughly addressing the different underlying causes.

## FILM POLICY

How to deal with these problems opens up a very big question – what is film for? In Europe, subsidy is justified on the grounds of ‘cultural exception’, but that concept is open to interpretation.

Should film policy be about holding back the cultural hegemony of Hollywood? Should it be about the creation and maintenance of indigenous industries? Does it mean creating content that helps develop a sense of national and regional identity and pride?

Or should policy also be focused on supporting a vibrant and participatory film culture relevant to a cross-media generation, which takes advantage of freely-available and low-cost means of production and distribution? What form should support take in a changed film culture based on a new relationship between film-maker and active audience? Given the pressure of government expenditure across Europe, it is clear that a reassessment of policies is coming in many countries.

Ironically, the area of film policy where some European countries can point to unequivocal benefits is where tax breaks attract a Hollywood shoot. A major studio production brings vital inward investment to the industry, creates employment, upgrades skills and supports the film infrastructure.

Some film bodies explicitly argue that film represents value-for-money inward investment rather than cultural subsidy when arguing for support from their own governments.

Support for ‘cultural film’ and indigenous production opens up difficult questions about the role of public support for commercial film that might survive in the marketplace on its own, or art film that cannot find an audience.

As a result, unsustainable European production companies are producing a surplus of films, which

simply cannot find audiences in the current distribution structure (See Chapter 5) and the bigger middle-tier films are struggling to find finance.

There has always been a struggle to create long-term sustainable businesses, nurture new talent, and to develop audience interest.

The Internet has fundamentally changed the relationship between customer and content, between people and brands – as the problems of the music and publishing industries demonstrate.

That is not to say that all consumers have an unstoppable love affair with technology.

In fact, it is simplicity of user experience that creates the digital breakthroughs into mainstream culture, as the iPod and mobile phone demonstrates.

It is turning of bits and bytes into apps and social networks, in the broadest sense of the term, that changes the world as David Fincher’s 2010 film *The Social Network* brilliantly illustrates.

For industry, the problem comes when user take-up of new convenient alternatives undermines the established business model.

<b>ANALOGUE</b>	<b>INTERNET</b>
<b>Windows</b>	<b>Immediate</b>
<b>Rights</b>	<b>Access</b>
<b>Industrial</b>	<b>Democratised</b>
<b>Borders</b>	<b>Global</b>
<b>Closed</b>	<b>Open</b>

The long-term danger is when an industry – and here film clearly fits – tries to maintain the traditional top-down approach that divides creators from consumers in the face of changed consumption patterns.

Europe and individual European countries have failed to come to terms with a changed consumer culture.

Even where the issues are understood, a fragmented industry and a divided continent made up of nations with a myriad of different laws, rights, cultural policies means that there are no easy answers.

What is certain is that the answers do not lie in trying to employ the tools of an analogue age to our digital future.

### **SCARCITY AND ARTIFICIAL SCARCITY**

There has, however, been one unifying factor - the centrality of the theatrical release. The big screen and the 35 mm standard have united every kind of film for more than a century but that is changing.

The theatrical business is not necessarily a victim of digital change; in fact this report argues that there is no reason why new tools should not allow a much-needed renewal of the industry’s front line.

Cinema is an 'experience' product, putting it in the same category as live music and stadium sport, that have been the unexpected beneficiaries of ubiquitous content online.

The Internet creates the potential for a world of endless perfect reproduction with universal access, but that serves to increase demand for the 'authentic' and the 'unique' experience.

The issue for the industry is that the theatre-centred system of territorial rights, release windows and ancillary sale of physical copies of film for the small screen stand in direct opposition to an increasingly demand-driven digital age.

The illustration opposite suggests that the changes we must address are built into the DNA of the digital change.

The film industry is built on a classic scarcity model. A film is available for a specific period of time in a specific territory. Value is based on the exploitation of rights within those parameters.

But online audiences expect to be able to access content, anywhere in the world, at any time. The web has no easily enforceable borders.

Many industries have discovered the impossibility of trying to change these facts of digital life, from newspapers to music.

What we want as an industry is to tame the Internet and to control the pace of change; what we want as consumers is that our changing needs are serviced and personalised. The film industry is at least as full as any other of online shoppers, social networkers and downloaders.

As consumers, we do not generally think of the impact of online news aggregation on the newspaper industry or Amazon on the high street and cinema is no different.

Our problem as the European film industry is that we have found that the online promise of lower costs, access to new markets and increased diversity has proved largely a myth. We lack the strategies, skills and data to make a sustainable impact on in this new world and limited success in VOD is sometimes at the expense of more profitable business in conventional DVD.

At present, scale still counts and so the world still favours Hollywood.

There are now an estimated 200 million registered website domain names<sup>4</sup> and yet business on the World Wide Web has created the same tendency towards monopolies as the 'real world'. iTunes, for example, accounted for 66.2% of the music download market in the third quarter of 2010<sup>5</sup>, while Google has been investigated by the European Commission in 2010 after complaints about abusing its monopoly position.

The potential has not gone away but it requires a wholesale change of mindset and radical thinking about how to create a viable industry in which European film can prosper.

This report tries to avoid negativity but equally urges a tough realism; digital change does offer

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<sup>4</sup>Verisign: [http://verisigninc.com/en\\_US/why-verisign/research-trends/domain-name-industry-brief/index.xhtml](http://verisigninc.com/en_US/why-verisign/research-trends/domain-name-industry-brief/index.xhtml)

<sup>5</sup> Market researcher NPD: [www.npd.com](http://www.npd.com)

extraordinary and unprecedented opportunities but what will cure us can also kill us; meeting customer demand cannot be done with polite adjustments to current policies.

We live in the Age of Ubiquitous Entertainment where competition is not between media but for time in a time-poor world.

That fact must be the driver of policy but unfortunately it undermines the very foundations of the film economy, which is based on controlling output by time, by platform and by territory.

We may not be talking about an exact science – factors like taste and mood still play a key role – but William Goldman’s phrase that in the film industry “nobody knows anything”<sup>6</sup> surely must be consigned to the dustbin of history.

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<sup>6</sup> Adventures In The Screen Trade

## CHAPTER TWO: DIGITAL REVOLUTION?

### IN BRIEF

- Our problems are not of demand but the structures to meet that demand
- Evolving audience behaviour is driving change
- There are no effective analogue responses to digital challenge
- Digital change must empower the active audience

**One should be suspicious of the word ‘revolution’. The term is often little more than a trite way of describing any accelerated process of change. This report argues, however, that a number of fundamental and permanent breaks with existing industrial processes are now in play.**

Disruptive change is already making an impact and clearly the digital threats and opportunities are flip sides of the same coin: trying to adapt to changing consumer patterns both undermines our current models and creates the basis for new ones.

The danger is in trying to understand and plan for this new era from the perspective of today’s business – and particularly from the narrow position of any particular discipline (producer, distributor, theatre etc)

With a blank piece of paper, one might find a convincing business plan to take film into a new on-demand digital age but that is not a realistic option because film brings with it a history, culture and industrial structure.

Given the range of competing interests and the uncertainty of the market, the distribution revolution described is not going to be bloodless.

At the same time, it is also important to acknowledge at this point that for those outside the industry, film looks anything but unhealthy. Box-office revenue figures (though not necessarily admissions) for many European countries have been relatively strong, with cinema living up to its billing as a recession-proof business.

By the beginning of 2010, James Cameron’s *Avatar* had not only taken the title of the biggest revenue earner in the history of film but put the seal on an already promising start to a new 3D era and by the end of the year two films, *Toy Story 3* and *Alice In Wonderland*, both again in 3D, exceeded \$1bn in worldwide receipts for the first time.

And there have been other positives too. While Hollywood mega-movies were responsible for much of the box-office buoyancy, there have been notable European global breakout hits, notably in 2010 the *Millennium* series of films, beginning with *The Girl With The Dragon Tattoo*, which took more than \$100m at the international box office.<sup>7</sup>

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<sup>7</sup> [www.boxofficemojo.com](http://www.boxofficemojo.com)

The Swedish thriller had the muscle of Stieg Larsson's global bestselling books behind it but there have been strong successes in local markets without such backing, a good example in 2010 being Xavier Beauvois' Cannes Grand Prix-winning *Of Gods And Men (Des hommes et des dieux)*, which topped the French box office with more than 3 million admissions by December 2010.<sup>8</sup>

None of the above undermines the core point, however. While box office will rise and fall according to the quality of releases and external factors, such as the weather and competing sports events, only the most pessimistic believe that the problem for film is a crisis of consumption.

The demand for film *per se* is not in question and the theatrical part of the business, far from being a victim, may have unprecedented opportunities to advance. (See Chapter 7)

In fact, there is no better indication of demand than the level of piracy. The real issue for film then is being able to effectively – and profitably – service sustained demand.

## THE DISTRIBUTION QUESTION

The European industry realised some time ago that the traditional means of distribution were becoming impossibly restrictive, and handing Hollywood too many advantages.

There have been a number of different attempts to level the playing field.

Some of Europe's bigger businesses to scale up through vertical and horizontal integration, diversification and international expansion.

Companies including Wild Bunch, StudioCanal and Nordisk have been working, in different ways, to create an infrastructure that is not tied to the limitations of single-territory distribution.

There was – and remains - hope that the mid-range market abandoned by Hollywood could form the basis for a new European studio structure covering production and distribution along the lines of PolyGram Filmed Entertainment (PFE), which was absorbed into the Universal Pictures in 1999.

But again, this has been a stop-start process with bold ambitions running into the global financial crisis on top of all the digital challenges raised here (and, of course, these ambitious enterprises will have to compete with each other in a tough market).

Europe may indeed need businesses of scale to be able to take on the majors, but the scarcity model based on territorial rights and release windows holds back progress.

But even if these new studios make the promised impact, below this would-be muscular middle-tier in Europe will lie the vast majority of businesses, with no chance of holding back the digital tide and without the resources, skills and often understanding to adapt.

That is a major challenge to policy-makers. This report argues that the answer lies in encouraging the creation of a culture of audience-centred innovation; incentivising producers to find and nurture

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<sup>8</sup> [www.jpbox-office.com](http://www.jpbox-office.com)

audiences for their work; and taking a holistic industry perspective of the future of film in a digital age.

## ROAD BUILDING

The last couple of years have not been all talk and no action. Digital cinema installations, for all the problems outlined in Chapter 7, for example, have seen considerable progress, driven strongly by 3D.

And there have been areas of real growth in new media and mobile platforms. The European Audiovisual Observatory reported close to 700 on-demand channels in Europe at the end of 2009, almost double the year before (See Chapter 8 for more).<sup>9</sup> At least part of this rise has been encouraged by support from many national governments and European bodies.

But there are questions about how far film policies deliver long-term value to the industry as a whole. As James Boyle, professor of law at the US Duke's University, and one of the founders of Creative Commons (See Chapter 9) has pointed out, much of this investment follows an analogue mindset.<sup>10</sup>

Talking at a conference organised by UK innovation agency NESTA, he drew parallels in government industrial policy during previous downturns. Receding financial markets, he said, often brought a rush to create capital projects to keep the economy moving with a 'fetishisation' of infrastructure, particularly roads.

The same pattern can be seen in the chase to create new media 'platforms'. Instead of motorways, there are high-speed networks and channels upon which a new economy is meant to rise.

But in the haste to build, the point is often missed. Networks are not the cables, he argues, but the interaction between users. Creating platforms should not be pursued as an easier (albeit more expensive) option than changing culture.

Or to put it in a more familiar cinematic language – the film industry and governments have been pursuing the Kevin Costner *Field Of Dreams* approach – "if you build it, they will come." And so, there has been extraordinary growth in the number of platforms but without clarity on how consumers might use them. (See Chapter 8 for more)

The proliferation of VOD platforms is confusing and even well-established sites struggle to create a coherent body of content because of the confused and complex nature of film rights. There are no signs that these new platforms have increased the interest in film outside the core audience. Building infrastructure without addressing the underlying issues is wasteful.

## CONSUMER REVOLUTION

If there is one change in tone in the last two years, it is that everyone is at least now talking about 'audiences', even if there remains a reluctance to talk of 'consumers' or 'customers.'

Indeed the need to 'engage' with audiences has become something of a mantra, which seems an odd revelation for a centenarian entertainment business but it demonstrates a truth – that there is a gulf between producer and consumer.

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<sup>9</sup> [http://www.obs.coe.int/online\\_publication/reports/focus2010.pdf](http://www.obs.coe.int/online_publication/reports/focus2010.pdf)

<sup>10</sup> Creative Commons website: [www.creativecommons.org](http://www.creativecommons.org)

In truth, there has been little incentive to bridge that gap, or indeed the mechanisms for making it possible. Given the relatively poor potential for recoupment on even relatively successful films in much of Europe, most independent producers have understandably found their motivation in financing the next project, festival appearances and awards. Box office and audience engagement have been left to the other players in the value chain.

But there is another way of looking at audiences and that is to see them not as anonymous consumers of an end product but as an active part of the film-making process: as potential creative collaborators; as the foundation on which to build an informed distribution policy; and as supporters who can be powerful allies in marketing.

The audience then becomes not the recipient of products but the basis of the business value. As the next chapter demonstrates, this active audience opens up exciting opportunities.

But with potential rewards come responsibilities and a willingness by producers to look beyond their immediate environment.

One of the strongest advocates of change, veteran US independent producer Ted Hope: "Cinema is no longer the most complete and representative art form for the world we inhabit.

"It no longer mirrors how we live in the world; cinema is now a rarefied pleasure requiring us to conform to a location-centric, abbreviated passive experience that is nothing like the world we engage with day to day."<sup>11</sup>

Changing to a renewed and re-engaged film industry that can reach out to the on-demand generation requires a rethink of the industrial processes of film, beginning as well as ending with the active audience.

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<sup>11</sup> Ted Hope blog: Truly Free Film: [www.hopeforfilm.com](http://www.hopeforfilm.com)

## CHAPTER THREE: THE ACTIVE AUDIENCE

### IN BRIEF

- Audience engagement will drive new business models
- Restrictions and protectionism bring medium and long-term risks
- Theatres can thrive in the new media ecosystem
- The active audience is creating a demand-driven economy

**We live in an ‘on-demand’ culture. It’s not a term that most consumers use but it has passed into business language: a Google search returns more than 300 million articles. Most of us instinctively recognise what the term describes – as consumers, we insist on control of our leisure time and we expect content to be available where and when we want it and on whatever platform we choose.**

The barrier to this world is not technology: this emerging Age of Ubiquitous Entertainment has been sustained by constant innovation.

Since the last report, there have been many significant hardware and software advances, including the iPhone, iPad, Internet slabs, eReaders, Twitter, Google Chrome and Windows 7

Whats more, we are on the brink of more highly-significant developments, including internet-enabled television, next-generation multimedia search engines and 3D TV and ‘cloud’ computing, which is beginning to make its mark on music.

The mobile market may be particularly significant given that in 2010, there will be an estimated 5 billion cellphone users worldwide.<sup>12</sup> By 2014, 92% of mobile devices in Western Europe will be able to access the internet through 3G, up 135% on today.<sup>13</sup>

The costs of accessing all this power have been coming down. Moore’s Law, which states that the processing power of computer circuits will double roughly every 18 months, is holding true, giving us all access to cheap electronic equipment with the kind of performance that would have been unthinkable decade ago at ever cheaper prices.

Internet penetration in Europe is now well above 50% (and above 90% in parts of Scandinavia). That equates to an average rise of more than 350% in the last 10 years.<sup>14</sup> Broadband access has also progressed at an astonishing rate, opening up new forms of global communication and entertainment. As soon as faster speeds and bigger pipes are created, consumers find new uses – legitimate and illegal.

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<sup>12</sup> International Telecommunication Union

<sup>13</sup> Morgan Stanley research

<sup>14</sup> [www.internetworldstats.com](http://www.internetworldstats.com)

These technology developments over the last decade have shown that users will find value that was not always intended (mobile telephone manufacturers, for example, did not see texting as a service that would change consumer culture). So predictions of the future film business should be treated with caution; the active audience rather than industry increasingly decides how and what they consume.

YouTube is a fine example of what can be achieved when a service attuned to the potential of online use creates and builds a huge community of active users. Less than five years since its launch, more than 700 billion videos were watched in 2010.<sup>15</sup>

One of the inventions that had not even hit the market two years ago – the iPhone – demonstrates the commercial potential of an always-on, intuitive product that can be adapted to the way its owners live and think. It has shown that people will spend money if content is compelling and the payment method easy (a key factor in subscription and other payment models).

The iPhone, like the iPod, has generated consumer demand by creating a desirable interface with consumers every bit as much as useful technology. They are brands with whom owners feel they have a personal relationship.

In fact, the technologies that succeed with consumers are ones that feel the least technical. The mass market is not interested in gadgets but in convenience, fashion and functionality.

The household-name creations of the Internet era – Amazon, Google, Wikipedia, Facebook etc – have succeeded because they have worked out (and shaped) how people behave online and have serviced that demand.

Smart entrepreneurs in the technology and communications world are consistently forcing us to re-evaluate what customers are prepared to do online.

The astonishing success of online television services, such as the BBC iPlayer, for example, has turned once-criticised television repeats into the driver of new non-linear consumption.<sup>16</sup>

Sales of the iPad, Amazon Kindle and Sony Reader have put to bed the cliché that nobody wants to read on a computer screen, even if sales of electronic books are dwarfed by those of the traditional convenient and cheap print book.

## RESTRICTING CHOICE

One can reasonably point out the negatives in this new world and there are valid political, social and cultural arguments about the influence of the Internet and other on-demand changes, not least piracy and pornography.

Nonetheless, given that disinvention is not an option, there are some realities that have to be faced and they represent a serious issue for film.

As already mentioned, the economic model of the film business is about restricting choice: You can watch a film but only within clearly defined windows, beginning with the theatre; you can watch in

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<sup>15</sup> [www.israel21c.org/2010/11/288556/technology/a-tech-revolution-that-lets-you-choose-the-movies-plot](http://www.israel21c.org/2010/11/288556/technology/a-tech-revolution-that-lets-you-choose-the-movies-plot)

<sup>16</sup> [www.bbc.co.uk/iplayer](http://www.bbc.co.uk/iplayer)

Country A but not neighbouring Country B; you can watch the film you want only when the industry has decided to make it available and within specific release windows.

These restrictions were originally the product of the economic realities of a physical production, distribution and exhibition business. In a digital world, they are artificial. We can meet consumer demand technically but impose limits in order to prop up the existing analogue models while we try to find digital replacements.

The restraints on availability are actually a hindrance to tackling illegal use, surveys suggest. Research for a UK industry event Digital Heat in 2009, for example, found that 60% of film industry executives thought removing release windows between cinema and other media would have a 'reasonable' or 'significant' effect on reducing piracy.

In 2011, the music industry made significant moves to remove the traditional window between radio airplay and the release of singles and albums, responding to consumer choice and in the hope of reducing illegal copying.<sup>17</sup>

Release windows and territorial rights, however, are not easily discarded, even if they are the antithesis of an on-demand approach.

That is because they are an essential part of the business model (See Chapter 9). Even where new media distribution such as VOD is introduced, at the moment, it still sits in a release window queue with the theatrical release protected from supposed competition.

## ON DEMAND AND THE THEATRE

In Europe, cinema has been defined along narrow lines. Auteur theory puts the single vision of the director at the centre of film, while the theatre is defined as the pure, authentic means to see cinematic work.

Surveys consistently show, and box office success proves, that the cinema 'experience' remains the most desirable way for most people to watch a film.

The proliferation of other forms of viewing does not alter that fact; and the historical evidence suggests that new forms of viewing help build interest in film which leads to greater cinema-going.

As the graph opposite demonstrates, the low point for theatrical admissions in the UK (and repeated in much of Europe) came during the mid-1980s, when the cinema theatre had the field largely to itself.<sup>18</sup>

The subsequent two decades of success were built partly on improvements to theatres, but very largely on the increased visibility and popularity of film thanks to VHS and then DVD. In this respect, film strongly mirrors the experience of sport and its exposure on cable and satellite television, where the very ubiquity of content has increased the value of social 'experience' and 'event'.

The theatre, far from competing against the web, can be the beneficiary of the online mobilisation of an audience.

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<sup>17</sup> <http://www.musicweek.com/story.asp?sectioncode=1&storycode=1043898>

<sup>18</sup> UK Film Council

The best cinemas already exploit this and use their web sites to generate data, interact with customers and to build and nurture a loyal fan base.

Digital cinema promises a new dimension to the theatrical market (literally in the case of 3D). This will not of course apply equitably to the different kinds of cinema, arthouses, small rural cinemas, and multiplexes. (See Chapter 7 for more)

But the worrying aspect of change for European film, is how much investment in digital cinema has been driven by Hollywood's 3D strategy.

The consumer-focused increase in choice of films has yet to show much sign of progress. Ironically, as Chapter 7 shows, it is the cinema screening of live events from other art forms, notably opera, where the necessary change of attitude is beginning to pay off, rather than movies.

Choice, however, has not driven much of the business investment in D-cinema equipment, or of flexibility in programming times or pricing.

These opportunities may come, but they require a cultural change and not just in the theatrical market. A more audience-centred approach to the theatrical market requires content to be available in the right formats and flexibility from distribution.

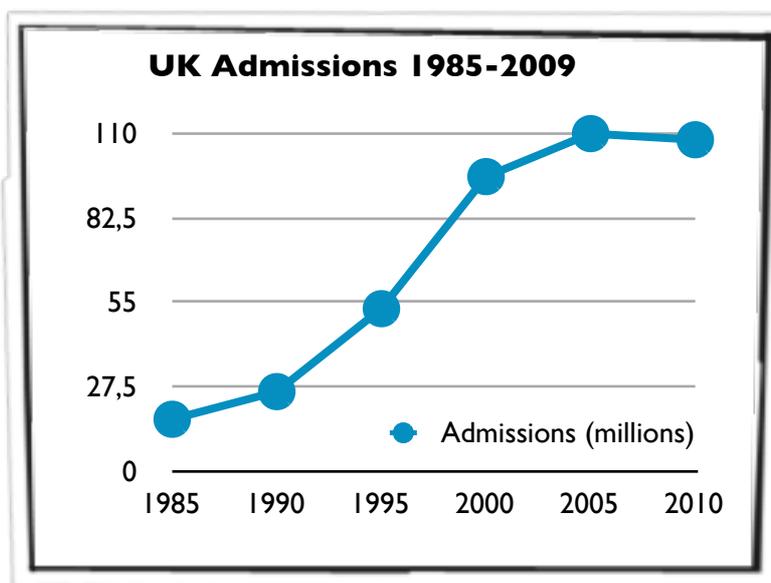
And that goes back to the necessary holistic approach to digital change in film.

### AUDIENCE AS PROGRAMMER

One of the under-explored promises of digital cinema is that it will allow customers a say in what is shown. Cinema on demand is a simple concept and, given the spare capacity in most cinemas for much of the week, it looks like sound business logic to allow a self-selecting audience to guarantee ticket sales for a film they have themselves chosen.

There is even an example of Cinema On Demand in action in the Brazilian market. Moviemobz, a service set up by digital entrepreneur Fabio Lima using the country's pioneering Rain network, has been running since 2005 with some success.<sup>19</sup>

It is not clear how far this model can be replicated in Europe, although there have been some limited experiments, such as the MEDIA programme-supported Europe's Finest.<sup>20</sup>



<sup>19</sup> [www.moviemobz.org](http://www.moviemobz.org)

<sup>20</sup> [www.finest-film.com](http://www.finest-film.com)

Third-party websites have been also been trying to bridge the gap between cinema-goers and programmers, including MoviePilot, a German movie recommendation service, which in 2010 launched a service called Support Your Local Cinema, with a direct link between selections made through the online service and cinemas.<sup>21</sup>

The idea of Cinema On Demand in Europe is much easier in theory than practice for a number of reasons:

**First-run film:** The business model for most cinemas is based on first-run film, showing on  $x$  number of screens, with the emphasis on the opening weekend (another obsession of the scarcity model).

Therefore, on-demand screenings will struggle to be more than a marginal addition to exhibitor revenues in the mainstream market, unless there is a radical restructuring of business. The big distributor will fight to retain its ability to call the shots.

**Rights and windows:** Market forces should resolve the current issue of the shortage of digital masters of European films. The UK Film Council's Digital Screen Network, which back in 2004 provided more than 200 cinemas with digital screens, showed that digital prints would come when screens were in place. The bigger issue for on-demand cinema is the rights to show films in certain territories and in specific windows. Cinema-on-demand and a narrow rights regime are incompatible.

**Standards:** An issue that has re-emerged during 2009 and 2010 is the issue of the DCI-approved 2K standard, which has been agreed as the foundation of digital cinema. (See Chapter 7 for more) The availability of content at lower specs may open up new areas of business (not to be underestimated in a low-margin independent theatrical sector.) The potential for micro-cinemas in specialist retail outlets, restaurants and other public spaces is beginning to interest some in the industry but insistence on the high industry standard restricts growth.

## AUDIENCE AS PRODUCER

The active audience, in its most literal sense, can be seen in the growing number of experiments in which consumers finance films.

Crowd-funding has achieved some degree of industry credibility, thanks in part to the success of what might be called activist cinema. Perhaps the strongest recent example in Europe has been *Age Of Stupid* – a campaigning drama about global warming starring Pete Postlethwaite, directed by Franny Armstrong and produced by Lizzie Gillett.<sup>22</sup>

The project managed to raise more than €1m from a few hundred investors. The project's use of social media and interaction with supporters is an object lesson in audience collaboration. (See Chapter 4)

The inspirations for such projects tend to be political, not least the game-changing online campaign to elect Barack Obama as president of the USA in 2008. They work where there is a sense of political impotence in mainstream democratic decision-making and where supporting a film is a tangible form of protest.

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<sup>21</sup> [www.moviepilot.de](http://www.moviepilot.de)

<sup>22</sup> [www.ageofstupid.net](http://www.ageofstupid.net)

The question is whether the approach is really more about financing a political campaign through film than supporting a film with a political objective. Does it represent a new form of political action or a potential new business model?

The history of crowd-funding as a means for audiences to commercially support specialised content is mixed at best.

Early experiments in crowd-funded music found it easier to raise money from venture capitalists than audiences.

High-profile Dutch start-up Sellaband, for example, filed for bankruptcy in 2010, three and a half years after launch and two years after a €3.5m injection of venture capital, although it was acquired by German investors suggesting some longer-term confidence.

A number of platforms for crowd-funding have shown some signs of promise in partly or fully funding micro-budget films, including US site Kickstarter<sup>23</sup> and European sites, including touscoprod<sup>24</sup> and peopleforcinema<sup>25</sup>.

The Rotterdam Film Festival launched its own crowd-funding project, Cinema Reloaded in 2010.<sup>26</sup>

There are, however, problems that have not yet been overcome: the lack of skills, and sometimes commitment from film-makers, the legal complexities over the rights and status of donors and the lack of understanding of the commitment necessary from film-makers to make crowd-funding work.

There is then no convincing evidence at this stage that crowd-funding will deliver a viable business model for larger-budget films hoping for significant returns for the producer, or indeed for those looking for more than altruistic support or political commitment for their money. (See Chapter 9 for more)

That may not, however, be the point. Experience is demonstrating that the key to crowd-funding is not to take the money and run but to create a dialogue with audiences and a shared sense of ownership. This requires commitment from film-makers.

Some film-makers have already taken this participatory idea to new levels, seeing it as an economic and creative base for new cross-media art forms. (See Chapter 5)

Lance Weiler, the 2009 Prix d'Arte winner at Rotterdam and one of the best known and influential digital pioneers on the international film festival circuit, for example, sees the consumer as a 'collaborator' and actively encourages participation.

He is a leading voice in what is a growing cross-media or transmedia movement, which stresses both the importance of narrative transcending media and of the audience as participants. (See Cross Media, Chapter 4)

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<sup>23</sup> [www.kickstarter.com](http://www.kickstarter.com)

<sup>24</sup> [www.touscoprod.com](http://www.touscoprod.com)

<sup>25</sup> [www.peopleforcinema.com](http://www.peopleforcinema.com)

<sup>26</sup> [www.cinemareloaded.com](http://www.cinemareloaded.com)

The issue for crowd-sourcing is always likely to be the extent to which audiences are willing to take an active participating role in any activity. (See below)

## CRITICS AND WORD OF MOUTH

The professional film critic has become something of an endangered species.

One must avoid being too quick to conclude that the public has deserted traditional critics in favour of a huge army of bloggers or their own social networks. The decline of the critic owes at least as much to the economic difficulties of the traditional media as to any decisive shift in consumer habits.

Many newspapers with crashing circulations have seen film criticism as a luxury to be axed or marginalised, and even the film trade papers have cut the number and size of reviews as advertising revenues have fallen.

The immediate decline of the critic may not have been the result of consumer rejection, but it may help accelerate the redefinition of the line between critic and consumer. Word of mouth, amplified by mobiles, Twitter and Facebook, has become a serious force in deciding the fate of films.

We are also entering an era of more personalised services and recommendations, shown by the iTunes Genius feature, or of the instant aggregated opinion of Rotten Tomatoes. Again, this new world is not evolving in a simple linear fashion driven only by forward-thinking companies and new technologies.

It is being driven by the vagaries of consumer acceptance and, as a result, there are far more failures than success stories in the field. The once powerful Newscorp-owned Myspace social network found that mobilising the audience is tough even with scale on your side, announcing big cutbacks in 2011<sup>27</sup> and even Apple's iTunes has struggled to create its accustomed momentum behind its Ping service.

Yet there is evidence that younger audiences are less interested in the views of traditional critics. (See Chapter 6 for more)

For Hollywood, the opinion of any particular professional critic has become all but irrelevant. In fact, some films, can perform well despite pretty much universal loathing amongst professionals.

This may be welcome on one level but the shift of power from critic to audience is a challenge to marketers. The opinions of consumers, amplified by mobile phones and social networks, are difficult to control – trying to build a word-of-mouth campaign is proving more art than science so far.

For independent film, critical opinion retains much of its power. Research from the University of Vienna on the German market <sup>28</sup> shows that film critics remain the number-one source of awareness of arthouse film. At the film markets, such as Cannes and Berlin, reviews can be the difference between being sold to a particular territory or not.

The mainstream media, however, retains considerable influence. One of the tricks of the new marketing world is to find existing brands trusted by audiences of the kind a film desires to reach. It is now commonplace, for example, to see the review quoted above the poster for a female-oriented film to be

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<sup>27</sup> <http://www.guardian.co.uk/commentisfree/2011/jan/14/myspace-facebook-gaudy-user-pages>

<sup>28</sup> Professor Elizabeth Prommer: Audience research University of Vienna

from a woman's magazine rather than a newspaper critic.

Arthouse film and 'quality' newspapers and magazines have long been natural bedfellows, not least because there is a significant crossover in audience.

Some digital trends may actually strengthen that relationship: the migration of publications online, for example, has added an international readership to news brands and created the need for visual content, which film-makers are well-placed to help fill with trailers, free content and special deals on DVD and downloads.

The online brands of some newspapers are strong enough that some critics have found global audiences far beyond the reach of the title that employs them, but this reach does not necessarily translate into influence of film performance.

Reviews can bounce around social networks, creating an audience but it is a double-edged form of marketing for distributors, however, because bad reviews can equally be disseminated as quickly as a Tweet can be posted.

The promise of digital change was that it would democratise criticism, allowing new voices and ideas to have a big impact. Some bloggers have made an impact, particularly in specialist genres but independent film marketers usually lack the time and skills to really influence the blogosphere or to create social network buzz

The theoretical direct access to the audience requires a change of mindset and the acquisition of new skills – and it comes at a cost that the initial enthusiasts underestimated.

## SOCIAL NETWORKING AND COMMUNITY

Social networking, in its many guises, is perhaps the most significant trend of recent years and remains a great, if still an elusive, hope. The ability and desire to congregate with like-minded people online offers the most direct means to engage with the active audience.

It is important to understand, however, that the network is the people, not the technology provider. Putting up a Facebook page, and hoping for a response, will achieve little.

A common mistake is to see social networking as a shortcut rather than a potentially rewarding but time-consuming venture, demanding new kinds of skills.

Effective online networking begins with understanding the medium, and how it is being used. Assumptions about online behaviour, for example, are often based on false perceptions – not least that the social networking is something only for the young.

The fastest growing Facebook demographic among the 575.4 million users worldwide, for example, is the over-55s, with 37.5% of users in the US over 35-years-old in November 2010.<sup>29</sup>

Community building is, however, now supported by intuitive tools which help the sharing of content and interacts with audiences, Twitter being the most hyped but including a wealth of other social tools for tagging, mapping and analysing audience behaviour.

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<sup>29</sup> [www.checkfacebook.com](http://www.checkfacebook.com)

For the initiated expert, understanding this world opens up a wealth of possibilities:

“Film has realised, as music has, that access to the super-fan is suddenly very available to the business,” Liesl Copland, an agent at WME Global, said after the huge success of the marketing of low-budget indie hit *Paranormal Activity* in 2009.

The idea of turning customers into the key marketers for products is the nirvana of advertising and marketing agencies.

The dissipation of traditional means of generating audience awareness makes it essential. We are at the end of an era of linear media spread across a few channels and are now firmly on course for a multimedia, multi-channel world driven by customer choice – the so-called ‘Martini’ culture named after the drinks company’s 1970s slogan “any time, any place, anywhere.”

The challenge has been to try to find means to exploit social networks, given the decentralised way that they operate. Professional digital agencies are now working on extracting valuable data and “seeding” online activity but these are beyond the means of most small businesses.

The music and games businesses have established some models that may present opportunities, from music concerts in Second Life to exclusive game launches on Facebook.

But the audience is not easily manipulated and, while social networking is now widely considered an essential part of the marketing of a film, there are few of the hoped for examples of breakout hits that set out and succeeding in riding the wave of social network posts and tweets.

## AUDIENCES AND NARRATIVE

The audience-driven narrative is nothing new. There were numerous (failed) experiments in choose-your-own-ending films during the 1950s, with intermittent attempts to revive the idea since, including 2010 Israeli film *Turbulence*.<sup>30</sup>

The idea of film as lived experience is one, however, that is exciting a number of film-makers, particularly those using cross-media, or transmedia techniques.

Many come from the gaming culture, where the power to change narrative is second nature.

The fusion of games and film is one that is much talked about but rarely explored beyond the cross-promotional marketing of the game of the film, or the film of the game.

Pulling the two together into a consistent narrative is a different matter.

A number of film-makers are now experimenting with live-action games, where audiences do not decide on the ending of the cinematic film itself but play real-life games associated with the narrative of the film – live-action role-playing games (LARP). (See Chapter 5 for more)

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<sup>30</sup> <http://www.israel21c.org/2010/11/28/56/technology/a-tech-revolution-that-lets-you-choose-the-movies-plot>

Examples include:

- Lance Weiler's *Pandemic 1.0*<sup>31</sup>, which uses geolocation technology and social gaming to create a story universe, in which audiences are invited to become active players in the story of survivors of the outbreak of a devastating global disease.
- Swede Martin Elricsson's The Company P's long-running cross-media project called *The Truth About Marika*<sup>32</sup>, turned the audience into a willing – and controversially unknowing – participant in a fictional story of a missing person.
- *Life In A Day* has crowd-sourced thousands of personal video diaries to create a cinematic record of a single day. Directed by Kevin MacDonald and co-produced by Ridley Scott<sup>33</sup>, it launched at the Sundance Film Festival in 2011.
- And John Chu's *The League Of Extraordinary Dancers (LXD)* used the Internet to find great dance talent as the basis of a hit web series on Hulu and a multi-million hit cult following on YouTube.

### AUDIENCE AS ARTIST (USER-GENERATED CONTENT)

One of the most exciting elements of the digital age is the ubiquity of equipment for audiovisual production. As with all consumer electronics, costs come down and power goes up every year.

Thanks to the open-source software movement and the development of new social media tools, there is now unprecedented support for content creation and distribution.

Film-making is already becoming more like music - something you do as well as consume – and a punk sensibility has kicked in with a carefree attitude to copyright infringement or borrowing content.

Culturally, video is becoming central to a net-native generation, whether through mobile messaging, Skype, social network video, etc.

Perhaps the banality of much of the output so far explains the widescale indifference to this trend from the film business.

It has become routine – and complacently self-serving – to dismiss the change as mere amateurism.

Technology analyst Forrester estimates that in the first-quarter of 2010, 23% of US internet users were 'social media creators' uploading some form of content (although it suggests the trend may have reached a plateau).<sup>34</sup>

'User-generated content' is anyway a lazy way of describing a wide range of activity.

The term perhaps best describes the communications that vast numbers of us make through texting,

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<sup>31</sup> <http://seizethemedia.com/>

<sup>32</sup> [www.thecompanyp.com](http://www.thecompanyp.com)

<sup>33</sup> <http://googleblog.blogspot.com/2010/07/life-in-day.html>

<sup>34</sup> *A Global Update Of Social Technographics*, Jackie Rousseau-Anderson, Josh Bernoff, 2010

Twitter and other social media, intended for a small group of known acquaintances (although these can sometimes reach unintended audiences).

There is a layer of keen amateurs who use new technology to post pieces of content for their peers for reasons of work or pleasure. Again these can sometimes unexpectedly reach huge audiences. Perhaps the most famous now is a fragment of home video of a baby biting a finger, which has now passed 275 million hits on YouTube.<sup>35</sup>

And then there are those seeking ways around the restrictions to content that would be imposed through more conventional routes to market. Some of these are trying to circumvent laws on pornography, terrorism, etc.

Others seek to beat the censorship in regimes which restrict freedom of speech, such as Han Han in China.<sup>36</sup>

And then there is a layer of what perhaps should more accurately be described as undiscovered talent seeking recognition, rather than 'users.' There have been some phenomenal successes: Dane Boedigheimer's *Annoying Orange* video series on YouTube, for example, has been seen close to 450 million times.<sup>37</sup>

Real film talent has been emerging from the UGC era. One of the biggest emerging talents of 2009 was South African-Canadian filmmaker Neill Blomkamp, whose low-budget *District 9* was a huge global hit, but he was noticed through a six-minute viral video.

Making user-generated content of this kind pay for the provider has been difficult. Yahoo Video pulled out of the market when it stopped its uploading service in December 2010.<sup>38</sup>

## CREATORS AND SPECTATORS

Democratisation of the media, however, is one of those concepts that struggles to make the transition from idea to practical reality.

Some digital advocates have talked about the end of "gatekeepers", excited by the idea that we could create dynamic, direct relationships between producer and consumer without the intervention of big business. Cross-media advocates (see next chapter) like to talk about the return of "storytelling" to a pre-industrial free condition.

The problem for business is that the level at which audiences are willing or able to participate varies.

In 2006, leading Danish web consultant Jakob Nielsen devised the concept of 'participation inequality' – or the 90.9.1 rule – to describe the way the online world would be divided between 90% of "lurkers"

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<sup>35</sup> [http://www.youtube.com/watch?v=\\_OBlgSz8sSM](http://www.youtube.com/watch?v=_OBlgSz8sSM)

<sup>36</sup> [http://online.wsj.com/article/SB10001424052748704405704576062992705898356.html?mod=googlenews\\_wsj](http://online.wsj.com/article/SB10001424052748704405704576062992705898356.html?mod=googlenews_wsj)

<sup>37</sup> [\\_http://www.youtube.com/user/realannoyingorange?blend=1&ob=4](http://www.youtube.com/user/realannoyingorange?blend=1&ob=4)

<sup>38</sup> <http://www.i-com.net/blog/yahoo-video-to-remove-all-user-generated-content-by-march-15-2011-437/>

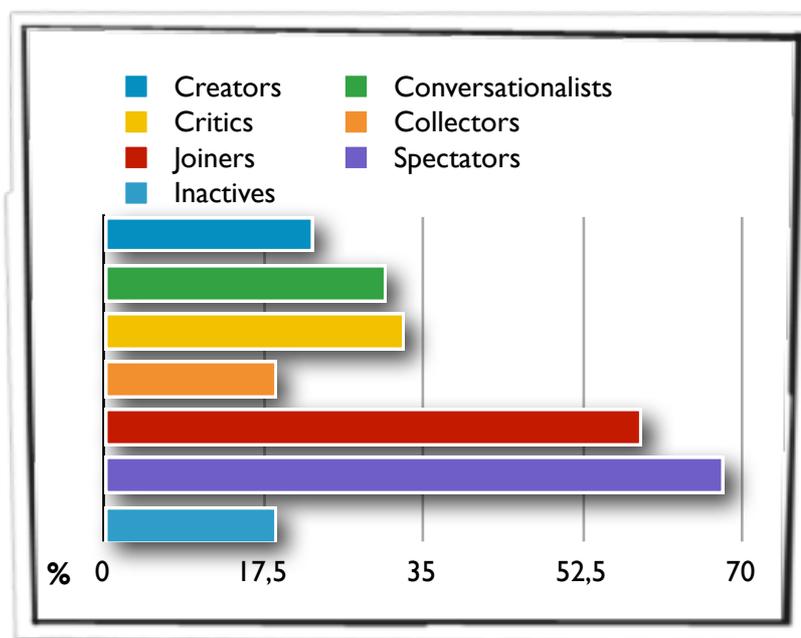
who never contribute, 9% of users contribute a little, and 1% of users who really contribute to content.<sup>39</sup>

He made a series of suggestions about how to change the equation, essentially making participation, easy, seamless and fun with clear rewards; and the promotion of quality contributions.

His advice has been followed to an extent, and there has been a growing depth and maturity of a new science of audience mobilisation.

Technology analyst Forrester Research has produced what it calls a “social technographics ladder” to describe the level at which the audience plays an active role.

- At the bottom of the scale are a small and decreasing number of **inactives**, who out of inclination or lack of skills or resources are not involved in any form of engagement with the internet
- The majority are **spectators**, who read online content, watch video, look at ratings etc but do not themselves contribute beyond this role
- The next biggest group is the **joiners**, who maintain their own social network page, such as a Facebook profile
- A smaller group is the **collectors**, who vote and tag content online
- About a third are **critics**, who vote, comment and contribute to websites and social networks
- A newly-introduced group in 2010 and already fast growing are **conversationalists**, who join and update accounts on Twitter or Facebook
- And 23% at the top are **creators**, who publish, upload and generally contribute content. This number seems to have reached some kind of plateau in 2010 but the 13 million hours of content uploaded on to YouTube is testament to the scale of the participation.



It is, of course, difficult to build a business model based on the highest level of participation, as many crowd-sourcing and crowd-funding projects have discovered.

But one missing link is the availability of data on the participatory audience, which may be an issue for public policy and little in the way of qualitative data generally to help create viable audience strategies.

<sup>39</sup> [http://www.useit.com/alertbox/participation\\_inequality.html](http://www.useit.com/alertbox/participation_inequality.html), October 2006

Without access to the resources of studios, the independent industry at every level generally falls back on guesswork and box office-data, which has serious limitations in its application to future trends.

## NEW AUDIENCES

The trick then is to move the audience up the social technographic ladder.

It is important to remember that this is a fluid process, where the speed of movement is defined in all kinds of ways: demographics, access to user-friendly devices, etc.

Film though has a pressing issue to address first.

In most countries, there has been a marginalisation of film, with its reach failing to stretch beyond festivals, the metropolitan arthouse theatres and the outer limits of the television schedules.

While there is far more access to European film on specialist television and VOD services, these tend to become educated ghettos.

The UK Film Council for example measured 3.4 billion viewings of feature films in all forms of television in 2009, the screening of arthouse and foreign-language film has alarmingly dropped at peak-times.<sup>40</sup>

Finding new audiences must be a priority and that begins with understanding that there is no such thing as a passive audience any more, even if individuals do no more than exercise choice over when and where to watch content.

Our critical opinions and tastes are now taken seriously and stored as data for exploitation, whether we know it or not.

Audiences then may interact with film in many ways but there is one overwhelming reason for film to take new forms of engagement seriously.

And it is this: we have to win time. Our main competition is not necessarily other films or other forms of media exploitation of work but we are up against a host of alternative forms of diversion and other pressures on the lives of audiences – reduced household expenditure, expanding working hours, the weather etc

Winning the active audience means understanding how they think and behave.

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<sup>40</sup> UK Film Council Statistical Yearbook 2010

## CHAPTER FOUR: CROSS MEDIA

### IN BRIEF

- Cross-media work creates narratives that stretch across different media
- Projects try to create direct relationships with audiences
- Interaction and collaboration are critical factors
- Cross media has struggled to find funds in a silo support system

**THE TERMS** cross-media (or transmedia), have already gathered a confusing set of definitions before really entering the mainstream, certainly of film. It does not simply refer to the exploitation of a movie franchise across different media – the book of the film, or the film of the game; that approach has pretty much always been part of the business.

Comic book adaptations, for example, have been critical to Hollywood's global blockbuster strategy in the last six years (Disney actually bought Marvel in a \$4bn deal in 2009).

The need to find franchises that can become truly global brands is driving multimedia exploitation, as Hollywood tries to recoup huge marketing and distribution costs by squeezing every last ounce of value from its products. Marketers talk of such expansion as 'brand extension.'

Cross-media has elements of the approach but takes the idea further; this is an evolving area but a Think Tank<sup>41</sup> at the influential Power to the Pixel conference in London drew up some useful areas of commonality.<sup>42</sup>

- Emphasis on narrative stretched in some form across more than one media, with multiple points of access for the audience
- The building of audience engagement into the storytelling and development process and making the distribution of content and marketing part of the producer's role
- A business model free from scarcity model restrictions, such as territorial rights and release windows
- The building of an active community around content

The mobilisation of the audience is the critical part of the process. It is in those relationships that the value resides, not simply 'monetising' a piece of content. There may be social value (as in crowd-funded political projects), or deferred value (in building a fan base for longer-term business goals) (See Chapter 9 for more).

To that extent, the emerging cross-media movement is the first film and media trend explicitly attuned

<sup>41</sup> [www.powertothepixel.com](http://www.powertothepixel.com)

<sup>42</sup> [www.powertothepixel.com/wp-content/uploads/2009/11/PTTPthinkreport\\_FINAL.pdf](http://www.powertothepixel.com/wp-content/uploads/2009/11/PTTPthinkreport_FINAL.pdf)

to the on-demand world, rather than being built on restricting customer choice.

Advocates see the basis for a new art form in cross-media developments, though there are few signs yet of the cross-media equivalent of the *Jazz Singer* or even *Avatar* that can break into mainstream consciousness.

The lack of case studies for cross-media success is partly the result of finance. Public funding in Europe is narrowly centred on existing industry silos. Private finance is tough for any project in the current economic climate, but for untested cross-media ideas, it is particularly problematic.

Thomas Hoegh, managing partner of Arts Alliance has urged cross-media projects to see themselves as “spice” for film and media rather than a new movement in its own right, to unlock funding.<sup>43</sup> That is not an easy idea to accept for advocates.

As we shall see, the cross-media approach is not simply an extension of cinema and particularly not of the auteur/audience relationship for European ‘cultural’ film-making. Interaction and audience engagement is not an added extra but the very heart of these new forms of business.

There are, however, distinct potential benefits to film in taking advantage of the enhancements – the ‘spice’ that cross-media experimentation might bring. One does not have to buy into the cross-media credo to see potential in cross-platform innovation.

Cross-media work has already attracted particularly strong interest from advertising and marketing agencies. A number of the big advertising agencies, for example, now feature labs and specialist arms (eg BBH, JWT, Ogilvy) to explore the potential of new forms of engagement as the limitations of traditional advertising become exposed in a digital age.

The idea that we are moving beyond product sales to a passive consumer, towards brand engagement with an active audience is at the heart of the kind of thinking that will be essential in the digital age.

Whether there is a distinct movement called cross-media is not really the point, the drive towards audience engagement, new forms of branding and commercial exploitation, should throw up new financial models and significant innovative ideas. (See Chapter 9 for more)

## CROSS MEDIA AND FILM

The film industry has been slow to adapt to these changes in Europe, mainly because one window – the theatrical release - has been so dominant, culturally, politically and for business.

The centrality of the big screen and the auteur has been part of the creative credo of European film.

In a speech at the 2007 Venice Film Festival, UK director Sir Ridley Scott said new online and mobile forms threatened the future of the true big-screen cinema: “we’re fighting technology,” he said. (Although even he has since been involved in a very interesting cross-media projects including *Purefold*, an interactive web project based on *Blade Runner*.)<sup>44</sup>

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<sup>43</sup> [www.powertothepixel.com](http://www.powertothepixel.com)

<sup>44</sup> [www.ag8.com/purefold](http://www.ag8.com/purefold)

It is also telling that, although the bulk of revenues for most films come from the post-theatrical release, these windows are still routinely called ‘ancillary.’

The primacy of traditional film is also built into the structures of subsidy and state support. European film can still be monolithic in its self-image even if it is fragmented in industrial terms.

So while many US indies have been moving fast to adopt cross-media approaches to fill gaping holes in the old commercial models, European film-makers and producers have not followed suit in significant numbers.

US journalist Scott Kirsner highlights some of the more interesting cross-media pioneers in his book *Fans, Friends And Followers*<sup>45</sup> but he finds space for only one European, Finnish director Timo Vuorensola, whose sci-fi spoof *Star Wreck* became an online cult hit<sup>46</sup> and whose 2010 production *Iron Sky* actively calls for ideas from audiences through the Wreck-A-Movie site.<sup>47</sup>

Today’s theatrical domination in Europe is however under threat, not least because the element that literally makes film film – the celluloid print – is doomed to extinction in a few short years.

Not surprisingly, this change has prompted academic discussions about what film might now actually be in the post-celluloid world.

These can be unnecessarily esoteric debates – film may not now be literally ‘film’, but then most consumption has long been through other media, television, DVD etc anyway.

Cross-media projects aim to match narrative to the most appropriate media, working to the strengths of specific media platforms, from cinema to Twitter.

Such thinking challenges the centrality of theatrical release in a way that shocks many cinephiles. Partly for that reason, creative impetus for cross-media has so far often come from the fast-growing games industry, rather than film.

The interactive nature of games and the fact that it is still at fairly early stage in its evolution perhaps makes it more open to such developments. Hit games, such as *Red Dead Redemption* and the *Halo* and *Grand Theft Auto* series are self-consciously cinematic and often use film talent.

Games are also a huge part of youth culture: game designer and influential commentator Jane McGonigal’s claimed in 2010 that by the time they reach 21, young people in the US, will have spent as much as 10,000 hours gaming – about what they spend in school.<sup>48</sup>

The significance of such statistics to film, which has been struggling to attract younger audiences is not clear. It does point, however, to an interactive and participatory culture. It also gives the lie to the idea that youth culture is all about a low attention span and instant gratification.

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<sup>45</sup> Scott Kirsner blog; [www.scottkirsner.com/fff/contents.html](http://www.scottkirsner.com/fff/contents.html)

<sup>46</sup> [www.starwreck.com](http://www.starwreck.com)

<sup>47</sup> [www.wreckamovie.com](http://www.wreckamovie.com)

<sup>48</sup> <http://dotsub.com/view/87e58675-24ba-408b-abbe-97718a3b17b5/viewTranscript/eng>

## FROM CONSUMERS TO COLLABORATORS

“Every project creates its own federated group of people,” says Michel Reilhac, Executive Director, Arte France Cinéma. “Audience can invent itself.”<sup>49</sup>

Audiences assemble socially online and make up communities that can be understood, mobilised and serviced and that represents a sea change from the analogue age.

Perhaps it also offers some important pointers to the development of culturally-diverse content. The mass-media consumption model can see the focus on audience as a homogenising force but that is only if content is seen as product. In an engagement model, content is created for and often with the collaboration of specific communities of interest which may be based on taste, ethnicity, locality , etc.

The weakness of a pure consumption model in encouraging diversity has been clear, particularly in industries such a film where financing, creating and distributing content is prohibitive. In European film, overcoming this problem has been a matter for state finance giving great power to a small number of gatekeepers.

Diversity based on audience demand and engagement offers a different and exciting perspective to policy makers.

## EMPOWERING THE STORYTELLER

The first World Screenwriters Conference in Athens in 2009 adopted a manifesto, which centred on the desire of the storyteller to have greater control – and credit – for their work. The idea that the screenwriter is the supreme author of a work is open to question but it is now becoming a commonplace refrain that those who produce content should reap the rewards.

The ‘storyteller’ in the sense meant here should not be taken as meaning ‘screenwriter’ any more than the distribution means only today’s ‘distributor.’ Indeed, many cross-media advocates argue that most traditional screenwriters are not equipped to work across multimedia platforms.

The real distinction in this discussion about empowerment of the storyteller is between creators and ‘middle men’ – generally taken to mean the sales and distribution layers of the film industry.

It is certainly too early to talk about the death of the middle-man, not least because the best sales and distribution companies are diversifying into something more akin to a studio and acting as a single link from production to audience.

Nonetheless, for the up-and-coming storyteller, cross media offers an attractive vision of a culture of creation and participation, in which he or she retains a degree of control and ownership throughout the value chain and in which success or failure will be based on the ability to find and nurture an audience.

Analogies have been drawn with the rise of Punk Rock in the 1970s which, although the term is now used to denote a genre of music, at the time had more of a sense of a movement: music was not a product to be consumed but a means of expression.

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<sup>49</sup> <http://michel--fff/>

Film may follow the same path with the removal of theatrical-led industrial processes between producers and consumer removed.

These cross-media projects paint an optimistic picture of a dynamic and free exchange between storytellers of all kinds and audiences. And technology is already empowering new formats and bringing together different disciplines to create coherent narratives.

Out of this vast increase in activity will come a range of new business models – but the economics will emerge from demand and collaboration rather than being shoehorned in from the current single model. Producers will want to reap the rewards of this work, holding on to their rights for digital exploitation.

## CROSS-MEDIA MARKETING

Cross-media marketing looks like the most promising immediate commercial exploitation of these emerging trends. As the basis of cross-media work is engagement, the possibility of being able to take a brand marketing message into other spheres of life is deeply attractive.

Hollywood has been experimenting in the area, particularly in its marketing. In 2010, there were extensive marketing campaigns for films including Disney's *Toy Story 3*<sup>50</sup> and *Tron: Legacy*<sup>51</sup>.

The studios are well placed to make cross-media work, given that they belong to multinational conglomerates with interests across many media forms. Economies of scale can be exploited and the different distribution platforms brought into play.

And some leading directors have themselves been involved in the production of games – Steven Spielberg has worked on games with Electronic Arts and George Lucas has taken his *Star Wars* universe through games and television.

Yet most digital and viral campaigns, however, remain only a relatively small amount of the total conventional marketing spend. There is a nervousness about viral campaigns backfiring and there is a paucity of new ideas with little that has really expanded on the highly-successful Entertainment 42's "Why So Serious" campaign for *The Dark Knight* in 2008.<sup>52</sup>

Scaling down viral ideas to a European independent production is a tougher call. There are now specialist agencies working on film projects but these tend to be brought into projects at the distribution stage, rather than becoming integral to the development of a project.

Some public support has gone to innovation in digital distribution, notably the £15m UK Film Council's Innovation Fund.<sup>53</sup> But the best examples of cross-media marketing in action come from the US, driven by commercial imperatives.

The incentives to pursue cross-media projects remain weak in Europe with its strong, theatrically-

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<sup>50</sup> [www.flynnlives.com](http://www.flynnlives.com)

<sup>51</sup> Toy Story fake ad: [www.youtube.com/watch?v=v5ZwkcHCVkE&feature=related](http://www.youtube.com/watch?v=v5ZwkcHCVkE&feature=related)

<sup>52</sup> [www.42entertainment.com](http://www.42entertainment.com)

<sup>53</sup> [www.ukfilmcouncil.org.uk/digitalinnovation](http://www.ukfilmcouncil.org.uk/digitalinnovation)

centred approach to film – the production subsidies, tax breaks etc are in most of Europe focused on supporting old cinema models.

Change may come with greater competition for cinema space, reduced government support and the arrival of new tools, social networks and savvy digital marketing agencies. The biggest obstacle though is cultural and, to an extent, political.

## CHAPTER FIVE: OVER-PRODUCTION

### IN BRIEF

- European production is out of synch with distribution
- Stress on public funding is forcing a rethink on subsidy
- Under-distribution is a vital concept for policy
- Film festivals role in distribution is transforming

**OVER-PRODUCTION** is now widely cited as a major contributory factor to the economic problems of the European industry. Given the limited theatrical distribution opportunities available, the increase in production over the last few years has had the effect of crowding out quality film. It is a simple matter of mathematics but not one that has been adequately addressed.

In a market-led environment, competition is normally the mechanism for dealing with over-production and to an extent that is happening even in Europe with closures of production companies, as well as sales agents and distributors.

Nonetheless, most European countries have a system of subsidies – tax breaks, film funds or levies – to support production, justified on cultural grounds.

With the decline of private sources of finance, including the banks and television pre-sales, state funds have become a life-support system, which was not a role any government wanted.

The struggle to find a profitable place in an overcrowded market, and pressure on public funds, means that the cultural value of making films with little chance of finding an audience through the conventional film distribution process become a serious question.

Sustainability of production companies in the current climate has become a big factor in the debate. Research for a European Think Tank event in Copenhagen in 2010 showed that over the last decade, only five companies had made more than 10 films, five more than four films, 14 more than two, and 28 – well over 60% – had made just one.

Subsidy has then been focused on one-off films, who producers compete for space before disappearing. This picture is widely mirrored elsewhere.

Some governments have taken a view that spreading public funds too widely is counter productive and that the focus should be on films that will be seen and not just shown.

Spain's national film fund, for example, approved in 2010, is based on a points system calculated on a film's box office success, DVD and downloads, and its performance on the festival circuit.

Whether such policies work, must be judged over the longer term. In Spain, the economic downturn and rampant piracy are external factors that may undermine policies.

Governments may force the issue for rather more expedient reasons in the coming years, as economic issues force re-evaluation of public spending.

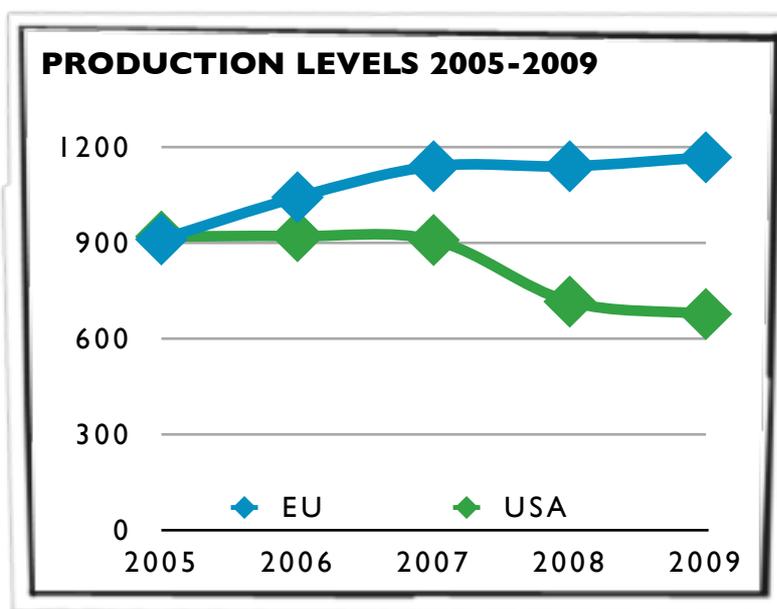
But one way or another, dealing with over-production will have to come down to two basic approaches: either we make fewer films or find new means to distribute them.

## OVER-PRODUCTION

As the graph opposite illustrates, the number of films produced in Europe has continued to rise significantly – a rise of more than 28% in the last five years.

The European Audiovisual Observatory's (EAO) annual *Focus* report for 2010 revealed that 1,168 films were produced in 27 states with 16 countries reporting increases.<sup>54</sup>

In 2005, 911 films were produced in Europe – 257 less than 2009. Contrast that with the US, where the number of films produced in 2008 dropped more than 26% for the same period.



While the quantity of films has soared, the number of theatrical screens increased by less than 1%. What is more European market share is still hovering around the 25% mark. In 2010, it was at 26.7%, up on 2005 (24.6%) but down on 2008 (28.2%).

While the figures varied from country to country, the fact remains that less Hollywood film are still taking around the same share of the market.

And given the studios desire for dominance on specialist 3D screens, and the threat to smaller theatres, struggling to meet the costs of digital conversion, the future looks challenging.

But that is only part of the story. DVD sales are also sliding and the slack is not being picked up yet either by Blu-ray or VOD. And there are other elements undermining the viability of film in the international marketplace, including a much more difficult selling environment in the US.

The correlation between demand and supply in European film is more out of kilter than ever.

Put even more bluntly, Europe is churning out films that people are not going to see and the big success stories, such as Sweden's *The Girl With A Dragon Tattoo* are exceptions that prove the rule. A top few

<sup>54</sup> Free as PDF download: [www.obs.coe.int](http://www.obs.coe.int)

films are atypical of the general picture. Comparisons with European butter mountains and wine lakes, created when subsidy lost track of the market, are very tempting.

## REDUCING PRODUCTION LEVELS

It is important not to mix up industrial and political issues with creative ones. Europe has produced some cinematic masterpieces in the last few years and genuine commercial successes, both in home markets and abroad.

But equally, it is vital to recognise that the problems of over-production are the result of systemic issues that need to be addressed in a digital age.

Public funding will always be an imperfect means of supporting film. There will always be pressure from lobbies insisting on more support for newcomers and innovative art at one end, and of the need to create a competitive commercial industry to take on Hollywood at the other.

But this issue, based on differing perceptions of value in public support, is becoming a stronger discussing point.

Given the pressure on government spending, it is likely that in many European countries, the failure to connect product with audiences may be the perfect excuse for cuts. Such scaling back is already underway in some countries.

That is particularly so because at the moment the key argument for improving tax breaks is the benefits that the industry brings to the whole economy through inward investment.

The really big benefits come when Hollywood shoots come to a country. But the number of films being made by the studios is decreasing and will be based around fewer but bigger blockbusters.

Warner Bros and Disney have both announced plans to concentrate their energies around a small number of giant global releases. Some interest remains in working with local producers to create big local hits with global potential, notably from Universal International Pictures.

But the big dollars are going to be harder to come by. Studies commissioned by US states, 40 of which have introduced incentives, have begun to question the real economic value of subsidy. Competition between incentives has driven down returns.

Some European governments are cutting production spending in any case in the wake of economic downturn. The UK film industry first faced cuts when in its National Lottery finance is being redirected towards the 2012 Olympics and then saw its main industry body, the UK Film Council, axed.

But simply cutting costs is a blunt instrument and puts a great deal of questionable power into the hands of a small number of people who manage diminishing funds.

## AN ELITE POLICY

The alternative approach to tax breaks is to focus on building an elite group of well-supported products or companies that can rise above the mass of films in the market.

The approach has been explicitly implemented in Sweden, which took a decision that with limited

available funding, it was better to make a few well-financed films, with an emphasis on quality, than spread available money too thinly.

The Swedish Film Institute adopted the approach in 2006 with a specific emphasis on 'quality' – judged by a variety of criteria including box-office success, festival performance, etc. The funding has changed from being, on average 22% of a film's budget in 2005 to 32% in 2008. The result was that the number of films dropped from 21 in 2005 to 14 feature films receiving funding in 2007 and 2008.

Subsequent box-office success has been encouraging, although the success of the Millennium series would be hard to maintain, and the pressure still remains to find sustainable long-term policies.

As mentioned earlier, Spain has also opted for a better deal for fewer films, based on box office and 'quality' thresholds.

This approach is one that others may follow and it certainly has had support among bigger production companies in many countries.

Nonetheless, such an approach will court controversy, particularly among those whose films do not make the cut.

## UNDER DISTRIBUTION

The change argued for in this report, however, is that we see the problem not as one of over-production but of under-distribution.

And again, the conclusion has to be that the current cinema structure can play only a limited role because it has physical barriers to growth.

There is little likelihood of significant new cinema building in the mostly well-served markets of Western Europe. And in Eastern Europe, the rebuilding of screens lost after the fall of Communism has been dented by economic downturn, while the current D-cinema crisis threatens even existing independent cinemas.

Digital cinema was meant to provide the answers. It would allow flexibility of programming, potentially a degree of customer programming, and space for more travel for European films, which still represent a small percentage of box office outside their home territories. Yet, as Chapter 7 shows, the digital dream in Europe is fast fading to be replaced by serious concern about the future of small independent cinemas.

Even after digital rollout is complete, spare seating capacity, particularly during weekdays, will be challenged by non-cinema content such as gaming, live music and sport – and the expected longevity of 3D films. (See Chapter 7 for more)

Therefore new forms of distribution are now essential. And some investment has been made. Millions of Euros have been awarded to VOD platforms and related businesses in recent years by the European MEDIA Programme.

But as argued earlier, this investment will have limited effect without fundamental changes to the rights and release windows system.

## THE FILM FESTIVAL

“Screening a film at a film festival is not a means of getting a film to real exhibition; it is the real exhibition,” according to Dina Iordanova, Professor of Film Studies and Director of the Centre of Film Studies at the University of St Andrews.<sup>55</sup>

For producers with little chance of serious distribution and less of seeing strong financial returns, the festival appearances and awards can be a great consolation and a strong motivation.

Of course, festivals with big markets, such as Cannes and Berlin, provide the means for films to progress to international distribution. But the potential for the festival to become a distributor in its own right has been on the agenda now for a couple of years, with some practical experiments from festivals, such as Sundance, Tribeca and the International Film Festival Rotterdam.

The festival as distributor is one of those ideas that makes sense on paper but the idea puts festivals in direct competition with distributors – and that potential rivalry is already the centre of some tension. Distributors are increasingly demanding screening fees from festivals, believing that the balance of benefits from festival appearances has shifted.

Of course, with the festival, we return again to the core theme of fragmentation. The festival circuit is divided in Europe between the key global market events, Cannes and Berlin and on a smaller scale Rotterdam; the established A-list events such as Venice; a strong second tier including Locarno, San Sebastian and Karlovy Vary and key city festivals.

And then there are hundreds of smaller events that serve some kind of specialist purpose, representing a specific community or genre.

Once again, there is a wide perception that there are too many festivals. And, again, governments around Europe have sometimes sought to restrict funding to a few key events. Festival funding itself can be a highly political process, as the sniping between Venice and Rome demonstrated when the Rome film festival was established in 2006.

Like every other area of film, the festivals are looking at how to reinvent themselves for a digital age. This process is likely to be accelerated by a number of trends:

- Reduced public funding and sponsorship in the aftermath of the economic downturn
- Pressure on the sales and distribution sectors
- Higher costs of international travel and environmental concerns
- Growing digital alternatives

The big idea – at least for the major festivals – is that they will eventually become distributors in their own right.

The idea has much to recommend it. At Cannes, for example, the world’s press reviews the key competition films and those breakout market titles. For a couple of weeks on the Croisette, arthouse and European film is in the spotlight with all the energy that only a festival can generate. If those films

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<sup>55</sup> Dynamics OfWorld Cinema: [www.st-andrews.ac.uk/worldcinema](http://www.st-andrews.ac.uk/worldcinema)

are distributed online or through digital cinemas while the buzz was still strong, financial returns could be very great.

But months later, when those titles are eventually released, the momentum has been lost.

One could imagine Cannes becoming a global event in which the competition films are released day-and-date to digital cinemas and premium-rate VOD platforms. A decentralised global festival that is a beacon for cinema sounds extremely appealing.

The chances of that happening any time soon are slim because it simply would not be supported by sales and distribution for understandable reasons. Again we are in the realm of artificial scarcity.

Festivals have in recent times experimented with new distribution models at the margins. The pioneers are again in the US, where Sundance and Tribeca have both made significant moves.

In Europe, on a small scale, Rotterdam has been trying to create its own crowd-funded production through its Cinema Reloaded programme.

But the festival on the whole retains two functions: to act as a showcase, which might lead to the sale of a film to a sales agent, or to act as a means to an appreciative but specialist audience for certain titles.

As veteran producer Keith Griffiths, of Illumination Films, put it at Rotterdam in 2010: “Festivals are an extremely important part of a film’s life but there are so many festivals and they have no economic return. I have never doubted that festivals have a very important part to play but I don’t see them as a replacement for finding many different homes for a film in the landscape we now live in.”

## CHAPTER SIX: YOUNG AUDIENCES AND FILM

### IN BRIEF

- A demanding net-native generation is creating own media culture
- Much media consumption is moving from social to individual
- The children's market is underserved by European film
- The real competition is for young people's leisure time

**THE RISE** of a 'net-native' generation in whom we can observe distinct cultural and behavioural shifts has come at an astonishing pace – far faster than the rise of the teenager as an identifiable cultural phenomena in the 1950s and 60s. The big breakthroughs in online and mobile content that have changed youth culture did not really kick in until the mid-1990s yet they have become established to the point where it is now impossible to ignore.

Even a relatively young European, still in his or her 20s, would be likely to have had essentially the same relationship with film in their formative childhood years as their parents.

True, in most Western European countries in the 1980s, we had begun to see the arrival of VHS and more television channels (for a minority delivered by cable or satellite) but filmed entertainment still largely revolved around a family room at home and the cinema outside.

But the real shift has been driven by the Internet, easily accessible through low-cost PCs, laptops and mobile phones.

Easy access to content on a multitude of platforms and the simplicity of perfect copying and (often illegal) distribution has had a profound effect on youth culture. Social networking and mobile communications have also changed the way that young people interact between each other.

This chapter suggests that the on-demand, multimedia approach to entertainment is already second nature to children in much of Europe.

At this stage, it is important to point out that there is not some neat homogenous group called 'young people' and the acceptance of media change outlined here varies in terms of national culture, demographics and availability of digital devices and fast broadband connections.

The evidence remains that until school age, the parents retain the dominant influence over media.

The key changes, research suggests, come at school and particularly in the so-called 'tweenager' years roughly put at seven-12-years-old. (See below.) The prevalence of 'personal' media such as mobile phones, MP3 players, PCs, handheld games players and televisions in rooms has been changing the culture.

Despite high-profile fears about health and safety online, there has been little direct intervention in Internet use by a majority of parents. Some 66% of 14,000 European children surveyed for a Microsoft/MSN study in 2010 said their parents did not intervene in how they used the Internet.<sup>56</sup>

It is perhaps then not surprising that many of the assumptions about young people's media use are based on outdated notions or popular misconceptions.

This is forgivable to some extent, given the idiosyncratic way that youth culture in many countries develops.

A couple of years ago regular surveys showed, and business receipts confirmed, that young people would pay a premium price for snatches of a song to use as a ringtone but were not prepared to pay a lower cost for the whole song as a download. (Though the ringtone is perhaps now past its peak.)

Another fine example is the text message, which was adopted by young people as a cheap form of contact in a way that no mobile operator had anticipated.

It is telling that one of the most-quoted pieces of research in 2009 – *How Teenagers Consume The Media* – was written for Morgan Stanley Research by a 15-year-old intern.<sup>57</sup>

The work was based on the media consumption habits of the young author and his friends and challenged a great many of the myths held by business.

## NEW AND OLD/ PERSONAL AND COMMUNAL

What that research showed – and many more scientific reports – was that we are not seeing a simple shift in attitudes to entertainment from 'old' to 'new' media.

Indeed, the box office figures for 'family' films remain robust. Hollywood blockbusters, such as the *Harry Potter* series and *Avatar*, have been breaking records. Cinema remains largely a family occasion until the teenage years, particularly given that the nearest theatre may be at an out-of-town location where driving is necessary.

Evidence from surveys consistently show that the theatre is the preferred way to watch films.

Television in some respects remains equally resilient, as the success of a few tentpole must-see reality TV has shown across Europe. And the advent of HD and 3D television may help concentrate these kind of shared event-television experiences around a single family television.

Hollywood's model of creating seasons of 'must-see' series – such as *Mad Men* and *Lost* – has also shaped viewing patterns. The challenge for European film, however, is that these events are dominated by Hollywood and a few multinational franchises – and they are exceptions to a general rule, which has seen family and communal viewing decline.

Home entertainment has increasingly become fractured into a series of individual experiences, although this should not be overstated.

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<sup>56</sup> [www.microsoft.com/emea/presscentre/pressreleases/OnlinebullyingPR\\_100209.msp](http://www.microsoft.com/emea/presscentre/pressreleases/OnlinebullyingPR_100209.msp)

<sup>57</sup> [How teenagers consume media: media.ft.com/cms/c3852b2e-6f9a-11de-bfc5-00144feabdc0.pdf](http://howteenagersconsume.com/media.ft.com/cms/c3852b2e-6f9a-11de-bfc5-00144feabdc0.pdf)

Peak-time communal family viewing has been boosted in recent years through reality television, talent and quiz shows, including *Who Wants To Be A Millionaire*, *Big Brother* and *X Factor*.

Nonetheless, non-linear viewing of what would have once been communal content is on the rise and has implications for political and social policy. How, for example, do you apply effective certification to the anarchy of the Internet?

And what effect will this individualising of what were once exclusively social experiences have on family and local community? This is a particularly important issue for European film, given that the introduction to cinema culture often began with a shared family experience of viewing on terrestrial television

## CHILDREN: AN UNDERSERVED MARKET

The argument of much of this report has been that levels of production are out of kilter with the audiences they aim to serve.

For most of the market, European film is a story of too many films for the available distribution. The anomaly is the children's market.

As the Erfurt declaration adopted by Kids Regio forum<sup>58</sup> suggests, the children's market is underserved, with an estimated 3.4% of films being made in Europe for an under-15s market which makes up 15.7% of the European population.

The two traditional stand-put reasons for this lack of content, particularly in the live-action drama, are the domination of Hollywood in cinema and in television series and the strength of local television services.

For Hollywood, the children's market has become more essential than ever. Most studios have become more reliant on a small number of global franchises, which depend on being seen by families with children.

Young audiences hold the key to the multimedia exploitation of these franchises, as the purchasers of merchandising, related games, mobile apps etc. They also provide the pester power that leads to DVD and other ancillary sales.

Children grow up with franchises, giving them an extended shelf-life. The *Harry Potter* series is a particularly good example.

Arguably, the big one-off animated films have been focused on 'quality' drama that appeals as much (and possibly more) to adults – Pixar standing as the best-known example.

Of the top 20 films of all time, according to Box Office Mojo, 17 have been part of studio blockbuster franchises made in the last 10 years.<sup>59</sup>

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<sup>58</sup> <http://www.kids-©-regio.org/index.php?id=95>

<sup>59</sup> [www.boxofficemojo.com](http://www.boxofficemojo.com)

Television has a big advantage over film in that it is the means by which most children will be introduced to the moving image. We acquire a television habit early from broadcast institutions and companies which are often publicly funded, and generally have some form of written charter or rule that means they have to produce a certain amount of children's content to a set standard.

The amount of television that children actually consume is a matter for dispute, but it is clear that television is increasingly a personal and non-linear activity (i.e. not tied to broadcast schedules)

But that is only part of the story. Historically, film was a major part of the family television viewing culture.

Great European film was often a taste acquired through terrestrial television with a strong influence from parents on taste. That link has been severed both by scheduling practice which pushes art film to late-night screening and to the breakdown of the communal television experience.

While specialist satellite, cable and online services offer easy access to considerable amounts of content, the serendipitous discovery of European cinema by the uninitiated is much harder.

## ARTHOUSE EXCLUSIVITY

At least part of the reason for the underserving of children is in the culture of European cinema itself.

As discussed elsewhere in this report (See page 6), the audience for arthouse and specialist European film is ageing. To be fair, the population as a whole is ageing too, a factor that needs to be taken into account in business strategy. UN estimates suggest that birth rates will continue to fall while the number of over-60s in Europe, today standing at 22%, may rise to 34% by 2050.<sup>60</sup>

Nonetheless, refreshing the roots by encouraging an early interest in film is essential – after all, the 60-year-old in 2050 will now be 10-years-old.

Arthouse cinemas themselves (with some very notable exceptions) are sometimes guilty of indulging in the worst kinds of exclusivity, becoming daunting and unwelcoming places for newcomers.

Terminology such as 'arthouse' can be self-fulfilling and self-defeating, sometimes wilfully excluding the potential for reach beyond an initiated elite.

European cinema revels a little too much in the idea of its superiority over the supposed infantile and culturally-corrosive Hollywood.

There is some truth in the comparisons with classical music, where one learns a degree of advanced literacy through frequent exposure and potential study. But most people fall in love with the cinema before they become interested in films and we should be very cautious about condemning the mainstream.

In any case, the key issue for this report is lack of exposure to film. We should acknowledge that the European film structure from film-makers to policy makers have neglected children to the potential detriment of tomorrow's potential fans beyond an educated upmarket elite.

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<sup>60</sup> United Nations World Population Prospects 2008

Although there are specialist festivals and sections at festivals (and Cannes frequently opens with a US family film), children are largely expected to keep to their place on the margins.

## THE SEGMENTED AUDIENCE

Policies for young people are rarely based on much depth of research, relying too often on unscientific myths around youth, based on the often atypical personal experience of film-makers and policy makers.

There have been some recent studies which have tried to segment younger audiences into realistic groupings for which business might be able to create strategic plans.

A particularly detailed piece of work was commissioned by the UK Film Council from market research group Dubit. It studied 2,000 people in the 15-24 age group and divided identified five distinct segments.<sup>61</sup>

It divided the 15-24-year-old audience into five segments:

- **Technicolor Fans:** 9% of the audience. Avid cinema-goers, active users of social networks with a strong interest in film itself.
- **Socialite Spenders:** 22%. Again avid cinema-goers, very interested in the social experience of cinema.
- **Sensible Careerists:** 10%. Generally those starting out in work and looking for convenience in timing as well as the right content.
- **Price Sensitives:** 25%. Interested in cinema but constrained by price. Sensitive to the risk element of paying for a film that is not enjoyed.
- **Passive Clubbers:** 32%. Like the cinema but need to be convinced.

The groupings closely reflect the social technographics work from Forrester on page 30 of the report. It suggests that marketing strategies and film policies needed to understand the way that sections of the audience think and act.

The interesting point for this group is that the research suggested that the age group were not separated by great cultural gulfs. The differences were more a matter of nuance than the serious divide between this net-native generation and older age groups.

The influence of social networks and the Internet-enabled on-demand culture is largely ingrained in all.

The report was specifically aimed at increasing cinema attendance and its findings were that different parts of the audience responded to different stimuli: an element of cinema on demand at one end and ticket price offers at the other, for example.

But the conclusions of the report are largely that there are real opportunities for cinema to make big gains in this age group but they expect to be engaged on their own terms.

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<sup>61</sup> [www.dubit.com](http://www.dubit.com)

## MEDIA UBIQUITY

The availability of media should dramatically increase access to great film for young people. Although media use by children depends to a degree on culture and varies from country to country, access to personal entertainment devices has soared almost everywhere.

A study from the GSM Association in 2009, for example, suggested that 50% of 10 year-olds in the European Union, 87% of 13 year-old and 95% of 16 year-old children had a mobile phone.<sup>62</sup>

The prevalence of mobile phones has come against evidence of potential health risks that saw the French government introduce a ban on advertising mobiles to under-12s and sales to under-6s in 2009. The fact that such a ban was necessary is indicative of how widespread child use and ownership has become.

And these phones are increasingly becoming used for entertainment alongside games consoles and, importantly computers.

A survey of 14-25-year-olds from around the world, commissioned by Deloitte, showed that 75% saw the computer as more of an entertainment device than their television. The survey of 8,800 young people showed that 59% viewed their mobile phone as an entertainment device and were spending one-third less time watching the family television than are other generations.<sup>63</sup>

These patterns of behaviour can now be widely observed and cultural differences between nations are blurring. The influence on the 'tweenager' generation of colossal global brands, such as *Twilight* and *Harry Potter* have created brands that travel almost anywhere.

The potential of this audience, however, has not been adequately addressed by the European film industry. While there are strong experiments in children's film clubs and advances in education in some countries, these are patchy and often run into the familiar problem of film rights.

## MULTI-TASKING

One of the peculiarities of access to multimedia devices is a new phenomenon of simultaneous use of more than entertainment format at a time – know as media multi-tasking.

Using the Internet or mobile phone while watching television, for example, thoroughly distorts research on media consumption, which measure distinct media forms. It is also highly challenging to an art form such as film that is based on immersion.

This ability to multi-task media is sometimes taken as a sign that the attention span of the average young person is being damaged by new media forms. It is an ignorant assumption given the extended periods of concentration required by some of today's games.

There are positive ways of looking at the multi-tasking generation. The first is perhaps counter intuitive in that it may actually support the cinema experience, in the same way that it has live music and sport.

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<sup>62</sup> [www.gsmworld.com/documents/Final\\_report.pdf](http://www.gsmworld.com/documents/Final_report.pdf)

<sup>63</sup> [www.deloitte.com/view/en\\_LT/lt/press/lt-press-releases-en/press-release/49e5bf2733101210VgnVCM100000ba42f00aRCRD.htm](http://www.deloitte.com/view/en_LT/lt/press/lt-press-releases-en/press-release/49e5bf2733101210VgnVCM100000ba42f00aRCRD.htm)

The ubiquity of easily accessible and often condensed content actually adds value to the authentic experience of film. Film in cinemas does not die because it cannot adapt to a generation that has lost the ability to concentrate but because it acts as a break from multi-tasking.

Multi-tasking is also a potential marketing tool. It is often the moments in which judgement on content is delivered by word of mouth.

A survey from the European Interactive Advertising Association suggests that these media multi-taskers disproportionately use the internet for entertainment with 38% watching film, TV or video clips on the web (compared with 21% of non multi-taskers).<sup>64</sup>

We have a different kind of media literacy developing that is challenging but perhaps opens up new creative and business opportunities.

Certainly, the cross-media culture discussed in Chapter 4, seems to fit an emerging pattern of consumption.

## TIME

What multi-tasking demonstrates above all else is that the key battleground for film in trying to attract younger audiences is time.

This imperative has sometimes been reduced to a sense that to meet demand, content needs to be ever shorter and simpler.

YouTube is sometimes fingered as the exemplar of a lazy generation unable to focus for more than a few minutes at a time. What is forgotten is that one of the reasons that YouTube video lengths are short was pressure from audiovisual industries to protect its long-form content.

Equally, one of the biggest challenges in terms of time is that other highly immersive form, videogaming. The culture that has grown up around the *World Of Warcraft* online role-playing game in the last five years offers interesting insights into youth culture.

Research is conclusive that children are happy to skip between media to find the experiences they seek. And entertainment now takes up a huge part of children's lives.

A US study released from the Kaiser Family Foundation in 2009 found that, on average, eight-to-18 year-olds spend an average of seven hours and 38 minutes using entertainment media every day –more than 53 hours per week. And that does not account for multi-tasking in which more than one media is used at once.<sup>65</sup>

In 2004, the same survey showed the average young person spent six hours and 21 minutes with electronic media, one hour and 17 minutes less.

The study, called *Generation M2: Media in the Lives of 8- to 18-Year-Olds*, is the third in a series of large-

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<sup>64</sup> [www.eiaa.net/news/eiaa-articles-details.asp?lang=1&id=203](http://www.eiaa.net/news/eiaa-articles-details.asp?lang=1&id=203)

<sup>65</sup> [www.kff.org/entmedia/mh012010pkg.cfm](http://www.kff.org/entmedia/mh012010pkg.cfm)

scale surveys about young people's media use and includes all three parts of the study (1999, 2004 and 2009).

It found that the increase in media use was largely driven by the instant access children have to mobile devices like iPods and mobile phones. In the past five years, mobile phone ownership in the US for this age group was up from 39% to 66%; iPod and MP3 player ownership was up 57% to 76%.

In this five-year period, mobile phones and iPods have transformed into multimedia platforms for young people, with their age group being the most likely to utilise all the various applications on their devices.

Children now spend more time listening to music, playing games and watching TV and films on their mobiles (49 minutes per day) than they spend talking on them (33 minutes per day).

The battle for this market is seen too often as a fight between media platforms with the traditional media such as cinema under threat.

In reality, the battle is for time and film needs to find ways to insinuate itself into a packed schedule.

## PIRACY, ACCESS AND OWNERSHIP

Piracy is discussed in Chapter 9 but there is one generational difference that should be noted in this chapter - and that is the idea of Internet as a free resource.

The idea of 'free' is not meant simply as the opposite of paid. The battle has been more about the attempt to turn the web into a simple facsimile of the real world, divided along simple capitalist lines.

This freedom has been characterised by some as a recreation of the Wild West of American mythology. Certainly, there are plenty of examples of the lack of social and moral boundaries which rule the physical world - access to hardcore pornography, guides to bomb-making , etc.

This view naturally comes with a mission to 'tame' the Internet, introducing restrictions on use, a degree of censorship and commercial rules. The Chinese and Iranian governments have taken the most drastic steps on this road by banning access but most states have tried to impose some form of restriction.

On the other side of the argument, the internet has been a liberating influence, putting power into the hands of the individual and allowing a flowering of creative ideas and the sharing of content, as the discussion about the 'active audience' in Chapter Two demonstrated.

The problem has been that industry has not found models to monetise this behaviour.

While the high-profile of anti-piracy campaigns have emphasised the criminality of taking content for free, industries have themselves experimented with models to make money from free access. Indeed, in the analogue world, there are plenty of examples of the idea in action, from free newspapers to free-to-air television stations.

Newspaper companies generally took down the paywalls of their websites at the beginning of this century, believing that unprecedented access to readers would attract new advertising. It is only now that some are reimposing restrictions after finding that revenues were much lower than anticipated.

The culture of free access to online content among young audiences was then actively encouraged by many traditional businesses. We are slamming the door shut now having found that we were unable to simply 'monetise' the increased digital reach.

The idea that there is no middle ground between piracy and complete access does not stand up to scrutiny – and nor does the implication that we have created an unprecedented generation of criminals.

The music industry has thrown up some very interesting approaches to music that raise fascinating questions about consumer behaviour. Last FM and Spotify, for example, are popular services which treat music as a cultural activity to be licensed, rather than as a discrete set of individual products for purchase.

The different responses to these services from conventional music companies are interesting. In February 2010, Warner Music announced that it would only deal with pay-download services, most obviously iTunes.

Meanwhile a would-be iTunes rival, 7Digital, announced at the end of 2009 that it would work with Spotify, Last FM and other similar services, such as WinAmp and Songbird, having found that heavy users of these 'free' services were also regular purchasers of downloads.

The point was confirmed in research from the major label-backed Future Business Group in 2011, which showed that the most avid buyers of music were also the most likely to use file-sharing services.<sup>66</sup>

Ownership and rights might be a more fluid concept among younger people but that does not necessarily preclude workable business exploitation.

At the very least it should open up a dialogue, particularly given the difficulties the European film industry has had trying to attract younger audiences.

The music industry belatedly became aware of that need as their business models fell apart, and have investments in these new businesses.

Experimentation without long-term commitment to new ideas rather than knee-jerk condemnation seems a rational business approach to be followed. That is particularly so given the hypocritical moral condemnation of file-sharing. The effect of file-sharing on the industry with its limitless potential to reach audiences with perfect copies cannot be denied.

But there is not really a moral difference between sharing a file and the taping of music from the radio or from a borrowed album, which was a big part of the growing up of previous generations (including many of today's most active legal consumers).

## ENGAGING WITH CHILDREN

The trick to getting young people to engage with film has to be a combination of different approaches – education, access and participation.

**Education:** It is telling, but not surprising, that the first of that trinity – education - gets most attention.

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<sup>66</sup> Into The Future: Future Business Research Group

In some ways it is least challenging to today's business models and the dominant tradition of European 'cultural cinema.'

Education tends to be focused on cultural appreciation – cinema as an academic subject rather than as a living, breathing and evolving medium.

The European Film Academy devoted its 2002 conference to promotion of film in education and in 2009, European Union president Jose Manuel Barroso brought together a think tank of leading film-makers and policy-makers called The Image Of Europe which explicitly called for film education in the continent's schools.

The aims of this project would be to nurture, in Barroso's words, "the emotional side of Europe" to match the political and economic focus of the EU. Talking at the event in Germany's Ruhr Metropolis, Volker Schlöndorff said it was time to consider "another lingua franca, the language of the images."<sup>67</sup>

It asks that cinema be taken seriously alongside literature and music as vital props of the culture of Europe (often contrasted with the hegemony of US capitalism).

These ambitions are important but they can only be part of the equation, not least because putting film into the classroom changes the context and creates a different kind of relationship between audience and content.

The idea that a love of film might be more about academic attainment than emotional response threatens to perpetuate an already clear demographic divide.

Education needs to be part of the equation, alongside access to content and encouragement of participation but these are even more problematic.

**Access and participation:** Access and visibility are a challenge to the business models of the existing film industry, and are discussed elsewhere in this report.

Any desire to make film more visible on multiple platforms inevitably opens up discussion of rights and licensing , etc. For younger audiences to be inspired to a love of cinema, suitable content needs to be made available.

The opportunities go beyond that. For the first time in history, production, editing and distribution has commoditised so that powerful tools can be placed in the hands of anyone who cares to use them.

But the key driver has been that active players of music are also buyers of tickets. Participation is a major inspiration for consumption, a fact recognised in sport and music in education.

The availability of low-cost production equipment and cheap or free means to create audiovisual content should be exciting huge interest for film.

Communication between young people is increasingly audiovisual, through video on mobile phones. A significant if still small number of people are making, often rudimentary films or 'mashing up' existing content online and sharing it with friends.

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<sup>67</sup> [www.europeanfilmacademy.org/2009/06/09/a-plea-for-the-emotional-side-of-europe](http://www.europeanfilmacademy.org/2009/06/09/a-plea-for-the-emotional-side-of-europe)

Some of this content has attracted large number of hits on online sites, notably YouTube, but this new pool of interest is not being systematically nurtured by the film industry, and film education is not yet embracing the potential of active participation in film making.

As with sport and music, today's participants are tomorrow's spectators, and from the well of talent are drawn the Olympians or lead violinists.

## WINNING NOT CONTROLLING

In seeing this dichotomy between protectionism and access, we are still using the compass of the existing industry.

Worse than that, in the next few years we may find that the closest engagement with young people will be criminalising them through action on piracy.

Much more interesting is to see the potential in changing patterns of behaviour - with paradigm shifts in attitudes towards consumption, payment, etc. Such an approach requires supportive incentives, fresh thinking in key areas such as rights and a much greater degree of experimentation.

It would be helpful if European saw the young audience as something to be understood and won, rather than as a threat to be controlled.

## CHAPTER SEVEN: DIGITAL CINEMA

### IN BRIEF

- The 35 mm era is over but a costly transitional phase has begun
- Small cinemas are threatened in conversion crisis
- 3D and alternative content is driving conversion
- Film diversity and choice is slipping from the agenda

**FOR MORE than 100 years, cinema had one basic common element that united the most adventurous arthouse experimental work to the most overblown Hollywood blockbuster franchise. There was a common standard – the 35 mm print – that remained essentially the same since its introduction in 1892.**

The industry naturally evolved in different places in different ways and eventually Hollywood – founded largely by Eastern European émigrés – became dominant. But around the spools of the cinemas was the same basic stock that Thomas Edison would recognise...until now.

The celluloid print is now a dead man walking.

The average cinemagoer won't notice the difference, unless the end product is in 3D. The perfect copy they will watch without scratches or blemishes will soon be taken for granted.

The richness of 35 mm is not going to die unmourned; many cinephiles point to a textural difference that can be seen with a new print on a really good screen. Celluloid may even have some kind of afterlife through museums, archives and potentially new specialist exhibitors, but we are heading to the end of its days as serious business.

The industry is already in the digital cinema era, even if the rollout has been patchy in Europe. Digitisation is now accepted driving reality in distribution and exhibition developments.

What we have now entered is the dangerous and costly period of transition, where 35 mm and digital run side by side, increasing costs and reducing the potential savings.

### INERTIA AND CRISIS

The first digital screening of a film took place in 1999, yet despite the inevitability of change and the costly dangers in the transition did not lead to the necessary strategic thinking in the early days of digital cinema.

True, a number of forward-thinking businesses, analysts and experts were engaged from day one and many urged maximum participation in the debate over standards and the development of payment models.

Some warned of potential threats that have now become reality.

Yet crisis that still threatens the future of small independent cinemas, for example, was like watching a slow-motion car crash.

It was clear at an early stage, that the cost of conversion and the difficulty in scaling down the main financing instrument, the virtual print fee (VPF), was going to be a big problem for independent single-screen cinemas, estimated by *Screen Digest* at 8,054 in Europe.

Unfortunately, prior knowledge did not deliver much in the way of strategy and the last two years have seen a stop-start series of attempts to resolve the problem.

The variety of proposed measures have ranged from an Italian tax break to the UK's purely private-sector creation of a single financing group, bringing together small cinemas on a voluntary basis.

Broadly speaking, the strategies have focused on aggregating screens to negotiate collective deals, but it has been a fraught process with Germany, for example, forced to go back to the drawing board.

While major progress has been made, there are still large gaps in the D-cinema financing process and a shrinking timescale to find a solution.

## DIVERGING INTERESTS

The small cinema crisis has diverted a huge part of the energies that ought to have been devoted to the much bigger and challenging issue of how to make digital cinema deliver new opportunities for European film.

This ought to be a singular exercise: every part of the European business wants to see increased audiences but the limits of mutual interest are soon reached.

And once again, it is because the analogue interest cannot adapt to the digital age

One unresolved issue, for example, is the relationship between distributor and exhibitor.

The VPF business model is based on bringing forward future cost savings to distributors and, to an extent, the theatres. But those savings will only be realised once we get over the transition phase of producing and distributing both digital and 35 mm prints but here we have the source of more tension.

The 2009 annual Europa Cinemas conference in Warsaw, which brought together hundreds of theatres from across the continent, highlighted the problem:

- Producers don't want to invest in digital masters until there are enough screens
- Cinemas are reluctant to invest until there is enough digital content
- And distributors are dubious about their supposed contribution while there is open discussion now about whether their middle-man role is actually necessary.

By the next conference in Paris in 2010, the underlying issues remained.

This inertia is partly based on the reality that the VPF effectively locks exhibitors and distributors into the same basic relationship they had in the analogue world.

There are no great savings and distributors complain that while their costs are pegged at an artificial level, they have lost control and influence over screenings. And cinemas still insist on release windows.

The positions are rational but incompatible, holding back the potential of D-cinema changes for European film, while the studios power ahead.

### 3D AND ALTERNATIVE CONTENT

The real driver for the advance of D-cinema in Europe has been 3D, which has already begun to live up to its considerable hype, at least in terms of customer appeal. So much so, in fact, that even as the global economic downturn has been paralysing large sectors of industry, it has kept the digitisation process moving.

The great news for advocates was that James Cameron's *Avatar* has lived up to its billing in terms of box office, crossing the \$2bn (€1.5bn) worldwide threshold in just seven weeks. (Though it is worth remembering that very significant numbers will have seen the film only in 2D.)

The success was such that it picked up another successful limited run in 2010 and 2011.

Whether a 10-year labour of love from a big-name director or the two other \$1bn-plus films in 2010 are indicative of the overall long-term prospects for the format is open to debate. It will be more strongly tested in a mature, crowded marketplace of the next few years.

What is certain is that most of the studios are betting their future on it (Disney and DreamWorks Animation announced in 2008 that all its future tentpole animated features would use the format) and in the short term, a number of cinemas have been willing to take the gamble on increased per screen revenues it offers (partly due to a ticket price premium).

And because of the domination of Hollywood product in European markets, the entire industry has a stake in the studio gamble.

The other area shaping up to be an important revenue stream for exhibitors is the range of non-film products now lumped together as 'alternative content.' Early experiments include live streaming of operas, plays, sport and concerts. Gaming may also be part of the package.

Opera has been the surprise package and dominates the revenues from alternative content so far. The New York Met beamed opera into 1,500 cinemas in 2010 and, its fifth in the cinema business. The Royal Opera House is broadcasting to 22 countries.

One of the pioneers of opera in cinemas, Sweden's Folkets Hus och Parker brought a measure of interaction into the process with a sing-a-long opera event with Mezzo Soprano Malena Ernman, broadcast live to more than 35 cinemas.

Rock music has been growing in interest, although there are relatively few acts capable of attracting global audiences to justify the costs of live streaming.

Concert films clearly have some potential given the excellence of the sound systems in many theatres, the limited tickets to hot gigs and potentially a 3D option (already explored by bands such as U2). In 2010, *Iron Maiden: Flight 666* opened on 500 screens in 42 countries, with more than 100,000 consumers watching mostly one-day-only screenings at premium prices.<sup>68</sup>

The film is a behind-the-scenes documentary filmed on the first leg of the band's Somewhere Back In Time tour last year.

Today, cinemas are essentially for showing films, but what alternative content can do is widen access to some otherwise exclusive events, bringing an element of shared viewership to events that were once seen as one-offs or out of reach of some audiences for financial, geographical or social reasons.

This is not necessarily competition for film but rather the opportunity to turn cinemas into important local cultural institutions.

## EUROPEAN FILM

The dog that has not barked so far is the one in which European and arthouse film had placed its hopes – the broadening of access to cinema audiences.

While exhibitors have been willing to invest their own money on 3D and even alternative content, believing that they will see quick returns on investment, very few have bought digital equipment on the basis of increased choice of European or other specialised film.

That is partly because of a lack of content with a reluctance to invest in digital masters with so few interested digital screens.

The independent industry, without the financial muscle of Hollywood, has been reticent about making a leap of faith - they want digital screens before making the digital jump, leading to some paralysis in the market.

While this impasse remains, customers are getting used to the idea that D-cinema is about 3D and alternative content.

There is no single European plan for D-cinema for the same reason that there is no homogenous European film industry, despite cross-border initiatives, such as Europa Cinemas and the MEDIA Programme.

The rollout of D-cinema in Europe is proceeding piecemeal, territory by territory – indeed more accurately circuit by circuit.

There will be periods of acceleration, however, largely driven by a competitive theatrical marketplace – at least for larger cinemas. When one major chain makes the switch, others will follow.

But Europe will also move at the pace of product availability, and specifically studio films and 3D. There is a further factor – and that is the costs associated with a lengthy transition period of both digital and 35 mm. This will increase costs associated with the dying analogue format.

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<sup>68</sup> [www.artsalliancemediacom.com](http://www.artsalliancemediacom.com)

The true benefits of digital cinema will not be felt until cinemas can receive all forms of content using digital means.

Most films are still physically transported to cinemas, using similar methods to those used for 35 mm prints (mainly the courier).

## THE STANDARDS DEBATE

The need for a single common standard for digital cinema has in recent years been widely accepted as a necessary precursor to digital cinema adoption.

The 'Digital Cinemas Initiatives' (DCI) standard was adopted by the studios in 2002, governing security, image quality and interoperability. And they have since been widely approved in Europe.

There were dissenting voices: DCI is "a Rolls Royce system with a Rolls Royce price tag," suggested Peter Wilson, chairman of Technical Module; and Rickard Garmfors, project manager at Swedish distributor Folkets Hus Och said adoption of the high specifications was like "shooting a mosquito with an elephant gun."

Nonetheless, DCI was accepted by the majority and, for all its faults, it at least allowed the D-cinema agenda to move on.

The threat to small cinemas and the possibility of public money being spent has reopened discussion about whether the single standard is anti-competitive and a damaging to the European cultural diversity agenda.

European competition law may have an impact here.

There are few manufacturers of equipment that reach the 2K standard, and the vast majority use the same basic computer chip, meaning there is no chance of creating the economies of scale that might reduce costs, in the way that has been true of consumer electronic equipment.

Technical advances during the long delay between the approval of DCI standards and today, means there are now lower-cost alternatives to the 2K systems that offer high levels of security but at lower resolution.

Many believe that for smaller screen cinemas, these lower resolution systems are perfectly adequate. Lower costs would obviously help change the financial equation for small theatres.

It might also encourage potential new entrants into the field – an issue rarely discussed. There are already interesting experiments in areas such as 'pop-up cinema' where venues are co-opted for specific film events.

One inspiring example is a UK initiative called Secret Cinema, where an audience is gathered online and through social networks to film 'happenings'. A screening of *Lawrence Of Arabia* at a London landmark managed to sell 15,000 tickets at around 35 Euros.<sup>69</sup>

And the easy access to film might open up new possibilities for film clubs, restaurant screenings and other forms of public exhibition.

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<sup>69</sup> <http://www.secretcinema.org/>

The standards discussion will be resisted by the studios, who reasonably feel that the discussion should have been wrapped up years ago. Nonetheless, 2K looks suspiciously like another artificial scarcity model, holding back the potential of D-cinema in the interests of the existing industry establishment.

## THE BIG SWITCH

For all the problems outlined here, many of the key milestones have been passed for D-cinema. The first is the acceptance that there is no going back. The 35 mm era is over.

The negative aspects of that change outlined here – especially the threat to small cinemas – at least will focus minds. One way or another, we will have a resolution.

While issues, including standards, may have an effect on the margins, the question for D-cinema is only one of time and critical mass.

Compelling content, especially 3D, has already created strong momentum behind upgrades in Europe and consumer willingness to pay premium prices for the extra dimension has provided some much-needed commercial confidence to the rollout.

The commitment of the studios to 3D ensures that there will be no shortage of product, whatever doubts there may be about long-term demand.

There are reasons for confidence too in alternative content. The growth of gaming, the continuing expansion of live music and coming major sporting events, including the 2012 Olympics all point to potential growth.

The missing link remains the one that matters to European cinema: increased reach to national and international audiences.

There remains a question that state funders have been asking and are entitled to ask of support for D-cinema: it is merely an equipment upgrade or a piece of capital expenditure?

Or is it an opportunity to embrace new audience-centric models, offering wider choice and a more responsive service?

These new approaches are challenging to the traditional distribution model. Yet it is impossible not to notice that the potential for renewal is not the reason for arguments with distributors; instead the most heated debate is the tired protectionist one about release windows.

# CHAPTER EIGHT: NEW DISTRIBUTION

## IN BRIEF

- Industry overestimates the short-term and underestimates the long term
- VOD channels are expanding fast but confuse consumers
- Broadband speeds will be critical to growth and piracy
- Mobile film will expand with new devices

**DIGITAL INNOVATION IN FILM** follows a pattern summed up in a cliché about **business technology**: that we overestimate the short term and underestimate the long term. It is **short-termism**, however, that has marked digital change in Europe, with each development experienced as bursts of excitement or disappointment with little sense of a broader perspective.

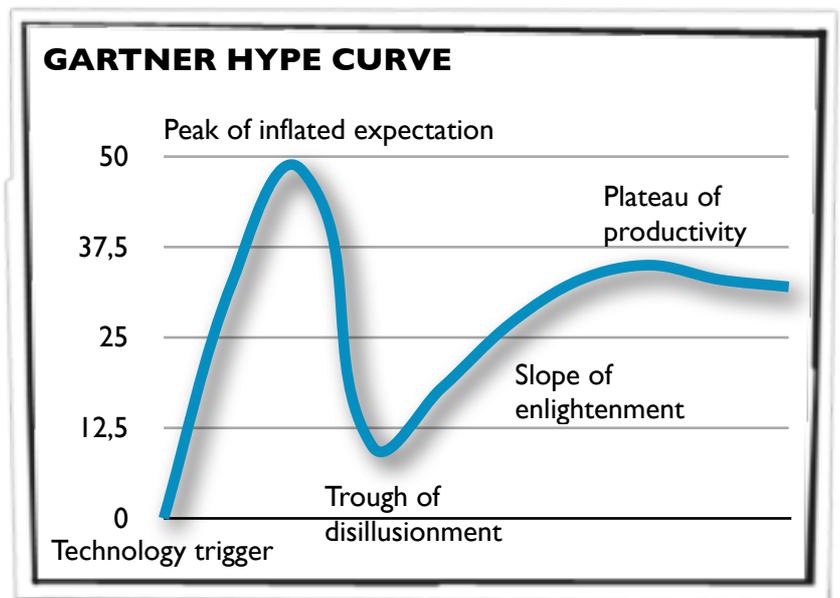
The most convincing model for judging the effect of technology and changing consumer behaviour on business remains the hype curve, created by the leading technology analyst Gartner.<sup>70</sup>

The model describes the process whereby new technologies trigger unrealistic hype, followed by a crash of disappointment before finally consumer acceptance and matching industrial processes take it through to business maturity.

The speed of the process and the heights and depths of the acceptance curve clearly change but the process remains much the same.

The early adopters of any technology trend are rarely the biggest beneficiaries (and in revolutions, the early idealists tend to end up with their heads in the guillotine).

It is those who can capture the imagination of customers at the right time, or attune to demand who emerge strongly from the trough of disillusionment.



<sup>70</sup> [www.gartner.com](http://www.gartner.com)

## ELECTRONIC SELL-THROUGH (DOWNLOADS)

We are still at a relatively early stage of the mainstream downloading, or electronic sell-through (EST) business – at least in terms of legitimate downloading, because pirates and file-sharers have been long established in the field.

Apple only introduced its movie download and rental service in 2009 – and quickly came to dominate both markets, mainly because of the muscle of the iTunes brand. There is no certainty that the scale of Apple's domination of the film download market in the same way.

In music, its huge market share was initially established by, and largely sustained by, the popularity of the iPod. It was a hardware, not a software revolution. It remains far from clear that the iPad or other developments will follow suit.

European film remains largely on the margins of iTunes, for commercial reasons and because of the complicated nature of rights agreements, discussed in this report. It is therefore in the interests of Europe that there is a more competitive download market than there is for music.

And there are other players trying to establish a strong download business, including the DVD online rental giants, such as LoveFilm, its new owner Amazon, as well as satellite and cable TV and telecoms companies. There may be smaller success stories from the websites of existing distributors, such as CurzonArtificialEye's Curzon On Demand.<sup>71</sup>

There are significant barriers to the growth of a strong EST market in Europe, however. One that is discussed throughout this report is the issue of rights, which remain tied to dated territorial models and in the hands of distributors with other interests.

Another is the issue of windows, which restrict the potential revenue from downloads. The windows will inevitably be revisited because evidence is beginning to grow of the potential for day-and-date releasing, starting with unifying the various non-theatrical formats.

Warner Brothers revealed at the Screen Digest PEVE Digital Entertainment conference in London that releasing its films on Blu-ray Disc, DVD, VOD and EST was having a significant effect. The release of Clint Eastwood's *Gran Torino*, for example, earned \$60m from VOD and EST against a total box office take of \$148m.<sup>72</sup>

With electronic margins at 60-70%, compared with 20-30% for optical discs, it is no surprise that change is high on the agenda. But once again, it is the studios that are driving the digital agenda.

## BROADBAND

A longstanding technical issue for digital advances in Europe is broadband speeds.

There were some short-term advantages to the slow development of high-speed broadband. File sizes and the time taken to download a film were a barrier for the pirates too, but the rapid establishment of peer-to-peer file-sharing using the BitTorrent protocol has changed all that.

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<sup>71</sup> [www.curzoncinemas.com/film\\_on\\_demand/](http://www.curzoncinemas.com/film_on_demand/)

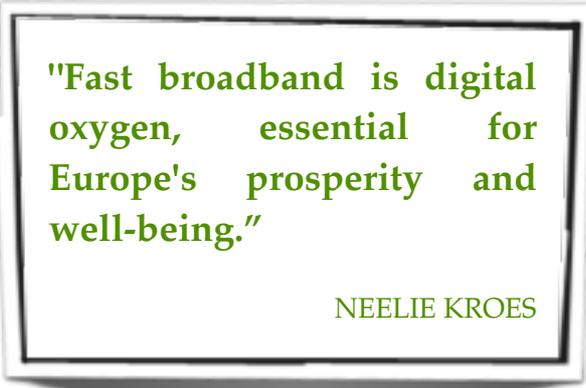
<sup>72</sup> [http://www.screendigest.com/events/peve/news/live\\_from\\_peve\\_2010.pdf](http://www.screendigest.com/events/peve/news/live_from_peve_2010.pdf)

Torrent distribution is easily the most efficient basis for fast downloading. Some film-makers are even embracing it as a legitimate means of distribution. (See Chapter 9)

Where broadband speeds are high, such as Denmark, customer habits change fast and there is little patience to wait for business to catch up. YouGov Zaperla research in 2009, suggested that one-in-six Danes between the ages of 20 and 65 watch illegally downloaded movies.<sup>73</sup>

But these facts have not led to many smart strategies for building legitimate alternatives to pirate downloads and technology is still running ahead of business models. The emphasis has been on stopping the Torrents.

Improvements to broadband has been part of a much wider business agenda than film. Neelie Kroes, European Commission Vice-President for the Digital Agenda, said: "Fast broadband is digital oxygen, essential for Europe's prosperity and well-being."<sup>74</sup>



"Fast broadband is digital oxygen, essential for Europe's prosperity and well-being."

NEELIE KROES

There have been advances in network speeds in Europe over the last year.

In July 2010, 29% of broadband lines in the EU operated at speeds of 10 Mbps, compared to 15% a year earlier.<sup>75</sup>

The advance of these speeds has been patchy as the graph shows with pockets of low performance. Currently Denmark and The Netherlands have the best standard of European Broadband, with 80% of homes being able to access high-speed connections.

The European Commission has set a task of giving every EU citizen at least 30 Mbps and half above 100 Mbps. So speeds should be no obstacle to downloading in the future, and most of Europe are already taking advantage of the advances that have made digital rentals a feasible and growing market.

## STREAMING

These faster speeds, however, do not necessarily mean the domination of downloads.

One area that is fast growing is streaming video. There are distinct advantages in watching streamed content rather than downloading, not least because the size of files means that downloading eats up space and costs money in storage.

Streaming is probably the key to viable VOD services in future, and the basis for services such as Mubi (See below).

YouTube has attempted to take a lead in this area with its Screening Room, which has hosted full-length

<sup>73</sup> [www.cepi.tv/the-publications/newsletter/item/download/18](http://www.cepi.tv/the-publications/newsletter/item/download/18)

<sup>74</sup> [www.techeye.net/mobile/europes-broadband-lag-means-2020-digital-agenda-targets-unlikely](http://www.techeye.net/mobile/europes-broadband-lag-means-2020-digital-agenda-targets-unlikely)

<sup>75</sup> <http://europa.eu/rapid/pressReleasesAction.do?reference=IP/10/1602&format=HTML&aged=0&language=EN&guiLanguage=en>

features since Wayne Wang's *The Princess Of Nebraska* in 2008.<sup>76</sup> But there are many others in the same field trying to make their mark. C. Cay Wesnig's Onlinefilm.org is among the European examples but a number of US-based specialist sites such as ReFrame<sup>77</sup> or IndieFlix.com<sup>78</sup> have made some impact within the Indie film community.

The missing link has to some extent been the television, which remains the most popular place to view films, for all the hype about mobile.

## VIDEO ON DEMAND

On-demand services have been growing fast in Europe.

The European Audiovisual Observatory counted close to 700 VOD sites in its 2009 Focus report and the growth is now hard to measure.<sup>79</sup>

VOD now describes a confusing array of services, from the Near Video On Demand of films offered on a rolling start, pay-to-view basis by satellite channels to streamed video subscription services.

The countless channels include many in strongly specialist areas with, typically for digital advances, pornography accounting for a large part of the change.

The big problem for this VOD explosion is that more channels are not necessarily good for audiences, themselves constrained by time and without necessarily the desire, or the technical capability to search for content.

The explosion of channels includes a huge number of what the industry disparagingly refers to as 'bottom feeders' hoping to make profit from smaller independents in something like a self-publication sector in book publishing.

Some more established players, such as Babelgum<sup>80</sup> and Jaman<sup>81</sup>, may find a strong niche.

But the VOD market is still strongly weighted towards established brands, notably Apple, but also telecoms companies, television stations and channels, the online rental companies such as LoveFilm, now part of Amazon, and Netflix, and the technology giants. They have the advantage of devices, brand recognition and increasingly access to the television.

These bigger brands will want the same control over content that they had in the analogue world, demanding exclusive rights.

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<sup>76</sup> [www.youtube.com/user/ytscreeningroom](http://www.youtube.com/user/ytscreeningroom)

<sup>77</sup> [www.reframecollection.org](http://www.reframecollection.org)

<sup>78</sup> [www.indieflix.com](http://www.indieflix.com)

<sup>79</sup> [http://www.obs.coe.int/online\\_publication/reports/focus2010.pdf](http://www.obs.coe.int/online_publication/reports/focus2010.pdf)

<sup>80</sup> [www.babelgum.com](http://www.babelgum.com)

<sup>81</sup> [www.jaman.com/](http://www.jaman.com/)

For European film, still locked in its confused maze of rights and windows, on-demand services do not necessarily offer advantages.

One of the few brands to have established a foothold (albeit with strong European MEDIA support) is arthouse subscription service Mubi (formerly The Auteurs), which demonstrates both the potential and the pitfalls of the emerging VOD landscape.<sup>82</sup>

It has put itself in a relatively strong position with a relationship with Sony, which has included a place on the PS3 games console menu. This gives it access to millions of televisions with the distinct advantage of being embedded in an existing set-top box.

The site is well designed, intuitive and has a clear focus on great European film. It has built up a strong community with insightful contributions from members. Yet the confusion of rights is an ever-present restriction on the fulfilment of what once might have been something like a one-stop shop for those who love European art film.

Instead, regular users will be familiar with the message frequently flashed up when a film is located to view: "If we had it our way, you'd be watching this film right now instead of reading this message."

There has been one attempt to help the problem of navigating through the VOD mess with the setting up of search services, which can find content on multiple platforms. The UK Film Council's FindAnyFilm was a pioneer in this respect.<sup>83</sup>

Other services have since entered the field with an added element of user-recommendation, including Moviepilot and Myfilmstation<sup>84</sup>. The link between user taste and VOD, particularly when coupled with social networking through services such as Twitter and Facebook looks like an interesting option.

A bigger solution to the rights issue that has been discussed at European policy levels is the establishment of a single platform for European film.

A study was commissioned in 2007 to look at the options for a EU-funded pan-European service but problems became clear: the cost of a multi-language service and establishing the necessary infrastructure, in addition to the dangers of disrupting the commercial market, are all major obstacles in the road.

So in the short term, we are likely to see a further proliferation of sites trying to negotiate the rights minefield. In the longer term, the lessons from music mean a few major players will come to dominate the market, striking exclusive deals for the most desirable film and moulding the growth of VOD and other forms of new media distribution.

The muscle of Apple, Amazon, Sony and Google as well as telecoms and satellite giants could leave culturally diverse European films as much on the margins today as they have ever been.

We could end up with a three-tier system – the majors, the pirates and a scattered number of national VOD platforms struggling to survive.

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<sup>82</sup> [www.mubi.com](http://www.mubi.com)

<sup>83</sup> [www.findanyfilm.com](http://www.findanyfilm.com)

<sup>84</sup> [www.myfilmstation.com](http://www.myfilmstation.com)

The European problem comes down again to the familiar ones of fragmentation: geographical, linguistic, political and legal.

One has to ask if VOD will be another area where huge potential to level the playing field in the interests of European film will be lost. A feasible system of rights fit for a digital age seems to be a crucial exercise if there is serious intent to put VOD at the heart of European film.

## MOBILE

Mobile is likely to be one of the big stories of the next few years, with more powerful entertainment-driven devices and tablet devices, such as the iPad.

Mobile broadband is the fastest growing area of the broadband market with penetration reaching around 6.1% of the European market by the middle of 2010, up 23% in the second half of 2009 and 15% in the first half of 2010.<sup>85</sup> As with much mobile technology, the Scandinavian countries are in the vanguard with Finland already up to 21.5%.

And mobile content has already inspired experiments in filmmaking. In 2009, Sally Potter's *Rage* claimed to be the first major film to be distributed for free exclusively through a mobile phone.<sup>86</sup> Downloadable in seven parts, *Rage* boasted a cast including Jude Law, Steve Buscemi and Eddie Izzard.

The innovative Pure Grass Films, which has been working with successful media companies, such as Endemol, has also enjoyed some success in the mobile field with films such as *When Evil Calls*.<sup>87</sup> Fox Mobile is among the big corporations now experimenting with the idea of 'mobisodes' aimed at younger markets, with the marketing-led *Honey And Joy*.<sup>88</sup>

New mobile creative forms may be quickest to emerge in Asia, home to the world's fastest mobile and web networks – or even Africa, where the lack of theatres and DVD players is helping a leap to mobile technology. South African company DV8 has been strong in this area and the Nollywood industry in Nigeria is also experimenting.<sup>89</sup>

Mobile is set to become an area of exponential growth, driven by consumer demand for new players, although the size of the market and the speed of adoption is not yet clear, particularly given the current economic climate.

## FOLLOW THE CONSUMER

The debate about digital film has a tendency to be self-referential, self interested and localised, contributing to the conservatism of approach. The next chapter includes a look at some of the lessons from the music industry, which has been longer on the digital front line.

And what can be seen in music, and what we are beginning to see in film, is that industry is not in the

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<sup>85</sup> Figures for July 2010: [http://ec.europa.eu/information\\_society/newsroom/cf/itemlongdetail.cfm?item\\_id=6502](http://ec.europa.eu/information_society/newsroom/cf/itemlongdetail.cfm?item_id=6502)

<sup>86</sup> [www.babelgum.com/rage](http://www.babelgum.com/rage)

<sup>87</sup> [www.puregrassfilms.com](http://www.puregrassfilms.com)

<sup>88</sup> [www.marketwatch.com/story/fox-mobile-group-partners-with-post-foods-to-develop-original-branded-entertainment-2010-11-19](http://www.marketwatch.com/story/fox-mobile-group-partners-with-post-foods-to-develop-original-branded-entertainment-2010-11-19)

<sup>89</sup> [www.dv8.co.za](http://www.dv8.co.za)

driving seat in digital innovation. You can lead audiences to new technology but you can't necessarily make them use it.

The MP3 format for compressing songs, for example, was around a full decade before the release of the iPod at the end of 2001. By 2004, Apple had sold \$1bn worth of iPod related products and content.

What flicks the switch to consumer acceptance is dependent on all kinds of factors, from convenience to fashion. The attention is focused on the technology at the highs and lows of its hype cycle but it is important to look at the less dramatic underlying trends.

A report from media analyst comScore Video Metrix suggests that in the US in 2010, internet users now watch an average of 30 minutes content online per day, up 40% on 2009.<sup>90</sup>

That remains a fraction of the television audience but still represents a remarkable chunk of leisure time, taken at unprecedented speed.

It is hardly surprising that we are struggling to keep up with the pace of change in the relentless battle for consumer time and such changes of habit eats away at the analogue models.

The march to digital progress is disjointed, disorganised and unpredictable but there is no going back.

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<sup>90</sup> <http://gigaom.com/video/americans-now-watch-30-minutes-of-online-video-per-day/>

## CHAPTER NINE: FUTURE BUSINESS MODELS

### IN BRIEF

- On-demand business models divide industry
- Online and on-demand models disrupt existing models
- Film-makers are experimenting with 'free'
- Rights remain stuck in the analogue age

**THE COMMON ARGUMENT** that there is no credible digital business model misses the point of the digital revolution. The industry needs to grasp the simple reality that there will not be one model but a multitude of different and competing ones.

While there is obviously a gulf between the global conglomerates owning the US studios and the European independent industry, with its cultural subsidies and largely domestic audience, film has always been an international business.

Models built on exploiting reach beyond national borders have clearly become more important in recent years.

As discussed earlier (See Chapter 2), some of the larger European independent companies have been exploring how to scale up to reach new markets, hoping to create some kind of sustainable studio model, encompassing production and distribution.

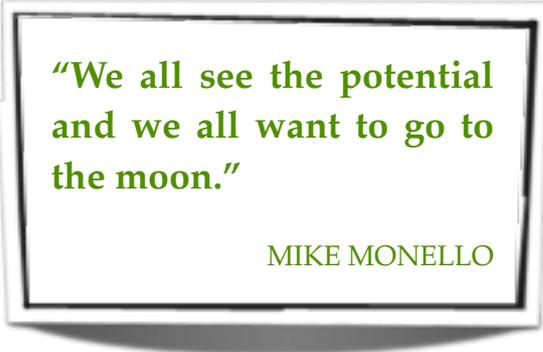
Yet the industry as a whole, at every level, remains rooted in a basic model, based on the economics of production and the movement of physical products.

This is the scarcity model discussed previously and it holds back the reach beyond borders that really is the central advantage of a worldwide web.

In the analogue world, scale counts. The US studios can exploit economies of scale which are beyond the reach of European distributors. Unsurprisingly, many of the most successful European films of recent years have been distributed by the majors in most international markets, such as *Slumdog Millionaire*, the *Harry Potter* films etc

Distribution online was meant to break the mould, with the Internet cast as the great democratiser. But the mould will not break of its own accord. There is not single new business model that will take the whole European industry into a globalised, demand-driven digital economy.

As discussed elsewhere, cooperation, aggregation and collaboration beyond local boundaries or industry disciplines is essential. But progress needs to begin with businesses evaluating their own skills and mindset.



**“We all see the potential  
and we all want to go to  
the moon.”**

MIKE MONELLO

## GETTING REAL

One of the striking things in 2010 is a worrying absence of fresh case studies to prove concepts.

While there are many interesting developments in new media marketing, metadata exploitation and new distribution, these have not produced convincing examples of the digital revolution flexing its muscles.

The 'perfect storm' mentioned at the beginning of the report, with an economic downturn, a banking crisis, and government cuts has created a more conservative, risk-averse financial climate and a more defensive and protectionist approach from industry.

Public funding meanwhile remains mired in silo-thinking, which leaves little room for expansive cross-media ideas, or even a little lateral thinking.

But digital revolutionaries are still subject to the laws of economic gravity.

Mike Monello, co-creator of *The Blair Witch Project*, one of the progenitors of the cross-media approach to film-making warned the 2010 Power to the Pixel conference in London, that there was an unrealistic approach to business from many of today's would-be digital pioneers.

He told the conference's Think Tank that there was a lack of discipline among the would-be creators of a new cross-media future: "We all see the potential and we all want to go to the moon."

While business models change, the essential economic laws remain the same: production and marketing costs need to be in line with the price point of the potential audience.

This lack of discipline is a byproduct of a digital world that developed at such high speed that business thinking has struggled to keep up. One of the essential foundations of any new business model is an understanding of true costs rather than theoretical ones.

The Web seems to offer free access to global markets and that drove much early enthusiasm. But the costs in terms of time, skills acquisition, technical materials and upgrades quickly add up. In this sense it mirrors a creative issue for film. The cost of film in the camera acted as an often valuable restraint, forcing tight structuring and economy of effort. You had one shot at getting it right. Without these constraints, it is easy to lose discipline.

Monello's point goes to the heart of this report. Online business is still business and its potential can only be reached when industrial process and commercial exploitation are in tune with consumer demand.

Digital developments make radical business models possible because they can reduce production and distribution costs and create the means to engage audiences. But in this new world, a degree of business discipline and the right content remain essential if new sustainable models are to be found.

## VISIBILITY VERSUS CONTROL

The dividing line at the heart of the digital debate is between access and control. Some – particularly in the independent sector – see the future in trying to ride the wave of audience demand. These models stress visibility, interaction and engagement.

Then, there are conservative models based on trying to corral consumer demand to as closely match the physical product world as possible, and to take the toughest action against piracy.

The area where both sides of the argument struggle is in creating models which can refresh the roots of the business – in reaching audiences with new material.

Access advocates have found it hard to create business models which will encourage investment in, or create a secure income for, new talent. There is a second issue in that a large number of platforms with seemingly endless depths of content are not good vehicles for discovery.

The vast majority of content on most digital platforms is seen by a tiny number of people.

The conservatives have a different problem. They are in the decline management business, trying to hold back the tide. For the big players, this is a viable short-term strategy but the finding and backing of new talent and ideas is always an early victim of the law of diminishing returns.

For independents, the margins are squeezed until the pips squeak.

It is not then a clear question of right and wrong, however politicised and polemical the arguments can become.

But there is an inevitable and corrosive conflict hard-coded into the two positions – and it asks serious questions of film policy-makers.

The immediate battleground is piracy.

During 2009 and 2010, anti-piracy legislation was introduced in many European countries. It is important to note that there has not been a harmonised approach across the EU with a wide variation in laws; and nor have all countries introduced legislation, which is an obvious weakness in Europe given that it is a global issue.

Indeed, the parliament of country with the highest level of piracy, Spain, rejected proposed regulation at the end of 2010.

The approach to piracy has a number of facets: There are the technical and legal attempts to crack down on piracy, through rights management, shutting down servers, prosecuting individual illegal downloaders, etc.

There has been more recognition in the last few years that the policy has to work hand-in-hand with legal alternatives.

The **technical** issues present a difficulty for industry. Firstly, if content is too tightly controlled, it is simply too restrictive to attract consumers. A big breakthrough for the iPod came with the loosening of rights controls, allowing wider use of bought songs. The challenge for technical restrictions is that it can become an arms race, with tougher barriers leading to smarter ways to get around and over it.

**Policing** has some of the same problems. You can close down one network but others spring up. High-profile shutdowns, from Napster to Pirate Bay open up opportunities for others to fill the gap.

The introduction of the IPRED anti-piracy law in Sweden, for example, and the prosecution of Pirate

Bay seemed to have made some impact in 2009 with one report in 2010 saying that 52% of illegal file-sharers had reduced their activity.<sup>91</sup> But a study in 2011, suggested that the numbers were creeping back up, suggesting that new ways are being found to circumvent laws.<sup>92</sup>

More attention over the last two years has gone on starving the file-sharing networks of users by taking **legal action** against users. Laws are based to a large extent on getting Internet Service Providers (ISPs) to police the networks, something they have mostly opposed and many are fighting through the courts.

In November 2010, the ISPs were granted a judicial review of the Digital Economy Act, which included strong anti-piracy measures.

The French have been the most active, introducing a 'graduated response' approach with its HADOPI law, which first sends out warnings to illegal downloaders identified through ISP accounts, before the force of law is applied. The deterrent effect of the letters seems to be having an effect, with a BVA survey suggesting 29% of illegal downloaders had stopped and 24% cut back.<sup>93</sup>

The laws have yet to be trialled to any great extent in the courts and mass prosecutions will be the acid test of public support.

There is, of course, no desire to criminalise huge numbers of downloaders, not least because they are existing and potential users of legitimate services. A study from the BI Norwegian School Of Management in 2009 found that those who illegally downloaded music were also 10-times more likely to be buyers of legitimate music.

This issue of alienating consumers is already a major concern to the Internet Service Providers, who have been given an unwanted policing role.

The creative industries have been trying to pursue a carrot and stick approach to counteract this danger – marrying tough action against copyright infringement with new legitimate alternatives.

## LEGITIMATE SERVICES

There has been growing understanding of the need for a change that at least recognises that artificial scarcity plays a part in encouraging piracy.

Research for a UK industry event Digital Heat in 2009, for example, found that 60% of film industry executives thought removing release windows between cinema and other media would have a 'reasonable' or 'significant' effect on reducing piracy.<sup>94</sup>

The UK Film Council introduced its own positive venture in a website *FindAnyFilm*<sup>95</sup> which guides users to legitimate online downloads, although these are frequently unavailable.

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<sup>91</sup> Gfk report May 2010

<sup>92</sup> MediaVision report 2011

<sup>93</sup> BVA report October 2010

<sup>94</sup> <http://www.biggerpictureresearch.net/2009/04/>

<sup>95</sup> [www.findanyfilm.com](http://www.findanyfilm.com)

The problem with the legitimate alternatives discussion is that it is so dominated by piracy, and that those leading the discussion are the big players in the analogue industry.

How far they are willing to consider more radical alternatives is open to question as is the openness to look at models which challenge thinking or the short-term interests of the existing business.

“We have an entire new paradigm but we’re breaking it by trying to fit it into our old models,” according Brian Newman, consultant and former President of the Tribeca Film Institute.

His statement reflects a feeling in the emerging cross-media field and he has a point. The core assets of the web are connection, communication, search, interaction and the ability to copy, perfectly, immediately and endlessly. Windows and territorial boundaries just don’t fit the web.

And it has so far proved impossible for any media industry to bend the web to its will. That is what makes the challenges of today revolutionary.

The industry has managed to successfully assimilate new, supposedly disruptive forms of business before. Home entertainment formats, such as VHS and DVD were once seen as a serious threat to cinematic revenues, but eventually proved to be a catalyst for a new era of business and industry confidence.

However, while some new technologies can indeed be seamlessly brought into film, what we are now seeing is a split between what we may call upgrade technologies and game-changers.

The highest-profile current upgrade is 3D. The new dimension may radically improve, or at least alter, the user experience and has already proved that current consumers will pay more for the grand spectacle.

And yet, for all the talk of a 3D revolution, it does not essentially change the business model of film.

Similarly, HD and 3D television, Blu-Ray discs and the new television channels may attract new consumers but essentially, they fit the current way of working.

Even the disruption that has been caused by the switch to digital cinema is not essentially about the underlying business model but about the costs of equipment, the share of investment and the scalability of the payment model (See Chapter 7). In fact, the virtual print fee (VPF) locks in the basic existing business model for 10 years.

Each can neatly fit in a closed model of artificial scarcity, the restriction of access to content that could be created in abundance. The Internet, however, as music and publishing have painfully discovered, is the opposite. Every one of its essential characteristics militates against the current business models in a way that is all but impossible to control.

The biggest Internet brands are all about access, reproduction and interaction. Industries, such as newspaper publishers have found that trying to create a facsimile of the ‘real-world’ model does not work. And the big publishers have found trying to ride the Internet tiger none too comfortable either.

Disquiet about the domination of Google offers a perfect illustration. The search engine allows the active audience to identify the content or products they want with ease but it breaks an essential link between consumer and brand.

The relationship is with Google more than the product they buy. The direct relationships with brands can exist online: a relatively small number of brands have a powerful, occasionally monopolistic online presence in their own right, such as Gmail, Amazon, Facebook, IMDB etc and others are bookmarked or visited as a matter of habit, including some newspapers, supermarkets, etc.

But the creation of online brands is a challenge for the small or new company. Getting content online is simple, getting it seen is the real challenge. And creating a brand with a direct relationship with film requires skills, and investment, that is beyond many of the specialised small-and-medium-sized brands in the European film industry.

## TERRITORIAL RIGHTS

Film has another hole in its current model in that it is centred on geography. In the celluloid print and DVD world, territory rights are easy to understand and, to an extent, enforce. There are clear boundaries in the distribution of physical goods and the cost of distribution itself dictates the business model (although pirated DVD has often circumvented the system). You know where you stand with borders and the system of territorial rights has lasted a good century.

The Internet, however, creates an unprecedented problem because it does not exist in the world of states and borders. It is not, of course, technically impossible to keep digital signals within a single country; television rights to sports games, for example, are blocked outside the territory for which rights have been purchased.

But the web lets audiences see what they are missing and getting around the system is relatively easy, at least for the technically adept.

The globalisation of content has forced the major television distributors to rethink their strategies. There was a time when the big television series would be sometimes shown in the US a full year before reaching overseas markets.

International audiences could tap into the buzz around a series but were not allowed to see it, which was a gift for piracy.

The most popular US series of 2009 – *Heroes* – was illegally downloaded 6,580,000 times through illegal file-sharing sites around the world.

The major series are now increasingly being released outside the US at the same time or close to the same time. The producers have discovered the huge limitations of an 'artificial scarcity model' of raising global consumer demand and then failing to satisfy it.

European film has the same problem, albeit on a lower scale. The festivals and markets raise awareness of a film everywhere but audiences will only see the film if a distributor has decided to buy it for their territory, and only then if the number of prints means it breaks out of a small number of the more prestigious arthouses in the big cities.

The Cannes Film Festival competition, for example, brings together the world's media to see some of the best European films. And yet the films are released in those territories where there is a buyer months later and with the media circus and the attendant buzz long since gone.

Demand is created and then allowed to dissipate and die.

## RELEASE WINDOWS

The other great restrictive practice is the release window, which historically has been a means to maximise revenues for distributor and exhibitor. The opening weekend, the DVD release and the television premiere are tied to specific campaign and the marketing operations and revenues are very much based on these windows.

In recent years, there has been some tension because what the distributor perceives as good for his or her business can be out of kilter with what the exhibitor believes. These arguments have occasionally spilled over into boycotts as distributors try to dictate their own terms.

CurzonArtificialEye's day-and-date release of arthouse films *Julia* and *Edge Of Heaven* on Sky television's pay-per-view platform and on the distributor's own cinemas attracted criticism and a few experiments have led to open boycotts.

For exhibitors, the release window has become a matter of principle but the constant erosion of the window over the last two decades, asks questions about its true value.

What has been lacking is the kind of measured experiment from which transparent conclusions can be drawn. The heat of the debate has made pioneer day-and-date projects difficult to evaluate.

Changes to windows are made then on the basis of conflict resolution and realpolitik rather than data and knowledge, which will be a bigger issue as new media windows are considered. There is no question, however, where the momentum lies.

In France - where windows are protected by law - new legislation shortened windows from six to four months. Video sales have since risen 12% from 83 million to 94 million, according to preliminary figures from market research company GfK and reported by video industry body Sevn, with no apparent effect on cinema admissions.

For the studios, some of the heat has been taken out of the operation because their focus has increasingly turned to fewer and bigger global blockbusters, for whom the current windows arrangement can work. They also need cooperation and partnership with exhibitors to shift to digital cinema and 3D.

In the end, the studios have the winning hand because all that exhibitors can do is block. That fact was illustrated in 2010 in the UK where one by one the major multiplexes bowed to pressure from Disney to reduce the release window for its 3D release *Alice In Wonderland* to 12 weeks.

These clashes of protectionism against expediency should not detract from the fact that windows are an essential part of the value chain of the old business.

Which begs the question – if the studios believe that windows are good for business, why does so much of the exhibition business treat it as a matter of principle that needs to be backed up by the implied and actual threat of boycotting films if windows are breached?

## FREE AND 'FREE'

The radical open-source wing of film-making has been growing in confidence in recent years. Although many filmmakers and radicals appear on platforms together, they are a disparate group. What unites

them is a sense that the web should not operate in the same way as the analogue world.

The digital debate that took up much of the early part of the digital revolution was about the so-called long tail and the potential of making money from giving away much of what we have believed to be core assets.

Predictably, Chris Anderson, the celebrated author of *The Long Tail: Why the Future of Business Is Selling Less of More* led the discussion with his book *Free*.

He suggests a reevaluation of pricing, which he suggests is based on old-world economics. We have to accept, he suggests, that the Internet has created open and free access to intellectual property and the task of making money is to build on the increased exposure that creates for film-makers, writers or artists.

The idea has suffered a backlash, particularly given the paucity of examples of mainstream success stories and a growing sense that the digital age is pushing profit away from producers and towards platforms and hardware providers.<sup>96</sup>

In some ways the debate has moved on into even more difficult country. The music industry, for example, is now working with services that question not just the willingness to pay, but the whole nature of ownership.

The music industry has shown how today's impossibilism can become orthodoxy with services such as Spotify, Pandora or Last FM not only entering the mainstream but getting financial support from the major labels.

Such services allow unlimited access to content streamed to the desktop, laptop, mobile phone or internet-enabled television. Who needs to own albums and singles when there is access to millions of tracks through a subscription fee?

Spotify passed 10 million users in 2010 with access to around 10 million songs for free with advertising breaks, or ad-free for a subscription fee.

The advent of cloud computing adds a new level to the discussion. It is possible to imagine every song available to anyone worldwide through any device – and by extension all films.

The technical barriers to this vision are fast disappearing; making it pay however remains the obsession of industry. Spotify and similar services are delivering important revenues but not at the level of the analogue world.

A report from the music industry's IFPI puts stark figures to the problem: between 2004 and 2010, the digital market in music grew 1,000% but revenues for the industry as a whole in the same period fell 31%.<sup>97</sup>

This report does not attempt to minimise the issues that these new services raise.

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<sup>96</sup> See Malcolm Gladwell, New Yorker: [http://www.newyorker.com/arts/critics/books/2009/07/06/090706crbo\\_books\\_gladwell](http://www.newyorker.com/arts/critics/books/2009/07/06/090706crbo_books_gladwell)

<sup>97</sup> <http://www.musicweek.com/story.asp?sectioncode=1&storycode=1043991>

## ADVERTISING AND FREE

Free sites with advertising remains a growing model. In the last two years, the pre-roll advertisement on free content on YouTube, news media websites etc have become commonplace.

Accepting advertising to access free content is the basic model for music sites such as Spotify. (See above)

This is a fast-growing area for film and may prove a model for VOD sites, alongside subscription. The advent of Internet-enabled television should significantly boost the free market.

For rights holders, the deal is normally a share of advertising revenue. Both Amazon and YouTube are in on the game now but there is uncomfortable pressure on film-makers and artists to take a hit on the development of new free platforms, agreeing to poor deals and exclusivity.

Some independent services are trying to create fairer deals, German service [onlinefilm.org](http://onlinefilm.org), for example, allows independent documentary makers to reach audiences through a streaming and download platform using the BitTorrent peer-to-peer file sharing protocol to exchange files and does not use digital rights management.<sup>98</sup> It is an approach being used by a number of younger independent producers feeling locked out of the traditional process.

But it is clear that there needs to be a bigger debate about how to support greater producer retention of digital rights is vital.

There are now plenty of examples of artists going straight to the audience with free content, hoping to create revenues elsewhere.

The sales of free content as a means to market ancillary goods, for example, has been successfully tested in the Asian games industry. Under pressure from widespread piracy, games manufacturers are giving away games for free and charging for upgrades and accessories.

A number of big names in the music industry, including Prince and Nine Inch Nails, have given away free CDs to sell much more profitable tickets to live gigs and merchandising. Many new acts are now following the same course, building the initial buzz by offering free access to songs, backed by rewards for fans to support them on social networks, such as clicking the 'Like' button on Facebook in return for free downloads or T-shirts.<sup>99</sup>

Obviously the biggest users of the model are the up-and-coming names wishing to raise their profile, even if returns are relatively small.

## BRAND SUPPORT

Involvement of commercial brands in filmmaking has been a controversial subject that has focused primarily on product placement.

The idea that product placement will move beyond what beer is drunk or car driven and begin to affect

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<sup>98</sup> [www.onlinefilm.org](http://www.onlinefilm.org)

<sup>99</sup> Example from new act Monarchy: [www.monarchysound.com/](http://www.monarchysound.com/)

the integrity of the script is not without foundation. The best-known case is in the James Bond film *Quantum Of Solace* where Bond effectively endorses a brand of watch in the dialogue.

Given the current straitened economic times, the temptation for cheap compromise is strong.

In some cases, brands have actually driven the entire project, notably sportswear giant Adidas and Coca Cola's support for *Goal!* and its sequels.

Further, product placement has become an even more prominent discussion since the ad-skipping television services such as TiVo and Sky + reduced the value of conventional advertising.

The more interesting trend for independent filmmakers is in advertising and branding of a less compromised nature.

Some brands see support for art as a kind of social capital, which can strengthen its image. Orange, for example, has made a joke of its support for film, which in reality does not intervene in content.<sup>100</sup>

Film-maker Shane Meadows' *Somers Town*, backed by Eurostar, made no clear compromises and yet faced considerable criticism.

That is where the problem lies. In the US, indie film-makers are happy to work with brands which are looking to tap into the relationship the film has with audiences.

But the line is thin between acceptable financial support and compromise.

## AGGREGATING RIGHTS

The response of the majors to the music industry crisis– including Universal Warner Music and Sony BMG – was denial, panic and then a making the best of a bad job. These big names had the muscle to deal with the new interactive services such as Apple and Google as big businesses. Independents on the other hand simply couldn't get to the table.

But cooperative systems such as collective licensing has happened in music and may well become commonplace in film.

Pooling of rights goes against the grain of independent film. Back in 2007 at the height of the hedge-fund boom, a number of proposals were suggested for pooling rights on an independent slate to capture some of the billions of dollars pouring into Hollywood.

Although in retrospect, it was a trend that indies did well to avoid, it was more of a demonstration of how alien that kind of cooperation is to film.

Film people will have no choice but to move towards some kind of collective licensing model. Obviously this is very new for the film business because the film companies (in contrast with music) have always acted on an individual licensing basis.

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<sup>100</sup> <http://www.youtube.com/watch?v=UoI22EdwqfE>

Collective licensing and rights aggregation is rightly becoming a much bigger concern for the European industry.

## CREATIVE COMMONS/ VOLUNTARY DONATION

Faith in the altruism of consumers has been severely tested over the last few years.

There have been high-profile experiments in voluntary payments in music. UK rock band Radiohead's free download release of their album *In Rainbows* in 2007 received a good deal of hype that makes its figures potentially misleading.

A report from analyst ComScore (disputed by the band), suggest that around 62% of downloaders paid nothing but that left a sizeable group of contributors who may have contributed as much as \$3m (€2.3m), some estimates claim.

What Radiohead had on its side, hype apart, was an appeal amongst a loyal fan base, which did not want to rip off their heroes. Perhaps its appeal among a tech-savvy demographic helped increase donations.

Other established acts have gone down the donations route with similarly mixed results. Hip-hop group Public Enemy, for example, set out to raise \$250,000 (€190,000) towards a new album from "believers" through Sellaband in 2009 but were forced to scale back to \$75,000 (€57,000), achieved after a year in October 2010.<sup>101</sup>

The much-hyped Dutch site Sellaband – launched with \$5m (€3.8m) of venture capital in 2009 – itself filed for bankruptcy in 2010

Some radical sites, notably Jamie King's VODO service launched in 2009 <sup>102</sup>, have actively seized the potential of peer-to-peer networks used for illegal file-sharing to distribute content very widely for free, hoping that even a small percentage of voluntary donations from a large audience will make a significant impact.

Founder Jamie King claims to have raised \$30,000 (€23,000) from donors for a film that had already been released and distributed through BitTorrent; not a great sum but more, he provocatively points out, than a lot of producers see for more conventional releases.

Most of these experiments are based on the widest possible access to content with non-exclusive deals. Retaining rights to content is fundamental to these digital ambitions but producers

The use of Creative Commons (CC) licensing has been widely explored in many industries as a practical means to create a flexible rights industry.

Advocates see CC as a means to overcome the narrow restrictions of the existing rights systems, allowing rights holders to strike a balance between supporting creative production and invisibility.

Like the free software and open-source movements, the intended ends are cooperative and community-

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<sup>101</sup> <https://www.sellaband.com/en/projects/publicenemy/incentives>

<sup>102</sup> vodo.net

minded but the means are voluntary. Creative Commons attempts to offer creators a best-of-both-worlds way to protect their works while encouraging certain uses of them – to declare “some rights reserved.”

There are now more than 130 million Creative Commons licensed works around the world - a six-fold increase on the number in 2005.

There has been a growth of interest in the creative industries with established music acts such as Nine Inch Nails. For example, releasing albums under CC.

Creative Commons is already well established in publishing but is in its infancy with film.

A number of film-makers have been experimenting with the approach. One interesting case study in animator Nina Paley, whose 2008 feature *Sita Sings The Blues*<sup>103</sup> was release under CC. Part of the reason was that she ran into a copyright issue with some of the songs featured, making it difficult to release conventionally (although it did have a conventional DVD run). But the launch was a useful experiment.

Creative Commons may not offer a solution to the rights issues in Europe but it does offer a useful lesson that there is potential for a multi-speed rights system that can support all levels of film.

## METADATA

One of the fast emerging trends that had not been foreseen is the potential value of metadata – essentially the data about the data we produce.

Each part of the film-making process produces information of that has potential value to someone. The cast list, for example, has helped spawn services such as IMDB.

Experiments are now taking place attempting to discover other areas of value. These include the locations of shoots, the clothes worn by the cast, the music in a scene...

These can potentially be turned into consumer value. If one could click on the clothes in a scene, to be taken directly to a place to purchase them, or a snatch of soundtrack to iTunes, or a location to a holiday company.

The idea that we may be producing far more value than we know and that exploiting it might open up new revenue streams is highly attractive.

And that is the essence of the point about new models. The relationship between producer and audience is currently based on product sales within clear windows.

Shifting towards new forms of engagement, with less tangible forms of value is a big but inescapable challenge.

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<sup>103</sup> [www.sitasingingtheblues.com](http://www.sitasingingtheblues.com)

## CHAPTER TEN: CONCLUSIONS

**THE DIGITAL TRANSFORMATION** described in this report is in many ways an accidental revolution. There was no grand movement to free consumers from the chains of analogue tyranny and no particular antipathy to old media; in fact there is a deep affection for supposedly old media such as cinemas, newspapers and even vinyl LPs.

Given the choice, many consumers would happily return to an age where they did not have to make so many choices. And yet in scarcely more than a decade, we have entered an Internet world of ubiquitous entertainment.

The willingness and ability of consumers to adapt and adopt online, on-demand culture has been dependent on a wide variety of factors: age, know-how, geography, culture, access to technology, inclination, taste and so on.

This multi-speed revolution has not developed in a coherent way – picking and choosing is the very essence of the active audience – but we are all now part of a connected, networked world that has an impact on every aspect of our lives.

It is no surprise then that a divided film industry of mainly small businesses has struggled to find business models for a confusing and confused market.

And consumers expect industry to adapt to their changing needs rather than feeling any obligation to adapt to the requirements of business. If we do not provide access to available content, a section of the audience will simply take it.

Our old analogue business models were simply not created for this environment. They had evolved on the basis of a single standard, a well-established economic model and a limited range of content and platforms. Consumers got what they were given.

In the digital age, we have to build models around the digital realities, of on-demand access to a huge range of content.

Value is based around engagement with segments of an audience, which the industry has neither measured or understood. The industry has put much store in the inspiration of artistic genius and not enough in the perspiration of data analysis.

The film industry is out of kilter with the digital world.

In the old world, the problem has been the over-production of film; in the new one it is often the over-provision of platforms.

In both cases, the issue is a failure to match demand to supply. Two questions then arise: What are the foundations for a viable and sustainable digital business and how can we build a diverse European film industry for the digital age.

## DEMAND-DRIVEN ECONOMICS

It seems reasonable to assume three stable factors in these unarguably turbulent times:

- That there is strong demand for film itself, a fact proven in admissions in recession and downturn across Europe
- That demand for content on digital platforms will continue to increase as technology and infrastructure improves; and that this will further undermine existing business models. There is no turning back
- That the one immovable object is the number of hours in the day, a factor too often forgotten in analysis of the digital future.

Like music and print publications before them, the core problem is servicing a huge increase in demand. The irony is that consumers are undermining industries because they love the products, not because they have rejected them.

We must though focus on these basic building blocks. We have great talent at one end and huge demand at the other. We need to connect the two.

What is needed to address this new environment is a change of mindset and significant investment in innovation.

## PUBLIC POLICY

We cannot leave innovation to the small-and-medium-sized businesses of the European industry with their lack of resources and digital skills, their divided interests. This is particularly so in the current economic climate.

Public policy and funding needs to take a central role at regional, national and European levels if we are serious about exploiting the opportunities of digital change and pursuing a realistic cultural agenda.

The dominant multinational conglomerates mentioned above are not encumbered by any mission beyond profit. They are in the business of business. Europe's SMEs cannot take on that kind of muscle alone. But their ambitions must be based on new means of engagement with audiences.

This must become the obsession of policy, which is still hugely dominated by supporting production. The music industry again offers strong examples of what happens if innovation is left to the majors and the technology giants.

Public policies can, and should, help move technologies along the technology hype curve, or at least to flatten out the peaks and troughs.

What public funds should surely not do is to protect obsolete processes or to develop one sector of the business without reference to the effect on another.

That begins with a **reassessment of policies** on cultural support, digital rights and copyright and innovation. That debate should accept that there are no sacred cows in the exercise, looking closely at the lessons of music and other media.

There needs to be serious debate about the **shape of the European industry**, because the role of producer, sales, distribution and exhibition cannot simply be translated intact into the digital era if there is to be an efficient and competitive business.

**Innovation**, including social networking, cross-media marketing and production, data collection, management, metadata management and new distribution methods ought to be a priority. Innovation means testing the potential of new forms of production, distribution and exhibition and new cross-media forms.

Innovation funding should be transparent and predicated on a willingness to share with the rest of the industry.

## COOPERATION AND COLLABORATION

Market forces will not be enough to reshape the industry and public policy will not be sufficient in its current form to create a coherent, holistic strategy. But industry needs to change. The public support that helps shield cinema from the inequalities of market forces, to often acts as a barrier between industry and audience.

If the core digital hope of European cinema is that it will take great art out to a far bigger audience, then that needs to be at the core of business thinking. Public policy can take a big role in funding innovation and insisting that the results of experimentation are shared transparently with business.

But the industry needs to take responsibility for putting innovation into action. That should not go without reward, and allowing producers to keep digital rights and to be able to recoup more of the revenues they create should be high on the policy agenda.

These new needs and responsibilities open up new areas of mutual interest.

Certainly during the transition period, cooperation is of far more value than competition. Cooperation needs to work at many levels: between industry disciplines; between public and industry bodies across borders, and between producer and audience.

This isn't easy because of the differing interests of specific sections of the business. Who will support change in which their role is diminished?

But a combination of stick and carrot public policy, market forces and fresh industry thinking must make change happen.

We need to look holistically at the way that film can thrive in a demand-driven digital economy because the alternative is that the future will be dictated by Hollywood and a decreasing number of global giants providing monopolistic platforms for film.

Or we can watch the demand for film slip away as other newer, hungrier and more adaptable forms of entertainment eat away at consumer leisure time.

## APPENDIX: THE AUTHOR

**MICHAEL GUBBINS is a writer, journalist and consultant, specialising in film, music and digital media, with a particular focus on digital change.**

The former editor of *Screen International* has written influential reports for numerous European organisations, including Cine Regio, the UK Film Council, Power to the Pixel, the Rotterdam International Film Festival, innovation group NESTA, Europa Cinemas, the Swedish Film Institute and Europa Distribution

His 2010 chairing and speaking engagements include the Cannes Producers Network; sessions on digital change at the European Parliament in Brussels, The Digital Future Of Cinemas in Barcelona, CineMart in Rotterdam; Cine Regio in Berlin; the London Screenwriters Festival, the Media Arts Festival, and Power to the Pixel in London; Cine Expo in Amsterdam; Europa Cinemas in Paris; Europa Distribution in Paris and Estoril; the 3D In Your Face in Bradford; the CARTOON conference in Munich; and the European Think Tank Scandinavian Conference in Copenhagen.

His MCG Film And Media Ltd company acts as a consultant to numerous companies and organisations around Europe.

Over the last 12 months, he has also chaired and spoken at events covering the full range of the film industry, including the Europa Cinemas conferences in Warsaw, the World Screenwriters Conference in Athens, Europa Distribution conferences in Paris and Estoril, the European Cinema Summit in Brussels, Power to the Pixel in London and Edinburgh, Malmo Film Days, Screen Directors Guild of Ireland in Dublin and Industry Trust Digital Heat conference in London.

He has written for newspapers and magazines, including *The Times* and *Time Out* and has made frequent appearances on television, including the BBC's flagship film programme, the BBC Radio 4 Film Programme, ABC News and Channel Four. He is also director of content for leading music magazine *Music Week*.

He is a member of the advisory board of Power To The Pixel and the Met Film School, a member of the BAFTA Learning And Events and Web committees.

Michael won a prestigious Fuji Film Scholarship to make a film in the mid-1980s. He is married with two children.

He can be reached at [michael.gubbins@gmail.com](mailto:michael.gubbins@gmail.com).