A CINE-REGIO report
In collaboration with Shareplay

DIGITAL
REVOLUTION

THE ACTIVE AUDIENCE
REACH|EXPERIENCE|ENGAGEMENT

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EXECUTIVE SUMMARY

THIS REPORT is the fourth edition in the *Digital Revolution* series, first commissioned by Cine Regio in 2008. It argues that shifting consumer demand, created, enabled and sustained by new technologies constitutes a fundamental challenge to Europe's film industries.

This revolution is not a linear transition from an analogue industry to its exact bits and bytes equivalent, other than in the technical reality that physical formats are being 'digitised.'

Still less is there evidence of a failing appetite for film itself; one of the ironies described here is that today more film is consumed than ever, in many formats and on a wide range of devices.

It is the fragmentation of demand, rather than a wholesale change in tastes, that threatens the traditional film business model. That fracturing of demand will continue as new services fight for a share of the one element that remains stable, regardless of digital change – the 24-hour day.

This report argues that the next few years will see a new wave of innovation, considerable investment in Video On Demand (VOD), and a maturing of new film services to consumers, all of which will break down many of the barriers that have held back, for better or worse, the kind of overwhelming Digital Revolution that has turned music and other creative industries upside down.

There is no room for complacency or wishful thinking and there is no opt-out clause.

Yet there are also genuine opportunities for film, not least the unprecedented audience reach for film and the emergence of a participatory audiovisual culture. Out of the current uncertainties will come fresh ideas and talent, and perhaps new forms of art.

This report argues, however, that the industry response has been too influenced in Europe by the effect that digital change is exerting on an existing industry model that was created for another era and different economic circumstances.

It suggests a thorough reappraisal of film strategy from a demand-side perspective, with particular emphasis on the relationship between demand and value.

This edition is intended to provoke discussion and debate and tries to set out a coherent narrative against which alternatives can be tested.

While it recognises genuine threats, it is important that the future and interests of film are not lazily and indivisibly linked with the divided and fractured entities that we call the film industry at this particular moment in history.

The opportunities for film are embedded in the same digital realities that undermine existing models and they can only be realised by accepting that an active audience is now in the driving seat.

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ARTIFICIAL SCARCITY

◉ Economic downturn, the slow development of multimedia business models and the resilience of the theatrical sector have helped sustain a conservative and protectionist supply-side approach to digital change.

◉ The industry value chain has been based on a 'scarcity' model, where the value of rights is dictated by distribution, in specific formats and windows, to specific territories.

◉ By contrast, the Internet and the World Wide Web (Web), and hence online business value, is built on instant on-demand access, regardless of national borders or release windows.

◉ The lack of a mature technical infrastructure and the incompatibility of physical and digital strategies has so far curtailed the emergence of digital business models but that is changing.

◉ The industry has tried to protect the scarcity model through restrictive practices that might be characterised as 'artificial scarcity'.

◉ Artificial scarcity is difficult to sustain, given that it runs counter, not only to consumer demand, but to the interests of increasingly powerful VOD platforms, and leaves the industry open to disruptive digital-native, on-demand services.

DIGITAL PROGRESS

◉ The progress of digital business models has been held back by the relative immaturity of some of the technologies on which they are built, and on a weak broadband infrastructure, but new developments will push the pace.

◉ The transition to Digital Cinema has moved through a slow initial stage of momentum building and has entered a 'time bomb' phase, where cinemas will need to power through the switchover before the supply of 35mm product dries up.

◉ The changed dynamic between demand, distribution and exhibition may be significant and Digital Cinema has the potential to be more than a mere upgrade, if opportunities are siezed.

◉ The real challenge comes from those disruptive digital on-demand developments that fundamentally change the demand and supply equation.

◉ The industry has been suffering from 'macromyopia' – overestimating the short term and underestimating the long term effect of digital change.

◉ A host of technical developments, from the mass-market penetration of Internet-enabled Smart TV to superfast broadband, are coming on stream, while big-name global companies are in the process of injecting finance into what has been an undercapitalised on-demand market.

◉ VOD will grow quickly in Europe with global companies competing for a share of the market.

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- Specialist, curated platforms face challenges, particularly in accumulating sufficient film rights to attract audiences and to drive subscriptions.

AUDIENCE DEMAND

- Consumer demand is neither fixed nor settled. Audiences are created by aggregating common interests from millions of idiosyncratic, individual and often inconsistent tastes.

- The Digital Revolution is not heading in a single direction. The fragmentation of demand, rather than shifting taste, is the immediate threat.

- Fragmented demand has exacerbated divisions of geography, culture, language, etc.

- Production levels are out of kilter with demand on current platforms, making it difficult to construct sustainable businesses and leading to much wasted talent.

- There is now, however, much more data available about patterns of behaviour, though industry generally lacks the analytical skills to turn data into valuable knowledge.

- There is a lack of transparency about online revenues, VOD rights and audience data in all areas of the industry, making it difficult to formulate strategies.

- Most producers make too few films to accumulate audience data, while distributor use of improved consumer knowledge is inefficiently targeted at the opening weekend of theatrical release.

- The opportunities for creating demand and building audiences begin at the development stage of a film and can be carried through multiple exploitation windows, prolonging the life of a film.

THE ACTIVE AUDIENCE

- Digital technologies have shifted power from the supply to the demand side, creating 'Active Audiences,' with considerable implications for the development of film.

- The level of engagement with content varies widely, with the most active group of social media contributors and online content creators and sharers roughly matched by digital 'inactives'.

- The most active audiences are involved in the production, funding, marketing and even the development of the narrative of films.

- The vast majority of people are part of the 'Active Audience', if only in the shared expectation of being able to access content on their own terms. Demand is getting more demanding.

- The speed of adoption of digital technologies and new viewing patterns are far from uniform and deeply divided by many factors, including age, nationality and technology competence.

- Social networks and other online tools have amplified 'word of mouth' judgements on film, meaning that audiences have taken on the role of critic and curator.

- Changing audience demand is forcing industry to look again at how it understands and calculates value and pricing.

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- Cheap, and often free, tools for audiovisual production and distribution are helping create a participatory culture, which holds promise for the future of film.

THE DIVIDED AUDIENCE

- Personal data is freely given by many in exchange for services tailored to individual tastes, allowing a far greater understanding of the audience and providing tools to service demand.

- Ageing populations in Europe should help the market for national, arthouse and other specialised film but demographic segmentation is only one facet of a divided market.

- The big challenge comes in refreshing the roots of cinema, particularly in attracting younger audiences.

- The European cinematic tradition can be exclusive and excluding, particularly given the concentration of arthouse cinemas in upmarket metropolitan areas.

- Pre-teens and younger teenagers are pushing the boundaries of new technologies. Some emerging media habits challenge linear models.

- Younger audiences can be reached by tuning into the way that they choose to consume media, although it may require a fresh perspective on both content and distribution.

- Education, media literacy, and, crucially, access to audiovisual equipment and training are key tools in building young audiences.

THE RESHAPED BUSINESS

- The industry is polarising between larger scale, often diversified businesses and micro-scale film-making at historically low budgets.

- Scale counts in the digital world, not just in production, but in economies of scale; in multi-platform international distribution; and in the acquisition of skills and audience knowledge.

- There is a 'squeezed middle' of film businesses that are difficult to sustain, and which are increasingly dependent on public-sector support.

- European film can create scale by cooperation, conglomeration, co-production, diversification and by sharing knowledge.

- Lower costs and tax breaks continue to mean that more films are made while the number of cinema screens remains static and DVD sales are falling. There is little correlation between production levels and audience demand in Europe.

- The studios have focused on bigger franchises and have experimented with new VOD models while indies, particularly in the US, are increasingly bypassing the traditional industry value chain.

- European film policies may need to refocus on creating scale at one end and encouraging a dynamic DIY sector at the other.

- The emerging VOD platform giants will have a major impact on the future shape of the industry, and will also have the most access to audience data.

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REACH

◉ Reach means more than simply the accumulation of a volume of consumers, with a more sophisticated market emerging that requires efficient targeting of audiences.

◉ New on-demand platforms dramatically increase the potential audience for a film but translating reach into revenues remains a challenge to current business models.

◉ Visibility is still the biggest test for independent film with social media and cross-media marketing becoming essential.

◉ Increased reach is not an unequivocal good and can undermine traditional business models, while turning reach into revenues in an on-demand market is tough.

◉ Piracy is a critical obstacle to sustainable business, although some radical models have been exploiting BitTorrent release and free models.

◉ Artificial scarcity restrictions, including territorial rights and release windows, reduce reach while protecting traditional revenues, but store up long-term problems.

◉ Language and culture remain central issues as European film attempts to build audiences.

EXPERIENCE

◉ The 'experience economy' is becoming a critical idea for the development of film in an on-demand age, where many forms of entertainment and art are competing for precious consumer time.

◉ Experience must not be defined too narrowly. The experiences, for which consumers are prepared to pay take many forms.

◉ The digitisation of the theatrical circuit has persuaded consumers to pay a premium price for tickets for 3D and some alternative content, though recent figures suggest that these additional revenues may not last long.

◉ Television has become a richer and more immersive experience, with HD and even 3D screens showing a far wider choice of television channels, and now 'over the top' Internet services.

◉ Experience factors identified for this report include: immersion and quality; authenticity and exclusivity; discovery and serendipity; convenience and catch-up; and spectacle and event.

◉ A desire for the authentic social experience offered by cinemas has helped keep the theatrical sector strong, while festivals and pop-up venues are expanding the appeal of a social, cinematic experience.

◉ The primacy of any part of the experience economy does not last long and boredom and competition for time can exert a strong influence.

ENGAGEMENT

◉ Creative industries are finding that revenues are moving from 'eyeballs' to 'engagement'. The traditional volume models are changing with potential benefits for specialised cinema.

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- Film marketing is increasingly dependent on engaging directly with a known and understood consumer base.

- The way that commercial brands now engage audiences offers useful pointers for film, including non-commercial, cultural work.

- Engagement is about creating demand by building close relationships with audiences that can be built at the development stage and, potentially taken forward to future projects.

- Personalisation is a growing trend online that is built on engagement. The metadata created can become immensely valuable to film.

- There are some net-native engagement models, based on the idea of 'freemium', where some content is given away in return for longer-term and ancillary benefits.

- New digital forms are raising questions about the nature of ownership.

A WORD ON 'FILM'

The word 'film' is soon going to be a misnomer. In the next two or three years, distributors will simply stop making 35mm prints: the Age Of Celluloid is all but over.

For some purists, every digital reform has been a retrograde step, and the idea that theatrical release might just become another form of digital exploitation is anathema.

The argument of this report, however, is that it is impossible to escape the realities of the Digital Revolution and the emergence of the Active Audience, which will decide how, where and when it watches films. (See Chapter 3 for more).

Access to a vast choice of audiovisual content, including the digitised cinema back-catalogue, could become the catalyst for renewed interest in film. New media opportunities may actually strengthen parts of the industry, including the theatrical sector.

This report accepts a broad definition of 'film', covering a wide range of audiovisual work, including many forms of work that have emerged only since the arrival of the Internet.

Anyone who takes up a camera ought to be encouraged to see themselves as part – however tangentially – of a rich tradition, and helped towards an appreciation of the rich visual language of cinema, developed over more than a century.

At the very least, participation will encourage an appreciation of the film-making process, that may translate into more diverse film choices, just as those that pick up a guitar or tinkle on the piano learn tend to nurture a more challenging taste in music.

A small minority, of course, may progress towards a career in film, preferably bringing fresh ideas from that early experimentation.

A dynamic film culture with multiple points of entry for audiences and participants is the best way of ensuring that digital opportunities are seized and offers a way of judging priorities for public policy.

There is an important distinction made here between 'film' and the 'film industry' that is too often missing in the discussion of the future.

The central argument here is that the relationship between film and audience needs to be the primary focus, and the determinant of the future shape of the industry, rather than the other way around.

CHAPTER 1: INTRODUCTION

IN BRIEF

- Digital change is altering the relationship between consumer and content
- The film industry response has been built on 'artificial scarcity' models
- Data is critical to audience understanding but lacks transparency
- Digital opportunities can only be exploited with demand-side strategies

THE DIGITAL REVOLUTION is rooted in what MIT Media Lab founder Nicholas Negroponte described as a shift from 'atoms' to 'bits.'[1] It is an important concept suggesting fundamental change that, as many industries have discovered, goes far beyond mere 'digitisation' of existing forms.

The worlds of atoms and bits are governed by different rules, with social, political and even philosophical implications for business and policy-making.

The transition opens up questions about the nature of value, the relationship between content and consumer, and the structure of a century-old industry.

The Digital Revolution is not about technology *per se*; cinema has managed to evolve and prosper through other major technological developments, including television, VHS and DVD.

Instead, it must be understood as the digitally-enabled transformation of consumer demand, which disrupts, and undermines the business models of the age of atoms, even as it opens up fresh opportunities.

These patterns of demand are not settled or fixed and do not necessarily imply the rejection of 'old' media or film; in fact, they often defy the clichés of both industry conservatives and digital radicals.

Nonetheless, the seeds of a revolutionary shift are already planted, even if, for a variety of reasons raised here, they have yet to yield much fruit.

In simple terms, the film business model was not designed for a digital age.

The current elongated value chain consists of specialised disciplines for creating content, buying and selling rights, distributing physical products (35mm prints, DVD, etc), and final screening. In Europe, these roles tend to be filled by small-to-medium-sized businesses (SMEs), running on generally tight margins.

Value means different things at different points of the industrial process but the economic structure is essentially a 'scarcity model', built on the sale of specific exploitation rights for specific territories.

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[1] *Being Digital* (1996) , Negroponte, Nicholas, Coronet Books, ISBN-10: 0733603920

The final stages of theatrical and retail have their own separate economic models, while online and VOD platforms are pursuing their own agenda. (See Page 33)

This value chain leaves a big gap between audience and producer, in terms of process and time, given the years between concept, development, sales and exhibition.

Producers in many countries have little experience of creating direct relationships with the final consumer and have had few incentives to try.

On-demand, digital developments, however, disrupt the basic business models by fragmenting demand, opening up serious questions about the sustainability of the existing industrial structure.

The interests of the different constituent parts of the film value are themselves fragmenting as the challenges and opportunities of digital change become clear.

The exploitation of digital rights and recoupment issues leads to tensions between producers, sales agents and distributors; the desire to maximise revenues from digital platforms regardless of windows, creates problems exhibitors; while the potentially greater control over programming that Digital Cinema puts in the hands of exhibitors may prove a problem for distributors.

And the artificial scarcity models of the film industry are themselves at odds with the new on-demand platforms.

This report argues that it is essential that the focus shifts from supply-side protectionism towards demand-led strategies. In other words, the structure of the film industry, created to service historic industrial processes needs to be reshaped, working back from knowledge of audience demand (a concept distinct from the narrower and prescriptive idea of market forces). See Page xxx for more.

ARTIFICIAL SCARCITY

The industry can at least now point to some tangible digital success stories, including the now rapid progress of Digital Cinema (D-Cinema) conversion (See Chapter 2) and cross-media marketing (See Chapter 6).

The film industry, learning from the experience of music, has also tried to avoid a damaging stage of denial and inaction by at least encouraging discussion. Barely an industry conference or festival goes by without some kind of section given over to an often amorphous idea of digital change.

Talk has not often led to action, however, and there has been, to borrow Churchill's phrase, rather more "jaw jaw" than "war war."[2]

Understandably, if unrealistically, the film industry has been trying to ride the two horses of protecting existing revenues while seamlessly assimilating digital technologies.

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[2] www.bartleby.com/73/1914.html

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This attempt to foist theatrically-centred, restricted-release models devised for the old economy onto those of the new can be characterised as 'artificial scarcity.' It's a trick that has eluded every other creative industry that has tried it.

It is only fair to point out that, for all its flaws, the old model generated skilled jobs, businesses and some of the greatest art in history.

So there has been a natural reluctance to throw away models that work, at least for some, in favour of alternatives that so far are working for very few.

Leading European directors, and trade bodies, covering production, sales, distribution and exhibition, signed a declaration in 2012 urging that adapting to the "new realities of the digital transition" should not be "threaten the traditional support schemes for distribution (local distributors and international sales agents) and exhibition, which have proven over the years to be very successful."[3]

But such statements are rather dependent on the interpretation of those "new realities" and how far, and for how long, it is realistic to swim against the digital tide.

CONSUMER CULTURE

There are, of course, technical and political means to restrict reach, including geoblocking, legislation enforcing windows and territorial rights, and tough enforcement of laws against illicit downloading or streaming of content.

But relying on such measures is a big gamble, particularly while audience demand continues on the road towards a 'Martini culture', where consumers (following the drinks company slogan) expect to be entertained 'any time, any place anywhere.'

And consumer demand is not the only source of friction. The retention of release restrictions runs counter to the interests of the technology, telecommunications, broadcast and retail giants looking to become masters of a borderless on-demand universe. (See Chapter 2).

The potential for conflict has already emerged in the long battle over anti-piracy laws, where Internet Service Providers (ISPs) have objected having to police their customers' online activity.

The billions of Euros being pumped into the digital infrastructure of Europe will amplify the voices of ISPs and other major investors in on-demand digital services.

The music industry has also found that protectionist approaches have left gaps, not only for file-sharing and piracy, but for innovative and disruptive services, such as Spotify[4] and SoundCloud[5] (See Page 101).

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[3] www.screendaily.com/news/europe/film-makers-call-for-distribution-and-exhibition-to-remain-central-to-the-media-programme/5040820.article

[4] www.spotify.com

[5] www.soundcloud.com

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Finally, artificial scarcity raises issues for policy-makers, not least because there is every likelihood that restrictions will be challenged in the courts (as happened in 2011 with satellite sports broadcasts – See Page 75).[6]

The questions raised by artificial scarcity also have implications for culture. The tighter fiscal union that now seems inevitable between nations in the EU Eurozone will equally inevitably increase the interest in, and demand for, closer cultural ties. Such a mission is clearly not helped when films funded under the rules of 'cultural exception' or 'cultural diversity' in one country, struggle to find an audience beyond their borders.

Even the intervention of agencies, such as the MEDIA Programme and Europa Cinemas can only go so far in supporting pan-European reach. And, as this report argues, the Internet is bringing together and creating strong cultural ties between audiences that are influenced beyond nationality and demographics. (See Chapter 4)

MACROMYOPIA

Digital distribution has changed the basic rules of the game for most industries and film will inevitably feel the same forces. The Internet, for example, does not recognise borders and windows. Instead it offers:

ANALOGUE	INTERNET
Windows	*Immediate*
Rights	*Access*
Industrial	*Democratised*
Borders	*Global*
Closed	*Open*

◉ A truly global network, connecting users to content and to each other.

◉ The ability to create an infinite number of copies of any content and to share it without degradation anywhere in the world.

◉ The creation of access to a virtually unlimited choice of content, which may extend over the coming years to almost every significant cultural audiovisual work.

◉ A changed relationship between audience and content, which will lead to new 'engagement' business models.

◉ The opening up of film-making, or audiovisual content creation of some form, to a far greater number of people.

Digital models then cannot simply be bolted on to existing processes and its opportunities and threats for film are two sides of the same coin.

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6 http://eutopialaw.com/2011/10/27/broadcasting-of-premier-league-football-and-territorial-exclusivity-what-exactly-is-the-impact-of-eu-law/

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There is, however, an understandable scepticism now about those opportunities because the ratio of excitable talk to bottom-line returns has remained poor.

Film, like many industries, has fallen prey to what futurist Paul Saffo has described as 'macromyopia'[7] – a tendency to overestimate the short term and underestimate the long term in digital developments.

Immature technologies have been expected to arrive with instant built-in business models delivering fast returns. Digital advocates also overplayed the idea of the 'broken' business model, suggesting an imminent collapse that simply did not materialise.

Both that early enthusiasm and the subsequent descent into cynicism are classic supply-side responses, looking at change from the perspective of industry, rather than audience.

The lack of progress on business models and really compelling new content is disappointing but, as the next chapter argues, many of the missing pieces, including technological and infrastructural improvements, will soon be in place.

A further reshaping of the business is inevitable (See Chapter 5), even if the speed remains difficult to predict. (See Chapter 2 for more). These changes are revolutionary and will transform the film business but not in a neat transitional way, and packed with seeming contradictions.

DATA AND OPPORTUNITY

In defining the French and Industrial revolutions, historian Eric Hobsbawm said it was possible to "conclude with justice that virtually every measurable quantity was greater (or smaller) than ever before."[8]

In the 18th and 19th Centuries, every aspect of life began to be measured and calculated, so that it was possible to understand and monitor social, political and demographics shifts by collecting and analysing data. Revolutions could be counted.

The Internet era has taken such calculations to levels that would have been inconceivable to most people even at the end of the last century. Each individual transaction and interaction online now leaves a seemingly indelible footprint of data and metadata that can be transformed into knowledge.

That knowledge will increase exponentially as more and more devices are embedded with Internet-connected chips, creating what has become known as the 'Internet Of Things'.

The economic value of gathering and analysing this knowledge is now understood; McKinsey Global Intelligence says that so-called Big Data – generated by day-to-day transactions and interaction online and on mobiles – is the "next frontier for innovation, competition and productivity."[9]

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[7] http://saffo.com/wp-content/uploads/2012/01/Pauldesignworld1992.pdf

[8] The Age Of Revolution, Eric Hobsbawn, 1962, Abacus, p359

[9] www.mckinsey.com/Insights/MGI/Research/Technology_and_Innovation/Big_data_The_next_frontier_for_innovation

The scale of this data is now measured in unfathomable numbers (A report for the Davos World Economic Forum, says that Big Data now accounts for 2.5 trillion (10^{18}) bytes of data per day, and exponential growth is expected to continue over the coming years).[10]

Knowledge can be extracted (or 'mined') and the use of Big Data is already making a big impact in fields, such as international manufacturing, oil and mining and retail.

It is worth noting that such data may concentrate huge power with technology companies, social networks and indeed the big VOD providers.

But there are opportunities for smaller companies too, according to McKinsey. The award-winning 2011 film *Moneyball*, based on Michael Lewis' bestselling book[11] about innovative use of data analysis in baseball, acted as a timely reminder of how focused data analysis can produce surprising results; and that can be as true for film as for sport.

Turning data into knowledge, and knowledge into action, however, is tough for an industry, whose long-established business model was created for different economic circumstances.

Producers generally produce too few films to generate meaningful data in their own right, and audience knowledge in the hands of distributors is generally channelled into the theatrical launch (See below).

Data, of course, is not a means of circumventing risk. Audience demand, after all, is essentially the aggregation of millions of idiosyncratic and inconsistent consumer choices and is therefore unpredictable and occasionally downright contradictory.

The film business knows perhaps better than any other art form or entertainment business how difficult it is to accurately predict consumer taste.

Nonetheless, the film industry is moving away from William Goldman's exaggerated but apt maxim that 'no one knows anything,'[12] even if the search for success still owes rather more to alchemy than the knowledge economy.

FIRST-WEEK OBSESSION

Most distributors, at least, are now using tools to try to build a better understanding of potential demand, including measurement of consumer sentiment and audience preference, as revealed by social networks and other online analytical tools.

Much of that knowledge tends to be channelled, however, into a very small exploitation window – the still overwhelmingly-powerful first weekend theatrical release.

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[10] www3.weforum.org/docs/WEF_TC_MFS_BigDataBigImpact_Briefing_2012.pdf

[11] *Moneyball: The Art of Winning an Unfair Game*, Michael Lewis , 2003, WW.Norton & Co (ISBN 0-393-05765-8)

[12] Goldman, William (1983) Adventures in the Screen Trade. Abacus.

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The centrality of theatrical releases in cinemas concentrates marketing on a single shot at success, leading to what Howard Stringer, former chairman and CEO of Sony Corporation, has described as a "spiral of pressure" on first-week figures.

"You have to push it, because everybody involved wants to believe that you believe in it. The writer does, the actors do, the director does...no matter who you are; you can be the most artistic director, a $2m (€1.6m) opening will be a failure to that person."[13] And so cinema becomes a clash of the titans of the marketing departments for major releases, and small films have to battle for attention in the same limited space.

The entrepreneurial innovator in distribution might make the one-shot approach work some of the time but it is a risky, unreliable and inefficient business, which hands huge advantages to those with the most money.

The tyranny of the opening weekend forces even strong European films into a severely limited theatrical release, losing momentum that is rarely picked up in later windows, such as DVD and VOD.

The spiral of pressure, and the sometimes nerdish obsession with box-office figures and screen averages, is rooted in the narrow industrial practice of the pre-digital era. It fails, for example, to grasp the way that 'word of mouth' knowledge of a film, so crucial for independent and arthouse releases, now takes a different amount of time to filter through to different audiences via social networks and digital marketing.

Digital Cinema and VOD ought, with a degree of flexibility on windows and programming, to be able to encourage and enable new patterns of demand but the industry largely remains wedded to the old model. And so, consumer knowledge is forced into an ancillary role, as a tool for a very specific task at the end of the value chain.

Digital Cinema ought to change the landscape, offering more flexibility in programming, liberated from print availability. The still heated arguments between exhibition and distribution about release windows, however, suggests that the first-week obsession will be a difficult habit to kick.

Data is rarely yet seen as a tool for creating long-term relationships with audiences, particularly at the level of development and production. The choice of projects, the building of consumer relationships, and an understanding of potential reach ought to be a consideration at the earliest stages of work.

But the kind of data required to identify potential audiences of the best means to reach them – never mind what might inform or influence content – are not routinely collected.

More to the point the mechanisms for the kind of analysis that can transform data into knowledge have not matured in film, or commoditised for use by smaller businesses, (although they are at the heart of digital change in other industries, particularly advertising and marketing, See Chapter 9).

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[13] www.pbs.org/wgbh/pages/frontline/shows/hollywood/picture/openbig.html

TRANSPARENCY

In most industries, access to more reliable and up-to-date consumer data has become essential in making an attractive case for investors. But ironically, the increase in data seems to have accompanied by a decrease in transparency. The theatrical box-office is a paragon of openness compared to online and VOD releases.

Film investment, of course, has rarely come down to meticulously informed financial calculations. Transparency has had a chequered history in Hollywood, which over its long history, has sometimes veered towards P.T Barnum's adage that "there's a sucker born every minute."

Until recently, much US production was built on access to dubious tax avoidance schemes in Europe, production incentives around the world, and on what proved to be a private equity bubble. And in Europe, knowledge of the audience has rarely been a primary issue, and has often been a very minor one for producers.

The small, but highly influential, group of people who manage national film funds, for example, base their decisions on subjective judgements of cultural merit and commercial potential.

Rather than transparency becoming a tool for attracting finance, the balance of commercial interests is tipping still further towards keeping sales, distribution and platform deals a secret.

Producers, including those of cross-media and transmedia projects which purport to be in the vanguard of a new audience-centred business, have little to gain from publicising financial, audience or performance details, unless they can be spun as a success story.

It is rare to hear even about the brave failures and mistakes that are inevitable when exploring new ground and which could be so valuable as lessons for other projects.

The result is a credibility gap that may now need closing, particularly if the tax credits and subsidy systems are strained by economic austerity, public-sector cuts, competition and legal challenges. A number of European governments are now cracking down on any hint that tax avoidance schemes have crossed the legal line.[14]

This time of transition is exactly where transparency might provide some value and stability, offering a guide to what works in the digital age for industry, audience and investor.

Given the amount of public money invested in film, and the potential value of data created in the course of projects, it seems logical that public funds insist on clean data being shared (perhaps anonymously) and fed back into the system to help future projects.

Transparency will also become essential in building sustainable businesses in the VOD world, where revenues may be patched together through a range of exclusive and non-exclusive deals.

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[14] www.guardian.co.uk/commentisfree/2012/jun/22/tax-avoidance-secret-bad-british-film?newsfeed=true

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Keeping track of payments and striking fair bargains with on-demand services requires a level playing field in terms of transparent deals.

THE AGE OF UBIQUITOUS MEDIA

It is a mistake to see new forms of demand in simplistic Darwinian terms, as a replacement for tired older formats. Digital media can freshen up and even reactivate its struggling predecessors by creating forums where enthusiasts can gather, and to link demand to supply – the revival of vinyl in music, and the strong market for second-hand paperbacks on Amazon are good examples.

LoveFilm and Netflix became international brands by using the Internet to manage rentals of an ageing physical format, DVD, delivered through a 19th-century postal service (though both are moving rapidly towards new streaming models).

The Age of Ubiquitous Media has seen an increase in both 'linear 'content (the stuff programmed and scheduled by exhibitors or broadcasters), and 'non-linear' services (stuff watched by consumers on their own terms). The amount of scheduled television watched per day, for example, is rising in most countries, despite competition from alternative forms of entertainment and on-demand services.

The average French viewer watched 12 minutes more television in 2011 than 2010, an average of 3 hours 47 minutes, with 11% watching mainly or solely scheduled TV (72% in 2011, compared with 61% in 2010).[15] Spain was up five minutes (4 hours and 6 minutes) and Germany up two minutes to 3 hours, 45 minutes. (The US average is more than five hours).

At the same time, services that allow consumers to create personalised schedules have also been growing. The BBC, for example, reported a 24% year-on-year increase in use of its iPlayer catch-up service and a 94% increase in the number of viewings on tablet computers, such as the iPad.[16] The public broadcaster claimed 190 million viewings in the first quarter of 2012 – a fraction of the linear audience but an increasingly significant influence at home and in international territories.

And Nielsen reported in 2011 that almost 145 million people now watch video online in the US, which is close to half of the audience for traditional TV.[17]

In the cinema, box-office records seem to be broken every week. In 2012, for example, Marvel and Disney's *The Avengers* broke the all-time highest-grossing opening US domestic weekend, taking $207.4 (€159.5m) and was performing just as well in many international territories.[18]

And European films have enjoyed successes too. In 2011, French admissions rose by 4.2%; UK box-office revenues topped £1bn (€1.2bn) for the third year running, up 4.5% on the previous year with admissions up 1.4%;[19] and the Netherlands saw revenues rise 9.4% and admissions by close to 8%.[20]

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[15] http://mediacenter.motorola.com/imagelibrary/downloadmedia.ashx?MediaDetailsId=2093

[16] www.bbc.co.uk/mediacentre/latestnews/2012/iplayer-performance-jan-apr.html

[17] http://blog.nielsen.com/nielsenwire/tag/youtube/

[18] http://boxofficemojo.com/movies/?id=avengers11.htm

[19] www.bfi.org.uk/filmtvinfo/stats/UK_box_office_2011.pdf

[20] www.screendaily.com/news/box-office/netherlands-posts-highest-admissions-since-1978/5036649.article

In 2011 and 2012, *Les Intouchables* and *Rien à déclarer (Nothing To Declare)* topped the French box office; *The King's Speech* boasted global revenues close to $140m (€107.2m);[21] and *Gooische Vrouwen* enjoyed the best local admissions for a Dutch film in 25 years to top the nation's box office[22].

At the same time, there has been a strong rise in the use of on-demand services for watching film, with streaming and downloads, for example, overtaking DVD rentals on LoveFilm. (See Page 30).

The all-pervading presence of audiovisual entertainment has even become a medical concern. A report in the journal of the American Medical Association suggested that television watching at today's levels led to a serious risk of type 2 diabetes, cardiovascular disease, and premature death.[23]

THE ILLUSION OF CHOICE

It is possible then to draw optimistic conclusions about the multimedia future, particularly given imminent further improvements to services, such as a satellite distribution infrastructure for Digital Cinema, Internet-enabled smart televisions and faster broadband speeds (see Chapter 2). But an increase in available content does not in itself necessarily lead to more adventurous choices or greater cultural diversity – in fact the opposite can be true.

Many of today's most ardent arthouse fans discovered their love of film because they had *few* choices of alternative ways to spend their leisure time and a *small* number of television channels, which programmed national and European film as part of their public service remit.

More content on more screens and platforms may serve to confuse audiences, further fragmenting demand for independent film, and playing into the hands of ever more visible Hollywood franchises. But studio dominance is not the only issue for cultural diversity – more choice can also reduce individual consumer interest in moving beyond their now now thoroughly supplied comfort zone.

It is possible now to spend a lifetime watching films that conform only to one's existing tastes. (One could now already conceivably decide to 'virtually' live in the 1960s, watching only movies of that era, buying the clothes, cars and music through niche retailers, building a social network of like-minded individuals, and never be short of content).

Increasing choice has become an industry and public policy obsession, with a race to see how quickly films could be digitised and new legitimate platforms created. Part of that strategy has been based on the belief that copyright theft had to be tackled by offering legitimate alternatives, with the music industry acting as a warning about what happens if piracy has even a short-term monopoly on the supply of digital content.
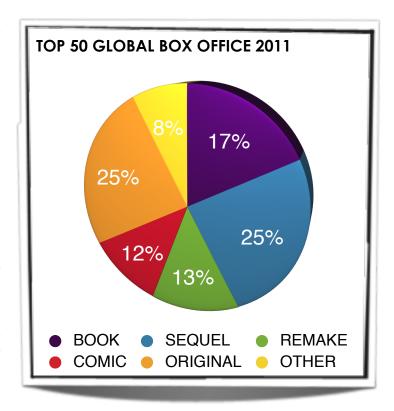
[21] Box Office Mojo. http://boxofficemojo.com/movies/?id=kingsspeechpg13.htm

[22] www.screendaily.com/news/box-office/netherlands-posts-highest-admissions-since-1978/5036649.article

[23] www.hsph.harvard.edu/news/press-releases/2011-releases/tv-diabetes-cardiovascular-diseasepremature-death.html

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Policy has also been influenced by an understanding that it is not possible to squeeze increased volume of films on to a static number of screens (see Chapter 5).

The dramatic increase in consumer choice is not an illusion. What is open to question is the belief that additional choice will in itself create a more diverse and active culture.

And that is the core of the argument here: creating more choice is one thing, getting people to choose is quite another – and the future of European film envisaged here is not about tapping existing taste but creating new demand.

TOP 50 GLOBAL BOX OFFICE 2011

17%	BOOK
25%	SEQUEL
13%	REMAKE
12%	COMIC
25%	ORIGINAL
8%	OTHER

That task is already constrained by mundane physical realities, such as audience leisure time, access to screens, technological know-how, etc, and the growing competition from a wide range of alternative leisure and arts pursuits.

DEMAND-LED STRATEGIES

An individual film has no more guarantee of box-office success in a digital world than an analogue one, even if it wins critical opinion or crosses some notional quality threshold.

The length of time needed to make a movie means that film-makers have always had to try to second guess audience demand at least a couple of years ahead and the enthusiasms of any given year rarely pass the test of time. If one can see a bandwagon, it is already too late to climb aboard.

A demand-led strategy is not about shifting the balance from culture to commerce; and in fact the debate exposes how far such labels are the product of industrial process rather than any innate truths.

The essential factor in commercial success in the traditional business has rested with control of distribution, which has led to the dominance of the US studios and bigger distributors.

This report argues that release windows restrictions, territorial releasing and over-supply means means that the independent market does not reflect potential demand.

In any case the dichotomy between 'culture' and the commercial market in Europe is based on a large dose of myth.

It is the market, not culture, for example, that means that arthouse cinemas are concentrated largely in upmarket metropolitan areas or university towns.

While the public-sector broadcaster and funders can ensure that a film is made, the decision on which cinemas show the film, what specialist digital channels or subscription services screen it, and the time it appears on the television schedules, are overwhelmingly decided by the market.

That leaves a big potential audience neglected because it is dispersed and hence 'uneconomical' under the theatrical system.

For those believing in a truly universal, culturally diverse film culture, there is a parallel here with politics, where in many European countries, the political system tends to favour large parties with a strong local or regional concentration of voters, rather than those whose supporters are more evenly dispersed across the country.

The current market system in cinema leads to considerable areas of disenfranchisement, particularly in those nations with highly-dispersed populations or weaker economies.

The building of a film culture becomes a serious challenge, stunting demand that might be taken into a multimedia VOD future.

The Digital Revolution should ensure that the means of distribution are theoretically more open and less easily dominated by Hollywood.

But seizing those opportunities – in cultural and commercial terms – must begin with a serious reappraisal of how film can create, nurture and service demand, rather than simply following it.

DEMAND CREATION

One of the major themes of this report is how far a demand-led strategy is about fitting content to existing audience tastes, or about leading audiences to content.

In other words, are we talking about Film-making By Numbers – products that are slaves to market research and intent on finding a lowest-common denominator between consumers?

Or do we mean allowing creative originality to find it way to the biggest possible audience by engaging with an identified audience?

This is often the crude characterisation of the difference between Hollywood and European film, and indeed it is fair to say that blockbuster economics requires big films and huge global audiences.

So-called 'Four Quadrant' releasing, aimed at the widest possible demographic, is a high-stakes game – a survey in 2007[24] suggested that the Hollywood studios had collectively lost $1.9bn (€1.5bn), arguably because it had lost touch with audience demand in the pursuit of the easy-money private-equity bubble that has since burst.

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[24] www.screendaily.com/study-suggests-studios-took-a-19bn-hit-on-blockbusters-in-2006/4035854.article

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Today, the studios are certainly more focused on audience building, with particular focus on creating franchises that have a pre-existing appeal to consumers, hence the large number of adaptations, remakes and sequels.

Cross-media exploitation and audience data now play a bigger role in Hollywood but as Disney's 2012 flop *John Carter* demonstrated it its still possible to make spectacular mistakes.[25]

Despite the attempts to contrast Hollywood's populist 'world culture'[26] (a dubious notion at best) with the diversity of European culture, pre-awareness is every bit as important for European film.

Many of the biggest hits in Europe are adaptations, such as the global hits based on Stieg Larsson's Millennium books, beginning with *The Girl With The Dragon Tattoo*. And of course, among certain sections of European society, the auteur is (like it or not) a brand in his or her own right.

Sometimes originality in European film can benefit from the kick of big US distribution. Oscar-winning hit *The Artist* was a case in point: a black-and-white silent French film with no stars became a box-office hit because Harvey Weinstein saw a potential that it would have struggled to gain in Europe.

There is no magic formula that ensures a hit and the skills needed to identify, aggregate and engage audiences, whatever the motive, are essentially the same.

EMERGING MODELS

This report argues that demand for film and most creative media is actually increasing but the industry remains stuck with what we might call 'oil-slick economics': the value is out there but no one knows how to pick it up.

Business commentators looking at the macro effects of digital change on existing businesses, talk about the development of a post-industrial, post-product landscape, where value has to be found from something other than selling a physical commodity.

At that point, they are entering the realms of philosophy as well as economics.

The value of a DVD or a cinema ticket may be calculated on a balance sheet: manufacturing, distribution and labour costs, etc, weighed against unit sales, a percentage of the box office, etc.

Value is a more complex in the online world – made still more complicated by the fact that the Internet is seen as free.

Free expression and comment online is conflated in some of the debate with free in financial terms and free from the monetary realities of capitalist economics.

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[25] www.bbc.co.uk/news/business-17442200

[26] www.keanet.eu/docs/culturaldiversity%20eu2020.pdf

Attempts to impose the real-world business order on an online world remains challenging, not least in the debate about how far copyright as a concept and a legal fact is fit for purpose in an Internet age.

There are equally major concerns about how far long-tail economics can really prove a sound basis for financing film. Such discussions are fascinating and go way beyond film.

A more practical approach, however, will be to look at the component elements of a demand-centred business strategy.

This report suggests three considerations that together make up a coherent approach:

Reach: How to find, nurture and service audiences (See Chapter 7).

Experience: The emotional response of those audiences to the content they see. (See Chapter 8)

Engagement: The relationship between audience and content, and between industry and consumer. (See Chapter 9)

New business models and the industrial value chain ought to be based on combining these three factors.

Reach, experience and engagement, acting as a team, operate at that vital intersection between audience and content, where the opportunities, as well as the disruption, resides.

At the very least, such thinking exposes the missing links in devising digital strategies, most obviously the pressing need for consistent and transparent data.

Of course, no amount of advanced technology or consumer insight can compensate for the absence of talent, ideas and stories.

The argument of this report is that genius and inspiration in film is not compromised by new means to connect with the audience – instead it offers the chance to fulfil its potential.

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CHAPTER 2: DIGITAL PROGRESS

IN BRIEF

- ◉ The current online environment will rapidly evolve and drive new demand
- ◉ The transition to Digital Cinema is close to completion
- ◉ Digital services are emerging pushing the pace of physical formats decline
- ◉ Piracy, windows and territorial releasing restrict reach

THE PROGRESS of the digital revolution needs to be understood, not as a series of digital breakthroughs, but in terms of the demand that those innovatons create and sustain. While that makes predictions more complicated, the actual progress of digital technologies in relation to film is following a well-established pattern.

Leading business technology analyst Gartner captures the process in what it calls a 'hype cycle':[27]

First, a 'technology trigger' creates a wave of enthusiasm that rises to an unrealistic peak, before crashing to a 'trough of disillusionment.' Over time, adaptation and consumer acceptance, a technology trend finds its level, maturing to a 'plateau of productivity'.

This speed at which developments move through this curve is dictated by consumer adoption and technology maturity. Unfortunately, it does not fit the time frame of production, distribution and exhibition, and certainly not the policy timetable of national government or European bodies.

Trying to ride the wave of digital developments is extremely difficult, given the slow and fragmented set of processes that goes into getting a feature film from script to audience.

And the small-and-medium-sized enterprises (SMEs) that make up so much of the European film industry are rarely able to gamble on theoretical potential through those early stages of technology development.

But no one involved in the film industry can afford the luxury of short-termist complacency about developments that may prove central to tomorrow's revenue models.

Lack of foresight and planning means having to adapt to an environment shaped by someone else's interests.

It is hard, however, to take a reflective view of the future when tied down by day-to-day challenges, and particularly when so much of the hyped digital innovation has undermined traditional core revenues while failing to deliver anything close to even the reduced returns of the old models.

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[27] www.gartner.com/it/page.jsp?id=1763814

Much of the cynicism and complacency around digital innovation is based on the experience of online film business in the early stages of its evolution.

While free of the borders and shelf-space restrictions of the physical markets, attempts to create services on the Web have had boundaries of their own, including broadband speeds, security and complex technology that confused users.

The dot-com boom, and subsequent collapse, serves as a warning about what happens when great ideas run ahead of the technology and infrastructure to support them.

The future is shifting in the direction of a mooted Web 3.0 and 'semantic web', which in broad terms suggests a seamless, intuitive and personalised online environment. But the Web is already fast becoming an invisible facilitator, losing any sense of the underlying technology, and as of little interest to the consumer as the electricity that powers the kettle.

When successful technologies are described as 'intuitive', what is really meant is that they successfully hide any hint of underlying technical sophistication. It has become the nirvana of all high-tech companies.

A fine example is the mobile app, which has come from nowhere to revolutionise a whole sector (and incidentally to open up opportunities for film marketing).

The Apple app store was launched just after the first edition of this report in 2008, and by March 2012, it was boasting 25 billion downloads of more than 500,000 apps.[28] By May 2012, there had also been 15 billion downloads of Android apps through Google Play.[29] The app is a perfect example of demand-led thinking, with content devised to meet a known audience requirement and tailored for personalised use.

How far along the road to the Web 3.0 is eventually travelled is an interesting debate but it is reasonable to speculate that in 10-years time, the online world today will seem at least as rudimentary and slow as the period of dial-up modems seems from our 2012 vantage point.

What matters is that the debate about digital change does not let short-term technical shortfalls become the guide to the future.

DIGITAL CINEMA

In the area of D-Cinema, at least, there has been significant progress and tangible results. The long opening stages of digitisation, in which the focus was on building momentum, has entered a final endgame, dictated by a timetable to the end of the celluloid as a commercial concern.

The painfully slow start to digitisation in Europe was bogged down, not least by the attempt to find a funding mechanism that was able to cover conversion for all European cinemas. At one point, it was estimated that as many as 50% of European cinemas did not have a conversion plan in place.

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[28] http://arstechnica.com/apple/news/2012/03/25-billion-apps-have-been

[29] www.appbrain.com/stats/number-of-android-apps

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It was a necessary debate but small-cinema conversion came to dictate the pace, meaning that policies on Digital Cinema transformation in Europe often travelled at the speed of the slowest.

Now, ready or not, the conversion process is racing towards the long-awaited light at the end of the long tunnel of transition.

Distributors will soon simply stop making 35mm prints as the market for celluloid shrinks, ending a hybrid physical and digital period, which has so far eaten up potential savings.

Fox Searchlight has already announced that it will not be issuing any more 35mm prints of its films after the end of 2013 (to the consternation of some US indies, concerned about the effect on its arthouse circuit). [30]

The number of digital screens worldwide overtook traditional projection at the beginning of 2012, and Screen Digest IHS is now predicting a rapid switchover, with mainstream use all but finished in Western Europe by 2014.[31]

Norway and Luxembourg have completed the full transition, with Belgium and the Netherlands expected to catch up soon.

The biggest EU markets of France, Germany and the UK already have plans in place for a near full conversion, with smaller venues supported by a mixture of collective business schemes and local, regional and national (and some European) funding. Only a relatively small number of cinemas in Western Europe are likely to be left behind and even that shortfall might be made up by new venues.

> **The transition to Digital Cinema has entered its endgame phase with mainstream use of 35mm all but finished in Western Europe by 2014.**
>
> *Source: Kaiser Family Foundation*

It is likely, however, that problems will continue in those countries with a network of dispersed small, largely rural, independent cinemas in rural areas, or where economic cutbacks are biting hard. 58% of Europe's 12,800 cinemas are vulnerable single-screen venues, according the the European Audiovisual Observatory,[32] and they have always been a long way behind the conversion curve.

D-Cinema progress has tended to be measured in screen numbers but the impact of any closures will be felt at a local level; there is still a real danger that Europe will end up with more screens but less venues, to the detriment of many communities. The relentless forward march of D-Cinema, however, will not wait and if action is to be taken, it needs to be very soon.

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[30] www.tribecafilm.com/tribecaonline/future-of-film/Indie-Theaters-Face-Digital-Mayhem.html#.T6p3nO119Lo

[31] www.filmjournal.com/filmjournal/content_display/news-and-features/features/technology/e3i9d8bb28649c6da4d1d61f39d3e90700a

[32] www.obs.coe.int/online_publication/expert/mif2012_kanzler.pdf

DIGITAL CINEMA AND CHOICE

In some senses, Digital Cinema has been through the entire hype cycle, from the early unrealistic enthusiasm about huge savings and greater choice; through disillusionment as the costs of conversion and restrictive finance models emerged; to a period of productivity, with premium 3D pricing, alternative content and generally buoyant attendances.

It is impossible to ignore the fact that, for all the initiative and imagination of public and private transitional arrangements in Europe, the Digital Cinema process has 'Made In Hollywood' written all over it.

The studios have dictated the pace, from the projection specifications to the timetable of the final switchover to digital-only releases.

Most of all, it was 3D, and more particularly the willingness of consumers to pay a premium price for the perceived value of that extra dimension, that took European cinema conversion out of the doldrums.

Figures from the European Audiovisual Observatory suggest that 3D is no longer the key factor in conversion or Digital Cinema revenues [33] but it has still played a pivotal role.

With so many cinemas now converted, Hollywood can concentrate on the more efficient digital means of exploiting their potential, regardless of that extra dimension.

What remains largely unfulfilled is the original hope in Europe that a new digital era would give national, European and art films access to bigger audiences.

The link between increased reach and digital conversion was explicitly made in early experiments, notably the UK's Digital Cinema Network, through which 250 cinema screens received free digital projection equipment in return for screening a minimum percentage of specialised film.

Concern about the lack of demand for non-mainstream film can be overstated. Knowledgeable and loyal customers of arthouse cinemas are actively seeking challenging and diverse film.

And D-Cinema offers a powerful theoretical opportunity for smaller films, giving exhibitors the opportunity to quickly programme those making an impact at the box office elsewhere, without waiting for the production of new prints.

Sony has already unveiled a 'Content Exchange Platform', which aims to become a 'pull' service, by which cinemas can add specialised content showing promise at the push of a button.[34] (See Chapter 7 for more).

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[33] ibid

[34] www.sony.co.uk/biz/press/id/1237485460695?section=SB+SS+ALL+Press+Center

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But it is a double-edged sword. Some distributors are concerned that exhibitors will acquire itchy trigger fingers, replacing films that are not immediately successful with more commercially successful alternatives; or that the 3D blockbuster giants will elbow their way into more screen space, or indeed that opera and theatre will become cuckoos in the cinematic nest (See Chapter 8).

The biggest fear, however, is that financial pressure, and lower short-term prospects for revenues will push sales agents and independent distributors into more conservative decisions, with longer-term consequences for the development of diverse and challenging film.

Of course, the distribution gap might be filled by newcomers, including producers choosing to retain and exploit their own rights, but parts of the independent distribution and exhibition sectors have become concerned about the value for money of conversion and with some reason, at least in the short term.

The Virtual Print Fee (VPF), the dominant mechanism for financing conversion, effectively ties exhibitors and distributors into a funding arrangement that largely mirrors the 35mm world.

Meanwhile, outright purchase of equipment that meets the industry-agreed DCI standards on image quality, interoperability and security has not yet proven that it represents a strong return on investment.

There has been some potentially significant progress in the summer of 2012, with technical developments potentially bringing down the cost of DCI-compliant equipment for smaller venues,[35] although the cost of future upgrades will be an issue.

Some film companies have been actively looking to circumvent the issue by launching schemes that allow new venues to show close to first-run films outside those industry-agreed standards. They may gather support from distributors, concerned about shorter runs on the current circuit.

The UK's Curzon Artificial Eye has been one of the pioneers, exploiting its position as both distributor and exhibitor. It has been providing films (and lending its name) to a small number of venues showing films with lower-spec equipment.

There are, of course, already film clubs and arts centres showing library films on adequate but relative low-spec HD and Blu-ray equipment, but breaking ranks on the industry-agreed DCI standard might have big implications if it gained traction.

As the later discussion of 'experience' (Chapter 8) shows, there is every reason to believe that D-Cinema may renew venues and create the basis for new sustainable exhibition businesses.

The limitations of theatrical release, however, mean that independent film may increasingly see new on-demand services as the primary form of exploitation. Such a repositioning of release strategies would have very big implications, though it is more difficult progress to read.

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[35] http://news.softpedia.com/news/NEC-Releases-NC900C-Digital-Camera-Projector-276347.shtml

HARDWARE AND INFRASTRUCTURE

A different set of challenges exists for home entertainment, with DVD struggling to maintain its place in an increasingly digitally-dominated market, and Blu-ray still working to live up to its billing as the next-generation DVD.

Shop sales look to be heading inexorably downwards with retailers, including HMV, struggling and others, such as Woolworth, Virgin and Zavvi disappearing altogether in recent years.

The decline of high-street stores has even dented the impregnable image of the games industry; retailer Game, which had 1,200 stores across Europe, closed this year after losing 90% of its value in 2011[36] as its core market migrated to online retailers and viral free games.

Online DVD rental is now facing a strong challenge from new streaming services. Amazon-owned film subscription service LoveFilm reported in March 2012 that the number of films and TV programmes streamed over the web, via laptops, Internet-connected smart televisions and games consoles, had passed the number of Blu-ray discs and games rented under its original DVD postal business model by 20%.[37]

In March 2012, LoveFilm reported that streaming had surpassed its original DVD rental business by 20%.

It is important to note, that the LoveFilm experience has not simply been about new media replacing the old because the DVD business still increased, just at a much slower pace.

Old formats die hard when they have a big enough hold on the mass market. It was only at the beginning of 2012, for example, that digital music sales finally overtook sales of CDs and vinyl.[38]

The decline of physical formats and the rise of on-demand equivalents is often interpreted in terms of software, formats and networks; yet it is often hardware that is the real driver of demand.

MP3 technology, for example, had been around for the best part of a decade before the iPod created the missing link between technology and audience.

Moore's Law,[39] which predicts that the processing power of a chip will roughly double every two years, ensures the power of devices continually improves, while the Internet and globalised manufacturing and distribution create economies of scale to drive demand.

The speed of adoption, and indeed the rate of decline, of a particular screening format can best be predicted by looking at sales and orders of playing equipment.

In 2011, according to Screen Digest IHS, the number of European homes with a standalone Blu-ray

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[36] www.economist.com/node/21550266

[37] www.telegraph.co.uk/technology/news/9160168/Demise-of-the-DVD-Lovefilms-streaming-overtakes-rentals.html

[38] www.bbc.co.uk/news/entertainment-arts-18278037

[39] http://news.cnet.com/2100-1001-984051.html

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player more than doubled to 15.4m million and that goes up to 31.5 million if Blu-ray-enabled Sony PS3 games consoles are included. By the end of 2012, 35% of European HD TV households will have at least one television set connected to either a Blu-ray player or a PS3 games console.[40]

The progress of Blu-ray is much slower than that of DVD in its early years, not least because of competition from formats, such as 'Over The Top' services on Internet-enabled televisions (see below).

The winners of previous format wars are now themselves threatened in a scrap for dominance. Cable television, for example, is now being challenged by online services as surely as it once itself terrorised terrestrial television.

The ubiquitous access to high-quality screens in homes should prove beneficial to film, given that the marketing and subscription sales are so dependent on movies and sport. (See Chapter 8 for more.)

Adoption is highly dependent on other technology considerations, such as high-speed broadband, but there have been major developments in consumer hardware that ought to be considered in assessing future demand. They include:

HD and 3D television. Film, alongside gaming and sport, is a primary influence on upgrading to high-definition and 3D home television sets. Informa Telecoms and Media estimates that 70% of the world's population will watch HD programmes on HD televisions by 2016, led in Europe by the UK with 94% household penetration (up from 72% in 2011).[41] Falling prices, technical breakthroughs and the availability of content, including film, could see 40% of Western European homes owning a 3D-compatible television by 2015, according to analyst Futuresource.[42]

Mobile devices. The mobile market has become of more interest to European film for four principal reasons: the availability of apps to help film choices and purchase; the rise of the tablet computer, particularly the iPad; the rapid growth in buying online (M-commerce); and the evolution of messaging and social media on mobiles, allowing for the instant reaction to films (See Page 40), which is proving so influential on box office performance. Forrester Research says tablet sales in Europe topped 14 million in 2011, or about 30% of a global market, and it expects compound annual growth rate of 46% over the next five years.[43] Meanwhile a survey of 13 European countries by retail specialists Kelkoo and the Centre for Retail Research predicted that more than €15m would be spent on goods and services through mobile devices in 2012, up 520% on 2010 and reaching a 6.1% share of all online sales.[44]

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[40] www.dvd-intelligence.com/display-article.php?article=1704

[41] https://commerce.informatm.com/reports/main/global-hdtv-6th-edition.html

[42] www.futuresource-consulting.com/reports.html

[43] www.forrester.com/Forrester+375+Million+Tablets+Will+Be+Sold+Globally+In+2016/-/E-PRE3384

[44] www.pushon.co.uk/news/report-predicts-significant-increase-in-mobile-commerce-across-europe-in-2012

Connected/Smart television. Many analysts believe that television represents the missing link for VOD and other online film services. Smart TV fills that gap by integrating Internet content with television programming, either directly through advanced sets, or through set-top boxes and consoles, such as Apple TV. Europe is predicted to take the biggest share of 123 million units sold by 2014, with Eastern Europe alone, accounting for 10 million.

Each of these different ways of consuming film will have to compete for market share with each other. How far the market will be able to accommodate all of these formats will become a major issue for film, as it tries to build on-demand models.

INFRASTRUCTURE

The success of all VOD services is dependent on Internet connectivity and, in particular, strong household penetration of high-speed broadband. Fortunately, Europe has some of the most advanced countries in the world for Internet usage. By the end of 2011, there were almost 360 million Internet users in the European Union, 71.5% of the population.[45] In eight countries that figure was above 80%.

Broadband speeds have been rising fast too. Currently Europe has a wide range of speeds. Akamai's Q3 2011 figures, for example, show the Netherlands enjoying an average connection of 8.5Mbs, while France had just 3.8Mbps.[46]

And average connections hide the huge disparities between big cities and rural areas.

The European Union is committed to improving the broadband infrastructure, recognising the vital role it plays in international business competitiveness. The Digital Agenda For Europe Initiative has called for universal access to 30 Mbps by 2020.[47]

The aspiration has considerable technical obstacles in the way but the Continent has advantages, not least in being home to some of the pioneers of the Internet and mobile technologies. Yet even with high-speed connections, there is a problem in that increasingly sophisticated HD films, not only take longer to download but also use up considerable space on the average hard drive.

Such problems are quickly finding solutions. Cloud computing,[48] for example, offers a mechanism for solving the file-size issue by allowing remote storage of, and access to, content.

Broadband speed improvements in most of Europe should at least overcome the problem of 'buffering' which was so detrimental to early streaming efforts.

As mentioned earlier (Chapter 2), consumer take-up of services is reliant on shedding any sense of the underlying technology.

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[45] www.Internetworldstats.com/stats9.htm

[46] www.akamai.com/dl/akamai/soti_slides_q3_2011.pdf

[47] http://ec.europa.eu/information_society/newsroom/cf/item-detail-dae.cfm?item_id=7948

[48] http://en.wikipedia.org/wiki/Cloud_computing

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Investment from some of the world's biggest technology companies are laying the foundations for the next stage of a globally competitive digital economy which will drive demand, as it did at the turn of the century with the arrival of broadband (and as it did with previous industrial revolutions).

There will be no option to opt out of these market realities whether the film industry has found suitable business models or not.

VIDEO ON DEMAND

The household penetration of all these connected devices points to a flowering of demand for VOD services even in a sluggish European market.

Analyst IHS Screen Digest estimates the VOD market in Western Europe to have been worth just $900m (€720m) in 2011[49] – a fraction of the more than $9bn ($7.2bn) revenues from the theatrical box office, and half of the $1.8bn (€1.4bn) US VOD market.

It is part of the rhythm of Internet business, however, that just when we get tired of talking about progress, it starts showing real signs of life.

VOD has been through a year of manoeuvring, with major global players from the technology, television, telecommunications and retail worlds lining up their tanks for what may be a battle for domination.

The infusion of big money is beginning to drive rapid growth, supported by mainstream consumer adoption of streamed content and mass-market take-up of Smart TV and set-top boxes.

The jostling for position among competitors will encourage innovation and consumer adoption, although massive consolidation through failures, takeovers and mergers is inevitable in the next few years. The industry may not see the overwhelming dominance that Apple has enjoyed in music, where it still boasts more than 60% market share of digital revenues.

In fact, a report from Screen Digest IHS, showed that Netflix overtook Apple in US online revenues from film in 2011, claiming 44% of the market.[50]

Specific European issues, including bandwidth, territorial film rights, language, etc, might check the march of the platform giants, though that may not work in favour of the visibility of European film or the interests of consumers.

But once a dominant position has been achieved, the platform giants will exert considerable power, able to evolve according to their needs rather than those of content creators. The big VOD players have already been exercising their power in the US, for example testing the boundaries of consumer price tolerance. Netflix in the US increased subscription prices by 60% in 2011. [51]

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[49] www.screendigest.com/presentations/2012_02_online_tv_in_europe/view.html?start_ser=ti

[50] www.bloomberg.com/article/2012-06-01/a8hxZ_yVL_.U.html

[51] http://news.cnet.com/8301-31001_3-20083201-261/netflix-hates-upsetting-customers-but-most-wont-cancel/?tag=mncol;txt

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VOD VARIATIONS

VOD is not a single format but a range of different means for consumers to access content outside and beyond the schedules and programming of traditional media. The host of new terms – NVOD, IVOD, SVOD, etc – refer to the channels through which a film is consumed, or the underlying business model.

What matters for film is how such sites can offer the kinds of returns for rights-holders that might replace lost revenues from analogue services.

The basic models include: subscription; one-off payments for downloading, streaming or rental; and free content, supported by advertising. Each of these formats is vying for attention in a crowded market and their success depends on a series of factors, from maturity of technology to price.

Ultimately, the services that succeed will come down to consumer acceptance, although there is always the long-term danger of monopolies emerging, which will try to dictate the shape of the market.

But while revenues for independent rights holders remain small from all these services, there have been hints of a maturing market.

VOD, for example, has been able to boast some global success for the studios. In 2011, Universal Pictures' *Bridesmaids* broke on-demand records with $40m (€32m) in US receipts from online VOD, pay-per-view and paid downloads.[52]

Those numbers remain well below the $170m (€135m) the film took at the theatrical box office and the $100m (€80m) earned from DVD but they still look promising when considering the lower distribution costs.

SPECIALIST VOD CHANNELS

The cliché of a democratic digital revolution, in which a thousand flowers will bloom, has not survived the reality of the marketplace in other industries, where consolidation and virtual monopoly have become commonplace.

There are legitimate doubts about how far either advertising, or subscription can support a strong, diverse on-demand market.

Some of the early adopters hoping to steal a march on the big guns have failed to make the impact they wanted, including Babelgum, Jaman and Joost, though the difficulties in establishing a market foothold have not deterred hopefuls.

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[52] www.hollywoodreporter.com/news/bridesmaids-biggest-vod-kristen-wiig-universal-288163

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The European Audiovisual Observatory reported close to 700 on-demand channels in Europe at the end of 2009.[53] But the proliferation of specialist VOD platforms in Europe in recent years evokes Kevin Costner's *Field Of Dreams* strategy – "If you build it, they will come."[54]

The number of VOD platforms is confusing and even well-established sites have struggled to construct a coherent body of content because of the confused and complex nature of film rights. These sites are stunted by the restrictions of territorial rights and release windows, and of course consumer knowledge.

Some channels in Europe have managed to attract a base of supporters but there are few signs yet that the appeal of most services has taken the interest in film outside the core audience.

The specialists vying for VOD success include genre sites, arthouse and European film offerings, film distributors, national film bodies and some distributors and producers.

With some exceptions (including some radical free services, see Page 76), the business model is either based on subscription, advertising or a percentage of sales. Some have also received the backing of regional, national and European funds to help establish a foothold.

The difficulty in building rights to a sufficient catalogue of films in target territories raises doubts about long-term prospects of specialised channels.

And establishing a brand with sufficient recognition and trust is tough, even in the age of the social network.

Mubi is one of the few established names that has made significant progress, crossing one million users in 2011.

Yet even with its entrepreneurial drive and clear ambitions, the tangle of film rights has made it difficult to establish a strong foothold in some countries, though it has created some valuable technical and business partnerships, notably a strong relationship with Sony, allowing a cross-media model, through television and PlayStation consoles.[55]

In 2012, it made adjustments to its business model, with a lower-cost subscription and a premium service for some selected films.

All would-be specialised VOD services face the same challenges. They require clarity of offering that will convince users that they offer a different level of engagement and curation than the generalist platform giants.

[53] www.obs.coe.int/online_publication/reports/focus2010.pdf

[54] www.imdb.com/title/tt0097351/

[55] www.screendaily.com/news/distribution/mubi-reformats-partners-with-weerasethakul-sony-google-tv-nordisk-fund/5042249.article

That might include national film sites, including Ireland's 2012-launched Volta[56], distributors, such as Revolver and Zentropa[57], and services built through industry cooperation, including Universcine [58] and Movieurope [59] .

It is likely that takeovers, mergers and failures will change the landscape fundamentally in the coming years.

The progress of VOD is likely to be very strong in the next few years, but the long-term potential for a diverse environment, which will work in favour of European film, is not clear.

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[56] www.volta.ie/

[57] www.zentropaondemand.com

[58] www.universcine.com

[59] www.movieurope.com/

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CHAPTER 3: THE ACTIVE AUDIENCE

> **IN BRIEF**
> - Digital developments have created a more demanding 'active audience'
> - Ubiquitous media access is creating new legal and illegal demand patterns
> - A section of the audience is taking a more active role in film-making
> - Consumer opinion is being amplified by social networks

THE CENTRAL ARGUMENT of this report is that the Digital Revolution has created an 'Active Audience'. While there are dangers in such catch-all labels, digital change has profoundly and permanently changed the relationship between consumer and content.

Of course, there was never was an entirely 'inactive' audience, passively soaking up whatever the film world put in front of it. Each individual has always brought his or her own interpretations, moods and inclinations to film that may be far removed from those intended by the film-maker.

But until recently, the lack of access to content and the limited number of means to consume it severely restricted options: one could go, or not go; switch off or switch over.

It is worth remembering that there have been periods in the not too distant past when a dangerously large number of people exercised the option not to go to the cinema, and the fear of meltdown was arguably greater than today.

Across much of Europe, the 1980s were a time of cutbacks and closures. In 1984, for example, UK cinema admissions were just 54 million,[60] less than a third of the 171.6 million in 2011.[61] Big improvements in the cinema experience (See Chapter 8) and the arrival of VHS, DVD and satellite and cable television were at the heart of the revival.

Home entertainment and video recording, that some had predicted to be the final nail in the coffin, served to build demand for film, increasing film revenues and ironically pulling people back into the theatres, particularly the emerging multiplexes.

It also created the first cracks in the hierarchical relationship between producer and audience, meaning that film could be viewed outside the times scheduled by industry.

But the emergence of the Active Audience, described here, is the product of the age of the Internet, social media and on-demand services.

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[60] http://industry.bfi.org.uk/media/pdf/6/s/UK_cinema_admissions_during_recessions_-_16Sep08.pdf

[61] www.obs.coe.int/about/oea/pr/berlinale2012.html

How individual consumers indulge their powers of choice, interaction and participation varies widely. They may be directly involved in a production – including funding, marketing and promotion, and they may even influence the narrative itself.

Or consumers might look at the variety of options available and decide to ignore all of them. Even that, however, is now an active choice in an Age of Ubiquitous Media (See Page 19).

And most refuseniks still expect to consume the content they have bought on their own terms. Demand has become more demanding.

It is the fragmentation of demand, that, once settled into clear patterns, exerts the really critical influence on the existing industry.

Film has in fact been remarkably resilient, even during economic downturn and recession. In terms of the number of films watched, the current years of austerity might prove to be a Golden Era.

The irony is that consumers are undermining the industry model because they love the work it produces, not because they have rejected it.

The fragmentation of consumption of many more films, on many more platforms, has led to the cannibalisation of revenues and made it difficult to build sustainable business models. Small or medium-sized, highly-specialised film businesses can see already tight margins disappear with relatively minor shifts in demand (as newspapers discovered to their cost).

The same classical economic realities have applied to everything from coal mining to car manufacturing. There is a tipping point at which those running the business decide that production is 'uneconomical'.

Consumption without constraint can kill a business – but so can trying to impose restrictions on demand.

NEW RULES

The shift in power is expressed in the cliché that the customer, not content, is now 'king'. While it is a simplistic notion, it is a reminder that, for all the fetishisation of 'the audience' among digital advocates, there is more than a hint of despotism about today's regal consumers.

Tough though it may be to accept, the truth is that very few consumers give a damn about the interests of the industry that produces what they buy. Most consumer have only a vague sense of the processes of film-making, and many assume that everyone in the industry is rich. The clearest manifestation of the problem is piracy, which is considered in more detail in Chapter 7.

Demand in the online environment does not simply mirror the 'real world.' Indeed, the Internet has been busily redefining social relationships and social responsibility.

On the one hand, the Digital Revolution has become a great democratising force that has helped inspire and organise political opposition, while on the other, it has raised very serious issues about privacy, the use of personal data and free access to pirated content and pornography.

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Demand online for film and other media also diverges from social norms.

On the plus side, the growth of social networks and communities of interest around film have proved to be a boon to the business; and yet at the same time a placid shopper in the high street can become be a consumer tyrant online to the detriment of business.

In fact, the high street is a good example of the disruption caused by consumer choice. Many independent retailers around Europe have shut because they cannot match the prices available online.

For shops, a lethal trend has established itself, where consumers use physical stores as a means of evaluating goods, which are then purchased via the Internet.

It has turned over traditional shopping streets to the acquisitive hands of big supermarkets and generic brand 'malls', which can exploit economies of scale.

It is also a demonstration of the Law of Unintended Consequences in a digital world, because the destruction of the traditional high street as a social and cultural, as well as commercial, centre is widely considered a modern evil.

Yet consumer behaviour still gravitates towards the online environment, where the lowest costs can be found quickly, forcing down prices at the expense of industry, and where there is an expectation of instant gratification, even if the legitimate means of providing it are not financially realistic.

The behaviour of audiences online, has been shaped to a large extent by that initial 'Wild West' stage, in which it appeared everything was free and which has had significant implications for perceptions of value.

A very large amount of content was given away at first by those industries, which failed to see the difference between the economics of the physical world and those of the borderless Internet world.

Newspaper and magazine publishers, for example, initially offered content for free, dramatically increasing readership.

It took a while to understand that more readers did not equate to higher revenues.

The retrospective attempts by some publishers to return to paywalls and subscriptions has not often been a triumph, and even more rarely has it managed to compensate for the losses in sales of paper products.

The argument that the Internet has been "good for journalism and bad for journalists" will be severely tested in the coming years, with implications for democracy. The notion that the Digital Revolution might be good for film and bad for the film industry is also likely to be painfully tested.

There is an immediate lesson from the publishing experience for film, on the dangers of the downward spiral, where revenue falls lead to cuts in quality, that further reduce demand.

Short-term conservatism in content can have long-term consequences for independent film.

The alternative is to create new relationships with audiences, preferably creating some sense of loyalty at an early stage of development.

CRITICS AND WORD OF MOUTH

Social networks and mobile phones are already exerting a powerful influence on cinema, allowing active audiences to deliver instant verdicts.

A survey of 750 social network users by market researcher Penn Schoen Berland and The Hollywood Reporter[62] found that a third had decided to see a film on the basis of a post on a social network.

With such easy access to so many trusted sources of advice and recommendation, the role of the film critic has naturally come under scrutiny.

Although there are national variations, abundant evidence indicates little correlation between a good critical review of a Hollywood blockbuster film and its box-office performance.

A study in Montreal, for example, suggested a good review resulted in a strong theatrical performance in just five per cent of cases.[63]

Of the top 10 best performing films at the box office in 2011, six were given 'rotten' ratings on the Rotten Tomatoes website.[64] They were also a long way out of kilter with the audience ratings: the 25% critic rating for *Twilight Breaking Dawn Part 1*, contrasted with the 63% from the audience.

Studies suggest the influence of the critic is greater in specialised and arthouse film, given the more specialised nature of content (and perhaps a desire of educated arthouse audiences to stay up with the cultural zeitgeist).[65]

In fact, some of the digital trends that were believed to be killing off critics have actually helped sustain them.

Services, including Rotten Tomatoes and Metacritic[66] have reinforced the idea of the 'expert view' by dividing judgements between those of the masses and those of professionals, and they may be valued differently by different sections of the cinemagoing public.

The blogs and particularly Twitter output of the leading critics have also worked hard to build a personal dialogue with readers; so rather than the 'trusted friend' replacing the media-appointed expert, social media has created a sense (illusory or otherwise) that the critic *is* a trusted friend.

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[62] www.hollywoodreporter.com/gallery/facebook-twitter-social-media-study-302273#

[63] www.montrealgazette.com/news/movies.html

[64] www.rottentomatoes.com

[65] www.deechtesietse.nl/bronnen/bron%20Gemser.pdf

[66] www.metacritic.com

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Art film, without the same levels of knowledge and hype as the blockbusters, is a specialist interest, which naturally lends itself to expert advice, rather than becoming too much influenced by the Trip Advisor free-for-all comment.

Arthouse film and 'quality' newspapers and magazines have long been natural bedfellows, with mutually beneficial crossover in audience. Specialist digital television film channels have neatly slotted into this demographic space, targeting the same older more educated audience.

Films now carefully target publications whose readership is likely to be sympathetic to a film, with sometimes unlikely magazine titles appearing on posters.

The online brands of some newspapers and magazines are strong enough that some critics have found global audiences far beyond the reach of the title that employs them.

Reviews, whether professional or amateur, of course are a double-edged form of marketing for distributors; negative reviews, as well as positive, are now disseminated as quickly as a Tweet can be posted or a text message sent.

Bad reviews can spread virally, not least through a phenomenon known as the 'Twitter bomb'. A study from the University of Münster in Germany and Cass Business School in London[67] observed a clear link between Twitter sentiment and box-office performance.

In some cases, even negativity can lead to unwittingly positive results. In 2011, a self-released pop song by an American teenager called Rebecca Black became a viral YouTube phenomenon, pushed around networks by 'trolls' intent on hurling abuse at what had been labelled "the world's worst record" and inadvertently creating a global commercial hit.[68]

Other online developments aim to bypass reviews by helping consumers find the content that matches their tastes, based on the evidence of past choices.

There has been a boom in recent years in 'if-you-like-that-you-will-like-this' recommendation engines, which have attempted to accurately target taste (and thus avoid negative feedback).

These have had a patchy history online. Too many third-rate services, based on inconsistent or inadequate data, held back some of the early potential, and there may also be limits to how far taste can be accurately predicted – not to mention suspicion about how far results are influenced by commercial factors.

Recommendation engines, however, are becoming more sophisticated, with more data creating a more personalised service. Some European services have been successful, notably MoviePilot[69] in Germany, which is beginning to build a following in other countries.

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[67] www.cass.city.ac.uk/__data/assets/pdf_file/0014/130523/Twitter_Final.pdf

[68] http://mashable.com/2011/03/16/rebecca-black-youtube/

[69] www.moviepilot.de/

The challenge for such services is that there needs to be a critical mass of consumers entering data before the engine really acquires significant power and credibility.

CROWDFUNDING AND CROWDSOURCING

In recent years, crowdfunding has become a more accepted means of raising at least a percentage of funds for certain types of project.

For all the hype, it was never an entirely new idea. Plenty of films have been funded historically by donation from rich individuals (it helps if the 'crowd' is made up of millionaires). And public contributions have supported much public art, such as the war memorials in many towns in Europe.

What has changed is the digital mechanism for allowing film-makers and producers to engage and communicate with the audience and to easily collect money.

Pioneering US site Kickstarter[70], which launched in 2008, claims around 1,000 projects are now successfully funded each month, with close to $100m (€80m) raised in 2011; while others, such as IndieGoGo[71], have become part of the fabric of the US independent industry. European sites have made an impact too, including Touscoprod[72], People For Cinema[73] and MassiveMov.[74]

Investment law in Europe, which differs from the US, opens up the theoretical potential for crowdfunding models based less on altruism and more on the possibility of making a return on investment.

And yet there are few film-funding projects based on the realistic potential for financial returns for small investors, mostly because few projects that have genuine prospects of a serious profit to share out in the current market conditions.

In fact, most investment schemes are based on tax breaks, which are not based on the success of any given project, and can often be used for many enterprises as well as film. The potential for a system of sustainable investment, based on transparent data and the potential for multi-platform reach may be key to digital business, but it remains a distant prospect.

For now, a percentage of the Active Audience, genuinely interested in supporting film, are finding personal satisfaction in crowdfunding.

Three factors have helped crowdfunding achieve greater prominence. Firstly, there are now more case studies: *Iron Sky*[75] (See Page 67) has been a strong recent example, pulling off the difficult trick of winning support for a straight fiction film project, rather than previous successes, such as *The Age Of Stupid*, where donation was as much a political statement as support for a creative work.

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[70] www.kickstarter.com

[71] www.indiegogo.com

[72] www.touscoprod.com

[73] www.peopleforcinema.com

[74] www.massivemov.com

[75] www.ironsky.net/site/

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The more mature US market has achieved still more impressive results, with a videogame *Double Fine Adventure*, reaching its initial $400,000 (€320,000) crowdfunding target in just eight hours and going on to raise $3.3m (€2.6m).[76]

The crowds being sourced are no longer necessarily the film fans catered for by the specialist sites: One 2012 feature film – *A Tortoise In Love* – was funded by residents of a single UK village and both shown at Cannes and premiered in London's West End.[77]

The impact of crowdfunding should not be overstated. It is often now seen as a form of gap funding rather than a make-or-break means to fund an entire project – the contribution of crowdfunding was just over 10% of the *Iron Sky* budget.

And only a tiny fraction of independent films are financed through such schemes, and that funding is itself a fraction of the public funding investment in European film.

But finance is only one aspect of fan involvement in projects. An impact is being made in other areas, with and without the authorisation of the rights holder, including:

Fan curation: The inconsistency with which material is released online has led some fans to become curators of material related to their particular interests. YouTube is a great repository of fan archiving, with clips and interviews posted, often without the knowledge of the rights holders. This extends to the uploading, in 10 or 15-minute segments of whole arthouse movies, seemingly without profit, but also without permission.

Viral marketing: Fans can be among the most ardent and persistent marketers of a film without any relationship with the actual distributor or rights holder. A number of services, including Distrify,[78] have been trying to work with this trend towards decentralised marketing by allowing supporters to embed not only content, but ecommerce tools for people to buy a film. Social media has given fans the means to make a global impact.

Fan fiction: Low-cost and free tools for creating and distributing content has created an explosion in self-published content available online. Homemade work has occasionally made an impression on the mainstream. A notable example was the 2011 film *Life In A Day*, which crowd-sourced thousands of personal video diaries into a film, directed by Kevin MacDonald and co-produced by Ridley Scott[79].

The audience-driven narrative has been bigger in books, where the Internet has allowed a maturing of so-called 'fan fiction'. UK author E.L James' erotic novel *50 Shades Of Grey* - which arose from an online contribution to the *Twilight* fan forum – has topped bestseller lists around the world.[80]

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[76] www.kickstarter.com/projects/66710809/double-fine-adventure

[77] www.telegraph.co.uk/culture/culturevideo/filmvideo/film-interviews/9287599/Tortoise-In-Love-British-comedy-made-by-Oxfordshire-villagers-gets-nationwide-release.html

[78] www.distrify.com

[79] http://googleblog.blogspot.com/2010/07/life-in-day.html

[80] www.bbc.co.uk/news/entertainment-arts-17332129

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Fansubbing: An established, and technically illegal, movement where fans, or organised groups of fans, provide subtitling for foreign-language film. It has made a particular mark in the global spread of interest in Japanese anime but has raised important questions about how far to enforce copyright in a participatory film culture.

Story Universe: The characters, settings and other components of a 'story universe' (see Pages 64), have often been exploited outside a film, through merchandising, games, fan conventions, etc. But digital technologies have increased interest in the idea of letting the audience create their own narrative within that universe.

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.* Videogames, of course, often allow for a degree of freedom within the overarching story architecture. It is not yet clear how such thinking can and will influence film (See Cross-Media, Chapter 6).

But there is definitely creative and commercial potential for some films and franchises. The best example may be the Harry Potter-based *Pottermore*,[81] endorsed by author J.K Rowling, which has created an afterlife for the phenomenally successful books and films. It is an object lesson in a more creative interpretation of copyright, which builds on the enthusiasm of fans and opens up new revenue opportunities.

THE PARTICIPATORY CULTURE

Richard Bach's often quoted line that "the professional writer is an amateur who doesn't quit"[82] has always been apposite for film.

Screenwriters, of course, will recognise the sentiment better than anyone. For them, even not quitting does not necessarily lead to a share in the rewards or prestige that might come to the final film, neither does it give them much influence in how their vision comes to the screen.

Film production too has been a magnet for initially keen amateurs, who often entered the market with some access to money and much enthusiasm, and left poorer and wiser (See Page 58).

Lower-cost production and distribution has lowered the barrier for entry to newcomers all along the industry value chain, if not quite to the extent that the uninitiated believe. The initial outlay in costs might be lower but the cost in time and effort against revenues can be disappointing.

Small revenues and lack of producer recoupment in many countries means that many of those entering the business will have to work for little or no money, with implications for the diversity. Some form of independent or inherited wealth is clearly a major advantage.

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[81] www.pottermore.com

[82] *Curious Lives:Adventures From The Ferret Chronicles*, Richard Bach, 2005, Hampton Roads Publishing Co. ISBN 1-57174-457-6

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The same problem has been observed in other creative industries, where falling revenues and collapsing models have closed off career paths. A survey of UK pop acts – once dominated by working-class youngsters – at the end of 2010, revealed that 60% had been privately educated.[83]

The really exciting potential development, however, is not about the effect of lower costs on entrance to the film industry, but how access to digital equipment can help build a participatory film and audiovisual culture.

If the rich language of film can be married to the emerging audiovisual culture and low-cost equipment, there is potential for renewal of the form.

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[83] www.newstatesman.com/blogs/the-staggers/2010/12/private-schools-music-state-educati

CHAPTER 4: THE DIVIDED AUDIENCE

IN BRIEF

- The audience for film is divided in how it behaves online
- Europe's ageing population offers opportunities for film
- Pre-teen culture has developed new demand patterns
- The industry needs new ways to refresh the roots of its audience base

THE IDEA OF the 'Active Audience' as a categorisation of digital consumer behaviour is not meant to suggest the homogenising of demand. The paradox of the Digital Revolution, in all its manifestations, is that it enables stronger social interaction, while simultaneously encouraging hyper-individualism.

The Internet-enabled ability to fulfil personal preferences has fragmented demand – by demographics, geography, financial status, access to technology, skills and know-how, etc – with significant consequences for today's business models.

On-demand technologies and access to consumer data suggests it may be possible to reassemble fractured demand into new audience groupings for film, beyond the boundaries of geography or demographics.

It is a simple theory.

Local, regional or national culture may be a strong factor in shaping tastes, and peer pressure from one's friends and one's own age group may be greater still, but the Internet has opened up a world of diverse ideas and content that may create and unite interests groups beyond the traditional social and cultural divides.

Certain genres, for example, have a worldwide fanbase, and some directors routinely perform more strongly outside their home market, such as Woody Allen and Ken Loach.

Emigration and immigration also creates substantial pockets of demand, with the Internet servicing audiences which was not possible under the old distribution models.

Europe has an extra dimension to the argument, because it encourages a sense of European culture, in addition to regional, national and other ties.
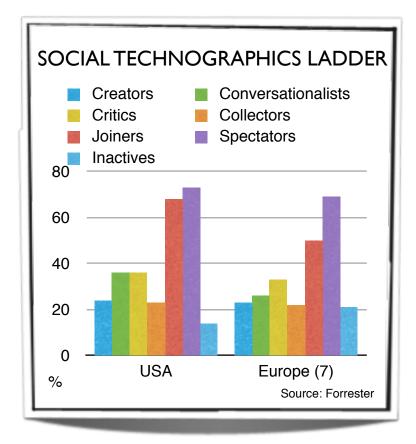
What the Digital Revolution has created is the means to effectively create and manage multiple identities, that may be simultaneously both more social and highly personal.

From a film perspective, the trick is to identify and understand a target group and to create online means for them to discover, interact, and hopefully engage with a film or even film-maker.

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The form of that work, however, is complex and requires new skills and a fresh perspective on business because the audience is not only divided by demographics, nationality and culture but by the way that they use and interact with content online.

One useful tool that is helpful as a starting guide to segmenting the audience is the annual 'social technographics ladder', created by technology analyst Forrester. [84]

⦿ At the bottom of the scale are a small and decreasing number of **inactives**, who out of inclination, lack of skills or resources are barely 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

SOCIAL TECHNOGRAPHICS LADDER
Source: Forrester

⦿ The next biggest group is the **joiners**, who maintain their own social network page, and 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

⦿ **Conversationalists** join and regularly update accounts on Twitter or Facebook

⦿ And at the top are **creators**, the most active and engaged grouping, who publish, upload and generally contribute content to websites, forums and social networks.

What the 2011 figures demonstrate is that the picture of social media use and online activity is far from consistent, even within Europe.

Italy, for example, has more than twice as many creators (38%) as France[85] (17%), where inactives (22%) still outnumber creatives. And Europe is still much more more passive in social media use compared with the world leading countries for active social media users in East Asia.

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[84] http://blogs.forrester.com/gina_sverdlov/12-01-04-global_social_technographics_update_2011_us_and_eu_mature_emerging_markets_show_lots_of_activity

[85] www.forrester.com/European+Technographics+Online+Benchmark+Survey+Q3+2011/-/E-SUS838?objectid=SUS838

AGEING POPULATIONS

The most talked about gap is the demographic divide between young and old but lazy assumptions should not be made about the influence of age. The demographic make-up of Europe is ageing, which in theory should work to the advantage of the independent and arthouse business.

The over-40s, who reached their formative years before the rise of the Internet, now represent the average age of the population in most European countries – and the bulk of the customer base for specialised film.

According to figures from cinema advertising agency Pearl & Dean, 63% of UK arthouse cinemagoers are over-35 (and 78% in the richer and more educated ABC1 class). And in the UK the average age of a man now is 38.8 and a woman 41.1.[86]

But again, it is essential that age is not taken as a surefire indicator of taste and media habits; the portrayal of the pre-Internet consumer as hopelessly alienated from the advance of new media, is increasingly true only at the margins.

Older demographic groups contain many of the early adopters of technology, not least because they are more likely to have the money to afford them.

In health, mentality and culture, age is no longer a barrier to youthfulness – the average age of videogame players, for example, is now 37-years-old.[87]

The fastest growing age group for Facebook (and Twitter) over the last five years has been the over-50s. In fact, the number of users of Facebook aged over 45-years-old is greater than both the net-native age groupings of 18-24 and 25-34.[88]

Other globally-influential social media services, including LinkedIn[89] and Pinterest[90] are also driven by older users. Social networks can now serve as valuable means to aggregate and connect with older audiences, making it easier to market content.

There has also been growing recognition that older demographic groups are generally under-served, particularly in the mainstream, multiplex world. A number of films that would have once been limited to the arthouse circuit have found a broader audience.

One of the biggest successes of 2012, for example, has been the *The Best Exotic Marigold Hotel*, starring older actors and aimed unapologetically at an older audience; it took $100m (€80m) worldwide.[91]

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[86] http://business.pearlanddean.com/audience_profile

[87] www.economist.com/node/21541164

[88] www.checkfacebook.com

[89] www.linkedin.com

[90] www.pinterest.com

[91] http://boxofficemojo.com/movies/?id=bestexoticmarigoldhotel.htm

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There are, of course, may other factors that divide audiences within age groups, including education, geography, ethnicity. A great many European film-lovers would hate the idea that they might be neatly packaged up as a 'grey market'.

In fact, the ageing population is generally exerting a strong influence over cultural milieu that were once seen as belonging to youth, including cinema, but also popular music and now social media.

Populations may be ageing but better health care and social change means that older people still feel and act in ways that were once associated with the young and are happy to adopt and assimilate new trends.

Truffaut's derisively dismissed "cinema de papa" is no longer quite as easy to identify.

The bigger concern for independent and arthouse film is how far the failure to connect with younger audiences means that European and arthouse cinema itself, however adventurous and innovative, is becoming part of the culture de mama and papa.

REFRESHING THE ROOTS

While an ageing population may help sustain and even extend audience reach for cinema, building the audiences of tomorrow is critical for the future of film.

Attracting the interest of children in their formative years, when cultural habits and expectations are shaped, has rightly become a priority for regional, national and European policy-makers. Some European countries, notably France, have long taken seriously the need to treat film as a critical part of the national culture in classrooms.

In 2010, the French government launched an online 'cine club', making 200 classic films available to schools,[92] following a long tradition of nurturing film culture that has had a positive knock-on effect in the market for national film.

The British Film Institute (BFI), in its five-year plan draft proposals announced in May 2012, has earmarked £17m (€21m) for audience development and education, including an ambitious aim to make film and film-making part of the curriculum for every child between five-and-19-years-old.[93]

Many countries now have very active public initiatives and clubs to take film to children and yet Europe has generally been slow to make films that specifically appeal to younger audiences.

The Erfurt declaration adopted by Kids Regio forum in 2009 [94] suggested that the children's market is under-served; only 3.4% of live-action films made in Europe were aimed at the under-15 audience, which made up 15.7% of the European population.

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[92] www.guardian.co.uk/film/2010/may/18/cinema-classics-online-french-pupils

[93] www.bbc.co.uk/news/entertainment-arts-18056288

[94] www.kids-regio.org

The declaration suggested that children were more likely to acquire a taste for European cinema if they saw their own experiences reflected on the big screen: "Children are the audience of today: they have a right to see films that take them and their stage of development seriously.

"They deserve films that find the right, convincing tone. Children are the audience of tomorrow: if they don't have the possibility to become familiar with the full variety of genres, subjects and styles, it is unlikely that they will develop a taste for this variety as adults."

Far-sighted public bodies, including Kids Regio are taking practical action to change the situation but it will be a long process.

Ironically, some of Hollywood's most profitable franchises have been adaptations of child-oriented European content, including the *Harry Potter* series, the *Chronicles Of Narnia* and *Tintin*, while Peter Jackson's *The Hobbit*, following the *The Lord Of The Rings* lead, looks set to be another major global event in 2012.

But winning younger audiences for European film will remain a serious challenge, given the domination of Hollywood in cinema and television at home, and other obstacles, such as limited distribution and subtitles. The European film industry may need to take a stronger lead, beginning with a clearer sense, and preferably working data about how young audiences think and act.

TWEENAGERS

Until school age, parents retain a dominant influence over what a child sees but there is now a very significant demographic of pre-teens, whose media habits have been developing in ways that would have been inconceivable before the Internet.

These 'net-native' tweenagers' – roughly aged between seven-12-years-old – represent a cultural phenomena that has grown faster than the rise the teenager in the 1950s and 1960s. The Internet, mobile phones and messaging, and social networking, particularly Facebook (despite its notional age limit of 13), have all become profound influences.

Around 38% of nine-to-12-year-olds now have a social-media profilel while 77% of 13-16-year-olds have a profile on a social networking site, according to the EU Kids Online survey from the London School of Economics (LSE).[95]

And a survey from UK market researcher Childwise suggested that 61% of 2,770 young people, aged between five-and-16-years-old had a mobile phone with Internet access, and 77% between 11-and-16-years-old, with average use of 1.6 hours a day.[96]

Easy access to content on a multitude of platforms and the simplicity of (often illegal) perfect copying and distribution has had a transformative effect on youth culture, although again it is important to recognise significant variations, based on nationality, access to technology, education, etc.

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[95] http://econsultancy.com/uk/blog/8117-stats-the-online-experience-for-children-in-europe

[96] www.childwise.co.uk/childwise-published-research-detail.asp?PUBLISH=53

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Gaming is also a major influence with implications for film, giving rise to the idea of a 'gameification' of culture. Alternate reality game pioneer Jane McGonigal's claim that by the time the average US teenager reaches 21, they will have spent as much as 10,000 hours gaming, must have some significance worthy of further research.[97]

On-demand, multimedia entertainment is already second nature to children in much of Europe. The prevalence of 'personal' media, such as mobile phones, MP3 players, PCs, handheld games players and televisions in bedrooms have all been agents of cultural change.

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.[98]

Given that teenage culture is emerging without much adult intervention, it is not surprising that many of the assumptions about young people's media use are based on outdated notions or popular misconceptions.

But what research consistently shows – confirmed by many more scientific reports – is 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 *Hunger Games, Harry Potter* series and *Twilight*, have been breaking revenue records over the last year. 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.

Television in some respects remains equally resilient, as the success of a few tentpole must-see reality TV and talent shows has demonstrated 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.

Peak-time communal family viewing has been boosted in recent years through reality television and quiz shows, now both generally in decline, and by the rise of talent shows.

And yet outside these peaks, home entertainment has increasingly become fractured into a series of individual experiences.

MULTITASKING

The viewing experience itself is broken up by the much-hyped phenomenon of 'multitasking', in which more than one media is consumed at the same time.
Using laptops and telephones, while watching videos or television – so-called second-screening – has become common practice, particularly among younger audiences, with tablet computers adding a dynamic new option.

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[97] www.slideshare.net/nastazia91/gamification-12315741

[98] www.microsoft.com/emea/presscentre/pressreleases/OnlinebullyingPR_100209.mspx

A survey from Nielsen suggested that 88% of tablet owners and 86% of smartphone users had used them at least once a month while watching television (though Italians and Germans were some way behind their US and UK counterparts).

The study suggests that 62% of teenagers now visit social media sites, while watching television.[99]

A survey from the European Interactive Advertising Association suggests that these media multi-taskers are the most avid users of the Internet for entertainment with 38% watching film, television or video clips on the web (compared with 21% of non multi-taskers).[100]

Multitasking is a potential marketing tool, allowing judgement on content to be delivered instantaneously through friends, with social media sometimes spreading reaction virally.

One study found that 72% of respondents post about movies on social networking sites after watching a film, while 20% post before, and eight per cent post during a viewing,[101] although the negative reaction travels just as quickly as the positive.

On the other hand, a study from Stanford University suggested that multitasking is less evidence of a new ability to simultaneously focus on many forms of media than the inability to focus on one. Multitaskers have become "suckers for irrelevancy" it suggests.[102]

For better or worse, a different kind of media use is developing that challenges traditional media formats, and yet opens up new creative and business opportunities. (See Chapter 6).

What is not yet obvious is how far these viewing habits will affect viewing choices, or change the kind of content consumed, and by extension the nature of films or other forms of audiovisual art produced.

The lack of understanding of, or engagement with, youth consumption in a digital age leads to muddled and contradictory ideas about how demand is evolving.

YouTube, for example, is sometimes identified as the biggest habit changer, with pessimists fearing the emergence of a generation unable to concentrate on any single media or narrative for more than a few minutes at a time.

Conveniently forgotten is that a key reason that the YouTube clip culture is the product of traditional media protectionism – with rights holders insisting on a time limit on uploaded content in an attempt to curb piracy.

At the other end of the scale, there are also fears about 'addictive' videogames – such as online role-playing phenomenon *World Of Warcraft* – which require a big commitment of time and mental energy.

[99] http://blog.nielsen.com/nielsenwire/online_mobile/double-vision-global-trends-in-tablet-and-smartphone-use-while-watching-tv/

[100] www.eiaa.net/news/eiaa-articles-details.asp?lang=1&id=203

[101] www.hollywoodreporter.com/gallery/facebook-twitter-social-media-study-302273#

[102] http://news.stanford.edu/news/2009/august24/multitask-research-study-082409.html

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The truth is that younger audiences have an unprecedented number of options and control over entertainment choices.

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 multitasking in which more than one media is used at the same time.[103] Research seems conclusive that children are happy to skip between media to find the experiences they seek.

EDUCATION, ACCESS, PARTICIPATION

The trick to getting young people to engage with film may well depend on a combination of different approaches from industry and policy-makers – education, access and participation.

These are the three pillars of a sound policy towards 'media literacy', which UK media regulator Ofcom defines as "the ability to use, understand and create media and communications in a variety of contexts."[104]

The European Charter For Media Literacy,[105] which has attracted much support across the EU in recent years, asks for support for: "the principle that every European citizen of any age should have opportunities, in both formal and informal education, to develop the skills and knowledge necessary to increase their enjoyment, understanding and exploration of the media."

The importance of media literacy to the film industry has been more understood in recent years, with initiatives at regional, national and European level.

The aims of film policy in these areas can sound grandiose: a proposal from campaign group 'A Soul For Europe' during the EU Polish Presidency in 2011, called not only for 'film literacy', but also 'European competence' through film, suggesting "European identity and intercultural communication skills should become core elements of media literacy."[106]

Talking at an event in Germany's Ruhr Metropolis, Volker Schlöndorff said it was time to consider "another lingua franca, the language of the images."[107]

There is a growing sense of the centrality of media literacy in the promotion of European culture, and as an opportunity for EU business but that begins with engagement with younger generations.

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[103] www.kff.org/entmedia/mh012010pkg.cfm

[104] http://stakeholders.ofcom.org.uk/market-data-research/media-literacy/

[105] www.euromedialiteracy.eu/index.php

[106] www.screendaily.com/news/europe/future-media-programme-should-promote-film-literacy/5031982.article

[107] www.europeanfilmacademy.org/2009/06/09/a-plea-for-the-emotional-side-of-europe

EDUCATION

Education in Europe is often based on a sometimes ill-defined attempt to shape viewing habits by exposing young people to film; or it is focused on cultural appreciation, asking cinema be taken seriously, alongside literature, painting and music, as vital props of the culture of Europe (often contrasted with the hegemony of US capitalism).

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

As many film education initiatives have found, there is also a need to teach the teachers, and of course there is the perpetual problem of access to films (see below).

Making the link, even implicitly, between film and academic attainment can be counter-productive, threatening to exaggerate an already clear demographic divide in who watches what kind of film.

ACCESS

Digitisation of content offers young audiences the kind of access to European film of which previous generations could only have dreamed.

There is barely a classic work that is not available in some form now. Opening up the archive to schools is technically possible but 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 but that content is also tied up with commercial requirements.

The same conundrum is faced by music and literature, where the desire to impart knowledge and open access to the cultural world can compete with the desire of publishers to earn returns on the materials they produce.

The issue may be still greater, if the potential to manipulate, edit and change source material as a means of learning is taken into consideration.

PARTICIPATION

In one very important historical sense, production, editing and distribution has been democratised: most Europeans now have access to powerful tools for making, editing and distributing films.

The majority of new mobile phones now have video equipment and posting short moving images to social network sites is now simple and intuitive.

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

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

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.

CHAPTER 5: THE RESHAPED BUSINESS

> **IN BRIEF**
> - The industry is polarising with a squeeze on the middle-budget film
> - Europe is finding ways to scale up to grab new opportunities
> - Smaller films are shrinking budgets to survive
> - European film production is out of kilter with demand

THE FILM AND audiovisual industries are necessarily reshaping as they come to terms with changed patterns of demand. The resulting polarisation of the industry is the product of two seemingly contradictory but entirely related responses to digital change: business is under pressure either to get bigger, or to get smaller.

Given the pressure on revenues, largely caused by the fragmentation of the audience, business either needs to increase its reach, or to find ways to cut costs.

Bigger and increasingly globalised companies are looking to digital technologies and cross-media marketing to open up international markets; while smaller and more nimble operators are seeking to take advantage of lower-cost production and distribution to bypass the traditional value chain and engage directly with the audience.

These trends have been particularly prevalent in the US, where there are no public funds to cushion the impact of digital transformation and globalisation, and where they must act or die.

Hollywood, out of necessity, has already gone some way in adapting to the changed economic realities. Once easy access to money from a private-equity boom and a very liberal tax break system, notably in the UK and Germany, ended in the middle of the last decade, a major rethink was needed. Prestigious specialised arms – making films that won awards but lost money – were largely jettisoned, and Hollywood focused on fewer but bigger blockbusters.

Proof of revenues from 3D blockbusters, particularly since the $2.8bn (€2.2bn) global megahit *Avatar*[108] in 2009, confirmed the logic of the decision to opt for scale. (Although, failure can be spectacular, as Disney's *John Carter* demonstrated.)[109]

At the same time, the ever-pragmatic multinational, multimedia giants, which own the studios have been cautiously pressing ahead with finding ways to work with the grain of on-demand developments, employing specialist marketing agencies with expertise in data, cross-media brand extension (See Chapter 6), etc.

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[108] www.boxofficemojo.com/movies/?id=avatar.htm

[109] www.bbc.co.uk/news/business-17442200

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At the other end of the scale, there has been a repositioning of the independent business, after a long depression, summed up in a famous speech by Film Department CEO Mark Gill in 2009, which talked of "the sky falling in."[110]

DIY digital radicals, particularly, in the US have been re-energising sections of the indie business, using cross-media tools and pioneering transmedia ideas, with the active championing of crowd-funding and VOD platforms, and festivals, such as Sundance, Tribeca and SXSW.

EUROPE

The US market is big enough to sustain business at both ends of the scale, but few countries in Europe can aspire to self-sufficiency, based on the market.

Public funding intervention is ostensibly aimed at maintaining cultural diversity in a market dominated by the distribution power of the US studios.

Tax breaks are often justified on cultural grounds but continuing government support is often more dependent on commercial returns and the benefits to GDP of attracting overseas shoots, which raises political and legal questions at European level.

These issues will be amplified as public bodies face ever more calls for support while having to cut budgets. The reality is that film remains has been an expensive way to tell a story and if the budget was solely reliant on the domestic market, then many smaller countries would struggle to make more than a handful of feature films.

In fact, much European film falls into the difficult bracket between micro-budgets and blockbuster projects. It represents, to borrow a political phrase, a 'squeezed middle', which cannot be fully supported by the market in its current form, and is reliant on public funding to survive (though there are impressive exceptions that prove the rule, see Page 20).

Profound digital challenges come on top of the already all extremely difficult task 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 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 national markets have the scale to create a broad strategy. The French have the most coherent industrial structure, tied to an impressive 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 and contradictions in today's business.

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[110] www.indiewire.com/article/first_person_film_departments_mark_gill_yes_the_sky_really_is_falling#

OVER-PRODUCTION

The number of films made in Europe clearly demonstrates the distance between demand and supply. Figures from the European Audiovisual Observatory's annual Focus report[111], show a 76% increase in the number of films made in EU countries over the last decade, from 732 in 2002 to 1,285 in 2011. And yet the number of cinema screens has barely changed.

Put bluntly, Europe is churning out films intended for theatrical release that few people will see and a small number of major success stories cannot disguise the underlying reality, that even well-reviewed, festival favourites are squeezed out of the market.

Comparisons with European butter mountains and wine lakes, created when subsidy lost track of the market, are very tempting but that misses the point.

High levels of production are generally reported as signs of a healthy film economy in any particular country and indeed there can be periods of collective national success that produce waves of talent and ideas. But waves can, and almost always do, break eventually.

The answer to over-production is self-evidently either to produce less films, or to create more screens and build audiences.

High production levels in Europe are made possible by public finances, justified in terms of cultural diversity. And yet logically, diversity is truly served in the interaction between content and audience.

And production-centred policies are not necessarily in the interests of most producers, who find themselves with no room to grow under pressure from a surfeit of content.

Research for a European Think Tank event in Copenhagen in 2010 showed that over the preceding decade, a clear majority of producers had made just one film.[112]

Of the 163 Swedish production companies involved in making 229 films between 2002 and 2010, 118 only made one film. The same was also true for talent: In Norway 140 directors made films but 100 of them only made one, while in Denmark, 115 screenwriters were engaged in writing scripts, but 81 wrote just one.

That situation is likely to deteriorate further as studios look to increase their domination of the D-Cinema multiplex market, while independent theatres struggle to meet the costs of digital conversion.

But that is only part of the story. DVD sales and television revenues are also sliding (See Chapter 2) 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 difficult selling environment in the US.

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[111] www.obs.coe.int/oea_publ/market/focus.html

[112] www.dfi.dk/Service/English/News-and-publications/FILM-Magazine/Artikler-fra-tidsskriftet-FILM/71/Nordic-Thoughts-on-the-Digital-Future.aspx

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SCALING UP

The importance of scale, given the weaknesses of a fragmented national value chain, has not been lost on the European industry.

Some have long felt that a European studio to rival Hollywood is unfinished business, following the demise of its previous incarnation in PolyGram Filmed Entertainment in 1999.

A number of businesses in the last decade have made attempts, more of less explicitly, to create a PolyGram-style entity; and while economic downturn has curtailed some of those ambitions, there has been no relenting in the belief that Europe needs a muscular tier, which can control its own destiny by bringing together production and distribution.

Other companies have seen the critical issue as combining distribution and exhibition (theatrical and on-demand), while others have been diversifying into alternative forms of audiovisual production or rights ownership.

In all these cases, there is a growing sense of the need to achieve the right fighting weight for the global competition for consumer time; and the requirement for new skills, finance and resources for a multimedia age has led independents naturally to look at means to scale up.

Digital technologies have accelerated pre-existing disruptive trends in the globalised economy, which have been on the industrial agenda for years. In an influential speech back in 2002, the then chairman of the UK Film Council Sir Alan Parker called on the UK industry to take a "reality check" and understand that it could not prosper as a series of "cottage industries"

"That 'British' film industry never existed, and in the brutal age of global capitalism, it never will... We have to stop worrying about the nationality of money. We want to encourage investment into our film industry from anywhere in the world – without tearing up the roots of cultural film production."[113]

These are difficult questions for policy-makers at regional, national and European level – the balance between competition and cooperation; the role of national policy in an international market; the definition of national and European culture, etc. Scale clearly counts in global markets, and that international dimension has become more important as traditional revenues sustaining national products further decline.

There are a number of means that European companies can create economies of scale:

CONGLOMERATION: THE SUPER INDIES

There is an inevitability about consolidation in any globalised market that is reliant on digital innovation and international sales.

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[113] www.ukfilmcouncil.org.uk/media/pdf/q/r/BaSFI.pdf, p.8

Takeovers, mergers, and indeed business failures will become increasingly regular events as the Digital Revolution takes hold. The film and television world has already seen a series of major takeovers and mergers in recent years and the creation of what have become known as 'super-indies'.

They include Elizabeth Murdoch's Shine group, which acquired Scandinavian producer Metronome Film And Television for SEK719m (€81m) in April 2009. Shine was itself controversially purchased in 2011 for £415m (€509m).

The Zodiak Media Group, owned by De Agostini, bought Yellow Bird, the Swedish independent producers behind the Millennium series of films (*Girl With The Dragon Tattoo*, etc) and the original *Wallander* series of television dramas in 2007.

The list of multimedia, international and diversified super-indies also includes the Banijay Group, All3Media, Endemol and Fremantle Media.

CO-PRODUCTIONS AND OVERSEAS RIGHTS

In Europe, attempts to create scale and reach have been concentrated on co-production, which has in all respects matured from the heyday of the 'Europudding' in the 60s and 70s.

The number of European co-productions has been rising year after year, up from 437 in 2008 to 491 in 2010,[114] supported strongly by national co-production treaties, regional film funds and the work of Eurimages.

Co-production takes a variety of forms, backed by a range of tax incentives and soft money, and helped by a rising number of co-production agreements between countries.

France, for example, currently has co-treaties in place with 50 countries, investing more than €400m in 120 co-productions in 2011.[115]

Co-productions between European companies and US partners have made a particularly strong commercial impact, with 2011's final UK-US *Harry Potte*r film topping the globa box office.[116]

Some regions and countries have established international partnerships that have been effective on the global stage, in terms of productions and, importantly, the selling of remake rights.

Scandinavian producers have had a recent run of hit television and film series, which have been franchised as US remakes (including *Let The Right One In, The Girl With The Dragon Tattoo and Wallander*).

This production line of stories, for exploitation at home and sale abroad, looks a highly promising means of maximising rights.

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[114] www.obs.coe.int/oea_publ/market/focus.html

[115] www.variety.com/article/VR1118053889

[116] http://boxofficemojo.com/yearly/chart/?yr=2011&p=.htm

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Sweden and Denmark have worked together on international hit television co-productions too, with *The Bridge (Bron)* – in which a murder takes place right across the border between the two countries – acting as a particularly literal example of the advantages of co-operation.

Some of the best-established auteurs have long understood the value of co-production, not least because they can be as loved, and sometimes more loved outside their home country.

Ken Loach's films are now routinely co-produced with French companies; Lars Von Trier's *Melancholia* was a Danish, Swedish, French and German co-production; while Woody Allen has been working with European companies on projects that have made more money in Europe than in the US.[117]

There are broader issues about the relationship between co-production and culture. Harvey Weinstein, for example, told French industry representative in Paris that France should avoid a co-production agreement with the US in order to protect the integrity of its cultural film-making.[118]

CLUSTERS AND MEDIA HUBS

Much hope and finance has been invested in synergies between creative businesses, allowing for the pooling of resources, the sharing of infrastructure and diversification of content.

Television and music have long had close links with film, and the games industry – which has a number of leading producers in Europe – has been cozying up in recent years.

French videogame publisher Ubisoft, for example, launched its own film and television studio in 2011 to develop movie extensions to its core brands.[119]

The convergence of interests between the creative industries, and the need for shared skills and facilities has led to the creation of a number of multimedia 'hubs' and 'clusters'.

Such initiatives have grown in number and ambition in recent years, often supported by European regions, concentrating skills and technical infrastructure in a single place.

The potential of clusters should grow as cross-media work generates the need for shared knowledge and skills. Research, however, has questioned the sustainability of some clusters, particularly where their primary motivation is more about urban regeneration than media.[120]

And they work best when there are significant media businesses already attached, as with the BBC move from London to Salford, near Manchester in 2012.

[117] www.boxofficemojo.com/people/chart/?view=Director&id=woodallen.htm

[118] www.screendaily.com/news/production/dont-sign-co-production-treaty-with-us-weinstein-tells-french/5043110.article

[119] www.variety.com/article/VR1118036232?categoryid=4076

[120] www.robertpicard.net/files/mediaclusterregionaldevelopment.pdf

The need for a physical location might also be questioned given the ability to move files around the world, which has already globalised the skills base for major feature films.

Whether actually, or virtually, clustered, the ability to pool, share and easily outsource skills and knowledge is likely to become a critical factor in the creation of scale.

A MICRO-WAVE

The next chapter explores the idea of 'right media' as a concept to run alongside 'cross media'. It suggests that content is still overwhelmingly produced to fit traditional media formats (feature film, television drama series, etc), rather than as the optimal way to tell a story.

The result is not only over-production but a lack of experimentation and innovation.

Lower-cost production is beginning to change the picture, offering new means to connect content with audiences through a variety of formats.

This 'micro-wave' of film-making cannot easily be accommodated in an already over-crowded theatrical market, but could, and perhaps should, pioneer new forms of production and distribution.

In the US, many smaller independent companies now see cross-media, DIY releasing as Plan A, rather than a consolation prize at the end of a narrow and modest traditional run in cinemas.

Experiments in so-called 'ultra VOD', in which a film is released to on-demand platforms before limited theatrical release, has been an important facet of the new approach.

And in any case, straight-to-VOD need not have the same pejorative reputation as straight-to-DVD, particularly when coupled with cross-media elements that extend the narrative to new audiences. In the US, the DIY culture is led by a self-sustaining community of film-makers, willing to share knowledge through sites, such as Workbook Project.[121]

They see film-making (or cross-media/transmedia storytelling) as an activity more like music – something to be done as well as consumed. A punk sensibility has kicked in for some young film-makers, often accompanied with a carefree attitude to copyright infringement.

The fact that so-much self-produced work is rudimentary or banal does not excuse the widescale – and complacently self-serving – indifference to this trend from the mainstream film business.

The encouragement of a participatory culture looks to be among the most promising directions for film policy and industry, fostering interest in cinema and the cinematic language on one hand, while allowing talent to be nurtured and encouraged by both industry and audience.

The micro-wave could become an incubator for new talent and ideas, rather than merely a calling card for those wishing a career in conventional film-making.

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[121] www.workbookproject.com

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SCALE IN A DIGITAL AGE

The Digital Revolution should force a major reappraisal of the size and shape of business.

With the costs of production equipment continuing to go down, public funders will need to look again at what constitutes a 'realistic' budget. That discussion might – and perhaps should – be influenced by the ability of producers to create relationships with audiences.

The more important question, however, is about distribution, which above all that has allowed the global domination of Hollywood – and much European public support is based on ensuring that the stranglehold on distribution is not allowed to stifle homegrown film.

But in theory, the scale of Hollywood will no longer afford it the same advantages in a digital age. Online distribution is theoretically now open to all. Even for theatrical release, the expansion of a film from moderate local success to global smash will no longer be about the cost of making and distributing new prints.

The economics of film, however, still favour scale. Production costs are not just about the cost of film stock and equipment. Digital change will not in itself affect the costs of talent, location, skilled labour, book rights.

Most of all, the fragmented digital market will put a premium on new forms of marketing, data acquisition and analysis and other costs associated with cross-media forms of distribution.

The Digital Revolution has not created a level playing field, in which all are equal before the new economic laws of the Internet. New forms of public-funded intervention may be necessary to ensure that European film at least has access to some of the knowledge and resources to take on the global giants.

On the other hand, if protectionist restrictive practices maintain an artificial barrier to the power of new forms of distribution, it is easy to see how old inequalities will remain and even grow.

CHAPTER 6: CROSS MEDIA

IN BRIEF
- ◉ Cross-media convergence is now a given for creative business
- ◉ The idea of an emerging transmedia art form is far more open to question
- ◉ There are plenty of case studies of cross-media success...
- ◉ Changes to consumption suggest the need to focus on the 'right media'

CROSS-MEDIA AND TRANSMEDIA have acquired a confusing set of meanings. Such labels have served to obfuscate rather than illuminate, often tied to idealistic and ideological positions, contrasting an open, democratic Internet culture of 'storytelling' with the supposed closed industrial exploitation of the media industries.

The problem with the debate so far has been to suggest a teleological movement along a single path.

Terms, such as cross-media, cross-platform, transmedia, etc, are often used inconsistently and interchangeably, which makes it difficult to talk about different directions of travel.

For the purposes of clarity and (highly probable) argument, this report settles on cross media as the overarching term, describing the shift away towards multimedia convergence.

Within that broad category, there appear to be three distinct, if overlapping, developments:

- ◉ **Cross-platform** production, distribution, marketing and consumption of content, where a product rooted in one medium is enriched and enhanced by elements from other media.

- ◉ New forms of **transmedia** art and entertainment, in which a coherent narrative or 'story universe' is constructed across different media with multiple points of access for audiences, and where the whole is more than the sum of the parts.

- ◉ And finally, a drive towards the optimal media for telling a story, rather than shoehorning narratives into traditional cinema or broadcasting formats.

One of the strongest advocates of change, veteran US producer Ted Hope has warned: "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."[122]

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[122] Ted Hope blog: Truly Free Film:

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Film certainly has limitations. It is an art form that is dictated to some extent by process, most obviously by the length of time between conception and screening, but also by the fact that it is culturally and economically centred on theatrical release.

One could argue that it has always been a "rarified pleasure" and that television has been usurping its position as "representative art" for the last 60 years. On the other hand, The emergence of fresh narrative forms does not necessarily point to the weakness of film.

One argument is that the strength of theatrical feature film resides exactly in its place outside the the on-demand, always-on multimedia, multiscreen culture. It is an art form that is best when experienced in the unique environment of the cinema.

On the other hand, one can equally make a case that film is no longer location-specific, and it has proved itself able to make a powerful impact on televisions, laptops or mobile devices.

It is possible that the Internet will redefine the relationship between film and audience. Despite the polemical nature of the digital debate, there is no inherent antipathy between cross-media and theatrical release – it is not a case of new versus old, they are simply different forms of experience (See Chapter 8).

STORY UNIVERSE

Story, storytellers and story architecture have become the most important words in the lexicon of cross-media advocates. They are often used to create a distinction between cross-media disciplines and those of conventional film-making, suggesting new forms of narrative that are not tied by the conventions of cinema.

The key concept is the 'story universe' – an idea with its roots in videogames, where an all-embracing narrative provides the foundations for a gaming environment, in which players have a degree of freedom to explore, play and interact.

The film industry has had its own masters of the story universe, of course, including George Lucas with *Star Wars*, which has always been a cross-media franchise.

One could argue that film audiences have no need for such literal construction of a huge, multi-layered back story.

The imagination already creates its own story universe when watching a film. In fact, ambiguities and interpretations that cannot and will not be answered are at least part of the appeal of much European film.

There are similarities here with the discussion of 3D film. When one watches a conventional feature film, the brain fills in the third dimension.

In the same way, through mental perception, imagination and interpretation, a cinema goer constructs their own story universe, based on (but not necessarily following) the intentions of the film-maker.

Media convergence and the effect on culture are not new, and certainly pre-date the Internet. John Berger's 1972 classic *Ways Of Seeing*[123] remains a classic text about the meaning of art and images in an industrialised consumer culture.

The story universe in video gaming and transmedia projects could also be challenged on its claim to provide a more democratic relationship between content and consumer. One could argue it does not just have an auteur but a God, who constructs the environment, in which players have an illusion of free will, but also creates the boundaries and rules that limit expression.

That raises philosophical and ethical question, though a more practical question for the evolution of transmedia story universes, is how many people really have the talent and imagination to create a universe in which anyone will be willing to spend time.

CROSS MEDIA

Society has been moving inexorably in the direction of cross-media convergence. The smart phone, for example, has turned the mobile phone into a personalised, multi-purpose device for communication, entertainment and organisation.

Soon Internet connectivity will be included, not just on televisions but on a wide range of devices in households, offices and public spaces.

After a slow start, films and television programmes, have made the jump to online platforms. All content is now so many bits and bytes that can be adapted for use in an increasingly seamless online world.

In the early stages, this had looked like a democratic thrust, in contrast to traditional industry models. Indeed, some take a Rousseau-esque view of a return to a noble and free pre-industrial stage, before art was distorted by commerce.

Yet, there are already signs that commoditisation and big-business interests will change the landscape.

The power of the globalised companies hoping to dominate the on-demand world may trump democratisation, and widely-accepted principles, such as 'net neutrality' will need vigilance to ensure that they survive.

The emergence of new means of storytelling and fresh ways of getting into the consciousness of audiences makes cross-media developments an inevitability.

But cross media, in the sense that it is used in this report, remains a journey rather than a destination.

So far, its biggest tangible effect has been on marketing with cross-fertilisation of individual brands across different media, allowing what marketeers call 'brand extension.'

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[123] Ways Of Seeing, John Berger, 1972, Penguin, ISBN 0-12-013515-4

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"Old media was about 'launch and leave', repeating fixed messages across all media with a limited depth of content, while new media, by contrast was "real time and responsive," said Paddy Adams, Director Of Strategy at leading media agency Manning Gottlieb told delegates to the 2011 Power to the Pixel Cross-Media Forum at the BFI London Film Festival.[124]

Hollywood has been very active in the field with innovative means of insinuating a film or franchise into the consciousness of audiences.

In fact, cross-media marketing has helped strengthen some traditional industry practice, such as the trailer, which has become an event in its own right, as Ridley Scott's *Prometheus* spectacularly demonstrated.

CROSS PLATFORM

As techniques mature, training improves and costs come down, many independents have successfully adopted cross-media marketing and there are now impressive case studies, showing how content creation and marketing engagement can work hand in hand.

The tradition of taking a story and ideas established in one media and making it work in another is hardly fresh: Shakespeare created plays from the writings of Plutarch, Verdi turned Shakespeare into opera, and so on.

The Hollywood cinema franchises are pretty much all adapted from pre-existing popular work in another format, from children's literature, comic books to fairground rides (*Pirates Of The Caribbean*).

The definition of cross-platform developments suggested by this report is the extension of a core single-media project into one of more other media, for the purpose of marketing or to open up a new exploitation window.

Cross-media brand extensions, including games and social media, have already demonstrated the ability to guide audiences towards a core product. Again, the Hollywood franchise giants are in the vanguard, with most blockbusters now including games, books, viral marketing campaigns, television spin-offs and merchandising.

The videogame industry has also learned how to build cross-platform, often film extensions to its core products. Games based on films (though less so vice versa) are becoming more sophisticated, with name directors , such as Guillermo Del Toro[125] now taking part in releases that mirror the tentpole blockbusters of film, although on an even bigger scale.

For independents, the latest poster boy is Blind Spot Pictures' *Iron Sky,*[126] following previous favourites, such as *Four-Eyed Monsters* (2005) and *The Age Of Stupid* (2009).

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[124] http://powertothepixel.com/events-and-training/pttp-events/london-forum-2009/speaker/paddy-adam

[125] http://multiplayerblog.mtv.com/tag/insane/

[126] www.ironsky.net/site/

The Timo Vuoresnsola-directed film about a Nazi invasion from the moon in Berlin ensured publicity and (rather mixed) reviews from newspaper critics but *Iron Sky* was an object lesson in creating a cross-platform brand, around which could be built an active fanbase.

Iron Sky ensured that consumers could interact with the brand in a variety of largely entertaining ways, with websites and games all supporting the core feature film. While duplicating the model is not be easy, such films offer useful tips on how cross-platform extension can boost reach and engagement.

What has been less clear is how media convergence – and the dialectical tension between different formats – will influence the form of the content itself. Some advocates see a more significant shift with the emergence of entirely fresh creative fields, that are not just brand extensions but new forms of transmedia art and entertainment.

TRANSMEDIA

"There is a new form of art and a new form of language, forming around the flow of content across platforms," according to Jeff Gomez, founder of Starlight Runner, which has worked with some of the biggest Hollywood films. "We are at the dawn of something really special," he told the Power to the Pixel Cross-Media Forum at the BFI London Film Festival in 2011.[127]

That "something special" begins with the idea that transmedia represents a new form of storytelling, in which a narrative is extended across, and optimised for, more than one medium, allowing multiple points of access to the audience.

It is neither adaptation: the film of the book, the game of the film, etc; or the brand extension of a single-media project.

Instead it aspires to be a new form of creative expression in its own right.

One of the pioneers of transmedia, Professor Henry Jenkins, offers among the clearest descriptions.[128]

"In transmedia, elements of a story are dispersed systematically across multiple media platforms, each making their own unique contribution to the whole.

Each medium does what it does best – comics might provide back story, games might allow you to explore the world, and the television series offers unfolding episodes."

Michel Reilhac, Executive Director of Arte France Cinéma, suggested that transmedia was a potential form only now finding its own voice, mirroring the language of cinema that grew up during the early years of cinema.[129]

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[127] http://thepixelreport.org/2011/11/01/the-power-of-transmedia-storytelling/

[128] www.fastcompany.com/1745746/seven-myths-about-transmedia-storytelling-debunked

[129] http://thepixelreport.org/2011/11/04/the-birth-of-a-language/

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"No one understood that it was a new language and it would take 20 years for this to be understood...the big difference between film and transmedia is that film is a visual language but transmedia storytelling is a behavioural language."

Transmedia in those terms *is* a destination, a place that some believe to be a fresh net-native art form, not just cross-fertilising a story on a range of platforms, but weaving narrative across different media to create a new immersive, and interactive experience.

Transmedia developments are supported by a growing arsenal of tools, allowing stories to be told to an interconnected community, drawn together by social media, websites, and a global mobile network, as well as by culture, taste and curiosity.

The work of 'story architect' Lance Weiler has been in the vanguard of experimentation with new ways of looking at narrative. Projects such as *Pandemic*[130] and *Collapsus*[131] have been built on techniques for audience immersion that would not have been possible before the Internet.

He talks of "experience design", exploring the way that audiences interact with content and with each other. That can involve tools that have never previously been part of story development, including GPS.

The idea that we may be seeing the development of the first new art form of the 21st century art – at the intersection between the physical and virtual worlds – is exciting but we remain at a very early stage of development.

Some see an inevitability about transmedia, claiming that it fits the way that consumers are engaging with content today.

A number of projects are exploring the gap between film, the virtual space of the Internet and the real, physical world. Work, such as *The Spiral*[132], backed by Arte and television channels in Belgium, the Netherlands, Sweden, Norway, Finland and Denmark, brings together gaming, online activity and live action role-playing (LARP) elements.

Transmedia, however, struggles with issues of its own, including lack of clarity on definition, transparent examples of financial success, and the perpetual problem of finding finance.

There is also a self-evident challenge for projects to work as a coherent whole, when they will tend to be judged by success on each of the constituent media – by television ratings, box office or attendances at events.

Lower costs of entry, the expansion of social networks, the proliferation of expertise and the erosion of the existing indie film business may encourage new talent and ideas.

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[130] http://lanceweiler.com/2011/01/pandemic-1-0/

[131] http://lanceweiler.com/portfolio/collapsus/

[132] www.flandersimage.com/browse-films/detail/spiral

On the other hand, that very openness may also dilute and distort public perceptions of transmedia by allowing too many weak projects to define audience perceptions at an early stage.

Given the shortage of finance, there is also the danger that too much work is concentrated on those genres that have the best potential for early adoption, particularly fantasy and horror, which might lead to typecasting in the minds of commissioners and consumers.

And the shortage of resources in Europe will push some transmedia story architects to steer their work towards those areas of art which attract subsidies, soft money and tax breaks, notably film.

The real missing link may, however, be '*The Jazz Singer*' moment, where a piece of work, or works strikes a chord with audiences and encourages film-makers and artists to see transmedia as a new and exciting form of expression.

RIGHT MEDIA

The form that a story or piece of art takes is determined more by process and commercial considerations than the internal requirements of the narrative.

The length of a piece of work, for example, has traditionally been decided by technical supply-side factors: the number of 35mm reels, the space on a vinyl disc, or the number of advertisements that can be sold for a television drama, measured against the cost of production.

Subsidy and tax incentives play a part too in the choice of media, which tends to follow the money in terms of public funding.

Cuts in funding can lead to dramatic decline in certain kinds of content, as with the reductions to Spanish film funding in 2012, which meant that there would be no financial support for short film and animation.[133]

Even would-be 'transmedia producers' in Europe find that the realpolitik of cultural funding pushes them towards forms, such as film, which unlock at least some support from public funds.

The influence of public funding on the kind of content produced can have a negative effect, as powerful as the market influence against which it public money is meant to offer a defence. A common criticism in reviews, for example, is that a feature film does not have the content to sustain its length.

A dynamic and participatory European culture should theoretically be one in which stories are told in the optimal way for that story, whether in a feature film or a puppet show.

The question of form is a matter of commercial reality and dictated by the business needs of broadcasters, cinemas, etc. Content is commissioned and made to fit schedules, not the other way around.

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[133] www.screendaily.com/news/finance/spains-icaa-confirms-budget-cut-of-40-tax-break-dealt-a-blow/5040508.article

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Even short film has generally remained a calling card for would-be feature film-makers, rather than a form in its own right but the norms of time and length of content may change in a digital age as new possibilities for screening open up.

The length and form of audiovisual content today is a relatively recent construct. Cinema once routinely featured shorter films as B-features backing up the main releases.

And a few decades ago, television schedules frequently had more space for short-form content. Serge Danot's French animation *The Magic Roundabout* (*La Manege Enchante*), is an example that will be familiar to many older Europeans, while one of the world's biggest television brands, *The Simpsons*, began life as a short insert on *The Tracey Ullman Show* in the 1980s.

More recently, HBO has been in the vanguard of a revival of prestige long-form drama, in order to drive subscriptions to its cable channel. The trend has been followed in Europe, notably with the international hits from Scandinavia (*The Killing, Borgen, The Bridge*, etc).

Such developments do not negate the value and strength of the dominant formats of recent decades.

Many great writers and directors have learned to make great art by tailoring their stories to the prevailing demands of cinemas and television, etc, and often enjoy the discipline that comes with it (though others have famously struggled to keep their work down to the length demanded, as the wave of 'director's cuts' releases of classic movies in recent years demonstrates).

There is an argument that the loss of restraint that came with knowledge of the cost of each foot of film has led to weaker film-making.

Nonetheless entirely fresh forms of media content are beginning to emerge that would have been impossible before the arrival of the Internet and open up new possibilities.

Documentary, particularly those with strong underlying messages, have often used innovative techniques to maximise audiences with the pioneering work of Robert Greenwald[134] cited by many as a major influence.

The Age Of Stupid[135] remains a great case study in mobilising an audience around a polemical theme. But a number of projects now are exploring new ways of examining complex ideas, including BBC project, *The Code*[136], and Emmy-winning multimedia Katerina Cizek's Canadian project *Highrise*[137].

Outside the traditional media, short-form media has, of course, seen an astonishing revival, particularly through YouTube. There are now big audiences for short-form work online with successful Web TV series, starring familiar names.[138]

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[134] www.robertgreenwald.org/

[135] www.spannerfilms.net/

[136] www.bbc.co.uk/tv/features/code/

[137] http://highrise.nfb.ca/

[138] www.guardian.co.uk/tv-and-radio/2012/may/12/25-web-shows-you-must-see

The speed of development of YouTube remains phenomenal – six years after its launch, the Google-owned video-sharing site boasted a trillion views in 2011, with 72 hours of content now uploaded every minute.[139]

What YouTube has not established in its formative years has been a platform that might serve as an attractive commercial alternative to traditional media routes; but it has been experimenting with means to create just such a business breakthrough.

The Google-owned service has been focused on finding ways for content uploaders and film-makers to earn money for their work, through partner programmes, advertising, channels and a 'screening room' for streaming film.

YouTube joins a host of other services offering some means to monetise work, though there is still some way to go before many film-makers will see a serious shadow distribution network opening up, on which sustainable business can be built.

There is no point pretending that most film-makers, and those who aspire to make movies, are not primarily motivated by a desire to break into the theatrical world and to claim a place in the alluring world of awards and major festivals.

But the potential to connect form to demand, rather than industrial process, should become much more attractive as traditional means into the business become more scarce and as the opportunities to make a name in pioneering new areas become more obvious.

Encouraging new producers, directors and talent to work in the 'right media' for their particular idea or story could generate fresh demand that might refresh the relationship between film and audience.

Public policy and investment could look at this focus on 'right media' as a means of generating cultural diversity and new commercial forms, while in turn reducing the over-production of feature film.

There are big advantages in identifying emerging talent from their work in innovative film formats, which engage actual audiences, rather than from short film formats aimed at impressing the industry. At the very least, it might become a cost-effective mechanism for encouraging participation and innovation.

There are then encouraging developments in formats and platforms that could open up new forms of art and considerably widen the film-making gene pool.

They do not replace or negate more established forms as art and entertainment. And yet such developments are challenging to the existing industry because they compete for that fixed commodity, consumer time. The right media for creative expression and attracting audiences may not be right for those who wish to conserve a flawed but working business model.

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[139] www.youtube.com/t/press_statistics

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CHAPTER 7: REACH

> **IN BRIEF**
> - Digital technologies dramatically increase the reach of film
> - Reach does not easily translate into revenues
> - Artificial scarcity models are based on restricting reach
> - Reach is not an unequivocal good and can disrupt business models

SIMPLE MATHEMATICS DICTATES that the commercial or cultural ambitions of film in an on-demand age can only be achieved by finding new audiences in new ways. There is now simply far too much content, chasing far too few screens in the conventional film world.

But if the Digital Revolution has any indisputable value, it is in its ability to reach beyond borders, unfettered by the mundane physical limitations of seat numbers and unit sales.

Unfortunately, increased reach in an online environment does not mean greater engagement (See Chapter 9) and does not easily translate into revenues.

What's more, the use of low-cost tools for creating a presence online, or on social media, have come at a high cost in time and energy, and often without the promised rewards. Facebook Likes and Twitter followers are much easier to accumulate than subscriptions and sales.

Nonetheless, the fragmentation of demand, makes it essential to find ways to identify and build new audiences.

Over the last decade, there has been an obsession with 'search engine optimisation', getting to the top of the Google front page, and hoping that somewhere in the big numbers of hits that positioning brings would be sufficient customers to build business.

Learning to fool search engines with esoteric knowledge of algorithms has not been a particularly efficient method of attracting target audiences – more trawler net than harpoon.

But understanding demand and finding ways to cost-efficiently service it, is becoming a matter of science rather than guesswork, or hit-and-hope tactics.

That science should logically be founded on audience data. The technical ability to reach consumers is clear enough, with the key innovations spelled out in Chapter 2, but technology only delivers on its potential value when the target audience is known and understood.

The immediate advantage then is with the studios and major players, which can employ specialist agencies and draw on powerful databases.

But the really big films also have disadvantages in the inefficiency of employing data muscle to attract a very broad audience that cuts across a wide range of demographic groups. So-called 'four-quadrant' marketing inevitably comes with a high degree of wasted effort.

Independent films have the potential to target their efforts much more efficiently, building a relationship with audiences rather than simply selling to them. (See Chapter 9 for more).

Data and metadata about audience actions and behaviour are created in every transaction online, every Tweet sent and Facebook entry. Rich data that can be used to find and aggregate audiences is out there but needs to be refined before it can become valuable knowledge. Today it is more often than not created but not counted; collected but not analysed.

Where consumer knowledge is more effectively and consistently used, it is often concentrated on trying to improve performance in the traditional release windows rather than for longer-term audience building.

STANDING OUT

The core problem for most independent film-makers and rights-holders looking to acquire significant reach has always been to win initial attention. And the task has become much harder.

While there are digital tools now to help acquire visibility, there are also far greater numbers of films and other forms of entertainment trying to do the same.

Everyone now has a social media presence and the early-adopter advantages of digital-savvy businesses have all but evaporated.

The dominance of the studios and the main VOD channels means that indie releases often feel like saplings trying to reach the light in a giant rainforest.

The power of promotion lies in the hands of the platforms, with their editorial selections for their front pages critical. Those selections may be informed by theatrical performance, influenced by relationships with distributors or by the names of the talent involved, and potentially driven by financial incentives. Some sites may also decide to favour content offered on an exclusive basis.

The largely untapped opportunity is for the independent to bypass these systems, or to skip to the front of the queue by offering not just a film, but its own engaged audience, having forged an active and interactive relationship at the earliest stages of development.

The tools for achieving those ends are still emerging, including crowdfunding (See Page 42) but social media is already playing an essential role in building interaction.

A 2012 survey of 3,900 marketing executives from various industries in 2012[140] found that 72% of them intended to increase Facebook activity; small and medium-sized companies, like most of those in the European industry, see it as even more essential, with 77% planning to increase use.

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[140] 2012 Social Media Marketing Industry Report - Social Media Examiner (Socialmediaexaminer.com)

Web sites, blogs and Facebook pages can be created for next to nothing, however, and filled with great content but they have to find a way of standing out against what can look like overwhelming competition.

And those same mechanisms for increasing reach, from YouTube to Twitter, can spread bad word of mouth as quickly as it can good.

RESTRICTING REACH

Piracy is a reminder that reach is not an unequivocal boon. As discussed at the beginning of this report, the industry business model is built on 'artificial scarcity', restricting consumer access to those countries, and to those windows, where a distributor sees a potential profit.

The Internet creates demand for film that the industry cannot, or is not willing to satisfy – and are beginning to feel the weight of a consumer backlash.

Territorial restrictions on releases in Europe are beginning to be challenged in the courts.

In February 2012, the High Court in London ruled that the public screening of English Premier League football games through a satellite feed from a European country, outside the rights deal negotiated for the UK with Sky, was legal (with some important caveats).[141]

While that ruling does not have a direct impact on film, the case, brought by a pub landlady, suggests at least the potential for other legal challenges in the future.

Consumers are also bypassing release restrictions, in terms of territory or release window, by turning to file-sharing sites. Online reports from around the world let audiences see what they are missing and getting content illegally is relatively easy, at least for the technically adept.

The globalisation of content, for example, has forced the major television distributors to rethink their strategies.

There was a time when major television series would be shown in the US a full year before reaching Europe. International audiences could tap into the buzz around a series but were not allowed to see it, which was a gift for piracy.

HBO's hit series *Game Of Thrones* was downloaded more than 25 million times from public torrent trackers in April 2012, with more than 2.5 million downloads the day after its April 30 programme.[142]

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.

Consumers don't do waiting any more.

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[141] http://merlin.obs.coe.int/newsletter.php?year=2012&issue=4&id=13526

[142] www.forbes.com/sites/andygreenberg/2012/05/09/hbos-game-of-thrones-on-track-to-be-crowned-most-pirated-show-of-2012/

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European film has the same problem, albeit on a smaller 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 cluster 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.

PIRACY

Piracy is the most obvious area where dramatically increased reach comes at a huge cost.

There have been cases of genuine business advantages that have come from that unintended market access. Singer Susan Boyle for example, has became a global star, selling 18 million albums between 2009 and 2012, including 6.7 million in the US.

Her worldwide fame was originally achieved on the back of a YouTube clip of her appearance on a talent programme (*Britain's Got Talent*) that 'went viral' but it was not legally shown outside the UK.[143]

That kind of exposure cannot be artificially created, and attempts to manufacture viral success have a low record of success. Social media users have acquired a knack of spotting a marketing scam.

But some of that thinking is translating into a small number of free and 'freemium' services. Jamie King's Bit Torrent-powered VODO network[144], for example, releases films using the BitTorrent protocol that underpins file-sharing and piracy.

The service works as a kind of post-release crowd-sourcing model, where voluntary donations from a small percentage of a very big audience downloading can add up to significant sum of money.

The service claims more than 16.4 million downloads of films released under a Creative Commons licence. VODO claims one of its films, sci-fi series *Pioneer One* has raised more than $100,000 (€80,000) from 3.7 million downloads.[145]

Nonetheless, the unquestioned efficiency of Bit Torrent as a means of shifting files has not changed its untouchable status for much of the mainstream industry. And while file-sharing may be the quickest route to a big audience, the kind of demand it generates is not easily turned into legitimate business.

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[143] IFPI figures quoted at: www.reuters.com/article/2010/04/28/us-global-idUSTRE63R1K220100428

[144] www.vodo.net

[145] www.vodo.net/pioneerone

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Critics often ridicule MPAA figures,[146] claiming that they are unrealistically equated with lost sales, and they have a point. But, it is equally fair to ask if the increased reach that come it does not extend to a purchase, and how can it translate into a manageable opportunity?

Having seen the music industry's originally one-dimensional approach to piracy fail, the film industry has taken the view that there needs to be a dual response to copyright theft: tough and enforceable judicial action, and the rapid development of legitimate digital services.

Many European countries have introduced laws aimed at challenging individual consumer behaviour and forcing the Internet Service Providers (ISPs) to act against the pirate sites.

Rights owners in music, film and broadcasting have lobbied hard with governments and taken cases to the courts.

The highest profile file-sharing site when this report was first written was the Swedish service The Pirate Bay and it remains a symbol of the stubborn resistance to legal, judicial and political action of illegal file-sharing.

Despite a court conviction in 2009 – and some slow and reluctant acquiescence to site blocking from Internet Service Providers (ISPs)[147] – Pirate Bay has continued to operate.

Another high-profile file-hosting or 'cyberlocker' service, Hong Kong-based Megaupload, was accused of facilitating piracy and taken down by US authorities in 2012.

It remains to be seen how far legal measures will make a long-term difference and there is now a growing movement, which fears that copyright enforcement is undermining 'net neutrality' itself.

As piracy shadows the same Hollywood-dominated patterns as the legitimate market, the studios will continue to battle hard, even if the potential gains are likely to be far lower than the figures put out by the MPAA.

For European film the issue is not so clear cut. The effectiveness of laws themselves are open to question.

One study suggested that the introduction of the Hadopi law in France had led to a 25% increase in album sales and a 22.5% increase in iTunes sales.[148] Yet in 2011, the French video market fell 2.7% year on year.[149]

For most films in the European independent market, legal success against copyright infringement is fairly low on the agenda – invisibility is much more of a problem than piracy.

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[146] www.freakonomics.com/2012/01/12/how-much-do-music-and-movie-piracy-really-hurt-the-u-s-economy/

[147] www.bbc.com/news/technology-17894176

[148] http://electronlibre.info/IMG/pdf/HADOPI-IFPI-FINAL.pdf

[149] www.telecompaper.com/news/french-online-music-worth-eur-110-mln-in-2011-study

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RELEASE WINDOWS

The current system of release windows and territorial rights self-evidently restrict reach, ensuring that when the audience can see a film is dictated by industry not demand.

These 'artificial scarcity' models (See Chapter 1) are difficult to sustain in the face of consumer demand, and indeed with the conflict of interests within the industry: distributors and exhibitors over windows; distributors and platforms over territorial rights.

The window between theatrical and home entertainment release is enshrined in law in some countries, notably France, but has acquired a totemic position for many more.

The gap has narrowed dramatically in recent years without uncontestable evidence of damage to theatre owners; and yet each reduction has become a line in the sand to be fought over. A number of major exhibitors around Europe boycotted Disney's 2010 release of *Alice In Wonderland* over shortening windows and a degree of tension remains.

Market logic suggests that the consumer will ultimately decide the release windows debate – the question is how far, and for how long, it is legitimate for pressure from one part of the film value chain to control access to film.

It is also fair to ask how much damage that such protectionism might itself cause to demand for film itself. Even in France, where the window is protected by law, it was reduced from six to four months in 2009.

The tone of the discussion has changed over the last couple of years, not least because the decline in DVD sales and television revenues has made theatrical revenues even more essential to the film business model.

And there has even been some tacit acceptance that flexibility is not the same as capitulation among exhibitors. UK Cinema chain Vue Entertainment, for example, has offered a deal to the studios on a small, number of agreed films.[150]

But the real battle is likely to be over the VOD window, which is threatening to become big news in the next couple of years. (See Chapter 2).

The French have an even bigger legally imposed window between theatrical and VOD release. The 36-month gap to subscription VOD is a particular concern to the development of legitimate digital services.[151]

The relative failure of Warner Bros' premium VOD window suggests that there may be less appetite for paying high prices for day-and-date release than the more optimistic studios had hoped (although the evidence is inconclusive and may about price than demand).[152]

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[150] www.guardian.co.uk/business/2011/jun/01/vue-movie-release-windows

[151] www.screendaily.com/news/europe/french-cinema-lobbies-for-digital-update-of-lexception-culturelle-laws/5039732.article

[152] www.hollywoodreporter.com/news/time-warner-sony-downplay-premium-187357

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Independent films, with less to gain from traditional release patterns in most countries, have been pushing the boundaries, led again by the US. Unsurprisingly, the big experiments have come on films that either would always have had a very limited release, or where the distributor has an exhibition arm or an on-demand platform.

Those claiming success with on-demand releases have generally made VOD the first and primary window of exploitation.

Two of the bigger examples in 2011 were Roadside Attraction's release of Wall Street drama and Berlin Competition entry *Margin Call* and the IFC release of Lars Von Trier's *Melancholia.*

Margin Call was released on cable TV three weeks before its theatrical debut and yet it expanded quickly to 199 screens, taking $5.35m (€4.3m) at the US box office and going on to take a further $8m (€6.4m) internationally.[153]

Trier's *Melancholia* was released a month before its theatrical debut, achieved strong sales on VOD and went on to be the director's best performing film in US theatres ($3m/€2.4m)[154] since the multi-award winning *Dancer In The Dark*, back in 2000.

In Europe, Curzon Artificial Eye followed the US lead in 2012 with the day-and-date release of Aki Kaurismaki's Cannes competition entry *Le Havre* in cinemas and on its own Curzon On Demand service.[155] Control over distribution and exhibition allows for experimentation.

The driving influence over the change to windows may well prove to be pirates, for whom the window has been a gift.

A recent report (Brett and Waldfogel, *Reel Piracy*) suggests that release windows lag has to take considerable responsiblity for illegal downloads and file-sharing.[156]

The industry is then caught in a difficult quandary. It is not only the theatrical sector that is concerned about the effect of simultaneous releases on their box-office receipts; removing windows to combat piracy may also jeopardise investment from public and private broadcasters, who expect some kind of exclusive window in return for their investment.

While many broadcasters in Europe have a legal requirement to produce a certain amount of film, television expects at least some proprietorial window to recoup some costs.

Cable channels, such as HBO, have been building international subscriptions on the back of commissioned work within a specialist window. These issues will come to the boil as online services seamlessly stream Internet content to television sets without the responsibilities that go with being a broadcaster.

[153] www.boxofficemojo.com/movies/?id=margincall.htm

[154] www.boxofficemojo.com/movies/?id=melancholia.htm

[155] www.guardian.co.uk/film/2012/apr/05/video-on-demand-arthouse-cinemas

[156] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1986299

For better or worse, these issues are likely to be resolved by consumer pressure, with the market deciding strategy, rather than principle or untested assumptions about the impact of change.

TERRITORIAL RELEASE

Territorial sales are at the heart of the independent distribution model in Europe but they have been under pressure for some years. The sales system is based on a calculation by a distributor of the potential returns on release in a single territory – box-office receipts, televisions revenues and DVD sales, etc. Those calculations are based on a variety of factors and might be a fair reflection of demand in a specific country.

But the borderless Internet offers a different assessment of demand. Audiences can now be built in places where it would be impossible to have reached them economically through traditional methods of distribution.

What's more, that demand has been increased and mobilised by festival screenings, reviews and releases anywhere in the world, all of which create awareness and potentially an appetite for a film, through social networks and film websites.

Logically, the best option for industry is a 'pull' model, in which the desire of an audience to see a film anywhere can turn into a sale. Advances in technology, online downloading and streaming offer just that option, and it may soon be possible for exhibitors to respond to demand with a flick of a switch. (See Page 29).

But in reality, the film industry remains wedded to a 'push' model, which is becoming harder to sustain as digital developments progress.

There is a second dimension to the debate in Europe, and the European Union in particular, where there has always been tension between the interests of (and competition between) nation states, and that of a more commercially and culturally integrated single market. The cultural dimension may take a higher profile in the light of recent European economic problems, where crisis has exposed latent antagonism between states, notably between Greece and Germany.

For some, the inevitable stronger fiscal bonds in the Euro zone, need to be accompanied by greater cultural dialogue between member states. Whether for commercial or cultural reasons, the debate about territorial releasing is now firmly on the agenda.

In a speech back in November 2010 in Avignon, European Commission Vice-President For The Digital Agenda, Neelie Kroes said: "We will look into multi-territorial and pan-European licensing. And we will not stop exploring ideas for as long as the system is not working.[157]

"Instead of a dysfunctional system based on a series of cultural Berlin walls, I want a return to sense. A system where there is scope to create new opportunities for artists and creators, and new business models that better fit the digital age."

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[157] http://europa.eu/rapid/pressReleasesAction.do?reference=SPEECH/10/619

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LANGUAGE

Europe is a fragmented continent in many ways with language amongst the biggest dividers. Language is not an easily surmountable 'problem' because the 23 official languages (and significant regional languages) of the European Union are at the heart of its members' sense of culture, identity and diversity.

The cultural value of film does not trump that of language – and many nations rightly see film as a vital mechanism for promoting and preserving a sense of national or regional identity.

Promotion, and in some cases preservation of languages cannot, and should not, be discarded but it does represent an obstacle to overseas sales – particularly from countries which did not export their mother tongues through military and cultural imperialism.

Great films, of course, can make an impact in other countries, and French films in particular, with the weight of a powerful industry behind it, frequently make an impact. Foreign admissions for French films rose 10% in 2011, according to Unifrance,[158] though the biggest success in the international market was *The Artist*, which ingeniously circumvented the language issue by having no dialogue. Olivier Bonnard, of French newspaper *Le Nouvel Observateur* suggested that the film succeeded "parce que les Americains ne savent pas que '*The Artist*' est un film francais."

One of the merits of the Oscar-winning film is that it demonstrated how much of the language of film is based on non-verbal communication; but its approach is not a trick that can be pulled off very often. Only animation routinely circumvents the language issue by simple re-dubbing.

In the international market, however, there is no doubt that the English language, with its global reach centred on the USA, offers clear commercial advantages.

But there was only one non-English language film in the top-100 worldwide box office releases in 2011 (Brazilian crime sequel *Elite Squad: The Enemy Within*).[159] Among the best performers on that list though were the Spanish-US co-produced Woody Allen film *Midnight In Paris* (at number 48) and French-US co-produced *Colombiana*.

Both represent the reality of power behind the English language. The Unifrance survey, mentioned above, also shows that the worldwide box office for French films released in the French language actually dropped 28%.

Such figures need to be treated with circumspection because they are so heavily influenced by the performance of a small number of big hits, but they represent a clear trend.

Some leading European producers and distributors have long experience making English-language films, such as Gaumont and EuropaCorp.

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[158] www.screendaily.com/news/europe/international-box-office-for-french-films-rose-19-to-405-million-in-2011/5036442.article

[159] http://boxofficemojo.com/yearly/chart/?view2=worldwide&yr=2011&p=.htm

But one strategy performing strongly is the sale of English-language remake rights to a Hollywood system where ideas are at a premium.

Sweden and Denmark have become recent masters, taking the 'Nordic noir' wave in books, film and television in English to the US market.

The 2009 Swedish film original of *The Girl With The Dragon Tattoo*, directed by Niels Arden Oplev, took impressive worldwide revenues of $104m (€83m), happily coinciding with the phenomenal success of the English translation of the Stieg Larsson novel on which it was based, but it only took $10m (€8m) in the US.

David Fincher's English-language remake in 2011, made $232m (€185m) around the world, half of which came from the US domestic market.

Reach then is not simply a matter of technology or commercial exploitation. There are are also important, if ambiguous implications for culture.

How far does the push for international reach act as a means of promoting culture overseas? Or how far, consciously or unconsciously, does the desire for success overseas change the nature of the content produced?

These issues are accentuated by digital change. The potential reach of local-language content is increased, particularly to any national or regional diaspora spread around the world. Digital offers other advantages too, including simple and cheap ways of adding subtitles to digital content.

On the other hand, there are legitimate concerns that digital will further entrench the dominant position of English language film and content.

At the very least, the simple fact of a vast increase in available content will make it still harder for films to break out beyond native speakers of their languages.

These are serious issues for European policy-makers at regional, national and European Union levels.

CHAPTER 8: EXPERIENCE

> **IN BRIEF**
> ◉ Traditional models have not exploited the value of experience
> ◉ The experience economy potentially opens up new revenue streams
> ◉ 3D and pop-up models chase premium prices for premium experience
> ◉ Business models can be built on a wide range of consumer demand

ONE OF THE ironies of the Digital Cinema transition is that among its biggest early successes has been the premium-price screening of 'live' opera, an art form that had arguably peaked before the invention of film, and whose natural home is the stage.

The progress of so-called 'alternative content', including opera and theatre, live sports and music concerts, in cinemas proves the power of what has become known as the 'experience economy.'

Cinema was, of course, conceived as an experience product, going right back the the alarmed audiences for the Lumiere Brothers' *L'Arrivée d'un Train en Gare de la Ciotat* in the 1890s.

Even during the deepest of economic crises, cinema has provided a means of transporting audiences to other worlds, enhanced by technical improvements.

Digital cinema has also changed the viewing experience through the latest generation of 3D, while the last few years have seen innovations, such as 'pop-up' cinema, with films shown in unusual and inspiring settings.

The home entertainment experience has been through a still more accelerated evolution, with mobile devices, HD and 3D television, etc. (See Chapter 2). What is much less clear is how far experience can provide the foundations for new business models.

In their influential 1998 work, *Welcome To The Experience Economy*, economists B.Joseph Pine II and James H. Gilmore[160] suggested that businesses needed to look beyond "the diminishing world of goods and services" for future prosperity.

"An experience is not an amorphous construct; it is as real an offering as any service, good, or commodity....To realise the full benefit of staging experiences, businesses must deliberately design engaging experiences that command a fee."

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[160] http://red-tape.info/Images/Welcome%20to%20the%20Experience%20Economy%20Pine%20and %20Gilmore.pdf

While experience is undoubtedly at the heart of the appeal of film, the industry economic model remains rooted in the goods and services world.

The elongated film value chain puts a distance between the initial development of a product and the way it is consumed or experienced.

And the screening of films has lacked the sense of 'event' that has been offered by opera in cinemas, particularly after the initial hyped up opening weekend on the big screen.

While film itself may retain its appeal, the relationship between the industry that produces it and the consumer can feel impersonal and weak.

Many commercial brands have succeeded in building success on sentiment that goes beyond ownership of a physical product.

Apple is perhaps the master of selling the idea of a personal relationship with consumers.

Under the late Steve Jobs, the electronics giant evolved into a business which not only built intuitive products but ensured that each upgrade of a device became an event, which could be shared by a passionate community of users.

These ideas are not just the domain of industrial giants. A huge impact can be made by initially small businesses, which understand how to use digital technology to create a global brand.

In his 2011 book, *The Great Stagnation*[161], Tyler Cowen noted that in the old economy, those who dominated internationally needed major economies of scale and large number of workers, while Facebook now reaches 900 million people across the world with just 2,000 employees.[162]

The two most promising business prospects for film – and the likeliest opportunities for premium-price experiences – come from two seemingly contradictory trends.

Recent history suggests that audiences put the highest value at one end of the scale on shared social experiences; but they also prize content that it is conveniently adapted to individual lifestyle and taste.

Consumer demand is multi-faceted and often idiosyncratic. It also changes and a collective boredom factor, so characteristic of entertainment and fashion, can be accelerated by social media.

It is, however, possible to identify some of the most important ways in which experience is driving demand:

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[161] *The Great Stagnation: How America Ate All the Low-Hanging Fruit of Modern History, Got Sick, and Will (Eventually) Feel Better*. Tyler Cowen, Dutton Books. ISBN 0525952713

[162] www.sfgate.com/cgi-bin/article.cgi?f=/g/a/2012/04/23/businessinsiderfacebook-now-has-900.DTL

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IMMERSION AND QUALITY

The idea of immersion is deeply ingrained in the cinematic experience. It describes that emotional state, where the images on screen have a temporarily exclusive hold on attention, and where the story is 'lived'.

Improvements to cinemas since the dark days of the 1980s have sought to optimise the immersive experience with comfy seats, surround sound and high-resolution screens.

Purist objections notwithstanding, Digital Cinema has added further enhancements, with more consistent, if not richer, quality reproduction, compared to 35mm prints, which deteriorated after time and use.

The theatre does not always live up to that promise, of course, not least because it means being in a room with other people with different habits (loud eating, texting, etc).

But cinema does not have the monopoly on immersion. Home entertainment trends have been trying to steal some of the clothes of the theatres, through high-definition, surround-sound (and even 3D) 'home cinema'. Online, on-demand content will increasingly be consumed through Smart TVs and home cinema.

Improved quality screens on laptops and tablets now offer a highly-immersive experience on the move – and many parents will vouch for the head-rest DVD screens in cars, which have become backseat babysitters.

These improved technologies naturally engender new viewing habits.

There has been impressive growth in the phenomenon known as 'binge watching', by which an entire drama series, originally spread out over months on television schedules, and broken up by advertisements, is consumed over a single weekend, or during long commuter journeys, etc.

VOD subscription channels and catch-up TV services have been very aware of the power of 'long form' drama series, that some believed would not survive a generation brought up with the clip culture.

Videogames have become the pre-eminent immersive, long-form media – so much so that critics like to characterise the immersion as 'addiction.'

Research suggests that players of role-playing game *World Of Warcraft* have collectively spent 5.93 million years in its virtual environment.[163] In fact, some 27 million people, for example, now spend time in 'virtual worlds',[164] suggesting perhaps the ultimate form of engagement, leaving day-to-day life to enter an alternate reality.

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[163] www.youtube.com/watch?v=IiE2czrG0MI

[164] www.metaversejournal.com/2011/08/02/registered-virtual-worlds-accounts-1-4-billion-and-growing/

Building business models to fully exploit the opportunities of these new immersive forms in film is challenging. The history of cinema is marked by a stream of innovations, which run a full course from amazement to ennui very quickly.

They include numerous experiments in screen sizes, and more avant-garde ideas, including the 'scratch and sniff' and a'tingler' effects devised by William Castle in the 1950s.[165]

Novelty, however, wears off and the next big thing quickly becomes yesterday's story. No one pays extra for the big leaps forward in sound quality in cinemas in recent years, and there are signs that the 3D premium is already diminishing in cinemas.

At home, consumers have come to take quality improvements for granted, given that Moore's Law (See Page 30) has ensured higher specs at generally lower prices. Consumers know that prices will come down quickly, with only a few products and brands, notably Apple, able to attract early adopters looking for the social caché of being first with the latest technology.

In any case, the argument that consumers are in relentless pursuit of 'quality' and 'immersion' can be overstated.

The iPod showed that a demand revolution could be driven by a device that actually diminished the quality of what had been assumed to be the primary product, i.e, music. Quality does not automatically trump all.

And some of the most prevalent new viewing habits are arguably based on 'grazing' – the kind of marginal engagement, most obviously demonstrated in the short-form 'hits' of entertainment from YouTube and similar online services.

The rise of multitasking and 'second-screen' viewing (See Chapter 4) also points to more interactive but arguably less focused behaviour.

SPECTACLE AND EVENT

The real driver for the advance of D-Cinema in Europe has been 3D, which offered the first tangible evidence of return on investment in conversion.

The revenues from the studio gamble on demand for 3D underpinned a dramatic acceleration in switching to digital projection over the last two or three years, even during the global economic downturn. James Cameron's *Avatar* filled the role for 3D that *The Jazz Singer* had for sound, breaking records in 2009 by crossing $2bn (€1.5bn) worldwide in just seven weeks.

Most of the studios are still betting their future on it (Disney and DreamWorks Animation announced as far back as 2008 that all future tentpole animated features would use the format).[166]

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[165] www.youtube.com/watch?v=7FQm30eQn7I

[166] http://magazine.creativecow.net/article/all-in

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And because of the domination of Hollywood films in European markets, the entire industry has a stake in the game but there have been worrying signs of audience decline.

The reason for that slippage is partly to do with price but the key issue cuts to the chase of an experience product: innovation has to stay always ahead of consumer

DreamWorks Animation chief executive Jeffrey Katzenberg summed up the point perfectly in 2011: "Until there are 3D experiences that exceed people's expectations, it's going to stay challenged."[167]

For film, tomorrow's heroes soon become yesterday's story and the potential to turn cinema into an event is a never-ending challenge.

The success of 'live' alternative content, including opera, is even proving hard to replicate for film, even on its home patch of the cinema. The audience is generally aware that they are watching a copy of a film available elsewhere.

And yet, there is growing awareness that it is possible for cinema to become more of an event with the promise of new revenues. Advance screenings, talent and director interviews, etc, are working in many places, and the location itself can have a strong influence over demand.

Permanent cinemas have themselves been busy recreating their experience to exploit its place as a a social location, as well as a place to screen film.

Creative Consultant Tom Fleming draws a useful distinction between cinemas providing "infrastructure for you" with those encouraging "infrastructure by you"[168] – places which embrace interactive, cross-media digital engagement.

"Their (cinemas) 'digital' future lies in the way in which they are evolving as multi-channel, connected, open, cross-sector and cross-disciplinary facilitators and providers of personalised content, experiences, learning, research and services for the creative economy."

Many cinemas have embraced the opportunities to recreate their relationship with the audience but most have not. In fact, much of the most interesting innovation in creating spectacle and event have happened outside traditional venues.

The UK, for example, has seen a boom over the last two or three years in so-called 'pop-up' cinemas,[169] – ad hoc venues, such as the the Portobello Pop Up Microplex[170] or Cannes In A Van,[171] which has become a familiar site on the Croisette.

[167] www.hollywoodreporter.com/news/jeffrey-katzenberg-why-hollywood-is-196616

[168] http://industry.bfi.org.uk/media/pdf/q/6/Final_final_report_20_May_version.pdf

[169] www.guardian.co.uk/film/filmblog/2011/aug/22/pop-up-cinemas-top-tips

[170] www.portobellopopup.com

[171] www.cannesinavan.com/mobile-film-festival/about-us/

Many cities have their own seasonal cinematic attractions, such as Cinema en plein air in Paris[172] Cine Thisio in Athens, or Sala Montjuic in Barcelona.[173]

Among the most successful projects has been Secret Cinema,[174] which has shown classic films, including *The Battle Of Algiers, La Haine* and *Lawrence Of Arabia* to big audiences in unusual locations. It boasts 60,000 members and 30,000 Facebook followers.

Digital distribution, social networks to mobilise an audience, and growing consumer demand for social experiences, all offer the potential for these new ideas to develop further.

Film, of course, has its own established network of events in the festival circuit, which has seen an explosion in numbers over the last decade. The central role of the festival is happily now getting more serious academic attention, through groups such as the Film Festival Research Network[175] and Dynamics Of World Cinema.[176]

Festivals supported by the MEDIA Programme alone, showed more than 40,000 European works to nearly three million cinema-lovers in 2011.[177]

The festival circuit offers a diverse range of experiences, from the celebrations of excellence at Berlin and Cannes, to specialist events, curating stories that reflect and celebrate specific groups, including Lesbian, Gay, Bisexual and Transgender (LGBT) festivals, such as Queersicht[178] in Berne, Queer Lisboa[179] in Lisbon, or the Torino GBLT International Film Festival[180] in Turin.

The festival also offers the often underestimated privilege of watching a film before it has been through the mediation of marketing and critical opinion.

It stands as a cultural event in its own right and with its own place in the film value chain, operating as part of the experience economy, creating relationships between individual films and audiences.

Many festivals have their own unique relationships with visitors, greatly enhanced by digital technologies, in terms of programming, marketing and audience interaction.

Much attention, however, has been concentrated on a supposed missing link, in the fate of films beyond the festival – specifically how the festival event can lead to distribution.

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[172] www.villette.com/fr/agenda/Cinema-en-plein-air-2012.htm

[173] www.salamontjuic.org/

[174] www.secretcinema.org/

[175] www.filmfestivalresearch.org/

[176] www.st-andrews.ac.uk/worldcinema/

[177] http://ec.europa.eu/culture/media/programme/festiv/docs/media-festival.PDF

[178] http://www.queersicht.ch/

[179] http://queerlisboa.pt/

[180] http://www.tglff.com/

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Some of the major festivals, of course, have a marketplace of their own, including Cannes, Berlin and the International Film Festival Rotterdam.

Others have been experimenting with becoming distributors, including Sundance, Tribeca and Rotterdam.

The festival as distributor is one of those ideas that makes sense on paper but is more complex in practice, not least because it creates competition with distributors, who have always been essential partners in programmes and markets.

That potential rivalry is already the centre of some tension with distributors increasingly demanding screening fees from festivals as doubts grow over the marketing value of some festivals.

There remains, however, a compelling case for a greater role for festivals in a digital age. For a couple of weeks in Cannes, for example, arthouse and European films are in the global media spotlight with all the energy that only a festival can generate, now further amplified by social networks.

If those films were distributed through digital cinemas while the buzz was still strong, financial returns would most likely be far greater than they are now when, released months after festival screenings, they are forced to rebuild lost momentum.

And there is an obviously under-exploited opportunity to show competition films online or in cinemas during the festivals themselves, allowing a wider global audience to share in the sense of event.

Sundance and Tribeca have both experimented with such ideas but the Internet has rendered attempts to recreate a sense of event on small screens harder than ever. Certainly, the golden years of the network television premiere of a film are behind us, thanks to the ubiquity of movies available on a wide range of platforms.

More than 23.5 million people watched the first UK television screening of James Bond film *Live And Let Di*e in 1980, seven years after its theatrical release,[181] but the network premiere of the last film in the franchise, *A Quantum Of Solace*, claimed an audience of just 4.7 million, less than three years after its cinema debut.[182]

Better technology, easier access to content, and the decline of old models, means that the attempt to build exciting audience experiences beyond the big screen will continue.

Online film festivals, for example, are now commonplace and occasionally show exclusive content, but the lack of the social element of a physical festival is difficult to replicate.

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[181] BARB survey, William Phillips, published in Television, 1997, Royal Society of Television

[182] www.guardian.co.uk/media/2011/mar/28/so-you-think-you-can-dance

Live online music concerts have also struggled to create that sense of occasion and have had only limited success in convincing consumers to pay a premium price.

The ubiquity of (legal and illegal) access to live music online – and on numerous cable and satellite television services – is perhaps a further obstacle.

The attempts to find a virtual facsimile of festivals and concerts, however, is indicative of how far the business remains obsessed by the literal digitisation of the physical world, rather than understanding the different strengths and possibilities of the online environment.

Having said that, the Internet has reactivated some supposedly old-world formats, notably the trailer, which has become an online event in its own right for major films and games, leading to huge spikes in social media.

A prime example in 2012 was Ridley Scott's *Prometheus*, where each trailer was itself extensively trailed (including a 'bootleg' at the end of 2011). The official HD version on YouTube alone was viewed 13.5 million times.

AUTHENTICITY AND EXCLUSIVITY

Opera has survived, and even thrived, in opera houses and festivals, such as Bayreuth and Glyndebourne, because it is seen as an 'authentic' experience, reaching back to the roots of the art form. It is a high-price experience with an upmarket clientele and as a result has managed to attract luxury brands as sponsors.

The success of opera in cinemas has been about tapping into a cross-media illusion that the audience is sharing in that authenticity, even when the venue might be an ocean away from the actual event (New York's Metropolitan Opera has been particularly successful in Europe with its *The Met Live In HD* seasons,[183] broadcast via satellite).

These 'authentic' and 'unique' experiences have been heightened, rather than diminished, by the Internet, opening new means to access audiences and extend reach.

Live music, theatre and live sport has similarly enjoyed a major revival over the last decade. For the music industry, live festivals and concerts have been a lifeline, with piracy and a fragmented audience decimating the revenues from recorded music.

Music is often cited as an example of how a struggling industry in terms of sales has successfully shifted the balance of its business model to live shows, though the limits to the number of events is becoming clear. A number of high-profile festivals were cancelled or closed in 2012 arguably because the circuit had reached saturation point.[184]

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[183] www.metoperafamily.org/metopera/liveinhd/LiveinHD.aspx

[184] www.guardian.co.uk/music/2011/sep/15/uk-festivals-bubble-burst

The success of opera suggests that it is possible to build events that feel authentic and exclusive in cinemas, and that change of relationship with the audience is inspiring a number of developments around Europe. But again, there are limits to that potential. Premium revenues only apply where there is a genuine sense of a unique experience – and that cannot be achieved every day.

Another growing form of exclusivity is the boutique cinema, such as The Lounge[185], opened by Odeon in Bayswater, London and the Astor in Berlin.[186] These venues consciously promote the idea of cinema as an exclusive, luxury product.

That sense of exclusivity is also, of course, problematic – while it represents genuine economic potential, exclusivity by definition means someone has to be excluded.

A report from Edinburgh Napier University in 2011 demonstrates how audiences from more deprived sections of communities felt alienated from arthouse cinema, seeing it as "posh" – a term the report suggests that was "based around perceptions of educational capital and professional employment status."[187]

It is almost a rule for the Digital Revolution that every silver lining has a cloud. Exclusivity can be a valuable model for European film, but excluding potential audiences clearly has implications for cultural impact.

Various sports, for example, have struggled with the balance between offering themselves exclusively to a big-money broadcaster, against losing its profile in the mass market, jeopardising the interest and commitment of tomorrow's players and spectators.

DISCOVERY AND SERENDIPITY

For all the advantages of audience knowledge, much of the attraction of film lies in its ability to surprise and its capacity for serendipity.

The shock of the new is essential to any art form but a tough economic climate can increase conservatism in buying and commissioning decisions, with potentially serious long-term consequences.

An interesting exercise for public funders before adopting a policy, would be to look at how much innovation, art and talent would have been lost if the same conditions had been imposed over the last few decades.

Music, for example, has arguably already lost much of its edge, with an industry that has become reliant on talent shows, celebrity and recycling the back catalogue.

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[185] www.odeon.co.uk/thelounge/

[186] www.astor-filmlounge.de/

[187] www.participations.org/Volume%208/Issue%202/3f%20Hollinshead.pdf

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From a consumer perspective, the Internet has completely changed the way that film is discovered. In fact, those initial online ways of discovering content have themselves evolved. In the early years, people talked about 'surfing' the web, skipping through pages until alighting on some interesting content.

The exponential increase in content, has made such an approach impracticable. A second phase emerged, dominated by search engines and a few major brands, including many of those that were also prominent in the pre-digital world.

While search engines, remain essential, a new period of discovery is evolving with dominant components, including friends on social networks, viral marketing and specialist curated sites.

Personalisation is adding extra 'pull' factors to the mix, with audiences trading some of their personal data and privacy with trusted third parties in return for content that matches their particular tastes.

Such developments remain a long way removed from the experience of the bulk of the independent film industry, which is finding it ever harder to enter consumer consciousness (See previous chapter), because of the huge range of content now available in many formats.

The Back Catalogue: In the Internet age, consumer discovery of content goes backwards as well as forwards. That is theoretically good news for those holding rights because the digitisation of the back catalogue not only preserves great film, but has the potential to reactivate it.

The music industry has been taking the demand for classics from earlier generation to new levels, re-releasing classic albums as if new, including the Universal release of The Rolling Stone's 1972 classic *Exile On Main St.* in 2010, which topped the charts in the UK, and using innovative new formats, such as the USB flash drive release of a remastered box set of Beatles albums.

The re-released film back-catalogue has had a patchier record, but D-cinema and film events are beginning to make a mark.

Retro-fitting of 3D to classic films, for example, has improved, with the 2012 release of *Titanic 3D*, breaking the record for a weekend debut in the US, and taking an impressive $67m (€53m) in China.[188]

Outdoor screenings, including music festivals; live orchestral performances of soundtracks to silent films (including in 2011 a new score for Dreyer's *The Passion Of Joan Of Arc*)[189]; and the increase in numbers of film clubs, all offer opportunities for creating new audience relationships for old movies.

Spearheading the digital reactivation of European film archives is France, with the CNC leading a state-backed investment fund to finance the restoration and digitisation of classic work in partnership with rights holders.[190]

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[188] www.hollywoodreporter.com/news/box-office-shocker-titanic-3d-china-leonardo-dicaprio-kate-winslet-312267

[189] www.youtube.com/watch?v=G4ubhyUhyQM

[190] www.screendaily.com/news/in-focus/celebrating-65-years-of-the-cnc/5041645.article

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In 2012, the British Film Institute also announced a plan to digitise and make available the most important 10,000 titles in UK cinema history. [191]

That reactivated back catalogue will, of course, be competing for a share of consumer time and could potentially add to the squeeze on adventurous independent film. The competition isn't just with Hollywood but with Godard, Bertolucci and Fassbinder.

Nonetheless, the archive has proved an inspiration for virtually every great film-maker.

Given the lack of classic film on the prime-time terrestrial television channels in most countries, the real challenge is to find ways to provide and encourage access to the digitised archive.

CONVENIENCE AND CATCH-UP

The linear models of programming in cinemas and television continue to dominate viewing.

There are signs, however, that consumers are increasingly looking for media experiences that fit their timetables, rather than being expected to fit in with the dictates of programmers or advertisers.

It is an important issue for the industry to grasp because its core challenge in the coming years is to win consumer time in an increasingly competitive environment.

Services that are able to adapt to these expectations are already building considerable followings. Catch-up television, for example, has made huge gains over the last year.

The service of Netherlands public broadcasters, Uitzending Gemist, recorded 206.8 million streams in 2011, on televisions, smartphones and tablets,[192] while in a survey of 2,000 consumers in the UK, catch-up services were most frequently cited (62%) as the most 'valued enhancement' to the viewing experience.[193]

VOD is by definition aimed at providing content at the convenience of consumers but living up to the promise of instant access is not as clearcut as may first appear.

Firstly, finding the content can be a challenge, particularly given the complexity of film rights discussed in this report (See Chapter 1).

And when content is located and bought, there are often restrictions on how, and on what devices, it can be played. Those limits include the 'region-coded' blocks on DVD, Digital Rights Management (DRM), etc.

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[191] www.independent.co.uk/arts-entertainment/films/news/lottery-pledges-285m-to-boost-british-film-industry-7746795.html

[192] www.broadbandtvnews.com/2012/01/08/record-numbers-for-dutch-catch-up-tv-2/

[193] www.dtg.org.uk/news/news.php?id=4366

Some ebook publishers have actually decided to abandon DRM, as neither effective against piracy or good for business, given the inconvenience to customers.[194]

On the other hand, governments around the world have been trying to adapt copyright law to the digital age and have found it difficult to find a balance between the positions of industry and consumer.[195]

Cloud-based services, which theoretically allow content to be stored remotely and accessed on any device, are not a simple solution to the problem of convenient access because demand is overridden by proprietorial interests.

UltraViolet[196] (backed by five of the six Hollywood studios, Apple's iCloud[197] and Disney's long-awaited KeyChest will all compete for dominance of the Cloud market, meaning that not all content will be immediately compatible with all systems.

Some have even criticised Cloud developments as just another extension of DRM, suggesting it is stuck in old thinking about copyright.

At the very least, the idea of "buy once, play anywhere" has a way to go to fulfil its promise.

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[194] www.forbes.com/sites/suwcharmananderson/2012/04/25/macmillans-tor-abandons-drm-other-publishers-must-follow/

[195] www.cbc.ca/news/canada/story/2011/09/29/f-copyright-explainer.html

[196] www.uvvu.com/

[197] www.icloud.com

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CHAPTER 9 : ENGAGEMENT

> **IN BRIEF**
> - Engagement is about creating new forms of relationships with audiences
> - Brand marketing developments suggest opportunities for film
> - Personalisation and curation are becoming essential tools
> - Data and metadata are at the heart of engagement strategies

THE THIRD PART of the business model triumvirate is engagement – a word that has become industry jargon in search of a meaning. The sense in which it is employed here, suggests an interactive, participatory relationship between a product or brand and its audience.

Engagement fills that crucial gap between passive buyer and active supporter; spectator and fan; a single sale and brand loyalty.

The film industry has, of course, made considerable strides in creating new links with the audience. It is rare now not to find a film that is not supported by a Facebook page , a Twitter account or a website.

But the Internet and social media are engines for *potential* engagement.

Film businesses have often learned the hard way that the volume of unique visitors to a website, or the number of Twitter followers and Facebook Likes, do not in themselves indicate the kind of consumer engagement that translates into business.

They are tools not goals, though that fact is sometimes lost in enthusiasm for new ways of working. Anyone might gather a crowd by handing out Euros in the street but that does not constitute a long-term relationship.

In fact, the exchange of money for a cinema, a DVD, or a download remains amongst the most convincing signs of an engaged consumer. The buyer in the shop is more committed than the window shopper.

The trick to engagement is building a sense of commitment, even ownership of a film among potential audiences, and that process ought to begin with a commitment from film-makers and producers at the earliest stages of development.

Unfortunately in the European film industry, the production process is far removed from the actual interaction with audiences.

Until a product is bought by an agent and sold on to a distributor, it is not even clear who, what or where that audience is.

The idea of engagement models can seem woolly and abstract, compared to tangible and bankable traditional scarcity models, even if they are in decline.

Engagement business models ask for a conceptual leap of the kind normally only taken into two circumstances: when there is so much money that you can afford the risk, or when there is absolutely no choice.

For many, that latter no-choice scenario is getting closer.

EYEBALLS TO ENGAGEMENT

The marketing and media buying mantra of the last few years is that business is moving 'from eyeballs to engagement.'

The creative industries have to some extent been the victims of this change, most obviously newspaper and magazine publishing.

Newspaper advertising was the classic 'eyeballs' business model, based on the assumption that a small percentage of the large numbers of readers would find their interest piqued by a particular marketing message.

As the number of readers of paper products dropped, the eyeballs argument diminshed, reducing the appeal for advertisers; customer loyalty was undermined by services which aggregated content from multiple sources, such as Google news; media buyers opted for smart new digital models for brands, which could demonstrate interaction and transaction; and the industry adapted to lower revenues by cutting costs and quality, further depressing demand.

It was a downward spiral, which left the traditional business in tatters. The attempt to create online versions of advertising simply did not return revenues, even with vast increases in the number of readers.

Film faces some of the same problems, including audience fragmentation and a move away from highly profitable physical goods (DVD) and towards uncertain and lower return alternatives (VOD).

There are, however, some impressive examples in other industries, on how to build engagement models, which also have lessons.

A good place to see engagement in action is not in the usual suspect music and publishing industries, but on the football field. Football (soccer) – born around the same time as cinema – was struggling in most of Europe in the 1980s with poor stadia, hooliganism and a highly-localised core working class support.

Its business model was based on ticket sales and less than impressive terrestrial television highlights deals.

Now bigger football clubs, such as Real Madrid, Barcelona, Manchester United, etc. have become huge global brands. The turnaround in fortunes began (at much the same time as the cinema revival in the 90s) with an upgrade of venues, and then with huge investment from the emerging satellite and cable channels.

In many ways, football is now a transmedia experience, beginning with the actual games, which now charge a premium price for tickets at packed stadia.

Technology has transformed the television experience of the game, including: multi-camera replays, the option to view the game from different perspectives, 3D, two-screen-viewing with instant commentary, mobile viewing, instant statistics for individual players

The players are celebrities with their own concurrent existence in the gossip pages, while replica shirts and trainers have become fashion items.

Videogames in which players can take on the role of real-world footballers and managers are huge businesses with Electronic Arts' *Fifa 12* game topping 10 million global sales;[198] while fantasy football games, in which players are picked from real teams and points earned from the action in actual games attract huge numbers (the official English Premier League game has 2.5 million players worldwide).[199]

And, of course, there are the games played in parks and schools. Sport has become a hyper-real experience, in which audiences are able to engage with a singular idea in multiple ways.

It is also a business, which has polarised in a familiar way with a few major multinational brands at the top, and the rest operating on low margins, and often barely surviving.

Both the struggles of newspapers and the opportunities seized by football offer useful pointers to the dangers and opportunities ahead.

ENGAGEMENT MARKETING

The idea of engagement is at the heart of online marketing. The marketing industry has long understood that value increasingly resides in the relationship between brand and consumer.

Marketing agencies are now spending millions on trying to find ways to insinuate commercial brands into the consciousness of a target audience, and studio blockbusters have been thoroughly exploiting the economic benefits of product placement and sponsorship.

2012 summer tentpole release *The Avengers* is believed to have raised $100m (€80m) from corporate sponsors, led by Acura, Dr. Pepper, Harley-Davidson, Hershey, Oracle, Symantec, Visa, Wyndham Hotels and Resorts, Red Baron pizza, Land O' Frost lunch meats and Colantotte bracelets.[200]

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[198] www.vgchartz.com/gamedb/?name=fifa+12

[199] http://fantasy.premierleague.com/

[200] www.thestreet.com/story/11556616/1/top-summer-movie-blockbuster-marketing-tie-ins.html

Conflicted attitudes about the role of brands in film was neatly demonstrated in Morgan Spurlock's 2011 satire *POM Wonderful Presents: The Greatest Movie Ever Sold*,[201] which both satirised, and was paid for, by product placement and sponsorship.

The number of major brands supporting European film has been limited, not least because of the restricted reach of many works. On the other hand, brands have long supported festivals, conferences and industry initiatives.

The sweet spot for marketeers is 'brand alignment,' in which the sponsor or advertiser is able to tap into the particular relationship between an audience and a film. Media buyers often have a much greater understanding of audience sentiment for a film than those making or selling it.

Such understanding has informed a more sophisticated approach to brand marketing with a realisation that any perceived interference with the integrity of the artist can be counter-productive. Audiences have become sensitive to any hint of being manipulated, or of an artist 'selling out.'

Marketers want to insinuate their clients into the engagement that builds between film and fan, not to change it.

This has, of course, always been part of the marketing business – the backing of big cosmetic and toiletry manufacturers in the 1950s is the reason why we call a whole genre of drama 'soap opera'; and the tobacco and drinks industries became so good at co-opting the cool image of film and television stars, that many countries have legislated to stop them doing it.

Successful ideas in brand engagement, however, start at the development stage. There are a small number of exceptions that prove the rule, but the distributor is not the brand with which the audience wishes to engage. The brand may go beyond the film, as proven by the interest in adaptations, remakes and franchises.

BRAND AND CULTURE

For many in the European film industry, all this talk about brand and consumer engagement is incongruous if not downright heretical. And yet, language aside, engagement is a critical issue for cultural and 'auteur' film, which needs to find ways to reach fresh audiences.

It would be compromising to tailor each film to meet market research findings on a specific audience, but it is surely a duty to identify and to try to reach the widest, most diverse audience for a project.

Again, we may reject the terminology, but in Europe, the auteur is a brand in his or her own right, particularly among arthouse cinema and festival-goers, who will talk about the latest Haneke, Loach, Kiarostami, even before the title of the film.

The established pantheon of European cinema directors attract loyalty that often survives films that do not live up to the highest standards of their work.

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[201] www.sonyclassics.com/pomwonderfulpresentsthegreatestmovieeversold/

And they have great influence with the leading film festivals, which are a critical part of marketing, as well as a fairly assured route to international theatrical release.

There is arguably greater engagement between auteurs and audience now than for decades, perhaps since the days when the nouvelle vague was setting out its agenda through Cahiers Du Cinema and other journals.

The release of the back catalogue on multiple channels has reopened access to work, sometimes assisted by governments and public bodies, while interviews, ideas and archives are routinely released online, through YouTube, etc. The fan page for Lars Von Trier on Facebook, for example, has more than 158,000 'Likes',[202] and Roman Polanksi tops 100,000.[203]

Those vying for trying to establish themselves as a new film-maker, however, have few of those advantages, often relying on the championing of industry 'gatekeepers', such as festival programmers or public fund commissioners.

Cross-media techniques, social media, etc, do allow film-makers to find new ways to generate interest: finding, aggregating and engaging audiences in the places they chose to meet, consume and interact.

Organisations, such as Power to the Pixel[204] has for some years been exemplary in highlighting the way that these ideas can and are being used to great effect.

For film-makers, aiming to make individual, uncompromising art, have the means at their disposal to at least create a network of supporters, with whom a relationship can be formed to be taken beyond any individual piece of work.

That might be the kind of digital engagement that public funders should be supporting – perhaps now even demanding of those who accept funding.

PRIVACY AND PERSONALISATION

Privacy has become a commodity in the Internet age. Gathering, analysing and aggregating data about audience behaviour is costly but consumers have shown themselves willing to give details of lives and habits for free, in exchange for exclusive content, services or just the sense of a relationship with the products they buy, or the talent that creates them.

Media Theorist Doug Rushkoff put the point in clear terms in Berlin in 2011, talking about the all-conquering king of the social networks: "We are not the customers of Facebook, we are the product. Facebook is selling us to advertisers."[205]

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[202] www.facebook.com/Lars.von.Trier

[203] www.facebook.com/pages/Roman-Polanski/13475385825

[204] www.powertothepixel.com

[205] www.wired.co.uk/news/archive/2011-09/21/doug-rushkoff-hello-etsy

Such thinking is redefining the argument about 'free' models. Exchanging content for personal data looks increasingly like a sensible business choice, allowing accurate identification of the right audiences for specific products.

Taking a percentage of guess work out of the production, distribution and exhibition process has obvious benefits for a film industry that too often gambles on choices without the backing of adequate audience knowledge.

A still more important part of this two-way exchange of value with audiences is the building of loyalty. Social networks can play a critical role here, not just as a means of promoting content, but as a mechanism for turning customers into fans and advocates.

A survey of marketing executives in 2012[206] suggested that 65% of companies found social media useful in creating a 'loyal fan base', with greater time and effort rewarded by greater levels of engagement.

The higher the interaction, the more opportunities are created for 'pull' services, in which the producer can tailor content to meet known demand, build a convincing business case for investment or advertisers, and even support third-party sale of data with appropriate consent.

The personalisation of the Internet experience represents clear opportunities. In the early years of the Internet, users searched – or surfed – for content in unstructured ways. The dominance of search engines refined and shaped the process.

But personalisation is about building Internet services around one's own tastes and needs. That means exchanging personal data for targeted services. It opens up the possibility for more sustainable business for some film-makers and producers through the creation of a longer-term personal relationship with fans.

On the other hand, if demand is increasingly influenced by recommendation, specialist channels catering to fans of specific genres and film-makers, and through personalised services, where is the space for the surprising and the serendipitous? The digital world so far looks a much more attractive proposition for the established companies and talent, than for those trying to break in.

COPYRIGHT AND OWNERSHIP

The hype, and vitriol, that surrounded the launch of Wired editor Chris Anderson's 2009 book *Free: The Future of a Radical Price,* [207] engendered a lot of debate about the business potential of cross-subsidy and 'freemium', essentially giving a product away in order to make money elsewhere.

He suggested that the Internet, built on the foundations of open and free access to intellectual property, had changed the rules of copyright, buying and selling, etc. There has been a backlash, particularly given the paucity of mainstream success stories in film.

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[206] 2012 Social Media Marketing Industry Report - Social Media Examiner (Socialmediaexaminer.com)

[207] Malcolm Gladwell, New Yorker: www.newyorker.com/arts/critics/books/2009/07/06/090706crbo_books_gladwell

But the argument that the rules that bind the physical world should not be imposed online has become more insistent in recent years, most vociferously in debates about copyright.

Attempts to introduce tough legislation against copyright theft have been met by protests. The highest profile was the fight against the US Stop Online Piracy Act (SOPA), which in 2012 saw many leading websites, including Wikipedia, close down for the day as an act of defiance.

In Europe, copyright has become a political issue with Pirate Party organisations[208] springing up in many countries, led by Sweden, focused on protecting what they see as the freedom of the Web, as opposed to what they see as enclosed, unfair and hierarchical structures of the 'real-world' capitalist structures.

The arguments about copyright and patent reform has moved even further to the margins as economic crises have directed attention elsewhere.

Copyright reform has become a polemical issue with extremely powerful business voices taking entrenched conservative positions – often heavy-handily making the point for the digital protesters who claim it is a case of big money interests against the rights of the individual.

Alternative systems of licensing and rights management, including Creative Commons[209] have had some success but it is fair to say that for film, the interest has been marginal.

Given how little many productions in Europe have to lose, it is perhaps surprising that there has not been more experimentation and innovation in terms of exercising Intellectual Property Rights.

But again, the discussion returns to that same 'artficial scarcity' point, that industry is being asked to exchange a system that works in a flawed way for one that is unproven. Nonetheless, there will inevitably be movement on copyright, in part because demand – and particularly the kind of engaged demand in this chapter – will always be a source of tension.

That tension had to be faced early by Apple iTunes; consumers who downloaded a song believed that ownership meant that they could play it anywhere on any device, forcing a long debate about digital rights management (DRM).

iTunes forced another issue. One of its great attractions was the ability to transfer existing CDs to the iPod, wiping out another form of revenue, whereby consumers would replace the music they owned each time a new or upgraded service came along. While film has so far resisted the trend, the direction of travel suggests that it will have to change.

Services, such as Spotify saw the gap in this market, and created a new service based on an advertising-supported free model and subscriptions.

And the music industry showed how today's impossibilism can become orthodoxy by supporting them, albeit reluctantly as a bulwark against rampant piracy.

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[208] http://en.wikipedia.org/wiki/Pirate_party

[209] http://creativecommons.org/

Services such as Spotify, Last FM and Pandora offer a vast catalogue of songs to be consumed on demand but significantly what it is selling is access, not ownership.

Who needs to own albums and singles, clogging up the hard drive, when one can access any content on an increasingly large number of devices for a subscription fee? The argument for the same kind of approach for film is, if anything, more compelling, given the file sizes of downloaded movies.

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 problem for industry, however, is that Spotify[210] and similar services are not delivering revenues close to 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%.[211]

There are signs, however, that the desire to have a physical product as well as a virtual one still counts. Twentieth Century Fox has been looking at the potential for a middle way, with bundled downloads and physical formats, particularly Blu-ray.[212]

The end of ownership may be some way off, but it would be dangerous to write off an idea that might fundamentally change the nature of engagement between consumer and content.

DATA AND METADATA

Any serious commitment to engagement models has to begin with an understanding of the target audience.

While social media and networks may provide the perfect environment for interacting with potential customers, those audiences first need to be found. And if they can be attracted to a site or network, value has to be actively extracted from each action and transaction.

The collection, processing and analysis of consumer data is an essential part of any demand-led model, but it is also among the weakest areas for the European film industry in terms of expertise.

There are tools for tracking behaviour – including, of course, box-office figures and website analytics. But as discussed earlier, where data is available, it tends to be focused on the opening weekend of a film. (See Page 16).

What is often underestimated is just how much bankable data is being produced and recorded online that could have value in its own right.

Each part of the film-making process produces metadata – the what, where, when and who of a production – and it has potential value. Much of the information on cast, crew, locations, etc, are already providing value to online services, such as IMDB.

[210] www.spotify.com

[211] www.musicweek.com/story.asp?sectioncode=1&storycode=1043991

[212] www.ft.com/cms/s/2/6b4f95ee-b2ea-11e0-86b8-00144feabdc0.html#axzz1z0YmzLPK

Experiments are now taking place attempting to discover other areas of value. These include the locations of shoots, the clothes warn by the cast, the music in a scene...

Momentum's 2011 launch of *Chalet Girl*, for example, featured an interactive trailer that allowed click throughs to some of the brands featured on the screen.[213]

Many of today's apps essentially curate available metadata to reveal points of interest on a map, for example.

Film exploitation of this potential has so far been rudimentary, but the mass-market penetration of Smart TVs, tablet computers and smartphones, may provide the missing links.

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 essential point about engagement models: the value is no longer just in the sale, but in the relationship.

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[213] www.variety.com/article/VR1118034120?refcatid=1009&printerfriendly=true

CHAPTER 10: CONCLUSIONS

THE DIGITAL REVOLUTION, like most revolutions, is not the product of rational choice but of a convergence of events and innovations. The emergent on-demand economy paradoxically was not willed into existence by demand.

The Internet was initially a top-down infrastructure project, often characterised as an Information Superhighway; the myriad uses to which it has been put were conceived and built later. Consequently, the Internet did not arrive with a fixed destiny or clear sense of direction, and certainly not a moral compass – much of the impact it has made on existing industries has been the result to the Law of Unintended Consequences.

Film has not been, and will not be, in any sense the driver of the changes that are transforming it; instead, it is having to understand and come to terms with effects. Debates about the relative worth of these new realities are irrelevant; the Internet genie is not going back into the bottle.

Digital change is raising existential questions, beginning with the primal one – "What is film?"

In a few short years, 35mm film and DVD will be gone, or in terminal decline. The third pillar of the old model, television, will itself be in its next stage of transformation and fragmentation.

It should be self-evident that the structures and processes – and by extension the business models – devised for delivery of film in its old formats will need to be fundamentally changed. But equally, it is clear that the Digital Revolution has not reached any fixed position, meaning that industry is trying to build new models on shifting sands.

On the plus side, digital change offers a number of benefits:

- The availability of a much greater choice of content
- New ways for consumers to access that content, greatly extending reach
- The globalisation of demand
- A participatory culture where audiovisual equipment is almost universally available
- The rise of truly global social networks, that can support audience engagement
- The emergence of an entrepreneurial DIY culture
- New platforms that offer legitimate means to make money

But each of those points can easily be reassembled as negatives.

- Too much choice, squeezing out even strong films
- Fragmentation of choice, undermining revenues and reducing visibility
- Increased domination by the globalised power of Hollywood
- More pressure on already stretched public funding
- The ability of social networks to disseminate negative messages at high speed
- A weak DIY tradition in Europe, leading to little quality work while undermining the value chain
- The rise of powerful platforms that will have the whip hand over rights holders

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CREATIVE DESTRUCTION

The Internet has led to a great deal of what some economists call 'creative destruction',[214] relentlessly destroying the good as well as the bad in the old order while a new economic environment evolves.

This process in other industries, has often been described by digital advocates with trite phrases, suggesting, for example, that the Digital Revolution has been "bad for journalists and good for journalism", or "bad for the music industry and good for music."

Such judgements are often ill-informed and naive: Revolutions that try to reset to a Year Zero rarely turn out well.

On the other hand, the painful truth is that industry models and structures adapted for the previous economic conditions cannot simply be repurposed for the digital world.

And while many policies accept new digital realities, including the Creative Europe programme,[215] there needs to be far more debate about how far it is possible to balance the alleviation of the effects of digital market change on existing businesses against creating a coherent structure for the new.

Given the experience of other industries, it is legitimate to ask how far protectionism can actually undermine the opportunities ahead, or how much time is wasted in a self-defeating and expensive fight against the inevitable.

So perhaps it is a useful to discuss how far the Digital Revolution is good for film and bad for the film industry?

GOOD FOR FILM?

If there is one overwhelming reason for optimism about the future of film, it is the rapid emergence of a global Audiovisual Culture.

The Web, email and social media were originally dependent on text, and they largely remain so. Research from the UK in 2012 suggested text messages had overtaken calls as the main means of communication over mobile phones.[216] But there is every indication that the future will see the evolution from a words-based to an image-based culture.

Technology developments, such as Cloud computing; the dramatic spread of Internet-enabled mobile devices in the Developing World;[217] the rapidly improving broadband infrastructure; the obstacles of written literacy and language; and a general movement towards an interconnected 'semantic web' (See Page 26), all support the shift towards an audiovisual world.

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[214] www.econlib.org/library/Enc/CreativeDestruction.html

[215] http://ec.europa.eu/culture/creative-europe/

[216] www.guardian.co.uk/technology/2012/jul/18/ofcom-report-phone-calls-decline?newsfeed=true

[217] www.researchictafrica.net/docs/Gillwald%20CITI%20Zambia%20Broadband%202012.pdf

Film has two huge advantages:

Firstly, over a century, film has created a rich visual language for communicating meaning through images: It has proved to be highly adaptable, constantly assimilating fresh ideas – and it has come to shape the way that people see their world.

That language is surely as essential to film's claim on cultural importance as the individual works of genius which have employed it. It also continues to enrich other forms of art and entertainment, including music, advertising and videogames.

Film in that sense is not undermined by digital change – instead its language will be the foundation of a new Audiovisual Age.

The second more practical point that ought to be 'good for film' is that billions have been poured into creating pipelines and networks – all hungry for content.

The web services and devices built on this infrastructure all have to build demand and find ways to differentiate themselves in a competitive market, and original content will be essential.

There are many caveats to these arguments. Film is just one form of content among many, and it is likely that many more will be conceived over the next few years.

And much of the work built on the language of film, will not acknowledge or understand its debt to the cinematic tradition. That is not really the point, however.

The essential lesson is that film itself is not an old world physical format out its time in a digital age. It can be an engine of the new economy, not least since it is now close to completing its metamorphosis into the same basic bits and bytes DNA as all the new media that were predicted to displace it.

Film is not trapped in the 20th Century but can the same be said of the film industry?

...BAD FOR THE FILM INDUSTRY?

For the average cinema-goer, this existential angst about the industry all looks a bit far-fetched. The headlines in the mainstream press are generally positive, as one giant franchise film after another breaks box-office records.

Digital marketing, social networks and cross-media brand extensions, have helped big films get bigger – and that has included some major European hits.

These, however, tend to distort the entire box-office commentary. The success of local film at the Dutch box office in 2011, for example, was widely and rightly celebrated but one film alone, *Gooische vrouwen,* accounted for nearly 30% of the year's €52m box office, and the top two, nearly 40%.[218]

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[218] www.screendaily.com/news/box-office/netherlands-posts-highest-admissions-since-1978/5036649.article

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In most of Europe, there is little sign of a 'trickle down' economic effect, whereby success at the top begets success all along the value chain, and that is particularly true of film.

It has always been difficult to build sustainable businesses on the current elongated and fragmented value chain; but those specialised processes built for another era seem increasingly irrelevant in the age of digital distribution and on-demand exhibition.

It is the balance and structure of that value chain that is exposed by digital transformation and that should not be lazily equated with the European Film Industry. As long as there is film, there will be an industry, but the processes to take it from development to audience have always been contingent.

All of which gives policy-makers a dilemma. Holding out against the tide of digital market forces may be necessary in the short term to prevent serious damage to output.

But there is a thin line between preservation and atrophy.

THE VIRTUOUS CIRCLE

The film industry, and film policy-makers in Europe, do not have the money or time to finance to back all the potential scenarios in this emerging world. It is essential to prioritise.

The structure of a European industry should not start with destruction, creative or otherwise – and the market should not be allowed to dictate.

But this report has argued that demand and market are not synonymous. If the market was the perfect embodiment of demand, which found its natural equilibrium by some 'invisible hand', the nature of discussion might be different today.

'The market' in the context often used in film debate normally refers to the unequal mechanisms of consumer access and rights exploitation that underpin the domination of globalised business interests.

But the Digital Revolution forces a reappraisal of the idea of 'culture', every bit as much as it does of 'market'. The ill-defined concept of 'culture', particularly when defined by its oppositional relationship to the 'market', can be self-serving and hierarchical.

Digital change enables multiple cultural identities beyond borders and traditional social structures – and it puts the means of making and accessing content into far greater hands.

These trends are challenging to film and policy-makers but they also represent an historic opportunity.

An active cultural policy would aim to inspire demand by creating far greater access to great work; by encouraging a democratised audiovisual culture; by identifying talent, etc. (It must be taken as read that there will also be battles over what represents excellence in this new environment).

The question is whether it is possible to create a holistic approach to the Digital Revolution, with industry practice and public policy aligned to take maximum advantage of these opportunities?

Back in the golden era of business jargon, there was an overused term called the 'virtuous circle', which described how smart entrepreneurs created a self-sustaining business loop, with product improvement, leading to sales, sparking investment in further improvements, winning more sales, and so on.

For film, the push should be for that same demand-driven, self-sustaining process, powered by those three principles of reach, experience and engagement. The core aim would be to build sustainable business and great art on the foundations of demand and new forms of connection between audience and demand.

No one should be under the illusion that there is a simple formula for success; the industry would be swopping a declining model that works imperfectly for ones that do not yet exist and have not proven it works at all.

The argument of this report, however, is that, while it may be possible to adapt a diversified studio model to the digital age, it is not possible, or practical, to repurpose a value chain that has always been a fragile construct.

A useful exercise for industry and policy makers is to construct a model that would best deliver on the promise of digital change.

This dispassionate view would avoid the trap of treating the interests of film and the current incarnation of the film industry as indivisible.

Such work would at least have the benefit of raising eyes above the day-to-day struggle to make the squeeze the last value out of the old model.

Looking at the processes in terms of production, distribution and exhibition, rather than producers, distributors and exhibitors is informative.

It allows for an objective assessment of industrial process, and the right cross-media tools to achieve commercial and cultural aims.

Most of all it would identify the missing links.

The biggest of these is audience knowledge. It is impossible to build demand-driven strategies and structures without understanding demand. Data should be at the heart of this emerging world.

And a related factor is that essential element in any industry seriously looking at change – failure. The industry is far too reliant on myth and subjective judgements of success.

Experimentation and failure can open up new paths for an industry that knows it must change. The trick will be to turned failed approaches into data, which can then be fed back into the system to be used as a guide to those following.

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Public funds are surely in a position to demand that such data is recorded, analysed and used to inform and improve future work.

The emphasis on experimentation in this way might encourage the best storytelling talent to employ new methods. There is always a danger that the most successful film-makers, producers, sales agents, distibutors, etc are pushed into conservatism during difficult economic times.

Innovation tends to be left to the inexperienced, and sometimes less inspired.

Such an approach necessarily comes at a cost. Something has to give and that will come with a re-evaluation of funding priorities – perhaps recognising the need for a new balance between what is made and what can be seen.

There are no easy decisions. No one chose this changed online world, not industry, not government, and not even the consumer. But it is the world we live in.

THE AUTHOR

Michael Gubbins is a consultant and journalist, working in film, music and digital media.

Since 2009, he has been running his own consultancy, MCG Film And Media, working with businesses, governments and film bodies around Europe and is the chair of Film Agency for Wales.

As the former editor of *Screen International, Music Week* and business technology magazine *Computing*, in a 25 year-career in newspapers and magazines, he has enjoyed a privileged broad perspective on industrial change.

He now advises business and public bodies at national and international level on digital strategy and policy issues. He has chaired a wide range of conferences and think tanks around the world and has written a number of influential reports focused on the changing business environment, including four editions of this *Digital Revolution* report.

Michael Gubbins runs workshops on the issues raised by this report, and is a frequent speaker and chair of events.

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Shareplay

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Shareplay is an ambitious transmedia venture launched by the Central Denmark Region and the North Denmark Region.

Our mission is to take part in the development of the future media sector. We spot the opportunities in working across different media and diverse industries. And we wish to motivate. Stimulate. And innovate.

We make sure different creative, technological and commercial environments meet. We create synergy across competencies and interests.

Shareplay is a service. We are facilitators. We do not have all the answers, but we are eager to investigate and develop. Together.

We get a kick out of making the perfect match. Creating synergy. Between different relevant parties. Across Media. Across industries. And across regions.

If you are interested in meeting up with Danish content creators with the purpose of creating innovative transmedia solutions, we can help you.

The Shareplay Fund
With help from from EU and the European Regional Development Fund we also have established a Fund.

The Shareplay Fund supports the audiovisual sector developing transmedia projects in the Northern Denmark Region and the Central Denmark Region.

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