A **Cine-regio** report on the future of film distribution
in collaboration with **Filmby Aarhus**

DIGITAL REVOLUTION

THE ACTIVE AUDIENCE

By Michael Gubbins, February 2010

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Digital Revolution: The Active Audience is a report commissioned by CineRegio, offering a broad view of the changing film market in Europe.

It argues that the current period of digital transformation is more revolutionary than any previous change in film history. And those involved in European film at every level need to understand that, in many areas, protecting the existing industry is incompatible with seizing the digital opportunities.

The report calls for a rethink of practice and policy to reflect the realities of the market. Those realities, it argues, will be driven by audience demand, not industrial process, and old policies of "artificial scarcity" are dangerously unsustainable.

The nature of a new active audience needs to be understood because our long-term future depends on it. The music and publishing industries offer a fair guide to what happens when you fail to understand how your customers think and act.

Hollywood, arguably, has the scale to adapt to these changes and to service what remains robust demand for the cinema experience. But European film is already exposed to serious dangers, from an ageing audience to a real threat to its theatrical infrastructure.

Success in this on-demand world is every bit as challenging as the sceptics claim but the potential for a new era for European film exists, argues the report, and there is nothing to gain from trying to hold back the tide.

Background

- Existing models have been crumbling, not just because of digital change but because the industry has been caught in a perfect storm of a global downturn, a banking crisis, new technology and changed consumer behaviour
- Customer demand for film has remained robust even in a recession, but Hollywood films remain dominant
- Film has become increasingly polarised between ever-bigger global Hollywood franchises at one end and ever-smaller budget independent work at the other
- The response to digital has been highly protectionist and insular. The digital discussion has been less about the future of film than the maintenance of the existing industry.
- The balance of the "film industry" has changed as the 35mm world disappears and deep divides are becoming apparent

European film

- The visibility of European film, particularly beyond national borders, has always been a problem but it is becoming more marginalised, opening up a worrying generation gap
- The market for European and arthouse film is ageing and attracting young audiences is a major concern

- Europe's production levels are out of kilter with distribution and audience demand and there is a serious over-production problem

- Cultural diversity policies are heavily weighted towards production. Being made is more important than being seen

- Tough action on piracy has not been accompanied by equally robust action on increasing access and visibility

The active audience

- Audiences are increasingly demanding choice in where and when they consume film

- New technologies are constantly creating new ways to consume and each innovation creates new and challenging forms of demand

- Engagement with audiences may open up new business models but require a complete rethink of existing practice

- We already have a net-native generation which demands choice and think differently about how they interact with each other and the entertainment industry

- Interaction and social networking is opening up new opportunities for film

- We are all now part of the active audience

New approaches

- Cross media experiments are emerging that are in tune with the way that a growing media-agnostic audience consumes entertainment

- New forms of finance are opening up but remain untested. Other parts of the world are experimenting to a far greater degree.

- Too much attention has been given to VOD platform building

- New business models need to be unchained from current restricted models. New models cannot be simply integrated into the old ones

- The fight is not between media but for customer time

The report was commissioned by CineRegio in collaboration with Filmby Aarhus.

Links to further reading and sources are contained in the text as numbers. The Links chapter begins on page 61.

CHAPTER ONE: INTRODUCTION

IN BRIEF

- » **Audience demand is driving change**
- » **Rapid change is dividing the film industry**
- » **Film is still too wedded to 'artificial scarcity' models**
- » **Visibility among younger audiences is critical**

D*igital Revolution: The Active Audience* is a follow-up to a report for Cine-regio presented at the Berlin Film Festival at the beginning of 2008. The fact that this document is a sequel rather than an update says much about the pace of change since then. Back in 2008, the challenges of digital transformation were recognised, not least because of a crisis in the music industry; and the term 'credit crunch' was just entering our lexicon.

But there remained widespread confidence that we were in an era of international expansion. Indeed, at the same 2008 Berlinale, a conference was centred on how Europe could share in a multi-billion-dollar hedge-fund boom that had been fattening up Hollywood production over the preceding couple of years.

One could have got good odds back then predicting bank bail-outs and a global economic crash.

We operate today in a much-changed environment but the basic underlying argument of the first report has held true.

The Internet, and the on-demand culture it has helped generate, represents not just another stage of evolution for film but a true revolution that arguably will have more profound consequences for the film industry than any previous historical shift, including sound.

As predicted, the old models have crumbled far more quickly than convincing new ones have been established.

Unlike 2008, digital change is now firmly on the agenda but discussion often follows a narrow protectionist line – how to hold back the tide rather than to grasp opportunities. What's more, the industry has polarised so much that it is difficult to talk of the industry as a single entity.

We now have a gaping divide between fewer but ever larger Hollywood mega-blockbusters at the one end and an increasing number of independent films operating at ever-lower budgets and with limited or no theatrical opportunities at the other.

A middle tier of 'quality' films is struggling to find a sustainable position, even given the wide-open space left when the US majors exited the specialty field.

All of the above opens up big questions for film policy. What we have in 2010 is a divided industry in which common interests are becoming fragmented or disappearing.

INDUSTRY DIVISIONS

It is becoming clear that when we talk about the film industry, we are in fact talking about a divergent set of interests.

We have long been accustomed to the idea of two related but largely separate industries – on one side Hollywood (the studios and perhaps the bigger mini-majors) and on the other the independents (everyone else). There have, of course, been other sub-divisions, such as low-budget and mid-range, commercial and arthouse, US and European etc

Such labels have always been artificial and often lazily applied but there has been one unifying factor - the centrality of the theatrical release. 35mm film and the big screen have united every kind of film for more than a century. But those days are drawing to a close and we are beginning to see new forms of fragmentation.

In crude terms, we are beginning to see the emergence of three tiers for film exploitation:

1. Hollywood conglomerates built on 3D global blockbusters, new forms of home and mobile entertainment and a wide range of other global entertainment interests, including games and music. (Not all of today's studios will necessarily survive in their current form).

2. A re-emerging middle tier of films, represented by a reorganised studio and mini-studio sector in the US and Europe. In the bigger European states, state-supported, larger-budget prestige films aimed at international markets, and local blockbusters, may come to take a dominant position in film policy. These films may also secure Hollywood distribution to become bigger hits. Co-productions may also grow strongly as cooperation is seen as more beneficial than competition.

3. And then a very large independent sector – often operating on micro budgets – which, out of necessity or choice, will exploit cross-media forms to create a new and vibrant sector, which directly appeals to specific audiences. (See Chapter 4 for explanation of cross media).

In Europe, the difference between the last two will be critical for film policy. At the moment, Europe is producing a surplus of films, which simply cannot find audiences in the current distribution structure (See Chapter 5) and the bigger middle-tier films are struggling to find finance.

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

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

Or should policy also be focused on supporting a vibrant and participatory film culture relevant to a cross-media generation, which takes advantage of freely-available and low-cost means of production and distribution? What form should support take in a changed film culture based on a new relationship between film-maker and active audience?

Given the pressure of government expenditure across Europe, it is clear that a reassessment of policies will be necessary.

INDUSTRY RESPONSE

Hollywood: Hollywood's scale and global reach does not mean it has been immune to digital pressure, particularly when coupled with the economic problems that came with the end of the hedge-fund bubble. The specialty strategy that had once been seen as the future has been unceremoniously dropped by a number of studios and the concentration for film has largely – though not exclusively - shifted to producing fewer but bigger blockbuster franchises.

All the studios, with varying degrees of success, have turned their attention to new ideas, most obviously 3D but also innovation in marketing and distribution. A natural conservatism is giving way to a search for new models and opportunities and, over the last year, a number of studios have pushed aside senior executives and ditched old strategies.

US Indies: The US independent sector has been in a serious slump over the last two years, summed up by former Miramax exec and Film Department chief Mark Gill in a much-quoted speech claiming "the sky is falling." There have been signs of slow and patchy recovery, as the gaps left by Hollywood's speciality divisions present opportunities. But, more interestingly, there has been much experimentation with new forms of distribution and something of an "innovate or die" attitude.

The active audience has been at the centre of the fight-back; witness the 2010 Sundance Film Festival at which films have been released straight to VOD or debuted on YouTube during the event itself. There is also a growing link between producers and exhibitors in a self-distribution and DIY culture (See Chapter 8).

European independents: In Europe, public funds at regional, national and European level have held back the falling sky, but there has been a sense of crisis – or at least a feeling that the current position of independent production and distribution is unsustainable.

This mood varies from country to country but everywhere digital change is at, or near the top of the agenda. But for all the endless discussions, there are few signs of a coherent conversation.

It is clear that there are now serious challenges to a European industrial structure, built to negotiate the delicate balance of culture and commerce, local and international ambitions and for the movement of 35mm film along the value chain.

Disparate national industries are fragmented into vested interests and divisions are being exposed. The emphasis on audience also importantly shifts attention to the future of film rather than today's film industry.

THREATS

At least the threats outlined in the original report are at least now in the open.

- Over-production in relation to available conventional distribution is now a bigger problem than ever; between 2005 and 2009, the number of feature films in Europe rose nearly 25%, while admissions for the period fell, DVD declined and film was pushed to the outer edges of the schedule.

- The lack of clarity and direction in a generally negative digital debate has continued. And there is now a full-blown digital cinema crisis with the future of small independent cinemas under serious threat (See Chapter 7).

- And, while cinephiles have easier access to more content than at any time in history, the visibility of European film among younger people outside their home territory is poor. Research from Professor Elizabeth Prommer, of the University of Vienna shows that the arthouse audience is ageing and that traditional marketing is failing to connect with new audiences. [1]

- Television has pushed film to the outer edges of the schedule and vital pre-sales are very hard to find.

- And while piracy has been the big obsession for film and other creative industries, the problem of invisibility has been given far less attention. There is the danger that film becomes, in the words of Francois Truffaut, "le cinema de papa" – an art form that is irrelevant to youth.

PROTECTIONISM

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

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

- A global economic downturn which has sucked out private finance and threatens the level of public support for film in some countries

- The loss of television money to film and the marginalisation of film and drama more generally

- A general contraction of US opportunities with a crisis in specialty film

- The decline of DVD with adoption of the Blu-ray upgrade delayed by a format war and then the economic decline

- The potential loss of small cinemas and a threat to the re-screening of Eastern Europe because of issues around funding the installation of D-cinema equipment (See Chapter 7)

- A general increase in competition for customer time with new technology developments

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

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

CONSUMER CHANGE

This report argues that the big issue is not digitisation or technology – though clearly these have a significant impact.

The real revolution is one of consumer behaviour. The Internet has fundamentally changed the relationship between customer and content, between people and brands – as the problems of the music and publishing industries demonstrate.

But there is still too much emphasis on trying to maintain the traditional top-down approach that divides creators from consumers.

Europe and individual European countries have failed to come to terms with a changed consumer culture. Even where the issues are understood, a fragmented industry and a divided continent made up of nations with a myriad of different laws, rights, cultural policies means that there are no easy answers.

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

This report tries to avoid negativity but equally urges a tough realism; digital change does offer extraordinary and unprecedented opportunities but what will cure us can also kill us; meeting customer demand cannot be done with polite adjustments to current policies.

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

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

Film is now pursuing a model of what some economists call 'artificial scarcity'. When the business was based on a physical 35mm print, the cost of production, distribution and marketing was weighed against a less-than-scientific calculation of manufacturing and distribution costs against an estimation of demand. Single territory release was then unavoidable.

That model essentially still exists, even though it has been many years since the theatrical release was the chief source of revenue for most films.

The home entertainment boom – which ironically saved the cinema - brought the introduction of artificial scarcity, with industry agreements and national policies enforcing a release window between theatrical and other releases.

Those windows have been eroding for a decade and were under pressure even before the advent of the Internet, but new online, on-demand means of distribution are exposing weaknesses in other areas of artificial scarcity, notably the selling of rights by territory. National boundaries are not recognised in the bits and bytes universe of the Internet.

There is a model that is circumventing this artificial system and that is piracy, which is undermining the economic base of film by exploiting the weakness of its model. This report argues that the old model of windows and rights is also stifling the creative potential of new online and cross-media models (See Chapter 4), which could refresh the roots of film itself.

This is not a neophile manifesto. There are no easy answers and each response carries big risks. But we are already beginning to see that this is a real revolution that requires a bold and imaginative response.

CHAPTER TWO: DIGITAL REVOLUTION?

IN BRIEF

- » **Audience demand is driving change**
- » **Crisis is in industrial structures not audience demand**
- » **There are no analogue responses to digital challenge**
- » **Digital change must empower audience**

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

Disruptive change has already begun and it is clear that the threats and opportunities are flip sides of the same coin: trying to adapt to changing consumer patterns both undermines our current models and creates the basis for new ones.

The danger is in trying to understand and plan for digital change from the perspective of today's business – or at least from the narrow position of any particular discipline (producers, distributors, theatres etc)

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

Given the range of competing interests and the uncertainty of the market, it is hard to believe that the distribution revolution described here will be bloodless. At the same time, it is also important to acknowledge at this point that for those outside the industry, film looks anything but unhealthy.

Box-office revenue figures (though not necessarily admissions) for many European countries have been buoyant, with cinema living up to its billing as a recession-proof business. James Cameron's *Avatar* has not only taken the title of the biggest revenue earner in the history of film but has put the seal on an already promising start to the adoption of 3D.

And there are other positives too. While Hollywood mega-movies were responsible for much of the boom, the pattern of local films performing well in their home markets now seems to have set in strongly. (Dany Boon's 2008 French hit *Bienvenue Chez Les Ch'tis* offering a fine example.)

None of the above undermines the core point, however. Only the most pessimistic believed that the problem for film was a crisis of consumption.

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

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

THE DISTRIBUTION QUESTION

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

Since the last report, a number of European companies, including Wild Bunch, StudioCanal and Stewart Till's Icon, have been trying to a create an infrastructure that is not tied to the limitations of single-territory distribution.

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

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

Till put it well talking to *Screen International* at the 2009 Berlinale "You have all the size and muscle with the studios at one end of the scale and no muscle at all at the other."

The argument is that Europe needs businesses of the kind of scale to be able to take on the majors in terms of quality and audiences; and the current fragmentation of territorial rights makes that all but impossible.

But even if these new studios make the promised impact, below this muscular middle-tier in Europe will lie the mass of European films. In that mix will be the art films, the niche content and all the diversity that is needed for an industry relevant to today's world and appealing to a net-native younger generation.

How these small businesses, which do not meet the requirements of the big new distributors, or fit the changing criteria of hard-pressed state funding bodies, can survive and thrive is a vital question. The artificial scarcity model is clearly not going to do the trick.

This report argues that the answer lies in encouraging the creation of a cross-media culture which incentivises producers to find and nurture audiences for their work; something that the current culture in most of Europe blatantly fails to achieve.

ROAD BUILDING

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

And there have been areas of real growth in new media and mobile platforms. The European Audiovisual Observatory reported close to 700 on-demand channels in Europe at the end of 2009, almost double the year before (See Chapter 8 for more). This rise has been encouraged by support from many national governments and European bodies. [2]

But as James Boyle, professor of law at the US Duke's University, and one of the founders of Creative Commons (See Chapter 9) has pointed out, much of this investment follows an analogue mindset. [3]

Talking at a conference organised by UK innovation agency NESTA in 2009, he drew parallels in government industrial policy responses to previous downturns. Receding financial markets, he said, often brought a rush to create capital projects to keep the economy moving with a 'fetishisation' of infrastructure, particularly roads.

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

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

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

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

CONSUMER REVOLUTION

If there is one change in tone in the last two years, it is that everyone is now *talking* about audiences but a difference in tone has emerged.

The more conventional discourse suggests that producers need to know their market and have a sense of who will see the film.

That seems an odd revelation for an entertainment business but it demonstrates a truth – that there is a huge gap between independent producer and the box office.

In truth, there has been little incentive to bridge that gap, or indeed the mechanisms for making it possible: most independent producers have found their motivation in financing the next project, festival appearances and awards. Box office and audience engagement have been left to the other players in the value chain.

But there is another way of looking at audiences and that is to see them not as an anonymous consumer of an end product but as an active part of the film-making process: the arbiter of which media platforms are employed; a potential creative collaborator; a base on which to build an informed distribution policy; and a supporter who can be a strong ally in marketing.

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

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

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

It no longer mirrors how we live in the world; cinema is now a rarefied pleasure requiring us to conform to a location-centric, abbreviated passive experience that is nothing like the world we engage with day to day.” [4]

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

CHAPTER THREE: THE ACTIVE AUDIENCE

IN BRIEF

» **Audience engagement will drive new business models**

» **Restrictions and protectionism bring serious risks**

» **Theatres can thrive in new media ecosystem**

» **Demand-led world created active audience**

We live in an 'on-demand' culture. It's not a term that most consumers use but it has passed into business language: a Google search returns more than 100 million articles. Most of us instinctively recognise what the term describes if not the terminology itself – we insist on control of our leisure time and we expect content to be available where and when we want to consume it and on whatever platform we choose.

The barrier to this world is not technology: The Age of Ubiquitous Entertainment has been sustained by constant innovation. Since the last report, there have been many significant hardware and software advances, including the iPhone, iPad, Internet slabs, eReaders, Twitter, Google Chrome and Windows 7.

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

Broadband access has also progressed at an astonishing rate, opening up new forms of global communication and entertainment. As soon as faster speeds and bigger pipes are created, consumers find new uses – legitimate and illegal. Europe has a tendency to be self-referential but developments in the high-speed nations of East Asia, including South Korea and Japan give clues to market development.

What technology has revealed over the last decade is that users will find value that was not always intended (mobile telephone manufacturers, for example, did not see texting as a service that would change consumer culture).

So predictions of the future film business should be taken with some caution; the active audience rather than industry increasingly decides how and what they consume.

YouTube is a fine example of what can be achieved when a service attuned to the reality and potential of online use creates and builds a huge community of active users. Less than five years since its launch, it was able to boast six billion viewings of content in one month in 2009 with 20 hours of content uploaded every minute.

One of the inventions that had not even hit the market two years ago – the iPhone – demonstrates the commercial potential of an always-on, intuitive product that can be adapted to the way its owners live and think. It has shown that people will use micro-payments if the content is compelling and the payment method easy.

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

And smart entrepreneurs in the technology and communications world are consistently forcing us to re-evaluate what customers are prepared to do online. The astonishing success of online television services, such as the BBC iPlayer, for example, has turned once-criticised repeats into the driver of new non-linear consumption. [5]

Maybe in 2010, devices such as Amazon Kindle and Sony Reader will put to bed the cliché that nobody wants to read on a computer screen.

RESTRICTING CHOICE

One can reasonably point out the negatives in this new world and there are valid political, social and cultural arguments about the influence of the Internet and other on-demand changes.

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

As already mentioned, the economic model of the film business is about restricting choice: You can watch a film but only within clearly defined windows beginning with the theatre; you can watch in Country A but not neighbouring Country B; you can watch the film you want only when the industry has decided to make it available.

And to back up these restrictions, Internet service providers (ISP) are expected to be a police force to take action against anyone who tries to access content even when it is freely available.

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

But release windows and territorial rights are not easily discarded, even if they are the antithesis of an on-demand approach. In fact, they *are* the business model. (See Chapter 9)

Even where new media distribution such as VOD is introduced, at the moment, it still sits in a release window queue with the theatrical release protected from supposed competition.

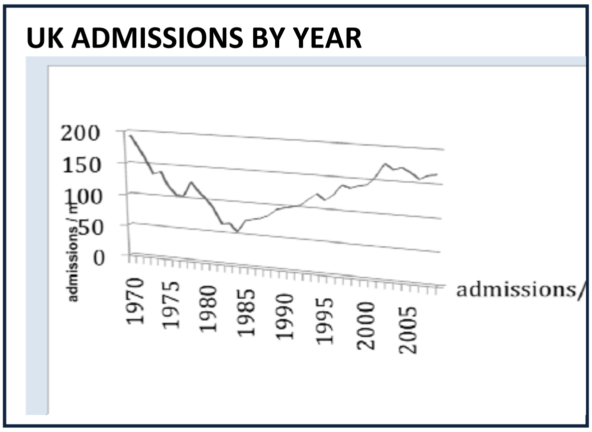
ON DEMAND AND THE THEATRE

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

Alternative forms of exploitation are seen as a threat yet this is historically inaccurate. As the graph on page 14 demonstrates, the low point for theatrical admissions in the UK (and repeated in much of Europe) came during the mid-1980s, when the cinema had the field largely to itself.

The subsequent two decades of success were built partly on improvements to theatres, but also very strongly on the increased visibility and popularity of film thanks to VHS and then DVD. (In this respect, film strongly mirrors the experience of sport and its exposure on cable and satellite television).

The theatre, far from competing against the web, can be the beneficiary of the online mobilisation of an audience. The best cinemas already exploit this and use their web sites to generate data, interact with customers and to build a loyal fan base.



Digital cinema promises to offer a new dimension to the theatrical market (literally in the case of 3D) (See Chapter 7). But the theatre is still treated as a fragile business that needs protection for its window of exploitation and against the encroachment of home entertainment.

Yet the interests of the big multiplex, the metropolitan arthouse cinema and the rural theatre are not exactly the same – a divide illustrated by the problems of digital cinema installation. (See Chapter 7)

What is true for all is that digital cinema offers new opportunities to broaden content and choice, giving the theatrical sector opportunities for growth.

The theatre has some of the same advantages enjoyed by sport and live music, where the very ubiquity of content has increased the value of social 'experience' and 'event' formats – the must-see television programmes that everyone is talking about and of course the cinema.

The advantages of digital cinema, however, will not come simply from the installation of digital projectors but from a changed exhibition culture, based on engagement with audiences and attuning programme to demand.

AUDIENCE AS PROGRAMMER

One of the underexplored potential promises of digital cinema is allowing customers a say in what is shown. Cinema on demand is a simple concept – the customers are involved directly in the selection of programming.

Given the spare capacity in most cinemas for much of the week, it looks like sound business logic to allow a self-selecting audience to guarantee ticket sales for a film they have themselves chosen.

There is even an extant successful example of Cinema On Demand in action, though one has to look to one part of the Brazilian market. Moviemobz, a service set up by digital entrepreneur Fabio Lima using the country's pioneering Rain network, has been running since 2005 with some success. [6]

There are European companies looking to follow the same idea - Europe's Finest, for example, was created in 2007 with support from the MEDIA programme. [7]

The idea of Cinema On Demand, however, is far simpler in concept than reality, particularly in Europe. The most obvious issue is that the Hollywood studios and most of the existing independent sales structure are based on first-run film.

Its business model is about being able to screen on *x* number of screens for new products with an emphasis on the opening weekend (another obsession that belongs to the artificial scarcity model).

Therefore, on-demand screenings could never be more than a marginal addition to exhibitor revenues in the mainstream first-run market, unless there is a radical, and unlikely, wholesale restructuring of business. The big distributor has been in a position to call the shots.

That marginal business may still have value, however, and could be important in terms of visibility of European content. Obstacles remain, however. Chief among these is availability of content. Even the Brazilian scheme has a relatively limited choice of available titles, so audience programming has clear limitations.

Moviemobz is not supported by the studios and features film that does not reach agreed D-cinema specifications, which is becoming an issue in Europe (See Chapter 4).

The availability of content at lower specs may again be a useful marginal business (not to be underestimated in a low-margin independent theatrical sector). A Dutch initiative, Upload Cinema, for example, offers a very popular service showing the best of clips from YouTube to audiences at cinemas. [8]

Another area where the approach might yield potential is in minority cinema where specific ethnic or demographic groupings choose content. This is a strong area of growth in the US and has driven some European initiatives – Bollywood cinemas etc

The logic of cinema on demand is compelling but it can only be a significant business opportunity when and if theatres embrace it, when there is flexibility on D-cinema standards, with reform of restrictive rights, and where there is some flexibility from distributors.

CROWD FUNDING

The active audience, in its most literal sense, can be seen in the growing number of experiments in which the audience actually finances films. Audience finance is now much more widely recognised as a potential form of support, particularly in activist film-making, where donations make a political point.

Perhaps the strongest recent example in Europe has been *Age Of Stupid* – a campaigning drama on global warming starring Pete Postlethwaite, directed by Franny Armstrong and produced by Lizzie Gillett. [9]

The project managed to raise more than €1m from a few hundred investors. The project's use of social media and interaction with supporters is an object lesson to anyone wishing to see the power of cross-media work. (See Chapter 4)

Some money has indeed been returned to the funders but for such productions, social more than financial benefits are the prime motivation.

A slightly different approach was taken by Jamie King's *Steal This Film*, a documentary about file-sharing, which actively encouraged the free downloading of the movie, and called for a voluntary donation. [10] He claims to have raised $30,000 from donors for a film that had already had an online following; not a great sum but more, he provocatively points out, than a lot of producers see for more conventional releases.

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

Voluntary donation as a political statement looks far more likely to succeed crowd-funding for film in general, given that returns on investment are unlikely and donation is likely to be an act of altruism.

The crowd-funding idea has nonetheless been working at the margins of the business in the US for some time, with Kickstarter.com the best-known example. [11]

Among the biggest of the current experiments is the Rotterdam International Film Festival's *Cinema Reloaded* project, which in 2010 is trying to finance three short films by feature film directors. [12]

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

But some film-makers have already decided that the reverence for the auteur as the creative visionary above and outside audience - is irrelevant to 21st century culture and that this very interaction can, and should be, the basis for the economic and creative base for film.

Lance Weiler, the 2009 Prix d'Arte winner at Rotterdam and one of the best known and influential digital pioneers on the international film festival circuit, for example, describes his audience as "collaborators" and actively encourages participation.

He is a leading voice in what is a growing cross-media or transmedia movement, which stresses both the importance of narrative transcending media and of the audience as participants. Successful producers such as Ted Hope and television stations such as France's Arte are now leading voices (See Chapter 5).

CRITICS AND WORD OF MOUTH

The once all-powerful professional film critic has become something of an endangered species. Dozens have been sacked from newspapers and still more have seen their work cut in length and marginalised.

The death of the critic owes much to the economic difficulties of the traditional media but more importantly it reflects a consumer trend that has been accelerated by new technologies, particularly mobile phones and online social networks. The effect of this change again depends on where one sits in the industry.

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

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

For independent film, critical opinion retains some of its power. Research from the University of Vienna on the German market [1] shows that film critics are the number-one source of awareness of arthouse film. At the film markets, such as Cannes and Berlin, reviews can be the difference between being sold to a particular territory or not.

It is important not to be too quick to write off the importance of the mainstream media. One of the tricks of the new marketing world is to find existing brands trusted by audiences of the kind a film desires to reach. The trick is to find where customers congregate, not simply to replace "old media" with new. It is now commonplace, for example, to see the review quoted above the poster for a female-oriented film to be from a woman's magazine rather than a newspaper critic.

Independent film has struggled with this trend, however. A review in an upmarket newspaper has always been an essential marketing tool and, while it gives a great deal of power to an individual critic, a good review is free and effective.

The arthouse demographic is far more likely to be a reader of a "quality" newspaper, and more likely to follow key cultural trend.

But the critic has become a less effective form of marketing as news has migrated online and well-reviewed films have found themselves struggling at the box office.

The problem for independents is that trying to build an online following and a word-of-mouth buzz is time consuming and requires unfamiliar skills. While a social network site might be free to set up, it takes time to manage and energy and commitment to really make work.

There may be new forms of access to critical opinion adopted by active audiences. Online services have begun to take a prominent role and offer a convenient aggregation of lots of advice that may be taken more seriously than any one critic.

- Aggregated opinion – Rotten Tomatoes, Metacritic
- Recommendation (if you like that, you'll like this) – iTunes, Amazon, MoviePilot (Germany [14])
- Trusted sources (tracking a chosen opinion former) – Twitter, iTunes

None of the above negates critical opinion – in fact it extends the number of critics beyond any previous level.

Making a mark with the active audience should not be underestimated and may be an area where government and film bodies may be able to make a mark.

SOCIAL NETWORKING AND COMMUNITY

Social networking is perhaps the most significant new trend in its broadest sense. The ability and desire to congregate with like-minded people online offers the most exciting means to engage with the active audience.

It is important to understand, however, that the network is the people, not the technology provider. Putting up a Facebook page and hoping will achieve little. There is a common misunderstanding that social networking is not a short cut but a time-consuming venture that is demanding new kinds of skills.

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

The fastest growing Facebook demographic in the US, for example, is the over-55s, according to analyst iStrategy Labs. In 2008, the 13-24 age bracket made up 54.3% of users but in 2009 that had dropped to 35.7%. The over-35's accounted for 19% of users in 2008 but that had risen to 39.5% (9.5% of those over 55). [15]

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

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

"Film has realised, as music has, that access to the super-fan is suddenly very available to the business," Liesl Copland, an agent at WME Global, said after the huge success of the marketing of low-budget indie hit *Paranormal Activity* in 2009. The idea of turning customers into the key marketers for products is the nirvana of advertising and marketing agencies.

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

The lead in exploiting these fields has been taken by Hollywood, however, perhaps because it is a more expensive process unless genuinely generated by the audience. The biggest and best recent example was the "Why So Serious" campaign that preceded the release of *The Dark Knight* in 2008.

The best-known example of a user-generated content campaign was 2006's New Line release *Snakes On A Plane*, where consumers drove most of the early marketing, but it soon sank when the company itself was seen to be involved.

Viral marketing has genuine power but is not easily manipulated.

AUDIENCES AND NARRATIVE

One of the more interesting ideas currently being developed is putting the audience directly into the narrative.

There are an increasing number of experiments in audience-driven narrative. Yomi Ayeni's 2009 film *Breathe* for example, invited its audience to attend events, which became part of the narrative of the film. [16]

The idea of the audience driving the narrative or choosing the ending is far from new; there were numerous experiments during the 1950s. It has always been something of a gimmick, not least because the choices available are themselves from a tiny selection (happy, sad etc).

The idea of film as lived experience is one, however, that is exciting a number of particularly young film-makers. Many come from the gaming culture, where the power to change narrative is second nature.

The fusion of games and film is one that is much talked about but rarely explored beyond the cross-promotional marketing of the game of the film, or the film of the game. Pulling the two together into a consistent narrative is a different matter.

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

Among the pioneers in this area are again US film-maker Lance Weiler (*Head Trauma*) [17], while in Europe, Sweden's Martin Elricsson 's The Company P (*The Truth About Marika*) [18] has been experimenting with ambitious cross-media projects.

AUDIENCE AS ARTIST (USER-GENERATED CONTENT)

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

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

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

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

Perhaps the banality of much of the output so far explains the widescale indifference to this trend from the film business. It has become routine – and complacently self-serving – to dismiss the change as mere amateurism.

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

Hoping to follow the same path is young Uruguayan film-maker Fede Alvarez, who landed a $30m film with Sam Raimi's Ghose House Pictures after uploading his short film *Ataque de Panico (Panic Attack)* onto YouTube in 2009 and picking up 1.5 million hits. [19]

And it is in the ability to manipulate digital effects and to edit content that UGC has been most impressive so far.

The mash-up craze, taking existing content and reworking it online that has yielded big online hits. A 2005 recut trailer of *Mary Poppins* as a horror film has attracted millions of hits and remains a major attraction. [20]

AUDIENCE AS AUDIENCE

It is now a lazy put-down to those seeking new forms of engagement to point out that the vast majority of people just want to watch a film. The audience is essentially seeking 'escapism' as witnessed by the fact that box office tends to increase during recessions (and has done this time too.)

If that is true, there are profound reasons for concern for European film, which has prided itself on being able to tell truths about life beyond the narrow populism of mass markets.

But there is a bigger threat. In most countries, there has been a marginalising of film, restricting its reach to festivals, the metropolitan arthouse theatres and the outer limits of the television schedules. While there is far more access to European film on specialist television and VOD services, these tend to become educated ghettos.

Finding new audiences must be a priority and that begins with understanding that there is no such thing as a passive audience any more, even if individuals do no more than exercise choice over when and where to watch content. Our critical opinions and tastes are now taken seriously and stored as data for exploitation, whether we know it or not.

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

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

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

CHAPTER FOUR: CROSS MEDIA

IN BRIEF

- **Cross-media takes narrative across more than one medium**
- **Audience engagement and interaction drives change**
- **3D and alternative content are advancing**
- **The potential for European film remains largely unexplored**

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

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

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

Cross-media has elements of the approach but takes the idea further; this is an evolving area but a Think Tank [21] at the influential 2009 Power to the Pixel conference in London drew up some useful areas of commonality. [22]

1. Emphasis on narrative stretched in some form across more than one media
2. The building of audience engagement into the storytelling process and making the distribution of content and marketing part of the producer's role
3. A business model free from territorial rights and release windows
4. The building of an active community around content

The mobilisation of the audience is the critical part of the process. It is in those relationships that the value resides.

This value is not necessarily simply 'monetising' a piece of content, there may be social value (in crowd-funded political projects), or deferred value (in building a fan base for longer-term business goals) (See Chapter 9 for more).

To that extent, the emerging cross-media movement is the first film and media trend attuned to the on-demand world, rather than being built on restricting customer choice.

As we shall see, such an approach asks difficult questions about the auteur/audience relationship for European 'cultural' film-making. Interaction and audience engagement is not an added extra but the very heart of these new forms of business.

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

The idea that we are moving beyond product sales to a passive consumer to brand engagement with an active audience is at the heart of the thinking. As discussed later, this sense of film as a brand may open up new financial models.

CROSS MEDIA AND FILM

The film industry has been slow to adapt to these changes in Europe, mainly because one window – the theatrical release - has been so dominant, culturally, politically and in terms of business. The centrality of the big screen and the auteur has been part of the creative credo of European film.

In a speech at the 2007 Venice Film Festival, UK director Sir Ridley Scott said new online and mobile forms threatened the future of the true big-screen cinema: "we're fighting technology," he said. (Although even he has since been involved in a very interesting cross-media project, *Purefold*, an interactive web project based on *Blade Runner*.) [23]

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

The primacy of traditional film is also built into the supporting structures: many states have subsidy systems of levies based specifically on theatrical release. Most film schools are conservative in terms of curriculum and in the skills taught and there are few festivals or publishing organisations committed to cross media.

European film can still be a monolithic institution with its own pantheon, culture and self image – particularly arthouse film.

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

US journalist Scott Kirsner highlights some of the more interesting cross-media pioneers in his book *Fans, Friends And Followers* [24] but he finds space for only one European, Finnish director Timo Vuorensola, whose sci-fi spoof *Star Wreck* became an online cult hit. [25]

It is hard to believe that the theatrical domination of today can be sustained – not least because the element that literally makes film *film* – the celluloid print – is doomed to extinction in a few short years.

Not surprisingly, this change has prompted academic discussions about what film might now actually *be* in the post-celluloid world. These can be unnecessarily esoteric debates – film may not now be literally film, but then most consumption of film has been through other media, television, DVD etc anyway.

But the question of the nature of film takes on a more practical importance in the cross-media context. Perhaps the failure to adapt is the reason that so much of the creative impetus has so far come from the fast-growing games industry, which is not supported – or burdened – by the same

position in most states.
And it is perhaps inevitable, that the cross-media movement has attracted the criticism that the film-making talent has yet to reach the quality of web know-how. But that misses the point.

FROM CONSUMERS TO COLLABORATORS

"Every project creates its own federated group of people," says Michel Reilhac, Executive Director, Arte France Cinéma. "Audience can invent itself." [26]

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

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

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

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

EMPOWERING THE STORYTELLER

The first World Screenwriters Conference in Athens in 2009 adopted a manifesto, which centred on the desire of the storyteller to have greater control – and credit – for *their* work.

The idea that the screenwriter is the supreme author of a work is open to question but it is now becoming a commonplace refrain that those who produce content should reap the rewards.

A contrast is made between creators and 'middle men.' The idea that anyone can bypass the sales and distribution process has its attractions – though many producers and film-makers underestimate the value added by the sales and distributors to a film.

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

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

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

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

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

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

CROSS-MEDIA MARKETING

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

Hollywood has been experimenting in the area, particularly in its marketing. The best example so far is probably the '*Why So Serious?*' campaign which backed the Batman sequel *The Dark Knight*.

The teaser campaign turned the film's marketing strategy into an online phenomena (admittedly boosted by the untimely death of star Heath Ledger) and a creative work in its own right.

The campaign, from Entertainment 42, including interactive Alternate Reality Games (ARG) and live events to create an engaged fanbase. [27]

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

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

These make for big opportunities for companies to associate themselves with content in a variety of different formats. Scaling down to a European independent production is a tougher call.

Those options become more achievable with the widespread availability of new tools and social networks. The biggest obstacle though is cultural and, to an extent, political.

The incentives to pursue cross-media projects remain weak in Europe with its strong, theatrically-centred approach to film – the production subsidies, tax breaks etc are in most of Europe focused on supporting old cinema models.

Cross-media growth in the US has been about film-makers and producers taking the future into their own hands. Film policy in Europe should be aimed at encouraging an exciting and entrepreneurial creative trend.

CHAPTER FIVE: OVER-PRODUCTION OR UNDER-DISTRIBUTION

IN BRIEF

» **European production is out of synch with distribution**

» **Stress on public funding forces a rethink on subsidy**

» **Under-distribution is a vital concept for policy**

» **Film festivals role in distribution is transforming**

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

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

Nonetheless, most European countries have a system of subsidies – tax breaks, film funds or levies – to support production, justified on cultural grounds. With the decline of private sources of finance, including the banks and television pre-sales, state funds have become a life-support system.

Only recently has the cultural value of making films with little chance of finding an audience through the conventional film distribution process become a serious question.

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

Spain's new national film fund, for example, approved in 2010, is based on a points system calculated on a film's box office success, DVD and downloads, and its performance on the festival circuit. Whether such policies work, must be judged over the longer term.

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

OVER-PRODUCTION

As the graphs on page 27 illustrate, the number of films produced in Europe has continued to rise significantly – up more than 25% in the last five years.

The European Audiovisual Observatory's (EAO) annual *Focus* report for 2009 revealed that 1,145 films were produced in 27 states with 16 countries reporting increases. [28]

In 2004, 870 films were produced in Europe – 230 less than today. Contrast that with the US, where the number of films produced in 2008 dropped 21% on 2007.

While the quantity of films has soared, the number of available theatrical screens barely changed. What is more the number of admissions for the last five years has declined by close to 9% during the same period.

Indeed, as Chapter 7 will demonstrate, there is a serious risk of a significant decrease in the number of screens in Europe as smaller theatres struggle to meet the costs of digital conversion.

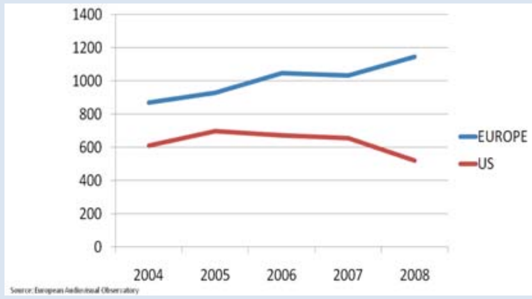
But that is only part of the story. DVD sales are also sliding and the slack is not being picked up yet either by Blu-ray or VOD. And there are other elements undermining the viability of film in the international marketplace, including a much more difficult selling environment in the US.

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

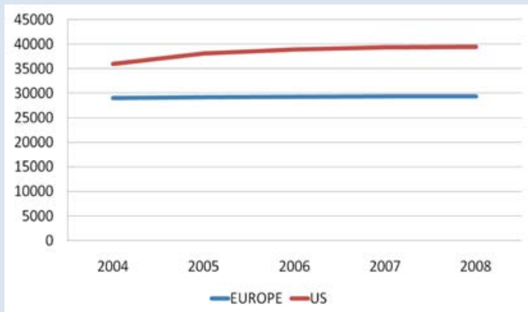
Put even more bluntly, Europe is churning out films that people are not going to see and the big success stories, such as France's *Bienvenue Chez Les Ch'tis* or Sweden's *The Girl With A Dragon Tattoo* are exceptions that prove the rule. A top few films unbalance a very different picture of the scale of production.

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

Film Production 2005-2009



Screen numbers 2005-2009



Source: Europa Cinemas

REDUCING PRODUCTION LEVELS

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

But equally, it is vital to recognise that the problems of over-production are the result of serious and wasteful weaknesses in the system.

The threat of mass closures of cinemas unable to afford the switch to digital projection (See Chapter 7) may shut off what had once been the most promising source of new audiences.

The idea of subsidy was to fill the hole between what the market would provide and the desire from a homegrown industry that reflects local culture. That balance has significantly changed in recent years.

So altering course now is a matter of policy and a number of European film industries have made at least an attempt to try to find a mechanism for channelling subsidy towards films reaching some kind of measurable and transparent criteria.

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

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

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

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

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

Some European governments are cutting production spending in any case in the wake of economic downturn. The UK Film Council is facing particularly difficult cuts, in part because some of its National Lottery finance is being redirected towards the 2012 Olympics.

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

AN ELITE POLICY

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

The approach has been explicitly implemented in Sweden, which took a decision that with limited available funding, it was better to make a few well-financed films, with an emphasis on quality, than spread available money too thinly.

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

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

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

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

UNDER DISTRIBUTION

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

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

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

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

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

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

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

THE FILM FESTIVAL

"Screening a film at a film festival is not a means of getting a film to real exhibition; it is the real exhibition," according to Dina Iordanova, Professor of Film Studies and Director of the Centre of Film Studies at the University of St Andrews. [29]

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

Of course, festivals with big markets, such as Cannes and Berlin, provide the means for films to progress to international distribution.

But as Professor Iordanova indicates for many films the circuit of global festivals constitutes the complete significant lifespan of a film. In fact, extensive festival play may even undermine wider distribution for a film by servicing a significant part of the potential market.

Distributors are increasingly demanding screening fees from festivals, believing that the balance of benefits from festival appearances has shifted.

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

Locarno, San Sebastian and Karlovy Vary and key city festivals.

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

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

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

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

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

The idea has much to recommend it. At Cannes, for example, the world's press reviews the key competition films and those breakout market titles. For a couple of weeks on the Croisette, arthouse and European film is in the spotlight with all the energy that only a festival can generate. If those films are distributed online or through digital cinemas while the buzz was still strong, financial returns could be very great.

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

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

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

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

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

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

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

CHAPTER SIX: CHILDREN AND CINEMA

IN BRIEF

» **A demanding net-native generation is creating own media culture**

» **Much media consumption is moving from social to individual**

» **The children's market is underserved by European film**

» **The real competition is for time**

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

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

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

But the real shift has been driven by the Internet, easily accessible through low-cost PCs and laptops and mobile phones. It has changed the relationship between young people through social networking and mobile communications - and the engagement with entertainment through access to a multitude of platforms and easy availability of content, sometimes freely taken through file-sharing.

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

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

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

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

Despite high-profile fears about health and safety online, these changes are not restricted 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. [30]

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

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

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

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

It is telling that one of the most-quoted pieces of research in 2009 – *How Teenagers Consume The Media* - was written for Morgan Stanley Research by a 15-year-old intern. [31]

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

NEW AND OLD/ PERSONAL AND COMMUNAL

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

Indeed, the box office figures for 'family' films remain robust,

In fact, the Hollywood blockbusters aimed at adults and children – such as the *Harry Potter* series and *Avatar* – have been breaking records. Cinema remains largely a family occasion, particularly given that the nearest theatre may be at an out-of-town location where driving is necessary.

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

Hollywood's model of creating seasons of 'must-see' series has also shaped viewing patterns.

The challenge for European film, however, is that these events are dominated by Hollywood and a few multinational franchises – and they are exceptions to a general rule, which has seen family and communal viewing decline (See below).

Home entertainment has become fractured into a series of individual experiences.

This has implications for political and social policy. How, for example, do you apply effective certification to the anarchy of the Internet?

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

AN UNDERSERVED MARKET

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

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

As the Erfurt declaration adopted by Kids Regio forum [32] suggests, the children's market is chronically underserved – with an estimated 3.4% of films being made in Europe for an under-15's market which comprised 15.7% of the European population in 2008, according to the last Eurostat survey. [33]

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

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

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

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

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

Of the top 20 films of all time according to Box Office Mojo, 17 have been part of studio blockbuster franchises made in the last 10 years. [34]

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

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

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

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

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

ARTHOUSE EXCLUSIVITY

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

As discussed elsewhere in this report (See page 6), the audience for arthouse and specialist European film is ageing.

Arthouse cinemas themselves (with some very notable exceptions) are sometimes guilty of indulging in the worst traits of ageing, becoming daunting and unwelcoming places. The terminology itself of arthouse and auteur is excluding and self-defeating.

An interesting case is the release of Lars Von Trier's disturbing 2009 Cannes competition film *Antichrist*. After largely bad reviews in the traditional film press, the film enjoyed a relatively small run based on the Trier name.

In Poland, distributor Gutek decided that it would simply bypass the arthouse critique and sell *Antichrist* like any other psychological horror without any emphasis on the 'auteur', and did reasonable business among a younger audience. Telling a young audience that a film is good for its intellect or culturally important is not, and never has been, a great way to create interest.

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

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

In any case, the key issue for this report is lack of exposure to film.

We should acknowledge that the European film structure from film-makers to policy makers have neglected children to the potential detriment of tomorrow's potential fans beyond an educated upmarket elite. Although there are specialist festivals and sections at festivals (and Cannes frequently opens with a US family film), the kids are largely expected to keep to their place on the margins.

MEDIA UBIQUITY

The availability of media should dramatically increase access to great film for young people.

Although media use by children depends to a degree on culture and varies from country to country, access to personal entertainment devices has soared almost everywhere.

A study from the GSM Association in 2009, for example, suggested that 50% of 10 year-olds in the European Union, 87% of 13 year-old and 95% of 16 year-old children had a mobile phone. [35]

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

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

A survey of 14-25-year-olds from around the world, commissioned by Deloitte, showed that 75% saw the computer as more of an entertainment device than their television.

The survey of 8,800 young people showed that 59% viewed their mobile phone as an entertainment device and were spending one-third less time watching the family television than are other generations. [36]

These patterns of behaviour can now be widely observed and cultural differences between nations are blurring. The influence on the 'tweenager' generation of colossal global US brands such as *High School Musical* and Hannah Montana create forms of interaction that are copied everywhere.

There is considerable research on these changing patterns of entertainment consumption among pre-teens. Each has implications for any attempt to increase the reach of European film.

The potential of this online audience has not been adequately addressed by the European film industry.

MULTI-TASKING

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

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

This ability to multi-task media is sometimes taken as a sign that the attention span of the average young person is being damaged by new media forms.

For film, however, there are two more positive potential interpretations. The first is the 'live' phenomenon of recent years, which has seen growth in interest in live music and sport, in spite of, and arguably because of, the ubiquity of easily accessible and often condensed content.

Film does not die because of it cannot adapt to a generation that has lost the ability to concentrate but because it acts as a break from multi-tasking.

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

A survey from the European Interactive Advertising Association suggests that these media multi-taskers disproportionately use the internet for entertainment with 38% watching film, TV or video clips on the web (compared with 21% of non multi-taskers). [37]

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

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

TIME

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

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

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

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

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

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

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

The study, called *Generation M2: Media in the Lives of 8- to 18-Year-Olds*, is the third in a series of large-scale surveys about young people's media use and includes all three parts of the study (1999, 2004 and 2009).

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

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

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

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

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

PIRACY, ACCCESS AND OWNERSHIP

Piracy is discussed in Chapter 9 but there is one key generational difference that should be noted in this chapter. A generation has grown up with the idea of Internet as a free resource.

And this freedom was not always so angrily attacked as it is today. Publishers, for example, often began with a payment or subscription system but ditched them in a chase for reader numbers.

The temptations of unprecedented access to readers led to a general removal of paywalls. Only now, as it becomes clear that there was no business model to make wide access pay, has there been a rush to reimpose charges.

Much of the free nature of online content was actively encouraged by traditional businesses. We are slamming the door shut now having found that we were unable to simply 'monetise' the increased digital reach.

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

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

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

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

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

At the very least it should open up a dialogue. The music industry belatedly became aware of that need as their business models fell apart, and have investments in these new businesses.

Experimentation without long-term commitment to new ideas rather than knee-jerk condemnation seems a rational business approach to be followed.

That is particularly so given the hypocritical moral condemnation of file-sharing. The effect of file-sharing on the industry with its limitless potential to reach audiences with perfect copies cannot be denied.

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

ENGAGING WITH CHILDREN

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

Education: It is telling, but not surprising, that the first of that trinity – education - gets most attention. In some ways it is least challenging to both the business model and the dominant tradition of European 'cultural cinema.'

Education tends to be focused on cultural appreciation – cinema as an academic subject - rather than something fluid, interactive in which one can participate.

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

The aims of this project would be to nurture, in Barroso's words "the emotional side of Europe" to match the political and economic focus of the EU. Talking at the event in Germany's Ruhr Metropolis, Volker Schlöndorff said it was time to consider "another lingua franca, the language of the images."[39]

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

There is nothing, of course, wrong with these ambitions but they can only be part of the equation, not least because turning film into academic study creates another kind of divide, one perhaps removed from the emotional engagement the academy has sought.

The other two elements – access to content and encouragement of participation are more problematic.

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

A willingness to take film to the media on which they wish to consume it opens up all kinds of questions about business models, not least challenging the centrality (though not the existence) of the theatre.

A desire to make film more visible on multiple platforms inevitably opens up discussion on rights and licensing etc.

Participation: One of the seeming anomalies of the last few years has been the resurgence of classical music.

As ever with supposed 'resurgences' and 'waves', one has to be highly circumspect. The successes have been largely limited to a relatively wealthy, educated audience.

Nonetheless, there has been an increase in the number of orchestras and live concerts with a knock-on effect for DVD sales. Film exhibitors have enjoyed some benefits with the screenings of live streamed opera to cinemas around Europe.

There has also been a proliferation of specialist radio stations, derided by purists for their populist 'middle-brow' tastes.

But the key driver has been that active players of music are also buyers of tickets. Participation is a major inspiration for consumption.

It has not come simply through teaching appreciation of music – in fact, music education has been in decline and there has certainly been a backlash against cultural 'elitism', which has attempted to stress an aesthetic hierarchy.

Film seems to offer clear similarities. The best way to create interest in film may well be to encourage children to make films.

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

WINNING NOT CONTROLLING

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

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

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

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

CHAPTER SEVEN: DIGITAL CINEMA

IN BRIEF

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

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

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

The celluloid print is now a dead man walking.

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

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

We are now already in the digital cinema era, even if actual screens remain relatively thin on the ground. Digitisation is now accepted driving reality in distribution and exhibition developments.

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

D-CINEMA CRISIS

Following the development of the digital cinema crisis that threatens a swathe of small independent cinemas has been like watching a slow-motion car crash.

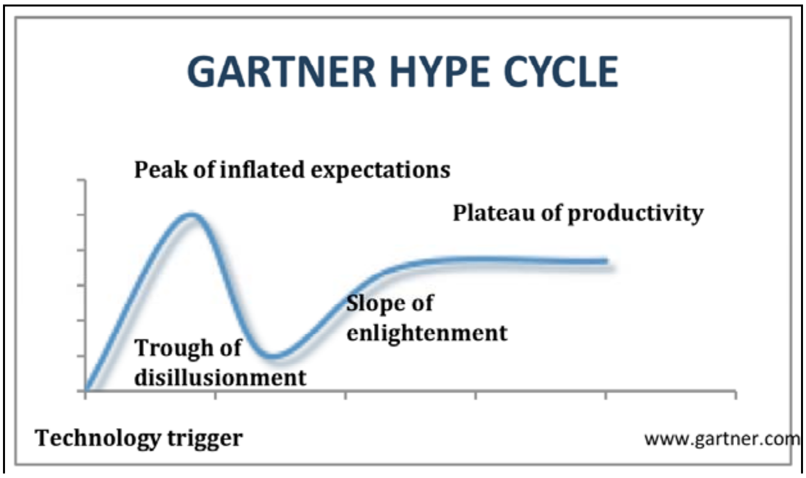
The dangers were identified years ago and yet national and European bodies are only now trying to work out how to save one of the critical elements holding together film culture in Europe.

For those not involved in film, it is hard to imagine how it happened or why the crisis is not the obsession of the whole business.

But it is just more evidence of the gap between the creation of films and those films actually being seen by audiences, and of the privileging of the production over engagement in cultural policy.

It is all a long way removed from the optimism that accompanied the launch of the UK's pioneering Digital Screen Network in 2005. The scheme offered state support to install D-cinema projection equipment in more than 200 screens in exchange for the screening of UK, European or specialist film. It made a direct link made between D-cinema and a widening of choice – and by implication increasing the audience for non-Hollywood film.

Since those first steps, the D-cinema has followed a familiar pattern that neatly fits the hype cycle, created by leading information technology analyst company Gartner (see below) – which suggests that all innovation goes through a process of over-inflated expectations, leading to a period of pessimism, before re-emerging as real business. [40]



For the bigger multiplex chains in the more mature markets, notably the UK and France, we are some way up the 'slope of enlightenment.'

3D and alternative, non-film content, such as live music events, have made an impact; some cinemas have decided to invest immediately in 3D screens and the success of James Cameron's *Avatar* will be a strong catalyst for what promises to be a year when many of the bigger chains sign up for digital deals.

The problem lies with the smaller cinemas and indeed the smaller countries of Europe. What was once an opportunity now looks more like a disaster, with the future of large numbers of European cinemas now in doubt in a major funding crisis.

THE SMALL CINEMA CRISIS

The threat to small cinemas and, just as importantly, the re-screening of Eastern Europe, has come about ostensibly because of the difficulties of scaling down the main funding system – the virtual print fee.

Research from *Screen Digest* suggests that the number of single-screen cinemas in Europe stands at 8,054, which makes for a reasonable, if not precise, indicator of the volume of screens that may be at risk. That is a quarter of Europe's cinema screens. [41]

The problem will disproportionately affect the smaller countries because the main financial models and indeed studio support are generally directed at small-to-medium or larger territories.

These smaller territories do not figure in VPF deals from the third-party facilitators such as Arts Alliance Media or XDC, and by implication are too small to be approached by distributors directly.

There is a second factor in the problem, which is that the partnership between distributor and exhibitor at the heart of digital cinema funding has been somewhat strained.

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

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

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

MUTUALITY

The rather belated recognition of the dangers led to hopes of government intervention, even of direct payments to cinemas. Despite such a move being ruled out in most countries, the expectation of government support may have contributed to further delays.

Over the last year, there has been a change of position with recognition that some form of public support would be needed, not in direct subsidy but in underwriting mutual funds.

The trick is to bring together those small cinemas to create a single bigger body, either to act as a collective buyer, or to form the base for a mutual fund.

The logic of the idea does not negate a set of serious challenges, even if the distributors can be convinced to come on board.

The first is that funds and buying groups require some bigger first-run chains alongside the tiny independents. That is the challenge in the UK, where cinemas have been signing up to a private buying group.

Any hint of direct subsidy also raises legal competition questions. A proposed tax break for digital cinema installation in Italy has been referred to competition authorities.

Even a promising mutual fund in France ran into trouble over stringent tests on European state support.

One mutual plan has already fallen flat. Mutuality implies sacrifice to the greater good but Germany's plans for a mutual fund all but collapsed at the end of 2009 when a multiplex chain made it clear that it would not accept a planned ticket levy just to show solidarity with smaller cinemas.

Only Norway with its unique public ownership of cinemas (and a healthy economy) has so far been able to take a whole national cinema infrastructure into the digital age.

All that is now unequivocally clear is that 35mm is dead and cinemas will have to cope: standing still means going backwards, and going backwards may simply spell the end for a business.

3D AND ALTERNATIVE CONTENT

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

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

Whether a 10-year labour of love from a big-name director is indicative of the overall long-term prospects for the format is open to debate.

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

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

ALTERNATIVE CONTENT

Alternative Content is shaping up to be an important revenue stream for exhibitors, who are experimenting with many types of programmes, including live streaming of operas, plays, sport and concerts. Gaming may also be part of the package.

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

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

EUROPEAN FILM

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

Few exhibitors have taken the plunge into buying digital equipment on the basis of increased choice of specialist film and 3D and alternative content have been stronger stimuli.

That is partly a matter of access to content. The production of digital masters of film has been sporadic (although in the UK where the Digital Screen Network provides an audience, it has not proved a major issue).

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

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

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

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

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

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

The true benefits of digital cinema will not be felt until cinemas can receive all forms of content using digital means. Most films are still physically transported to cinemas, using similar methods to those used for 35mm prints (mainly the courier).

THE STANDARDS DEBATE

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

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

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

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

The threat to small cinemas and the possibility of public money being spent has reopened discussion.

European competition law may have an impact here. At the heart of 2K projection equipment is an expensive Texas Instruments chip, whose virtual monopoly effectively removes any hope that competition or economies of scale will reduce costs once the rollout has mass support. The only real competition is Sony's 4K equipment.

Given the unexpectedly long delay between DCI approval and actual rollout of the mass of cinemas, it is perhaps natural that the goalposts have moved.

Technical advances means there are now lower-cost alternatives to the 2K systems that offer high levels of security but at lower resolution, and which many believe will be irrelevant for smaller cinemas. These projectors are not yet on the market but are now influencing policy.

If the choice is between cinema closures and low-cost sub-2K equipment that offer a cheaper option for cinemas and lower taxpayers costs, then the standards argument will inevitably be opened again.

The threat should not be underestimated, however. As with much of this report, the prospect is opening of another divide between the big players and the small independents.

THE BIG SWITCH

For all the problems outlined here, many of the key milestones have been passed for D-cinema.

The first is the acceptance that there is no going back. The 35mm era is over. The negative aspects of that change outlined here – especially the threat to small cinemas – at least will focus minds. One way or another, we will have a resolution.

Unless the standards debate rears its head again, the only remaining question is timing.

Such decisions may be influenced by consumer demand, the competitive environment, or perhaps the arrival of really compelling content such as *Avatar* or *the 2012 Olympics*.

But there remains a question for cinema to answer that state funders are entitled to ask. Is digital cinema merely an equipment upgrade, a piece of capital expenditure.

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

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

CHAPTER EIGHT: NEW DISTRIBUTION

IN BRIEF

» **Rights and windows issues undermine on-demand growth**

» **VOD channels are expanding fast but confuse consumers**

» **Broadband speeds will be critical to growth and piracy**

» **Mobile film will expand with new devices**

Innovative new forms of distribution have, as discussed, gone through periods of hype followed by disappointment. This revolution has so far been a lot longer on anticipation than action but that is in the nature of technical developments. For instance, there was a 10-year gap between the patenting of the MP3 music file and the launch of iTunes at the end of 2001. In the next five years, more than 100 million iPods were sold.

The early adopters of a technology trend are rarely the biggest beneficiaries (and in revolutions, the early idealists tend to end up with their heads in the guillotine). It is those who can capture the imagination of customers or attune to demand that win.

We are still at a relatively early stage of the online download business. Apple only introduced its movie download and rental service in 2009 – and already dominates the market.

At this stage the service features little in the way of European fare, reflecting both digital rights confusion in Europe and a relatively low take-up, not least because of patchy broadband coverage. (See below). Where speeds are high, such as Denmark, customer habits change fast and there is little patience to wait for business to catch up. YouGov Zapera research in 2010, suggested that one-in-six Danes between the ages of 20 and 65 watch illegally downloaded movies.

New distributors and online exhibitors had once promised to take a lead in the virgin European market and to establish a clear brand in the emerging markets. There was some success in the DVD rental field with brands like LoveFilm making a mark.

But it is fair to say that the VOD and film download market has shown little evidence of action to back up its once bullish predictions. Most are long-tail, back-catalogue businesses operating at the margins of film, although a few of the bigger names, including Babelgum, have been active in the market for original content.

For most producers, where there are returns of any sort, they are in the specialist boutique sites that offer a share of any download revenues.

C. Cay Wesnigk's Onlinefilm.org is among the European examples but a number of US-based specialist sites such as ReFrame [42] or IndieFlix.com [43] have made some impact.

One of the web's biggest successes, YouTube, has made some attempts to break into the field with its Screening Room, which hosted its first full-length premiere with Wayne Wang's *The Princess Of Nebraska* in 2008.

But this has been a slow start and the lesson of the music industry is that downloads will not kill the physical alternatives (CDs are still hanging on to the lead in bought music). There will be some innovation still in DVD and particularly television with the first 3D televisions going to market in 2010.

But this chapter examines on-demand services because they are the ones that are most disruptive to existing business models.

VIDEO ON DEMAND

The reasons for the relatively sedate progress of consumer use of VOD so far are numerous and open to dispute. They include impossible competition from piracy, slow broadband speeds and the fragmentation of rights and release windows.

There have been signs of change, however, in the last two years. And again there has been a multiplicity of factors: the slowdown in other media sales, noticeably DVD; fear of domination by one player, particularly iTunes; faster broadband speeds; and customer acceptance of the technology.

But the problem has certainly not been because of a shortage of VOD platforms. There are now 696 on-demand audiovisual services, up from 366 different providers that were operational at the end of December 2008, according to the European Audiovisual Observatory (EAO).

The UK leads the pack with 145, followed by France with 106 and Italy with 93. More than half of these were from Internet platforms, with 30% on a DSL network (in the IPTV mode), 7% on cable and less than 3% by satellite.

As discussed earlier, this proliferation has not necessarily been good for customers. The market has already fragmented into a confusing mass of sites. Few have yet established a brand that can be followed in the way that a great record label can manage in music.

One of the better-known brands to have established a foothold (albeit with strong European MEDIA support) is The Auteurs, which demonstrates both the potential and the pitfalls of the emerging VOD landscape. [44]

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

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

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

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

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

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

We could end up with a three-tier system – the majors, the pirates and a scattered number of national VOD platforms struggling to survive. The European problem comes down again to the familiar ones of fragmentation: geographical, linguistic, political and legal.

One has to ask if VOD will be another area where huge potential to level the playing field in the interests of European film will be lost.

A feasible system of rights fit for a digital age seems to be a crucial exercise if there is serious intent to put VOD at the heart of European film.

BROADBAND

It could be argued that the patchy development of broadband across Europe has a positive side. The length of time it takes to download a movie has made it less vulnerable to pirating than the much smaller music files.

Despite this, piracy will still be the main source of movie downloads for some time, just as happened in the music industry.

But the creation of a high-speed broadband infrastructure with universal access remains government policy at national and European level and the film industry is just one small influencer of the direction of policy on high-speed networks.

A report issued by the European Commission, reveals that 23.9% of the European Union population had a broadband access line as of July 2009, up from 21.6% in July 2008, representing 119.4 million fixed access lines across the continent.

Concern about the 'digital divide' where Europe would be torn between Internet access haves and have-nots remains but the issue now has moved on to a divide by bandwidth, speed, price and mobility. Upload speeds are critical to any audiovisual services, as anyone who has endured interruptions to streaming video will testify.

New forms of distribution will inevitably emerge from this innovation. They may be as unexpectedly lucrative as ringtones and texting for mobile phones but there is no doubt that customers will modify these platforms for their own convenience - and not always legally.

The double-edged sword is there again: what will drive VOD and downloads will also undermine it.

MOBILE

Mobile is likely to be one of the big stories of the next few years. The number of mobile broadband subscribers in the five main European markets is expected to rise from 22 million at the end of 2009 to more than 43 million by 2011 with revenue rising from €6bn to €11bn, according to the GSM Association.

Big breakthroughs should come from Scandinavia, where so much of the pioneering work of the mobile telephony era was developed and where broadband speeds are among the best in Europe.

Mobile operator TeliaSonera claimed to be the first to be offering so-called 4G services, capable of handling HD video to the kind of standards that customers expect from their home entertainment. iPhone applications are already proving that micro payment transactions can succeed.

Analyst Juniper Intelligence predicts that demand in 2010 will be so high that 3G networks may become seriously strained, forcing a rethink on pricing.

And mobile content has already inspired experiments in filmmaking. In 2009, Sally Potter's *Rage* claimed to be the first major film to be distributed for free exclusively through a mobile phone. Downloadable in seven parts, *Rage* boasted a cast including Jude Law, Steve Buscemi and Eddie Izzard. [45]

The innovative Pure Grass Films, which has been working with successful media companies, such as Endemol, has also enjoyed some success in the mobile field with films such as *When Evil Calls* . [46]

New mobile creative forms may be quickest to emerge in Asia, home to the world's fastest mobile and web networks – or even Africa, where the lack of theatres and DVD players is helping a leap to mobile technology. South African company DV8 has been strong in this area and the Nollywood industry in Nigeria is also experimenting. [47]

CHAPTER NINE: FUTURE BUSINESS MODELS

IN BRIEF

» **On-demand business models divide industry**

» **Online and on-demand models disrupt existing models**

» **Film-makers are experimenting with ‘free’**

» **Rights remain stuck in the analogue age**

There are two clichés that have made a big mark on industry discussion over the last two years: the first is that the current business model is ‘broken’ and the second is that there are no convincing models for ‘monetising’ digital distribution. The truth of both statements depends on one’s perspective.

There is, however, barely any area of the industry where the existing business structure has not been creaking. There is widespread acceptance now that a distinct period of growth that began with the home entertainment boom of the 1980s and 90s is coming to an end and that fresh models will be needed for a new digital, on-demand era.

But the problems faced today by different sections of the business vary considerably– and the solutions will not only require different responses but those responses will sometimes be in direct contradiction with each other.

Two basic positions are slowly forming into models that will form a deep divide in the industry:

Some – particularly in the independent sector – see the future in trying to ride the wave of customer demand. These models stress visibility, interaction and free content.

Then, there are conservative models for which the future is based on holding back the tide of demand. These models stress the protection of rights, tough action on piracy and assimilating digital change insofar as it fits the basic existing structure.

It is not a question of right and wrong. But the conflict between these positions will come into conflict – and it asks serious questions of film policy-makers.

PIRACY

The arguments about piracy can take on an ideological and political edge: quite literally so in some countries, notably Sweden, where the championing of a ‘free’ Internet has become an election issue.

And it is hard to argue that new copyright theft laws are anything but illiberal, even if you accept the need for them. The French “three strikes’ law, in which Internet Service Providers (ISP) are expected to police customer behaviour was only narrowly approved by parliament after earlier being defeated.

Attitudes towards piracy are closely linked to how much one has to lose. Someone with a body of work bringing in significant returns would be more likely to have a strong desire for action than those with little money coming in anyway. The near collapse of the music industry under the weight of digital distribution and piracy still exerts a strong psychological hold on the film business.

Exhortations to 'learn from the music industry' remain a frequent refrain. But some industry bodies have reduced the 'lesson' to a single idea – copyright theft has to be dealt with before any new models can work. They can point to figures from the International Federation of the Phonographic Industries (admittedly a somewhat partial source), which suggested that 95% of music downloads were illegal in 2008.

But tough laws will come under considerable pressure, from legal challenges and from technological advances that will be devised to find new ways to bypass the system. The popularity of legislation may struggle to retain public approval once prosecutions begin and the comparisons to other unwinnable wars, such as the one on drugs, are irresistible.

There has been growing understanding of the need for a change that at least recognises that artificial scarcity plays a part in encouraging piracy.

Research for a UK industry event Digital Heat in 2009, for example, found that 60% of film industry executives thought removing release windows between cinema and other media would have a 'reasonable' or 'significant' effect on reducing piracy.

The UK Film Council introduced its own positive venture in a website *FindAnyFilm* [49] which guides users to legitimate online downloads, although these are frequently unavailable.

But there is an increasingly vocal group of independent filmmakers and producers for whom visibility and access to audiences has become more important than piracy and they have been searching for new models, in which money can be derived while offering at least some free access to content.

There is some evidence on their side. Criminalising customers may arguably be a short-termist approach. A study from the BI Norwegian School Of Management in 2009 found that those who illegally downloaded music were also 10-times more likely to be buyers of legitimate music.

That does not negate the point that copyright theft is highly corrosive – but it does suggest that new ideas are needed and a fresh think on rights.

What is indisputable is that piracy is driving a great deal of the digital debate, whereas the dangers to independent film of invisibility in an overcrowded market are rarely given the same attention.

THE WEB

"We have an entire new paradigm but we're breaking it by trying to fit it into our old models," according Brian Newman, consultant and former President of the Tribeca Film Institute.

His statement reflects a feeling in the emerging cross-media field and he has a point. The core assets of the web are connection, communication, search, interaction and the ability to copy, perfectly, immediately and endlessly. Windows and territorial boundaries just don't fit the web.

And it has so far proved impossible for any media industry to bend the web to its will. That is what makes the challenges of today revolutionary.

The industry has managed to successfully assimilate new, supposedly disruptive forms of business before. Home entertainment formats, such as VHS and DVD were once seen as a serious threat to cinematic revenues, but eventually proved to be a catalyst for a new era of business and industry confidence.

However, while some new technologies can indeed be seamlessly brought into film, what we are now seeing is a split between what we may call upgrade technologies and game-changers.

The highest-profile current upgrade is 3D. The new dimension may radically improve, or at least alter, the user experience and has already proved that current consumers will pay more for the grand spectacle.

And yet, for all the talk of a 3D revolution, it does not essentially change the business model of film.

Similarly, HD and 3D television, Blu-Ray discs and the new television channels may attract new consumers but essentially, they fit the current way of working.

Even the disruption that has been caused by the switch to digital cinema is not essentially about the underlying business model but about the costs of equipment, the share of investment and the scalability of the payment model (See Chapter 7). In fact, the virtual print fee (VPF) actually locks in the basic existing business model for 10 years.

Each can neatly fit in a closed model of artificial scarcity, the restriction of access to content that could be created in abundance.

The Internet, however, as music and publishing have painfully discovered, is the opposite. Every one of its essential characteristics militates against the current business models in a way that is all but impossible to control (See graphic).

The biggest Internet brands are all about access, reproduction and interaction. Industries, such as newspaper publishers have found that trying to create a facsimile of the 'real-world' model does not work. And the big publishers have found trying to ride the Internet tiger none too comfortable either.

News Corp founder Rupert Murdoch's row with Google was a perfect illustration. Content from his newspaper empire is aggregated daily for Google's news pages, which are easily searched.

Clicking the story will take people to the originating site, offering unprecedented access, but the relationship to the news brand is devalued or broken.

It is Google that is seen as the place to find news, not *The Times* or *The Wall Street Journal* and advertising suffers. But that is a classic case of failing to find a model which balances access with brand exclusivity – and the film industry will face similar dilemmas.

TERRITORIAL RIGHTS

Film has another hole in its current model – its model is centred on geography.

In the 35mm and DVD world, territory rights are easy to understand and, to an extent, enforce. The sale and distribution of physical goods between countries has nice clear lines of distinction even though piracy, attuned as it is to demand, can easily circumvent the system.

You know where you stand with borders and the system has lasted a century. The Internet, however, creates an unprecedented problem because it does not exist in the world of states and borders.

It is not, of course, technically impossible to keep digital signals within a single country. Television rights to sports games, for example, are blocked outside the territory for which rights have been purchased.

But the web lets audiences see what they are missing and getting around the system is relatively easy. Artificial scarcity is considerably easier to enforce when no one knows about availability elsewhere. The point is demonstrated by US television shows, such as *The Wire*, which create a buzz online which will not be satisfied overseas for months and potentially years.

Large numbers of people decide not to wait. The most popular series of 2009 – *Heroes* – was downloaded 6,580,000 times, mainly by overseas audiences. File-sharing services exist because they can exploit such demand.

RELEASE WINDOWS

The other great restrictive practice is the release window, which historically has been a means to maximise revenues for distributor and exhibitor. The opening weekend, the DVD release and the television premiere are tied to specific campaign and the marketing operations and revenues are very much based on these windows.

In recent years, there has been some tension because what the distributor perceives as good for his or her business can be out of kilter with what the exhibitor believes. These arguments have occasionally spilled over into boycotts as distributors try to dictate their own terms.

Curzon Artificial Eye's day-and-date release of arthouse films *Julia* and *Edge Of Heaven* on Sky television's pay-per-view platform and on the distributor's own cinemas attracted criticism. And some releases – again in the UK – have actually led to boycotts, notably low-budget horror film *Mum And Dad* in 2009.

For exhibitors, the release window has become a matter of principle but the constant erosion of the window over the last two decades, asks questions about their true value.

In France, - where windows are protected by law - new legislation shortened windows from six to four months. Video sales have since risen 12% from 83 million to 94 million, according to preliminary figures from market research company GfK and reported by video industry body Sevn, with no apparent effect on cinema admissions.

For the studios, some of the heat has been taken out of the operation because their focus has increasingly turned to fewer and bigger global blockbusters, for whom the current windows arrangement can work. *Mamma Mia* in 2008 was a fine example of how to create a feelgood Summer movie and a Christmas DVD hit. They also need cooperation and partnership with exhibitors to shift to digital cinema and 3D.

In the end, the studios have the winning hand because all that exhibitors can do is block. That fact was illustrated in February 2010 in the UK where one by one the major multiplexes bowed to pressure from Disney to reduce the release window for its 3D release *Alice In Wonderland* to 12 weeks.

These clashes of protectionism against expediency should not detract from the fact that windows are an essential part of the value chain of the old business.

Which begs the question – if the studios believe that windows are good for business, why does so much of the exhibition business treat it as a matter of principle that needs to be backed up by the implied and actual threat of boycotting films if windows are breached?

FREE

The radical open-source wing of film-making has been growing in confidence in recent years. Although many filmmakers and radicals appear on platforms together, they are a disparate group. What unites them is a sense that the web should not operate in the same way as the analogue world.

The music industry has shown how today's impossibilism can become tomorrow's orthodoxy. Imagine pitching Spotify to the music establishment even a short decade ago.

One of the most interesting digital debates now causing ripples is the idea of creating a viable legitimate business, while offering content for free. Predictably, Chris Anderson, the celebrated author of *The Long Tail: Why the Future of Business Is Selling Less of More* has been leading the discussion with his book *Free*.

He posits the idea that our search for new business models needs to reassess the idea of pricing and to look again at the value of giving away content. There are a number of means to make money out of the approach.

As mentioned above in relation to newspapers, the access to free material online has become part of the culture. Putting that genie back in the bottle will be hard indeed.

As discussed here in relation to piracy, changing that culture requires draconian and illiberal policies, such as the policing of the net by Internet Service Providers. And even when those measures are introduced – and taken on the inevitable legal and technical challenges - there is no evidence that people will begin to pay.

So can giving things away be a business model?

CROSS POLLINATION

The sales of free content as a means to market ancillary goods has been successfully tested in the Asian games industry. Under pressure from widespread piracy, games manufacturers are giving away games for free and charging for upgrades and accessories.

A number of big names in the music industry, including Prince and Nine Inch Nails, have given away free CDs in order to sell much more profitable tickets to live gigs and merchandising.

Obviously the biggest users of the model are the up-and-coming names wishing to raise their profile, even if returns are relatively small.

VOLUNTARY DONATION – CROWD-FUNDING

There have been high-profile experiments in voluntary payments in music. Radiohead's free download release of their album *In Rainbows* received a good deal of hype that makes its figures potentially misleading. The results suggest that around 65% of downloaders paid nothing but that left a sizeable group of contributors who may have contributed as much as $3m, some estimates claim.

What Radiohead had on its side, hype apart, was an appeal amongst a loyal fan base, which did not want to rip off their heroes. Perhaps its appeal among a tech-savvy demographic helped increase donations.

Film equivalents were discussed in Chapter 2, but it is worth noting that to raise money for a film that has already been released elsewhere requires a large base of potential donors.

ADVERTISING

Free sites with advertising remains a growing model, pioneered by games sites such as Mousebreaker. This is a fast-growing area for film and the model for many new VOD sites.

For rights holders, the deal is normally a share of advertising revenue. Both Amazon and YouTube are in on the game now.

The German service onlinefilm.org aims to allow independent documentary makers to reach audiences through a streaming and download platform. It uses the BitTorrent peer-to-peer file sharing protocol to exchange files and does not use digital rights management. [49]

The MEDIA programme-supported platform gives content owners direct access to their customer with an immediate payment system for a download, as well as instant free streaming. A filmmaker can upload directly through an account.

The split on any sales with the site is 50-50 after taxes, although shareholders get a better deal. The site also takes a 35% cut of sales on the filmmaker's own website if a link with Onlinefilm has been made.

BRAND SUPPORT

Involvement of commercial brands in filmmaking has been a controversial subject that has focused primarily on product placement.

The idea that product placement will move beyond what beer is drunk or car driven and begin to affect the integrity of the script is not without foundation. The best-known case is in the James Bond film *Quantum Of Solace* where Bond effectively endorses a brand of watch in the dialogue.

In some cases, brands have actually driven the entire project, notably sportswear giant Adidas and Coca Cola's support for *Goal!* and its sequels.

Further, product placement has become an even more prominent discussion since the advent of ad-skipping television services such as TiVo and Sky +.

The more interesting trend for independent filmmakers is in advertising and branding of a less compromised nature.

Advertising as a means of supporting online film is a growing area and it also opens up the idea that film could be shown for free with ads.

AGGREGATING RIGHTS

The response of the majors to the music industry crisis– including Universal Warner Music and Sony BMG – was denial, panic and then a making the best of a bad job. These big names had the muscle to deal with the new interactive services such as Apple and Google as big businesses. Independents on the other hand simply couldn't get to the table.

But cooperative systems such as collective licensing has happened in music and may well become commonplace in film.

Pooling of rights goes against the grain of independent film. Back in 2007 at the height of the hedge-fund boom, a number of proposals were suggested for pooling rights on an independent slate to capture some of the billions of dollars pouring into Hollywood.

Although in retrospect, it was a trend that indies did well to avoid, it was more of a demonstration of how alien that kind of cooperation is to film.

Film people will have no choice but to move towards some kind of collective licensing model. Obviously this is very new for the film business because the film companies (in contrast with music) have always acted on an individual licensing basis.

Collective licensing and rights aggregation is rightly becoming a much bigger concern for the European industry.

CREATIVE COMMONS

The use of Creative Commons (CC) licensing has been widely explored in many industries as a practical means to create a flexible rights industry.

Advocates see CC as a means to overcome the narrow restrictions of the existing rights systems, allowing rights holders to strike a balance between supporting creative production and invisibility.

Like the free software and open-source movements, the intended ends are cooperative and community-minded but the means are voluntary. Creative Commons attempts to offer creators a best-of-both-worlds way to protect their works while encouraging certain uses of them – to declare "some rights reserved."

There are now more than 130 million Creative Commons licensed works around the world - a six-fold increase on the number in 2005.

There has been a growth of interest in the creative industries with established music acts such as Nine Inch Nails. For example, releasing albums under CC.

Creative Commons is already well established in publishing but is in its infancy with film.

A number of film-makers have been experimenting with the approach. One interesting case study in animator Nina Paley, whose 2008 feature *Sita Sings The Blues* [50] was release under CC. Part of the reason was that she ran into a copyright issue with some of the songs featured, making it difficult to release conventionally (although it did have a conventional DVD run). But the launch was a useful experiment.

Creative Commons may not offer a solution to the rights issues in Europe but it does offer a useful lesson that there is potential for a multi-speed rights system that can support all levels of film.

CHAPTER TEN: CONCLUSIONS

British Think Tank The New Economics Foundation undertook a piece of research into the perceptions of the quality of life and found that the UK was happiest in 1976. That was a year of political instability, drought and strikes with just three channels of television and certainly no Internet or video; but life was simpler back then – you knew where you stood.

It is fair to say that few of us consciously chose choice as a guiding factor in our lives.

Similarly, in most of Europe, there was no groundswell of opinion demanding globalisation or a clamour to be connected to our work place, or each other, 24 hours a day.

Most of us have had choice thrust upon us and those born before the Internet era have had to adapt at high speed.

It is hard now to imagine life – or at least economic life - without email or the Internet; in fact, governments have to be permanently vigilant to ensure that terrorists do not bring down the system and cause economic meltdown. Life has changed irrevocably and it is impossible to roll back the tide.

That is not to say that we should be slavishly tied to everything digital or fall for every piece of hype about 'new media.'

Internet pioneer, artist and computer scientist Jarod Lanier published a book in 2010 – *You Are Not A Gadget* – arguing that for all the potential for unlimited choice, we have actually created an online world of worrying homogenisation.

The free-form, creative individualism powered by the early web has become a 'stupid and boring hive mind," he suggests.

His conclusions have been widely disputed but we should recognise that this system of audience collectivity is not infallible or even always desirable; and while the point may be made in an overly polemical way, one can understand Lanier's assertion that we need to be wary of 'digital Maoism'.

THE LANGUAGE OF CINEMA

A distinction ought to be drawn then about protecting cultural value in a still nascent digital environment and narrow industrial protectionism, which attempts to turn back the tide of demand.

Europe has a rich sense of history, identity and culture, which governments legitimately wish to shelter from the relentless challenge from the homogenising forces of globalisation.

Cinema has been a key part of that culture in much of Europe. Film has established a rich visual language, which informs much of how we see our world.

And the art form, which has evolved over more than a century, has been deeply influential in the development of every media since, from television to videogames. It is quickly apparent that the cinematic language remains essential to the storytelling process in new cross-media experiments.

And for all the excitement of the new, the digitisation and digital dissemination of the back catalogues of European film may be among the great achievements of this period, if it can be connected to audiences.

This report does not suggest that film has gone past its sell-by date - quite the opposite. And the theatrical business has the opportunity for a renaissance, by going with the tide of changed public demand rather than fighting it.

What the business of film – as opposed to the existing film business – must do, however, is come to terms with an on-demand world.

The biggest danger for cinema in Europe is that it becomes over-reliant on a relatively small number of Hollywood 3D mega-franchises, which will need to be constantly refreshed to take on other new forms of entertainment. Today's wow factor can become tomorrow's yawn.

Equally, film must not become a museum medium, existing on subsidy and drifting slowly towards irrelevance for younger generations.

Film must become an essential part of the day-to-day culture. It must rightfully take its place as the greatest storytelling medium, embracing a wealth of new low-cost tools and a growing audiovisual culture. And it must ensure that film not only reaches people wherever they want to see it, but build strategies to engage active audiences.

PLANNING FOR A NEW ERA

There has been a change of attitude in the US among a stratum of independent filmmakers that could be seen clearly at Sundance in 2010. Realising how little the conventional film industry had to offer, producers and filmmakers have begun seeking means to go directly to the audience themselves.

Without the cultural or political expectations that European filmmakers face, the pioneers of a cross-media movement are going out and trying to shape the future in their own image. Having no choice is a great way of concentrating the mind, but there is a clear feeling of liberation in these adventures.

In Europe, that same rethinking is yet to take place. The blank piece of paper mentioned in the introduction on which we could write a new model does not exist. But a fresh look at film policy and funding strategies across Europe is needed.

The future of film in Europe should not be decided by Hollywood; neither should it emerge from a destructive battle between self-interested sectors of the business.

For a coherent structure to emerge, however, some flexibility and imagination is needed and a willingness to accept that the future of film as a living, breathing medium for all outweighs any narrow industrial form.

Our history of a single industry operating on a single standard is coming to an end. That is literally true with the demise of 35mm.

But it is also true that the democratisation of films ensures that the number of films will increase every year and cannot be supported by the existing means of distribution.

The mid-range film will probably now always need the support of the state outside the US, even if the new PolyGrams make their desired impact.

But the recent cross-media market will thrive not on subsidy but on the ingenuity in reaching and engaging audiences. This needs new forms of support – and the nurturing of skills and shared experience – to allow producers and filmmakers to be able to benefit from their gains.

This may mean fresh thinking in all kinds of areas: film rights, production subsidy, single D-cinema standards, a rethink on release windows, support for platforms – it is time to re-evaluate our methods and embrace change without fearing it.

But in this new competitive world, cinema will find its way back to the centre of European culture for the full diversity of its population.

The competition is not between media but for the most precious commodity in the advance modern economy – time.

LINKS

[1] **Professor Elizabeth Prommer**: Audience research University of Vienna
www.europa-cinemas.org/documents/09_Conference_ElizabethPrommer_UniversityOfWien.pdf

[2] **European Audiovisual Observatory**
www.obs.coe.int

[3] **Ted Hope**: Blog, Truly Free Film
trulyfreefilm.hopeforfilm.com

[4] **Creative Commons**: Creative Commons site
creativecommons.org

[5] **BBC iPlayer**: TV catch-up site
www.bbc.co.uk/iplayer

[6] **MovieMobz**: Brazilian cinema-on-demand
www.moviemobz.com

[7] **Europe's Finest**: Cinema-on-demand site
www.finest-film.com

[8] **Upload Cinema**: Dutch USG programme
www.uploadcinema.net

[9] **Age Of Stupid**: Environmental film and cross-media venture
www.ageofstupid.net

[10] **Steal This Film**: Jamie King film
www.stealthisfilm.com

[11] **Kickstarter**: crowd-funding platform US
www.kickstarter.com

[12] **Cinema Reloaded**:
Rotterdam Film Festival crowd-funding project
www.cinemareloaded.com

[13] **Workbook Project**: Lance Weiler's DIY cross-media service
www.workbookproject.com

[14] **MoviePilot**:
German recommendation site
www.moviepilot.de

[15] **iStrategy Labs**: Digital research
www.istrategylabs.com

[16] **Breathe**: Cross-media project
Breathewithme.eventbrite.com

[17] **Head Trauma**: Cross-media film
www.headtraumamovie.com

[18] **The Company P**: Cross-media company
www.thecompanyp.com

[19] **Ataque De Panico**: YouTube-posted film
www.youtube.com/watch?v=wOv_o0OpnpY

[20] **Mary Poppins trailer**: YouTube mash-up hit
www.youtube.com/watch?v=2T5_0AGdFic

[21] **Power to the Pixel**: Cross-media services, including labs, conferences and website
www.powertothepixel.com

The Pixel Report: Website dedicated to digital and cross-media change in film
www.thepixelreport.org

[22] **PttP Think Tank report**
www.powertothepixel.com/wp-content/uploads/2009/11/PTTPthinkreport_FINAL.pdf

[23] **Purefold**: online series inspired by Blade Runner from Ridley Scott and Ag8
www.ag8.com/purefold

[24] **Fans, Friends And Followers**:
Scott Kirsner blog
www.scottkirsner.com/fff/contents.html

[25] **Star Wreck**: Cult online hit
www.starwreck.com

[26] **Michel Reilhac blog**
http://michel-reilhac.blogs.arte.tv/

[27] **Entertainment 42**:
Cross-media agency
www.42entertainment.com

[28] **European Audiovisual Observatory**:
2009 Focus report
www.obs.coe.int/online_publication/reports/focus2009.pdf

[29] **Dynamics Of World Cinema**:
Academic site devoted to festivals
www.st-andrews.ac.uk/worldcinema

[30] **Microsoft MSN survey**
Children's Internet Use
www.microsoft.com/emea/presscentre/pressreleases/OnlinebullyingPR_100209.mspx

[31] **Morgan Stanley Research**
How teenagers consume media
media.ft.com/cms/c3852b2e-6f9a-11de-bfc5-00144feabdc0.pdf

[32] **The Erfurt Declaration**
Kids Regio initiative
http://www.kids-regio.org/index.php?id=95

[33] **Eurostat**
epp.eurostat.ec.europa.eu

[34] **Box Office Mojo**
www.boxofficemojo.com

[35] **GSM Association survey**
www.gsmworld.com/documents/Final_report.pdf

[36] **Deloitte survey**
www.deloitte.com/view/en_LT/lt/press/lt-press-releases-en/press-release/49e5bf2733101210VgnVCM100000ba42f00aRCRD.htm

[37] **Multi-tasking survey**
www.eiaa.net/news/eiaa-articles-details.asp?lang=1&id=203

[38] **Kaiser Foundation survey**
Children's media use
www.kff.org/entmedia/mh012010pkg.cfm

[39] **European Film Academy**
The Image Of Europe
www.europeanfilmacademy.org/2009/06/09/a-plea-for-the-emotional-side-of-europe/

[40] **Gartner**
Technology analyst
www.gartner.com

[41] **Screen Digest**
www.screendigest.com

[42] **Re:Frame**: US VOD site
www.reframecollection.org

[43] **IndieGoGo**
innovative cross-media website
www.indiegogo.com

[44] **The Auteurs**
European VOD site
www.theauteurs.com

[45] **Rage**: Sally Potter mobile film
www.babelgum.com/rage

[46] **Pure Grass Films**
Cross media pioneer
www.puregrassfilms.com

[47] **DV8**: South African cross-media and mobile content company
www.dv8.co.za

[48] **FindAnyFilm**
UK discovery site
www.findanyfilm.com

[49] **Online Film**
www.onlinefilm.org

[50] **Sita Sings The Blues**
Nina Paley film
www.sitasingstheblues.com

APPENDIX: THE AUTHOR

Michael Gubbins is a writer, journalist and consultant, specialising in film and media and with a particular focus on digital change.

The former editor of leading film trade *Screen International* (2004-2009), he has since created his own consultancy business, writing reports and working on strategy with bodies around Europe, including CineRegio, BAFTA, Power to the Pixel, Swedish Film Institute, Rotterdam international film festival, Europa Cinemas, Olsberg SPI and the UK Film Council.

He has chaired and given keynote speeches at more than 70 festivals and events, looking in depth at the changing business from the every industry perspective.

Among the many festivals at which he has given speeches are Cannes, Berlin, Rotterdam, London, Edinburgh, Dubai and Hong Kong.

Over the last 12 months, he has also chaired and spoken at events covering the full range of the film industry, including the Europa Cinemas conferences in Warsaw, the World Screenwriters Conference in Athens, Europa Distribution conferences in Paris and Estoril, the European Cinema Summit in Brussels, Power to the Pixel in London and Edinburgh, Malmo Film Days, Screen Directors Guild of Ireland in Dublin and Industry Trust Digital Heat conference in London.

He has written for newspapers and magazines, including *The Times* and *Time Out*. He has also made frequent appearances on television, including the BBC's flagship film programme, the BBC Radio 4 Film Programme, ABC News and Channel Four.

He is a member of the advisory board of Power To The Pixel and the Met Film School, a member of the BAFTA Learning And Events and a director of the Screenwriters Festival.

Michael won a prestigious Fuji Film Scholarship to make a film in the mid-1980s. He is married with two children.

He can be reached at Michael.gubbins@gmail.com