

EXECUTIVE SUMMARY

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

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

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

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

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

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

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

BACKGROUND

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

EUROPEAN FILM

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

THE ACTIVE AUDIENCE

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

NEW APPROACHES

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

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