

A CINE-REGIO report
In collaboration with Shareplay

DIGITAL REVOLUTION

THE ACTIVE AUDIENCE

REACH|EXPERIENCE|ENGAGEMENT

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EXECUTIVE SUMMARY

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

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

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

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

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

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

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

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

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

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

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

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

ARTIFICIAL SCARCITY

- Economic downturn, the slow development of multimedia business models and the resilience of the theatrical sector have helped sustain a conservative and protectionist supply-side approach to digital change.
- The industry value chain has been based on a 'scarcity' model, where the value of rights is dictated by distribution, in specific formats and windows, to specific territories.
- By contrast, the Internet and the World Wide Web (Web), and hence online business value, is built on instant on-demand access, regardless of national borders or release windows.
- The lack of a mature technical infrastructure and the incompatibility of physical and digital strategies has so far curtailed the emergence of digital business models but that is changing.
- The industry has tried to protect the scarcity model through restrictive practices that might be characterised as 'artificial scarcity'.
- Artificial scarcity is difficult to sustain, given that it runs counter, not only to consumer demand, but to the interests of increasingly powerful VOD platforms, and leaves the industry open to disruptive digital-native, on-demand services.

DIGITAL PROGRESS

- The progress of digital business models has been held back by the relative immaturity of some of the technologies on which they are built, and on a weak broadband infrastructure, but new developments will push the pace.
- The transition to Digital Cinema has moved through a slow initial stage of momentum building and has entered a 'time bomb' phase, where cinemas will need to power through the switchover before the supply of 35mm product dries up.
- The changed dynamic between demand, distribution and exhibition may be significant and Digital Cinema has the potential to be more than a mere upgrade, if opportunities are seized.
- The real challenge comes from those disruptive digital on-demand developments that fundamentally change the demand and supply equation.
- The industry has been suffering from 'macromyopia' – overestimating the short term and underestimating the long term effect of digital change.
- A host of technical developments, from the mass-market penetration of Internet-enabled Smart TV to superfast broadband, are coming on stream, while big-name global companies are in the process of injecting finance into what has been an undercapitalised on-demand market.
- VOD will grow quickly in Europe with global companies competing for a share of the market.

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

AUDIENCE DEMAND

- Consumer demand is neither fixed nor settled. Audiences are created by aggregating common interests from millions of idiosyncratic, individual and often inconsistent tastes.
- The Digital Revolution is not heading in a single direction. The fragmentation of demand, rather than shifting taste, is the immediate threat.
- Fragmented demand has exacerbated divisions of geography, culture, language, etc.
- Production levels are out of kilter with demand on current platforms, making it difficult to construct sustainable businesses and leading to much wasted talent.
- There is now, however, much more data available about patterns of behaviour, though industry generally lacks the analytical skills to turn data into valuable knowledge.
- There is a lack of transparency about online revenues, VOD rights and audience data in all areas of the industry, making it difficult to formulate strategies.
- Most producers make too few films to accumulate audience data, while distributor use of improved consumer knowledge is inefficiently targeted at the opening weekend of theatrical release.
- The opportunities for creating demand and building audiences begin at the development stage of a film and can be carried through multiple exploitation windows, prolonging the life of a film.

THE ACTIVE AUDIENCE

- Digital technologies have shifted power from the supply to the demand side, creating 'Active Audiences,' with considerable implications for the development of film.
- The level of engagement with content varies widely, with the most active group of social media contributors and online content creators and sharers roughly matched by digital 'inactives'.
- The most active audiences are involved in the production, funding, marketing and even the development of the narrative of films.
- The vast majority of people are part of the 'Active Audience', if only in the shared expectation of being able to access content on their own terms. Demand is getting more demanding.
- The speed of adoption of digital technologies and new viewing patterns are far from uniform and deeply divided by many factors, including age, nationality and technology competence.
- Social networks and other online tools have amplified 'word of mouth' judgements on film, meaning that audiences have taken on the role of critic and curator.
- Changing audience demand is forcing industry to look again at how it understands and calculates value and pricing.

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

THE DIVIDED AUDIENCE

- Personal data is freely given by many in exchange for services tailored to individual tastes, allowing a far greater understanding of the audience and providing tools to service demand.
- Ageing populations in Europe should help the market for national, arthouse and other specialised film but demographic segmentation is only one facet of a divided market.
- The big challenge comes in refreshing the roots of cinema, particularly in attracting younger audiences.
- The European cinematic tradition can be exclusive and excluding, particularly given the concentration of arthouse cinemas in upmarket metropolitan areas.
- Pre-teens and younger teenagers are pushing the boundaries of new technologies. Some emerging media habits challenge linear models.
- Younger audiences can be reached by tuning into the way that they choose to consume media, although it may require a fresh perspective on both content and distribution.
- Education, media literacy, and, crucially, access to audiovisual equipment and training are key tools in building young audiences.

THE RESHAPED BUSINESS

- The industry is polarising between larger scale, often diversified businesses and micro-scale film-making at historically low budgets.
- Scale counts in the digital world, not just in production, but in economies of scale; in multi-platform international distribution; and in the acquisition of skills and audience knowledge.
- There is a 'squeezed middle' of film businesses that are difficult to sustain, and which are increasingly dependent on public-sector support.
- European film can create scale by cooperation, conglomeration, co-production, diversification and by sharing knowledge.
- Lower costs and tax breaks continue to mean that more films are made while the number of cinema screens remains static and DVD sales are falling. There is little correlation between production levels and audience demand in Europe.
- The studios have focused on bigger franchises and have experimented with new VOD models while indies, particularly in the US, are increasingly bypassing the traditional industry value chain.
- European film policies may need to refocus on creating scale at one end and encouraging a dynamic DIY sector at the other.
- The emerging VOD platform giants will have a major impact on the future shape of the industry, and will also have the most access to audience data.

REACH

- Reach means more than simply the accumulation of a volume of consumers, with a more sophisticated market emerging that requires efficient targeting of audiences.
- New on-demand platforms dramatically increase the potential audience for a film but translating reach into revenues remains a challenge to current business models.
- Visibility is still the biggest test for independent film with social media and cross-media marketing becoming essential.
- Increased reach is not an unequivocal good and can undermine traditional business models, while turning reach into revenues in an on-demand market is tough.
- Piracy is a critical obstacle to sustainable business, although some radical models have been exploiting BitTorrent release and free models.
- Artificial scarcity restrictions, including territorial rights and release windows, reduce reach while protecting traditional revenues, but store up long-term problems.
- Language and culture remain central issues as European film attempts to build audiences.

EXPERIENCE

- The 'experience economy' is becoming a critical idea for the development of film in an on-demand age, where many forms of entertainment and art are competing for precious consumer time.
- Experience must not be defined too narrowly. The experiences, for which consumers are prepared to pay take many forms.
- The digitisation of the theatrical circuit has persuaded consumers to pay a premium price for tickets for 3D and some alternative content, though recent figures suggest that these additional revenues may not last long.
- Television has become a richer and more immersive experience, with HD and even 3D screens showing a far wider choice of television channels, and now 'over the top' Internet services.
- Experience factors identified for this report include: immersion and quality; authenticity and exclusivity; discovery and serendipity; convenience and catch-up; and spectacle and event.
- A desire for the authentic social experience offered by cinemas has helped keep the theatrical sector strong, while festivals and pop-up venues are expanding the appeal of a social, cinematic experience.
- The primacy of any part of the experience economy does not last long and boredom and competition for time can exert a strong influence.

ENGAGEMENT

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

- Film marketing is increasingly dependent on engaging directly with a known and understood consumer base.
- The way that commercial brands now engage audiences offers useful pointers for film, including non-commercial, cultural work.
- Engagement is about creating demand by building close relationships with audiences that can be built at the development stage and, potentially taken forward to future projects.
- Personalisation is a growing trend online that is built on engagement. The metadata created can become immensely valuable to film.
- There are some net-native engagement models, based on the idea of 'freemium', where some content is given away in return for longer-term and ancillary benefits.
- New digital forms are raising questions about the nature of ownership.

A WORD ON 'FILM'

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

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

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

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

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

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

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

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

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

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

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