

**THINK TANK...**  
ON EUROPEAN FILM AND FILM POLICY

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**CORE  
THINK TANK  
GROUP  
ISTANBUL:  
FILM  
DISTRIBUTION –  
NEW MARKET  
OPPORTUNITIES  
17-18 APRIL  
2009**

MEETING REPORT BY MARTIN DALE

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## EXECUTIVE SUMMARY

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The Istanbul Core ThinkTank (17-18 April 2009) was structured across three main sessions designed to provide an overview of current market conditions, an appraisal of how the film market may develop (with special emphasis on Video on Demand), and finally to address potential policy suggestions.

At no point during the meeting was consensus a priority. This is reflected in this report where seemingly contradictory statements can be found side by side.

*Key topics covered were:*

- How big an opportunity is video-on-demand (VOD) for the European film industry?
- What is the scale of the digital distribution revolution?
- What are the main business models for VOD?
- What are the key drivers of new market opportunities in European film distribution?
- How is it possible to develop stronger European VOD services that foster greater cross-border circulation of European films?
- How to improve the marketing of European films
- What are the factors underlying content piracy?
- How will VOD alter the traditional windows for viewing films?
- How can film public policy maximize opportunities in the digital age?

*Key conclusions included:*

- VOD offers a greater opportunity than is currently available for the European film industry to access audiences throughout the world, especially in terms of fostering cross-border circulation.
  - VOD is already a market reality (including film streaming, downloads and catch-up TV), but well over 95% of the “market” is dominated by illegal services.
  - One of the main reasons for content piracy is the absence of an attractive legal offer.
  - Europe's system of public funding potentially offers advantages in channelling support to areas that the market has difficulties in developing in the short-term but which have major medium-term potential (e.g. VOD).
  - “VOD optimists” believe that digital distribution is a complete change of the economic paradigm, while “VOD pessimists” see VOD as merely a new window of exploitation with inherent cannibalisation of existing revenues.
  - The revenue model for VOD services is likely to be similar to mobile phone roaming services – with a revenue split between the various intervening parties
  - The VOD market is likely to be dominated by a small number of “big players”, with an in-built advantage for the main international players.
  - In Europe, the main VOD players are, and are likely to remain, the large television groups and telecommunications operators.
  - VOD rights in Europe are highly fragmented, which hinders the implementation of pan-European VOD services.
  - PayTV operators are key players in this context, since they are major rights-holders and will act to counter the threat that VOD may cannibalise their revenues.
  - The digital distribution revolution, complemented by the world recession, has created a major funding crisis for European productions, particularly in territories with fewer public subsidies.
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- It will be difficult to create pan-European B2C film brands in the near future, but there is major potential for B2B intermediaries that will operate at a pan-European level, serving national platforms.
  - Given that costs-of-entry in the VOD market are comparatively low, the quality of marketing and branding is decisive.
  - One of the main weaknesses of European films is marketing - almost to the point that the label 'European Film' has negative connotations to the general public. Better marketing, direct exposure and easier access should begin to remedy this.

*The Core Group identified the following public policy propositions:*

- I) defining the right regulatory framework
- II) improving rights management
- III) imposing non-exclusive VOD rights
- IV) building European VOD infrastructures

#### **PROPOSITION I) – DEVELOPING THE RIGHT REGULATORY FRAMEWORK**

- Regulatory structures can play a key role in building a market for European Films on VOD platforms. For instance, participants noted that in territories such as the UK and Germany, opportunities have been missed to create strong pay-TV platforms that showcase and finance national films.
- European competition law may hinder concentration especially at the national level – e.g. the VOD platform, “Kangaroo”, planned as a joint venture between BBC, ITV and Channel 4 was blocked by the Competition Commission in 2009.
- European competition law must be reviewed in order to ensure that European operators can compete with the US Majors.

#### **PROPOSITION II) – HELPING PRODUCERS IMPROVE RIGHTS MANAGEMENT**

- National funding agencies and public broadcasters can play a key role in building legal infrastructures for the new value chain.
- Funding requirements should continue to encourage market interest criteria but should ensure that independent producers retain control of Intellectual Property rights and maximise the potential thereof.
- Producers should be encouraged to view themselves as rights management bodies, in addition to their financing and production activities.
- Greater accountability should be developed amongst funding agencies and producers, with clearer definition of objectives and key performance indicators.
- National film agencies can guide producers to network together and create collective rights management bodies thus improving their negotiating position with network gatekeepers to extract the best licensing terms.

#### **PROPOSITION III) – SIMPLIFIED RIGHTS MANAGEMENT AND NON-EXCLUSIVE VOD RIGHTS**

- Participants recommended that film agencies introduce a funding requirement that VOD rights be held by producers and only sold to third parties on a non-exclusive basis – thus empowering Producers and providing a potential solution to the problem of VOD rights fragmentation in Europe.
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- Rights licensing should be facilitated. Different right holders (producers, film directors, talent) should be encouraged to work together on developing a single offer to would-be licensees;
  - Rights clearance needs to be simplified and harmonised across Europe. At present revenues are far lower than expenses for rights-holders.
  - VOD rights in Europe are highly fragmented, which hinders the implementation of pan-European VOD services for European films. This complexity has also created a barrier for Producers to successfully manage their rights and thereby access an opportunity for much needed revenue.
  - The delivery requirements for funded films should be standardised across Europe and include elements such as the Master, trailers, marketing materials, metadata, subtitles, electronic press kits etc. that can easily be channelled into film promotion platforms and VOD platforms.
  - Existing support mechanisms such as MEDIA distribution support and Eurimages foresee subtitling requirements. Clearer European guidelines should be provided for subtitling requirements in the context of digital distribution.
  - A broader dubbing policy for European children's programmes should be developed in order to encourage the circulation of European films targeted at children.
  - National film producers and distributors should be encouraged to develop a joint licensing offer.
  - Non-exclusive VOD rights may be an obstacle to building strong platforms. Operators such as Canal+, which has a film library of over 5,000 titles, see a potential danger in non-exclusivity for their existing rights since new players may take over the market.

#### **PROPOSITION IV) – BUILDING EUROPEAN VOD INFRASTRUCTURES**

- Participants were unanimous that support mechanisms and regulatory mechanisms should be used to create viable VOD market opportunities for European Films. Unless public policy, in tandem with private initiative, helps create a market in the new environment, the market won't generate it by itself.
  - Participants were doubtful that it will be possible in the near future to create a pan-European B2C film brand and participants placed greater emphasis on the potential for B2B intermediaries that will operate at a pan-European level, serving national platforms.
  - In general participants considered that public support is being provided to too many small B2C platforms that will be unable to achieve economic viability.
  - Reference was made to the Glitner Platform (a European Economic Interest Group involving 10 partners, currently provided in a Beta version) that is co-financed by the MEDIA programme, and enables rights holders to post their VoD rights availability per title/territory on a collaborative basis, matched by a B2B portal and a search engine.
  - Participants also emphasised the value of recent services such as the UK Film Council's "Find-any-Film" service and suggested that similar services could be supported at the European level and at the minimum exported to other European countries.
  - Some participants suggested that it's possible to move one step further than projects such as Glitner, through the launch of 1-3 public-private partnerships (PPPs) for pan-European VOD content aggregators that will feed national platforms and will concentrate expertise in terms of rights acquisition, marketing and trailers, and thereby act as viable competitors to the US .
  - Such PPPs would involve leading media groups and could potentially be co-financed by the European Investment Bank and structured in the form of a public tender.
  - Other participants suggested that the market should be left to operate on its own and that an attempt to create large-scale pan-European VOD content aggregators would be prejudicial to independent operators and likely to lead to ineffective bureaucratic solutions.
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## DISCUSSION PAPER

# 1 HOW BIG AN OPPORTUNITY IS VIDEO-ON-DEMAND FOR THE EUROPEAN FILM INDUSTRY?

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*Participants at the Core Meeting were unanimous in highlighting the opportunity that VOD services present for the European film industry.*

- VOD is already a market reality (including film streaming, downloads and catch-up TV), but well over 95% of the “market” is dominated by illegal services.
  - Participants suggested that although VOD platforms have mushroomed in Europe, the Production and Distribution sectors are still woefully unprepared for the VOD revolution – like a horse and buggy confronted by a rocket ship.
  - VOD services have far lower barriers-to-entry than theatrical film distribution, since films can be provided at a relatively low cost – thus offering a key opportunity for independent film distribution.
  - VOD offers a higher potential revenue split to rights holders – e.g. a VOD sale of a film at a price equal to 35% of a DVD sale, can provide equivalent revenue per unit sold for rights holders
  - Digital VOD distribution enables films to travel internationally without the need to create a physical distribution network. Extensive distribution in the USA for instance is possible in this manner.
  - The US Majors dominance of international film distribution should be challenged by VOD services as limited theatrical screen space will be less decisive, with the potential for new market players and content aggregators to enter the market.
  - One example of new ventures is the VOD platform involving Paramount, MGM and Lionsgate, to be launched in Autumn 2009, for which big films such as “Iron Man” have been withheld.
  - Notwithstanding such in-house initiatives, it is likely that the US Majors will have to work with other content aggregators/distributors. To date studios will not cede rights to platforms they can’t control.
  - Changes in the music market over the last decade highlight the potential dangers - Between 1997-2007, music industry turnover fell from US\$40 billion to US\$27 billion. iTunes is now responsible for 80% of digital sales and the major record companies have lost control of distribution.
  - The shortage of legal VOD content has exacerbated the demand for illegal VOD – where there is a wide range of content on offer at increasingly high quality.
  - VOD rights in Europe are highly fragmented, which hinders the implementation of pan-European VOD services for European films. This complexity has also created a barrier for Producers to successfully manage their rights and thereby access much-needed revenue.
  - There are no standard European policies in terms of VOD rights – non-exclusivity, territories, windows etc.
  - Participants believe that VOD services offer the potential to increase cross-border circulation of European films and new revenue streams for Europe’s major film libraries – many of which are now owned by broadcasters.
  - Successful national films expand the size of the national box office.
  - A small number of films contribute to the national share of the box-office and in territories such as Germany many are distributed by US Majors (but not via multi-territory deals).
  - Demand for European non-national films has not accompanied the rise in demand for national films and continues to be relatively low (approximately 8% of the EU market and primarily occupied by US/UK co-productions).
  - An unintended by-product of MEDIA support is that the European market has become closed to non-European films, except for American films, as SME distributors avoid films without potential subsidy support.
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- Participants believe that there is major potential for VOD services amongst ABC1 viewers aged 24+, in particular those living outside urban centres, where the film offer (cinemas and video stores) is more limited.
  - A reference was made to a survey that noted that Cinemas only attract an audience within a 15-minute radius.
  - Small-budget films only reach a maximum of 7-8% of the population in theatrical release.
  - Social demographics have changed considerably. The potential viewers for independent cinema are no longer primarily urban-based. People living in big cities have more stress and less time. There is more receptivity in smaller urban and rural environments.
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## 2 WHAT IS THE SCALE OF THE DIGITAL DISTRIBUTION REVOLUTION?

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*The Core Meeting concluded that the European film industry stands at a pivotal moment - due to opportunities presented by the new value chain, in particular the advent of widespread VOD services. The meeting identified the following:*

- Digital distribution has radically transformed the copyright industries. These changes have been experienced first in print media and music because data transfer requirements are smaller.
  - International film distribution is being transformed by new marketing strategies, VOD services, digital cinema, digital television and IPTV.
  - Participants suggested that IPTV may be one of the main platforms for delivering VOD services. For instance, 90% of all paid transactions in France are made via IPTV.
  - Catch-up TV is one of the most popular forms of VOD at present. Some broadcasters acquire Catch-up TV rights for free as part of their overall deal. Other players, such as Canal+, pay an additional 7% for catch-up TV rights.
  - Feature films are a key driver of VOD. A survey of the most important generalist French VoD platforms (Canalplay, TF1 Vision, Virgin Media, France Télévisions, Arte, Club Internet, Universciné) showed that 57.6% of all titles were feature films, 37% adult content, 1.6% TV-Series, 0.9% children's programmes, 0.7% documentaries, 0.6% music and 0.4% other content.
  - At present, leading VOD services include: CanalPlay, France (6000 titles), Arte, France/Germany (1500 titles), Universciné, France (800 titles), Orange, France (5000 titles), Filmotech, Spain (860 titles), BBC iPlayer, UK, Play4film, UK, Belgacom (1500 titles), Videoload.de (T-online), Germany. International: Apple's iTunes, US (40,000 TV episodes, over 5,000 movies), Jaman (4500 titles), Amazon.com, (10,000 titles), YouTube (The Screening Room), Hulu and Joost.
  - Short films and animation may find a new source of demand via VOD, especially amongst mobile operators looking for short, fast and entertaining content.
  - 3 G licenses will make access to video content easier when deployed in the near future. Young people are used to watch films on small screens (the Nintendo/Archos generation)
  - In 2008 digital sales already represented 20% of the music industry's turnover, with a particularly marked presence in the USA (50% of global digital sales).
  - The VOD market is growing rapidly – e.g. 84.2% growth between 2007 and 2008 in France.
  - In 2008 global VOD market turnover (including TV-programmes and film) was estimated at US\$ 2,2 billion, forecast to grow to between US\$ 3,7 billion and US\$ 6 billion by 2013.
  - Participants at the Core Group were divided between "VOD optimists" who believed that digital distribution is a complete change of the economic paradigm for film production and distribution and predicted that VOD services will represent 10-15% of the sector's revenues in 5 years time; and "VOD pessimists" who see VOD as merely a new window of exploitation and who doubted that VOD will grow much beyond 2-3% of sector turnover.
  - The representatives of broadcasters at the Core Group tended to be "VOD pessimists", whereas consultants and those working in the VOD market tended to be "VOD optimists"
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### 3 WHAT ARE THE MAIN BUSINESS MODELS FOR VOD?

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*The Core Meeting identified the following business models for VOD:*

- The different business models for VOD services include permanent download (download-to-own) and temporary download (streaming). The streaming model is divided between one-off purchases (standard VOD), a monthly fee for a slate of films, (subscription VOD or sVOD), and free VOD (either advertising-funded VOD or 100% free VOD on generalist platforms (YouTube etc.)).
  - It is still unclear what the dominant business model will be. Market players are waiting for the US Majors or the regulatory authorities to define the business model. This will have a decisive impact on the rest of the market.
  - The US Majors are also biding their time in order to ensure that suitable copyright enforcement legislation is in place.
  - Participants believe that the revenue model for VOD services will be similar to mobile phone roaming services – with a revenue split between the various intervening parties – e.g. final retailer, content aggregator and rights holder.
  - There is also a substantial lack of understanding about how the collecting agencies will weigh in, both in percentages and in their regulating multi territory transactions.
  - Critical mass is essential from a supply-side and demand-side perspective. In terms of the supply-side, critical mass enables operators to negotiate better deals with ISPs, pay-TV operators etc.. On the demand side, consumers are looking for comprehensive, one-stop-shops where they can make secure transactions.
  - In the new digital value chain, the main challenge for Europe is the creation of viable publishing structures/infrastructures.
  - Participants suggested that although it is positive to have many VOD platforms emerging, there are already too many platforms. There will inevitably be consolidation.
  - VOD platforms will increasingly look like channels – they will guide viewers, recommend films, provide trailers etc.
  - The VOD market is likely to be dominated by a small number of “big players”, with an in-built advantage for the main international players – the US Majors, Amazon, Google, YouTube etc.
  - In Europe, the main players are likely to be the large television groups and telecommunications operators.
  - Smaller operators may be able to carve out a niche in specific types of film – e.g. arthouse, Bollywood etc., but even in these cases there will be a tendency towards concentration and a “winner-takes-all” phenomenon.
  - The broadcasters have an in-built advantage in this market because they have strong audience connections and understand how to build brands. For instance Orange has launched an ambitious pay TV and VOD platform in France but has experienced major difficulties in attracting subscribers, partly due to difficulties in building new brands.
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## 4 HOW HAS DIGITAL DISTRIBUTION AFFECTED THE PRESENT FUNDING CRISIS?

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*The Core Meeting noted that the impact of the digital distribution revolution, complemented by the current economic crisis has generated a major funding crisis for the sector, particularly in countries with fewer public subsidies.*

- Independent theatrical distributors are being squeezed out of the business – notably in the US. Participants predicted that the same phenomenon will occur in other markets – e.g. Germany where 50% of distributors may disappear over the next 24 months.
  - A clear shift is underway from traditional media to new interactive digital media. More viewers will move from broadcast and cable TV to ad-supported online video. Social networks based on content sharing are replacing broadcast networks.
  - Traditional film players such as broadcasters and distributors have less and less means to finance cinema (and for the broadcasters, less interest) and the current economic crisis will add to this problem.
  - Broadcasters are often obliged by national regulations to invest 25-30% of films' budgets but don't consider they have 25-30% of their value. Free TV channels (e.g. public broadcasters) often have to wait for 2-3 years before they can screen the film. For broadcasters, TV series and TV movies offer a better return on their investments.
  - Broadcasters believe that TV fiction and even documentaries offer easier opportunities than cinema to create new formats, new types of creative content, new models of storytelling, including interactivity, and new ways of including the spectators' POV.
  - Public broadcasters often adopt a hybrid approach dedicating half of their investment to films that clearly address public service issues and the other half to films with a stronger commercial appeal - offering a higher likelihood of recoupment.
  - Due to squeezing of the US independent distribution market, it's increasingly difficult to use the US to drive sales and fill the funding gap.
  - The number of widely released independent films in the US is lowering due to higher marketing costs and uncertain DVD and pay-TV revenues
  - Independent TV production is increasingly being squeezed. For instance, participants suggested that one third of TV production in France is now produced in-house by broadcasters.
  - Funding agencies are also suffering budget cuts.
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## 5 WHAT ARE THE KEY DRIVERS OF NEW MARKET OPPORTUNITIES IN EUROPEAN FILM DISTRIBUTION?

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*The Core Meeting identified the following key drivers:*

- Key drivers of change include the level of broadband penetration in each country, data transfer speeds, storage capacity, technological evolution (e.g. the shift towards HDTV) and provision of premium content by rights-holders.
  - Providers of path-breaking technology can leverage market dominance by providing a unique gateway to the public. For instance Apple used the iPod in order to corner the music download market. The new fibre-optic cable networks to be launched in Europe will also offer new market dominance opportunities.
  - As data speeds and storage capacities have increased, video is increasingly a key aspect of Internet traffic (For instance, BBC's iPlayer accounts for 5% of all UK Internet traffic).
  - There is a deep global trend towards merging home media. Participants suggested that in the new digital home, there may be one central station for downloading and access to networks which will then feed different screens. In this context, TV will no longer be a medium in itself but just another screen. The Internet will increasingly be an intrinsic part of home gadgets, integrated into games consoles, portable devices etc. TV services must therefore evolve towards value-added content.
  - The biggest change in the new media environment is that consumers are now in control. They set the agenda. Industry players need to understand consumer behaviour in order to survive and prosper, traditionally a weakness in the European Film Sector.
  - Broadcasters are now much more than channel operators. They provide free spaces where consumers can find content - when they want it and as often as they want it.
  - Consumers want a total sense of freedom – to be able to watch films on every type of monitor for the same price – mobile, computer, multi-platform etc. By offering such services broadcasters aim to be pioneers – generating new consumer habits and behaviour so that subscribers stay with them.
  - Theatrical distribution is expected to maintain its relative importance in the value chain, and perhaps increase it, as a result of new trends such as 3D (e.g. there are 2,000 3D screens in the US) and the cost advantages of cinema-going in comparison with other socialising activities. Theatrical box office has been increasing in many territories.
  - VOD will primarily make inroads in the pay-TV and DVD markets.
  - In many markets the DVD market has already reached maturity or started to decline.
  - PayTV operators are key players in this context, since they are major rights-holders and are concerned that VOD may cannibalise their revenues. PayTV operators have been the lifeblood of many film financing deals over the last 15 years.
  - Existing pay-TV operators such as Canal+ believe that they are better at marketing films than new entrants. They must be able to offer to subscribers something which is similar to, or even better than, that which is available via new VOD platforms
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## 6 HOW IS IT POSSIBLE TO FOSTER STRONGER EUROPEAN VOD SERVICES AND GREATER CROSS-BORDER CIRCULATION OF EUROPEAN FILMS?

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*One of the key objectives identified in the Core Meeting was means of strengthening the European film industry through new VOD services and measures to foster greater cross-border circulation of European films.*

- Key barriers to circulation of European non-national films include a) fragmentation of VOD rights on a pan-European basis, b) limited exhibition of non-national European films on pay-TV and free-TV channels and c) lack of incentives for producers to export their films.
  - Participants agreed that there will be concentration in the VOD market, comparable to the music market, with a small number of content aggregators feeding a limited range of platforms.
  - Participants were doubtful that it will be possible in the near future to create pan-European B2C film brands and suggested that the closest brands in this context at present will be similar to Allocine which operates in 4 countries, under different localised brands: UK (Screenrush), France (Allocine), Germany (Filmstarts) and Spain (Sensacine).
  - The experience of Canal+ shows how difficult it is to expand a brand beyond national frontiers.
  - Even for the Franco-German initiative, ARTE (that has French and German poles), it has been very difficult to create cross-border consumption trends.
  - Participants placed greater emphasis on the potential for B2B intermediaries that will operate at a pan-European level but serve national platforms.
  - One measure considered to increase cross-border circulation of non-national films was the creation of a pan-European automatic subsidy scheme based on admissions from non-national European films that would revert to producers (an idea previously launched at the Copenhagen ThinkTank in 2006).
  - A second measure was to adapt the Media Programme's automatic distribution scheme whereby producers would have privileged rights to negotiate with distributors that receive automatic subsidy support due to the same producers' previous films.
  - The main stumbling blocks for the creation of such schemes included the likelihood that they would be dominated by English-language productions, including US/UK co-productions and lack of funding sources.
  - One suggestion made was the creation of a small pan-European box office levy in order to fund a European compte de soutien, inspired by the French model.
  - The representatives of broadcasters at the core meeting also suggested that there is potential for greater exhibition of non-national European films on pay-TV and free-TV channels but that broadcasters require incentives in order to safeguard against the higher short-term programming risk.
  - In this context, suggestions were made to create a new scheme - in parallel to the Europa Cinemas programme - that would encourage higher programming of non-national European films on national pay-TV and free-TV channels.
  - Participants were hostile about the possibility of creating a European Film Council - inspired by the model of national film agencies such as the UK Film Council - since they believed that such a structure would be excessively bureaucratic.
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## 7 HOW TO IMPROVE THE MARKETING OF EUROPEAN FILMS?

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*The Core Meeting identified the following considerations and strategies in order to enable producers to use new digital tools in order to improve film marketing:*

- While participants agreed that theatrical viewing continues to be a key element in the branding of film as premium content, they agreed that an increasing proportion of revenues are likely to derive from electronic distribution and that theatrical exhibition for smaller films will operate as a “preview” system that builds visibility and word of mouth to drive sales in other media.
  - Business models were cited such as that of the Austin, Texas-based B-side films which sets up deals with theatres, restaurants, private homes to organise free-of-charge digital screenings in order to fuel subsequent VOD and DVD sales via Netflix.
  - Given that costs-of-entry in the VOD market are comparatively low, the quality of marketing and branding is decisive.
  - Information on consumers is of increasing value. ISPs have major quantities of information. In Spain the theatrical exhibitors also have a database of 0.5 million customers and analyse viewing preferences and habits.
  - For example, a recent survey in Spain revealed influences on choosing films (genre, story, recommendations, cast), favourite genres (comedy – 57%, suspense – 42%, action – 41%, drama – 10%); and perceived weaknesses of Spanish films (negative perception, don't meet audience needs, not escapist, themes are repetitive) etc..
  - Operators such as Netflix know consumers very well. By analysing consumer choices they are able to outperform other players by 25-30%. They apply consumer information knowledge in order to develop a stronger marketing approach.
  - Broadcasters, in particular, can add value by acting as a label and bringing expertise in terms of script development, marketing and brand-building.
  - New marketing models, including grass-roots marketing techniques, are required for smaller films.
  - Film, like music, is a key commodity in the “sharing economy” used to constitute social networks. File sharing “en masse” (through BitTorrent or LimeWire) gives value to the product. It gives opportunity for artists to get their works distributed but may limit the industry's return on the investment – although there is some evidence that heavy illegal downloaders are also heavy cinema goers.
  - Actors and Directors are using social networks such as Facebook very successfully. Individuals can also set up film-related Facebook pages that generate tremendous interest.
  - Marketing of music, for example, has changed dramatically. There is a need for the industry to connect with music fans directly and be pro-active in generating social networks. Artists are less likely to become millionaires but they can get to a larger audience more quickly, provided they go back to touring and meeting fans.
  - Participants were unanimous that one of the main weaknesses of European films is marketing, trailers etc. and that the digital value chain offers new opportunities in this regard.
  - Participants recommended that trailers be produced by specialised agencies and be overseen by marketing specialists rather than by the films' directors who are too close to the films. This is the model operated in the UK and US and over the last 3 years an increasing number of German films also have their trailers produced by external companies.
  - Participants recommended greater training in this field and a new outlook from national funding agencies in order to encourage a new mindset for marketing activities.
  - Film marketing should be introduced into the curricula of film schools.
  - The MEDIA programme should reinforce marketing training. At present of around 70 training centres only 2-3 focus on marketing issues.
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- There was a consensus that independent cinema is not “trendy” enough. Marketing strategies should be used to rebrand independent cinema – making it more “sexy” and attractive to younger audiences.
  - Participants suggested that independent initiatives involving European producers and film-makers could be launched at the European level, inspired by models such as the Independent Feature Project (IFP) in the US that assists independent film-makers in connecting with audiences and organises labs, screenings, markets and awards.
  - A marketing strategy should be developed for each film, aimed at maximising word of mouth through Internet-based social networks including peer-to-peer recommendations. Producers now have the opportunity to track word-of-mouth, by reading what consumers – the new opinion-makers - have to say about their films.
  - Participants suggested that the various national film promotion agencies could play a stronger role in this regard. At present they operate as B2B services – primarily serving festivals and other industry players. They could increasingly help producers to develop B2C marketing strategies.
  - Europe’s public support system must make a firm commitment to educational initiatives via the Internet, festivals etc., to introduce consumers to alternative film-making traditions – otherwise consumers are increasingly likely only ever to view big-budget European films and Hollywood productions.
  - Festivals can provide the source of important branding initiatives, potentially linked to VOD services.
  - Broadcasters can also team up with festivals to generate new events. For example, ARTE is organising the ARTE Film Festival showing 30 films, in connection with theatres in Paris, Strasbourg and some other important French and German cities.
  - Participants suggested that new branding initiatives could be launched, e.g. special branding for the award winners at Europe’s leading film festivals, top national box offices etc.
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## 8 WHAT ARE THE FACTORS UNDERLYING CONTENT PIRACY?

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*Content piracy was classified as one of the key aspects of this developing market. Some of the main factors underlying content piracy were identified as follows:*

- In Spain (considered to be the “King of European content piracy”) there are over 1.2 billion illegal music downloads, over 350 million illegal film downloads per year and extensive illegal DVD sales.
  - A recent survey by the Spanish Exhibitors’ Association FECE identified the audience’s perspective of the advantages and disadvantages of making illegal downloads. Advantages: it’s free, easy, and there’s more variety/choice. Disadvantages: poor quality – 43%, poor image quality – 28%, poor sound – 27%, downloading difficulties – 9%, smaller screen size – 7%. Only 20% of those surveyed refuse to make illegal downloads, and of those who make illegal downloads only 16% view it as theft.
  - According to the International Federation of the Phonographic Industry (IFPI) tens of billions of illegal music files are traded annually worldwide at an estimated ratio of 20 illegal downloads for every track sold” (IFPI Digital Music Report 2008). In 2008 IFPI estimated unauthorized file-sharing at over 40 billions files. “This means that globally around 95% of music tracks are downloaded without payment to the artist or the music company that produced them”. (IFPI Digital Music Report 2009).
  - New anti-piracy legislation is being prepared throughout Europe, including a measure discussed in France to block Internet access to those convicted of content piracy, and a similar proposal to be discussed by the European Parliament.
  - Participants stated that one of the main reasons for content piracy is the absence of an attractive legal offer - with a wide range of content available at an affordable price. The same phenomenon occurred in the music industry 1999-2001 with Napster followed by the launch of the iTunes store which provided a convenient way to legally buy digital music thus immediately creating a substantial market.
  - Furthermore effective copyright enforcement is impossible unless an attractive legal offer exists.
  - Content piracy is highest amongst young Internet users (below 24 years).
  - This age group (15-24) is more focused on games, social networks and downloads. A major challenge for the cinema industry is to re-capture the interest of this user group in order to attract them to theatres or to get them to pay to access content.
  - To generalise, while younger consumers make illegal downloads because of lack of money, the 30-60 age group does so because there’s no quality legal offer available.
  - Consumers seemingly pay for internet connections to access “free” content. Unauthorised activities implicitly benefit the ISPs and telecoms and have the effect of subsidising the expensive broadband roll out as access to “free” content is an incentive to subscribe to high-speed internet connections. To date policy priorities have been on technology penetration rather than content distribution. However over the medium-term copyright protection issues will come to the fore.
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## 9 HOW WILL VOD ALTER THE TRADITIONAL WINDOWS FOR VIEWING FILMS?

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*Participants recognised that VOD poses a major challenge to traditional exploitation windows. Some participants suggested that it is essential to maintain windows in order to protect traditional revenue streams, while others claimed that it is consumers who will dictate the market agenda and if windows prevail this will only strengthen piracy.*

- In the world of illegal downloading there are no exploitation windows. Consumers want to be able to download films as soon as they are released (or even beforehand). Consumers will decide when they want to access content.
  - At the same time, many participants felt that unless traditional exploitation windows are upheld it will be impossible to maximise revenues.
  - Exhibitors resent any reduction of windows that endangers theatrical release, regardless of the size of the release.
  - Participants were in favour of shorter, more flexible windows for films that have a very modest theatrical release in order to maximise the impact of a limited marketing spend.
  - Commercial policy is increasingly based on maintaining an exclusive theatrical window but to launch films on DVD and on VOD the same day (“day and date release”), followed by staggered windows for premium-pay TV, free TV, subscription VOD etc.
  - Participants stated that if a free-to-air broadcasting achieves effective branding, then previous exploitation on DVD, VOD or pay TV doesn’t have much impact on audience levels.
  - Pricing in the VOD market is already staggered by informal windows – higher prices for recent releases vs. lower prices for older titles etc.
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## 10 PUBLIC POLICY PROPOSITIONS TO MAXIMIZE OPPORTUNITIES IN THE DIGITAL AGE

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*The Core Meeting stated that an estimated €2 - €2.5 billion is spent per year in Europe in the form of public support for cinema, via incentives, tax breaks etc., in addition to state funding for Europe's extensive public broadcasting networks. One of the goals of the ThinkTank is to identify public policy propositions that will enable this significant public funding to be spent in the most effective possible manner.*

- One of the main problems in the transition stage to the digital age is monetising new digital opportunities in the short term. VOD services have great potential over the medium-term but at present have a minimal revenue return, thus deterring private-sector investment.
- Europe's system of public support can potentially offer advantages in channelling support to areas that the market has difficulties in developing in the short-term but which have major medium-term potential (e.g. VOD).
- Europe's tradition of public funding and public broadcasting can serve as an advantage, - enabling Europe to lead the way in the launch of VOD services.
- The main danger in this context is that public funds may be used to cushion market trends and create a cocooning effect that increases the already substantial distance between creators and audiences.

***In this context, the Core Group identified the following public policy propositions:***

- I) defining the right regulatory framework
- II) improving rights management
- III) imposing non-exclusive VOD rights
- IV) building European VOD infrastructures

*(See Executive Summary above)*

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## 11 HOW CAN THE THINKTANK CONTRIBUTE TO THIS PROCESS?

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*The Core Meeting identified the following next steps for the ThinkTank:*

- The ThinkTank has re-launched its Internet site, including a Wiki section designed to foster discussion within the European Film Industry.
  - Informal meetings will also be organised at Cannes with market players in order to discuss these ideas.
  - Participants identified the need for case-studies of successful national and trans-European films in terms of marketing and distribution, including VOD. Identification of what makes a good trailer, good teaser etc.
  - Participants also identified the need to ascertain the involvement of advertising agencies with European films – e.g. Saatchi and Saatchi is working with distributors in Italy. The ThinkTank should identify best practises in terms of marketing strategies for sales agents and distributors.
  - The ThinkTank should identify a road map for national funding agencies in terms of standardised delivery requirements, terms of trade for non-exclusive VOD deals etc.
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## APPENDIX

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### NEXT MEETING

The next Core Meeting has been tentatively scheduled for Summer/Autumn 2009.

### ABOUT THE THINKTANK

The ThinkTank on Film Policy and Film was formally set up in June 2007, in the wake of the Copenhagen ThinkTank organised in June 2006, attended by 170 decision-makers. The ThinkTank's Board of Directors is comprised of prominent executives from the national film agencies of Denmark, the UK, France, Spain, Poland, and more recently Germany - together with the CEO of Denmark's Zentropa. The Executive Director is Henning Camre, previously head of the Danish Film Institute. Recent events include the Council of Europe Film Policy Forum: Shaping Policies for the Cinema of Tomorrow, held in Krakow in September 2008, attended by 140 participants and the Seville Core Meeting: Strategies for the New Value Chain, held in Seville in November 2008, attended by 14 participants.

### PARTICIPANTS IN THE ISTANBUL CORE THINKTANK:

Bob Berney (former CEO at Picturehouse, Newmarket Films and IFC Films)  
Jeanne Berney (former Director of Public Relations, Film Society of Lincoln Center)  
Sue Bruce-Smith (Head of Commercial Development, Film 4)  
Henning Camre (Executive Director, ThinkTank)  
Martin Dale (Variety, Portugal)  
Fernando Evole (CEO, Yelmo Cines, Spain)  
Gustavo Ferrada (Head of Film, TVE)  
Paul Grindey (Head of Business Affairs, Scripted Content, Film 4)  
Philippe Kern (MD, KEA European Affairs, Belgium)  
Philipp Kreuzer (Philipp Kreuzer, Deputy MD, Bavaria Pictures)  
Alain Modot (VP, Media Consulting Group)  
Michael Peters (Founder and CEO, Content Republic)  
Olivier Zegna Rata (Director of External Affairs, Canal+ Group)  
Michel Reilhac (Executive Director, ARTE France Cinema)  
Chris Sanger (ThinkTank)  
Michael Weber (Managing Director/Co-Owner, The Match Factory)

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