

THINK TANK...

ON EUROPEAN FILM AND FILM POLICY

CORE THINK TANK GROUP SEVILLE: FILM DISTRIBUTION - STRATEGIES FOR THE NEW VALUE CHAIN 6-8 NOV. 2008

CONTENTS

EXECUTIVE SUMMARY /3

- 1 HOW HAS THE DIGITAL ENVIRONMENT CHANGED THE AUDIENCE AND THE INDUSTRY/AUDIENCE RELATIONSHIP? /4**
- 2 WHAT ARE THE KEY DRIVERS IN THE NEW MARKET? /5**
- 3 WHAT STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS DO EUROPEAN PRODUCERS AND DISTRIBUTORS FACE IN THIS NEW CONTEXT? /6**
- 4 HOW CAN EUROPEAN PRODUCERS CAPITALIZE ON THEIR INTELLECTUAL PROPERTY RIGHTS? /8**
- 5 HOW CAN FILM PUBLIC POLICY MAXIMIZE OPPORTUNITIES IN THE DIGITAL AGE? /9**
- 6 HOW CAN FILM TRAINING AND EDUCATION BE MODIFIED IN ORDER TO CATER TO THE NEW WORLD? /10**
- 7 HOW CAN A STRONGER DISTRIBUTION FRAMEWORK BE BUILT FOR THE EUROPEAN FILM INDUSTRY /11**
- 8 HOW CAN THE THINKTANK CONTRIBUTE TO THIS PROCESS? /12**

APPENDIX /13

EXECUTIVE SUMMARY

The Seville ThinkTank (November 7-8, 2008) was structured across four group work sessions. The theme under discussion was film distribution strategies in the context of the new digital value chain.

Key topics covered

- How has the digital environment changed the audience and the industry/audience relationship?
- What are the key drivers in the new market?
- What strengths, weaknesses, opportunities and threats do European producers and distributors face in this new context?
- How can European producers capitalize on their Intellectual Property rights?
- How can film public policy maximize opportunities in the digital age?
- How can film training and education be modified in order to cater to the new world?
- How can a stronger distribution framework be built for the European film industry?
- How can the ThinkTank contribute to this process?

Key conclusions included

- The new audience is Internet-wired and community-driven and the industry should focus on community-building for each film.
 - Three key drivers in the new market are fragmentation (of audiences, windows and revenues), segmentation (into different content categories) and concentration (of rights distribution).
 - Key opportunities for the European film industry include strong communities, a wealth of untapped stories/creative potential and agility of production and distribution structures.
 - European producers tend to earn all their revenue from the production fee and overlook the potential of controlling intellectual property, using self-distribution or new distribution platforms and thereby maximizing revenue streams.
 - Public policy should encourage producers to maintain control of their intellectual property rights and launch new digital distribution initiatives.
 - Film education needs to adapt to the digital age and centres of excellence in the field of digital media should be created, comparable to those in the United States.
 - Best practices should be identified in European distribution structures and VOD platforms in order to maximize Europe's capacity to connect with the new audience.
 - The ThinkTank is well placed to act as a bridge between national film agencies and industry stakeholders, identifying best practices and launching eye-opening initiatives in this field.
 - Further research is required in areas such as digital rights management, metadata, branding and SWOT Analysis of the European film industry in the new media world.
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1 HOW HAS THE DIGITAL ENVIRONMENT CHANGED THE AUDIENCE AND THE INDUSTRY/AUDIENCE RELATIONSHIP?

The core meeting identified the following key characteristics of the new digital environment:

- It is now much easier to get to know and contact the audience.
 - In the new value chain, audiences increasingly control distribution – they decide what they want, when they want, and use the Internet to spread word of mouth and share films and programmes.
 - Over recent years young people have begun to away from traditional content such as film and television, in favour of video games, Internet, chats, MySpace etc. However there are also signs that young people are now returning to cinemas, as a social event.
 - Cinemas increasingly serve as community hubs and as a result of digital projection, cinemas have begun to offer complementary content – such as live broadcasts of concerts, sports events, interactive gaming sessions, showcases of films from You Tube or “a la carte” selection of films by groups of filmgoers.
 - “Cinema-on-demand” models have also emerged, especially in developing countries, whereby a group of people can use the Internet to collectively schedule a screening of a film they want to see.
 - In the global internet age, communities are perhaps starting to take over from nations in passing on information, data, film, culture etc. thus affecting cross-border distribution strategies.
 - Distributors and broadcasters can no longer focus primarily on one aggregated audience but instead have to target a collection of micro-audiences.
 - Films should no longer be viewed as products but rather as a step towards building communities.
 - European films have to forge new links with the audience based on story brands, enabling them to reach beyond simplistic definitions of world cinema, art house or foreign language films as blanket genres.
 - Hollywood films attempt to reach out to global communities while the vast majority of European films are targeted at smaller communities, often at a local or micro level.
 - The main challenge for European films is to consolidate existing audience communities and attempt to build bridges with other communities in order to achieve broader success.
 - An increasing number of Europeans are hungry for film-related information and film content.
 - There are major opportunities for European film-makers to draw closer to the audience, with important lessons to be learned from innovative audience-connecting developments in the United States. For instance, several filmmakers – such as Robert Greenwood – have built extensive lists of people who are interested in seeing their works and can use these contacts in order to launch new projects and raise financing.
 - Film festivals are another means of developing communities and festivals can play a growing role in this context and also build bridges with other community platforms and initiatives.
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2 WHAT ARE THE KEY DRIVERS IN THE NEW MARKET?

The Core Meeting identified three key market trends in the sector: fragmentation, segmentation and concentration.

Fragmentation

- The panoply of new media content, new platforms, on-demand delivery and multi-channel environments has fragmented consumer demand and revenue streams.
- The European film industry is already highly fragmented with around 960 films produced per year and over 1,000 distributors. For example, the 1,940 Spanish and Portuguese language films released since 2000 were produced by 2,100 production companies, involving 1,967 producers and 700 directors!
- Only 20% of European films generate profits, another 20% break even and 60% lose money and fail to travel. 30% cross one border and very few cross two borders.
- For many European film producers, fragmentation of traditional film revenues has created additional financing gaps.

Segmentation

- The content market is increasingly segmented, somewhat like the restaurant business – from fastfood outlets at the one end, to three-star restaurants at the other.
- Within the current content spectrum, film is a “premium” product of vital strategic importance given that it is a key demand driver of subscription to content services.
- Film should retain its branding as a premium product, but opportunities also exist for innovative storytelling formats aimed at other market segments.

Concentration

- Although demand is fragmenting, consumers increasingly seek out aggregating platforms.
 - Consumers prefer to find editorial proposals. They need information and guidance – thereby providing the foundation for gatekeepers.
 - New technologies tend to be very democratic and eliminate traditional gatekeepers, but new gatekeepers now exist in the form of these content aggregators
 - Rights holders increasingly channel their rights to content aggregators in an attempt to maintain and expand revenue streams.
 - The US Majors are the classic example of such concentration. Examples in Europe include collective rights management bodies related to music rights, VOD platforms and broadcasters’ commercial arms etc.
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3 WHAT STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS DO EUROPEAN PRODUCERS AND DISTRIBUTORS FACE IN THIS NEW CONTEXT?

The Core Meeting identified the following Strengths, Weaknesses, Opportunities and Threats.

Strengths

- The current level of public funding for European cinema (over €2 billion per year in Europe as a whole) has attained a historic high.
- Europe's production structure offers greater agility to the new value chain in comparison with Hollywood.
- Europe specializes in low-budget productions and therefore has greater flexibility to adapt to new models.
- The Majors and the music industry are struggling to find a business model for the new environment. In this context, small companies may well have an advantage.

Weaknesses

- The film industry seems to be in "denial" in relation to the new digital world, while other industries have already been forced to adjust and act more quickly, e.g. broadcasters and print media.
- To date, it has been relatively difficult to generate effective revenue streams for film from new media opportunities such as video-on-demand. Notwithstanding the potential significance of such delivery mechanisms, at present they represent no more than 2% of the global film revenue stream.
- Most European production companies are cottage industry structures, often resembling "one-man bands", and have little time to focus on distribution activities, in particular alternative marketing and distribution techniques.
- Scale is crucial for production companies but film-funding policies in Europe often deliberately avoid building scale and avoid concentrating support on a small number of producers. Alternative means of achieving concentration and scale are therefore required.
- The traditional film financing mindset in Europe focuses on securing public support where the main source of income is the production fee. Little attention is paid to the audience and new revenue streams.

Opportunities

- In the new media environment there is rising demand for film content. For example, the Hollywood Majors have doubled their revenues between 2001 and 2007, from \$7.2 billion to \$15 billion and most studios plan to have fully operational VOD platforms from 2010 onwards.
- The demand for storytelling is stronger than ever. Stories provide people with tools for living and play a critical role in building communities.
- Europe has a wealth of stories able to strike a common chord. Europe's creative talent needs to tap into this potential demand.
- Europe has tremendous creative capacity – the "old continent" is one of the key wellsprings of Western civilization – and creativity in the film world can catalyse the other creative industries and the wider economy.
- Alongside the "Old World" of the traditional film financing mindset, a "New World" of Internet-savvy filmmakers is emerging who often produce their films without any public aid.
- Fragmentation has blurred the boundaries between different media. Fiction can now be produced and consumed in a variety of different manners – from blockbusters to podcasts.

WHAT STRENGTHS, WEAKNESSES, OPPORTUNITIES AND THREATS DO EUROPEAN PRODUCERS AND DISTRIBUTORS FACE IN THIS NEW CONTEXT? (CONTINUED)

- Many path-breaking initiatives are being launched as direct-to-Internet releases, and in the future these may have a significant impact on traditional film production.
- An increasing amount of story content will be available for free, with an inevitable impact on the business model for film production.
- One of Europe's main obstacles – language barriers – may diminish over time as a result of new software solutions. Translation software will increasingly make it possible to search for and view films and content in foreign languages.
- Digital film production opens up fantastic opportunities for European cinema. The sector will be increasingly polarized between high-budget event pictures and low-budget and micro-budget features.
- New digital technologies also make it possible to produce European films with production values that match those of a bigger budget Hollywood production.
- The sector must change its “fetishistic” attitude towards traditional 35mm cinema – an attitude which has changed little over 100 years. For example, Arte Cinema is now increasingly supporting directors who use new lightweight digital cameras, no lighting and very small crews, thereby enabling a new psychology of film-making. (Arte Cinema co-produces 25-26 features per year, investing €0.3 – 0.35 million per film).
- Many film festivals, e.g. Rome Film Festival, increasingly showcase lowcost productions.
- New models are required for above-the-line and below-the-line costs.
- Lowcost digital production is a key way of revealing talent. It's possible to build value by starting small, building skill and finding skill. Drivers begin their careers in go-karts, but only the best reach Formula 1.
- Digital productions and straight-to-Internet releases can create new audiences and attract people that don't normally go into the theatres. By revealing new talent they can ensure a smoother transition from the “old world” to the “new world”.

Threats

- In addition to opportunities, the Internet also poses significant threats to the industry, especially in terms of content piracy. Whereas film has traditionally served as a key driver of new media – thereby generating major new revenue streams – the prevailing Internet culture of open access and free content delivery (viewed by many as an intrinsic characteristic of the Internet) creates a significant threat to the revenue stability of the film industry over the near future.
 - The music industry has already suffered the devastating impact of this new environment with the loss of 50% of recorded music sales over the last 5 years. Only approximately 10% of this amount has been compensated by royalties from online music sales.
 - The new digital world has also radically transformed the basic twin pillars of public sector support and public sector broadcasting. The economic crisis will place increasing pressure on public sector financing at a time when the financing gap for producers is likely to widen.
 - Funding for the European film sector is expected to decline over the short term. Revenue streams are fragmenting, public funding will come under a major strain, advertising revenues are falling and broadcasters are redirecting their production budgets to TV movies and TV fiction.
 - In this context, the European film industry increasingly resembles a crumbling edifice, shored up by public funding. A whole generation of cinephile film-makers is in risk of disappearing and there is a genuine risk of many companies going bankrupt over the next 3-5 years.
 - Middle-budget pictures in the region of €5 million will face increasing pressure since they can't compete at the high-end and present no major advantages over lowcost productions at the low-end.
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4 HOW CAN EUROPEAN PRODUCERS CAPITALIZE ON THEIR INTELLECTUAL PROPERTY RIGHTS?

The Core Meeting identified the following considerations and strategies in order to enable producers to capitalize on their Intellectual Property rights:

- In the new value chain, renewed importance is placed on independent film production companies' capacity to maintain control of their intellectual property rights.
 - The market is increasingly difficult – with DVD sales falling, broadcasters less and less interested in cinema and a falling number of sales agents and distributors.
 - There is a strong trend towards broadcasters buying all rights from producers, and yet they do not suitably explore the potential of this intellectual property.
 - “Market interest” requirements operated by film funding agencies often oblige producers to secure presale deals with sales agents, distributors and broadcasters, prior to making their funding applications - thereby inadvertently accelerating the tendency for independent producers to cede their rights to other bodies, in particular to broadcasters.
 - A new mindset is required for European film producers, focusing on maximizing the benefits from film copyright.
 - Producers can explore alternative revenue sources, given that many types of digital media will be provided for free and revenues for such content will be earned primarily from advertising, product placement etc., secured on the basis of audience recognition. One recent example of such alternative financing is Shane Meadows' film “Somers Town” which was financed by Eurostar.
 - Alternative revenue sources include: “Freemium” (with most people watching content for free but 1% paying for a “premium” service), Advertising, Product placement, Promotional events and Merchandising.
 - Producers should become aware of how they can use self-distribution to maximize the revenue associated to their films. New technologies provide producers with tools whereby they can reach and build the audience at both the local, national and international level. Self-distribution enables producers to earn direct revenues without intermediaries.
 - Nonetheless, most film producers don't have the time or resources to suitably exploit copyright.
 - New intermediaries are required in order to maximize revenue streams from European film copyright.
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5 HOW CAN FILM PUBLIC POLICY MAXIMIZE OPPORTUNITIES IN THE DIGITAL AGE?

The Core Meeting identified the following considerations for reviewing film policy in Europe, with special emphasis on distribution and the digital age:

- One of the key objectives of the ThinkTank on European Film and Film Policy is to promote greater effectiveness in public sector film funding.
- It is necessary to define the new “digital map” for the sector, identifying key funding and revenue sources and the timeline over the next 5-10 years of expected developments.
- National film agencies are unsure how to respond to the new digital age and the financing gap faced by producers.
- A key *raison d'être* of public funding is to fill the market gap and thereby ensure the survival of national production. At the same time there is a danger that public subsidies will substitute or even crowd out the market and create a cocooned universe that has a decreasing connection with consumers.
- Information exchange between national film agencies is particularly important – in order to identify the best responses to traditional and new media challenges.
- Film agencies must change their mindset – national film agencies continue to focus their attention on “Old World” models, often ignoring the possibilities made available by “New World” techniques.
- In the fast-changing environment, film agencies often benefit from the flexibility of selective greenlighting processes rather than automatic systems.
- Both decision-makers and producers have to feel a vested interest in the success of the films financed. New mechanisms need to be developed whereby the success of films makes a material difference for both funding agencies and producers.
- It is necessary to clarify funding objectives. Hollywood majors gauge their success purely on commercial grounds, whereas Europe’s public bodies have a strong cultural remit – e.g. 70% of the productions financed by Germany’s Federal Film Fund or by Arte Cinema won’t achieve market success.
- Nonetheless, there is an increasing emphasis on commercial rather than cultural success amongst Europe’s funding agencies e.g. bodies such as the CNC place increasing emphasis on ticket sales and audience ratings.
- Participants estimated that upwards of €200 million is spent on film distribution support per year at a European, national and regional level. The vast bulk of this support is targeted towards traditional cinema releases and P&A spend, with very little emphasis on exploring the potential of new media in terms of alternative forms of dissemination and viral marketing techniques.
- Distribution and production support mechanisms need to be rethought, so that the audience is taken into consideration at the start of the process, rather than at the end.
- Further study should be made of existing film distribution support systems, including analysis of benchmarking and best practices in this field, which could serve as an indispensable tool to enable film funding agencies to review their policies.
- Possible policy measures include support for the emergence and consolidation of innovative community-building platforms e.g. the film-search platform sponsored by the UK Film Council which had its soft release in late November, 2008.
- It is important to uphold the core branding for European cinema as a premium product whose main revenue sources are theatrical and home entertainment.

6 HOW CAN FILM TRAINING AND EDUCATION BE MODIFIED IN ORDER TO CATER TO THE NEW WORLD?

The Core Meeting made the following suggestions for film training and education in Europe:

- Given the complexity of the new media environment, film training and education will play a key role.
 - It is necessary to elaborate a 'knowledge map' in order to identify gaps and propose training solutions.
 - Extensive producer training is required. Current schemes include the UK's Take 12 programme – a joint initiative between the UK Film Council and the UK's National Endowment for Science, Technology and the Arts, that plans to train 12 businesses in how to adapt to the digital age.
 - A wide range of online training resources are also available in this field, including free software and information.
 - Europe should establish centres of excellence dedicated to new media, comparable to US centres such as the Burton Centre at Harvard and a similar facility at Stanford, which are developing new business models.
 - European film schools need to be transformed in order to focus on the challenges and opportunities of the digital world, including business training in this field.
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7 HOW CAN A STRONGER DISTRIBUTION FRAMEWORK BE BUILT FOR THE EUROPEAN FILM INDUSTRY

The Core Meeting identified the following priorities and next steps for the industry:

- Filmmakers do not operate as a community in Europe. The absence of collective rights management bodies in Europe weakens producers' capacity to negotiate with "content aggregators".
- In the recent past, the music business failed to group together in order to launch universal music download services and consumers sidestepped them and went to other aggregators.
- Video-on-demand platforms¹ are a significant future form of "concentration" in the new value chain.
- In this context, it is important to identify best practices amongst national VOD and promotional platforms, so that such platforms can learn from each others' strengths and weaknesses.
- Branding plays a crucial role in determining presence in the new value chain.
- Time and money should be invested in rebranding European films within the new value chain and exploring links to other attractive national or European brands, which may deliver synergies that will expand the appeal of European cinema.
- Creative artists – whether musicians or film-makers – now constitute brands in their own right.
- Branding is essential to securing film deals. When negotiating with broadcasters, a brand that attracts an audience makes it possible to negotiate a deal.
- There needs to be a European perspective on the advantages of Digital Rights Management² and whether greater success might be achieved if DRM were removed.
- It is necessary to analyse the potential of metadata (i.e. "data about data") embedded in films, in order to enable producers to forge new promotional links with consumers and create new forms of exploiting film archives.
- Collaboration with other businesses should be encouraged, such as technology firms, IT businesses etc.
- Production and distribution companies should be encouraged to establish digital divisions.

¹ E.g. Filmotech in Spain and Univers-Ciné (congregating 15 independent producers) in France

² Digital rights management (DRM) – used by companies such as Sony, Apple Inc., Microsoft and the BBC – is a generic term that refers to access control technologies to limit usage and copying of digital media or devices.

8 HOW CAN THE THINKTANK CONTRIBUTE TO THIS PROCESS?

The Core Meeting concluded that there are still huge knowledge gaps in this field and suggested that the ThinkTank can play an important role in disseminating knowledge and identifying important initiatives throughout the industry.

Next steps for the ThinkTank included the following proposals:

- Relaunch the ThinkTank's Internet site (www.filmthinktank.org). The revised site could serve as a genuine portal for strategic thinking in relation to European film, incorporating policy documents, case-studies and links to key stakeholders: national film agencies, professional associations, industry players, consumer bodies etc.
- Organise another Core Group meeting in this field, with distribution of extensive documentation based on this event, prior to the event.
- Organise a Core Group focusing on the function of storytelling, with presentations by experts including an anthropologist.
- Collect intelligence from public film agencies on existing and planned distribution policy measures. Identify best practices. Foster the exchange of ideas between film agencies.
- Collect intelligence from private market operators concerning existing and planned initiatives to maximize opportunities from the new value chain with a special focus on collective rights management, VOD platforms and branding.
- Explore collaboration with a forward-looking group such as Daimler/Chrysler Innovation.

The Core Meeting also identified the following potential priority areas for future research by the ThinkTank:

- Internet communities and cross border distribution of European films;
 - Case-studies, including case-studies from the music industry;
 - SWOT Analysis of the European film industry in the new media world;
 - Analyse the potential of Metadata;
 - Barriers and solutions for rights holders in dealing with online aggregators, with specific reference to the music industry as a pathfinder;
 - Digital rights management, including case-studies from the music industry;
 - Business models used by European producers and their actual rewards in the current system;
 - Film branding in the digital age;
 - Research into film consumption patterns and habits across different countries.
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APPENDIX

Next meeting

The next Core Meeting has been tentatively scheduled for March/April 2009.

About the ThinkTank

The ThinkTank on Film Policy and Film was formally set up in June 2007 to continue the work of the Copenhagen ThinkTank event, organised in June 2006, that was 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 and Henning Camre, Executive director of the ThinkTank and previously head of the Danish Film Institute. In September 2008, the 'Council of Europe Film Policy Forum: Shaping Policies for the Cinema of Tomorrow' was held in Krakow, and was attended by 140 participants; the content and agenda were organised by the ThinkTank.

Participants in the Seville Core ThinkTank

*Peter Bouckaert (COO, Eyeworks, Belgium),
Peter Buckingham (Head of Distribution/Exhibition, UK Film Council),
Henning Camre (Executive Director, Think Tank),
Martin Dale (Variety, Portugal),
Peter Dinges (CEO, German Federal Film Board),
Fernando Evole (CEO, Yelmo Cines, Spain),
Philippe Kern (MD, KEA European Affairs, Belgium),
Fernando Labrada (Chairman, MRC Media Research & Consultancy, Spain),
Alain Modot (VP, Media Consulting Group),
Michel Reilhac (Executive Director, ARTE France Cinema),
Liz Rosenthal (MD, Power to the Pixel, UK),
Chris Sanger (Think Tank)
Thomas Stenderup (Producer, Denmark),
Vinca Wiedemann (Senior Adviser, Think Tank).*
