NEW APPROACHES FOR GREATER DIVERSITY OF CINEMA IN EUROPE?

ANALYSES OF EXPERIMENTS LAUNCHED IN THE CONTEXT "CIRCULATION OF FILMS IN THE DIGITAL ERA"
(EUROPEAN PARLIAMENT AND EUROPEAN COMMISSION)

PREPARATORY ACTION - WAVES 1 & 2

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PREPARATORY ACTION PARTICIPANTS:

IFFR LIVE coordinated by the International Film Festival Rotterdam

SPIDE coordinated by L’ARP, Société des Auteurs-Réalisateurs-Producteurs.

STREAMS DAY-AND-DATE coordinated by EuroVOD
Digital technology, new forms of film distribution and consumption, piracy, the growing saturation of screens and the arrival of new economic players are some of the factors which are transforming the world of cinema. In this context, a series of experiments on new film distribution channels in Europe through simultaneous or quasi-simultaneous releases in several territories was launched by the European Parliament to:

- turn these threats into opportunities, with the aim of improving the circulation of films in Europe;
- learn and understand - this is the meaning of an 'experiment' - with no bias other than that of seeing the new film distribution channels, whatever risks they may involve, as a potential source of opportunities.

These experiments were led by several different players in the European film industry.

Table 1: projects launched in the context of preparatory action 2

<table>
<thead>
<tr>
<th>Projects</th>
<th>Companies and organisations</th>
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<tbody>
<tr>
<td>IFFR LIVE</td>
<td>IFFR (f), Distripsy (ag; dd), Doc &amp; Film (is), Fortissimo (is), Filmin (ag; dd), Trustnordisk (is).</td>
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<tr>
<td>SPIDE</td>
<td>L’ARP (po), Autlook (is), BIM Distribuzione (d), Celluloid (is), Europa Distribution (op), Elle Driver (is), Fandango (is), FilmoTV (dd), IPEDA (op), Kinology (is), Premium Films (is), Protagonist (is), Under the Milky Way (ag.), Versatile (is), Vertigo (d), Wide (is), Wild Bunch (is), Wild Bunch Distribution (d), Wild Side Video (ag; d), Wild Bunch Germany (d), associate partner: The Film Agency (ma).</td>
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<tr>
<td>STREAMS DAY-AND-DATE</td>
<td>EuroVod (po), Memento Films International (is), Doc &amp; Film International (is), The Match Factory (is).</td>
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23 films were released, in 22 European countries, totalling 112 releases, 39 of them on a Day-and-Date (D&D) or Ultra-VOD basis and 21 on a Direct-to-VOD or e-cinema basis.
The aim of this independent report is to spark a discussion, based on the results of these experiments, on the potential benefits of these new distribution channels for European films in the digital era.

**New film distribution channels: complementarity or cannibalism?**

*Background to better understand the challenges surrounding these questions of complementarity*¹

- 2 long-term processes (globalisation & implementation of digital technologies) leads to:
  - the creation of a dual economy, in which European films enjoy only limited circulation;
  - concentration of film showings (number of screens per film) and the growing increase in the number of films distributed, which combine:
    - to limit the possibilities of screening for a large number of films, mainly those in the second category;
    - to reduce life cycle for films and the number of screens available for less visible films.

→ a structural obstacle to the distribution in theatres of certain films, including European films
→ a potential impression for European cinema-goers the that their choice is curtailed.

The arrival of a new distribution channel may unsettle the existing economic balances, but it will not necessarily wholly replace an existing one. What we intend to highlight here are the three determining factors in this balance between substitutability and complementarity:

- **Parameters for differentiating between types of consumption**

The complementary nature of different film distribution channels is due to both differentiation of the user experience and “consumer” segmentation → the different types of film consumption highlight a series of differentiation variables.

**Table 2: differentiation parameters for film distribution channels**

<table>
<thead>
<tr>
<th>Variables</th>
<th>Possible values</th>
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<tbody>
<tr>
<td>Place of consumption</td>
<td>Theatre / Home / On-the-go</td>
</tr>
<tr>
<td>Consumer unit</td>
<td>Individual / Family / Collective</td>
</tr>
<tr>
<td>Projection quality</td>
<td>Screen size, sound system</td>
</tr>
<tr>
<td>Consumption temporality</td>
<td>Linear / non linear</td>
</tr>
<tr>
<td>Breadth of offer</td>
<td>Broad or not, legally restricted or not</td>
</tr>
<tr>
<td>Payment</td>
<td>Subscription / unit / third party</td>
</tr>
<tr>
<td>Price</td>
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</table>

Some of these variables are inherent to the distribution channel, others are conventional, and others are legal (such as the mechanisms of media chronology). The differences in the nature of user experience offered by

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¹ These elements are drawn from the previous report: “New approaches for greater diversity of cinema in Europe?”
each distribution channel generate complementarity between the different distribution channels, which involves, however, the transfer of consumption from one channel to another.

- **Complementarity in the creation economy: an economy of abundance** (from the point of view of the rights holder, where films more or less undergo "switching" (in the sense of railway points);

Structurally, the creation economy² is an economy of abundance and selectivity. Many projects are put forward, only a limited few enjoy a certain level of visibility and distribution, and only some of those will have a large audience. In cinema, production costs make it virtually impossible to outsource this abundance.

The cinema industry must therefore take this paradoxical situation in stride:
- the normality of the fact that different players involved in the chain should make a selection, starting with distributors and exhibitors;
- the challenge of giving every film a chance, in view of the sums invested.

Each film has its own economics (cost, estimated potential, extent of its access to theatre screenings) which could lead its distributor to opt for an alternative distribution channel.

For right holders, given the estimated potential of the film, the decision to market a film through an alternative channel may therefore either require arbitration between:
- the recognition that comes from being screened in theatres (still confers today, and will no doubt continue to confer in the years to come);
- the comparative profitability of the different distribution channels: today, by choosing direct economic profitability as the sole criterion, the conditions of arbitration favour direct exploitation through VOD, which can create pressure on alternative types of exploitation, and which looks likely to increase with this form of exploitation becoming standard.

When the choice of a simultaneous release is made, it is intended to maximise the audience, due to limited access to theatres.

- **Complementarity in promotion** or the superimposition of the two geographies in which films evolve:
  - a geography of distribution → i.e. locations of theatres and the actual placement of the film;
  - a geography of promotion → in most countries, promotion mainly occurs at a national level.

A low number of screens → a proportionately low marketing effort nationwide, including in areas where the film is not shown at all. At theatre level, the visibility of a film generated by the distributor’s promotion is not proportional to the sums invested. There is a critical mass effect.

→ **The dissociation between both geographies** creates a third form of complementarity → joint VOD distribution may involve an extra promotional effort which may increase the visibility of this film.

→ The benefit for theatres of VOD distribution is therefore based on a balance between the effects of transferring from theatre spectators to VOD viewers, and the heightened visibility that promotion surrounding VOD distribution can provide.

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Conclusion

**Aim of this section:** examine the complementarity between different film distribution channels. This question is *not reduced to the mechanical effects of transfer of spectators (cannibalisation), but involved different components, the aggregation of which led to uncertain results.*

Although it is evident that electronic distribution will take away some spectators from theatres, the weight and the effect of this is much less clear.

→ **Distributors can find a way forward** because VOD distribution offers them a way to make the most out of films which have little room in theatres, because the *revenues lost from theatre distribution can be compensated for by VOD distribution.*

→ **As for theatres,** at first glance they are the link most threatened by these new forms of exploitation, and it is important to avoid putting their finances in jeopardy. It is without a doubt *art-house theatres* which are the most vulnerable. Although their spectators may be less likely to switch to VOD, the films they distribute are the most likely be released simultaneously on VOD. Even a *marginal loss of spectators may have a very detrimental effect for theatres with fragile finances.* However, analysis indicates that the overall effect is not necessarily negative: a *loss of spectators due to VOD release may be counteracted by an increase in visibility.* The respective weighting of these two effects is unknown, and would benefit from being tested. It also depends, as do the other parameters, on the types of film in question.

**Brief description of film types based on their "potential"**

In schematic terms, there are 3 configurations on a European scale:

- films with dense and diffuse potential;
- films with dense and localised potential;
- films with sparse potential.

A film can have a large potential audience on a national or European scale, which is too greatly dispersed for theatre exhibition.

Thus some films released within the Preparatory Action seem to have a *diffuse potential across several countries* → with a high potential on the scale of all these countries, but which is doubtless too limited locally to justify theatre showings.

Example: *Magnifica Presenza* sold between 1,000 and 18,000 tickets in 6 European countries: this is little on a national scale, but represents 34,000 across all of these 6 countries.

**Film accessibility**

The previous report highlighted the significant increase in the visibility given to films at the time of their distribution due to simultaneous VOD distribution. This second analysis reflects the same.

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3 *to be taken with a grain of salt, because it assumes the idea of a pre-existing market, when the work of distribution consists in building the audience gradually. Nevertheless, it is often used, perhaps partly because of its self-fulfilling nature: the expected potential serves as a basis for the release plan which will have an important influence on the actual audience.*
for all the films which have been released in new formats, the population pool which potentially has access to the film has broadly increased, often at least doubled (due to the fact that films are visible to a structurally limited section of the population, the population of areas where the cinema theatres are located, and that in addition, for the films under consideration, the very restricted release plans limit this access even further).

Example: at least 40M additional people in Europe had the possibility of seeing Adieu au Langage when it generated visibility.

Additional audience for films released as D&D or Ultra-VOD

Given average results by country for D&D releases within the two waves of the Preparatory Action, the ratio of the number of VOD transactions over the number of theatre admissions for a film:

- is on average 0.66 with a standard deviation of 1.2;
- varies by 10% on average to 40% depending on the countries → may question the correlation between this report and the density of cinema screens in the countries, which seems to exist as the relative number of VOD transactions increases when the number of theatres in the country falls

→ This seems to indicate that VOD is a real solution for accessing films.

Moreover, the cases of Spain and Italy offer a certain perspective on the question of the dynamics behind the adoption of these new distribution channels, which suffer at the outset from a lack of reputation: Spain and Italy seem actually to show that there is a trend towards adoption, as this ratio increases over time.

Geography and film audience

The degree of to which VOD replaces theatres (or cannibalisation) is a very important factor in the recreation of economic balance resulting from the deployment of new film distribution channels, such as D&D.

Experiments provide information on the geography of consumption in theatres and on iTunes⁴.

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⁴ iTunes sales only represent a part of VOD transactions, their geography may serve an accurate approximation of the geography of all electronic transactions.
Example: *Master of the Universe* –

**Figure 3: geography of *Master of the Universe* theatre admissions for the 5 countries of the experiment**

This map highlights the *very limited nature of the film’s accessibility* for the populations of the countries concerned.

These two following maps show that VOD distribution:

- covers a country much more densely;
- seems to respond to a demand, as shown in Italy and France.

**Figure 4: geographical distribution of theatre admissions and iTunes transactions in Italy**

**Figure 5: geographical distribution of theatre admissions and iTunes transactions in France**

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5 in red are iTunes transactions and in black are theatre admissions. The large dots correspond to a higher number of transactions.
In the specific French case where there are two VOD windows (Ultra-VOD, exclusive for two weeks before the cinema release, and the second one, open three months and a half after the film release in theatres), the geographical distribution of iTunes transactions can be compared and juxtaposed. It clearly shows demonstrates a general decline in the number of transactions, in particular in areas where the film was distributed in theatres.

Figure 6: Breakdown of iTunes sales during the first and second window of VOD exploitation

Although these maps do not provide any information about the potential number of theatre admissions transformed into VOD transactions, they do not necessarily suggest the existence of cannibalisation.

e-Cinema releases

The case of the French release of The Keeper of lost causes (first episode in a pair of Danish thrillers) is interesting to analyse. The 2 episodes were actually released almost jointly:

- The Keeper of lost causes only for e-cinema;
- The Absent One, the second, as a traditional theatrical release

With a single promotion campaign for the two films, with the exception of purchasing space on the television, which, in compliance with the prohibition on advertising cinema on the television (in France), only applied to the first episode.

From a theatre release survey was performed by L’Observatoire de la satisfaction, several lessons can be drawn from these answers:

- competition with theatres from e-cinema seems very low on this film (only 5% of spectators, especially from keen spectators segment, would have preferred seeing it in e-cinema);
- awareness of e-cinema, for the spectators of this film, is not insignificant, but could still increase;
- a very good 'catch-on' between the two films can be observed in one sense (58% of the film’s spectator intend to rent it). Furthermore, e-cinema brings 3% additional spectators to the theatre, but the survey

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6 the exploitation of a film directly in electronic format, used for films which have promotion and visibility of the same magnitude as a theatre release.
results do not indicate what proportion of the people who viewed the film in e-cinema came to see the other film in the theatre.

**Quantitative results** shows, to no surprise, that **e-cinema is still far from having set in**: the sum spent on purchasing space for 1 spectator is 7 times higher today for e-cinema than for theatres. The **distributor share per spectators is, however, higher for e-cinema**. The distributor share per Euro invested in purchase of space is, consequently, not as low in relative terms: 5 times lower for e-cinema in comparison to theatre exhibition.

The audience breakdown in theatres and in e-cinema for the two films can be compared:

- On a small scale, **the audience essentially breaks down in the same way across the whole country, for both types of release, with a polarisation effect for the theatre release**;
- A larger scale reflects a greater dispersion: **VOD spectators are much more dispersed than spectators in theatres, which further corroborates the idea that digital distribution enables potential spectators to access a film**;
- and over time: the analysis shows a **significant difference in the slope between theatres and e-cinema**, which is more than ten times lower for e-cinema. **The e-cinema exploitation period is less restricted - by theatre saturation.** Let us note that there is no reason why this outcome should be specific to e-cinema: it is no doubt valid in general for digital exploitation.

**The IFFR Live Festival**

**Context:** a festival offers one-off visibility to films which are shown there. For films which are not yet commercially distributed on a large scale, VOD distribution at the time the festival is scheduled may increase their audience, and may enable potential spectators to see them.

**Aim:** It consisted in showing 5 of the festival’s films both in 40 theatres in 10 European countries and in VOD in these same countries, and to enable web users to chat to the film teams, by using the means provided by the Internet.

**Results:** cannot be compared to others, because it involved both films that were ambitious in artistic terms but with a naturally limited audience, and films which did not have the means to promote a commercial release.

**General conclusion**

The purpose of this report **was not to declare these experiments as successes or failures**. In a context where the cinema industry's economics and practices are undergoing profound transformation, the purpose of these experiments is **to better understand the changes taking place, and especially to better anticipate the factors which determine complementarity between different distribution channels.**

Quantitative results remain modest. This was necessarily the case in their construction because the idea was to offer extra visibility to films which were lacking it.
Nevertheless, several lessons can be drawn from these experiments:

- the considerable expansion of the films' potential audience;
  - the comparisons between theatre audiences and digital transactions or the maps which highlight the audience geography show that **simultaneous VOD and theatre releases mitigate the aberration of a large proportion of a country having limited access to a film**.

- the highlight of a difference in local density of potential in the structure of the audience for the films considered in the experiments;
  - some films have high potential on a national, or even European scale, but insufficient local potential for in-theatre showings → **combined theatre and VOD releases enable these films to reach a large, yet disparate audience**.

- an effect where the audience is educated about this type of distribution and/or distributors learn how to promote it can be observed;

- **any significant information on potential cannibalisation** (issue which remains important for maintaining economic balance in the industry) is provided by geographical reports on iTunes transactions and their comparison with the geography of theatre admissions does not provide;

- the unicity of each film, both in terms of the audience it may reach and its reception in a given country.
  - the increasing number of distribution channels is a response to this diversity in film profiles. Theatre, D&D or direct-to-VOD (or e-cinema) releases therefore present options depending on the films' profile.