11 Oct Keynote speech by Martin Hageman on Digitisation and Disruption

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At DPC II 2017, Martin pointed out how, at the time of the first Digital Production Challenge, there was still a standardised production and distribution set-up across the global industry, but that technical aspects/approaches were beginning to change totally. There were new cameras, new post-production workflows, and the technical standards that had been in place for 70+ years were starting to change totally. The first workshop coincided therefore with this new evolution. But little by little the digitisation of the industry began to seep through to eventually cause a **major disruption to the business of distribution**.

He showed us an image of an old-fashioned editing table, where picture and sound were analogue – the only thing electric inside being the bulb and the motor. There was a totally different atmosphere in the edit room: two minutes per edit, gluing and splicing, and that was how people had been making their films for decades.

The real revolution in digitisation started with the VHS – not digital as such as it was just a tape, but nevertheless it marked the beginning of the disruption within the industry (see Jack Valenti, former head of MPAA, who said that VHS is to the producer what the Boston Strangle was to women, and therefore tried to have VHS outlawed). Progress continued towards the digitisation of cinemas, where films could be stored on a 500g DCP (as opposed to 50 kilos of film). And now we are in the Cloud. In Berlin half of the cinemas derive their content from the Cloud, Martin observed. "It is fast, it is beautiful. We can work faster with many more alternatives etc, but actually we are still in the midst of a heavy heavy disruption of the whole industry," Martin added.

Back to basics. How are producers plying their trade? Martin reminded us. They connect and collect rights, the rights of all the creatives who work on a film, then bundle them and convert them in to something we call film. For producers the production starts with the creators and their copyrights, and it is the copyrights which gives the films both worth and value.

"But we deal with these films the same way we did in the old analogue world," he pointed out. We go to distributors to sell the rights that are connected with the film and they bring the film to cinema, TV, DVD, VOD and other release platforms, subsequently reaching audiences via those. But audiences are disappearing across certain platforms for much of the content which is produced. In Germany there are 220 films per year, 170 of which sell fewer than 1000 tickets at the cinema. Only 50-60 films still perform well.

In many ways, it is all about creatives on one side and the audience on the other, and something happening in-between, he underlined. This 'in-between' is production and distribution, the bridges between the creatives and the audience. These days we live in a technically digital era, in which everything has changed (technically) on the production side. We have Previz, new formats on production, new workflows, new formats in post-production, new delivery formats, new platforms. These are all processes that have been subject to heavy degrees of digitisation.

But what do we do with the films? That is the big question that concerns Martin, because since the internet **the disruption of distribution brought about by the growth and evolution of the internet has changed everything**. No longer 25 kilos of films to be delivered, now a mere lightweight DCP and a key, whose intrinsic cost is next to nothing.

So, how have we been dealing with these distribution rights, he asked.

Hitherto, we have divided the rights we have for a film into different media. We have TV/VOD, PayTV, theatrical rights etc, and these we can sell exclusively or non-exclusively into different territories and for a specific amount of time. It has been a cake we have divided up into little pieces per territory, per time and per media, and our films eventually reach their respective audiences.

We then rely on audience paying to see content. The money they spend goes to distributors. The distributors give the revenues to the producers and the producers eventually, in some cases, give money to the copyright holders. In reality (and this is not new) the distributors live from provisions, the producers live from their allotted percentage of the production budget and eventually some revenues, and the copyright holders and creatives live off a fee – unless the film is very successful when they receive a cut from revenues too.

In short, worldwide distributors live off 20-25% of what they make, the producers live off a 5-7% percentage of budget and the copyright holders/creators usually only live off their fee. That is the reality.

The Internet is a massive disruption to this way of doing things. A more friendly word is convergence. A TV station decides to do VOD via online. Cinemas start to sell DVDs. That is convergence, where people divert from their usual business and try to provide as much other media as possible within their business. It is also called 'disintermediation'. Which means that players try to oust their rivals as they compete against each other within their opponents' sphere of interest or competence.

The distributors seem to disappear or re-emerge in new iterations, but what happens to the all-important 20-25% of distribution revenues within these changing times?

(An aside: the whole film industry was, 15 years ago, based on shortage. You had to go to a cinema to see a specific film, nowhere else. And the practice of windowing was very much in operation [6-month cinema window, then 6-month to DVD and further 6-month window to PayTV etc]. This was [and in part still remains] a very nice and successful model that made a lot of people, especially the studios, very rich because the same product could be sold time and time again to the consumer.)

Convergence in the 1990s was defined by telecom companies becoming cable companies, mirroring their business model. Convergence in the 2010s has been all about the open internet and TV starting to work within similar functionalities. **In the beginning the internet was not so much into broadcast, but now it is.** Amazon is now actually broadcasting regular radio shows on German TV, and have promised to bid within two years for the moving image licence, hence elbowing TV out of the frame. "I am totally convinced that Netflix or Amazon Prime is not a danger to cinema, more so to the TV stations because in the end they will produce a lot more small-screen programming," Martin stressed. Its emergence opens up competition between new players, all part of this disruption era, and the whole value chain is being re-organised.

Technology-wise this means that within the open internet we now have personal devices that by-pass 'managed TV' and will render it obsolete. The second public television station in Germany has an average viewer age of 64. The interconnection of IT systems leads to the automisation (and hence greater effectiveness) of advertising management, something TV has no answer too yet. And content can and will continue to be personalised.

Consumers have new needs beyond the now-extinct binary broadcasting offer (a vast change from the days when everybody grew watching the same thing on television, which informed much of the following day's conversation). And change is underlined by how, within the market, there is a stagnation of revenues which means that competing entities are continually seeking to grab the revenues of others. "The good times of windowing and profiting numerous times from the same product are over. We really have to look how to grab other people's money in this new chain," Martin commented wryly.

So, in audiovisual terms, what has the internet done for us?

1. We have a culture of everything for free, which means we have lost a sense of the value of what we are choosing (a very important issue when it comes to pricing policy).
2. The web brings new formats.
3. Via VOD we have the opportunity to view everything, everywhere anytime – which is diametrically opposed to what we had 20 years ago.
4. With SVOD we suddenly see new formats in the high-end TV, which is of interest to cinema producers.

Digitisation replaces shortage with abundance, and this is something producers have to face. What we therefore need is direct contact with the consumers without distributors or packaging by telecom or TV operators – **learning about our audiences is one of the biggest issues we have to tackle.** Producers must also think about how to collect and process data on consumers which is freely and openly available. And what is important is that it is not the channel that is important any more, rather the content.

"In the *old*-world model, we go to aggregators or packagers in the shape of distributors and a sales company to sell our world rights in order to reach our audience across the platforms," said Martin. "In an *ideal* world, I wish we could get rid of these people, and all these media would come closer again to producers so we know more about our audience, that our creative people know more about who we are doing the film *for*, and what type of films we are making for which kind of audience. Because then we can actually choose a specific windowing strategy. Maybe not cinemas first, maybe TV *then* film. Maybe on TVOD and cinema simultaneously." Any such experimentation is rendered difficult right now because of the current practice of strict windowing.

We must come closer to our audience and conduct our own data management. There are tools for this, such as Congo in France, used by distributors and producers to place their films in the cinemas and gain very specific feedback. Another platform (in Germany) is Patna Flax which offers every producer everywhere in the world to opportunity to upload their film, create their own pricing and book specific marketing packages. The company will take their 30% but there is no intermediary.

The cinemas are most afraid of digitisation, but actually they have much more to gain and are offered the greatest chance to re-invent themselves. They can really up the business ante, have themed weeks, culinary evenings, arrange long-form TV events, have literary evenings, discussions between film luminaries via skype, show theatre/opera etc.

We must talk about new formats and cluster production in the future, and how all of these connect with cinema – and about mobile, which will be a very big market in the future. But these cannot be the same films, they must be *produced and packaged* differently – shorter, amended camera work and framing. Jeffrey Katzenberg is, for example, raising $2million for a production dedicated solely to mobile. We have to think more about audience building, as producers, and connected to that is crowd finding. All this comes as a result of digitisation.

The problem comes in unbundling the rights because we usually sell our rights to one TV station and to one world sales company and that's it. Doing this for specific very markets and for new players needs money. Cutting out the middle men needs a cash investment. Distribution is not like production. You need people for that. The most successful production companies in Europe are those that have their own distribution set-up. Finding new marketing forms and formats needs capital – and the renaissance of cinemas is an expensive business as well. There are a lot of opportunities and chances but the European production landscape is disadvantaged by its fragmentary nature, because one producer cannot do all this by him or herself. We have to create together new forms of companies in which we can tackle these disruptions and grab the chances offered to us.

Other problems. The demand for all-European rights acquisition against producer's need to sell territory by territory (sanctioned by EU) leads to inevitable decrease in revenues for the producer. Territory-by-territory rights do not make sense in the age of the internet.
So, cutting out the middlemen can mean that the middlemen just get bigger, such as Netflix. And new formats lead inexorably to the question of big data. Cinemas can only survive by localizing.

Martin's predictions for the next ten years

1. Public TV will be a platform on the internet, but it will be smaller, text-based, non-competitive, free of charge and with a clear public democratic mandate to determine what and who it is for.
2. Private TV will merge into an internet platform.
3. Production-wise we will see larger vertically-integrated companies that will rely upon smaller satellite production companies for specified content.
4. Cinema-wise, there will be a division between big entertainment-driven, commercially-oriented films which will be controlled from a central hub/base, meaning that the only staff needed in cinemas will be those selling popcorn. On the other hand, there will be more arthouse cinemas (less commercially-oriented and organised on a local level), in part paid for by the local municipality as they will be regarded as a cultural offer. Locally curated based on knowledge of audience needs.
5. There will be a few platforms constructed on SVOD/TVOD principle (the current Netflix model is unsustainable as it is based on a low subscription rate. Amazon Prime's more expensive SVOD/TVOD model is better, where you buy per film, as opposed to having a smorgasbord of free content)
6. More niche platforms will emerge, for docs, arthouse etc, specially curated. Not 10,000 films but 50, changed regularly. The problem will be how to locate these films so at point there should be a central search platform for all product and formats.