Disruptive Innovation

The Digitalization of the Filmindustry
Threat or Chance ?

By Martin Hagemann, DPC II 2015, Vilnius

I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone.

VCR = video cassette recording = ancient electromechanical device that records analog audio and analog video.

Boston Strangler = is a name given to the murderer (or murderers) of 13 women in the Boston area in the early 1960s.

I say to you that the VCR is to the American film producer and the American public as the Boston strangler is to the woman home alone.

TESTIMONY OF **JACK VALENTI**, PRESIDENT, MPAA,
APRIL 1982 on home recording copyright

Digital Screens in the European Union

	2010	2011	2012	2013	2014 prov
New digital screens	4 640	7 041	5 860	4 355	1 858
Total digital screens as of Dec. 31	8 785	15 826	21 686	26 041	27 899
Digital screen penetration as of Dec. 31 [est]	14%	54%	72%	87%	92%

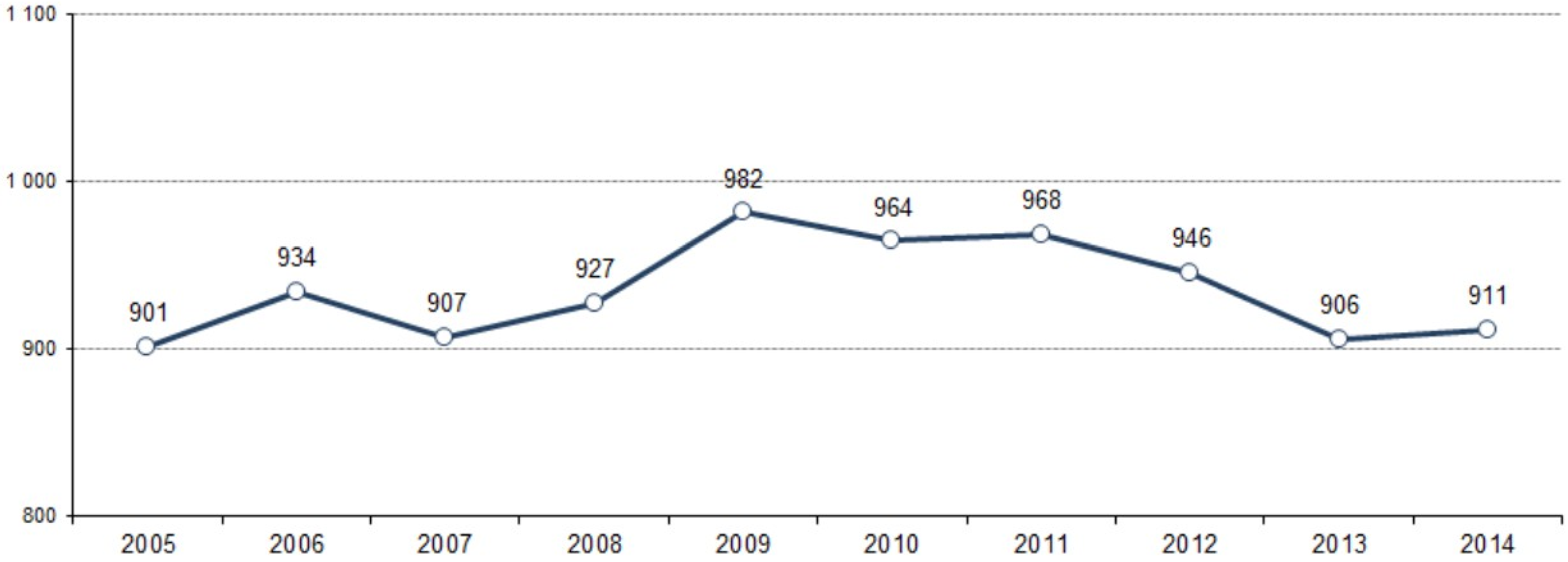
Source: MEDIA Salles, European Audiovisual Observatory

European box office 2013/14

Country		Admissions (in million) 2013	Admissions 2014 prov	Change %	Currency	GBO (in million) 2013	GBO 2014 prov	Change %	National market share [1] 2013	National market share 2014 prov	Sources
European Union member countries (EU 28)											
AT	Austria [est]	15,2	14,1	-7,1%	EUR	124,6	117,9	-5,4%	4,2%	4,6%	ÖFI
BE	Belgium [est]	20,9	21,6	3,3%	EUR	154,7	158,4	2,4%	~	14,0%	VAF / CCA
BG	Bulgaria	4,8	4,9	2,3%	BGN	39,8	41,1	3,2%	0,9%	3,5%	National Film Center
CY	Cyprus [est]	0,7	0,7	2,1%	EUR	5,0	5,1	1,8%	0,1%	~	Min. Cult. / MEDIA Salles
CZ	Czech Republic	11,1	11,6	4,5%	CZK	1 424,2	1 462,7	2,7%	24,2%	23,8%	Czech State Cinematography Fund
DE	Germany	129,7	121,7	-6,1%	EUR	1 023,0	979,7	-4,2%	26,2%	26,7%	FFA
DK	Denmark	12,9	12,2	-5,2%	DKK	1 025,1	991,7	-3,3%	30,2%	27,3%	Danish Film Institute
EE	Estonia	2,6	2,6	1,6%	EUR	11,8	12,8	8,0%	5,9%	4,7%	Estonian Film Institute
ES	Spain [est]	77,0	87,4	13,6%	EUR	507,2	522,5	3,0%	13,5%	25,5%	ICAA
FI	Finland	7,8	7,3	-6,4%	EUR	76,0	71,6	-5,8%	23,4%	28,1%	Finnish Film Foundation
FR	France	193,6	208,4	7,7%	EUR	1 250,0	n.c.	~	33,8%	44,0%	CNC
GB [2)]	United Kingdom	165,5	157,5	-4,9%	GBP	1 083,0	1 058,0	-2,3%	22,2%	26,0%	BFI / CAA / Rentrak
GR	Greece [est]	9,2	9,0	-2,6%	EUR	59,3	58,0	-2,2%	7,2%	3,5%	Greek Film Center / Media Salles
HR	Croatia	4,2	3,8	-9,7%	HRK	121,0	110,6	-8,6%	11,1%	2,5%	Croatian Audiovisual Center
HU	Hungary [est]	10,1	11,0	8,4%	HUF	13 490,0	14 601,6	8,2%	1.3%	3.7%	NMHH
IE	Ireland [est]	14,7	14,4	n.c.	EUR	102,8	100,4	n.c.	0,9%	7,1%	Irish Film Board
IT	Italy [est]	105,7	99,3	-6,1%	EUR	646,3	600,5	-7,1%	31,0%	27,8%	Cinetel / SIAE / OBS
LT	Lithuania	3,3	3,2	-0,7%	EUR	13,1	14,4	9,8%	16,5%	23,1%	Lithuanian Film Centre
LU	Luxembourg [est]	1,2	1,1	-6,5%	EUR	9,1	8,5	-6,1%	~	1,0%	Media Salles
LV	Latvia	2,4	2,3	-2,8%	LVL	10,3	10,2	-1,3%	6,0%	7,6%	National Film Centre
MT	Malta [est]	0,7	n.c.	~	EUR	4,0	n.c.	~	3,6%	~	National Statistics Office
NL	Netherlands	30,8	30,8	-0,2%	EUR	249,5	249,9	0,1%	20,6%	20,8%	NFF / MaccsBox - NVB & NVF
PL	Poland	36,3	40,5	11,4%	PLN	665,1	727,8	9,4%	20,3%	27,1%	Polish Film Institute / boxoffice.pl
PT	Portugal	12,5	12,1	-3,7%	EUR	65,5	62,7	-4,2%	3,4%	4,8%	ICA
RO	Romania	9,0	10,2	12,4%	RON	160,5	185,2	15,4%	2,8%	2,2%	Centrul National al Cinematografiei
SE	Sweden	16,6	16,3	-1,8%	SEK	1 644,1	1 654,0	0,6%	26,7%	26,4%	Swedish Film Institute
SI	Slovenia	2,3	1,9	-17,4%	EUR	11,1	9,5	-13,9%	10,9%	5,7%	Slovenian Film Center
SK	Slovakia	3,7	4,1	10,8%	EUR	19,0	20,9	9,8%	4,4%	5,7%	UFD / Slovak Film Institute
EU 28 Total [est]		**905**	**911**	**0,7%**	**EUR**	**6 282**	**6 322**	**0,6%**	**~**	**~**	**European Audiovisual Observatory**

Cinema attendance in the European Union 2005-2014 provisional

In millions, estimated; calculated on a pro-forma basis for the 28 EU member states



Source: European Audiovisual Observatory

EUR million

	2009	2010	2011	2012	2013	2013/12	Sources
Broadcasters net revenues	**69 594**	**72 622**	**74 158**	**72 284**	**71 596**	**-1,0%**	**OBS**
Public broadcasters (incl. radio)	33 474	33 851	33 724	32 664	32 547	**-0,4%**	OBS
Advertising TV	19 613	21 163	21 713	21 151	20 656	**-2,3%**	OBS
Thematic channels (est.)	9 341	10 047	10 996	10 733	10 835	**0,9%**	OBS
Home shopping channels	2 453	2 610	2 719	2 792	2 813	**0,8%**	OBS
Local TV (est.)	1 326	1 395	1 350	1 278	1 138	**-10,9%**	OBS
Private radio (est.)	3 388	3 556	3 656	3 665	3 607	**-1,6%**	OBS
Consumers expenses for AVMS distribution services (incl. taxes) [(1)]	**27 950**	**31 417**	**33 362**	**35 427**	**36 374**	**2,7%**	**OBS**
Cable	11 212	11 844	12 201	12 790	12 869	**0,6%**	IHS
Satellite	13 874	15 689	16 336	16 913	17 255	**2,0%**	IHS
IPTV	1 785	2 375	3 222	4 029	4 525	**12,3%**	IHS
DTT	1 080	1 509	1 602	1 694	1 724	**1,7%**	IHS
Cinema gross box-office	**6 087**	**6 373**	**6 445**	**6 570**	**6 285**	**-4,3%**	**OBS**

Physical video (incl. taxes)	**8 359**	**8 037**	**7 405**	**6 758**	**5 991**	**-11,3%**	**OBS**
DVD retail [(2)]	6 691	6 180	5 512	4 868	4 215	**-13,4%**	IHS
DVD rental [(2)]	1 154	1024	876	722	563	**-22,0%**	IHS
Blu-ray disc retail [(2)]	499	807	980	1 118	1 170	**4,6%**	IHS
Blu-ray disc rental [(2)]	14	27	38	49	44	**-10,0%**	IHS
VoD online revenues (incl. taxes)	**248**	**462**	**648**	**1 045**	**1 526**	**46,1%**	**OBS**
Online on demand TV revenues	189	345	462	673	938	**39,4%**	IHS
Online on demand film revenues	59	117	186	372	588	**58,0%**	IHS
Games (offline and online, excluding mobile and Apps)	**10 642**	**11 146**	**11 264**	**11 141**	**10 936**	**-1,8%**	**IHS**
TOTAL	**122 881**	**130 057**	**133 281**	**133 223**	**132 708**	**-0,4%**	**OBS**
Growth		**5,8%**	**2,5%**	**0,0%**	**-0,4%**		

Number of feature films produced in the EU

Type of production	2010	2011	2012	2013	2014 prov
Feature fiction films [est (1)]	1 072	1 073	1 092	1 110	1 118
Feature documentaries [est (1)]	427	453	462	477	485
Total feature films [est (1)]	**1 499**	**1 526**	**1 554**	**1 587**	**1 603**

European Audiovisual Observatory, 05/05/2015 : Press release

EUROPE

2004 929 total feature films

2014 1603 feature films (+42%)

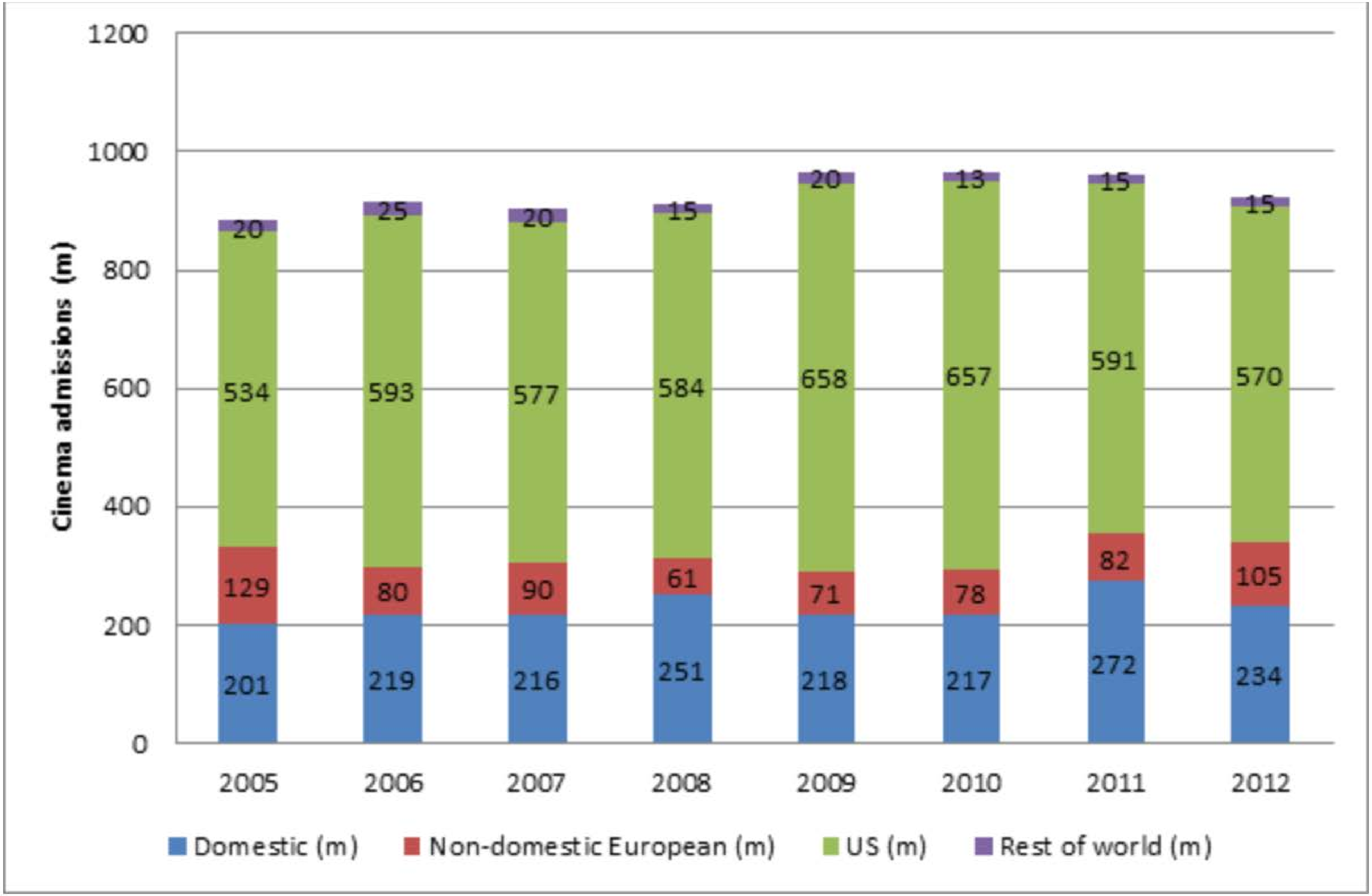
USA

2004 767 feature films

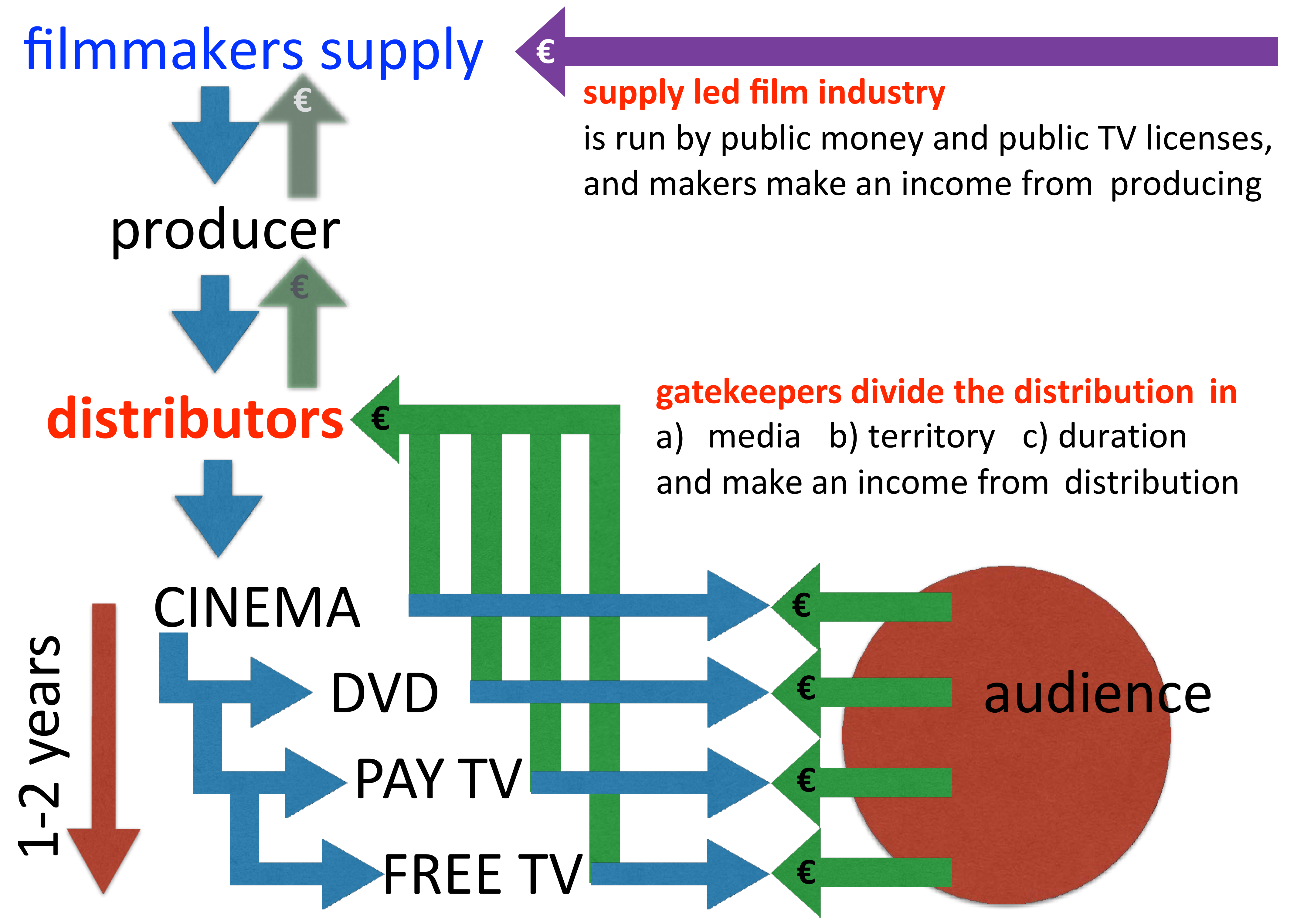
2014 800 feature films (+4%)

EU market share by region of origin

Region of origin	2010	2011	2012	2013	2014 prov
US	68.2%	61.6%	62.3%	69.5%	63.1%
EUR inc / US	5.0%	8.1%	6.9%	1.1%	0.3%
Europe	25.4%	28.5%	29.3%	26.2%	33.6%
Other	1.4%	1.8%	1.5%	3.2%	3.0%



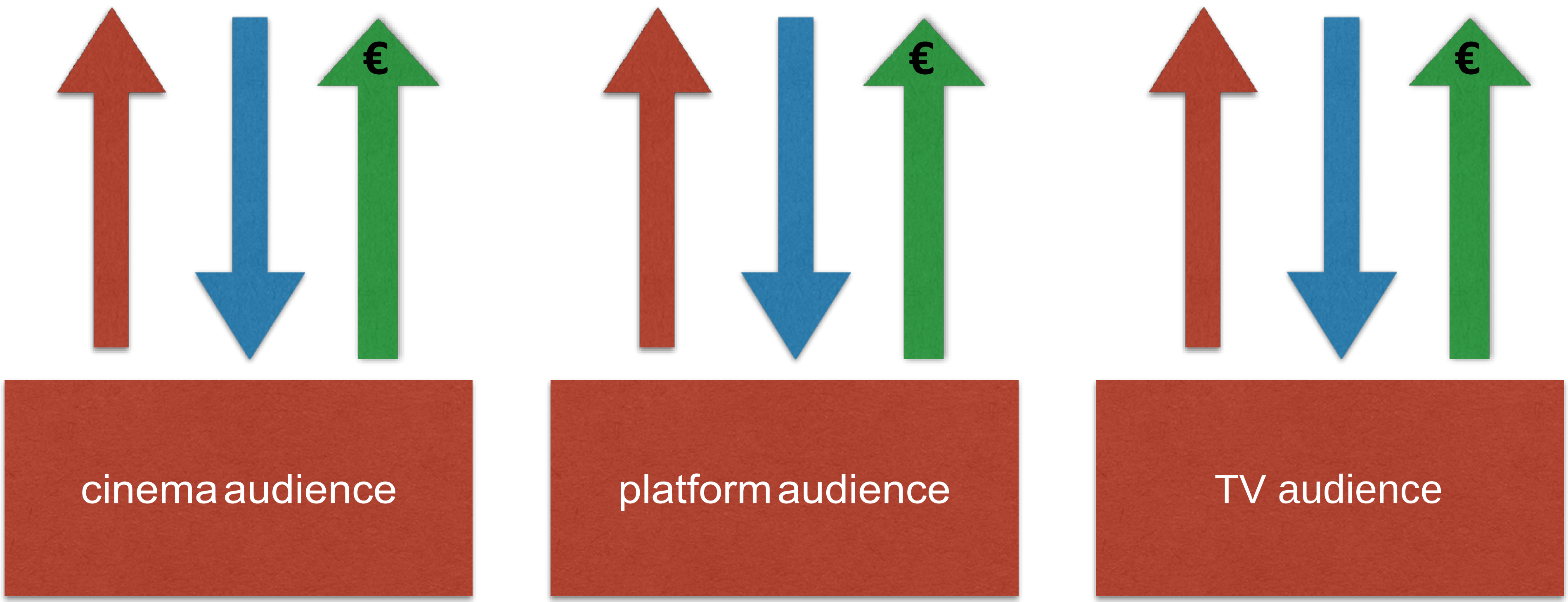
1200
1000
800
600
400
200
0
Cinema admissions (m)
2005
2006
2007
2008
2009
2010
2011
2012
20
534
129
201
25
593
80
219
20
577
90
216
15
584
61
251
20
658
71
218
13
657
78
217
15
591
82
272
15
570
105
234
Domestic (m)
Non-domestic European (m)
US (m)
Rest of world (m)


filmmakers supply
€
supply led film industry
is run by public money and public TV licenses,
and makers make an income from producing
€
producer
€
distributors
€
gatekeepers divide the distribution in
a) media b) territory c) duration
and make an income from distribution
CINEMA
DVD
PAY TV
FREE TV
1-2 years
€
€
€
€
audience

demand led industry **financing & distribution**

filmmakers——producer distributor

react to a demand or create a demand by audience research and audience building, they construct/develop single film strategies



Rights holders will recognize that **long term licenses** for an emerging medium makes little sense.

The long tail no longer exists, if it ever had, production and distribution will be based more on a <u>short term exploitation</u>.

A new relation between filmmakers, producers and distributors has to be established, with different terms of trade and maybe even experimenting with **direct Distribution**.

Concerning CINEMA:

Independent Exhibitors will get a cut of VOD &

Other Ancillary Revenues

Concerning CINEMA:

Dynamic Pricing in Cinema and in distribution has to follow the consumers needs and availability.

Concerning VOD:

There are now more than **500 video on demand services** available in the EU dedicated mainly or wholly to feature film.

Concerning VOD:

How do we share data ?

Concerning the filmmaker:

To gain attention means to be more recognizable, which in the end means a **reduction in creative compromise**.

Concerning the filmmaker:

Filmmakers should think about themselves as the **brand** rather than as single film creators.

Access to much of our greatest **film history** is becoming more limited, which has to be solved.

Print media continues to die, which asks for the establishment of **new forms of communication** about films: blogs, social media etc.

The creative class has allowed themselves to become corrupt and **seQle for geRng their film made**, thinking that is enough. This is the attitude-center of the **"supply led industry"**, which our audience does not appreciate anymore. As film is financed in Europe by more than 50% thru public funds, funding mechanisms have to react to that.

thanks for your attention