

# Executive Summary



## Study on new business models

This study was ordered by

**European Commission  
Directorate D – Culture and Media  
Unit D3 – MEDIA programme  
and media literacy**

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## Objectives of the study

This study on business models meets a number of general objectives, chiefly to contribute to development of the European audiovisual policy within the Digital Agenda for Europe and the new Creative Europe programme. The aim is to enlighten the European Commission on existing and emerging new European and non-EU business models resulting from the transition to digital technology in the audiovisual sector, and on their impact on the circulation of European works.

More specifically, the study draws up an overview of these new business models for promoting and/or distributing audiovisual works in the digital economy that could to a greater or lesser extent enhance the circulation of European works. It also identifies obstacles to their development. Based on this overview, the study then presents a prospective and qualitative analysis of the most relevant and promising business models.

The national and European regulatory context is also analysed in terms of both support mechanisms and legislative measures related to VAT, copyright and so on, with a view to measuring the degree of adaptability needed to ensure the optimal performance of these business models.

## Methodology

Media Consulting Group first had to rule out the idea of presenting an exhaustive study of all emerging, new and experimental models, which would be very difficult to carry out given the geographical coverage required and the scope of the specifications, ranging from the exploratory model, which is very hard to judge conclusively due to the absence of hindsight and data (still considered confidential for various reasons), to the most recent models. Instead, it was decided to take a qualitative approach based on classification and grouping according to a dynamic frame of reference for each case study, to identify the business models that make sense.

The analysis of each model studied presents the business model in question according to the following nine criteria. In our opinion, these criteria constitute the characteristics of models that mark a break from existing models:

1. global,
2. multi-territory,
3. multi-screen/multi-media,
4. availability, accessibility of content,
5. capacity to create value,
6. control of the resource,
7. generation of income,
8. regulatory framework,
9. technology, innovation

The models studied are grouped into categories. For production, these are the independent low-budget film production group, Artists Public Domain, and the Italian production company Lucky Red. Television channels, whose main challenge with digital technology is to keep control over advertising resources endangered by Google-type schemes, are also studied through the Swedish public TV model SVT and the French private model TF1. The global models addressed (mostly American) are Apple/iTunes, Youtube/Google, Netflix, Facebook, Hulu, Ultraviolet and the only European model: Dailymotion. Among distributors practicing rapid release or non-chronological release, the case studies focus on the American operators Magnolia and IFC, and on Britain's Curzon Artificial Eye. Then, through the study of models based on theatrical release (virtual or on demand), the aim is to examine the impact of marketing and community elements on online audience recruitment. The models chosen were Prescreen, Mymovies.it (Italy) and La 7ème Salle (France), with a focus on the American model Tugg. Among traditional players in the distribution sector or integrated pan-European players, the case studies focus on MUBI and Bonnier/SF Anytime. The last category concerns connected television, based on the case of Sony.

## Results

The principal findings of this research demonstrate a strong capacity to take new positions in the traditional value chain which mechanically produces effects upstream. The key results may be grouped as follows:

### **The capacity to accrue the advantages of market developments and to become a global retailer**

While these 'new media' were initially considered complementary to the established value chain, it has become increasingly obvious that the market is faced with a phenomenon of replacement. The market is evolving along the lines of delinearisation, dechronologisation and disintermediation. Apparently, the current and future dominant players are those capable of combining these three assets.

The question for these players is to create a large audience if possible and one that is of course homogeneous. They must also move from an often poorly known and assessed audience base to a value and market base through distribution. The diversity of territories (and consequently cultural diversity) in Europe is a problem in itself because audiences are naturally fragmented and it is impossible to match the homogeneity of the American market, except for products of American origin...

### **Global retailers are global managers**

Technology, like marketing, is one of the key levers available for monitoring the creation of value. With internet and connected TV, European companies now find themselves faced with global competition where financial strength alone is insufficient: the brand, interfaces and products, in particular fiction that builds viewer loyalty (Netflix), and thus the capacity to generate advertising, subscriptions or recurrent purchases, are essential. The new business models are unquestionably characterised by the capacity of enterprises to develop market positions that include all these management tools.

### **Deconstruction of traditional modes of financing creation**

Global players in online distribution develop the retail aspect of the business and have less affinity for programmes and the world of creation, thus leaving room for production to develop in Europe. This production will be all the stronger if it builds on digital distribution circuits and models. The capacity to provide strong and diversified content in sufficient quantity remains an essential selling point for online distribution. Connected TV operators are well aware of this and have become rights buyers in the value chain. In all cases, major producers in the broad sense can end up in a stronger position because they are often the only players with the necessary credibility and capacity to ensure the financing and delivery of these projects. In addition to the financial aspect, they are in a strong position to develop brands and attractive premium programmes for digital distribution platforms.

Digital distribution has introduced elements that call into question the financing system structured upstream in the media chronology. While media chronology is showing a tendency to weaken, its pre-finance corollary is also weakening since protected exploitation windows will be reduced or even disappear. Furthermore, the transition from a pre-finance economy to a distribution economy implies that producers can shorten their production and finance cycles. This development will therefore impact on the distribution chain, which will also have to be capable of generating economies of scale. Doing so will require simultaneous access to several types of distribution and digital platforms in a number of countries with appropriate marketing strategies. These may be described as multidimensional distribution (media, networks, countries) or Day and Date distribution models.

### **A new opportunity for European films**

Digital distribution will offer an opportunity to put in place business models favourable to better circulation of non-national European films if the following conditions are fulfilled:

- ❖ The emergence of 'multidimensional' distributors capable of steering film exploitation in different countries by pooling means (acquisition of rights, marketing);
- ❖ These distributors can rely on global distribution networks such as VoD platforms and 'universal' marketing tools like Facebook;

- ❖ They will have to steer this distribution at global level (interface with global distribution networks) and local level (interface with local players: cinema networks, media, etc.), adapting marketing and promotion strategies to each country.

## Conclusions

The transition to the digital world is a change of culture and, just as socio-anthropologists speak of acculturation, we could say that those most able to adopt the attributes of the digital culture are those who were the least involved in the cultural behaviours and traits of the analogue culture. In short, yesterday's 'deviants' may be tomorrow's moguls. This incursion into socio-anthropology gives us the keys to understanding the difference between strategies of conquest and defensive strategies, focused on protecting through regulations and law the positions that risk being swept away by the market (SVoD has been available for 36 months in France).

The case studies bring to light Europe's chief weaknesses: limited size of initial markets, piecemeal and segmented rights, languages, distribution habits, windows, the defensive approach of telecoms operators (quadruple play, loss leaders), and the key players (TV, distributors). In the field of technology, one can only note the absence of major European players (with the exception of HbbTV, which will have to prove its reliability compared with connected TV operators).

As the global market can rarely afford to do without a local approach, European operators can develop offers and local (or regional) 're-intermediation' experiences based on a common language, for example, catalogues and a specific approach matched with proximity marketing. In this case, these European operators could facilitate access to European products and could have a positive effect on the market structure since this could make local operators less exclusively dependent on their major international partners.

The creation and development of European aggregators capable of making the connection between niche products and major operators through localised marketing is an opportunity to be seized.

In the field of digital content, European operators can hope for the development of a diversified pan-European offer impossible to conceive of in the physical world (territories not covered, screen congestion, multiplication of intermediaries). In such conditions, Day and Date forms are possible or even desirable, as seen with the experiences - still in their infancy, however - that permit box office and DVD release, or box office and VoD, or VoD and DVD and box office. But these still rare operations can only be successful if approached with a dynamic rather than a defensive view of the market.

These operations could demonstrate to content creators that digital distribution is the best way forward to keep from being left on the sidelines.

Europeans' capacity to produce premium products, in particular fiction, is an opportunity to be seized given the specific demand for these products on large platforms. This opportunity can be supported by a structured network of large national distributors (private and public) who are accustomed to working together (co-productions).

This potential market will nonetheless have to be supported by a base of strong European producers and investment incentives for distributors (rights sharing, for example). The development of strong brands is one of the challenges ahead for the digital distribution sector.

The diversity of players and products can be encouraged by public service operators if they are pushed or even authorised to be more aggressive on the market.

A new approach to rights distribution, which is especially necessary on the international market with the onset of connected TV, is particularly important considering that European distributors are among the rare enterprises having the funds needed for such development.

It is also essential to note that the strengths of the European industry reside above all in its capacity to produce strong content in a form of international division of labour: the large digital distribution groups will in all likelihood be global. Thought should therefore be given to strengthening this asset to develop it into a factor of competitiveness.

## Strategic recommendations

As seen above, there is not (yet) a specifically European model that should be supported as a matter of priority. However, it seems that a number of measures could help facilitate the emergence of European operators capable of contributing to the Union's general objectives, in particular in matters of cultural diversity. These measures can also be advantageous to major international players, but only to the extent that they contribute to achievement of these objectives.

- **Improvement of the offer of works of European origin by facilitating the availability of non-national works**
- **Support for the development of intermediate-sized platforms by creating conditions favourable to European SMEs**
- **Development of production practices that take online distribution into account**

To conclude, this study's main observation is that there is a pressing need for all to evolve and adapt. The simple finding reiterated throughout the study is that, on a market that is fragmented due to different languages, territories and behaviours, the European cinema industry is rarely attuned to the new emerging economic and business models of digital distribution.

In spite of an initially exhaustive approach, only a minority of the models selected and studied are in fact European, because organising them almost automatically requires attainment of a critical size that is in principle incompatible with the structure of the European market. As a result, the global models, the majority of which are American, are the focus of the analysis in the absence of the premises of a 'European globality' in the digital age.

There is nothing to prevent European operators from transposing these models but what seems chiefly to be holding them back today is a lack of prospects and hindsight. At issue are the permanent protective elements of production and distribution systems in use in certain European states, which little by little are stifling innovation and the necessary questioning of existing models.

Consequently, two options are available to stimulate this creation of new economic models: either adapt existing models, taking care to eliminate the obstacles and impediments discussed; or conclude that, in the final analysis, they cannot be transposed to our market and generate original models specific to Europeans.

In Europe, for reasons inherent to their nature but also for political, institutional, historic and other reasons, few actors are in a position to promote change by implementing business models that depart from the mainstream. Yet, above and beyond the question of models, whether they are to be adapted or invented, it is first and foremost the actors who will embody them that need to be found. The system has been built on constraints and securities such that it is de facto impossible for European actors to reinvent their models. This inaction involuntarily places them in danger. That is why, in our opinion, the problem of the public powers is not to say which business models should be put in place, but to identify and encourage the actors best able to invent and embody them. The idea is therefore more that of promoting appropriate behaviour than of establishing models to be followed.