Nostradamus Report: Transforming Storytelling Together

2021

Johanna Koljonen


Göteborg
Film Festival


Film
i Väst

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The Nostradamus report is published by Göteborg Film Festival. It aims to sketch out the future of the screen industries 3–5 years from now, through interviews with industry experts and research.

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Göteborg Film Festival is the leading film festival in Scandinavia, celebrating its 44th edition January 29–February 8, 2021.

Graphic Design: Jussi Öhrvall

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Presented by Göteborg Film Festival's Nordic Film Market, with support from and in collaboration with Lead Partner Film i Väst, with additional support from Region Västra Götaland, Nordisk Film & TV Fond, Kulturakademin, and Creative Europe MEDIA.

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Introduction

The suffering caused by the pandemic is far from over. Even in a best case scenario, the next two years will be actively shaped by the ongoing crisis. The economic and psychological fallout from the enormous loss of life and livelihood will be with us longer, and the long-term health effects on survivors are still unknown. After dealing with the distress of production shutdowns and cinema closures, and navigating the acceleration of the window system's collapse, we will need to take stock of the pandemic in our roles as storytellers and sense-makers.

But for this year's Nostradamus Report—our eighth—we asked our experts to look past all that, and to our great surprise the message that emerges is one of hope.

Yes, this disruption will involve destruction. And among the companies we'll lose and colleagues changing fields there will be some who could have persevered without the added pressures of this pandemic. But at the same time, there is an enormous audience hunger for the content we provide. Getting rid of structural inefficiencies and distribution bottlenecks opens up new ways to connect each piece of content with an audience that really cares. And thresholds to careers in film and its many neighbouring media are lowering day by day.

Right now, and in the next five years, there is a window of opportunity to shape industry norms, workflows, business models, and storytelling formats. Relatively speaking smaller stakeholders—small companies, public service broadcasters, independent exhibitors, festivals, niche streaming services—can team up to share and scale resources, skills, and reach. Individual auteurs or groups of creators can negotiate better terms—or choose to bypass historical gatekeepers entirely. Nothing is yet set in stone, and we have agency over these outcomes. We will transform storytelling together.

The Nostradamus Report is commissioned by the Nordic Film Market at Göteborg Film Festival, which has made news this year for taking isolated cinema to a whole new level.

As we are going to print, a Swedish Covid nurse is spending a week in an island lighthouse without any other company—or media—than the festival's curated lineup of arthouse cinema. At this very moment on the other side of this block, in a 700-seat theatre, a projectionist is screening a festival film to a single patron. And in living rooms all over the country, film lovers are seeing titles that might never had distribution in their town.

In a difficult year, film festivals have been a beacon of hope for broad audiences and industry participants alike. And for the work on this report, we have relied as always on both formal conversations and informal interactions at festivals and markets. This year, the European Film Market felt especially significant, as the last time we could host an in-person seminar —thank you to everyone who contributed.

Bringing Nostradamus back to Cannes NEXT at the Marché du Film in June was another highlight in a very dark year. On top of seminars and lectures we even hosted a socially isolated Nordic rooftop party—connecting the inspirational, hard-working staffs of the film festivals of the world in a DJ battle all the more magical for being the last time for a very long time that any of us went dancing.

Alone or together, film is community.

We are grateful for the support of Film i väst, the lead partner of the Nostradamus Project, and as always especially indebted to Tomas Eskilsson, Head of Strategy, for sharing our passion for the longer perspective.

There would be no report at all without the interviewed experts who have given so generously of their time. Where they are directly quoted, their opinions can be attributed to them; the conclusions, as always, are our own.

Johanna Koljonen, report author; CEO, Participation | Design | Agency
Cia Edström, Head of Industry, Nordic Film Market

Reports from previous years are available as free downloads at goteborgfilmfestival.se/nostradamus

The 2021 Nostradamus report is built around interviews with the following experts:

Mariana Acuña Acosta, Co-Founder and CPO, Glassbox Technologies
Elisa Alvares, Corporate Finance Consultant, Jacaranda Consultants
Walter Iuzzolino, CEO, Eagle Eye Drama
Marike Muselaers, Co-CEO, Lumière Group
Brian Newman, Producer, Consultant, founder of Sub-Genre
Roberto Olla, Executive Director, Eurimages
Alex Stolz, Founder, Future of Film, and Head of Film, usheru
Ari Tolppanen, Investor and Chairman, Aristo-Invest
Filippa Wallestam, EVP and Chief Content Officer, NENT group

The special update on the status of the EU:s Audiovisual Media Services Directive is written by Petri Kemppinen, Founder, P1 Kemppinen.

In addition, we owe a huge debt of gratitude to the following: Charlotte Appelgren, General Secretary, Cineregio; Jan Bennemann, SVP Co-Production & Acquisition, Dynamic Television; Josephine Bourgeois, Executive Director, Projeto Paradiso; Rhys Ernst, director/producer; Tomas Eskilsson, Head of Strategy, Film i väst; Thomas Gammeltoft, CEO, True Content Production; Helene Granqvist, President, Women in Film and TV International; Manu Guddait, Strategic & Development Partnerships, EFM Horizon; Iram Haq, director; Peter Hiltunen, Director, Culture Academy; Philip Knatchbull, CEO, Curzon; Alexandra Lebret, Managing Director, European Producers Club; Fabio Lima, Founder & CEO, Sofa Digital; Wendy Mitchell, journalist; Regina Mosch, Festival Director, Copenhagen Web Fest; Gyda Myklebust, Managing Director, New Nordic Films; Sten Saluveer, Founder and CEO, Storytek; Anna Serner, CEO, Swedish Film Institute; Silje Riise Næss, Film Commissioner, Danish Film Institute; Bérénice Vincent, Co-founder, Collective 50/50, Co-founder, Totem Films; Aleksandra Zakharchenko, Head of Programmes and Training, Marché du Film.

Summary

1. SITUATING OURSELVES IN REALITY

The pandemic will continue to affect the industry for another 2–3 years. Structural changes that were already in progress have accelerated. Consolidation will continue.

Even in a changing distribution landscape, the industry is fundamentally robust. But companies, talent, and individual workers who might otherwise have been able to pivot or retrain may buckle under the additional pressures of the pandemic.

The experiences of 2020 have revealed the industry's dependence on its macroeconomic, social, and environmental context. Increasing systemic awareness across the value chain will increase its resilience and efficiency.

2. VIRTUAL PRODUCTION UNLOCKS CREATIVITY—AND OPPORTUNITIES

Five years from now, virtual production methods, tools, and pipelines have been completely normalised across the industry. Production pipelines will have shifted to emphasise pre-production, and re-empower artistic collaboration across departments.

Different formats and even media will partly converge, creating new opportunities for multiplatform storytelling, creative talent, and creative technology skill sets.

3. THEATRICAL TRANSFORMATIONS

Theatrical exhibition is not dying, but changing. Five years from now, fewer cinemas will be operating on the current model, but doing well, as will more upmarket offers.

Affordable cinema real estate in the wake of pandemic closures creates opportunities for experimental exhibition. Although diminished as a market, theatrical exhibition will be revitalised as a dynamic and influential part of film culture.

4. AT THE HEART OF THE INDUSTRY, A SMALL SCREEN

Household SVOD spend will be bigger, and combined with complementary business models. Content exclusivity will not be central for all of these strategies, somewhat opening up the market.

The small screen will be the financial and quite possibly the artistic heart of the converged film and TV industry. Continuing innovation will be pushed by younger audiences choosing to consume and produce video outside these traditional domains.

5. FROM WINDOW SYSTEM TO CONTENT LANDSCAPE

What shape releasing will take when the window system goes is determined through innovation all along the value chain in the next three years. Those who do not participate will have the outcomes dictated to them by the most powerful stakeholders.

Sales and distribution must leverage a deep understanding of the audience and use data better in every aspect of their work to stay relevant at all.

As access to public funds is threatened, private investment increases in importance; but it too will be more selective.

Easy access to professional production tools and distribution makes creator-to-consumer pipelines not just a viable lifestyle, but a functioning business model.

6. GLOBAL SHIFTS, EUROPEAN OPPORTUNITY

Political and cultural shifts on the global level, the globalisation of the media market, and the increased interest in content from around the world is creating a historically unique opportunity for European production. Feature film numbers are expected to shrink, but volumes overall to stay strong or even grow.

Across Europe, audiovisual strategy is often conducted with a focus on competition inside the national market, and organised along historical lines treating film, TV, and online as entirely separate industries. Public film funding structures must respond to changes in production and distribution.

7. AVMSD IMPLEMENTATION SIGNALS NECESSARY POLICY SHIFT

The requirement in the AVMS directive on streaming services operating in EU markets to show at least 30% European content is increasingly viewed as a win-win. Even in countries that have not activated the optional direct levies, international investment into local productions is growing.

The implementation of the directive signals a step towards much-needed coherence between cultural policy frameworks and national goals for both local broadcasting ecosystems and the broader audiovisual industry.

1

Situating Ourselves in Reality

- The pandemic will continue to affect the industry for another 2–3 years.
- Structural changes that were already in progress have accelerated, meaning that the time window for innovating and adapting to new business models is also closing faster. Consolidation will continue.
- While the industry is fundamentally robust, the immediate crisis is straining companies, talent, and individual workers to the limit, at a time when many would have needed the mental bandwidth and financial resources to pivot or retrain.
- The experiences of 2020 made the global and macroeconomic context of the industry tangible, advancing understanding of systemic fragilities and increasing interest in resilience and efficiency all along the value chain.

Elisa Alvares, Jacaranda Consultants: *This storm had been in the making for a number of years. The collapse of the windows, the fact that national distributors are hanging by a thread, and that suddenly sales agents need to find a new raison d'être to survive… You didn't need a pandemic to get here, but it did accelerate it.*

The survivors will be those who were able to take the necessary steps ahead of time, ahead of the storm, to be ready for the collapse of the windows. Who were nimble enough to adjust to the changes that become inevitable when theatrical is not performing.

Consolidation is inevitable. The studios do not exist to produce, they exist to distribute. If distribution is not working for them, there's a problem at the core. Right now it isn't, in the traditional sense, because theatrical in the way we knew it is not performing.

Brian Newman, Sub-Genre: *We're going to see a lot of consolidation and lose at least 30% of the businesses that currently exist in the film world. They'll disappear in less than five years—I think it'll be two years.*

But not losing all those jobs, necessarily?

It'll be mergers, acquisitions, consolidation. And because of Covid-19, especially in the US, some of those businesses have already downsized. The jobs were already lost. It will be a rebuilding of jobs. But there will be more of them in direct to consumer relationships instead of business to business.

Roberto Olla, Eurimages: *I'm afraid that the consequences of this are going to be permanent. Especially the small-to-medium sized companies, whose financing is project based, are in extreme difficulty. Most of our member states are pouring money into supporting companies at this difficult moment. But this is like an IV drip in the arm—it will be pulled out eventually, and then the reality check is inevitable.*

I fear the pandemic is going to be destructive of many, many companies, and that the weakest ones will suffer the most. Not immediately, because of the exceptional public support being granted to them. But they will probably not be able to do what they wish they could, or what they should be doing: offering a diversity i films, a point of view.

At the time of writing, February 2021, the global vaccination effort is racing death.

Assuming that initial difficulties in vaccine production pipelines are rapidly overcome, there is now hope that individual countries can succeed in vaccinating their populations before the year is out. Even so, the scale and complexity of the effort, and the emergence of faster-moving mutated strains, suggest that almost wherever you live, things may still get worse before they get better. The more the virus spreads before herd immunity is achieved, the greater is the risk of a mutation resisting the vaccine, re-starting the cycle all over again.

Even if that calamity is avoided, immunisation needs to be global for the virus to be contained. Industrialised nations with sufficient access to vaccines may face compliance challenges, as significant percentages of their populations seem concerned about actually taking them. This might

also become an issue in the developing world, but that challenge remains theoretical as long as vaccines only are available in richer countries.

Walter Iuzzolino, Eagle Eye Drama: *The next three years will be just survival for everyone. Some people will have more money to commission, some less, and we're all going to try to make stuff that's Covid-safe, but it will be trudging along.*

Filippa Wallestam, NENT Group: *It is hard to produce the bigger multi-country crossover productions in the same way as we were used to. You need to think differently and be well planned and coordinated, and that definitely is going to continue. And if I just reflect on our slate, we are adding a lot more lighter local entertainment, feelgood content, than we probably had two years ago.*

Marike Muselaers, Lumière Group: *We're going to see super safe content choices, unfortunately. Which also has to do with the fact that everybody is only doing business with the partners that they already know. Zoom calls with people you know are perfectly fine. But it's really hard to establish a new relationship in this business in a digital way.*

Brian Newman: *I work a lot with companies that would sponsor big events. Most of them are permanently cutting their sponsorship and travel budgets. Everyone used to send groups of people to Cannes and Berlin, and that's going to be a much smaller footprint.*

There are going to be lasting changes. But I'm actually pretty bullish on theaters coming back quicker than people think, because we saw that in a lot of countries during the time periods when things got better: people were showing up in droves for the cinema.

Individual countries may be able to fully open their societies and economies as soon as this year, at the cost of closing their borders. But one should assume the pandemic will affect us directly or indirectly for another 2–3 years. Travel in particular may be erratic. Cascading impacts of societal lockdowns may keep economies in disarray. High unemployment, as well

as a general reckoning with how the crisis has been managed, makes for a volatile political landscape.

Harder to predict is the cultural impact, mental health effects, and emotional toll of the enormous loss of life, of the continuing disability of many Covid-19 survivors, and of disrupted lives and social isolation. Any community, company, or family may suddenly find its day-to-day defined by trauma. Underprivileged communities will suffer the most.

Telling the story of the pandemic experience will also be a challenge. Even now there is significant cognitive dissonance between certain (usually privileged) groups describing lockdown as a liberating chance of re-evaluating one's lifestyle, and the personal suffering of hundreds of millions of families affected by loss of life or livelihood.

The situation of the audiovisual industry is similarly dissonant. Arguably the sector entered the pandemic from a position of enormous strength. Demand and available capital have grown hand in hand for the last decade, and just a year ago the world's production infrastructure was operating at capacity. We may have spoken of "crisis" then, with reference to changing business models and the expectation that the window system would transform in the next five years.

That those changes have happened twice as fast would not in itself have been too big of a problem. But with productions and theatres closing down, and all cashflow to certain parts of the industry shutting down with the surrounding economies, the industry's inevitable transformations may now take a toll that might otherwise have been avoided.

Roberto Olla: *We were already reaching a level of saturation. How long can we go on making films for a diverse content offering that do not necessarily have a specific audience? Inevitably, given the current circumstances, there will be fewer companies and therefore fewer films.*

A good dose of films will still get made essentially or exclusively with public money—the pure arthouse filmmaking. The films that are the opposite will be made as well; with a larger audience they can put the financing together from the market, and rescue themselves. It is the films in the middle that are going to be affected. Market money is going to be expensive for them. Broadcasters and distributors will have a harder time investing.

Public support will eventually not remain in the same quantity, because countries will have to pay back all this [debt they are taking on during the pandemic to] support not the audiovisual industry, but every industry.

Will the remaining projects be better, though? At least there has been time for development.

That is true. But it's also true that the conditions of work have been appalling. Development is like a pregnancy, such a delicate moment in the life of a film. The conditions can really affect the rest of the filmmaking cycle.

Stakeholders who knew where they were heading, who were already pivoting, who have the cash at hand to invest in the crisis and execute their strategy, will still do well. Anyone slightly behind the curve, or off in their analysis of markets and audiences, will suffer. Companies and individuals that would have been able to reorient themselves if it weren't for this additional financial and psychological pressure may now be lost to the industry entirely.

If you feel you may be one of them, don't start looking for another career just yet. Only the broad outlines of the coming content landscape are known (and described in the next several chapters). The details, however, are not filled in. In the next three years in particular, innovation anywhere in the value chain can affect the entire landscape. And as this report will discuss, many of the transformations bring new opportunities in their wake.

One enormously important lesson the industry has learned in the pandemic is that of its wider dependencies. The sector is obviously shaped by local and global economies, but also by everything else affecting audiences, funding opportunities, or production realities. Even as they look ahead to a horizon beyond the pandemic, all of our interviewees were already mentally preparing for the next crisis.

Filippa Wallestam: *Macroeconomic trends are always extremely important for content, also because we need to reflect the world. Just like diversity, [green production] is becoming a consumer requirement. The ethical and commercial perspectives are [aligned].*

Not being able to travel last year taught us that alternative ways are

possible. And we've often produced elsewhere for cost reasons, but now we are twisting that around looking at it from an environmental perspective. Of course, in a perfect world the [Nordic] governments would see that tax incentives would support this [return to] local production.

The question of how to operate in a new media landscape cannot be separated from the questions of what a resilient and sustainable business, company, project, or funding structure should look like. Whether thinking about green production or remote pipelines, diverse representation or the future of public funding, we have all been reminded that we are part of the world, and that there are no good industry outcomes from bad societal outcomes.

Two issues are of particular concern. First, the escalating climate crisis is already affecting practical things like shooting schedules, and many of the world's greatest production hubs are situated in very warm regions or facing extreme weather events.

Second, the "streaming wars" may soon be eclipsed in our attention by the "reality wars". The struggle for the control of truth between liberal democracies and authoritarian populist movements has unpredictable and occasionally devastating effects on media companies, legislation, audiences, and public funding.

As an industry we have always talked a great deal about audience behaviour, and as the next chapters will show, taking one's audience relationship to the next level is certainly central in the new landscape. But perhaps we will now also talk about industry behaviour. From work safety on sets to how and why we travel; from the role of media narratives in political processes to the responsibility of tech companies in elections, this industry not just reflects the real world, but shapes it through our choices, on screen and off.

Roberto Olla: *We have been speaking about media literacy education for long, and it is still not happening. I'm not talking about teaching children the history of cinema, although of course we should be doing that too, but of rational thinking and analysis. In schools today, the younger generation is still taught how to analyse books, literature only, even though they read*

very little. But they probably watch a lot more than you and I, and they need to be taught critical approaches to moving images as well. Internet included.

People take democracy for granted. They think the future can only be better, that progress is a constant movement towards a better society, and unfortunately that is not the case. In Europe, some countries are clearly going backwards in respect of individual freedoms. Antidemocratic attitudes anywhere are everyone's business.

Our societies are not as progressive as those of our parents. [They were able to] introduce divorce and abortion in societies where religion was still enshrined in their DNA. *[Social movements like Black Lives Matter and] MeToo have been breakthroughs, but the effects could have been a lot better if people who [are not directly affected] were more open to receiving those messages. Think of gay marriage in France, and the increase in violence against the* LGBTQI *community it provoked.*

2

Virtual Production Unlocks Creativity — and Opportunities

- Five years from now, virtual production methods, tools, and pipelines have been completely normalised across the industry.
- The threshold to hands-on experience with virtual production is very low today, and the tools are rapidly becoming even more accessible. At the highest end, installations that currently require a significant initial investment will also lower in price.
- Production pipelines are shifting, with a large part of what is currently post-production moving into pre-production, lowering cost and re-empowering artistic collaboration across departments.
- Because of similar production processes, different formats and even media will partly converge, creating new opportunities for multiplatform storytelling, creative talent, and creative technology skill sets.

Mariana Acuña Acosta, Glassbox Technologies: *In 2020, the amount of film and TV projects that were using virtual production doubled; in the midst of this crisis, our company had our best month ever. I live in Los Angeles, which is now the epicenter of the pandemic. Productions are the lifeblood of this town. Now everybody is implementing virtual production techniques and remote working infrastructure; what we forecasted was going to happen in four years happened in one.*

In five years realtime technologies will have been adopted across the board in all studios, even those that have been very hesitant to move into that world. We will [also] see full studios just operating in the cloud with virtual machines. And machine learning enabled pipelines, where mun-

dane tasks are performed by algorithms and all the creative things with human input.

Alex Stolz, Future of Film: *The term Virtual Production covers a real range of applications from previsualization and fully* CG *animated projects to the* LED*-wall in-camera visual effects made famous by* The Mandalorian. *What's exciting is that it is already possible for filmmakers to use this technology, just not necessarily yet in a huge professional studio volume. There's a knowledge gap and there's an education gap, but there's not an accessibility issue—with the underlying game engine tools like Unreal Engine available for free. Look at people like Matt Workman who is prolifically creating really interesting work using mostly consumer products. He talks about this shift as being similar to the French New Wave, when the invention of the handheld camera transformed film style*[1].

Virtual production (VP) is an umbrella term for elements of filmmaking using the manipulation of 3D modelling, normally using game engine tools and often with visual effects captured 'live' in camera. Whether engaged with in a virtual space, or projected onto physical LED screens in a film studio, this allows filmmakers to work as though the digital elements were physically present.

Game engine and camera tracking tools mean the background environments can respond to the camera movements, creating the illusion of a 3D physical space that can be viewed from different angles, with light and gravity behaving largely as they would on a physical set. Importantly, this is not an experimental technology for VFX heavy genre blockbuster movies. Variations of these techniques are already commonly used in fields such as broadcasting (where news studios are increasingly virtual), physical product design, engineering, architectural visualisation and real estate development, computer games, VR, and AR experiences.

Anything that requires visualisation can benefit from being experi-

1. Workman created the Cine Tracer app, a low-cost, low threshold VP previsualisation software for filmmakers with no background in 3D. For introductory VP tutorials, see Workman. For his New Wave analogy, see Stolz, 2020.

enced and iterated on virtually. Using VR headsets, directors, DP:s and department heads can do digital site visits inside computer generated environments already at the design stage, allowing them to collaborate more efficiently significantly earlier in the process. VFX outcomes can be viewed and iterated on together. Better planning reduces time on set and allows for more cost effective productions.

Many elements of VP go back to films like *Avatar* and *The Polar Express*, as well as the deep history of digital VFX and 3D animation. But the game changer was the leap in computing power that allowed 3D images to be rendered in real time. Where generating a change or movement in a complex computer-generated 3D image could previously take hours, this now happens essentially instantaneously.

This breakthrough first provided the basis for photorealistic computer games that allow players to move about freely in, and interacting with, a digital environment. Those same game engines, most commonly Unreal and Unity, are now applied to creating and managing real time virtual environments in a number of industries, including film.

Mariana Acuña Acosta: *Realtime technologies save you time, energy, and money. There are so many ways to create a very lean pipeline. I created a little short film during the pandemic without leaving my home office at all! I had motion capture, free sets, free characters from Mixamo. Anybody can do that today, with everything that's readily available.*

Very broadly, common VP methods fall into three categories. In the first, all visuals of the final work are computer generated. But because virtual sets are three-dimensional, and the images are rendered in real time, even entirely animated worlds that exist only inside computers can be physically shot by a filmmaker walking around, looking through a physical viewfinder into the virtual space.

At the other extreme is a soundstage with LED walls, onto which the virtual environment is projected, allowing the digital world to be captured in-camera, with the sets reacting in real time to its movement and focus. A studio with LED walls for sets is referred to as an "LED volume".

In between these models lie the mixed reality set-ups, pioneered in

Avatar more than a decade ago. Here the physical shoot may for instance be of an actor against a green screen, with the physical camera also location tracked as a virtual camera. A digital environment can then be rendered, lit, and reviewed in real time instead of months later, allowing for a completely different level of creative control.

Where live action is used, performers can of course also move in the spaces and interact directly with digital environments and characters. Or they might themselves be digitally rendered in real time through performance capture, essentially puppeteering a virtual character. Naturally, virtual characters can also be controlled in a process more akin to traditional animation, without the presence of any human actor—although the virtual character itself can be based on a human performance.

Alex Stolz: *Achieving the level of realism of something like* The Mandalorian *on set, in camera, is very complicated. The mise-en-scene is incredibly important to achieve the illusion that you are not looking at an LED screen, but into a 3D landscape. The set dressing in front of the screen, and the way the performers are positioned, is critical. You need that depth of field to achieve that parallax whereby the viewer is tricked.*

Five years from now, many high-end series and films will be using at least some element of virtual in-camera visual effects. There are a lot of dependencies affecting how fast they will be more widely adopted. It's a question of cost and growing the ecosystem—building the installations, the infrastructure, and the expertise. But there's lots of activity in that space, which hopefully will open it up. I'm working with Garden Studios in London, who are opening up LED facilities. Our goal is to make a pipeline accessible for a range of budget levels.

Mariana Acuña Acosta: *More in-camera VFX means a lot less money and time spent in post-production. More of the budget will be allocated to tools, workflows and pipelines in pre-production, because that is how you're going to be iterating better, saving on costs and giving creators more say.*

This is just like going from black and white with no sound to color and sound, to optical effects, to visual effects, then everything moving from optical to digital. It's just another technological shift. But there are going

to be more types of content, more ways of consuming it, and a lot of new types of creatives.

The pandemic has rapidly accelerated the interest in virtual location work. Already today VP allows you to virtually shoot in a real-word environment that has been captured volumetrically (that is, in 3D) on location by a small team. Alternatively, virtual worlds can be created by artists from scratch; be synthetic, but partly or fully based on photogrammetry of actual environments or buildings; or rely entirely on landscape elements that are generated procedurally[2]. Libraries of pre-recorded environments and other digital assets are today both available for free and a growing business in themselves. You might, for instance, buy a photorealistic synthetic ocean for your live action film, with the movement of the waves programmed in. This would be animated in the sense that it is moving, but has not necessarily involved a specific animator or technical artist; the water could be procedural.

Making a clear distinction between ”live action” and ”animation” is increasingly complicated. Animation tools for artists are also increasingly automated, taking some of the drudgery out of projects where specific manual tasks serve no purpose. You can choose to animate a character frame by frame—or tell your software how a particular character should move within the constraints of its environment, and intervene with detailed adjustments only as necessary. These developments have enabled individuals and very small teams to produce work of an ambition that five or ten years ago would have required an entire studio.

If virtual sets and locations are already common, virtual human characters too are rapidly getting better. Five years from now procedurally generated photorealistic humans are absolutely within reach—just think of how good deep fakes created by non-professionals with free online tools are today. Actors probably need not worry; on the contrary, the technology creates interesting opportunities to work as younger versions of them-

2. Procedural animation uses rules to generate realistic representations of complex motion and surfaces, such as water, fire, animal fur, or the movement of character bodies in environments that affect them.

selves, or to not be required on set for trivial reshoots. Professional extras might find there is less work to go around, especially if shoots with large casts continue to be difficult to insure.

The rapid development of photorealistic virtual humans also urgently actualises ethical and legal questions about whether we own our own likeness, whether it can be sold, and whether the rights to it transfer to one's estate upon death. There are also questions about whether and how rights to create three-dimensional representations of real buildings, public places, or landscapes should be controlled.

Mariana Acuña Acosta: *I don't think film schools ever keep up with technology. Their curriculums are dated and a lot of kids pay tuition to learn things that will just simply not land them a job in the future. If you're not getting your money's worth at school, just go online, learn all you can, get together with other people to make things.*

Another concern is diversity. We need a more diverse range of humans with different types of backgrounds creating content and being heard. I felt like there was a shift happening, but with the pandemic it's gotten worse again, and virtual production is very white male dominated. But if you can get your hands on this technology, for a lot of creators it will just click! This opens up doors for so many creatives. Maybe a woman that has been sitting on a script or on an idea can see another way.

Discomfort in some parts of the film industry about the expansion of virtual production can be compared most recently with the resistance to the move away from 35mm film in production and exhibition. While the choice to shoot on film still remains, digital is now completely normalised, and virtual production is a logical next step: pixels are pixels, and any method of generating or manipulating them can be part of the filmmaking process.

Thinking of moving images as data opens up for more efficient workflows, but also for enormous creative opportunities both within traditional filmmaking and in the new overlaps between different media, platforms and formats.

Virtual production has also created a rapidly expanding job market for a range of skills both specific to film, and skills transferable from, or to,

fields like VR and digital games[3]. Professional training, whether in film or the digital arts, is not currently scaled up to the enormous demand in the virtual production and 3D fields.

In places where public funding for such initiatives is still available, now is the time to make sure talent programmes and local film training includes access to VP technology. In smaller markets, it might also be worth looking into strategic public investment into studios equipped with LED volumes. The startup costs are astronomical now, but will come down year over year. Establishing production hubs with skilled personnel early may impact the fortunes of one's regional industry for a long time ahead.

Regardless of when your local film industry will embrace virtual production, the talent that has found that industry difficult to enter is not waiting around. There are already numerous examples of individuals or small groups of filmmakers—professionals and amateurs alike—successfully using VP tools to make qualitative content outside the traditional systems. Collaborations are struck up between people who may not ever have physically met, and it is only a question of time before we see massively multi-participant collaborative filmmaking within shared IP:s. This is likely to start with fan videos, some of which may occasionally outperform original IP in reach. Rights holders of attractive properties may want to release key digital assets for such use, to encourage this level of brand engagement.

Five years from now the generation that has grown up generating interactive environments and content in Minecraft, Roblox, and Fortnite will have entered our film schools and the workforce. To them, real-time virtual production requires no major conceptual shift. They are also very comfortable with self-distribution, building their own audiences, releasing and testing content piecemeal, and iterating on it over time.

Mariana Acuña Acosta: *Drone camera operators is a huge market. We need people who do volumetric capture and photogrammetry and are able*

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3. The global VR and AR market is currently somewhere around €15bn and growing rapidly; the global video games industry is about €130bn.

to process that data and remove artefacting[4]*, do all the cleanup, create environments… And of course, there's now a need for real time supervisors, LED experts, and what is known as "brain bars"—groups of people who know the real-time techniques, performance capture, game engines, and the traditional visual effects pipelines. They're unicorns right now! Virtual art departments*[5] *are growing exponentially; technical artists as well as real-time editorial teams. And virtual cinematographers, virtual camera operators, and a lot more people that know performance capture solutions. Whether you're coming from games, or visual effects, or traditional filmmaking, or traditional storytelling—or even theatre!—those skills are absolutely transferable into real-time technologies.*

Elisa Alvares, Jacaranda Consultants: *If you are techie, the world is your oyster, and the amounts of money pouring in are fantastical. Private equity houses are bidding for deals in new entertainment technologies at the moment.*

Alex Stolz: *What I'm really interested in is the convergence of storytelling across different platforms, and how the real-time game engine is the central facilitator for that possibility. When you're creating an environment for a film, you can then use that environment, and those assets, for a game or a virtual reality experience. Story creation becomes world creation. We will see examples of innovative companies and storytellers using those tools to tell stories in different ways, and exploit the IP in different ways. We'll see some amazing examples of feature length animations that are also games, using the same playground, the same assets and world.*

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4. *Artefacting* is the process of cleaning up any erroneous visual artefacts from a 3D environment generated, for instance, from a drone camera capture of a physical environment. The artefacts could be things like irrelevant detail, flaws where images are stitched together, or flicker caused by changing light conditions during the capture.

5. *Virtual art departments* are often referred to as VADs.

3

Theatrical Transformations

- Theatrical is not dead, it is changing. Five years from now, fewer cinemas will be operating on the current model. Focused on blockbusters they are expected to do well even with premium streaming windows in parallel. Other types of event titles, including breakout festival fare, can be monetised at a high price point as part of an upmarket offering.
- Giving up on the under 25s is premature, and becomes a self-fulfilling prophecy. If traditional exhibition cannot provide relevant films in appealing environments at an affordable price point, the younger generation will move on to other things—or recreate theatrical exhibition on their own.
- Affordable cinema real estate in the wake of pandemic closures creates opportunities for experimental exhibition. Some venues will innovate entirely new offers, others be similar to successful neighbourhood cinemas today. Arthouse, niche and catalogue film will mix with other cultural activities; festivals, curated pop-ups, and hybrid events will blossom. Such venues can be viable businesses and revitalise film culture in the public sphere. But they will not sustain an exhibition market for the volumes of independent cinema released theatrically in the past.

Brian Newman, Sub-Genre: *In the US in particular there will be fewer theatres, but those that still exist will do better. And not just for blockbusters; there will also be a very limited amount of films each year that you need to see at a theatre to understand—more like* Parasite. *The cinemas that still exist will be the ones that have built the best ongoing relationship with their local audience, offering something more than just showing up to see a movie.*

If anything, theatres are going to have to prove that they can bring revenue to the producers and distributors for them to bother with [a theatrical window]. There will be a huge shift towards the one-night-only or one-week-only event releasing.

Ari Tolppanen, Aristo-Invest: *We're investing in three screens in central Helsinki, and the pandemic didn't stop those plans for a second. I don't think exhibition is crashing. Theatres will do just fine, at least the small ones. Cinemas will transform, they will be smaller and offer better services. But from my perspective as a… well, a financier-developer-distributor-co-producer, theatrical still has a big role to play.*

On the arthouse side, theatrical will mostly be for heavy users and fans, and shrinking that window really is not that bad. I also think the deal between AMC and Universal is interesting. If cinemas screening a title are given a slice of PVOD[6], which is priced at around €20—there is enough there for all the parties. And you only have to market each title once. I like disruption that benefits everyone.

Do you see a business model for the arthouse exhibition window?

Elisa Alvares, Jacaranda Consultants: *No. The question is, do you see an audience? Maybe we have another ten years of the over 60s going to see indie movies in the theatres and enjoying that night out. But I'm thinking about the under-25s. Do you see them going to watch an indie movie from Brazil in a small theatre in the neighbourhood? I don't. This is not my preferred outcome, but I honestly don't think there is a sustainable model that would justify the costs of a theatrical release in the future, for arthouse films, as a first window, in the way we have been used to.*

Many filmmakers prefer to create for the big screen.

It's not about what we want to create. It's about what audiences want to see and how they want to experience it. Theatrical will continue to exist; it will be about production values, and the stars, and the experience. I don't

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6. *PVOD* or Premium Video on Demand is renting or buying a streamed film at a higher price point during its premiere window.

think it will cost as much as a live play or a concert, but it will be more expensive than it is at the moment.

Roberto Olla, Eurimages: *Theatrical and premium will be simultaneous with streaming. Some countries resist and will be slower to change, especially in Europe. I'm not mentioning anybody in particular.*

You're not mentioning a country, but it starts with an F.

Exactly! Some of us have a hard time accepting that this was going to happen anyway.

Theatrical exhibition used to be a relatively uncomplicated business. Its struggles in the last decade are a result not just of competing against streaming services and piracy, but of being in competition against the entirety of the experience economy. Five years from now, there will be no place for lazy exhibition. To pick the right business model, and design appealing and meaningful experiences around them, it will be necessary for every kind of cinema to understand very deeply their specific audiences, their interests and their needs.

Ari Tolppanen: *Fundamentally, streaming is not the competitor of exhibition; that competition lies in other activities outside the home. Having said that, the pandemic does mean that more people have become used to the convenience of on demand. And of course some good content has been offered on streaming platforms at a time when there wasn't much on in cinemas. One shouldn't be so naïve as to think that has no effect at all.*

That said, the demise of theatrical has been somewhat exaggerated. In the post-pandemic world, we will still see cinemas operating more or less on the current principles—relying on blockbuster or other kinds of event titles scheduled ages in advance, and on a comfortable, high tech screening environment. As people return to restaurants and concerts, they will also return to other experiences outside the home. Continuing economic fallout may even hurt cinemas less than other sectors; a reliably entertaining night out at a relatively affordable price point has proven resilient in the past.

Elisa Alvares: *The crisis of 2008 was minor turmoil compared to what we are going through now, but [it taught us] that the entertainment industry is countercyclical. It doesn't follow the same macroeconomic patterns, because consuming filmed entertainment, games, and music, is typically cheaper than going on holiday, than buying a new car, often even cheaper than buying clothes.*

Mariana Acuña Acosta, Glassbox Technologies: *In the US, ticket sales have plateaued for years, but the big studios were making a lot of money off the middle classes in emerging markets, where people want to spend money going to the movies, because it was something that their parents or grandparents maybe didn't have the luxury to do. That trend was going to continue, and I do believe that after the pandemic, everyone will just be so happy to be out of their houses!*

Brian Newman: *This either/or situation does not have to continue. If I were able to pay USD 30–40 to see James Bond at home right now I would, and then pay again to go see it in the theatre months from now when it's available.*

Major titles may still have a short exclusive theatrical window, but we are just as likely to see a first digital window either slightly earlier, or day and date (for a more detailed discussion, see chapter 5). Distributors will become very skilled at leveraging this digital visibility to maximise box-office, and vice versa.

The titles that will disappear from theatres are the titles that do not perform in theatres. Giving everything a theatrical release to see what sticks has not worked for a long time, because the rapid increase in premieres meant no single film had time to grow word of mouth. Removing traditional theatrical release as the default option might even make moonshot success more likely.

Even the most commercial cinema chains will sometimes choose to screen smaller films, once these have built enough buzz elsewhere in the ecosystem to perform reliably, or in special series for brand-building purposes. In other words, once the industry figures out how to work this new

system, we may actually see the return of the "sleeper hit", with the occasional smaller title growing organically into a wider release. But the work has to be exceptionally appealing, and the distributors exceptionally savvy, as fewer small and midsized films will have a theatrical release overall.

Roberto Olla: *The ambition of every producer is to have their film theatrically released, trying to get through a bottle-neck that just cannot fit them all. If not all films can have traditional distribution, the producers will have to start the dialogue with their niche audience themselves to bring the project to some other sort of a theatrical exploitation before it has its long tail [in the digital windows].*

Traditional arthouse cinemas that survive the pandemic financially can also continue to do well, assuming they had already established an engaged audience relationship before the closures started, and have managed in some way to maintain it—for instance through collaborations with arthouse streamers, or even just dynamic social media use[7].

Arthouse audiences skew older and wealthier, allowing for upmarket offers at a higher price point. In the medium to long term there is the concern of such positioning accelerating the cultural marginalisation of arthouse film, and of its audience ageing out. Some arthouse cinemas will choose to go the other way, and diversify their business to get people through the doors.

Alex Stoltz, Future of Film: *One viable way of pursuing cinema as an experience is to make it high-end and luxurious; then the prices can be quite high. But how important is the film in that kind of environment, in terms of that experience? [As an alternative], we can point to something like the Alamo Drafthouse in the US, which has successfully created an experience that is luxurious in some respects, but not bourgeois.*

To remain sustainable and culturally relevant, theatrical exhibition needs

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7. For a discussion of social media strategies in theatrical exhibition early in the pandemic, see Rotko et al, 2020

to find forms that appeal to both the under 45s, who grew up with a cinema-going culture they may be willing to rekindle if the experience is better, and the under 25s. The digital-first consumers of Generation Z are often given up as a lost cause—but they are a great audience for theatrical blockbusters, watch an enormous amount of feature content, and value community and shared experiences. They love the movies, and if they're not showing up, either the price point is too high in relation to the overall experience, or the content is lacking in relevance.

Roberto Olla: *European cinema mostly does not speak to the younger audience. This problem has been growing over time. Maybe this explains why younger audiences are diverting massively towards streaming platforms? They are doing this all over the world, that goes without saying, but in Europe the lack of attention to that audience probably contributes to this trend. And this could indeed be partly changed.*

Brian Newman: *The existing distributors and exhibitors know that their market is the older audience that comes out for traditional arthouse. It becomes a self-fulfilling prophecy: the buyers buy things that appeal to that market, because they know that's who shows up.*

But that excludes an entire younger market. I moderate a lot of panels at film fests [across Europe], and keep seeing the same thing happen. There will be a handful of films that are appealing to a really diverse young audience, but they don't get picked up for international distribution. It's usually films dealing with something [subcultural]; there's an audience for that in Bulgaria, in the US, in France… Distributors don't realize that there's this globally interconnected, young audience communicating in real time across borders because they are fans of the same art. So they're not serving that audience, and that audience is going to move on to other things. This is a market opportunity for the right distributor—but you have to distribute it globally for it to work. Territory by territory you're not going to be able to aggregate that audience.

An interesting opportunity presents itself in the cinema real estate becoming available because of cinema closures in the next three years. A range of

stakeholders—not just businesses, but municipalities, non-profits, cultural institutions—will re-imagine some of these spaces as a type of event venue that does not yet have a name.

They will screen film, but may also double as cultural centres, community centres, or meeting places; VR cinemas; restaurants, cafés or concert venues. They will use the simulcast capacity of digital screening technology for live-streamed events ranging from opera to e-sports; host brand sponsored cinema pop-ups, four-walled screenings[8] for alternative distribution, and a great number of film festivals. Weekdays in daytime they may be helped by the normalisation of remote work, as many businesses will no longer maintain large offices and will need other types of spaces for meetings.

What combination of activities is most appropriate for each venue, and at which price points screening films is sustainable, depends entirely on the venue's layout and infrastructure, on the local socioeconomic environment, and on what services are lacking in the neighbourhood. Different cinemas will curate their offer—and their films—for their specific audience profiles.

In this environment, the chance of each specific title to meaningfully connect with its audience in a sold-out house is better than it has been for the past decade, but they will not be the same titles in each theatre at the same time. While it is important to understand that the coming theatrical landscape cannot sustain the volumes of independent cinema released in the past, we may in fact be moving towards a vibrant renaissance of cinema-going culture.

Ari Tolppanen: *Ilona Studios is a constellation consisting of myself and Mikko Leino; Bio Rex Cinemas and Bufo, the film production company. We are building three screens in central Helsinki right now. The profile will be what my mentor Aito Mäkinen used to call "popular arthouse", with quality as the unifying factor. Quality can also be a Hollywood production, but the curation is clearly distinct from a mainstream theatre.*

We are renovating the historical central bus station to house this new

8. *Four-walling* is the practice of taking a whole screening at a theatre; the individual tickets can then be sold on without economic risk to the exhibitor.

event centre, which will also contain several restaurants, a large event space, and a big pavilion facing the square. It extends the Amos Rex [contemporary art] museum environment, and the development is a collaboration with [the museum's owners, arts foundation] Konstsamfundet.

Brian Newman: *Five years from now I think we'll have seen the shift to where film is becoming more like opera and classical music, with a refined audience going to theatres. But someone we don't know yet will also be starting to emerge to serve that younger audience. It won't be one of the existing players.*

Maybe we'll get grindhouses again? Countercultural exhibition?

It will be something like that. And you'll see more festivals happening at arthouse cinemas. Maybe a documentary festival this week, a horror film festival next week, then an LGBTQ festival. You'll be able to aggregate audiences by interest groups more. You'll also start to see festivals based around genres and niches connecting directors and audiences across time zones. A horror film festival might take place in 30 or 40 cities around the world at the same time; it might be partly online and partly in person.

4

At the Heart of the Industry, a Small Screen

- Five years from now, all "TV" will be streaming first, with video on demand understood as the standard viewing option and linear channels the specialised alternative.
- Household SVOD spend will be bigger, and combined with complementary business models similar to the variety in the pre-streaming landscape. Content exclusivity will be central for some of these strategies and less so for others, somewhat opening up the market.
- With a theatrical release no longer a defining quality of feature film, nor necessary for its financing, power over the medium shifts away from traditional gatekeepers. Film and TV ecosystems finally converge, but this traditional industry may still fall behind as audiences choose to consume video far beyond its domains.

Walter Iuzzolino, Eagle Eye Drama: *During the pandemic, the cultural leap has occurred. My parents who are 76 and 80 now go, "Oh, Walter, how do I download the app, how do I beam the mobile into the telly." I bought them a Chromecast, because it's now their desire to access content that supersedes the linear terrestrial availability. It is an exciting time for a curator of streaming!*

In 2025, you will still have a mixed ecosystem, where you get your ITV player for free but pay for HBO Max, and so on. Bespoke [choices] will never go away, because frankly, if I'm a misanthropic snob that wants to live on a mountain and just watch DR and ARTE, it will always be possible to just pay them directly!

But the [hardware providers] will absolutely drive the easy family entry point towards a model where you pay them for a bundle. You would be an Amazon household, an Apple household, an LG or Samsung household… Then it will be a pick and mix, get 20 apps for $25 a month, done. But given the number of stakeholders and financial transactions and deals involved to get there, this will take until 2027.

Filippa Wallestam, NENT Group: *I just wish [this industry] weren't so obsessed with US services entering local markets. We should talk more about how it means that we locals can go global. The opportunity for European content in general, and Nordic in particular, has never been greater.*

Does US competition in your primary market concern you at all?

Viaplay is such a broad service. We have 40 [original] scripted shows and over 50.000 hours of live sports annually; on top of that some 50 unscripted shows across our Nordic market—we really want to offer something for everyone. Many of these services don't have that ambition; they'll never produce 40 plus 50 local shows. We see them more as a complement, and want to continue to work with them.

Brian Newman, Sub-Genre: *We've definitely proven that consumers like subscriptions. What they don't want are 30 subscriptions. If you're just doing content, you're probably going to disappear in about five years. Companies similar to Amazon and Apple—probably companies that already have smaller content services—will buy up the remnants and build something more akin to a Spotify where you pay a subscription for access to a bigger library of content. You may end up with another bundle: you go on Amazon and pay one price, [that includes] Netflix, HBO and Disney.*

The first phase of the "streaming wars" was about establishing whether there was a place in the marketplace for on-demand video distributed over the internet. That war is now over, with streaming technologies replacing their predecessors even for linear brands. In 2020, signups to

streaming services broke all previous records[9]. Already, a third of the US television audience cannot be reached through linear pay TV at all[10], and the advertising money must eventually follow, escalating the process.

The second battle is for market shares in this new environment. The native streaming services have obvious competitive advantages: a head start in developing algorithms for discovery, as well as in audience insight. Their whole business is built on understanding what drives subscriptions and churn[11], and they demonstrate continued agility in shifting their strategies as their data gets better or audience behaviour changes.

In addition, players like Amazon and Apple can afford an astronomical content spend as a loss leader, making the money back elsewhere in their ecosystem. Arguably the same is true for Disney, significant though its legacy Pay TV business still is. Disney is second to none when it comes to leveraging its IP into multi-generational brand loyalty and diversified revenue through parks and product licensing, and will remain strong in the theatrical window.

These three services can afford to make their offer unmissable and are likely to come out on top in the global competition. On the strength of its existing library and consistent growth, Netflix is of course also right up there. Industry commentators still expect it to ultimately be acquired by someone who can also leverage that content for other types of revenue.

At this very top layer, a pure SVOD model may still make sense, as will retaining global exclusive rights for a significant chunk of one's content. But on the whole, the market is developing towards a wider variety of business models. AVOD has had a great year in 2020[12] as more consumers hit their personal subscription limits. Even in mature markets, streaming growth can continue through tiered subscriptions and hybrid business models. Streaming services will also be bundled through different kinds

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9. Easton, 2020.

10. Stoll, 2021: for an interesting discussion about cord-cutting, see Wallenstein, 2021.

11. Subscribers letting subscriptions expire or actively ending them are referred to as "churning out."

12. Middleton, 2020.

of revenue sharing deals, functionally replacing cable subscriptions in the market[13].

Marike Muselaers, Lumière Group: *It's funny—a few years ago I thought that telcos and cable providers were done. But now I think they too have an interesting future as aggregators. [Content discovery startups] like Playpilot could also make a difference if they started offering bundles, or discounts. They won't be able to with a company like Netflix, but they could with the smaller services.*

While not two of this report's interviewees agree exactly on which business models will predominate in the new TV environment, they all see the same overall curve, and stress that the outcomes are not yet defined. With the entire content landscape in flux, the next three to five years offer a real space for innovation, where shaping one's offer proactively may well extend the horizon of what is possible for the entirety of the industry. Even small players can create new models with their own audiences—or team up for a greater impact.

Filippa Wallestam: *About 60% of consumers in the Nordics already have two subscriptions. We are predicting that will be three by the end of 2025, with ways of adding and combining content. We are very focused on SVOD, but there are many different models for how to do that. On Viaplay we also have rentals and EST[14]—everything except advertising, which we have separated into Viafree.*

The next 3–5 years are going to be crucial in terms of how we shape the landscape going forward. Our heritage is partnerships. We have always worked well with the US studios, and we're planning to be best friends with

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13. Virtual MVPDs, services delivering broadcast and cable content via streaming, were first marketed as "skinny" bundles, offering better prices for slimmer channel packages. Many are now approaching traditional multi channel video distributors (cable or satellite TV providers) in both content and price.

14. *EST* or electronic sell-through is the streaming equivalent of purchasing a copy to own. EST is one type of transactional video of demand; the other type is online rental.

the telcos in our markets too, working together to find good models for the consumers.

Partnership can mean acquiring strong content, which we will continue to from all the US majors. There are also bundling opportunities. When Starzplay launches in the Nordics, for instance, all Viaplay subscribers will be offered that service, as well as being able to watch that content on the Viaplay platform. But Starzplay will also have the direct-to-consumer offer, if you want it [on its own]. This kind of cooperation is good for everyone, and very beneficial for the consumer.

Marike Muselaers: *Why is there only one flavour of business model in this industry? [Films have evolved], but for TV shows there's only free—with or without ads—or subscription, with the broadcasters now moving towards subscription as well. This is not sustainable. In the end, consumers just won't sign up, and it is already spurring piracy. This is why we have an à la carte service: you can pay for just a single TV show, or get the loyalty plan with a monthly credit for one TV show plus all kinds of extras. And if you choose, you can get more on top of that—and it's all EST, so you keep your purchases.*

And we'll need more collaboration. My dream is that consumers could sign up for, say, an independent super bundle, with all the European TV shows and arthouse films that you want. A [broader] cultural bundling platform is another big opportunity. I like Topic in the US, who are an SVOD company [in the international quality content niche], but also have their own talk shows, podcasts and other audio. We're investigating a collaboration right now with a theatre company in Ghent to put their plays on our platform and live stream their premieres.

In this multifaceted environment, the same piece of content—or even the same library—may be accessible on several services without undermining anyone's business.

Filippa Wallestam: *It is just not the case that all the [US players] want to keep all their content exclusive. Some [studios] have no plans for a direct-to-consumer relationship, because it is very different from their*

[historical] business models. We are strengthening and deepening our partnerships with those, for instance by producing shows together in the international space.

The content that we produce ourselves—scripted, unscripted, sports coverage—is what makes us stand out. It gives us our unique position, brand awareness, and is why consumers sign up in the first place. The acquired content is about retention: having enough content for them to stay. That is easier to replace, and doesn't necessarily have to be exclusive.

The more central SVOD is to one's business model, the more important exclusive rights will be. Fully funding the original content that defines one's brand makes sense to retain creative control of and the complete rights to strategic assets. This model is often associated with Netflix in particular. But in all likelihood it will become standard procedure across services where those are central to their value—local streamers included.

Naturally, some percentage of such productions will still be made with talent whose status or creative process demands that they be given a lot of freedom, and who may even be able to negotiate some type of back end. But as has been widely discussed in the past two years, most direct commissions will place the producer in more of a for-hire role.

Nordic TV production companies surveyed on this topic in the past few months are already resigned to this development. They see themselves shifting away from a business model based on library and rights to a model driven by volumes and margins[15]. This may also further accelerate ownership consolidation.

Most also hope to carve out the resources to occasionally work on creatively driven projects that involve greater lead times and higher risk, but may reward them with IP ownership[16]. Local broadcasters, with their diverse editorial and commissioning traditions, are viewed as important partners for such shows; many of them will be international co-productions or travel in other ways.

"Projects", in this context, can be TV drama in different formats, or

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15. Eskilsson, 2021.

16. ibid.

it can be feature film. Traditional feature film funding is under multiple pressures. With theatrical exhibition specialising, it follows that for most features, the majority of the circulation and therefore of its business will happen in the small screen environment.

Elisa Alvares, Jacaranda Consultants: *All the windows are open and available. There's more avenues—just perhaps not the big screen. Smaller indie movies that can be watched in a very satisfying way on your home screen will find it very hard to make it to [cinemas], because the economics won't justify it. It's about the availability of cinemas, at the cost that they will be, versus what the audience wants to see in those cinemas, and are willing to pay for the experience.*

Roberto Olla, Eurimages: *Video on demand is not outside the industry. It is the industry.*

In the short term, TV is the film industry's saviour. There is plenty of work to go around, with record levels of both episodic and feature length content commissioned for the small screen. So why do some filmmakers find the small screen's growing role in the ecosystem so alarming?

TV has historically had a very direct audience relationship, with ratings immediately reflecting how well the content has resonated. In commercial markets, like the US, or in smaller language areas, this inevitably led to an emphasis on the mainstream. Even in markets where public service broadcasting was tasked with representing minorities and elevating the taste of the masses, technical limitations of screen size and image quality meant that the living room set remained, from the film artists' perspective, a lesser medium than the silver screen.[17]

In a globalised on-demand content market, however, even very niche audience segments can be aggregated across territories, and the budgets have grown with the ambitions. Image quality in homes is certainly better

17. Even back then, auteurs would occasionally make exceptions. Ingmar Bergman, who also loved the soap opera *Dallas*, was an early pioneer of the limited series TV drama so familiar today.

than at many arthouse cinemas in the pre-digital era—and relative to the seating distance, even the screen size can be comparable!

More importantly, the quality and complexity even of mainstream entertainment has risen steadily in the last decades, as has audience maturity. The tolerance for formulaic drama is lower, especially as a repetitive story structure gets predictable very fast on a binge. When it comes to features commissioned by small-screen first companies, their performance with awards juries speaks to their artistic merits.

The option to screen or view feature films theatrically will always be available, and as a preference it is absolutely valid. But most historical objections to small screen content—that it is stupid, cheap, looks terrible—are not anymore. As the film and TV industries converge, the artistic growth of specialised small screen content may even accelerate.

Auteur filmmakers who have moved into episodic are discovering that the experience can be revelatory: here suddenly is an audience, consisting not just of festival programmers and critics, engaging with your work. It would be surprising if this did not help them centre audience relevance in later theatrical feature projects as well.

Filippa Wallestam: *For Viaplay to grow from three to six million subscribers in the Nordics we need content for everyone. How will I find the pitches I'm not seeing? No matter how focused we are on diversity and inclusion, in front of and behind the camera, most of our ideas are coming from production companies, which means they are already slightly biased by the time they reach us. My team is now looking for stories that we don't even know about. How do we identify them, and how do we make sure they get told? If we get it right we will be able to attract completely new audiences.*

Dealing with a streaming boom in the middle of a global pandemic is a lot, and we may all need to be excused for not having had time to look beyond the next hill. Audience behaviour, however, is clearly ahead of the industry. On-demand streaming is obviously not limited to SVOD services and legacy broadcast brands, and video content is produced in any number of formats and environments. The under 25s are getting much of theirs from other

sources, and this audience, which consumes more video than anyone else, is not sufficiently served by film av TV.

Even appealing content for the younger demographic faces distribution challenges for both cultural and structural reasons. This threatens to accelerate the relative marginalisation of the established industry for that generation, benefiting content produced and distributed outside the traditional systems instead.

Addressing this challenge will require content to reflect contemporary concerns, and supporting the work of younger talent. For independent producers, it represents the exciting opportunity of applying their creative processes and indeed their auteur storytelling skills to a much wider range of formats.

Brian Newman: *The global players are already making localised, original productions. I think that'll start moving towards lowest common denominator content and reality television, but [on the other hand] you'll also see arthouse cinema from those different regions being supported more.*

You always start with the easiest part of the market, and that's usually the more established older consumer that has a credit card and disposable income. But as they try to increase their subscriber base, they will have to reach younger audiences. They're starting to wake up and realize, wait a minute, there's an entire generation that's not paying attention to what we're doing, they're paying attention to TikTok and gaming and Fortnite and live streaming. Unless [streaming] moves into capturing that market share soon, they're going to lose it forever.

Marike Muselaers: *I'd like to experiment much more with content specifically made for a younger generation. But I don't. First of all, my marketing team is definitely not ready for that; our [primary] target audience is so much older. It is also hard to create a business model around these shows. They're often cool short form shows that might have been created by for instance public broadcasters and have found their audience in their domestic territory. Sales agents or producers demand a high MG for these kinds of shows, but at the same time, they're really hard to make money on.*

Putting it on YouTube, which is what you should do with a show like

that, won't work if you're operating in a smaller territory like the Benelux. The [numbers] just won't work. My only possibility is to sell it to a public broadcaster, but that they can do that themselves. I don't have to be in there as a middleman.

Logically, the rights holder should just release it on YouTube globally themselves.

I agree! And we return to this subject in almost every sales meeting that I have, because I'd like to experiment with those shows, but the way the producers and business agents structure the model right now, the numbers don't work.

We will lose the young talent to [DIY filmmaking], to YouTube, to games, and maybe even to audio—right now I think audio is even more innovative than video when it comes to attracting a Gen Z audience.

Filippa Wallestam: *There is a positive and a negative with the younger demographic. The negative is that they are extremely picky. They will find what they want to watch, and something needs to attract their interest very quickly. The positive side is that they are much more open than the older generations, because they grew up with streaming. They are much more likely to watch foreign languages and different types of stories. That's what we are working towards with our originals for young adults: strong stories that can pull them in and that, if we get it right, should have the opportunity to travel. With the younger audience, you need to speak their language. We are very happy to work with new talent and that is one important way of attracting audiences.*

Do you have anyone under 25 on your content teams?

Yes, of course! I'm trained as a management consultant and there you always start every meeting asking the most junior person in the room. That's how you get fresh opinions and unfiltered views.

5

From Window System to Content Landscape

- Five years from now, the window system will be gone. What shape releasing will have taken is determined by choices all along the value chain in the next three years. Those who do not participate in this process of innovation and testing will have the outcomes dictated to them by the most powerful stakeholders.
- As access to public funds is threatened, private investment increases in importance. But lower margins and higher risk will discourage investment motivated solely by profit.
- Sales and distribution will be entirely reshaped by the upheavals in the marketplace. Diversified businesses will do better. All survivors will leverage a deep understanding of the audience and their data use data in every aspect of their work.
- Easy access to professional production tools and distribution makes creator-to-consumer pipelines not just a viable lifestyle, but a functioning business model.

Elisa Alvares, Jacaranda Consultants: *Five years from now, there will still be a role for private investment. Margins will be a bit more squeezed and, if the space becomes more popular with investors and more capital poured into it, profitability will likely be lower from an investor's perspective—if you are investing in the IP. Perhaps at that point, I will be more keen to invest in companies.*

Public money has sustained the indie film industry in Europe for so long, and that is great in many ways. But as the market evolves, and the

economy is changing at macro level, there'll be less free capital available. It is not logical to create a product for a cost that is greater than your clients are prepared to pay. The budgets for independent productions will have to go down if public sources of capital are no longer available.

Roberto Olla, Eurimages: *Inevitably, the role of distribution will change, because some of their work will be done by others, essentially thanks to digital technology. Public money will have to support this profession, though, otherwise it will be dramatically affected [over time].*

If distributors don't serve their function, maybe we don't need them?

But we do! Distributors are similar to literary publishers; without them certain titles would not exist in a given territory. In societies where English is spoken by everybody it is less true, but publishers have a fundamental role in bringing new ideas into a country, into a territory. The editorial line of a publisher can be as important as the cultural policy of a government. Distributors do the same thing in a different way, opening avenues for new images, new stories, new ways to look at the world…

Ari Tolppanen, Aristo-Invest: *There are easier ways to make money than investing in Finnish film or TV series. The market is so small that you really need partners—wealthy individuals, institutions, foundations—that also have other goals, but can afford to invest. Your heart needs to be in it.*

If you're thinking of film as a lucrative alternative investment, my advice is, be very selective. We need to be very prudent, and for any chance of recoupment, budgets must be realistic and the financial structure well thought through.

Brian Newman, Sub-Genre: *The end of the equity financing model is a huge change for the US, as that's been the majority of our funding. There are tons of people with money who want to invest in films—but as they start to learn that there are fewer buyers and less potential upside, the smart money will start to disappear.*

With clients I work with on the brand side, we've started to invest in

script development, attaching ourselves at a very early stage. Because we took a risk, we can stay involved with the project through its lifetime, but also recoup our investment when it goes into production—especially in the US, development funding often gets reimbursed at an earlier phase. Instead of investing USD 5M in one movie, you might invest that developing ten movies, diversifying your risk across a portfolio.

Over the next 3–5 years, everyone along the value chain of film will be part of shaping the new distribution models either through their action or their inaction. All stakeholders must participate in defining what desirable outcomes would look like—desirable within the actual parameters of how media consumption and the content market are likely to develop. Right now, any number of win-win scenarios are still possible, while remaining focused on how things used to work in the past is a guaranteed way to lose.

The US majors and the global streaming platforms are laying out the broad outline for how it will work. The first digital window can be day and date with a theatrical premiere, or precede it, or follow right behind it. The common assumption right now is that an exclusive theatrical window may apply primarily to big event titles, and be two to three weeks long, which is when 80% of titles do the bulk of their business anyway.

Presumably Viaplay is now a potential premium window for feature premiers?

Filippa Wallestam, NENT Group: *We already take our own movies direct to SVOD, and given the complicated situation in the cinemas last year, we [premiered] quite a few other movies too. We'll need to think together with the studios about how to make it work, but yes, we have different options to play with.*

Marike Muselaers, Lumière Group: *Seeing the majors starting to release film differently with the new platforms is going to be very interesting, especially for us independents. We need to collaborate much better so we can also [have the reach to] release films day and date.*

Roberto Olla: *Not all films will have a premium release. Some will be*

available in a VOD catalogue, and people will have to look for them. Promotion and advertising will have a fundamental role to play for those titles not to be forgotten forever.

Ari Tolppanen: *Our first release was the second season of [crime drama]* All the Sins *on [streamer] Elisa, and simultaneously in theatres. The numbers weren't crazy, but it did work, and it won't be the last time we put TV content on the big screen.*

While fewer films will get a theatrical release in the traditional sense, alternative releasing strategies—mini premiere windows, touring films, eventising them—may mean the total number of titles remains high. Festivals and other curation events will proliferate. A "festival window", non-exclusive for most of its duration, will extend in time and significance. Screening fees are expected to continue to rise[18], but more importantly festivals can reach specialised audiences to transform into ambassadors in the continuing release cycle.

What kind of first digital window is chosen for each title depends on its funding model, audience, and type. The goal is to optimise the created value, whether in direct or indirect revenue, or in attention, which can be understood as an advertising investment. Some kinds of attention also translate to cultural cachet, or increasing brand value.

This first digital window can be exclusive to an SVOD service, as Warner are testing on HBO Max this year. (This model is of course very close to how Netflix has handled its theatrical releases for years, and their admittedly much smaller films have performed well for the exhibitors). Or it can be EST at a premium price; sometimes in addition to requiring subscription access to a service, as we have seen on Disney+. It can be traditional TVOD; European producers are privately saying that with a decent cut of the profits, this has proved to be a promising business.[19]

In fact, the first digital window can be literally any service with the ability to stream video and marshal an audience. If the film is co-produced

18. Eskilsson, 2021.

19. ibid.

with a broadcaster, it could start its release journey on linear free television for a single day. It could be distributed on influencer channels. It could be hosted by a major brand with the same target audience and values. Anything that creates an event feel around a premiere.

Brian Newman: *The global brands can afford to step outside of the antiquated models we use in film, and not have to worry about territories, etc, because they just want to reach their audience. One of the reasons I'm working in that area is my hope that this will increase, and they'll do more [for filmmaking by] going direct to their fan base.*

Not just film festivals, but curators broadly speaking, are going to become much more important. That can be an individual; it can be an art organisation that didn't even show films before. Whoever can bring eyeballs to films in a crowded marketplace.

Things will be really hard for sales agents that don't shift their business model. There are still going to be distributors, but significantly fewer. The middlemen are set up on a business to business model, and I think everything is moving to a direct to consumer model. If you're not building the audience, then you're not needed in this space.

Can the existing industry establish a listening relationship to the audience?

A lot of the existing arthouse quality cinema industry is built on older business models. Their founders aren't leaving, and aren't changing. They've never wanted to engage with their audience. They've enjoyed going to Cannes and doing business deals with the people they know. It's always been about letting someone else do the marketing, let someone else do the fan connection—and that's going to have to shift.

Roberto Olla: *Producers have this double identity. They make films because it's their passion, but also because [it's their job]. When support schemes are not selective, a lot of films get made because making them is profitable—not exploiting them, but making them. Countries that have essentially [automatic] regional support schemes, tax credits and fiscal incentives, do not necessarily see an explosion of new talent, or of critical acclaim. Out of all the films that are produced in a year, only a small*

number really justify the distributors' investment to bring them to the cinemas, and be given the chance to have some kind of success.

A significant part of the enormous growth in feature film titles during the last decade came from a kind of bread-and-butter filmmaking that very few of the people involved were truly passionate about. The majority of films would never make any money; a great many were made primarily because making them was feasible.

A lower cost of production technology, an influx of free money from production incentives and from starry-eyed but naive investors helped the boom. In many markets even selective funds are implicitly tasked with keeping local production companies in business, and contributed to a glut of films that were not, in the end, for anyone.

Because of the crisis of theatrical exhibition, the rapid changes in distribution patterns, and the expected pressures on public funding as well as on equity financing, that will no longer be the case. We are rapidly approaching a landscape where for a film to be green-lit, it needs to truly matter to someone. Not to everyone—it can still be very niche, very elevated, very specialised—but without an identifiable audience context, getting to a green light will be very difficult.

Elisa Alvares: *[For consumers], theatrical will be a big event ticket, and exceptionally we will see an indie movie break through. The reality for distributors at a national level is very, very tough, except in the US, China, or a handful of other [large] territories.*

There's still a role for international sales agents and international distributors—I don't know if the terminology will apply in five years, probably not! Both from a rights creator perspective and from an investor's perspective, these entities are the voice of the market. They are natural curators. Whether that curation is worth their current sales commission is a different question. They have to add more value to justify it. Part of their role should continue to be helping the content creators make the content relevant to the marketplace from the outset.

A key role in shaping the new window system should be played by the sales

agents and distributors, but with all the changes in the market already, it is not surprising that they may not have had time to look too far ahead. Those who are quickest on their feet have diversified their businesses and inched either up or down the value chains, towards development, packaging, finance, and production, or streaming and exhibition, or all of the above.

Ari Tolppanen: *We intended to set Aurora up purely as a film financing and distribution company. There was a need in the Finnish market for a true sparring partner, who would not just bring a pile of money, but participate in script development, talent selection and so on. But as we did our due diligence, we had to confront that if the film market in Finland is €100M, the TV market is six times bigger, and you want to be in both. In the TV space there is no earnings logic for pure distribution, except for international sales agents; you have to be a producer as well. So now Aurora Studios really is more like a studio! We facilitate film content and TV from beginning to end, providing significant financing, co-production, and distribution.*

Marike Muselaers: *As a smaller player, we have always been Davids. We've always had to be smart and play to our strengths. It's definitely different from ten years ago, but at the same time, I still believe you always need local experts, local marketing, and people who really know what's happening in your territory, your city, your neighbourhood. International companies do not always have that knowledge. In that sense, I'm not too worried.*

But I'm also not too worried because we're so diversified as a company. We have production, animation, we have our EST platform, we have our distribution. And for the next five years we're still going to be able to sell to all these streamers even in our domestic territory. In the end it will be about better use of data and research tools, because they are available and we [distributors] are not using them [enough].

Alex Stolz, Future of Film: *Distribution needs to catch up with the way everyone else sells products. That means being a lot more savvy about digital marketing, and moving to from a film by film mentality to a direct to consumer strategy.*

Historically distribution is so inefficient in terms of not knowing what

the results are for the spend. It needs to become much more specific and data-led. With USHERUS*, we're helping people to get that last bit of transaction data so they can know who bought their film. Or which campaigns work for which audiences, so you're able to replicate those and retain the customer knowledge.*

Distribution has always been slightly removed from the audience—through cinemas, through platforms, through shops. That can now change. A direct relationship with the audience doesn't mean distributors need to have ambitions to be a consumer-facing brand, but they need to understand a lot more about their audience and how to reach them.

The next five years will be the real test. With the pandemic still raging, the business models will change so much it is not even certain that the job titles will survive. Yet this is the time when producers and distributors will need to reinvent financing and audiences together, one project at a time.

Enormous amounts of content still needs placing, the number of buyers has not yet significantly contracted, and growing interest in non-exclusive rights will help. The changes in theatrical are opening up for new kinds of relationships with exhibitors. And there is endless opportunity in matching creators with audiences that come with funding attached—but this may require new skills and a more granular and nuanced understanding of the audience.

Sweeping assumptions, like the common refrain that Gen Z has no interest in arthouse cinema, need to be tested against actual facts. Brian Newman mentions how US distributor/production company A24 have found a tonality that has helped them place films like *Moonlight* and *The Lighthouse* with a younger audience.

Brian Newman: *I am most excited right now by the number of young people making TikToks and [other kinds of content]. We see that as amateur; they see themselves as building an audience and becoming more professional. People thinking of themselves as filmmakers will also lead to them exploring the classics and foreign cinema. It's a great opportunity for us to tap into new audiences.*

If you go on to TikTok right now, you'll find over [143] million views

on posts with the hashtag #A24—created by fans, not by A24. Because they built a fan base that is younger, their audience is interacting with them online. You have people making TikToks making fun of what an A24 consumer is versus a Neon consumer; imitating scenes from their favorite movies; making their own trailers for films… The answer is not for us to make more TikTok films, it's to engage with our audience in a way that lets them do that on their own.

Elisa Alvares: *If you're interested in narrative structure, if you want to be a director, you have that talent—you can do it yourself. Or you can do it in a more structured way and say, "no, I want to be part of the institutionalised content-making world." Technology has gradually created opportunities to remove the middleman. But it's also changed the selection of what ends up breaking through. Creators have so much more access to their audiences—but how do you create awareness in a global marketplace? There's still a need for a music label to promote a new artist. Otherwise the chances of that artist breaking out, no matter how well they connect with their audience, are just so slim. Film is not different in this regard.*

When theatrical distribution is no longer required for feature length content to count as a "real" film, the middlemen as a category lose power, diminishing the traditional gatekeepers' control over the artform. This is a positive development, artistically and financially.

Artistically, because their taste has not successfully delivered relevance to the contemporary audience. Financially, because a greater number of parallel content formats and business models will reach a bigger audience with more diverse content, growing the market. Audiovisual storytelling will certainly still be produced and distributed in systems reminiscent of the one we know, but also in other ways.

Brian Newman: *We need to convince investors to be looking into things like infrastructure, in building systems that can aggregate audiences around the good content, not just into the creation of film.*

Does that apply to public funding too?

If you're a film board, there's [certainly] value just in making sure that

you're increasing local production and the diversity of types of voices. But I think you also have to increasingly look at how are these films getting distributed, and what can we do in the marketplace to make sure that we get eyeballs on them once they are made. Some portion of that funding needs to move away from production and into distribution, into marketing and audience aggregation.

Value chains overall are getting shorter, increasingly often contracting to a direct line from creatives to consumers. This was once an amateur domain, presumed not to really threaten professional film or TV. But production technologies are now so cheap and distribution platforms so ubiquitous that talent has the option to bypass the established industry entirely.

The quality and audience appeal of this content should not be underestimated. In a generation that communicates through video every day, even amateurs can compete seriously for attention. Established professionals are also switching to these models because they enjoy the freedom, as do younger professionals tired of waiting for their big chance. In a short value chain, the rights holders keep a better cut, and relatively few audience impressions can deliver a reasonable business model—or at least a decent living.

Some go on to develop their one-man-bands or friend groups into successful production companies, or to leverage the audience they've built into projects with the established industry. Many don't even attempt to, which from a business perspective may seem incomprehensible. But the vast majority of people in the film industry were never going to own points in a project or shares in a company, and they would always be working long hours with little or no job security. In that light, an acceptable income, full creative control, and complete ownership of one's creations starts to look like a pretty good life[20].

A shifting power balance between the industry and the artist-to-audience alternatives creates opportunities for new types of middle-man

20. The basic security of free healthcare and education for citizens, available in many developed countries outside the US, is also an important structural enabler for creative careers and innovative startups alike.

functions between talent, funding, and industry infrastructure. But what those functions will entail is not yet clear.

Mariana Acunã Acosta, Glassbox Technologies: *There are so many different types of directors right now who are not waiting around for the studios; the studios were for the most part putting all their money into tentpole movies anyway. Today, if you have an iPhone, an iPad, a PlayStation controller or an Xbox controller, you can be in your house just creating content.*

You should see the YouTube Space here in LA. If you're one of the top creators, they give you access to anything you want for free—green screen, blue screen, black screens, sound stages, foley studios, post-production computers. Any kind of camera! There are "Vtubers" now, driving a digital character that has its own channel with millions of followers. Virtual and digital influencers on Instagram. Branched VR experiences; a lot of choose-your-own adventure type projects, whether in VR, animation, or something else.

And independent filmmaking has grown exponentially, because the cost of creating the content is a fraction. Thanks to the internet and all the different platforms, you can reach so many more people than waiting for someone to distribute your content. You can totally make a living from it, it's just a completely different business model.

The crisis has made it even harder for new talent to enter the established industry. Isn't there a risk they end up building up their audiences and producing outside it?

Walter Iuzzolino: *They will! Isn't that wonderful? Every industry has its destruction written into it. If what matters to you and me doesn't matter to younger people, we become the stupid old relics. That's absolutely fine. If you don't fight to stay relevant—most people do not, and are not interested in trying—then you become obsolete. Your business model, even if you're publicly funded, goes into a terrible crisis.*

Meanwhile, young people will find their way to be more agile, cheaper, more international, more relevant to themselves. When their ideas and

their experiments coalesce into something interesting with commercial depth, that will catapult them into an industry. "We're really sorry we ignored you. Here's the red carpet." The infrastructure of business will always colonize and absorb commercially viable things.

Elisa Alvares: *Young directors that want to have longevity do need to have a much broader understanding of technology and what's available to them. How that combines with their sensibilities and the ability to tell stories is what will continue to deliver—in different media perhaps—what this is all about: giving us, the audiences, a human experience. I work on the finance side, so obviously I'm all about the economics. But ultimately, it is about creating emotional experiences so rewarding that people will want to pay for them.*

20–30 years down the line, a big chunk of the traditional film and TV industry is looking rather doomed?

It's inevitable, changes happen. Media are superseded, and we look back with a little bit of nostalgia. My dad had a collection of VHS tapes, hundreds of them, which was totally unnecessary because you could rent them! It's all gone, to God knows where—rubbish on some island off the coast of Brazil.

6

Global Change, European Opportunity

- The implementation of the AVMS directive, the growing number of global as well as local streaming services, and general agreement about the need for local content have created a historically unique opportunity for European production. Feature film production is expected to shrink, but volumes overall to stay strong or even grow.
- European content is travelling well across the continent and beyond. There is an increased interest in co-production of TV drama as well as film. EU content will benefit everywhere in the marketplace from Netflix's strategy of normalising localisation.
- Across Europe, audiovisual strategy is often conducted with a focus on competition inside the national market, and organised along historical lines treating film, TV, and online as entirely separate industries. The rapid changes in production and distribution demand coherent policy approaches to public film funding, to the protection of national broadcasting ecosystems, and to the audiovisual sector more broadly.

Filippa Wallestam, NENT Group: *Viaplay is also entering new markets next year, like the Baltics, Poland and the US. There it is we who are different, and of course we won't be a household name the way we are in the Nordics. In the US we will be a boutique product! But even a very small share of the US market is a significant new opportunity. It's the same for these [newer] US players [here].*

What is your specific flavour in the US market? Nordic crime?

Nordic productions. Of course crime will be an important cornerstone, but Nordic noir is more about a way of telling a story. Something like Love Me*, which is one of our biggest shows, is a drama told in a very Nordic*

way—but no one is dying, there is no crime! It's about not polishing every single thing the way US productions often do.

Roberto Olla, Eurimages: *As an independent producer or as an author, working with one of the big VOD platforms is not the same as cooperating with other independent producers and broadcasters from different countries, for instance to make a TV series together. Putting together bits and pieces of financing from different sources, in different countries, you need to have a dialogue with two or more broadcasters, and the writing will inevitably become less standardised and more linked to the local expectations.*

A co-production between ZDF [in Germany] and TVE [in Spain], for instance, for a TV series that works in both countries, will inevitably produce a "local" content that is not the same if there were one producer, one author, and an American VOD giant. And we're talking about TV, not cinema, so audience is king—film co-productions you can make for the art of making them… a bit of "art for art's sake".

Walter Iuzzolino, Eagle Eye Drama: *In can be good for the commercial logic to prevail. When the German Expressionists migrated to Hollywood, they gave us Billy Wilder! People like Fritz Lang and all the biggest, sexiest, most commercial filmmakers were fantastic artists.*

At the start of 2020, just before the pandemic, European audiovisual production was operating at capacity. Though the pandemic shutdowns have killed projects that could not be postponed, and the expected tendency is for feature production to shrink from the record levels of the past decade, the continuing boom in TV drama and documentary should more than make up for it.

European content is travelling better across the continent, but also the world. A staggering number of content libraries need filling, and in the next few years demand is hiked up further by the content hole created by the production gaps. This in itself may gradually nudge audience behaviour in a more international direction: you only need to fall in love with one masterpiece of French or Danish television to be more open to something else foreign for the rest of your life.

Walter Iuzzolino: *The US commercial model is working phenomenally well, and [seriously] threatening the stodgier, slower, a bit more naïve European ecosystem. Their ability to deliver in a Taylorist sense is better than ever, and in a [sector] with a crisis of logistics they enter and triumph. At the same time, their cultural model is in incredible crisis. Ultimately logistics is what makes an empire—it's the Roman army! But the Roman Empire had a cultural crisis too. There will be at least some period of introspection, because the US needs to try to heal its wounds.*

This is an incredible opportunity for Europe, if it is smart enough to completely reassert its transnational broadcasting identity in a way that is fundamentally coherent, but rich, diverse, and relevant to different people in different ways. Not coherent in its aesthetic or tonal style—a Scandi drama will always be different from an Italian drama. But there is a real commonality in our depth and delicacy and curation of content, which you never, ever find from global American-style content. You just don't.

The financial importance of the North American audience to US studios has historically made US content preferences disproportionally impactful in the global market. This balance is now shifting. Within perhaps just a year, Netflix's audience in the rest of the world will outnumber its North American subscriber base, and the direct-to-consumer shift of the majors will likely make them too at least somewhat less US-centric.

That said, the value of an individual subscription is still higher in North America than most other markets,[21] and the North American audience prefers watching content in English[22]. Netflix, already a pioneer in teaching its viewers to read subtitles, is now appealing to those who rather wouldn't by dubbing its shows. The streamer has internal infrastructure to produce language versions of its shows in more than thirty markets. Should audiences respond favourably, which they seem to (over 80% of the audience for Netflix's German show *Dark* in English-speaking countries chose to see

21. This is measured in ARPU (pronounced "are-poo"), average revenue per user. Subscription fees and bundling deals for the same service vary across markets or time of year, making ARPU important context for subscription numbers.

22. Follows, 2020

it dubbed) this obviously shows a path for content on other platforms too. The territories that have always localised content were already significant at perhaps 2bn viewers, and that audience is rapidly growing.

Filippa Wallestam: *Consumers are getting much more used to watching content in foreign languages, which is good news for Europe. Very strong content travels so much easier today than in the linear world, and there's never been so much strong scripted content produced in Europe.*

Viaplay [acquisitions have historically] been very focused on the US. But we launched ten non-English language shows in November—all of them European, because there was so much to choose from and we had to start somewhere! This is something that will continue; our consumers are more ready for it now. We are always going to want the best stories from the US, but strong stories from other parts of the world bring interesting [alternative perspectives].

There is reason to believe that mainstream content on US services may somewhat homogenise over the next five years. The streaming first services are learning very rapidly what isn't working for them, and may step back from experimental or unusual projects. Meanwhile, the majors' transition from pay TV licensing fees to a direct to consumer model—the cost of their technology investment and of bringing all of their rights home[23]—was supposed to be funded by theatrical blockbusters and theme parks. In the late-pandemic economy, stock markets do not have endless patience, and may drive some of these platforms towards safer content bets.

In such an environment, the specificity and originality of non-US voices nurtured in their local commissioning traditions is a creative asset. They may appeal on niche services, in specific audience verticals of wider platforms, and as a lower-risk development model for the globals, who are already quietly making "local" originals as co-productions even when that means they may lose the first window of the partner territory.

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23. Already a year ago, AT&T had foregone USD 1.2bn in licence fees to keep content for HBO Max. Levy, 2020

Starting in 2021, global investment into the European production ecosystem is also shaped by the EU:s Audiovisual Media Services Directive (see next chapter). International platforms will increase production in Europe, which the industry largely welcomes. Significant commissions create a basic security in the market, key talent may have opportunities at a scale unimaginable in their local industry, and anyone not locked into exclusive deals will always have the option to place their next project somewhere else.

Brian Newman, Sub-Genre: *If you're a producer or director with financing from Netflix, you can get insurance during Covid, you can make sure you've got the budget for the film that you need to make, and you make sure you've got an audience built in before you even make the film.*

One of the reasons we can say that American film was independent when we were raising independent outside equity, was that you had a lot more freedom. Now we've moved back towards a studio system, where if you're not working within that system perhaps you can't find an audience.

Marike Muselaers, Lumière Group: *If you work for one of the biggest streamers you work for hire; there's not much ownership, you give away most of your rights. But in terms of creativity, there are different levels. Some of the talent definitely gets to do anything they want; others really feel like they're being constrained. [Regardless], there is the financial safety of getting your show made—even though many of these streamers pay afterwards and you have to wait for your money a long time. But working with them is also very much about building your own brand. You can use the momentum of a Netflix show to get other projects off the ground.*

Right now it is difficult for producers like us on the independent level that the talent is being hired by the streamers. But eventually they're going to choose their own projects, and unless they have an output deal with a global streamer, they'll come to us then.

In most of Europe, film policy belongs within the sphere of cultural policy. Cultural policy perspectives such as protecting local artistic traditions, diverse representation, the vitality of small language areas, and of media

literacy as a citizenship skill, remain urgently important. But we also know that the "film industry"—historically understood as feature filmmaking, with theatrical exhibition at the core of its business and its reach—is rapidly merging with the broader audiovisual sector. Any strategy towards fulfilling film policy goals must be aligned with the policies for one's national broadcasting ecosystem and public service media, with the regulation of online media services, and with goals for the audiovisual sector.

Elisa Alvares, Jacaranda Consultants: *The European economies will continue to be under stress, and I can't predict how the existing tax credits will be affected. However, the UK at least seems to be taking a stance that the creative industries are of ultimate importance to our economy. They represent a very substantial and increasing amount of GDP, and should continue to be stimulated. I would be very surprised if the EU took a different stance. Countries may introduce more stringent requirements for qualifying, but I would be surprised if the incentives were removed altogether, or even materially reduced.*

Entertainment will continue to grow, as part of the GDP. Certainly in the developed countries. That's what I see as a trend.

With the power and credibility of the US decreasing on the global stage, global media services that we today think of as "American" will try to disengage from association with any particular nation. Having no affiliation beyond their brand may increase relevance with their various non-US audiences, and truly multinational structures are also harder to tax and regulate. But even if US dominance of the entertainment sector should decrease, it does not automatically follow that European content would fill some of that void in the rest of the world.

Whether China would be able to leverage soft power in a way similar to that of post WWII United States is an interesting question. One one hand that state's values are discordant with the norms of audiences in most markets. On the other hand soft power can take many shapes—the dominance of TikTok being one successful example. And the global obsession with queer TV fantasy drama *The Untamed* certainly suggests that younger audiences, at least, are not finding Chinese culture incomprehensibly alien.

Whether audiences would punish an association with political repression is also unclear in a Europe where the future of liberal democracy is in no way certain. In the post-pandemic economy, populists may do better in elections, undermining the functioning and ideological coherence of the EU in relation to the wider global landscape, as well as its regulatory capacity.

In the end, the most decisive measure of success for European content may be how it performs in the internal market. The EU is attractive to global streamers precisely because of its economic value. But increasing the reach of local voices across national borders through investment, co-production, and new collaborations, can also help develop a shared narrative about Europe based not on toxic nationalism, but on a multiplicity of voices. And as we have seen, the commercial success of European content on the global stage may rely precisely on states' ability to maintain the integrity and specificity of their national audiovisual ecosystem.

Marike Muselaers: *We're already seeing European public broadcasters collaborating more on the commissioning and production side.*

Could they team up to acquire competitively as well?

They need to. The broadcasters are scared. You can feel it. Scared of the pandemic, scared of the streaming services. Netflix was one thing, but now they've found out that they also have to compete with are all these smaller services.

In the Nordics, Starzplay will be available through Viaplay—and that is very smart of Viaplay! But here in the Netherlands, it's one of those extra add-on channels for Amazon and Apple. Nobody knows about Starzplay, they don't seem to have the marketing power in this market yet. But they scoop up rights for really big shows that the public broadcasters would normally have had and that are now not available, like Gangs of London *and* Normal People.

Walter Iuzzolino, Eagle Eye Drama: *National broadcasters are three years behind. They're still worrying about how they can challenge Netflix and Amazon at a local level; obsessing about their local ecosystem and not looking transnationally. You can still compete for eyeballs locally, but you need to think globally.*

This is a systemic crisis similar to the one in the EU itself. But people like Macron would argue that it is a wonderful opportunity: we are in such a crisis that we can only really thrive if painful questions about integration are answered. This doesn't mean becoming one and the same [across Europe]. But it does mean forging stronger and tighter links.

European broadcasting alliances with real acquisition and commissioning power?

At the national level, we must rethink the funding model for public service to be more like the arts councils. Public money goes into museums, so that our Rembrandts are preserved for future generations; we need to do the same with broadcasting. [SVT could] curate for me—and keep growing with contemporary content—the body of visual culture for Sweden. In a culturally pertinent way.

Broadcasters need to go to their governments and say, "We need this money, but we have some thoughts about how to monetize it." Now imagine I am a government. I am publicly funding not just one broadcaster, but the broadcasting ecosystem of my country, because even what used to be commercially funded TV is under a lot of pressure. Imagine that it's a nice big check, but divided between more people.

What I ask in return is that this content will have to pool into an EU-wide SVOD content collection that markets itself globally to every other country—you'd protect your own territory. Now you would have my billions, French billions, Italian billions, British billions. You'd preserve the broadcasting culture of [each country] and an ecosystem that makes sense of that culture. But at the macro level, you create an extraordinary curated ecosystem of the best European culture, a sharp commercial pool bringing it all together and monetising it globally.

What would it take for this to actually happen?

Political will. And smarts and humility. You couldn't go, "Oh, how big a percentage do you contribute?" A lot of modelling would need to happen, but fundamentally, it's first a political and then a financial question. I'm not saying this is the only answer, but either you get to a macro solution, or you end up gradually wilting into irrelevant insignificance.

7

AVMSD Implementation Signals Necessary Policy Shift

By: Petri Kemppinen

- As of 2020, streaming services operating in EU markets are required by its Audiovisual Media Services directive (AVMSD) to show at least 30% European content.
- Not all national implementations of the directive are yet fully completed. The tendency is for EU member states to also implement the optional clause permitting them to impose levies on local and global streaming services to support local production economies.
- European film policy might be shifting towards a wider audiovisual policy to take into account the growth and quality of TV drama production.

The Audiovisual Media Services Directive (AVMSD) governs the European Union's coordination of national legislation of traditional broadcasting and on-demand services. It is a key tool enabling governments to provide public funding for the production, distribution and promotion of audiovisual productions, for instance by imposing levies on the different players in the audiovisual industry towards the local film funds. In short, the directive establishes common rules and regulates variations allowed in the EU countries' national policies.

The previous AVMSD dates back to 2007, and considering the rapid technological developments since, a new level playing field was needed. The EU approved the revised AVMSD in November 2018. It should have been transposed into national legislations before the end of 2020, but in many European countries the details are still being negotiated.

The AVMSD sets an obligation for streaming services operating in EU

markets to show at least 30% European content. This is somewhat lower than the earlier obligation of broadcasters, and it has largely been accepted as a not too difficult threshold. Some of the increase in international investment in European content in the last two years is already due to this new obligation on the streamers.

Many European countries, alarmed by the growing impact of global SVOD players (at the time the directive was being negotiated, notably Netflix) did not find this 30% rule sufficient. Only specifying "European content" was read as likely to be disproportionately beneficial to large EU countries with significant production capacity, and languages spoken outside their borders, in particular Spain and pre-Brexit UK.

To address demands that streaming services contribute financially to each national production ecosystem, a small detail—the directive's article 13, paragraph 2—was added. It is not compulsory, but makes it possible for national governments to impose financing obligations on "providers of on-demand audiovisual media services, targeting audiences in their territories, but established in other Member States." These obligations should be in line with the regulations imposed on local VOD players in the respective countries. In addition, the EU has set up a mandatory follow-up procedure, obligating governments to report on their efforts regarding Article 13 every two years.

What does the implementation of that article look like as of the time of writing, January 2021? Belgium, Germany and Italy have already imposed the additional financial obligation. In Belgium the platforms can choose between a levy to the film fund or direct investment in productions. In Germany there is a levy, and Italy wants to see an investment obligation of 20%. The French case is still under negotiation but could involve two changes. There has been mention of raising the rate to be paid to the CNC[24] by streamers, including global players, to 5.15%. In addition, an investment obligation similar to Italy's may be introduced.

The French negotiations have been closely monitored by prominent figures in the European film landscape. In October 2020, more than 500

24. France's national film fund.

industry professionals including Pedro Almodóvar, Agnieszka Holland and Pawel Pawlikowski signed an open letter calling for an ambitious implementation, suggesting that at least 25% of the global platforms' local turnovers should be invested back into European productions. The impact of the global health crisis further highlights the need for a strong regulation, the letter stated[25].

The Netherlands, Denmark, Sweden and Finland have typically been opposed to this type of regulation and voted on the EU level against adding the second paragraph to the article. Since losing that vote, at least some of them have changed their thinking. The member states can select to add the regulation later, and the Netherlands is now advancing a plan in their Parliament to implement a combination of a levy and investment obligation. In Denmark the government has also signalled a principal approval, and Norway, a non-EU member, may be following suit. The Finnish and Swedish governments have kept a very low profile so far.

In the meantime it has become obvious that for most global players, regional and local content are of strategic importance. Netflix was initially strongly against the reform, but realised already during the process the significant opportunity in entering local production sectors. Policy negotiations combined with opening local production hubs are now part of their strategy in France and Spain. The most recent news comes from the UK, where Netflix as of 2021 have agreed to start declaring taxes on the revenue from their local subscriber base (estimated at 13 million households), and viewing their UK-based shows as deductible local investment.

The changed positions of the Netherlands, Denmark and Norway mentioned above are signs of actual policy change, and may reflect a trend where a refusal to introduce levies on global players becomes politically difficult. Local industries that are struggling, whether under pressure from the changing marketplace, or because public funding in their countries has clearly peaked, may view the influx of extra investment as necessary.

On the other hand, the passivity of Swedish and Finnish governments on the issue may be a result of the market moving in the intended direction

25. Goodfellow, 2020

without regulatory intervention. The Nordics have already seen growing international investment towards scripted content. And while global players are performing well, regional streaming providers NENT Group and C More, as well as Elisa in Finland, are also strengthening their positions and have announced plans of geographical expansion outside their core territories. Finland and Norway have also introduced tax incentives that benefit both incoming and local productions.

On a European level, it feels like a shift is happening: from only narrowly looking at film, towards a more comprehensive audiovisual policy which takes TV drama production (which in the past was at the hands of broadcasters) into account as well. Governments may also be struggling with understanding the issues. The production industry in the Nordics has neglected its own data collection, and lacks comprehensive information on production and investment levels. The traditional film industry has had the ear of the policymakers, while the TV drama producers have been financially reliant on the duopoly of linear public service and commercial broadcasting, which was dominant before the arrival of streaming services.

But the landscape is changing regardless. Soon enough, the local legacy broadcasters have completed their transformations into streaming services. Aligning the regulatory obligations between the broadcasters and the international services will be a necessary step to ensure fair competition. To complement the change, a re-evaluation of film funding policies is needed to account both for the place of TV drama production in the audiovisual landscape, and of TV/streaming's expanding role in feature film financing and distribution.

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