Film i Väst

Analysis.

STREAMING GIANTS AND PUBLIC FILM FUNDING

A Film i Väst Analysis report. Authored by Michael Gubbins.

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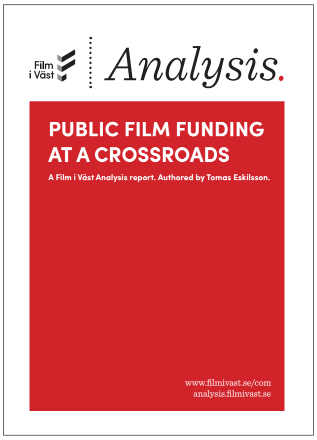

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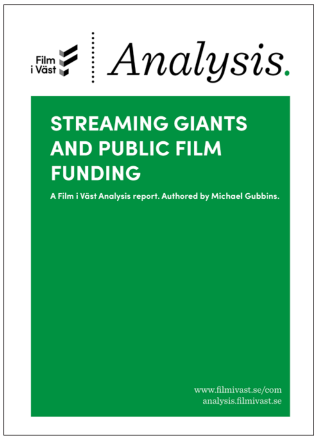

Streaming Giants and Public Film Funding
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Plus 10 regional reports as appendix.

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1. BACKGROUND

This report considers the policy choices facing public funds in relation to the rapid rise of the major streaming services.

Streaming is now firmly established in the European film ecosystem and may become the cornerstone of a New Normal.

The speed of growth of SVOD (subscription VOD) has been extraordinary, particularly in the context of what had been a period of seeming decline for European film. While there had been individual successes, European production and cinema in the 2010s had been struggling to recover from the economic crash of 2008 and 2009 and other long-term systemic issues, including flat theatrical growth, declining DVD and TV revenues, fragmented audiences with major problems attracting young audiences, and weak export outside countries of origin.

Then in 2013, Netflix, whose business had been built on a DVD postal transactional model, took the first steps on a bold strategy of offering exclusive original content streamed to the increasing number of consumer devices over fast improving broadband connections.

By 2020, Netflix had become the biggest commissioner of scripted content in Europe, outstripping leading broadcasters[1]. In 2021, it produced more than 100 original films and series in 15 countries[2] and other SVOD platforms followed suit. Disney+, which only launched in Europe in 2020, revealed it was ahead of its schedule to produce 50 original television series in Europe by 2024[3].

Europe is now enjoying a production boom. In France, streamers invested €245 million into French production in 2021, compared with €86 million in 2020[4]. All over Europe, new production facilities have been built and expanded and thousands of jobs created. As Ampere Analysis research director **Guy Bisson** put it: "Global SVoD services such as Netflix now drive even local markets."

To an extent, high levels of production in Europe can be seen as a victory for European policy, which shifted from tentative moves to support a viable 'European Netflix' in the 2020s to finding ways to ensure Europeam producers take a big slice of what is now a very big pie.

The services themselves tend to downplay the effect of legislation, claiming that a longstanding attention to base their international strategy on localised original production but such discussions are academic. There is now serious money in the production market.

The Covid crisis amplified the importance of streaming platforms. The pandemic gave on-demand platforms a serious boost, removing much of the competition for consumer time with the closures of cinemas, restaurants, sports stadia, etc. And while film and series production temporarily ceased, the growing market penetration of the streamers ensured a fast bounce back. (An interesting exercise in counterfactual history is what would have happened if Covid had struck without those platforms in place).

This report focuses on scenarios for public film finance bodies in an ecosystem in which streaming is a major player and the pre-eminent financer of content – alongside existing sources, such as broadcasting. There is clearly a case for accepting that the streaming majors are now just part of a new reality.

Public funds in Europe were partly created as bastions of European culture against the dominance of Hollywood. That is a more difficult argument when the Hollywood studios, which are now putting their weight into streaming, are building their European strategies around European production.

There are serious and legitimate debates about how far public money should support the development of films and series in which global rights are exploited by US-based multinational conglomerates. Eurimages, for example, led a Council of Europe conference in Budapest in 2021 to consider potential measures to support more independent co-production of TV series in Europe.

But in a sense, all the work of public funds will support the growth of streamers, whether they like it or not. A significant number of projects and talent developed with film and screen organisations will inevitably follow the money and work with streamers. The *quid pro quo* is that streamers help to create viable production businesses, which in turn will be able to take risks on their own diverse independent projects.

The discussions outlined in this report are essentially about realpolitik, making the best of new realities, while trying to ensure the best possible deal for the European film and screen sectors. Leading public service broadcasters have already been enthusiastic partners in some of the highest-profile series.

For public funders, working with streamers not only supports the funding of films, but also offers them a route to audiences, which have invested in devices, including high-definition smart-TVs, smartphones and tablets and touchscreen laptops, all of which are now serviced by VOD services.

The streamers are in some ways evidence of capitalism working well – responsive to demand, innovative, investing to grow. But they may also become exemplars of its failure, with a tendency towards monopoly, market domination and distortion and disruption.

Policy-makers have been discussing ways of increasing the prominence of European content on the major platforms as a major additional benefit in what might become a 'Win-Win' scenario, see below.

This report, though considers reasons for caution. Concerns, discussed here, are often centred on whether the US streamers are leading, rather than simply supporting, the direction of European cultural production and the disruptive effect on the existing industrial value chain.

A more prescient debate might be how far today's streaming ecosystem and production boom will last. A lot of faith is being placed in the long-term future of services, which have really only been supporting original content for a few short years.

2021 is perhaps the worst time in film history to make definitive calls. In December 2021, cinemas and festivals, still recovering from the first wave of pandemic disruption, were facing a whole new threat with a new strain of Covid. Consumers in many parts of Europe may not get the choice of home viewing versus cinema because their local venues may be forced to close.

2. THE GLOBAL STREAMERS

The streamers under discussion here are an exclusive, but not a homogenous club. What they have in common is scale, exclusive content ownership and control over distribution and audience engagement.

At one time, the power in the hands of such conglomerates would have been seen as a huge political concern. From 1948 to 2020, Hollywood studios were barred from owning cinemas under anti-Trust legislation. Now they have a free hand to wield the kind of monopolistic power of which the old Hollywood moguls could only dream.

The original dream of Video On Demand was that audiences would be able to watch whatever they wanted, whenever and wherever they chose. It was always a fanciful notion, particularly in Europe, given the complexity of rights. The dream of 'all-you-can-eat' services for consumers has morphed into the domination of a few very hungry giants, controlling their own content.

The rise of the global streamers has also been characterised by conglomeration, with huge companies eating other huge companies. It is scale that defines and unites the global streamers and some have Bond villain money – as evidenced by Jeff Bezos in space.

Netflix is unique (for now) in being a standalone company, which has achieved its success as an aggressive early adopter and innovator in a new market. Most other competitors are part of major US-based global conglomerates with diversified interests – Disney (Disney +), Amazon (Amazon Prime), AT&T Warner Media (HBO and HBO Max), Viacom CBX(Viacom) and Peacock (Comcast).

Even the VOD model is not fixed. Amazon Prime offers a mix of TVOD and SVOD, while the newly-launched NBC service Peacock with international pretensions is aiming for an advertising-led free model. (AVOD).

The streamers also have the means to shift strategy quickly to adapt to market realities, supported by data. Disney came into the pandemic with a mid-term target of 60-to-90 million customers by 2024. But it was able to shift the gears to make its streaming service Disney+ the centre of its pandemic plans and was rewarded by picking up 73 million subscribers in its first year. Flexibility works both ways, however, and strategies have been shifting quickly. The boardrooms of diversified global conglomerates are not places of sentimentality or loyalty and film is just content to an accountant.

NETFLIX: Netflix has been riding the tide (or perhaps riding the tiger), staying ahead of the competition for more than a decade. Its bold approach has given it significant early-adopter advantages, not least in that it has defined much of how the streaming world is perceived by industry and consumers. Its strategy is based on building an exclusive offer of original content and retaining and exploiting its intellectual property. Like the other streamers, it has been acquiring companies, including the Roald Dahl Story[5] Company in 2021, boutique publishers, such as comic book specialist Millarworld, production services, such as VFX studio Scanline. It has created production hubs in Europe, including Tres Cantos in Spain and Shepperton Studios in the UK[6]. In 2021, it made its first move into gaming.

AMAZON PRIME: Amazon claimed to have more than 200 million subscribers worldwide by April 2021 and has been aggressively expanding. It is expected to complete its acquisition of MGM studios in 2022 and has been upscaling its flagship productions, including its reported $500m *Lord Of The Rings* series. It is rumoured to have plans to exploit MGM's James Bond franchise in online series, following the Disney Star Wars and Marvel model. Amazon has been looking at both vertical and horizontal integration, with major acquisitions in the content and tech field.

DISNEY+: Disney is a global brand, or more accurately a collection of global brands, including ESPN, Hulu and the Disney-branded theme parks, which took a huge hit during the Covid crisis. Disney+ itself is a collection of sub-brands, including Marvel, Star Wars, Star, National Geographic and Pixar. In August 2021, it was announced that Disney might consider further bundling US streaming service Hulu with Disney+[7]. Disney's chief executive Bob Chapek reiterated the company's commitment to the streaming channel as a top priority in November 2021.

HBO MAX: Convincing audiences to try may be easier than getting them to stay. HBO Max will be the next major streaming launch and may be aware of the dangers, pushing back its planned 2020 launch in 60 European countries to 2022 with a more limited launch this year, although delays may be more about licensing issues in the UK[8]. Again, the company's strengths will be built on the vast WarnerMedia catalogue and in those countries where HBO is already available, there is strong evidence of popularity. (The service is third behind Netflix and Viaplay in Sweden, for example)[9].

PARAMOUNT PLUS: Paramount's service aims for a major European launch in 2022, building on its foothold in the Nordic countries. Unlike Disney's launch, it is not pursuing a direct-to-consumer strategy, working with partners to navigate complex markets. A joint venture between Paramount owners ViacomCBS and Comcast (owners of NBCUniversal) will see the launch of a new platform SkyShowtime[10] in 20 European territories. In others, including the UK and Germany, Paramount Plus will be available through Sky platforms[11]. It will operate AVOD and SVOD services.

This report is focused on a set of international streaming services, which work across European borders and commission original content to support their work. The major streamers are a strong, and often dominating force, in European markets but they need to be seen in context.

While there has been a tendency among analysts to see streaming services in the context of the existing value chain – as the new Pay TV, and TVOD as the new DVD – they represent a distinct new business trend.

2.1 EUROPEAN ALTERNATIVES

There are European competitors in all markets, some with aspirations to compete head-on with the US giants.

Viaplay, owned by the Scandinavian NENT group has been among the most aggressive and ambitious in international markets, expanding into the Baltics and Poland in 2021, as well as the US, with plans announced for the Netherlands and the UK in 2022 and Austria, Germany, Switzerland and Canada in 2023. Viaplay's aim is 12 million subscribers by the end of 2025 with half from its Scandinavian heartland and half from new markets.

The company has a similar original content strategy as the US majors in terms of original exclusive scripted content, although in Europe, sports will be an important part of the offer[12].

IPLA has a strong position in Poland and Voyo in central and eastern European markets.

Such services tend to be part of 'super-indie' media groups, such as the NENT group[13] (Viaplay), Cyfrowy Polsat (IPLA) and CME (Voyo). The rise and expansion of media groups, combining telecoms and content delivery will continue and OTT content will play a key role.

But interest in original production and taking on the US giants on the same international scale is limited. The alternatives can be important to film funds as co-financiers and partners:

In terms of local competition, there has been a clear trend towards counter-programming services, filling niches of little interest to Netflix, or stressing regional or national culture. These services stress curation and quality, in supposed contrast to the majors, and have been finding opportunities in 'subscription stacking' (See below).

There may be some new challengers, perhaps from the biggest social media companies, though access to libraries, international regulation and legislation, anti-trust actions, etc could be an issue. The notion of a European Netflix looks unlikely, given the fragmentation of national rights and limits to access to global capital. The end of geoblocking and the creation of a truly Digital Single Market might make a difference but at a cost to the European ecosystem that most of the industry thinks is insupportable.

It is more likely that the biggest streaming players will be forced to downsize than European players step up. While the giants are currently wielding enormous power, they do face threats, including anti-trust legislation in the US[14]. They are under attack from both the right – angry about a supposed globalist 'woke' agenda – and the left, which wants to rein in the influence of corporations.

Broadcasting VOD
Most broadcasters offer some form of OTT service, often aimed at their national market. They were often originally conceived as catch-up services for their linear television offer but many now commission online-only, or online first content. A number of broadcasters have joined partnerships to create highly-competitive national competitors to the US majors, such as Joyn Plus+[15] in Germany, Salto in France (France Televisions, M6 and TF1)[16]. Some have looked to exploit international potential through licensing or through OTT partnerships, including BritBox (BBC, ITV, Channel 4).[17]

Pureplay platforms: A number of ambitious streaming platforms were launched across Europe as VOD developed, some seeing themselves as rivals to the US streamers. Some achieved local significance for national and European content, such as FilmIn in Spain, or Universcine in Belgium. Some services have reached across borders to try to create multinational organisations able to operate in the fragmented European market, such as Sooner, launched in 2021 in Austria, Germany, Switzerland and the Benelux countries, with plans to launch in France in 2022.

Genre specialists: often with close links to festivals, offer a significant route to audiences, even successfully counter-programming against the major streamers. The well-established arthouse service Mubi has made some forays into original production. Europe is building a diverse collection of independent streamers that will play an important role in the emerging on-demand ecosystem but they are all a long way from the scale of SVOD giants in this report.

2.2 MARKET VOLATILITY

The biggest players in the streaming market are now established household names but they hide a history of mergers and acquisitions in a market that remains volatile.

Discovery and WarnerMedia hope to complete their proposed merger in 2022, to help them take on Netflix. Amazon is expected to complete its acquisition of MGM in 2022. Other services are involved in complex deals and partnerships. Comcast and ViacomCBS, for example. whose streaming platforms, Peacock and Paramount+ compete with each other in the US, have agreed to co-operate internationally.

Netflix has now been in Europe for almost a decade and is the dominant player in almost all. But its pre-eminence is already under threat from what is now already its biggest competitor in many countries – Disney +, which was only launched in 2020 and it faces another big challenge with the rollout of HBO Max in 2021 and 2022.

Netflix has enjoyed "early adopter" advantages that will naturally dissipate as competitors mature and trends shift. The idea of a company being 'too big to fail' does not hold true in the Digital Age. Netflix was once offered for sale to the dominant DVD rental service Blockbuster, which has now disappeared, and it began its rise when MySpace was the dominant force in social media.

It is now in a market, whose ceiling of new subscribers is unclear and whose business model is largely untested. Most of the biggest players are part of conglomerates that have been created by market failure, merger and acquisition. There is no reason for confidence that further consolidation will not happen.

From the European public policy perspective, the mathematics of such change is clear. Sox giant companies funding 30% European content creates x number of films a year. Reducing that number to three halves the content, which dramatically changes the calculation.

3. ORIGINAL CONTENT

The original content business strategy has become dominant at the top end of the SVOD global market in a few short years. The logic is compelling: exclusive ownership of content on a platform creates a unique selling point to drive subscription numbers and a long-term income stream. Walt Disney CEO **Bob Iger** said SVOD success was built on "more content for more people."[18]

The US giants have seen their businesses in global terms with diverse content, creating diverse audiences and have discovered that local production can build global audiences.

European policy has arguably cemented, rather than created, a European production boom with a policy of quotas. But local production will be in the mix, not least because the European Union has imposed a 30% EU production quota on streamers with potential for individual countries to impose a higher quota and demands. There are demands for still greater revenue sharing with EU production and to ensure prominence for local films on sites.[19]

Services generally claim to be happy producing local content. "We're not adjusting anything to the American way of doing things," **Anna Nagler**, head of local language originals in Central and Eastern Europe for Netflix said in August 2021, "we allow our creators to express themselves the best way possible...we are there to accompany them, to collaborate with them."[20]

From a first original back in 2013 with *House Of Cards* – a remake of a UK series – the growth has been astonishing. Analyst Omdia claims

Netflix produced 107 titles in 15 European countries in 2021, including 19 in Spain and 15 in France.[21] Amazon was the second biggest producer with 39 productions in Europe. Disney announced in 2021 that its Disney+ service would spend $8bn-$9bn on new content by 2024 and a total of between $14 and $16bn on content across all its services, including Hulu and ESPN.[22]

HBO Max has delayed its full European launch to 2022 and has yet to reveal its European production plans but its growth worldwide has been built on exclusive, original content and that will continue in Europe. HBO Nordic – which enjoyed an early adopter advantage when launching alongside Netflix in 2012 – has already supported a number of series.

Disney + and HBO Max both have a head start through ownership of extensive franchises that can be exploited for originals with an instant marketing advantage.

In some parts of Europe, including the UK and Scandinavia, the market has matured to the point where there appears to be a 'win-win' environment (see below), with streaming driving demand for film and series with opportunities for a wide range of producers and platforms. But again, it is a snapshot of a still emerging situation and enthusiasm should be matched by a degree of caution.

Brexit has created something of a problem. Streamers saw the UK as a critical market in terms of the English language, relatively low regulation and a history of international commercial production. The quota may be more of a burden as UK works stop counting as "European."24

What is not yet clear is the effect of original European production on demand, which is critical in a highly-competitive market. There have been significant European hits on SVOD services. According to Netflix, 2021 Spanish feature film thriller *Below Zero* was watched by 47 million households in its first month.[25] French crime drama series *Lupin* was among the most popular titles on Netflix, watched by 76 million household.[26]

But the dramatic growth of Disney+ that made up a very large part of the pandemic boom was driven by a Hollywood catalogue and originals based on US franchises. There are complaints that European production growth will be in making work that fits an algorithm rather than representing cultural diversity, while monopolising local talent and capacity. (See below for more).

3. BIG DATA AND ALGORITHMS

Big money and access to capital is a common feature of the streaming giants but the defining characteristic is in the gathering and manipulation of Big Data and the creation of effective algorithms that turn data into knowledge and value. The ability to tailor content to known audiences is not something that scales down and is the heart of the business model (which is why there is such reluctance to share it).

Effectively serving audiences with the content they want, or believe they want, is a decisive shift in an industry that William Goldman famously suggested was one in which ‘noone knows anything.’ It is also a contrast to the European cultural aim of building diversity by giving people what they do not know they want (or what is supposed to be good for them). It creates and service individual demand.

These characteristics have allowed the biggest streamers to dominate, disrupt and distort European markets. Ampere research for the European Audiovisual Observatory in 2020 suggested the top three SVOD streamers have 90% or more market share in 11 of 28 EU countries and 80% or more market share in 21 of 28 EU countries. In only three countries – Italy, Finland and Denmark – the biggest three streamers have less than two-thirds of the market.[27] The same study showed Netflix as number one in 26 of 28 EU countries (taking second place in Germany and Austria). Amazon is in the top 3 in 24 countries. (Apple TV+ is in the top three in eight countries, Viaplay, Voyo and Disney+ in three, and HBO in two).

There are more contestable arguments about the cultural power of the streamers. *The Economist* warned of the potential for an “entertainment monoculture.”[28] When content is so informed by, if not driven by algorithms and data, there are legitimate arguments about how far they can be said to meet the cultural diversity agenda of many film funds

There are strengths in a data-driven market: Content for the steamers is not constrained by the same narrow categorisation, such as ‘cultural’, ‘arthouse’ or ‘commercial’ that have arguably limited the appeal and reach of European film. Data is not tied to physical borders or assumptions about ‘taste’.

The Netflix algorithm has acquired a mythical status, to which great powers of insight have been attributed, as if it could pick winners. In reality, streamers use more data to try to minimise risk but they are still in the business of trying to anticipate demand, given the time between development and platform release.

Nonetheless, an algorithm is ecumenical and that ability to reach beyond cultural definitions might be seen as a strength in appealing to demographics, which might never enter an arthouse cinema, or in breaching language gaps and cross-border appeal by a high-quality dubbing operation.

The domination of the streamers and their original content strategy has not simply been achieved by killing off other parts of the market. Correlation is not causation. DVD peaked in Europe somewhere between 2004 and 2006[29] and had hit a sharp decline, before Netflix had launched its subscription streaming offer.

Rampant piracy and the economic crash of 2008 certainly made major contributions and the rise of SVOD may have been the beneficiary of the decline of physical media as much as the cause.

Similarly, the link between the rise of SVOD and the decline of cinema audiences is not as clear cut as it may seem, certainly in Europe. Indeed, the streamers may contribute to a revival: both Netflix and Amazon have been linked with buying struggling cinema chains in the US with a combination of a change in US law and the impact of the Covid crisis adding to potential sales.[30]

4. SCENARIO PLANNING

The following are potential scenarios that could help shape public funding policy. In the current climate, each scenario is fluid and open to potentially fast and dramatic change. The aim should be to establish and maintain sets of core principles in relation to the market but to remain adaptable and agile in shifting in the face of change.

Among the core principles ought to be the maintenance of independent production, in which producers retain at least a portion of rights over their own content for future use. Supporting work where all the commercial benefits will be retained by the streamer raises serious questions about the use of public money.

Equally, the question of measurability and transparency is important. Public funds need to be able to demonstrate value from public investment and that requires a degree of openness on performance that might become part of any discussion of public funding.

ONE: The win-win scenario

The most benign scenario for the film market is the one in which a **stable and competitive** group of streamers at the top of the market helps create an ecosystem with significant benefits for a wide variety of stakeholders.

In this optimistic vision, investment in original content from the biggest streamers would provide **financial security** for European film producers, inward investment to justify national tax breaks and regular work for creative, technical and ancillary staff. In 2015, around 75% of Netflix's original content was American but the figure in 2020 was half, according to Ampere. Netflix produced more than 100 productions in Europe in 2021, more than big public broadcasters in France or Germany.

There is still little compelling evidence to prove on-demand growth will come at the expense of the **experience economy** of cinema and festivals. The optimistic scenario that the social experience of cinema will comfortably, even advantageously co-exist with the choice and convenience of streamers has more credibility. In music, live concerts and to a lesser extent vinyl made a comeback, even as streaming dramatically disrupted the record industry. In December 2021, *Spider-man: No Way Home* recorded the third biggest global opening in box-office history, despite growing concerns over a new pandemic wave.[31] There is even some debatable evidence that independent and arthouse venues might find their status as cultural gatekeepers enhanced. During the Covid crisis in 2020 – with streamers booming – members of the Europa Cinemas' network of largely arthouse cinemas outperformed the overall exhibition sector, falling 62% year on year, compared with 70% for the overall sector.[32]

There is some speculation that the growth in European production – alongside increases in Asia – could have some benefits in **language diversity.** Analyst Digital I[33] showed the percentage of non-English language content on Netflix grew from 25% in 2019 to 31% in 2021 with an even bigger increase in viewers – 10% to 22%. Major European hits, such as *Lupin* and *Money Heist*, and major Korean blockbuster *Squid Game,* contributed to the rise.

Such productions may come at the price of the **independence of producers** and the long-term value of content, if the streamers keep the rights and a degree of creative control. But producers may weigh such considerations against short term financial stability, which also provides the means to invest in their own independent, cultural and diverse European work.

Alternative sources of investment are difficult to find in a static or declining theatrical market and with lower investment in many countries from public service broadcasting but that may change if streamers really drive demand for original series and production. But there has been a production boom in many markets where streamers are strongest. In Scandinavia, NENT studios say 45% of total sales are now made up by scripted production and distribution, while Viaplay plans to produce 40 originals in 2021.[34]

There are potential **cultural benefits** in this scenario too. Just as cinemas need strong US blockbusters to allow them to take risks on diverse cultural content, a distinct US streaming market may encourage a diverse counter-culture, perhaps combining physical spaces, such as festivals and cinemas with online activity. Online viewing may provide the elusive route into film for younger audiences. One of the advantages of the streaming platforms is that they do not make the sometimes debilitating and misleading distinction between 'culture' and 'commerce'.

As is already happening, **public service broadcasters** are also strengthened by co-producing content with the streaming platforms, building international audiences for national works and creating opportunities for talent.

In this balanced ecosystem, the big screen may also thrive by creating **physical experiences** that knowingly contrasts with the on-demand offering. The Experience Economy may comfortably co-exist with the On-Demand economy as has happened to an extent in music and sport. Increased demand for drama on streaming platforms may lead to increased demand for film and more stable and sustainable production companies, thanks to SVOD commissions may choose to invest in making more cinema films.

Another potential advantage may be for **niche competitors**, counter-programming against the giants. There is growing evidence that audiences are comfortable with 'subscription stacking', building a portfolio of subscriptions around individual tastes that may include one or more of the US giants but also specialist film services. The success of the major conglomerates at the top of the VOD food chain creates

In this best-case scenario, audiences will find themselves well served in terms of choice and convenience and events and specialist desires. 'Subscription stacking' may put audiences in charge of their own portfolio of choices with benefits to the independent industry.

The role of public funders in this scenario may be questioned. The US streamers already enjoy significant benefits, notably in the form of **tax breaks** encourage shoots and they are likely to have the pick of talent and crew, trained and nurtured to some extent with public funds.

Directly funding work that will appear exclusively on a streaming service and where all rights have been taken by that service is hard to justify. National rights ownership is the cornerstone of European independent production and there is a strong argument that public funds should primarily support independent work. In reality, it will be hard to draw firm lines on developing projects and talent and the role of public funds will offer serious indirect benefits.

Training and talent development will ultimately benefit the streamers and support for work outside the orbit of the streamers will become a kind of R&D, revealing new diverse talent.

Talent: Talent development and training may take an even bigger role for funders. There is an argument that a powerful streaming sector will monopolise talent and eat up production capacity. Many countries are already taking steps to address the capacity issue with major studio building and skills development, largely based on the assumption that today's production boom will continue.

Talent is a nuanced discussion. There will unquestionably be a large percentage of established and emerging talent that will 'follow the money' of secure work for a streaming platform. As competition for quality originals grows with increased competition and limited available talent and projects, the streamers may accelerate the trend of seeking to acquire work at the development stage.

Producers may be attracted by the certainty of a deal with a streamer, even if it comes at the expense of control over rights and future exploitation. Public film funds with reservations about supporting work for streaming platforms may find work they are supporting picked up suddenly by streaming platforms.

That may require thinking about new rules for producers but, just as Hollywood talent agencies have extensive records on fairly obscure rising talent around the world, streamers may also begin tracking development in a more systematic way.

The positive side of streaming demand is that many producers want to work on independent projects wherever possible. The history of European film suggests that big names often use their Hollywood fame and fortune to support or take part in cultural passion projects.

Talent, it should be noted, has partly been driven to the streamers by the European Commission quota on the number of European productions. More local productions require more local talent.

There is another dimension to the talent issue. The difficult and essential debate in recent years about diversity, has opened up serious questions about whether talent development has been too narrowly defined and talent has been unfairly overlooked. Talent working on streaming projects should leave room for funds to support the development of a new generation.

There are questions for public policy more broadly in this scenario. If such an ecosystem works, it will become more difficult to argue the case for retaining release windows. There may also be increasing pressure to end other restrictive practices, such as geoblocking.

Transparency: Another critical issue for public policy in this scenario is transparency. Public spending should be measurable but SVOD makes it difficult to understand how far a film or series has actually been seen. Netflix, for example, shifted from a measurement system in 2019 from one in which a film or programme was deemed to have been watched when the viewer had seen 70% of the content to one in which measurement is based on Netflix changed its policy of measuring film engagement in 2019, so that even two minutes of viewing in a single household of original content would count as having seen a film for ratings purposes.[35] Transparency may become a key argument about supporting work for any streaming service.

TWO: An SVOD squeeze

A balanced market would be one in which commissioned content sat alongside diverse independent content, for which producers would retain rights. And to an extent, that is exactly how today's market is working for many. Production companies have often been able to use the security of SVOD financed work to take risks on their own projects.

The problem is that a turb0-charged SVOD market is showing signs of squeezing out independent production. An unwanted side effect of production quotas on streamers is that they hungrily eat up capacity and talent.

It is hard to judge the potential scale of the problem, given that Covid disruption has disrupted the normal operation of production shoot. But there are concerns in a number of areas:

Talent and capacity: Increased production for streamers' content could dramatically reduce availability of talent and facilities for independent projects.

Rising prices: Scarcer resources push up prices, which might price independent work out of the market. The scale and cost of production has already been rising with the biggest SVOD services aiming for prestige productions, using up more resources.

The European content quota, for example, is a means of redistributing part of the vast profits of streamers into local production and culture. But it also means that more European talent will be drawn into the orbit of the streamers and production capacity will be tied up in producing series for conglomerates who expect to take the global rights for what they produce. Very few producers have the luxury of retaining their independence.

Hitting the quota may also means grabbing more work in development, even those being developed with national and regional funders.

The scenario could push public funders into more support at the **development stage** of production, greater emphasis on **talent and skills** and embracing opportunities to develop more **diversity** of talent and content.

THREE: Falling demand and consumption ceilings

The win-win scenario is predicated on a competitive ma1rket at the top with a range of companies investing in high levels of production from strong companies. The future of SVOD economics, however, is far less certain. The market is still emerging and much of its development has come in incremental stages, adapting to events, rather than as the result of strategy.

The rise of AVOD: Subscription services have been dominant in VOD but that primacy is already being challenged. Among the biggest pre-pandemic predictions was of the rapid rise of advertising-led free content (AVOD). AVOD services suffered a setback during the Covid crisis, with a crash in advertising spend but it has recovered quickly.

AVOD revenues in Europe have grown from just over €2 billion in 2016 to an estimated €6.75 billion in 2021, according to analyst Dataxis, with around 27% market share for YouTube.[36]

As with the SVOD market, it is likely that the AVOD market will be dominated by a small number of well-financed international conglomerates. Some of the emerging services are partnerships between international content owners and broadcasters. In November 2021, for example, NENT's Viafree AVOD platform merged with the ViacomCBS service Pluto TV FAST, with plans to launch Pluto TV in Sweden, Denmark and Norway in 2022.[37] Viacom bought Pluto for $340 million at the start of 2019[38] and already has services in the UK, France, Spain and Italy.

Some of the bigger SVOD services also offer an AVOD element, including Amazon Prime and Peacock.

AVOD is already the main model in China and India. Omdia claims AVOD revenues have already overtaken SVOD in terms of revenues in the US.[39] Some analysts are predicting 144% worldwide growth up to 2026, reaching $66bn.

One of the many untested elements of the SVOD boom is how far price will drive the market. Emerging AVOD services tend to have lower levels of original content.[40]

The banking crash of 2008 and 2009 is widely considered to have contributed to the decline of DVD and Blu-Ray, which facilitated the rise of SVOD and of course the pandemic economic slowdown was an advantage in the absence of other forms of paid entertainment. The idea of 'subscription fatigue' and questions of the value of subscription during economic slowdowns need to be taken seriously, particularly as the streamers try to establish themselves in poorer countries. AVOD growth may have an effect on the models and revenues of the current SVOD market. Another important factor for European film is what kind of content may drive AVOD growth.

Slowing demand: At the start of the pandemic, in the first half of 2020, Netflix claimed 25 million new users, which was quickly taken as a sign of a 'New Normal' among commentators and the stock market. The stellar start to 2021 dissipated quickly, so that between April and June of 2021 as markets reopened, new customer gains fell to 1.5 million. An initial 50% increase in share price in 2020 soon returned to pre-pandemic levels.

Ampere Analysis figures suggest Disney+ was responsible for a very large part of the pandemic boom[41] with a stellar launch but by the beginning of 2021, a significant slowing of subscriber numbers contributed to a fourth quarter fall in Disney's share price[42] (though Disney reiterated its target of 230-260 million subscribers by 2024).[43]

There is no surprise that the pandemic boom could not be maintained but the question is how far it reveals market saturation. The law of diminishing returns is inevitable. There will always be a natural limit to the potential market in a country and the success of the market leaders has been largely based on international expansion.

There is no reason for short-term concern. Ampere Analysis estimated that in 2020 Western Europe had 39% headroom of untapped households to catch up to the US levels of 83% household penetration, rising to 65% in Central and Eastern Europe.[44]

But global market growth has its own limiting factors. Over the last decade, the international markets have sustained the US studio blockbuster market, notably China. In the last pre-pandemic full year of 2019, none of the top 25 films made the majority of their money in the US domestic market.[45]

The streamers have a different model but international expansion is essential and they face significant challenges. In Europe, tight regulation and a fragmented market. Hopes for China, which has been so essential to studio strategy, look limited. Netflix made some tentative steps with a partnership with Chinese streamer iQIYI but it was short lived. China already has its own buoyant VOD market with some of the biggest online video companies.[46]

The knock-on effect to European public funds may again be that the promise of a strong production base disappears as quickly as it arrives, disrupting and destroying parts of the status quo without long-term benefits.

The time factor: The amount of time available to watch content would seem the fixed factor in terms of audience demand. It is not entirely a static consideration. There are differences in perceived value of time. The Experience Economy is predicated on the idea that people value unique experiences, greater than reproduced ones – hence a film watched in a cinema is worth (the often considerable) additional time and money than one watched on a small screen. That theory will be severely tested in the coming months and years.

There is obviously not a direct correlation between the amount of time available for entertainment and what is bought by the consumer. The low cost of subscription services makes them a relatively simple acquisition, which has seen the growth of 'subscription stacking' – taking more than one service

The Nordic market enjoyed a big growth spurt during the pandemic, driven by both the arrival of a new service in Disney + and adoption of SVOD by older demographics.[47] The relative wealth of the region and the wide availability of services has led to high levels of multiple services. 2020 research suggested that 40% of US consumers had more than three VOD services and 20% of Europeans. Those numbers may have increased during the pandemic, though the availability of quality free broadcasting may be a limiting factor in Europe.

But simple mathematics though suggests a limit to what consumers will spend on channels they have no time to watch. Subscription costs are low but they add up and it is easy to drop and restart a service, as specific desired content arrives.[48] The next phase of market development may be a tough battle for dominance, characterised by high levels of customer 'churn', meaning cancelled subscriptions.

Deloitte predicts churn rates as high as 30% in 2022 with 150 million cancelled subscriptions worldwide.[49] In Europe, churn was relatively low in 2021, averaging in the low-teens – with higher rates in more established markets with greater choice, such as Norway, Sweden, Denmark and the UK (15-20% churn).

It believes European churn rates will remain below 25% in 2022 but trends suggest greater competition and relatively low loyalty to services can be: "highly problematic for SVOD providers, which may spend up to US$200 to acquire each subscriber, though acquisition costs vary by market. As the number of SVOD services grows and the pool of untapped consumers declines, acquisition costs may rise higher still, making retention even more important."[50]

Analysis in the US found that a third of subscribers to streaming services signed up for just one show or film, raising questions about the depth of consumer loyalty. Hub Entertainment Research points out that HBO's acclaimed original content had never translated into subscriber numbers that were close to those of Netflix.[51]

The overall expansion of the market will lessen the impact on services in the short to medium-term but long-term volatility may lead to takeovers and mergers, reducing both production levels and the reach of content supported by funds.

FOUR: The decline of on-demand film

The relationship between streamers and film have been challenging. Netflix, for example, has faced fierce criticism for breaking the media chronology norms of the European industry and struggled with restrictions on when it could screen films it fully financed on its own platform. Tensions were particularly strong in France, where release windows are mandated by law and Netflix is now leading a campaign for windows flexibility in exchange for meeting its obligations to provide finance for French and European film production.[52]

Research from Ampere Analysis released at the Venice Film Festival in 2021 showed the volume of film available on leading SVOD platforms fell by more than 10% between July 2020 and July 2021. Yet the same survey showed the volume of European films on SVOD services in Europe had remained stable, increasing its share against US content.

Obligations on financing European content and high volumes of content may see European film keep up its prominence but there is consensus that television series have been the main driver for driving subscriptions. Series have generally co-existed well with film, with many production companies adding series to their film portfolio. The work of film funds in developing talent and stories will increasingly benefit both film and series even if the core mission of support for European film remains ostensibly in place.

The bigger challenges come from outside the screen industries. Amazon Prime already offers sports content, including tennis and football. In 2021, it was the exclusive broadcaster of the Rugby World Cup. Amazon denied it was due to be the media partner of a new football European Super League, following an outcry by fans, but the idea was taken seriously by commentators. Disney + also includes options to subscribe to Disney-owned sports channel ESPN.

Sport is a strong part of the Viaplay package – its planned expansion into the Netherlands in March 2022 includes football and Formula One screening rights.[53]

Amazon already has interests in gaming, notably through its acquisition of Twitch. At the end of 2020, Amazon bought podcast producer Wondery, as part of a fast-growing audio market.[54] And, of course, Amazon's primary business is shopping. The ability to guide consumers across its vast empire of services is critical to its future, rather than any specific product or content.

In July 2021, Netflix announced it would include video games as part of its package.[55]

Today's streamers have demonstrated a commitment to film and series but audience demands change. Sport, eSports, gaming, VR and options not yet considered may take an increasingly big role in the streaming menu. The space on streaming platforms is finite and new content necessarily will come at the expense of the old. It is not too hard to envisage a decline in the position of film and series for at least some of the streaming majors, which may have a knock-on effect to production levels.

5. CONCLUSIONS

There has probably never been a time when making public policy has been more challenging and predicting the future more difficult. Even before Covid, film funds faced a nuanced market full of contradictions.

What has been clear for many years is that the screen content market has been polarising for years, with the US streamers arguably the highest profile examples. In general terms, the big have got bigger in terms of budgets and scale, while mergers and takeovers have created a smaller number of stronger commercial players. This may be the age of the streamer but it is also the age of the production 'super-indie', of media market takeovers and of content and globalised business convergence.

There has been space at the other end of the scale for high-quality niche content. There is an infrastructure around such content, including regional film funds, talent development schemes, film festivals, arthouse cinemas and specialist VOD services. The rise of creative documentaries in the last 20 years is a testament to the ability of industry to mobilise specialist audiences.

The missing link in the film industry is commercially-viable middle range work that connects the niche to the blockbuster. Covid has only added to the pressure on film distributors, which have been struggling to connect great independent work with audiences.

In former times, the role of the funds was straightforward because it was the champion of European cultural diversity against the Hollywood studios, which dominated audience viewing in Europe. Today, US conglomerates, including many of those same studios are paying European producers to make films that have demonstrated the ability to build national and overseas markets.

What European film funds are for may need some redefinition without a binary European-US cultural divide. Drivers of decision making, such as 'quality', are now being seriously and perhaps necessarily questioned. Past failures to ensure diversity and inclusion had already raised vital issues about the decision-making processes of public bodies in selecting projects to support.

Young producers from a diversity of backgrounds have been given opportunities and substantial budgets to make films and series for platforms that might otherwise never have got off the ground. The claims of some older producers that the streamers are undermining European quality can sound like self-interested protectionism.

European policy-makers need to be cautious in their approach to this changed market. It is hard to argue against the logic of demanding that the streamers fund local content and increasingly give it greater prominence. A lot of time, money and energy could have been expended a self-defeating effort to hold back the tide, or in trying to finance European alternatives.

On the other hand, a truly independent system of production with a viable distribution and theatrical exhibition market should not be lightly discarded. A balanced ecosystem will need to retain public support. Finding a mechanism to reduce the negative and harness the positive but it is not an easy balance.

That balance for film funds should arguably begin by focusing on core functions of talent and project development and connecting stories with audiences. Today's market offers plenty of options for development, powered by emerging technologies, from short-term online content to virtual reality. The mechanisms for engaging audiences and building talent are growing and with them the potential to develop into viable businesses.

Flexible and agile exploration of a hybrid economy makes sense to create the kind of diverse, dynamic, and sustainable business that most public funds desire. The streaming giants will be an essential part of the mix.

This is a period of negotiation when norms and rules are set, and it is essential to think in terms of scenarios. As the streamers do, public funds should be looking first at how to use data and knowledge on which to base decisions and to move quickly to seize opportunities. Funds might also look beyond production to a much greater focus on research, knowledge exchange, distribution, independent online services and collaborative innovation.

As this report argues, this may be the worst time to try to formulate long-term strategy. This short section of the report has had to be extensively rewritten within a few months of publishing because markets change, and today's confident predictions are quickly replaced by new 'new normals'.

What can be established are principles to guide actions and the flexibility and adaptability to ensure those principles remain relevant.

FOOTNOTES

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