



## **BSAC SEMINAR ON FUTURE BUSINESS TRENDS: LIFE AND DEATH POST 2012**

**2 October 2008**

### **BACKGROUND**

The British Screen Advisory Council convened the Blue Skies Working Group in January 2008. This BSAC seminar on Future Business Trends was held on 2 October 2008 to discuss the work of the Group.

The Group has been chaired by John Howkins, Deputy Chairman, BSAC and Director, Handmade plc., and Adam Singer, Chairman, BSAC and Founder, Cordelia UK Ltd.,

Participants in the Group included Josh Berger, President and MD Warner Bros. Entertainment; Ajay Chowdhury, Chief Executive, EnQii Holdings plc; Fiona Clarke-Hackston, Director, BSAC; Jonathan Davis, Independent Consultant; Stephen Garrett, Joint Managing Director, Kudos Film and Television; Paul Grindey, Head of Business Affairs, Scripted Content, Channel 4; Andy Heath, Director, Beggars Group; Jason Kingsley, CEO, Rebellion; Anthony Lilley, MD, Magic Lantern Productions; Dan Marks, CEO, TV Services, BT Vision and Judith Sullivan, Consultant, BSAC.

The objective of the BSAC Blue Skies Working Group is to describe the conditions under which audiovisual content is created, made available and accessed. An understanding of these conditions will inform BSAC approaches to policy interventions affecting the audiovisual sector.

The first output of the Group was a discussion paper circulated to BSAC Members, and other interested parties, in late September 2008. The intention of this seminar was to discuss the paper's findings and inspire participation in future debates.

### **CHAIRMAN'S INTRODUCTION**

#### **Adam Singer, Chairman BSAC**

Adam Singer introduced the theme of the seminar by referring to 'The Rise and Fall of the Great Powers' by Paul Kennedy. Kennedy points out that in the sixteenth century the Moguls in India, the Ottomans in Turkey and Manchus in China were all large, technically advanced empires, more than the equal of anything in Europe. Kennedy asks why did

Europe move forward for the next 500 years while they declined? He makes the point that because Europe was comprised of a fragmented set of smallish states, the competition and the plurality of systems drove technical and commercial advances. Now does the digital era, with all its seepage and blending of signal, get to play the plurality of Europe against the empires of traditional audiovisual provision? In which case can we see the studios as the Ottomans and the PSBs, BBC and Channel 4, as the Manchus?

What we are witnessing in our sector is the decline of traditional empires of provision. In this metaphor, we can play which company gets to be China and rises again and which organisation gets to be the Hapsburgs. It's all a variation on a straight industrial restructuring theme. For 500 years the West had a better set of economics. What our industry is facing is a restructuring. The power is moving from the purveyors to the consumer whose vote for your existence is getting ever stronger.

It's an industrial restructuring. Once the unions preserved manning levels in the face of new technology to preserve jobs - it was called Spanish practices. Yet when we wish to preserve jobs through practices like windowing, we fail to face the inconvenience of new forms of distribution, it's deemed business practice. The unions fought quite appropriately to preserve the economics of their members for as long as they could. Then the world changed with more channels and ever cheaper technology. But what is the difference between that act of economic preservation and the windowing of release dates, or top slicing the licence fee to keep Channel 4, or the artificial preservation of an outdated copyright regime? The monopolies that preserve our economics are fading. They could take a long time to fade.

The great question always asked is when will all this convergence really impact on us? And that always strikes me as a slightly dumb question. We don't advance by continuity. We actually advance by discontinuity. This is what this evening is about. It's about the discontinuities we are facing. These are issues of mortality. What we've tried to do in the Blue Skies Working Group paper which we are launching tonight, is to identify the key issues. This is important as we face government consultations. The great shock for any youngish, thrusting industry is to discover, in its middle age, that it is an economic commodity like everything else.

At BSAC we realised that we needed some form of map to help us navigate through new waters. So we drew on BSAC's great strength. But we are not an industry body, we are a sector body. We spent a long time pooling these sector views, trying to be free of the distortion of today's bottom line in order to create questions, rather than answers. The crucial thing is that out of tonight we get, not an answer, but a consensus that allows us to discuss sector subjects that were once taboo and identify where the heart of the debate lies. The job this evening is to give us as many ideas and to be as controversial and open as possible.

### **John Howkins, Chairman Blue Skies Working Group**

I'm going to give you some headlines and try to sum up five months work. Some background first as to why we set up the Working Group. This was BSAC thinking for itself, not listening to what government was saying or responding to a government initiative. Huddling with some of the best minds in BSAC, we tried to work out what we

thought would be the underlying business trends of the next few years. We tried to fasten upon issues in such a way that they would help us all to take action.

There are six points that I want to talk about. The first is that we are moving from being a supplier led to a demand led industry. TV and film producers are losing dominant control of their sector. Their future is increasingly in the hands of other sectors, other industries, who are moving in. iTunes and the music industry is an obvious example. In the paper we ask if Allen Lane the founder of Penguin were alive today and operating as a producer, what would he do? What is the film, TV, audiovisual equivalent of the cheap paperback? From supplier to demand led, the public expressing that demand are seeing themselves not just as passive recipients, but as users, re-users, sharers and consumers. And they are increasingly demanding consumer satisfaction.

Secondly, we talked about search being king. We then backed off that idea a little bit and identified the retail model as the key which consists of content, search and delivery (often ISP delivery). The ISPs are the organisations which buy from the wholesaler, which stock the product, which market and price the products, which do the selling, which pocket the cash and deliver the product to the consumer and provide after sales service and customer care. And we do need sales. Film in this country is very focussed on production and distribution is kind of added on. We are thus adding another sector, closer to the consumer: the retail sector.

The third point I want to make is what I call normalisation. I say 'I' because I am speaking personally, but hope I'm expressing the views of the rest of the Working Group. If we are right, then we are merely talking about film and television becoming like a normal industry. Film and television have had a privileged position since they started because of the technology and also, as in the case of broadcasting, because of regulatory protection. What we're seeing is normalisation where the film industry is beginning to have to operate like any other business.

Fourthly, the consumer is the person who has the loyalty s/he can give or not give, and the attention s/he can give or not give. And as one of us pointed out, consumers are as diverse and have as many different attitudes and sets of behaviours as producers. Of course they sometimes coalesce into huge mass audiences. In the past, that was the only ecological way they could operate. But nowadays, they are increasingly either operating on their own or forming smaller groups.

The fifth point is what we call the four Basic Demands: everybody wants to choose what they want to watch, when they want it, how they want to watch it and pay for it how they want. That might be a one off cash payment, a subscription payment, a payment to rent, view or keep, or it might be free. It might be paid for by advertising if the consumer is happy to have advertising around the content. We're talking about consumers who want to buy and use a film or television programme in pretty much the same way as they can go onto Amazon, click and have books delivered within 24 hours. It's really as simple as that. And as we all know the industry is so set up that that is a long way from being provided.

So the sixth point is the choice to exercise all of those options. Broadcasters, film makers and entertainment companies often talk about choice but they usually mean a choice of content. Consumers are more ambitious and want choice in each of the Basic Demands.

We are talking about the most fundamental things that would drive our industry and enable us to meet consumer demand. In discussing the role of regulation, however, we felt that the government agenda was separate and different from our own. And that's a problem. Industry and government have to work together to get the language and agenda right.

The prime purpose of regulation it seems to me is to enable individuals to satisfy the four Basic Demands and ensure an operating, functional, effective, profitable marketplace. I say profitable because there's a streak of optimism in our policy. The entertainment industries are not about to lie down. We're not about to collapse. There are huge sources of revenue out there and it is up to us to work out how to meet those infinitely variegated consumer demands. We also discussed the tension between culture and morality. We found ourselves unable to define culture and commodity in a way that were really opposites. So we backed off that debate. But that's one of the things that we will be looking at again as we take this work forward.

### **Ajay Chowdhury, Chief Executive, EnQii Holdings**

This whole idea about the consumer having the power is absolutely right. A lot of people think piracy isn't that bad a thing, particularly amongst the young. There are a lot of people out there saying: 'I don't mind paying for it, I'd be very happy to pay for it, but nobody's allowing me to pay for it'. I was amazed the other day to find that iPlayer is getting 1.5 million views a day. That's a huge number. So there's huge demand there. iTunes have sold five billion songs. They're selling 50,000 movies a day. I mean these are big numbers. This change is happening and the amount of devices where you can get content is growing. So people absolutely want this content, when they want it and how they want it.

Historically, we controlled the distribution, the spectrum and we had the customer in a stranglehold. I grew up in India where television was truly terrible. But that was all there was to do. If you wanted to watch TV, you watched these awful programmes. That world has now gone. If the media companies don't give consumers what they want they will take it anyway. So the consumers have the power. But I believe the content owners also have the power. Because at the end of the day the customers want to watch something.

Brands will remain very powerful in this new world. There will be a polarisation of content. The high end big budget content, the Spidermen, the Titanics of the world will continue to thrive because people need to make those. But there will also be low end content and low end film and television made with new tools. When people can get Final Cut Pro in their home for a few hundred pounds and buy a video camera that can shoot HD, you suddenly unleash an incredible amount of talent for people who will be able to make content. But the creators will have the power. The brand will continue to have the power and finance will follow the content that people want to watch.

So at one end you have consumers who have the power and at the other end content owners who have the power. The problem is what happens to the people in the middle who have historically been the people with the power? They're the ones who are struggling with this brave new world and are going to continue to struggle. I personally think pricing will be key. Some people will be happy to take advertising, some will be happy to pay subscription and some will continue to steal it. People will pay different prices at different times.

I'm not sure how windows can survive in this because if the consumer can't get it they will take it anyway. And so the uniqueness becomes key. The music industry has already seen this. Music is now becoming a loss leader for concerts and for merchandising. People are making their money through concerts, through merchandising. They're giving away the music for free in a lot of cases. The market turned on its head completely. So the 360° deals are now becoming the norm. Arts Alliance owns a number of cinemas across the UK and ran a very interesting event where they showed a Tarantino film and then had a live Q & A session with Tarantino from LA. That kind of thing adds a uniqueness that people will pay for. And you can't pirate that, you can't get that anywhere else. Those are really interesting new business models which are very exciting but require a new kind of thinking. That's why iTunes has done something the traditional music companies could never do.

So the traditional platform disappears. The traditional platform is about who owns the spectrum, whether it's Sky, BBC, ITV or the music industry. It is about who owns historic control of the physical products and control over when the consumer gets it. But with digital, that control doesn't become at all valuable. So the value then moves to whom? I think it moves to the device manufacturers who provide the means to access this content which is the Apples, the PCs, the TVs, Nokia etc., Suddenly they've got a lot of power. Suddenly the ISPs have a lot of power. So do the mobile companies that provide spectrum to allow this content to come to your device. But then the most interesting is how are people going to find this stuff? The most fascinating area over the next few years is going to be, well I'm not sure what the terminology is. Is it sites? Is it channels?

I can see different areas where this can come up. One is the search and recommendation sites which offer the ability to go into Google and type in a title which takes one to a site where one can watch. This is very powerful. Or, you have the aggregators who do it extremely well, such as the specialist channels that we see on Sky and Virgin. If they begin to build these brands they could be very powerful as well. The brands will continue to be powerful, not just the big producing BBCs, the CNNs, but even subsidiary brands. And then you have the rights owners for the live events, the live nations of the world. These are some areas that I believe the power is starting to shift towards.

The challenge for the traditional broadcasters, who have historically been doing it all, is how do they create a model which puts them into one of these areas? Because marketing, putting the consumer first and making it incredibly easy to use is one of the keys to success. I don't think it's any surprise that iTunes, iPods and iPlayer are successful. The reason is that they are incredibly easy to use. I think people who invest in this way can really win in this game.

So it's adapt or die. What are the implications of this? I think windows will disappear. Vertical integration may not make sense in this value chain. The big companies have been vertically integrating like mad for the last 20, 30, 40 years. I'm not sure that will continue. Territories, what happens to territories? When can I watch Entourage online over here before it's been released by Channel 4? What happens to copyright? I've no idea. I see this as a snapshot of a possible future: a probable future. I'm not sure when it's going to happen, it's already happening in a lot of cases. There isn't going to be a big bang and suddenly it all disappears. It is going to take time to happen.

The trick is the road map to get from where we are now to where I think everybody intuitively knows we're going to be x years from now. How do you get there without destroying your existing business in the meantime? The problem is, if you don't destroy your existing business in the meantime, iTunes, Joost, Google and others are going to come along and do it for you. And that's the real trick. I'll stop now with one of my favourite Bob Dylan quotes: 'If you're not busy being born then you're busy dying'. I think a lot of this industry has been busy dying for a very long time and it better get ready being born.

**John Howkins, Chair:** I'd now like to introduce Claire Enders. Claire is not a member of the Blue Skies Working Group but has a reputation for thinking clearly and asking the questions we ought to be asking ourselves.

### **Claire Enders, Enders Analysis**

I think this has been a very interesting decade. It has gone through all the hype: that quality content would always be maintained, that it was just a question of mastery of some new phenomena and that somehow new payment models would be established. We've had the adulation of the long tail which has turned out to be a non-story. And we've had the non linear viewing story. I remember being told by the BBC that 40% of TV viewing would be non linear by 2015. Actually we were estimating about 10% by 2012 and it is circa 1-2% today. It is incremental, it does stub the toes of the commercial sector and it has lots of uses for the BBC. But big it is not. Certainly compared to the investment, remember there are 1,100 people working in the digital division of the BBC, it is not huge.

So I think that non linear TV viewing, the demand led environment, is not something which is really that palpable today. In terms of whether it's a pot of gold for the sector, I'm sure you all know that's far from the case. The telcos have not emerged as good payers. They are not as a whole commissioning programmes as was once anticipated. So in effect, the telcos have really not stepped up to the plate. That's because the economics of distribution are not well understood. In fact we're reaching the end of the growth of broadband in this country with about 60% penetration. The only company that has made money out of broadband is BT. There have been massive losses, massive consolidation. There are companies that have lost hundreds of millions in this broadband venture. But the application layer, in particular Google, has stayed quite separate for both the network player and from the retail world as we knew it before. That is a salutary caution for the future.

We're seeing some really depressing problems for the content creators. We know the pressing problems are the fall in revenues for all the mainstream broadcasters, with the exception of the BBC, but commercial sector funding is an acute worry. Our latest forecasts indicate that the market will be down 6%. We're looking at a structural decline in display advertising, that's newspapers, radio and TV which is going to cause enormous repercussions. So we have some very serious problems for the TV sector. There is an issue emerging for the retail distribution of DVDs. The High Street in terms of real estate agents, Post Offices and shops is going to atrophy. That's going to cause consumption issues, affect DVD sales and of course the oversupply of cinema screens just to top it all off. Also we're going to have some real issues of capital availability. This is already starting to bite, because we've seen a polarisation of the production sector between the super-indies and very small companies. That is only going to get worse.

From my perspective, this is going to be a very bleak and very difficult time for all small producers, production companies and film makers. There is nothing that regulation can do because this is a multi-factorial picture driven by innovation in software and investment in networks which enable piracy. I'm extremely happy that the ISPs and the music industries have reached some kind of preliminary accommodation, because I'm hopeful that this will end up applying to movies and other forms of long form entertainment. But it's fair to say that we have yet to see that occur and the growth of high speed broadband is going to be a further negative issue for content owners. So yes, what John and the report says is absolutely right. But has this turned out to be a good thing for companies in the production sector? No. And will things get better? No. It will get significantly worse.

The report rightly ends taking a view on the strength of the role of the BBC and Sky. The reason why this is absolutely right, and I frequently point this out to Ofcom, is that all the companies that it directly regulates are dying or declining. The companies that they don't regulate, like BSkyB, Google and the BBC, are advocators and investors in technology with very long term horizons. Those companies are growing and doing okay. All three companies have great strength in aggregation.

## PANEL DISCUSSION

**John Howkins, Chair:** I would like to open the discussion up to questions from the floor.

**Anthony Lilley, MD, Magic Lantern Productions:** Claire, how much are you reacting to what has happened on Wall Street?

**Claire Enders:** Obviously what is happening will affect capital availability and consumption. But we have been monitoring for some time what I call the decoupling of display from GDP. This started to occur in 2004. An instant result of the de-coupling of the physical world of sales and of control from the virtual world which has grown and grown. Almost £200 billion goods will be transacted on line in this country this year. That enables mechanisms, such as search, to flourish but means that all the traditional advertising are basically sitting on a declining base of consumption. The structural problems of commercial broadcasters in this country have been developing, not only as a result of online being more performance related, but as a result of the growth of digital, satellite and DTT. The growth of channels has created a huge advertising oversupply far in excess of what the demand from display advertisers will ever be. So that disconnection is a historic one that occurred in 2004.

**Andy Heath, Chairman, British Music Rights, Director, Beggars Group:** Is it idiotic to see any link between the collapse of the supply of capital that suppliers couldn't afford to supply and the supply of cultural IP, which the suppliers can't afford to supply at the moment either? Has this resulted in a kind of lunatic, rampant consumerism which has destroyed capital markets? Is there is a lesson to be learned in terms of cultural IP?

**Claire Enders:** That's a big question. I think what has happened to consumers in terms of liquidity in this country is a scandal. Certainly their entertainment expenditure is very small compared to what they've been spending on housing and so forth. On the other hand,

paradoxically, people may spend a lot more time at home. The role of entertainment within that space, whether linear or non linear, is going to be much more significant than it is today. We are looking at the future with models that are not broken. They're just incredibly challenged and many companies within those models are not viable, of which Channel 4 and Channel 5 are obvious examples.

**Ajay Chowdhury:** This is puzzling me. I had the impression that the US TV networks went through a lot of this some time ago. But the last few years have seen a real renaissance in content. You see some amazing dramas and TV shows coming out of the US. They are gaining high ratings and seem to be generating revenues. How are they doing it?

**Claire Enders:** We used to think about what would happen if the UK had secondary syndication and how wonderful that would be. There is no secondary syndication in the UK and it's very simple why. Because Sky spends, say, £40 million a year on origination, with Virgin Media spending about the same. Even Big Brother can make money in secondary syndication in the US. The fact is that the structural elements of the UK market have made it a relatively feeble one and very oriented towards primary syndication and therefore dependent on secure funding from broadcasters for the first airing. This problem remains unchanged. Partly it's because Sky's preferred, rightly or wrongly, to invest in VRs and in its broadband portal, rather than in recycling UK content. And that may tell you where it sees the value. Secondary syndication would be wonderful, but it's not going to happen.

**John Howkins:** I am going to ask some members of the Working Group to say a few words on the reactions to what has been said so far.

**Paul Grindey, Head of Business Affairs, Scripted Content, Channel 4:** In my view the we need to conduct our analysis a little bit deeper into the Blue Sky. Questions about the future of the PSB's are relatively low level – I prefer to look at some of the fundamental changes and constants in our society and human behaviour if we are to plan for how media or cultural businesses in 10 or 20 years might work.

There were two quite substantial discussions or workstreams that occurred during the deliberations but which never made it to the final report because we did not achieve consensus. But I would like to talk about them.

The first, which was part of an attempt to set up a way of looking at the world, which could be useful if you were to plan your business, is to try and look at human behaviour occurring on a spectrum that ranges from cultural values to utilitarian values. I think that there are some fundamental shifts in the way people are behaving which can be analysed using this method. On one of the spectrum one finds choices made on the basis of needs and basically functional, utilitarian imperatives. On the other end of the spectrum, one finds choices made based on cultural values. What's culture? If you define it in the most fundamental way, culture is people making choices based on criteria that are not strictly utilitarian or functional. They're making choices based on how they want to see themselves reflected and how they wish to position themselves in society and how, even they wish society to be. In my view, more and more people are making choices based on cultural values rather than utilitarian values? Why should this be? In my view we're in an age where we're becoming

aware of the limits of our human and environmental ecosystems, and how our choices test those limits or otherwise position ourselves in the ecosystem. People are increasingly seeking, therefore, to define how they consume by identifying with a higher or distinctive principles.

This is not just a media consumer phenomenon – I think that this is happening everywhere. For example one sees in American politics a profound shift to the “cultural” political choices. The steep decline in consensual politics in the USA is the result of the expression of US voter’s political choices less through functional policy positions, and increasingly through identification of and insistence on where they position themselves in society – “cultural” choices.

Although this is a very fundamental discussion, maybe one could use these findings to build actual business opportunities down the line. You can create some very interesting business models.

So for example, if you wanted to create a retail environment, but decided to do it in a way that reflected a shift towards “cultural” choices, you could potentially create an environment which the consumer could personalise. You might also build in the ability for users to band together as groups and get a greater discount.

Another example is how one might build a news organisation for the future. I’ve been an avid follower of the US election, and it’s been interesting to track how I have chosen to get the news on the election. I’ve followed one or two established news portals to get the “hard” reliable news, and then branched out into various blogs that I return to because of some identification with the way the blogger thinks, and lastly I’ve followed various specific links on a case by case basis. So there’s a mix of the functional need for a reliable news source and a more cultural identification with my selected bloggers. If you analyse consumption of news in those terms then you could plan for a news service might work in the future.

The second discussion that didn’t make it into the final paper was a discussion on consumers. It’s always struck me at various conferences and discussions that people either refer to consumers as an amorphous mass or make reference to what their sons or daughters are doing, which means that you have a sample size of one or two and which is completely useless as an analytical tool in my view. But on the other hand I also don’t think it’s much value simply to say that consumers are diverse and you can’t really plan for them. One can make correlations between the attitudes towards digital media and other attitudes of identity and society and I did some work which was an attempt at doing so as part of the Blue Sky group deliberations. For example if a consumer tended to navigate the internet in a fragile way (i.e. less reference to favourites and more on search or random results), what other characteristics might that consumer have that you could plan for? Would that consumer also tend to identify with what is popular amongst his or her social network at the time? If you start to really test the taxonomy of those relationships then you can create very interesting commercial opportunities, but this analysis really could be an entirely separate and distinct project for BSAC.

**John Howkins:** I am going to ask some members of the Working Group to say a few words on the reactions to what has been said so far.

**Paul Grindey, Head of Business Affairs, Scripted Content, Channel 4:** In my view we need to conduct our analysis a little bit deeper into the Blue Sky. Questions about the future of the PSB's are relatively low level. I prefer to look at some of the fundamental changes and constants in our society and human behaviour to plan for how media or cultural businesses might work in ten or twenty years. There were two quite substantial discussions or workstreams that occurred during the deliberations. But they never made it to the final report because we did not achieve consensus. I would like to talk about them now.

The first was part of an attempt to set up a way of looking at the world which could be useful when it comes to planning your business. This is to try and look at human behaviour occurring on a spectrum that ranges from cultural to utilitarian values. I think there are some fundamental shifts in the way people are behaving which can be analysed using this method. On one end of the spectrum, one finds choices made on the basis of needs and basically functional, utilitarian imperatives. On the other end, one finds choices based on cultural values. What's culture? If you define it in the most fundamental way, culture is people making choices based on criteria that are not strictly utilitarian or functional. They're making choices on how they want to see themselves reflected, how they wish to position themselves in society and even how they wish society to be. In my view, more and more people are making choices based on cultural rather than utilitarian values. Why should this be? We're in an age where we're becoming aware of the limits of our human and environmental ecosystems and how our choices test those limits or our position the ecosystem. People are increasingly seeking to define how they consume by identifying with a higher or distinctive set of principles.

This is not just a media consumer phenomenon. I think this is happening everywhere. For example, in American politics there is a profound shift to 'cultural' political choices. The steep decline in consensual politics in the USA is the result of the expression of US voter's political choices. These are made less through functional policy positions and increasingly through identification of, and insistence on, where they position themselves in society i.e. 'cultural' choices. Although this is a very fundamental discussion, maybe one could use these findings to build actual business opportunities down the line. You can create some very interesting business models.

So if you wanted to create a retail environment, but decided to do it in a way that reflected a shift towards 'cultural' choices, you could potentially create an environment which the consumer could personalise. You might also build in the ability for users to band together as groups and get a greater discount. Another example might be how to build a news organisation for the future? I've been an avid follower of the US election and it's been interesting to track how I have chosen to get election news. I've followed one or two established news portals to get the 'hard' reliable news. Then I've branched out into various blogs that I return to because of some identification with the way the blogger thinks. Lastly, I've followed various specific links on a case by case basis. So there's a mix of the functional need for a reliable news source and a more cultural identification with my

selected bloggers. If you analyse consumption of news in those terms, then you could plan for a news service might work in the future.

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**Andy Heath:** I think the report is really good and very useful. Adam asked me to join the Group because he felt that I was sort of a returnee from the trenches in the First World War, having been beaten almost to death by the circumstances of war. Not that I have a lot of advice for you who are about to go into the trenches yourselves! The speed at which the digital scenario for music has changed over the time the Group has been meeting has absolutely staggered me. It is revelatory how fast things can move. I think your industry certainly needs to pander to the consumer a lot more than it does currently, but I think the music industry has probably done as much as it should, could and will do. Because the name of the game now is frankly to stay alive. If you can survive the current scene then I think the future seems okay.

Going back to the changes that have happened in six months, Nokia, Sony Ericsson are probably, within the next four months, going to invest upwards of £100 to £150 million in businesses to sell music. It's kind of happened so people have suddenly got it. These businesses are all pretty much based on the transfer cost of a file to the customer being probably 0.0001 of a penny, when currently that file cost 69 pence. So the transformation of the realisation of 'count the money not the files, count the consumer not the product', has happened in the music world. It's not very apparent yet because none of these things are launched. But the investment is so great now they're going to launch. God knows what happens if they fail.

Much of the research (everybody's done their own research, because nobody believes anybody else's) says that the consumer is perfectly content to pay if they're allowed to consume the way they want to. Every single piece of research says this in spades. We're going to find out in the next few months whether that works in the music world. All these investments are being made and they are going to test the scenarios that some of us have been suggesting for some years. If I am seen as the canary down the mine, and if the canary has the chance to sing over the next six months and it coughs, splutters and dies, well then you're in big trouble.

**Anthony Lilley:** If you work in the interactive media or games business as a creator, you are entirely paranoid about the next click that somebody may, or may not, take. One fundamental difference of being creative producer in my business is that I assume they will leave at the next possible juncture. I do not assume they will stay. I assume they will go somewhere. It means my focus, as a creator and an entrepreneur, is on something very different to those who are worrying about distribution. We spend our time worrying about television and film. But the mathematics of consumer use looks increasingly to online games and mobile contacts. That means capturing and keeping attention is the pivot. Distribution of content is not really a pivot. Any interactive media creative relationship is a retail relationship by definition. So while we're all being erudite, Marcel Proust said the trick is not in looking for new landscapes, it is looking with new eyes. The challenge is the new eyes, not the new landscape.

Here's some controversy. Most interactive media is rubbish, most computer games are rubbish, most technology in digital media barely works, almost all television is rubbish, most films are rubbish, and most books are rubbish. In the interactive space the antidote to this is called communities, it's called passion centres. In the economics of television, six million and one viewers who can barely be bothered to reach for the remote to turn it off is better than six million who love your stuff. The economics of internet are totally beyond what this is about. And if you don't get that, you won't be in the retail business. Because retail is all about understanding where the value is that you provide to the consumer. That's the big change. If we can't do that with the creativity in the UK market and economy, then we're in trouble. My big worry is where the risk money comes from now. It's about risk. My big worry ten years ago was about risk and it's the same worry, it's just a different flavour.

But if you can't shift from a model where six million people that love it are less important than six million and one who can't be bothered but are there when the ads are on, then call it a day. But if you can, then it's going to look great. But it's not going to be right and all work by next week. Most of the technology will still not work for some time. So less hype, less panic and understand the difference - otherwise we'll all be consultants.

**Jonathan Davis, Independent Consultant:** I am that consultant! I think we're calling people consumers because we want to perpetuate a relationship that does not exist anymore between privileged people who create content and everybody else who consumes it. We are still thinking in terms of an audience that is sitting there, waiting passively until they have content delivered to them on terms the producers of that content dictate, whatever it is the producers have decided to create. We need to come to terms with the fact that this relationship does not exist anymore.

One of the questions the Working Group asked was how can we could justify £4 billion a year to pay for the BBC when Wikipedia so far has cost \$4 million? 40,000 or 50,000 people were producing content for Wikipedia for free, and the people who were using it were not paying for it. These are uncomfortable truths with which we need to come to terms. I've heard lots of people on various platforms saying copyright and windows have worked perfectly well for decades, if not centuries, so why are we thinking of scrapping them now? And you read the European Commission's Green Paper on the Knowledge Economy and it's all about the value of reproduction. I'm thinking there is no value in reproduction *per se*. There is value in performance and events – the things that Ajay was

talking about. But we still have a model which is about protecting, and using state power to protect – the value of reproduction. What we've learnt through the course of the Working Group process is that the public really doesn't care about preserving the value of reproduction and doesn't go along with it: there is no longer consensus about paying for reproduction.

**John Howkins:** Jonathan, thank you very much indeed. We've got time for discussion.

**Simon Milner, Head of Media and Convergence, BT:** It would be interesting to know what the panel disagreed on. We have a report which you've all agreed on, but what are the areas where you really were at loggerheads?

**John Howkins:** I was at most of the meetings and we did not disagree about a lot. There were some areas we just found too difficult to include in the report. One was the timing of all of this especially with regard to the technology. So we don't get into timescales. In our conversations we tended to change quite a lot from the verb 'is' to the verb 'will be'. In terms of our overall understanding of what is happening and what will happen we have a broad consensus.

**Adam Singer:** Let me chip in because I think there were some areas where there was some very strong disagreement. Speaking for myself, I found all comments from the Group about culture and the preservation of culture really interesting. But I passionately disagreed with most of them. For me it was about how you preserve an existing system of how society reflected itself back. We did not ask the fundamental question as to whether that system continues or whether we should be using this as an opportunity to say what is the right kind of culture for the 21<sup>st</sup> century? What is the new system? If you were going to start again would you do it this way? That's where I think there was some substantial disagreement.

**Paul Grindey:** I did find myself in challenging conversations and we had very limited time. Once everyone had their say at the meeting, there wasn't much time to reflect, analyse and develop what had been discussed. I think the report should be an ongoing process with a regular feedback mechanism. For me, the question of culture is not about any particular cultural signifier, institution or policy. It's more about trying to look at key motivations of people and society and reflecting them, either back to themselves or creating businesses that can profit from that. I happen to use a very wide and fundamental definition of culture. For example, I regard going to shop in Borough Market as a cultural choice in food buying. One schlepps all the way over to Borough Market on a Saturday morning, queues for one's barbequed Chorizo sandwich and buys a few highly priced treats. One does that because it's not about functionality or utility in buying food. Clearly it's not a good functional choice, but one does it to experience or identify with a kind of foodie culture in inner city London, which is edgy, raw, authentic. It's a cultural activity. And you can go on. The iPod is an example of a consumer device that has very strong cultural attributes.

**Adam Singer:** Maybe I was wrong in my perception, but when I arrived at the very first meeting and said: 'Look, everyone, you've got to get hold of the fact that the consumer owns this market'. Everyone was saying well yes, but... and it's like no buts, the consumer is the target. I don't honestly think anybody really wanted to know that at the beginning of this process.

**John Howkins:** And at the end?

**Adam Singer:** And at the end I think you do.

**John Howkins:** You mean you agree with us or we agree with you?

**Adam Singer:** You agree with me!

**Martin Smith, Adviser to the Chief Executive, Ingenious Media:** I spent ten years of my life at the National Consumer Council and conducted detailed research amongst consumer audiences on a variety of issues. We always found that there is no such thing as 'the consumer'. Consumers are not a homogeneous group of people. I think that's already been said on the panel. But it's something that I think is absolutely relevant to this discussion. There is also a fault line in consumer policy making which is the difference between what is in the short term interest and what is in the longer term interest of consumers. This conflict of consumer interest and the heterogeneity of audiences are both important issues.

My first question is what is the overarching aggregate investment narrative here? I'm hearing very clearly that there will be less investment in origination. Are we able to measure that precisely as we proceed across all of the forms represented in this audience? You certainly can't do it from anything that DCMS produces by way of stats, which is one of the reasons why we don't have evidence based policy making. And secondly, if aggregate investment in content is declining and we are coming down that curve in old media terms, are we then starting to come up a curve when new media business models start generating serious revenues and, if so, when do we think the latter might substitute for the former?

**Tess Read, Industry Advisor, Convergence Think Tank:** John, you said at the beginning that one of the problems looking forward is that the government's language or agenda is out of kilter with what's really going on in the sector. Can you say a bit more about that?

**John Howkins:** When we turned to regulatory issues, we realised that what we were talking about was not being covered in government thinking. We take the view of the audiovisual entertainment industries and none of our conclusions really fit the structures of government. Some bits of each department talk to each other, other bits don't want to talk to each other. It's not unusual but it's getting worse. So there's a systemic structural problem in the way officials and politicians see their own neck of the woods.

**Tim Gettings, Digital Content Policy Advisor, BERR:** Would Anthony Lilley like to tell us about the components in the Technology Strategy Board, you called for commercialisation of content and search.

**Anthony Lilley:** Oh did I? I think the Technology Strategy Board is making an interesting comment. I don't know how many people know about this. My understanding is that, in order to be able to fund technology based innovation with content, they've had to open up their understanding of what innovation is and take it into a model that isn't just about protecting old patterns or the same kind of IP. That raises worries about what is the

innovation – is it in the service, the content or the technology? Isn't it in all of them in good content industry businesses?

**Mike Kelt, Artem:** The one thing that hasn't really been mentioned much tonight is the quality of content. At one end we seem to be saying that people are going to rush out and buy a £1000 HD cam and chuck stuff on the web. At the other end, the whole industry seems geared to producing good quality content, whether it's studios or post production. I suspect most consumers would like to see good quality content. I wonder what people think about that?

**John Howkins:** My own view would be that yes, of course, the thousand quid clip and the ten thousand quid material will be produced in vastly different numbers. But that isn't going to squeeze out the expensive big buck business at all. There's no way. It's like me writing a post card or writing a best selling novel, they are completely different systems. The fear that someone making home movies is threatening the business of the film financiers and investors is not going to happen.

**Anthony Lilley:** When I lectured to students at the National Film and Television School students asked me to define 'amateur' and 'professional'. They didn't see the line. They just make their film and they're all amateur until somebody pays them. I remember those days, don't you?

**Paul Grindey:** But your audience at the film school all intended to become professionals and be paid for their work, right? If they are any good, they intend to earn lots of money. There's always going to be a high cost associated with good quality content, because the cost of getting talented people to work together is usually substantial.

**Member of the Audience:** Could Claire talk a little bit more about her comments about the long tail which certainly surprised me.

**Claire Enders:** Yes. Anthony just raised it again. We're not talking about the same kind of long term. The long term I was referring is not monetised at the moment. Full length movies for TV don't appear on YouTube or on the social networks. We're talking about what I would call archive. I think we're all aware in this country of the fact that monetising archive is an arduous process. There has been a great deal of investigation into technologies that might enable the monetisation of archives. I'm just making the point that, in terms of VOD in the UK, catch up TV accounts for about 80% of all usage this year. Catch up TV, that is to say current broadcast material that has been watched again, is also very significant in terms of the US VOD systems.

The few services that have tried to monetise what I call real long term material, which is archive, high quality, low quality, whatever quality TV and movies, have failed. iTunes has yet to crack selling movies or indeed archive material at all. There was a long standing dream that there would be a mechanism to monetise really great stuff when it no longer has a place as a DVD or in the distribution chain in a live way. I'm afraid that that optimism is completely misplaced. Amazon is actually fulfilling the role that Tower and physical distribution used to fulfil in terms of long tail. And as we know, Tower went bust and Virgin withdrew. The physical world is in a state of apathy. In fact Amazon is the only purveyor of conventional long tail material in the traditional box.

**Joshua Green, Principal, Arts Alliance:** I just wanted to come back on that exact point because we were, until Amazon merged with our business, the largest shareholder in Lovefilm, which is clearly a long tail film business. In terms of the equivalent long tail VOD models, they don't really work very well at the moment for long form content (film) on the PC. This is a function of a couple of things: One is the destination. Who wants to watch it at their PC? And the second is the rights issues, by which I mean paid and not ad-funded as on TV. I don't think we know exactly what the long tail, long form content future is ultimately going to look like. But I do believe there is one. Lovefilm I think proves that. I just think it's going to develop in a different way. But I completely agree that the initial driver for VOD will come from TV content – witness iPlayer, 4OD, Hulu and Kangaroo etc. But once this is well established, the player also having long tail content (not just film) should win out.

**Roderick Snell:** I'm a member of the Information Society Advisory Group (ISTAG) which is Brussels based. It's got its budget for infrastructure and support for the creative industries. I think the budget over ten years is €74 billion. You all seem to assume that the technology is a given. We're given gadgets and they work, or they don't. What would make the operations that you would wish to pursue more effective?

**John Howkins:** Good question. Very practical. Who wants to make a bid?

**Andy Heath:** Well it's a bit of a cheat really in terms of response to that question. We were talking about regulators and this business of dysfunctionality between them. I think I detected in Brussels, and in national governments as well, what could be a project. I feel that fiddling about with copyright directives has been, by and large, an entirely negative process - pan European and global. So I think a fresh set of thinking needs to be structured. It's long process, many years, to re-design the architecture of the rights environment. I'm utterly certain that the long term benefit to the consumers of a proper, correct and functional copyright system is enormous. I think that an organisation that has as many billions as you seem to have should be focusing on that.

**John Howkins:** Andy, thank you very much. This is the first time that someone has gone to the Commission and not asked for money. I'm going to ask Adam Singer as Chairman of BSAC to wind up.

**Adam Singer, Chairman BSAC:** Thank you. This has been a great conversation. One always slightly dreads going to seminars where there's going to be a panel. Are we going to hear anything new? The one thing we found here today is a group talking honestly about issues. When you get the strength of BSAC, you have a rich divergence right across this sector coming together. That's when you get a lot of interesting views. Some people who were on the Working Group weren't here today, including Josh Berger from Warner Brothers, Stephen Garrett from Kudos, Jason Kingsley from Rebellion and Dan Marks from BT Vision. It was a very strong Working Group.

This is the beginning of a long piece of work which will continue for some length of time as we try and distil the debate in a way which we can actually use to influence government. One of the questions I asked earlier was what is this gap between government and the industry? And at the risk of getting myself in trouble yet again, nothing illustrates it better than government's recent talk about standards. Standards are discussed in a way which

appears only to apply to broadcast. But there is a huge opportunity cost in that which affects the whole nature of the audience. You can't actually make the audience go to a standard, they have choices. There is also the issue of product placement. You only have to read about the new Bond film and the day that gets shown on television to realise you've got a problem.

If you want to test out a politician ask them if the crown jewels in sports should exist. If they say yes, it's really important, they don't get it. Convenient for the economics of those rights holders. Until you have indentured athletes you cannot guarantee the crown jewels of sports. So these are the kind of areas where we have gaps that we need to resolve. So I think it's going to be an interesting period of time, I'd like to thank John for being the most amazing, diligent and temperate Chairman. And thank you all.