



Report by the BSAC Blue Skies Group

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Introduction

1. Conventional TV and film increasingly jostle with many competitors for people's attention, money and loyalties. BSAC reflects this. Our membership is drawn from TV, film, games and the immediate neighbourhood but we concern ourselves with a much wider universe. In that spirit we initiated a Blue Skies Group to map the trends that are changing how people make, sell and use audiovisual material.

The Media Environment

2. BSAC's concern is the making and delivery of audiovisual content for the public. This business has been affected by:
 - Growth of multi-channel, interactive broadcasting
 - Increase in interactive, populist programming involving the public as lead players and contestants
 - Increase in bandwidth
 - Increase in the public's ability to make and distribute their own words, music, photographs and video, usually (1) cost-free and (2) IP-lite
 - Increase in social networks for user-generated content and collaboration
 - Increase in piracy
 - New billing mechanisms
 - Blurred boundaries between sectors (e.g. between recorded music, online networks, photography, short films)
3. The effects of these changes, which have become increasingly important, have, largely, not been driven by old-style broadcasters and film-makers but by a range of new companies meeting consumer demands in ways the

old systems did not. There are parallels between old-style media institutions and the Post Office crown corporation. Thirty years ago the Post Office was replaced by competing providers each targeting new consumer demands. That transition was painful although ultimately successful. Similarly, Apple has changed the game for music companies by inventing iTunes. Today, we are seeing a similar shift in audiovisual with companies exploring new ways of financing and selling TV and films in ways consumers prefer.

Business Trends

4. *Supply-led to Demand-led.* The traditional relationships between the producer and the audience are wearing thin (by producer we mean everyone involved in financing, commissioning and making audiovisual material). The history of broadcasting was determined by the nature of the technology (e.g. the one-to-many network structure, and spectrum scarcity and its costs) and, especially in Europe, by government protection of broadcasting's public service role. This era is coming to an end. The new technologies are cheap, bandwidth is becoming widely available, and governments have less enthusiasm for monopolies. In film, too, exclusivity of relationships is eroding.
5. We are moving from a situation where producers more-or-less controlled their bilateral relationships with the public to one in which the public sees broadcast TV and cinema as only one stop on an increasingly crowded High Street. The switch from supply to demand led means that for would-be buyers, joining the mass TV audience or the cinema audience is still one option but is no longer the automatic option. There are other possibilities that respond more adroitly to people's wishes to share and enjoy audiovisual content.
6. The public sees themselves as users, with the potential for endless re-use, and as consumers, with the potential for demanding consumer satisfaction.
7. *Consumer Demand.* Consumers have four Basic Demands:
 - What I want
 - When I want
 - How I want
 - Paid for in the way I want

It is obvious that current industry practice does not deliver the first two demands, 'what I want when I want'. Indeed, current policies on broadcast repeats, Catch-Up TV and exhibition windows absolutely constrain them. Consumers are winning the battle to watch, 'How I want', by taking advantage of all devices capable of showing TV and film but currently restricted by licence agreements or DRM or corporate inertia. They also want choice in how they pay between a cash payment, subscription, advertising or free; or they will take the fifth option which is piracy.

8. *Full Choice*. Of course, broadcasters and film-makers often talk about ‘choice’ but they usually mean a choice of content. Consumers are more ambitious. They want choice in each of the Basic Demands listed above. If they are not offered it, they will go elsewhere or ‘steal’ or ‘borrow’ what they cannot get legally.
9. The new way people express their personal preferences is as infinitely varied and as complex as the ways producers express theirs. There is no one consumer type, but millions of individuals, each with his or her mix of desires, attitudes and behaviour.
10. *The Shuffle Generation*. Young people instinctively have a multi-media, multi-tasking and collaborative attitude to media production, consumption and re-use. They are also relaxed about copyright and a recent PWC focus group indicated that older people (by whom we mean anyone over 30 years old) share the younger generation’s scepticism. Companies that want to sell successfully need to respond to these attitudes.
11. So in some ways, the switch from supply-led to demand-led reflects a *normalisation* of relationships. TV and film are becoming more like other consumer sectors.
12. It follows that *power* in our industries (power in the sense of influencing what will be shown, and for how much profit, if any) is shifting from producers to wholesalers, retailers and the consumer. Can organisations which thrived in one era thrive in the next?
13. *Search is King*. We initially considered search to be the prime motor of the new ecology, consciously replacing the old motto, ‘Content is King’ with ‘Search is King’. We were conscious of the growing use of search services to access the vast amount of audiovisual material and the importance of the Internet’s ‘long tail’ (fulfilling the four Basic Demands). We later decided that search was better treated as a factor within retail.
14. *Retail Management*. The main thrust is the change from supply-led distribution to demand-led consumer purchasing patterns. We are characterising this as retail, with three components:
 - *Content*
 - *Search*
 - *ISP/outlets*

The range and pricing of *content* on offer is infinitely variable. *Search* covers the ability to discover what is on offer. *ISP* delivery covers the functions of ordering, paying, fulfilment, EPOS management and after-sales service.
15. Because most films and programmes are novel, and the past is little guide to future success (the ‘Nobody Knows Anything’ principle), the entertainment industries have downplayed retail management and

customer service. But there is no reason why the people responsible for selling TV and film should not be as sensitive to customers' needs and fight just as hard to get their attention/cash/loyalty as is Tesco (Sky shows how it can be done).

16. *Price.* With the rise in consumer power, pricing strategies will become more important. Retail prices will vary more widely, within each outlet category (e.g. cinema tickets), at certain times (e.g. when new), and by means of cross-promotion at the point of sale. So if, for example, *Spiderman 17* is released you might, on the same day: i) watch it in 3D IMAX for £50 and get it to 'own' ii) watch it on demand on your big screen at home for £30 and get it to 'own' iii) watch it/own it on your phone/iPod for £20, etc. We accept this adds uncertainty to budgeting and may make raising capital more difficult until companies master these new skills.
17. *Value.* Why do people pay for things? It is often assumed that people pay only because they have to pay. But making people pay is less important than making them want to pay (known as the value proposition and illustrated by the resurgence of live music). Making something available is less than half the battle; making it attractive to potential buyers so that they want to buy it can be more important.
18. *Gate-keepers.* We believe the small number of current platforms will give way to a much larger universe of retail brands. Likely successful brands include consumer electronics devices, such as Apple or Xbox; channels, like BBC and Disney; search services, such as Google; social networking services, such as Facebook and ISPs, like BT, Orange and Virgin.
19. *Share of Mind.* We believe the concept of 'share of mind' captures the reality of the new market, complementing or even replacing the conventional concepts of share of time and share of voice. Owners of mind have the power to decide what, when and how to pay attention to what is on offer. Producers and distributors have to maximise their share of mind, and monetise it.
20. *Windows.* The industry is almost unique in restricting initial sales opportunities in order to maximise overall revenues. The most obvious examples are the 17 week window between exhibition and home video and the limits on Catch-Up TV. The continuation of these windows is a matter of intense debate. We expect the current system will lose its default position and rights-owners will choose between a range of distribution patterns. Publishers offer an interesting model; they choose between a hardback/paperback chronology or go straight to paperback; at no time, do they refuse to sell the book. If Allen Lane, the founder of Penguin, was a film producer living today, what would he do?
21. *Finance.* Companies need new viable business models to respond to these retail and consumer trends. The crisis in recorded music was not caused by the companies' lack of content or branding but by their failure to keep in

touch with the consumer. Producers need to devise business models that recognise and exploit the four basic demands. Those organisations able to meet consumer demands will be best placed to find revenue streams.

Regulatory Implications

22. Our task was to clarify the trends that are shaping our industry. Each sector has its own notion of how to respond and where on the value chain it wants to be. Each sector will also have its own proposals for regulation. However, while not wanting to prescribe detailed regulation we do make some observations.
23. We often found ourselves using terms and discussing processes that were outside the government's current framework. We became aware of an increasing gap between what government thinks and what the consumer wants. The structures and processes of public policymaking are at odds with the converged world and is, at best, unhelpful.
24. *Consumer Regulation.* Sector-specific regulation will be increasingly matched with or even subjugated to consumer protection regulation, e.g. labelling of content. Industry should lead, not follow, on this.
25. *Competition policy.* Every occurrence of exclusivity must face a competition test. Competitiveness need to be examined at both ends of the value chain; i.e., ownership/production and retail. In order to decide whether intervention is justified it is important to understand all the ways in which the creation and distribution of audiovisual content is rationed by regulation. Most of our thoughts on regulation centred on the issue of fair competition.
26. We ask:
 - How can government use regulation to assist producers to meet the consumers' basic demands and so increase real choice?
 - Is the UK committed to four over-the-air broadcasters forever or is there a point at which the subsidies become too large? If so, what is that point?
 - In what way is broadcasting different from other media? If it isn't why should it be regulated differently?
 - How can UK IPO assist rights-owners to flourish while meeting consumer demands? We believe the Gowers review did not lead to the much-needed review of the copyright system and failed to consider such issues as whether licensing territories is out-of-date. How can it be achieved?

- Does the public's trust in broadcasters require government monitoring or could they sustain it themselves, or live without it, as do other media?

Conclusion

27. *A New Ecology.* The new ecology consists of TV, film and video, the music industry, ISPs, investors, computers, games and other sectors in puzzling and often volatile relationships. The new ecology is systemic in that it is not possible to isolate one niche from another. In order to make sense of what is happening, industry and regulators have to understand the new relationships, both of content and cash, between producers, distributors, users and re-users, as we have tried to do. There is a real danger that by focusing on preservation, it will be impossible to relish the new. Attack is often the best form of defence and always better than accepting failure.
28. *Winners and Losers.* All organisations have to work out how to establish a foothold in the new landscape. Revenues will be cannibalised as traditional business revenues begin to fail. We believe organisations that have a secure revenue base (e.g. the BBC) and newcomers that have no revenue base to cannibalise (e.g. Google) are the best-placed.

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