BSAC FILM CONFERENCE 2013

Exploring the blurring boundaries between film and other forms of content

Thursday, 14 March 2013

Sponsored by

TimeWarner

CONTENTS

Chair's Introduction

Stephen Garrett, Chairman, Kudos Film and Television and Executive Chairman, Shine Pictures

The Chair welcomed guests to the tenth annual BSAC Film Conference.

Today's conference would focus on how technological changes were blurring the boundaries between film and other forms of content, with sessions considering how audience expectations had changed and how business models were responding to this, as well as how the formulation of Government and European policy should better reflect these evolutions, in some cases, revolutions, in the audiovisual market.

Following British success at the BAFTA's and the Oscars, with gongs for *Skyfall*, *Anna Karenina*, *Les Miserables*, *The Imposter* and British talent such as Daniel Day Lewis and Lynn Ramsey, interest in film in the UK had never been greater. TV viewers for the recent BAFTA awards peaked at 6 million, the biggest TV audience for the event in 9 years. UK audiences continued to have a insatiable demand for film, with UK cinema admissions of 127 million last year, the second highest total in the last 10 years, and *Skyfall*, becoming the first ever film to break the £100 million mark in the UK. Josh Berger, Warner Bros. and Michael Wilson, EON Productions would be discussing the art of nurturing of franchises in a session later in the day.

Independent UK film had garnered a 9% market share in 2012, the second highest in the last decade, and investment in domestic features and co-productions had risen. Competition in the on-demand market continued to increase with the launch of Sky's Now TV service, joining the fray alongside Netflix and Lovefilm in the battle for subscribers. Kelly Merryman, Netflix, would be addressing the conference on the developments in the on-demand market and Netflix's strategy going forward. The launch of 16 new original YouTube channels in Europe had provided another avenue for content producers to find an audience, a topic which would be discussed by a panel of industry practitioners later in the day.

2012 had been a busy year for BSAC in policy terms. The industry had whole heartedly welcomed the introduction of the new tax reliefs in animation, high end TV and games, the implementation of which would be discussed by a panel of industry practitioners in the last session of the day. BSAC was pleased to see this recognition from Government, that content should be supported across the board. BSAC had also welcomed the publication of the BFI's Film Forever strategy plan after making recommendations and engaging with the BFI throughout the consultation process, and was pleased to hear from Members that the new expanded EIS was working well. BSAC had corresponded with HMRC on the introduction of new guidelines for the schemes in order to ensure that they would not be prejudicial for film businesses.

Stephen introduced the first speaker, Jonathan Hill, the Deputy Head of Commissioner Vassiliou's Cabinet, who would be speaking about the European Commission's approach to film policy, and on how policy could be developed to reflect the changing audiovisual landscape.

Stephen thanked Time Warner for their ongoing generous sponsorship without which the Conference would not be possible.

European Policy Keynote

Jonathan Hill, Deputy Head of Cabinet of Commissioner Vassiliou, European Commissioner for Education, Culture, Multilingualism and Youth

Jonathan echoed the Chair's comment that this session was extremely well-timed as the Commission would be publishing some important policies over the coming months that would have an impact not only on film, but across the cultural and creative sectors. The Commission would be launching a review of the state aid rules governing public support for film, a Recommendation on European Film in the Digital Era and a Green Paper on Connected TV. The Commission had also just launched a comprehensive review of copyright at European level, which would lead to conclusions and reports towards the end of the year. This would consider whether or not changes in the regulatory framework were needed and whether it was necessary to re-open the Copyright Directive. In terms of funding, over the next 3 or 4 months the European Parliament and the 27 National Governments of the EU would start to hammer out a final compromise on Creative Europe, the European Union's new funding mechanism. The programme should be operational on 1 January 2014.

Jonathan said that the Commission had a duty to challenge itself constantly and strive to look for added value to their involvement in culture. The starting point had to be the notion of the public good. National politics had developed a commonly held notion of where the public and where Government could usefully make a contribution to culture over decades. It was also necessary to do so at European level, not because the EU had any ambition to replace Members States, but because the audiovisual sector inevitably became more globalised. The EU could offer a useful practical role to support Member States and national and regional audiovisual industries in this globalised environment. Defining the European public good in film and broadcasting was about responding to market failure and promoting cultural diversity. At European level, those were two sides of the same coin and lay at the heart of what the EU had done in terms of audiovisual policy over the last decade, for example, the MEDIA programme was an industrial policy programme to support all parts of the value chain from development to distribution, as well as B2B marketing, training and festivals, and providing funding which would not necessarily be forthcoming from the market. In terms of the regulatory framework, over the last decade the Commission had established a set of clear European rules on state aid funding for both public service broadcasting and film to ensure that it took place in a transparent and fair way. At the heart of the EU's state aid rules for cinema and broadcasting there was a clear recognition that the cultural and creative industries did not function in the same way as other industries. Another example of EU policy over the last decade was the TV without Frontiers Directive, which had evolved to become the Audiovisual Media Service Directive (AVMS). This Directive established a set of minimum standards around what good quality broadcasting was considered to be, with the finer detail to be agreed by industry and national players. At European level, the minimum standards related to advertising, product placement, the protection of minors and how European content was promoted.

At the heart of the public service mission there was an inevitable tension: an audiovisual sector that reflected Europe's rich linguistic and cultural diversity through the sector's organisation along national and regional lines, and on the other hand, Europe's single market with the political ambition to create a single space where people, capital, goods and services could flow freely. That tension was at the heart of everything that the Commission did. The Commission's role was constantly to strive to maintain a balance between the imperatives of a single economic space and Europe's cultural and linguistic diversity. The digital revolution was probably the strongest force disturbing that balance and played to the theme of today's conference, blurring the boundaries between forms of content. Jonathan quoted the film critic David Thompson's recent book 'The Big Screen':

> 'whereas the patrons of movie houses once gazed at the imagery, the moving photography, the story, it is clearer now that we citizens are living with the screens, even if we don't go to the movies or really concentrate on the screens. The screens then and now are alike, but they were big once, as large as buildings and now they may be thumb nail size, yet they are vast in their ubiquity and their constant use. They make a taunting offer of reality, but I wonder if that isn't a way of keeping us out of it'.

Jonathan went on to say that, from a European policymakers perspective, the ubiquity of screens raised a difficult and complex question: how should the public good be redefined when the way that media was consumed was increasingly individualised? The Commission would be addressing this issue in its ongoing work.

Over the next few weeks a consultation on Connected TV would be launched. The AVMS Directive had established a set of common standards and the issue to be addressed now with the advent of connected TV was how a vision of the public good could be maintained as screens became shared with new internet players, who traditionally had been subject to lighter regulation. The issues were not just around how to maintain standards, but also about economics and business models, for example, how to ensure that those who invested in new content were rewarded. The second policy addressing the digital revolution was the publication of a Recommendation on European Film in the Digital Era. A Recommendation was not legally binding; rather it represented the Commission taking a view on a policy area proposing a number of options to national Governments and industry players. The main goal of the Recommendation would be to help European film build audiences across all digital platforms. The thorny issue in this area was release windows, which brought up the tension between the local way in which film was financed, produced and delivered, and the political ambition of the single digital space. The EU had no intention to harmonise release windows, the aim was instead to encourage industry to experiment with windows, as was happening already in a number of Member States. Another area the Recommendation would cover was digitisation. The MEDIA Programme was not big enough in monetary terms to help Member States digitise smaller cinemas, and it was up to national Governments to help make that happen, whether through public / private partnerships or other means.

The Commission was on the threshold of producing another new draft of the state aid Communication, which governed how Governments could support film across Europe. Issuing a new Communication had been a long and arduous journey and there were still some difficult areas to be addressed. The difficult question at the heart of this was territorialisation and to what extent national and regional Governments should be allowed to insist that the aid that they gave was territorialised within the country. Speaking on behalf of Commissioner Vassiliou, there was one important principle at stake: if the Commission was inclined to reform state aid rules then it was necessary to demonstrate that the current regime was in some way detrimental both to trade between Member States, and to competition.

Finally, in a very difficult financial context the Commission had put forward an ambitious proposal to raise the budget for Creative Europe. Significant cuts to that budget proposal had recently been agreed by the heads of the Member States. However, despite this, and although nothing was confirmed, the Commission hoped to offer about a 12% increase on current funding, which would equate to about €1.3bn between 2014 and 2020. At the heart of Creative Europe, the MEDIA Programme would be a distinct pillar and continue to provide support across the value chain, as well as encouraging experimentation and the take up of new digital technologies. The most innovative part of the package was a new loan guarantee facility, which aimed to add value helping small and medium sized companies in the cultural and creative sectors with access to finance. The loan guarantee facility should be operational next year. The long term goals of the facility were to increase the number of financial institutions that had expertise within the cultural and creative industries and to spread this expertise geographically across Member States. The role of the EU would be to put €210m into the facility and to identify a third party Manager who would sign Guarantee Agreements with local financial institutions on the ground. The role of the facility would be to partially cover the risk of losses. A very wide range of SME's would be eligible for this facility, for example, exhibitors wanting to digitise their cinema, independent games developers, distributors, etc.

Jonathan concluded by considering a very important strategic question: where was the voice of content within the Commission? It was a simple question without any simple answers. The reason he raised the question was the fact that the voices of the networks and of technology were very strong and powerful politically, and it was not so clear where the voice of content was. Which Directorate within the Commission was standing up for investment, diversity and quality in content? Diversity was important not just in cultural and linguistic terms, but also in terms of the diversity of the market. It was not desirable for cultural and creative markets to be dominated by a small number of players.

Stephen Garrett asked Jonathan if he had any personal thoughts on how the voice of content and content producers could be better heard within the EU?

Jonathan Hill said that the heart of the problem was the natural fragmentation of the industry. Within the cultural and creative industries there was enormous diversity, particularly if one considered the way the Commission defined those industries. The definition was becoming increasingly broad, to bring in fashion, design and architecture. In order to deal with that, one could bring together cross-industry lobby groups. However, this strategy had its limitations. What was enormously important currently was the quality of data. BSAC did great work in that field as did a number of other people in the room. It was necessary to explain how investment worked in these industries, and that while there were huge opportunities through new digital platforms and technologies, there was also a threat to value creation. There was a real risk that content was seen as food to fuel technological developments in Brussels.

Tony Lennon, BECTU asked Jonathan for his views about the transatlantic US / EU Free Trade Agreement and the issue of state aid and quotas. He also asked where the problem lay in funding for digitisation of the exhibition sector as this was almost complete in the UK.

Jonathan Hill said that the Commission was at the start of a long process on the Free Trade Agreement. The Commission had agreed on the terms of reference for those negotiations with the US. Mrs Vassiliou had made it very clear in the final debate in the College in Strasbourg that it was necessary to be extremely careful about negotiating anything to do with culture as part of the Free Trade Agreement. For a long time the Commission's default position had been to not include culture in these sorts of negotiations. It had not always worked, but that was the starting position. There had been an explicit public commitment from the Commissioner for Trade that the Directorate General for Culture would be involved at every step of the negotiations. There was also a commitment that there was no reason why the Free Trade Agreement should impact on quotas and state aid for culture. In terms of digitisation of cinemas, Germany was lagging behind, for example, as well as a number of other Member States. The real challenge from a European perspective was that smaller independent cinemas across Europe, where a lot of European films were shown, were the slowest to digitise. The figures were extremely worrying and the clock was ticking. The average rate of digitisation in smaller independent cinemas across Europe was 11-12%. If the transition was not made within the next year there would be a serious problem, especially in Central and Eastern Europe.

Lavinia Carey, British Video Association said that it was very encouraging to hear Jonathan say that there was an imbalance between the strength of the voice of technology and the voice of content within the Commission. She asked Jonathan the extent to which he felt that this was a result of the fact that some people within the Commission felt that the audiovisual sector was represented by a bunch of dinosaurs, despite the innovation and experimentation which was occurring. Should the content industry change the way it interacted with politicians in Brussels? Currently, the message was not getting through, as had been commented.

Jonathan Hill said that Lavinia's remarks were very pertinent. Part of the reason why the voice of technology was so strong was that the arguments chimed with the European Treaty, which were all about creating a single economic space. It was true that there was an important cultural exemption within the Treaty, but the real bulk of the Treaty was about creating that single space. Some politicians were very effective at creating simple messages out of those parts of the Treaty, for example, that European citizens should be able to watch whatever content they wanted, wherever, on any device, at any time. This chimed with popular opinion and did not take account of the complexities of content licensing. A lot of the narrative about dinosaurs not wanting to move with the times and hanging on to old business models were very much around the music industry, and unfortunately echoes of that were still being felt. One of the messages that he and Aviva Silver tried to convey in Brussels was that the industry was moving: the film industry in many Member States was experimenting with more flexible release windows and new distribution models, and it was necessary to made it clear that this was an industry that was moving and changing very quickly. Part of the solution was to put together a powerful argument about how these industries were functioning, and the importance of investment, based on concrete evidence. Europe as a whole, not just the EU in Brussels, needed to have an honest and difficult debate considering issues such as, why there was not a European Netflix or iTunes, and whether this mattered. In Brussels, the argument was made that European players of scale were needed in this space, and often there was a false diagnosis that the barrier to this being achieved was copyright. It was not due to copyright that California had become so successful in a lot of these industries. There needed to be a debate about where Europe's strengths were, and Jonathan thought that Europe's historic strengths were in creating, packaging and exporting content.

Bertrand Moullier, Independent Film and Television Alliance (IFTA) said that he was a member of the working group in Brussels that looked at the way that copyright operated in the marketplace and especially in the audiovisual sector. The structure of the workshop was that copyright was apportioned on a territorial basis and was a form of 'disease' that needed a 'cure'. Despite evidence provided by practitioners to the contrary, the Commission seemed to hold the view that the internet was meant to be a universal, all-encompassing, platform that would make content available to all consumers across the EU without sufficient regard for the impact on cultural diversity. Bertrand knew that the Directorate-General for Culture was an advocate for the promotion of cultural diversity. The question over whether a European Netflix was necessary, or whether a multiplicity of different platforms bringing a broad range of content to consumers according to their interests and cultural make up, was the fundamental question. IFTA felt that trying to 'solve' the problem of cultural diversity, which was integral to Europe's DNA, through modification of copyright legislation would bring a multitude of problems not currently anticipated. He asked for Jonathan's reaction to this.

Jonathan Hill said that considering cultural diversity as part of the DNA of Europe was crucial and was a good way to understand the structure of the industry and the markets. The industry needed to improve the data that was available and to put together a convincing argument about how investment worked in the content industries. However, there were limitations to how far data could progress the arguments. There was also a more ideological battle about how fragmentation in the

European sphere was organic, historic and had evolved naturally. If one considered the way in which people watched TV, linear TV was continuing to be incredibly popular and tastes remained local. One could point to the success of series' such as 'The Killing', which was fantastic. However, they were largely exceptions to the rule. European culture remained local in many ways and there was nothing wrong with that. Some in the audience had mentioned powerful individuals with strong views on particular subjects. However, change occurred in politics as people came and went, and subtle changes in organisations, and how they were staffed and led, could have a huge impact. It was a volatile and unpredictable situation.

Latest Industry Trends

Ben Keen, Chief Analyst, IHS Screen Digest

Ben said that the media landscape was characterised by ubiquitous numbers of connected screens. Consumer spending on movies had grown six-fold between 1987 and the market peak in 2004, helped by the proliferation of channels to market across that period. Since 2004 DVD retail had been in decline and there was a positive impact for Blu-ray, as well as growth in cinema being driven by continual increases in ticket prices as well as 3D. Digital business models, along with pay TV, were the primary drivers of growth. However, when the home video category was considered as a whole, digital had not yet made up for the decline in physical packaged media.

Digital video spend in the UK had grown from £0.1bn to £0.5bn over the period 2006 to 2012, with physical video spend declining from £2.6bn in 2006 to £1.8bn in 2012. The 'digital' transactional video market grew by 22% in the last year. The most interesting development in the marketplace had been the competition around the subscription-based on-demand market. Netflix had made a tremendous impact on the UK market along with LOVEFiLM and Sky Go – although Sky Go was not strictly comparable as it was a complement to the existing Sky pay TV service, not a standalone service. However, subscription VoD services still had significant challenges to overcome. VoD needed a lot of investment, for example, Netflix was experiencing high growth in revenue terms, but there needed to be a high level of investment to sustain this: by Q4 2012, for every dollar of revenue made there had been about a dollar of net loss made on that investment. However, it was important to remember that the investment was going into content acquisition, which was a fantastic contribution to the content side of the industry. Online subscription services now represented the single largest digital category of spend that IHS Screen Digest were tracking. Digital subscriptions would grow from making up 36% of consumer spend on digital video services in 2012, to making up 46% in 2013. However, looking ahead, IHS Screen Digest did not predict much growth in UK movie spending for the forecast period to 2016.

Considering the theme of the Conference, the blurring of content boundaries, Ben went on to compare the movie market with games, music and TV. Movies were still the largest spending category but TV was catching up quickly. Video games were a very cyclical business and the games market was in decline currently. Music had gone through a tough time with much lower consumer spend than the other categories, and had declined over the period from 2008-2012. However, there was now some recovery in the business. By 2016, IHS Screen Digest expected spending on TV content to be almost head to head with movies, and for games to start to grow again. There would also be a small recovery in the music part of the market. Total entertainment content spending was growing, driven by growth in pay TV subscription spending, which dominated the overall entertainment economy.

Considering the wider European media landscape, European households now spent €270 per year on entertainment content. Again, pay TV subscription spending made up the majority of entertainment spending. At the beginning of the last decade, physical formats accounted for 52% of European spending. By 2011, this had fallen to 30%, and by 2016 would be just 20% of spending. However, entertainment would still be a €75bn market in Europe by 2016 due to the growth in non-physical formats. This shift had been accompanied by a dramatic business model transition from transaction to subscription: retail and rental transactional models had accounted for 66% of the market in 2001 and now accounted for 45% of spending; this would shrink to just 40% in 2016. In contrast, subscription, which had made up 34% of consumer spending in 2001, would grow to 60% in 2016. If one also included TV and online advertising spend in the calculation, total entertainment spend across Europe would reach €130bn by 2016. Advertisers would be garnering 42% of consumer entertainment spend by 2016, and subscription would grow to 25%, compared to retailers capturing just 12%. The market more than doubled again to nearly €400bn if mobile and broadband access subscription spending was added to the calculation of total consumer spending on entertainment. This meant that subscription service providers would capture almost 80% of the value, with the transaction business model accounting for less than 10% of revenues in 2016.

Nicholas Lovell, Games Brief said that in the games industry there was a trend towards free access. However, for TV and film, Ben's presentation had shown growth in subscriptions. Was that fundamentally driven by DRM and copyright, or were the screen industries different to the games industry?

Ben Keen said that games industry was often ahead of the curve in innovating around business models and the 'freemium' model had been developed further on the games side of the business than anywhere else. However, other forms of content were not as amenable to those business models, and he had no doubt that subscription was still the most successful model. Netflix and LOVEFiLM were drawing people in on a free basis, offering a free trial in accessing the content, and then converting them to paying customers.

Michael Gubbins, Film Agency for Wales asked whether there was likely to be consolidation in the on-demand market, and therefore market power concentrated in the hands of very few players?

Ben Keen said that this was certainly a possibility. It was clear that the digital economy tended towards a smaller number of winners, in terms of owning the routes to market. This had happened in the pay TV subscription market. Most markets, apart from very large markets such as the US, did not support many pay TV operators. There was a scale to the business that demanded a strong position in the market.

International Industry Keynote

Kelly Merryman, Vice President, Content Acquisition, Netflix

Kelly said that she would discuss the changing landscape of distribution, which provided new opportunities for storytelling to gain more exposure through increases in access and flexibility, as well as the changing ways in which people were consuming content. She added that there was no change in the demand for content.

Netflix was a premium subscription VoD service. They were a curated channel, not a platform for all content. The platform had no advertising and could be accessed anytime, anywhere and on any device. Netflix had launched in 2007 in the US, and over the last six years they had gained 33m subscribers globally, and about 6m subscribers internationally in Canada, Latin America, the UK, Ireland and the Nordic countries. The reason for this success were: simplicity, Netflix offered a simple user interface, access across devices and personalization, and their focus on their core business, Netflix only provided subscription VoD, not transactional or ad supported, and offered TV series' and films only in specific windows, meaning that they did not offer sport, reality TV or music and that it was still necessary to have a cable or satellite subscription to access other types of content. The reasons to subscribe to pay TV remained intact. In terms of windowing, it was Netflix's goal to fit within the existing ecosystem and not to play in every window. About 40% of Netflix viewing in the UK was film, and in the US that number was closer to 30%, however, they believed that it was important for their subscribers to have access to both film and TV.

Netflix was active in three different windows, which allowed them to pick up more content. The premium pay window and the free television window were sold exclusively in almost every market, so there was a competitive marketplace. Netflix's entrance into the marketplace increased the cost of film in each category as the extra money for rights distributors could go towards increased P&A to broaden exposure to the film, or towards acquiring more films. The same applied to free television, one of the unique aspects of which was that in most markets, as local production increased on TV series', there were less films being aired in primetime on broadcast. Netflix was able to add value there by working with the Studios, independents and broadcasters to find ways to window so that the public would have access to more films. Lastly, Netflix was active in library windows, offering films such as *Pretty Woman*, *Forrest Gump*, and *The Godfather*, where there was plenty of value. Premium pay was very important for Netflix and helped drive consumers to the service. *The Hunger Games* launched on Netflix about a week ago, as well as *Salmon Fishing in the Yemen*, *The Iron Lady* and *Woman in Black.* Over the next few months they would be offering *Quartet* and *The Hobbit*, all of which were exclusive to the Netflix platform in the UK for subscription VoD.

In terms of TV series', Netflix offered both licensed and original series'. Licensed series' represented the vast majority of their content. In terms of windowing, Netflix was a season behind TV, which was important as it allowed new viewers who had missed previous seasons to watch TV series' from the beginning, in addition to being able to watch the season currently being aired on TV. In this way, Netflix built new audiences for TV series' and drove them towards what was currently on TV, supporting the existing ecosystem. Netflix also allowed viewers to see recently off air series, such as *The Inbetweeners*, *Lost* and *Prison Break*, creating second, third and fourth run opportunities for TV series'. Kelly believed that people were watching more TV series over time as with a great movie one might get two hours of entertainment, meaning that if it was a franchise there were 6 hours of entertainment, while for television one might be able to enjoy 13 hours of entertainment or more. Although for most licensed series', Netflix was a season behind TV, with *Breaking Bad* they were showing it first run in the UK as it had not been successful on linear broadcast. There were some shows that were better suited to on-demand in some markets than in linear. FX had shown *Breaking Bad,* and then Channel 5, and both had dropped it meaning that it had been unavailable in the market. Possible reasons for this included that 'Breaking Bad' was a very 'serialised' show, where if a viewer missed an episode or two it was hard to pick up, as well as the subject matter, which had made it difficult to advertise. On-demand platforms represented a good opportunity for shows of this nature as they allowed audiences to build slowly through word of mouth.

Moving on to Netflix Originals, the most recent original production was *House of Cards*, produced by David Fincher and starring Kevin Spacey and Robyn Wright. Netflix's goal in terms of original production was to augment the licensed series side of the business by offering content that was unique and exclusive to Netflix. There were four more original productions scheduled to appear on the service in 2013: *Hemlock Grove*, an Ely Roth thriller that would be available in April; the fourth season of *Arrested Development*, which would be available in May; Ginger Cohen's new show *Orange is the new Black*, a female 'dramedy' based on a memoire of the same name; and lastly, Netflix had recently announced a deal with Dreamworks Animation to produce an animated series following the theatrical release of their new movie *Turbo* in the summer, which would be offered on Netflix. Becoming involved in original production augmented the Netflix service and also helped to address the challenges of the shift towards globalisation. The internet was a global platform, which meant that when *Game of Thrones* or *House of Cards* were released, they would become available on pirate sites globally almost immediately. Netflix had released *House of Cards* in all of the territories that the service operated in on the same day, because that was the way that people wanted to consume content, and because Netflix had the flexibility to control the windows. HBO had made an announcement that they were going to release all of their upcoming shows globally within one week of US release, *Game of Thrones* being the first coming out in March. The reason for this was piracy: consumers felt in the current environment that they should have access to content. No one wanted piracy to win so ways needed to be found to meet the needs of consumers in a way that still drove revenues. Netflix was experimenting with their original programming through simultaneous release across territories, and were happy with the results so far.

Kelly concluded that Netflix was a complementary service to the existing ecosystem. They were excited about the next 10 years as they thought that the industry was 10 years into a 20 year transformation in the marketplace that would transform the media landscape and grow the revenue 'pie' for everyone.

Stephen Garrett thanked Kelly and asked what Netflix had learnt from the experiment of releasing *House of Cards* and simultaneously making all 13 episodes available at once? Had they found that people 'binge-viewed', watching all of the episodes quickly and then not renewing their subscription?

Kelly Merryman said that Netflix was thrilled with the response to *House of Cards*. The reason that consumers subscribed to Netflix was not just to have access to one show. If there was only one show that somebody wanted to watch then they would not continue to subscribe to the service for any length of time, but this was not an issue as such people would not have subscribed anyway. It had taken Kelly a month to watch the *House of Cards* series, watching 2-3 episodes at a time every couple of days. The flexibility had been valuable to her.

Andreas Wiseman, Screen International said that some of Netflix's originally commissioned shows made use of local tax credits. With the incoming high end TV tax credit in the UK, to what extent did Netflix see this as an opportunity to originally commission UK productions, and were there any plans for Netflix to become involved in film production?

Kelly Merryman said that Netflix had benefited from tax credits with *Hemlock Grove* in Toronto. They were open to making use of incentives if it made sense for the location of the show, and looked forward to learning about the incentives in the UK. With regards to film, Netflix had not made any decisions. Their focus to date had been on TV series' but they were always evaluating different opportunities. Currently, Netflix had chosen to align themselves with film rights distributors that could then control the different windows, as compared to Netflix coming in and only having control of a single window.

Jonathan Simon, consultant asked whether releasing a whole series in one go, as opposed to the traditional model of one episode every week, would have an impact on the 'water cooler' moment, where people waited in anticipation for the next episode and discussed it at work, socially and online. Would the simultaneous releasing model be Netflix's dominant model in the future, and if so, were there other ways to capture the social activity around a series that was arguably lost when the entire series was released in one go?

Kelly Merryman said that this was something the movie business had always had to counter as people watched films at different times at the cinema, or waited for the DVD. Consumer behaviour would shift quite quickly to adapt to this. It was something that the consumers could manage and it was important for Netflix to give the control back to the consumer.

Fiona Clarke-Hackston said that there was an extremely competitive marketplace in the UK for on-demand. Did Kelly have a particular view about what the Netflix subscriber looked like?

Kelly Merryman said that the average Netflix subscriber was fairly young, slightly more male, a big consumer of broadband, most likely with an international credit card and a passport. International subscribers, such as in the Nordics and Latin America, generally spoke English. They currently had 27m subscribers in the US, which represented about a quarter of households.

Paul Brett, Prescience asked, considering Kelly had said that, if the industry was halfway through a 20 year cycle of change, would Netflix would be completely global in 10 years time, meaning active in every territory, and how did Netflix choose which territory to launch in next?

Kelly Merryman said that Netflix saw itself as being global in the long term. The way in which they chose the next market was a combination of factors, broadband households, willingness to pay, content availability and, lastly, managing the losses, so that Netflix's overall P&L globally remained intact.

Ollie Hyatt, Animation UK asked how much Netflix currently invested in children's content and animation, and what their plans were for the future?

Kelly Merryman said that Netflix believed that kid's content was a key piece of their overall business. They did not share exact figures on investment for each genre but the fact that Netflix did not have advertising certainly made it an attractive platform for sharing kid's programming.

Rachel Ball, YouTube asked about the device breakdown in how people consumed content through Netflix, and also how connected TV would eventually play into that?

Kelly Merryman said that the device breakdown was tied to the install base. People preferred to watch content on the big screen most of the time, not on tablets and mobile. The easiest way to stream content to a TV screen now was through a game consoles, because they had the largest install base. However, as connected TV continued to expand, this would become the predominant means of accessing online content through the TV.

UltraViolet: What It Means For Participants Across The Value Chain

Jeremy Michaels, Consultant, Oliver & Ohlbaum Associates (O&O)

Jeremy said that UltraViolet (UV) was a system that allowed consumers who purchased a DVD to have access to a digital copy of their purchased content for any device through a digital locker. UV was a common DRM standard across multiple devices adopted by DVD publishers / studios and licensed to device manufactures / platform operators to allow consumers to access their digital locker using multiple devices. It was not the only 'tethered' package media / digital access system, US and UK retailers had introduced similar ecosystems, Tesco Clubcard TV for example. It allowed for up to six digital users, so could be shared with friends and family. There were now 11m global subscribers, with the system available in the US, UK and Canada, and operational in Australia, New Zealand and Ireland. O&O's recent survey indicated that between 500,000 and 1m UK consumers had subscribed to UV. Further roll out to France and Germany in Q3 2013 was on track. There were currently 8,700 UV enabled movies and shows provided by 9 major content providers.

For the last 6 years, O&O had run an online survey on media consumption of at least 3,000 UK consumers, and for the last two years they had asked about UV. In previous years, the variance between planned and actual behaviour gave them reason to be confident in the results, for example, there was less than a 1% difference between the people who said they would buy tablets and eReaders and those that did. The research indicated that nearly 4% of respondents had used the UV service, and a further 18.5% had heard of it but not used it. For those who had not used the service 35% were interested in using it. Over a quarter of respondents would buy DVD's with UV and nearly a third of respondents would pay more for UV.

In terms of why UV mattered, digital convergence and the transformative impact of the internet had been broadly dilutive of top line revenues across the media and entertainment industry. In the UK digital revenue growth was being out-paced by DVD revenue decline, although the overall decline in home entertainment revenue had slowed considerably. In the US there were signs that digital revenue growth was outpacing the decline in physical format revenue, as video consumption grew in 2012 fuelled by digital growth. This gave cautious grounds for optimism as the UK market traditionally mirrored macro home entertainment trends in the US. DVD had long been the cash cow of the movie business, with distributors share being significantly higher that both theatrical and TV related share. UV could be considered to be a strategy to defend DVD revenue, extending its shelf life for distributors. However, on-demand was attracting new domestic and global competitors to the UK TV industry, and as home entertainment migrated across devices the battleground further intensified. Most in the industry were keen to avoid an increase in piracy or the emergence of a monopoly player. UV was also part of general changes across release windows to optimise income. Across the value chain, participants were experimenting with new ways of windowing content, with the theatrical window being shortened (and sometimes bypassed), and VoD windows widening. Digital disruption was impacting all windows, for example, on-demand releases before theatrical releases, digital releases before Blu-ray and DVD and studios bypassing cable TV for OTT distributors. UV may be disruptive to other windows and provided another alternative.

In terms of the likely impact of UV, whilst O&O's research indicated strongly that consumers saw great benefit from the UV service, with no distinction based on device usage or the number of viewings, it removed the capacity for effective price discrimination and so could potentially reduce total revenues across all windows. In particular, it could cannibalise lucrative SVoD and Pay TV windows. The O&O survey showed that the percentage of respondents interested in UV who already subscribed to Netflix, LOVEFiLM or Sky Movies was significantly above 40%.

Jeremy summarised by providing three issues to keep in mind in relation to UV.

- there was a trade-off between gaining momentum and growing to scale without crushing other windows, but if UV was successful, what sort of integration issues might arise?

- UV could be a number of different things both now and in the future, a digital locker for purchase of physical product, which maintained the price for physical product and established a player infrastructure, and in the future, a ‘pure’ digital locker. However, if such as pure digital locker was successful, what happened to the rest of the windows system?

- there were many ways to exploit the opportunities from a business to business perspective, for example, what might happen if UV was licensed to Blinkbox? Also, were retailers better placed to stop ‘leakage’, and the emerging secondary market for digital access codes, as well as from a business to consumer perspective, for example would one aggregator dominate as Apple iTunes had for music.

Fiona Clarke-Hackston said that recently the music industry was beginning to see an increase in revenues for the first time in over a decade. She asked if O&O had any sense of whether, as music had been the ‘canary in the mine’ in terms of the transition to digital, there was any indication that digital revenues would pick up more quickly for audiovisual than they had for music?

Jeremy Michaels said that it was heartening to know that the audiovisual industry was watching carefully the progress of the music industry, paying heed to those lessons and incorporating that learning in planning for the future. He would be happy to check to see if O&O had any specific data on that as considering the entertainment sector as a whole would be interesting.

Developing Content on-Demand

Chair: Adam Dawtrey
Jon Bourdillon, Distributor
Richard Halton, CEO, YouView
Adrian Letts, COO, Tesco Digital Entertainment
Ian Moss, Head of Content Acquisition, BT Vision

Adam Dawtrey said that the on-demand space was a confusing one for consumers as there were a number of competing players and brands and many players had a separate brand for on-demand services, for example, Tesco had Blinkbox, Sky had Now TV, and YouView was the on-demand brand for a consortium of players. It seemed as though the business was not helping to guide consumers towards known quantities, but was instead creating new brands in a space where there were a number of overlapping services. One of the reasons why Netflix had become such a powerful player so quickly was because it had such clear branding and a simple proposition. He asked each panellist to explain their service proposition and what it was they were offering which was unique for consumers?

Richard Halton said that although the range of choice available to consumers in the marketplace was fantastic and the competition drove lower prices and access to content, it was very hard to navigate. YouView was based on a simple insight, that people spent 26 hours a week watching television on a large screen in their living room. What they aimed to do was to make that big screen living room experience as simple as possible, by making it easy to find content, and by making the widest range of content available. A decade ago Freeview had launched with the same concept for linear channels as a free alternative to the paid services offered by Sky and Virgin, offering a wider range of digital content than was available through the main terrestrial channels. YouView was extending this proposition to the connected world.

Ian Moss said that BT was a partner in the YouView joint venture. You View was like a shopping centre which had a number of retail stores in it, currently those retail stores were the BBC, ITV, Channels 4 and 5, Now, Milkshake and BT Vision. BT Vision aimed to act like a department store offering content from a wide range of content owners across film, TV, children's programming and music. Such a model provided the consumer with a range of choice on an easy interface. The BT Vision proposition was to offer something more than Freeview, and YouView provided a great opportunity to do that, offering a breadth of content across all the providers that was second to none.

Adrian Letts said Blinkbox was proud of the fact that they were part of Tesco. The reason Tesco had wanted to retain the Blinkbox brand was to avoid customer confusion. In the on-demand streaming space, using the Tesco brand could create confusion as Tesco was associated with the physical home entertainment experience. Blinkbox was an opportunity to demonstrate the new proposition of on-demand online. In terms of their customer proposition, they provided the very latest programming day and date with DVD release, there was no subscription, and it was available on any device. Blinkbox believed that there was a market for everybody and they hoped to bring this to the fore by working with YouView.

Adam Dawtrey asked whether overcoming customer confusion had been one of the biggest challenges for establishing each service?

Adrian Letts said that everyone found windowing confusing. One of the challenges that Blinkbox had was conveying to the consumer that the day that programming was released on DVD, it was not necessarily available on Netflix or LOVEFiLM, or within the Sky Movies proposition. Industry players needed to work hard to ensure that consumers understood that there were different times in a product lifecycle when the content was available.

Adam Dawtrey said that BT had been operating in this space for a few years and there had been a number of iterations of the service. How had BT Vision gone about finding a way of connecting to the audience and explaining to them what was on offer?

Ian Moss said that when BT Vision had launched they had focused on targeting Freeview customers, rather than Sky or Virgin customers, as they could offer a wider array of content than Freeview offered. BT Vision ran an on-demand platform only, and at first the customer base had struggled to understand what on-demand was. In the early days of on-demand, the customer had wanted broadcast channels and a narrower curated choice of content. As Kelly Merryman had said, curation was very important to consumers, and it was important to BT Vision as a service. This was how they would thrive and differentiate themselves in such a crowded marketplace.

Adam Dawtrey said that YouView offered a vast array of services. Did YouView as a platform offer curation, or was their role to be passive and let the services they were providing a platform for manage this by themselves?

Richard Halton said that it was important to consider how consumers were spending their time. The vast majority of viewing was still to the traditional linear channels, and this was where consumers went first. YouView offered the same channels in HD, which was a better version of the same content. As consumers explored the service they would realise that they could pause and record channels with all the benefits of PVR. YouView also offered BBC iPlayer, which was recognisable from online browsing. These concepts were familiar to consumers in 2013 and were available in one place. As consumers continued to explore the service, they would then realise that it was not necessary to use iPlayer or ITV Player as it was possible to go backwards through the existing TV guide to access programming. At that point, people generally left the linear space and moved into on-demand, almost without realising it. YouView's product philosophy was to make the experience as simple as possible. Once consumers were confident in the on-demand space they could search for programming, rather than having to scroll back in the programme guide. It was possible to search for film, TV and children's content across the services that YouView provided, which opened up an incredibly wide array of content to consumers. YouView relied on content services such as BT Vision, LOVEFiLM, Netflix and Blinkbox to promote themselves, so that consumers would want to find those services on the YouView platform. By searching for *Argo*, for example, YouView would provide results for *Argo* for rent, download-to-own etc, in different release windows offered by different providers.

Adam Dawtrey asked Jon Bourdillon to what extent he felt that the breadth of options and the degree to which they overlapped was inhibiting the growth of the market or was it something which was driving the market forward?

Jon Bourdillon said that the broad availability of content enhanced the marketplace. When UK distributor, Contender Entertainment, had first launched they had distributed videos into Woolworths. With the release of Breaking Dawn II, which came out that week, a million units would be sold and would be available through a number of platforms, and it was the job of distributors to advise the public of the availability of titles across the platforms. Jon was worried about the move to a rental world, and was keen to protect the physical world and promote the fact that the physical DVD was still available as well as the electronic-sell-through model, which was compelling for distributors because there was a significant margin compared to a VoD transaction. Distributors chose to work actively with particular platforms in terms of on-platform marketing as well as national press, for example, driving consumers to buy a new release on iTunes. However, actively encouraging VoD opportunities might deter consumers from buying a physical copy, where the margins were much more significant.

Adam Dawtrey asked if on-demand options were seen by distributors as a way of reinforcing and underpinning the physical market, rather than wanting to encourage a transition to an online world?

Jon Bourdillon said that all distributors were worried about the physical marketplace, especially given the recent bad news with Blockbuster and HMV. Distributors were under enormous pressure to release titles in the most commercial fashion and took the new media space very seriously, and as had been shown by Ben Keen's presentation earlier, new media platforms were a growth area, especially SVoD, which constituted a substantial part of that revenue.

Adam Dawtrey asked if SVoD was viewed as 'new' money rather than a replacement for pay TV?

Jon Bourdillon said that the emergence of SVoD players, such as LOVEFiLM and Netflix, had been very positive for the independent sector and had benefitted distributors and content producers. The introduction of competition in that space had propelled Sky into action and there had been recent announcements about Sky tying studios into longer term deals, which had had a positive effect on pricing for distributors and content producers.

Adam Dawtrey asked whether the prices being paid for content by LOVEFiLM and Netflix were sustainable in the long term?

Jon Bourdillon said that it was probably the case that the prices were not sustainable in the long term. There was a boxing match in progress between LOVEFiLM and Netflix and the services themselves recognised that they paid top dollar because they were making a statement into the marketplace, and that content either creation through *House of Cards* or acquisition through tying up a studio with a significant term deal was a way to drive consumers to use their services.

Adam Dawtrey asked whether Jon thought there would be consolidation in the marketplace, and if so, to what extent would this be helpful or difficult for distributors?

Jon Bourdillon said that there would be changes in the marketplace over time, consolidation as well as new entrants: Sainsbury's were making noises in terms of an online offering, and the iTunes platform was enormously significant for their movies. However, for anything other than a small independent film, where one might choose to release day-and-date with theatrical, a distributor encroached on the 16 week window by releasing early online at their peril.

Adam Dawtrey asked Adrian Letts whether Blinkbox was a proposition about recognising that physical DVD had a finite lifespan, and was cannibalising Tesco's own business by essentially moving it online? Was it about creating a new business, or preserving the old one in a new form?

Adrian Letts said that it was both. They recognised that their customers were going to move from buying a physical DVD to watching online and they wanted to move with them. The new online offerings did affect consumer behaviour, and to some extent the pie was increasing. Blinkbox was an important way for Tesco to continue to build their customer relationships.

Adam Dawtrey asked about the Blinkbox demographic. Was the type of product being consumed different from that which had traditionally been offered by supermarkets such as Tesco, product which was essentially Blockbuster driven, as online there was much greater capacity than on supermarket shelves?

Adrian Letts said that Blinkbox was more mass market than Netflix or LOVEFiLM in terms of the proposition as there was no subscription. Blinkbox offered something more than BBC iPlayer, for example, the chance for the consumer to 'dip their toe' into on-demand. The next step for the consumer after Blinkbox would be a subscription service. Mobile was an interesting analogy, some people liked to subscribe and some people liked to prepay. In terms of the programming, consumers might choose to watch *Argo* for the first time online with Blinkbox, and they might not go looking for more niche speciality film. This might change over time and consumers' taste might change as they looked to online as a source of entertainment.

Adam Dawtrey said that online also offered new opportunities for shows in box sets as they were not really a supermarket product, how significant were box sets for Blinkbox?

Adrian Letts said that there was an interesting opportunity as consumers started to migrate from buying DVDs to online. Part of the reason box sets had not been in Tesco stores was the physical size of them, as shelf space was at a premium. However, that was not to say that Tesco's customers weren't interested in buying box sets and there was an opportunity to move these consumers online.

Adam Dawtrey asked Ian Moss about the importance of film in the on-demand space, and to BT Vision's proposition.

Ian Moss said that film was extremely important to the transaction side of the business as they offered a wide array of films in their transactional VoD service. They had healthy active subscriber viewing and, complementary to that, they offered a film subscription service that was targeted at a smaller range of titles, termed modern classics, which had pre-existing recognition for customers. BT Vision was spending a lot on sport currently, but this was not at the cost of their movie proposition.

Tony Lennon, BECTU said that, in terms of the development of the internet so far, there had not really been a place for middle men to intermediate between content producers and consumers. As the on-demand market developed, would there still be room for services to intermediate the relationship between the producer and the consumer?

Richard Halton said that, partly because the BBC was a founding partner, YouView did not attempt to own the relationship with the end consumer and was an open platform. Content available on YouView through ITV, Channel 4 or LOVEFiLM, for example, was controlled by the content retailer, which might also be the content owner in the future. There was huge value in brands like Blinkbox and BT Vision in providing differentiated offerings and signposting content. There was a lot of added value in curation in content aggregation.

Adrian Letts said that fashion was a good analogy as, while there was a limitless opportunity to buy limitless products, the move had been towards curated content. ASOS was a great example of that, as was Not on the High Street. People bought from those brands as they trusted their judgement. However, this was not to say that content producers could not have a direct relationship with the consumer.

Tim Wright, Sony Pictures said that YouView currently had eight providers on its on-demand page. How many were there likely to be this time next year?

Richard Halton said that currently the list of on-demand providers was not that long, as to have an on-demand portal a service needed existing infrastructure, including a range of content and a billing relationship. YouView was ambitious to secure more providers and there would be more announced in the summer and autumn. However, there was a natural limit to the number of VoD portals. There would be a lot of growth in terms of channels, and from the summer YouView would be launching internet channels on their platform, so that rather than being restricted to the 70 TV channels on a Freeview box there would be limitless channels. BT Vision would also be launching services, such as BT Sport, and so would Talk Talk.

Mina Dimitrova, YouTube asked the panel why they thought that women were slower adopters of digital video? Women currently represented more than 50% of users on Facebook, Twitter, and especially Pinterest, but significantly lagged behind in embracing digital video.

Adrian Letts said that, based on focus groups that they had conducted, women tended to find it more difficult to overcome understanding of new technology. Women valued user friendly interfaces and were less prepared to search through or experiment with a service. Facebook had come a long way and was a fairly simple product. The challenge for players in this space was trying to simplify the customer proposition so that it was easy to use, and that customers could quickly and seamlessly find the programme that they wanted to watch. The industry was still going through a learning curve, and over the coming years more women would be more comfortable with technology and it would become truly a mass market. It was important to remember that Facebook had been around for a relatively long time: it had launched in 2003, and 5 years ago, the average person on the street would still probably not have heard of it.

Jeff Allen, Panavision asked about the age groups within customer demographics for on-demand, and in particular, the older population. Richard Halton had explained what it was possible to do with a YouView box, but for an older person, it was still quite a difficult thing. It seemed that the next step for these services would be to introduce voice activation, as Apple had done with Siri, allowing older people to schedule programming without having to navigate the technology.

Richard Halton said that, early in the development of YouView, they had briefed a group of people in their 60's and 70's on Connected TV,given them a box and a remote control and asked them to find last night's *Eastenders*. They managed to do so through using the EPG, given only basig guidelines, and had been very pleased to be able to use the technology. In the summer, YouView would be launching assistive technology, which would allow a YouView box to be operated by people who were blind, deaf, or had cognitive difficulties. A remote that could be operated with a puffer, for someone who could not use their hands, was in development. YouView would be market leading in terms of assistive technologies, which was extremely important, not simply in terms of corporate social responsibility, but as the core of product design. Having the BBC and BT as partners, both of whom invested heavily in research in those areas, had been very helpful.

This Is How I Built An Audience

Chair: Stephen Garrett, Conference Chair

Myles Dyer, YouTube Marketing Jedi, ChannelFlip and Video Blogger, YouTube
Carrie Fletcher, YouTube Producer and Performer
Justin Gayner, Creative Director and Co-Founder, ChannelFlip
Dragoslav Zachariev, Project Manager, Euro VoD

Stephen Garrett introduced his panel and asked them to speak about what they did.

Myles Dyer said that he had originally used the internet to promote a film script, but had shortly realised that, instead of using a film script as a vehicle for his ideas, he could be the product himself. Over the past 7 years, he had been involved with the YouTube community, setting up the first UK YouTube gathering which brought people out of their bedrooms and into the real world. He had then started working with the education industry, helping develop patchwork schemes for students to use YouTube for their coursework. He had been asked to help out with the Foreign Office and digital diplomacy. He had also worked with the BBC on a reality TV show called *Upstaged*, putting together a team with YouTube friends and beating every act that used traditional media by 8 times the votes. He had also created a charity event called Stick Aid, which he had started from his bedroom about 6 years ago, and had raised money by staying awake for 24 hours. 30,000 people had tuned in and he had raised about £500. The event had grown with 1.5m people tuning in, including Jonathan Ross and Stephen Fry, and had raised £30,000 for UNICEF. Myles was proud to work with ChannelFlip and help others achieve their goals.

Justin Gayner said that ChannelFlip had been born out of necessity. Justin had been the Commercial Director for John Lloyd, his childhood hero and the producer of *Blackadder*, *Spitting Image*, *QI* and *Not the 9 O'clock News*. He had been very frustrated by the difficulty of getting John's programmes commissioned and made the decision that there was no point in continuing with an industry that failed to recognise John's talent. He decided to set up a business that was free of gatekeepers and commissioners. The result had been ChannelFlip, a company that now had a turnover of millions in the double digits and employed 25 full time members of staff with over 100 different people on the payroll. Justin's life ambition was to have a bigger audience than ITV, and to beat it in revenue in 10 year's time.

Dragoslav Zachariev said that EuroVoD was a network of independent VoD platforms based in different European countries and owned by rights holders, producers, distributors and sales agents. All of the platforms had the same editorial line of offering independent cinema. EuroVoD received funding from the EU MEDIA programme, which helped them to exist. They had also developed their businesses in different countries. Europe was a fragmented market by nature, and the platforms adapted their offer and functioning to the cultural and linguistic specificity of each country.

Stephen Garrett said that most people in the room had a perception of content taking a certain form: TV drama was generally made to fit hour long slots, movies were somewhere between 90 and 120 minutes. Those on the panel had a different view of content which was healthy. On YouTube it was important to grab the audience's attention very quickly, one had 5-15 seconds before viewers started to move away; in TV terms, it was 90 seconds before viewers switched channels. He asked

Justin about ChannelFlip's plans to develop and make movies and his view on movies and content in terms of form and structure?

Justin Gayner said that short films used to be seen as a gateway for filmmakers to prove themselves, and had not been seen as commercially viable. YouTube had shown that there were lots of people producing and distributing short form content that could find audiences. The notion of a TV programme or film would begin to be lost over time. Most of the content on YouTube was around 2-3 minutes in length and 800 million people globally were consuming it on a monthly basis. One of the interesting things to take away from the revolution of broadband distribution was that what the industry thought the audience wanted, feature length films and half hour programmes, was not necessarily what the audience actually wanted.

Stephen Garrett said that EuroVoD was a platform for content in a more traditional sense. He asked Dragoslav for his view of the future in terms of content following traditional structures?

Dragoslav Zachariev said that EuroVoD was focussed on what the customers asked for as well as on those who produced the content. The VoD platforms which made up EuroVoD were owned by rights holders, producers and distributors, and at the beginning had focused on how to combat piracy, and then how to develop VoD as a new financial resource for producing content.

Stephen Garrett said that Carrie Fletcher ran and starred in her own YouTube channel, having produced 123 videos with over 16 million views and with a dedicated fanbase of 250,000 subscribers. She had begun her YouTube channel as she was an actress and had wanted to build her reputation and be cast in movies. He asked Carrie to explain what value she could add if she was to be cast in a movie that others without her online following wouldn't have?

Carrie Fletcher said that with the development of social media celebrities could constantly engage with their fans and let them know what they were doing, and that audiences wanted, and increasingly expected, to be able to engage with creators in this way in order to know that the people that hey were supporting were good honest people. Through YouTube, for example, creators could engage with their fans and give them a reason to buy their content, which was an amazing development. If Carrie were to be cast in a film, her fans would want to buy into her involvement with the film. For example, if she were to post a video letting her fans know about a film or show that she was in, people would come to see it to see her.

Stephen Garrett said that Myles had advised individuals and organisations on how to build audiences. He asked him to expand on the topic.

Myles Dyer said that story telling was key. The internet was creating a truly connected society, meaning that it was possible to engage with people and to know what they were doing on a day to day basis. Fans were buying into the person and the story behind their success. Justin Bieber was a great example in terms of the music industry, he had been a kid making YouTube videos before he was picked up. People always wanted a frame of reference that they could relate to their own, and which could inspire them.

Stephen Garrett asked whether the generation that was growing up with Myles' work on YouTube were engaging with content in a different way, and therefore had different expectations?

Myles Dyer agreed. One of the main reasons that audiences were engaging differently, and had different expectations, was because the internet provided instantaneous feedback and comments. With television, a show was commissioned, and was aired months later. With the internet, as soon as Myles made a video, he could upload it immediately, and the audience wanted to give instant feedback. The reason he had originally realised that he did not need to take the traditional route to reach an audience was that he had received comments through YouTube and been able to reply directly, creating a relationship with his fans. It was an organic process.

Stephen Garrett asked what opportunities Justin had had in terms of making movies that others did not because of what he had learned from ChannelFlip?

Justin Gayner said that the interesting thing about building one's own audience was the ability to monetise that audience. The internet allowed super fans to be identified. In traditional media content was sold at a fixed price, and there was never an opportunity for a person who really loved a movie or TV programme to invest more of their money into the thing that had been created, or to get a better quality experience. ChannelFlip were currently experimenting with crowd funding a movie project. They had taken one of their channels, which was run by a super geek called Stuart Ashens who reviewed technological gadgets on a sofa. The view had been that, by taking the most unglamorous person that they worked with and attempting to help him fund himself to make a feature film, it would really prove that the model worked. With the help of Nicholas Lovell they had undertaken this experiment, to make a feature film called *The Hunt for the Game Child*, which was basically a hunt for a rip-off version of the Gameboy. The project was put on Indiegogo, a crowd funding platform, and the synopsis was for a feature film, starring Stuart, to be produced by ChannelFlip and to include some TV and film talent. The option for those wishing to fund the project was $10 for a credit, $50 to receive a free copy of the DVD and $1000 to perform as an extra. In 6 days they had raised $35,000, and at the end of a fortnight they would have $50,000, which would complete the first stage of funding for the picture.

Stephen Garrett asked Dragoslav about EuroVoD's approach to funding content?

Dragoslav Zachariev said that EuroVoD's position was that making films available online was not enough to build an audience, a film had to be marketed appropriately so that it could be discovered by audiences. Each platform on EuroVoD was strongly rooted in its national territory and offered additional editorial content, which was important as it represented tailor made solutions to market art house films and helped them to find audiences. This was not a strategy invented for art house movies, it was the same strategy that Hollywood studios used when marketing their movies across territories. Warner Bros. had offices in London and Paris designing the marketing strategy according to local tastes and cultural specificities. In relation to financing, in 2012 EuroVoD had begun to put up minimum guarantees (MGs) for films, sometimes for finished films and sometimes in relation to pre-sales on screenplay and cast. So far, they had put up 50 MGs, from €3,000 for *Ai Weiwei* to around €30,000 for the new Martin Provost film, which was still in development. This year, EuroVoD had invested €200,000 in *Under the Rainbow*, by Agnès Jaoui, which had been released a few weeks ago in France. VoD was becoming a new financial resource for production and would eventually replace DVD over time.

Stephen Garrett said that Carrie had developed a feature film. He asked whether she would consider using these resources to fund the movie, or would go down a more convention route?

Carrie Fletcher said that it was something she would consider. She had friends who had used crowd funding sites to fund their projects and it had worked very well. A friend called Liam Dryden, who was with ChannelFlip, had come up with his own series called *Chronicles of Syntax*, funded it through Indiegogo and raised about £50,000. His videos were now gaining about 250,000 views each.

Stephen Garrett said that Myles had done some consultancy work for the traditional media industry. He asked him about his insights in terms of opportunities being missed in the film business?

Myles Dyer said that The Simpsons had recently done a Harlem Shake, which was a viral video where everyone was dancing. It had got 8 million views and at the end of the video, there was an advertisement for The Simpsons TV schedule time. They had missed a very simple call to action, asking the viewer to click to subscribe to The Simpsons on YouTube. For a video with 8 million views there had been a big missed opportunity to gain a residual audience. If they had built a subscription base from that video, they could have sent those 8 million people notifications every time they uploaded new content, and every time a subscriber liked or commented on a video, they could have become part of the brand. Traditionally, in order to make a movie, it was developed and produced, then distributed, and either made a profit or didn't. This was a dead end in many ways. With YouTube, if one built up a subscription base with a brand and then it came to an end then it was a waste, as the community that had been assembled would go elsewhere. ChannelFlip had done a show called *Richard Hammond's Tech Head* and there hadn't been a new series for about two years, but the Facebook page was still going, they still posted regularly, and, on the *Richard Hammond Tech Head* channel, ChannelFlip linked videos within their network that were relevant to that audience and commented on other videos and that drove fans to them and continued the story. In terms of relating this to movies, after a film had been released, the rights owners should be looking at what other movies were out there that could then be used with some leverage in terms of viewership to keep the cycle going. Communities around content were lasting and that should be exploited. One example of a film exploiting social media communities and attaining cult status was *The Room*, commonly agreed to be the worst film ever made. Tommy Wiseau, the director and main actor had raised the money himself to make the film, and had exploited the brand through merchandise and embracing the online community. It was the longest continuously running theatrically released film as it was shown every week in LA. It was an incredible story as the worst film ever made had developed a long term monetisation strategy because of super fans found through the web.

Marc Samuelson asked how monetisation worked through YouTube. How was the revenue shared between the talent and the platform?

Justin Gayner said that YouTube was an ad supported model and was only one of the various models of supporting oneself through digital content. On YouTube, advertising was sold on the platform, so before one watched a video there was a 15 to 30 second pre-roll advert, and there were also ads on the page. ChannelFlip, as partners, got a share of this revenue with YouTube. It equated to roughly about £3 per thousand views to the talent, and ChannelFlip didn't take a cut of YouTube ad revenue as the majority of their revenue came from deep sponsorship and brand relationships. Many top 100 FTSE companies were working with ChannelFlip in one form or another in order to reach the 13-25 year old demographic, which couldn't be easily reached through TV advertising.

Carrie Fletcher said that the model acted as an incentive to carry on making great quality content in order to boost the number of views. Carrie had discovered a technique to boost views, and therefore revenue. YouTube provided an analytics page for YouTube channels allowing one to see how many views a channel was getting per month, per day, per hour. There was a feature showing audience retention across the length of a video, giving the content maker instantaneous feedback and allowing them to make improvements. Carrie had found that if she flashed up a word very quickly in a video, people would rewind a lot to try and find out what that word was; this caused the audience retention to spike dramatically.

Myles Dyer said that the benefit of audience retention was that it caused content to appear high on search engine results. YouTube wanted to reward good quality and engaging content, so it was not necessarily the number of views, but how many people were watching to the end, which mattered. He advised anyone with a YouTube channel to study the analytics of their channel.

An audience member asked what the panel thought the point of television was and could TV help them in what they were trying to do?

Myles Dyer said that it depended on the definition of TV. People would still watch content on a monitor, but instead of it being broadcast at a scheduled time, content would increasingly be available online at any time. The infrastructure of the TV industry was also important in terms of supporting the new online environment. There were people on YouTube who had got in early and built up a big following, but they needed support from the traditional industry in terms of equipment, script writing etc. There could be a mutually beneficial relationship between new and old media in that sense.

Dragoslav Zachariev said that it was important to remember that there were different generations still, and if digital natives consumed and produced content in a different way, older generations did not. There would still be different channels, different devices, and different ways of viewing. Television would remain but it would change. He thought that VoD would develop new ways of production and consumption, but the old ones would remain.

Paul Brett, Prescience Film Finance said that his daughter watched Carrie Fletcher's YouTube channel all the time. However, were Carrie to, for example, star in a film, his daughter would have to pay about £10 for a cinema ticket to see it, which was a significant percentage of her monthly allowance. This was a big jump for a fan to make. He asked Justin how that jump could be made?

Justin Gayner said that the YouTube channel was not 'free' because there was advertising and sponsorship around it, so to a certain extent the viewer paid for time with a commercial message.

Free was a way to identify fans and they would pay money in order to engage with a brand, it was just that the way in which the money was accessed would differ.

Fiona Clarke-Hackston asked Justin if there was an issue in relation to brands being happy to have a presence on YouTube channels given that there was no editorial oversight? Were there ever issues with brands appearing next to inappropriate material, for example?

Justin Gayner said that, unlike traditional broadcasters, ChannelFlip did not interfere at all with the partners who made their content. ChannelFlip played an important role in the interface between the talent and a brand. For example, Carrie had interviewed James Cameron on the release of *Titanic 3D* and ChannelFlip had set that up and acted as an interface between Carrie and the brand.

The Art of Nurturing Franchises

Chair: Marc Samuelson, Producer, Samuelson Productions

Josh Berger CBE, President & MD, Warner Bros., Entertainment UK, Ireland and Spain
Michael G Wilson OBE, Producer, Eon Productions

Marc Samuelson introduced Michael G. Wilson who would give a short presentation on the Bond franchise.

Michael G. Wilson said that 50 years ago, two producers, Cubby Broccoli and Harry Saltzman made a deal with Ian Fleming to make the James Bond films. Over the preceding 10 years, Cubby had made 18 movies for his company, Warwick Films, in the UK before teaming up with his new partner, Harry Saltzman, to make the first Bond film, *Dr. No*. Cubby had put together a dream team of Warwick Films veterans to be the heart and soul of what would become the James Bond franchise. Director Terrance Young had directed three films for Cubby; they had also added Director of Photography, Ted Moore; Bob Simmons, stunts; Art Director, Syd Cain; Editor, Peter Hunt; and Writer, Dick Maibaum, who wrote on 12 films. Ken Adam, the Designer, set the whole look of the films and was to take Bond through the next decade and beyond. It had been important that both of the producers were North American Anglophiles because they had understood both cultures, thereby bringing an American sensibilities to a British hero.

Fleming had sent a memo about the way the films should be depicted: "James Bond is a blunt instrument, wielded by a Government department. He is quiet, hard, ruthless, sardonic, fatalistic. In his relationship with women, he shows the same qualities as he does in his job, but he has a certain gentleness with them, and if they get into trouble he is sometimes prepared to sacrifice his life to rescue them, but not always, and certainly not if it interferes with his job." The memo went on to say that the films should not be too 'English', they should not have monocles, moustaches, bowler hats or bobbies, and when it came to casting Bond, the field was wide open. Many actors were suggested by the studio: Patrick McGoohan, James Fox, Roger Moore, Michael Redgrave, David Niven and Trevor Howard. However, the producers wanted an unknown, not a polished English man, a diamond in the rough. They wanted Sean Connery. When the producers informed the studio of their choice, they received a three word telegram in reply from the financers in the studio: "No, keep trying". The producers stuck to their guns and Sean became Bond. The producers knew that they had to stick to basics and agreed completely with Fleming. They wanted to make an international thriller, not just a British picture. They wanted Bond to be unlike any British hero before, or American for that matter. They knew they were making a pure entertainment film. Cubby's philosophy was that "a film should have a 'bump' every reel". What he meant by that was that there should be a plot twist, an action sequence or some kind of surprise, every 10 minutes.

After *Bond* was established, how had they kept it going? There were a lot of views about the keys to success. However, the truth was that there was no magic key. The received wisdom, 'if it ain't broke, don't fix it' was a formula for complacency and a disaster for any film franchise. It was important to get ahead of the curve and to change before things started to taper off. When the decision was made to re-invent the franchise it was important to keep the integrity of the brand. Cubby had always said, "Bond is the star", meaning that Bond was bigger than the actor that portrayed him and that no director, writer or producer was indispensible. The key message was not to be afraid of change. The films had been re-cast 6 times, and every time the character had been reinvented by the actor. Sean Connery had been a Cold War warrior, depicting Bond very much as

Fleming had done in the novels; George Lazenby, who some said had starred in the best story for any Bond film, but unfortunately was not accepted by audiences; Roger Moore had brought a touch of lightness and humour to the series; Timothy Dalton had gone back to basics, closer to Fleming's depiction of Bond; Pierce Brosnan had become Bond at the end of the Cold War, when many people were wondering whether Bond was relevant anymore and proved them wrong; and Daniel Craig had re-invented the character for the 21st century, tough, ruthless but with a touch of vulnerability.

Michael went on to discuss how to decide what to change. Raymond Chandler's advice to writers was, "when in doubt, have a man come through a door with a gun in his hand." The *Bond* equivalent was, 'when in doubt, go back to Fleming', and that advice from Cubby had proven invaluable over the years. After the fourth Brosnan film in 2000, he and Barbara Broccoli felt stuck as the films were becoming increasingly fantastical and they were uncomfortable with the direction the series was going, even though each film had made more money than the last. They had just acquired the rights to *Casino Royale* after 40 years and decided to go back to basic Fleming, even though it meant re-casting a successful actor. *Casino Royale* was a great book but it was 50 years old and the studio decided to commission a research report. The results showed that poker was of no interest to the public; changing the actor was risky; to reduce risk it was preferable not to play around with key elements such as gadgets, Bond girls, one liners, Q and Moneypenny; and that audiences were not interested in Bond having a serious relationship with a woman. In the script they had developed there were no gadgets, no Q, no Moneypenny, no one liners, no Bond girls, and in fact Bond fell in love and the woman died. On top of that, there was a 20 minute poker game in the middle of the story. Audiences tended to recall outstanding events from the films and seldom commented on story or character. Therefore, research downplayed the importance of the story. However, he and Barbara believed that the story was not an element, it was the key to a good film. They decided to go against the research and go with the Fleming story instead. Luckily, the studio agreed even though it seemed like a big gamble. They had just released the third *Bond* film starring Daniel Craig, *Skyfall*, which had broken the all time UK box office record and had outperformed all the other *Bond* films by at least twice.

Marc Samuelson thanked Michael. He introduced Josh Berger and asked him about the process by which a franchise emerged and how decisions were made about which films could become franchises?

Josh Berger said that the key, as with all good films, was a great story. What distinguished a good franchise was repeatability. Warner Bros. had made many successful films that sat on their own. A film became a franchise when the audience wanted to re-visit the film. *The Hangover* was an interesting example as there were now three films in the series, so while they considered it a franchise of sorts it was certainly different from *Harry Potter*. When the first film was made, no one had considered that it might be a franchise, for example, it had made use of improvisation, which was not something that one associated with a film franchise.

Marc Samuelson said that when one considered the type of franchises being made *Superman*, *Batman* or *Avengers Assemble*, it felt as though there was an industrial plan of sorts. Was a long term view taken by the studio on series' of movies, or was the approach more to see how each movie was received?

Josh Berger said that there was a plan. The studio tried to be as strategic as possible about these things. Franchises were, in some ways, the crown jewels of a company like Warner Bros. They were fortunate to own DC Comics, where many of these franchises first found life. A new *Superman* film would be coming out this summer to begin what would, hopefully, be a new stage of that franchise. The same was true with *Batman*: if Chris Nolan had not re-invented *The Dark Knight* trilogy the way he had, it would have been a different kind of a franchise. Nolan had done an extraordinary job in updating the franchise and taking it to a very different place from where Tim Burton had taken it when he had made the first *Batman* film some years earlier. As Michael G. Wilson's presentation had showed, it was necessary to change a franchise given the context of time and place in terms of the way that a story was told.

Marc Samuelson asked if there was a parallel between the way that Bond was re-invented and the way that, for example, Batman was re-invented, where some of the stories were quite similar but the film had a fresh feel with a new cast and a new style?

Josh Berger said that Chris Nolan was very instrumental in looking differently at how these stories were told and creating a darker, moodier feel to them. What Daniel Craig had brought to *Bond* had been extraordinary and had been a brave choice which had paid off.

Marc Samuelson asked Michael G. Wilson to elaborate more on the relationship with the studio in relation to the *Bond* franchise, and how the decision-making process worked in relation to the studio?

Michael G. Wilson said that the relationship with the studio was complicated by the fact that it had gone through bankruptcy twice and there had been a lot of changes of management over the years. Eon Productions benefited from the fact that they were 50 years old and had lived in an era when producers controlled their films, meaning they were in control of the *Bond* franchise. Except for *Harry Potter*, that arrangement did not exist these days. It was not possible for the studio to fire them and so they were able to provide consistency for the franchise. It was a very small group of people that had kept the *Bond* franchise going over the years. Michael had been asked to present the Designers Guild award in California this year to the designer of *Skyfall*. He had been struck by the fact that the franchise had only had three designers over the course of 50 years: directors and actors had come and gone, but the producers and the designers were a team. He thought that, even though the films were quite different, this was why they all had a certain similarity.

Josh Berger said that the same was true of *Harry Potter*, in terms of keeping the same producers and designers. Stuart Craig, the production designer, had led an extraordinary team and the studio tour at Leavesden was a tribute to the excellence of his work.

Marc Samuelson said that it was interesting that an organisation as large and powerful as Warner Bros. had found a way in which to allow the *Harry Potter* team to retain creative autonomy and to make some important decisions. There was a sense for *Harry Potter* and for *Bond* that a family of people involved in those franchises had been built. Warner Bros. had now also invested in the UK, making a major commitment through the investment in and complete refurbishing and expansion of Leavesden studios. Warner Bros. had also bought De Lane Lea, the post-production house. He asked Josh if there were any further investment plans in the UK?

Josh Berger said that there was a possibility they would invest in other areas. Warner Bros. were now involved in the West End musical business with *Charlie and the Chocolate Factory*, which they were doing with Sam Mendes. This was a new business for the studio and there may be more musical productions that they would be involved in. The studio's experience in the UK had been extremely positive, with *Harry Potter*, as well as the many other films that they had made in the UK over the last decade or so: the Tim Burton pictures; *Charlie and the Chocolate Factory*; *The Dark Knight* trilogy, which had partly been made in the UK; and *Sherlock Holmes*. That experience was what had driven them to make the investment in the UK; clearly the overall structure of making films in the UK worked and a very important part of that was the tax regime. If the Film Tax Relief were to be lost the amount of production in the UK would decline precipitously without doubt. It was very much the right thing to do for the Government to support film and to introduce reliefs for high end drama and animation, as this drove that commitment in terms of ensuring that the UK had world leading technicians, crews, artists, production designers, etc, and this was why Warner Bros. were here.

Julian Friedman, Blake Friedmann Literary, TV & Film Agency asked if there was a difference between a franchise and a brand? Warner Bros. were making a *Tarzan* film and there had been many made in the past. So was it a franchise or a brand and could the words be used interchangeably?

Josh Berger said that successful film franchises such as *Bond*, *Potter*, *Superman*, *Batman* were all brands, and they were well advised to be protected and be thought about strategically as brands.

Michael G. Wilson said that there were fictitious characters who became part of culture like Tarzan, Indiana Jones, Superman or Batman, they were always in the consciousness of the public and were kept alive by novels, comic books and films. They became a brand when they were marketed seriously in some form, and then a franchise when a particular filmmaker made the brand their own, and perpetuated a number of films on that basis.

Jonathan Olsberg, Olsberg SPI said that the previous panel had dealt on a more micro level with engagement with the audience through the internet such as through YouTube. To what degree did that tactic help to build Josh and Michael's franchises in 2013 and beyond?

Michael G. Wilson said that the *Bond* franchise had a social media presence but a lot of their marketing was focused on traditional TV, posters and print. The reasons people came to see films according to surveys was still very much in relation to the influence of TV, although social media was increasingly becoming a motivator.

Josh Berger said that there was no question about the power of social media and interactivity. Mobile was the fastest growing part of online. It was a huge part of the marketing of a film for Warner Bros. The *Harry Potter* franchise had 60 million Facebook fans who continued to be engaged with the brand. It was an ongoing process of creating content and creating new reasons to continue to engage with the brand in a social networking environment. There were not going to be any more *Harry Potter* films made or books written but the brand would clearly live on forever as people continued to go back to the books. The online environment could provide new ways to interact with the content. JK Rowling was creating original content on the website Pottermore and, as part a promotion on Facebook, Harry Potter fans were invited to film themselves being part of Dumbledore's army. That kind of thing was a new experience of *Potter* for children now in the online space.

Marc Samuelson invited Michael to give a presentation on how the tax relief had affected film franchises.

Michael G. Wilson explained that in 1952 Cubby Broccoli and his partner Irving Allen came to the UK, attracted by the Eady levy, and over a 10 year period made 18 films with Warwick. The Eady levy was a tax levied at the box office, with the exhibitor keeping half the money and the other half going to the producers based on the performance of the film. In 1962, Cubby teamed up with Harry Saltzman to make the first James Bond, *Dr No*. The Bond budgets grew over the next few years as the films became increasingly spectacular. After *Thunderball* and *You Only Live Twice*, the film world came to realise the UK was a great place to make effects laden big budget movies and many of the greatest international film franchises were made here. The 1970's not only saw more *Bond* films, but three new franchises: *Superman*, *Alien*, and *Star Wars*. The trend continued through the 80's with the same franchises returning to the UK plus *Indiana Jones*. It seemed the UK film industry had entered a new golden age. However, in the mid 1980's, Government support for film was eliminated and the industry went into a terrible decline, with studios on the verge of going bankrupt and a 'brain drain' in terms of technicians, many of whom never returned. The knock on effect on franchises being made in the UK was clear as, other than *Bond*, only two franchise films were made in the 90's: *Mission Impossible*, and the continuation of *Star Wars*. It was not until the establishment of the sale and leaseback scheme in 1997 and the current tax credit that the industry bounced back. The next decade was the best ever for the UK film business with *Bond*, *Batman*, *Star Wars*, *Tomb Raider*, the *Bourne* films, *Harry Potter* and *Sherlock Homes* all being made in the UK. It was not necessary to guess what would happen to the film business if there was no government support: that had been tried and it had almost destroyed the industry. It was imperative that the same mistake was never made again.

Delivering Tax Credits For Animation, High End TV & Video Games: A Recipe For Growth

Chair: Michael Ridley, Partner, Media & Technology, DLA Piper

Anna Mansi, Head of Certification, BFI
Charles Moore, Partner, Wiggin
Dr Jo Twist, CEO, UKIE
Mike Watts, CEO, Novel Entertainment

Michael Ridley introduced Charles Moore, a highly regarded film and TV lawyer with valuable in-house US studio experience. He had played a leading role in getting the tax breaks on to the political agenda initially and now onto the Statute. Anna Mansi played a key role in the tax relief process in the shaping of the policy as well as the practical operation going forward. Jo Twist would be speaking about the tax reliefs from a video games industry viewpoint and Mike Watts from an animation viewpoint. As well as heading an animation studio, Mike was also Chair of the children's and animation group for PACT.

Charles Moore said that high end TV was one of the real growth areas in the audiovisual sector. People had bigger and better TV screens in their living rooms and an increasing number of channels and platforms were commissioning high end drama. In a world of declining DVD sales, there were enormous DVD sales on the box sets of high end TV series. HBO had recently released the second season of *Game of Thrones* in the US and it had been their biggest ever first day release, with 250,000 units sold. UK talent was being picked up by TV shows across the world and UK drama companies were being purchased by US studios and other media conglomerates, as a result of the programmes they were making. However, most of these shows were not made in the UK. *Downton Abbey* and *Game of Thrones* were an anomaly as many UK producers were forced to make their shows overseas because there had not been a TV tax incentive in the UK, and overseas producers were put off from coming to the UK. One of the only reasons that *Game of Thrones* had come to the UK was because Northern Ireland Screen had been able to provide local investment into the show. Despite the apparent strength and sustainability of the UK TV sector there was a market failure in the high end area. With this in mind, Charles and Steven Bristow, of Saffery Champness, had approached the Government to see if there was any mileage in a high end TV credit. In addition to the negative message of market failure, they had conveyed a positive message, which was that Northern Ireland Screen had demonstrated that in two seasons of *Game of Thrones* there had been a huge effect on the local TV economy, as well as the wider economy as a whole, in terms of employment, training, skills, infrastructure and tourism. For a Government that was looking to encourage the creative industries, this was a strong message. They had put together a study outlining the current situation and the likely impact of a credit, which would have an almost immediate effect on UK producers by repatriating shows into the UK, as well as on US and other international producers who had indicated that they would bring productions to the UK. The report was submitted last January and by March the tax credit had been announced. Since that time there had been a consultation process where the industry had emphasised the differences between the film tax relief and the kind of relief that would be needed for TV. The high end TV relief would include drama as well as documentary and comedy, and was aimed at programming that had a core expenditure of £1m on average per slot time hour for programming of over 30 minutes. The rate of relief was set at 25% of UK expenditure.

Anna Mansi said that currently, state aid clearance was being awaited [state aid approval for high end TV and animation was granted subsequent to the Conference] and the timetable for implementation was necessarily subject to this. Parliamentary measures would be laid on 28 March, which would go through the legislation procedures and pass Royal Assent. It was hoped that this would happen by July, subject to state aid clearance. The BFI would not be able to issue Certificates until August because secondary legislation could not be laid until Royal Assent had occurred. However, the aim was for the BFI Certification Unit to take in draft applications online from 1 April and process those applications in the same way as film applications. They would then send a recommendation report to DCMS every week, asking for letters of comfort rather than a Certificate as a temporary measure, between 1 April and the switch on date, which was hoped to be in August. The BFI would keep everybody updated as soon as clearance was achieved and dates for legislation were set. In terms of the Cultural Tests, these were based on the film Test with a more European element as well as a non-identified location element for animation and video games.

Michael Ridley thanked Charles and Anna. He asked Jo Twist how the video games sector planned to assess the success of this initiative: was it going to be an increase in the revenues for the sector as a whole, or was it an increase in the number of games released?

Jo Twist said that there would be a number of critical indicators of success. One would be general confidence in the industry, especially investor confidence, as it was not widely known how the industry was undergoing a massive transition. Other indicators would be job creation, the creation of more studios and an influx of multi-national companies setting up in the UK. In terms of smaller start ups, SME's growing and being able to take a risk on a game that was distinctly British was incredibly important. Jo had previously worked as Commissioning Editor for Education at Channel 4 and had commissioned a lot of games, because that was the ideal media to reach and grab the attention of teenagers. In that way, small start up companies who were now successful game development studios in the UK had received investment.

Michael Ridley asked Mike what the key distinctions that applied to animation for the tax reliefs were compared to high end TV?

Mike Watts said that high end TV required a minimum spend of £1m per slot length hour. There was no such restriction for animation because animation could be quite inexpensive. There was also no minimum programme length requirement. One of the things that the industry had been able to achieve through the consultation with Government was that 51% of the content of an animation programme should be animation in terms of expenditure, but 49% could be live action. This was an important distinction, because there were very successful UK programmes on air currently that were mixed content programmes with a high spend on animation, but which also had live action. It was important to ensure that these programmes were also protected and enjoyed the same tax relief. As Anna Mansi had outlined, there were also some differences in terms of the Cultural Tests: much animation was not quintessentially British in such an obvious way as drama, for example, and animation could be set in a fantasy environment. This had become known during the consultation process as 'The Clangers' factor, since *The Clangers* was clearly a quintessentially British animation, but was not set in a recognisably British location.

Jo Twist said that the animation and video games sectors shared lots of similarities in terms of undefined species or locations. In other ways, the video games sector was very different to animation, high end TV and film in the way that games were produced. The production cycle meant that a large part of the budget was spent post-release in constantly iterating the game through downloadable extra content and features. The industry had fought hard during the consultation process to ensure that this model was recognised so that claims could be made on an ongoing basis after release.

Michael Ridley asked Anna what scale of applications they were expecting once the reliefs came into effect?

Anna Mansi said that they were preparing to deal with the rise in applications by hiring two members of specialist staff for video games and high end TV / Animation. Bearing in mind that the Certification Unit currently dealt with 30-40 film applications a month, with just two film analysts, they thought that taking on extra staff would enable them to manage the increased workload.

Michael Ridley said that with the film relief there had been a burgeoning market for indie film finance from organisations that would cash flow or discount the tax reliefs. He asked Charles whether he anticipated that the business model of such providers would benefit hugely with the advent of the TV tax relief?

Charles Moore said that there were already a number of providers considering working with the new high end TV relief, and they were expecting a lot of providers to migrate into the TV world.

Adrian Wootton, British Film Commission (BFC) said that the BFC had the responsibility for promoting the film tax credit internationally and would now be responsible for promoting the new creative sector tax reliefs. They were staging a launch in association with the Government, the BFI and other colleagues, in April. They would be heavily promoting the reliefs internationally. Whilst the amount of demand was still unpredictable, the BFC was already dealing with a high volume of enquiries in the US. They would have a presence at all of the different television markets globally, together with industrial partners, to promote the tax credit, undertake brokerage work and provide information and advice. They would also be working with partners in the nations and regions.

Jo Twist said that she was glad to be working with the BFC on the promotion of the reliefs. UKIE was also undertaking work to promote the video games relief in particular and would be travelling around the country to inform developers about the relief and how it applied to them. She encouraged those present to attend the games part of the launch event, which Adrian Wootton had mentioned, which was taking place on 18 April. It had just been announced that two video games, *Call of Duty: Black Ops 2* and *FIFA 13*, were the biggest-selling entertainment products of 2012 in the UK. Video games were a global industry that was faster growing than TV, film and music globally. Considering that the conference was about screen based entertainment, and games were such a significant part of that sector, it would be interesting for those present to consider how they could become involved in the games business.

Mike Watts said that on the subject of promoting the reliefs, PACT, with the involvement of the BFI and HMRC, were organising a series of road shows around the country informing producers of animation and high end TV about how to access the credits.

Kate O'Connor, Creative Skillset said that it was very important to join up the tax relief and the opportunities it presented with the skills and talent to take advantage of the expected growth. The last thing that anyone wanted was to see skills gaps and shortages emerging at a time when the UK was attracting more production. Over the last 10 years or so the industry had enjoyed the film tax relief and had contributed to the funding of training for the industry through the Skills Investment Fund. During the consultation on the new reliefs, the animation, high end TV and games sectors had signalled their willingness to work in a collective way to address skills and talent issues. In December the Treasury had endorsed that approach and committed to match funding for every £1 that the industry raised. There was a two year window with £6m from the Treasury to spend. Creative Skillset would shortly be launching a consultation on what the levy proposition would look like for high end TV, animation and games. It was important that, as an industry, improvements were made in forecasting and identifying skills gaps and shortages. It was important to focus on long term investment in skills and talent through the UK's film schools, through new arrangements for writing, training and business development, and not just short term skills gaps and shortages.

Steve McDonough, **BBC Worldwide** said that he wanted to highlight the importance of Co-Production Treaties in accessing other territories for film and TV. It was necessary to recognise that the UK did not always have the locations needed for high end drama and, to some extent, it was therefore necessary to continue to work internationally for some productions. One issue in particular that needed to be addressed was that the Co-Production Treaty with South Africa was the only treaty of meaningful value that did not cover television, audiovisual or video gaming. South Africa had higher value tax credits than in the UK and, currently, the policy was not joined up for the UK to access those through the Co-Production Treaty. If a change was not made, a lot of investment could be lost as international filmmakers had to choose between filming in the UK or South Africa. BSAC had written a letter in support of an open letter to the South African Department of Arts and Culture, encouraging them to open dialogue with the BFI.

Charles Moore said that he and his colleagues had raised this during the consultation process and had been assured that the Government was aware of the issue and would focus on it after the tax reliefs had been implemented.

Kimberley Ferguson, Fremantle Media said that there were often problems in animation in terms of funding some of the development aspects. She asked whether the relief would apply to development once an animation had entered production?

Mike Watts said that speculative development would not trigger tax credits and there was an ongoing discussion with HMRC about provision for development as being an accepted part of the production costs. For example, an animation pilot was a crucial part of the animation process. If a script was written before 1 April, but then became part of the production after 1 April, his understanding was that it became an accepted part of the production costs and would be eligible for relief.

Charles Moore said that relief for development costs for high end TV would be modelled on the situation for the film relief, which was that something purely speculative, such as an option fee, was not generally eligible for relief, however, the purchase price for rights to a book or play would be included as long as the script was used or consumed in the making of the film.

An Audience Member said that in order to access the film tax relief, a film had to be intended for theatrical distribution. She asked whether a high end TV show which was commissioned to be shown on, for example, Netflix, could access the relief?

Charles Moore said that it had to be intended to be broadcast but that this included over the internet.

Jo Twist said that some of the terms which had been used in the consultation document did not apply to the games industry, for example, a game had to be intended for commercial release. It was possible to have a micro-studio of one person making a game and releasing it directly to consumers. The idea of commercial release was problematic for the games sector and they had managed to work through that. The language being used to define business models was still very old fashioned.

Michael Ridley asked Jo whether UKIE would be monitoring the success of the reliefs and, if so, how they would go about doing so?

Jo Twist said that data in the games industry was very poor. There were headlines about how retail for games was dropping, but that was only one side of the story. There was no data to indicate the true size and value of the market around digital sales, which was a huge part of the industry. Much of the exciting new start up culture was around mobile and tablet games. The BFI and others funded the Oxford Economics Report and UKIE would push to be able to produce the same kind of thing for the games sector. However, there was no a benchmark to start off with, so they were embarking on a collaborative project that would be industry owned. The project would aim to come up with a benchmark to gauge the impact, not only of the tax reliefs and their uptake, but also the skills agenda after the Next Gen Skills Report. UKIE had funded the Next Gen Skills Campaign, which directly tackled the skills shortage that affected not just games and special effects, but also sectors where computer science and creative skills were needed.

Anna Mansi said that the BFI Research and Statistics Unit, which published the annual Statistical Yearbook for film, would be meeting with HMRC to consider data that was captured across the three sectors and how to link that up.

Michael Ridley said that there had been speculation on skills gaps which may lead to cost inflation in the short term. He asked if anyone had a view on whether that was expected to be a consequence in the initial period of the relief coming in?

Mike Watts said that Creative Skillset had conducted an interesting report around the animation sector in terms of where skill gaps existed. There would be a lot of producers going into production after 1 April needing the same skills in the UK at the same time. Considering the long term, they were conscious of the fact that there were skills in the future, in particular in the field of software that would need to be developed. However, he was not conscious of any particular fears that there would be inflation in the price of animation skills at this stage.

Kate O'Connor said that there were no indicators that cost inflation could be expected once the reliefs came in. The issue was about scaling up the UK's skills and talent base and that this was the tricky thing to calculate currently, as the precise level of demand was unknown. As she had said earlier, it was necessary to look to the medium and long term as well in order to build a sustainable skills and talent base. Creative Skillset was undertaking research currently on this issue. In the consultation on the levy proposition, Creative Skillset would outline how employers would have oversight on how that money was spent and would highlight things that the money should be spent on immediately, as well as in the long term, based on this research.

Jo Twist said that, as far as the games industry was concerned, the industry was at a critical point as the UK's rich heritage in terms of computer science was built on the fact that people had played on BBC Micros and ZX Spectrums in their bedrooms in the 80's. Since then there had been no equivalent. Now there was a massive shortage and a brain drain to Canada, where some states had tax relief of 37%-40%. There was also a diversity issue. In the games industry, only 6% of developers were women and this represented a real failure to capitalise on economic potential.

Jeff Allen, Panavision said that there were critical shortages in film. Last year a number of US films shooting in 3D had come to the UK at the same time, resulting in shortage areas, which had affected both the film side and the TV sectors as their talent pool overlapped. The shortages included stereographers, meaning stereographers had to be brought in from the US, as well as data wranglers, due to the consequence of the rapid shift from film to digital. If there was the same peak in filmmaking that had been experienced in 2011, and this dovetailed with the anticipated increase in television production, then there would be shortages in certain critical areas and the only way that this would be alleviated would be by bringing people in. The current legislation around employing foreign workers would make this a complicated issue. One example was that there was currently an acute shortage in broadcast engineers, as they were mainly freelance, and the area had not been invested in by the broadcasters.

Andreas Wiseman, Screen International asked what the level of interest had been from foreign producers and distributors in relation to the TV tax credit?

Adrian Wootton said that timing had been an issue as US pilots were being filmed now, and if pilots were being filmed elsewhere, as there was not yet a TV tax credit in the UK, it was possible that the series which would otherwise have filmed in the UK may not do so. However, they were aware of some pilots shooting overseas that might come back to the UK. This might be a staggered process,s and next year more US shows would come to the UK because the production pilots would be included.

Tony Lennon, BECTU said that the points-based immigration system had the facility for jobs to be put on the occupational shortage list, which made it easier to get people in. However, adding to an occupational shortage list of people who could not be found in the UK was not the best solution: the industry should be training people here. It was too early to know precisely what effect the reliefs would have on volume, however the Treasury had attempted to calculate the impact for high end TV and estimated it to be worth £20m after two years. Did the panel roughly agree with the Treasury's calculation in terms of the elasticity of demand that would be encouraged by the tax relief?

Charles Moore said that the Oxford Economics report showed that, in film, every £1 of relief was worth £13 to UK GDP. He thought that the impact could be even larger with TV because of the returning series' element.

Anna Mansi agreed with Charles.

Chair's Closing Remarks

Stephen Garrett thanked the speakers and summarised the key points across the day. He concluded by saying that there had been a real air of confidence in the room permeating the discussions over. There was an absence of fear in relation to new services and new types of content in the changing media landscape, which were seen as new opportunities rather than threats. There was a confidence that new services and business models would begin to bear fruit in terms of revenue and create more revenue opportunities across the value chain enabling the industry to continue to do what it had always done, produce creatively excellent content that audiences wanted.

Fiona Clarke-Hackston, Chief Executive, BSAC, thanked Stephen Garrett for his engaging and thoughtful chairmanship of the day, and Time Warner for their continuing generous sponsorship of the Conference.