# *Nostradamus Screen Visions 2017*

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Göteborg Film Festival

LINDHOLMEN SCIENCE PARK

nostradamusproject.org

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# Introduction

The Nostradamus project was started in response to an industry in crisis, and to how challenging we at the Nordic Film Market found it to stay up-to-date on long term developments amidst all the dramatic changes. We always wished for Nostradamus to be a green room, a space both for dreaming big and for honest conversations about difficult topics. Three years in, as we release our fourth report at our fifth international seminar (the extra one was at the NEXT Pavilion of the Marché du Film this spring) we feel that conversation has been established.

The word 'crisis' comes to us from medicine, where it meant the turning point of an illness. Its origin is the Greek word for 'decision'. In this year's report, a tension emerges between the concepts of crisis as disaster and crisis as a decision point, as that time when the worst has happened and we need to decide how to move forward.

It is clear that demand for audiovisual storytelling is greater than ever. We can also assume that multinational media corporations will alway take care of themselves, reorganising as needed when revenue streams shift with the business models. That makes this a dangerous moment especially for arthouse cinema, global national cinema and minority voices. Their paths to market are shifting too, and often in a reactive fashion.

This is the time to proactively explore and create business models for the full audiovisual ecosystem – because otherwise they will be dictated to us. The next three to five years is the time to show that innovation is not exclusively the domain of massive technology companies. But to design something you first need to envision what your goals are.

What kind of film industry do we want? What is sustainable? What is healthy? What do we envision the cultural role of feature film to be a generation on? Should our public infrastructure, from film schools to funding, not train and support outstanding filmmaking on all platforms – and then what is "film culture"?

We need the greenroom more than ever. In the coming year, starting at the release seminar of this report, we are particularly interested in looking at the effects of all of these changes on content, on what and how stories are told, and by whom. We believe these kinds of questions should also guide the continuing work on the European Digital Single Market, the development of which we will continue to monitor. If you can't make it to our seminars, videos and additional analysis are always available on our website: nostradamusproject.org

The Göteborg Film Festival and the Nordic Film Market are the artistic and intellectual home of the Nostradamus Project, which is presented in collaboration with Lindholmen Science Park. None of it would have been possible without our partners. We would like in particular to thank Martin Svensson of Lindholmen Science Park and Martina Eriksdotter of the City of Göteborg for their unwavering support.

Finally, without our industry experts there would be no report. Where they are directly quoted, opinions are theirs. Everything else is based on formal presentations and informal conversations at a number of industry events and on our reading.

**Cia Edström**, Head of Nordic Film Market and
the Nostradamus Project, Göteborg Film Festival

**Johanna Koljonen**, report author,
Participation | Design | Agency.

**For this year's report, we have interviewed the following experts, who have given very generously of their time and thoughts:**

Bobby Allen, VP of Content, MUBI
Catharine Des Forges, Director, Independent Cinema Office
Tomas Eskilsson, Head of Strategy, FilmVäst
Domenico La Porta, Director, R/O Institute
Joëlle Levie, Director of Operations, Olffi
Fredrik af Malmborg, Managing Director, Eccho Rights
Roberto Olla, Executive Director, Eurimages

**In addition, we owe a debt of gratitude to the following thought leaders and experts for their time and help:**

Linda Aronson; Julie Bergeron, Marché du Film; Lene Borglum, Space Rocket Nation; Martin Dawson, Creative Europe MEDIA programme; Åsa Garnert: Anna Godas, Dogwoof: Mike Goodridge, Protagonist Pictures; Annika Gustafsson, Boost Hbg; Carl Heath, RISE ICT; Anna Higgs, Nowness; Justine Powell, iROKO Global; Sambrooke Scott, Film Hub Scotland; Dawn Walton, Eclipse Theatre Company; Matthijs Wouter Knol, European Film Market.

# Summary

## A Swell of Films

Despite increased competition for audience attention in general and cinema screens in particular, the number of feature films produced in Europe and the US continues to grow. It is not expected to shrink significantly in the next 3-5 years. Among the reasons are new tax incentives and increasing investment from new platform media companies, but also the impact of real democratisation of production technologies and to some degree of funding.

While this swell of cinema in theory allows a wider range of voices to be heard, in practice it makes it very difficult even for excellent work – of which there is arguably a lot – to find an audience, as there is no equivalent surge of innovation in distribution and audience relations. It also means that bad or irrelevant work has almost no chance to be seen. While it seems clear that public funds should be redirected from the latter categories either towards more deserving feature projects, or towards the production of excellent film content in other formats or for other platforms, this is currently not politically possible. A change like that might also exacerbate the already difficult career paths especially of directors in a marketplace where films by unknowns are very difficult to fund or sell.

## A Specialising Screening Ecosystem

In the next 3-5 years, all exhibitors will need to focus on the customer experience to stay competitive, but this can look very different depending on their type. On one hand we are seeing the emergence of technologically oriented cinemas optimised for experiencing blockbuster fare. On the other, focus on human interactions and live performance – so called "live cinema" – is a rapidly developing segment of the exhibition sector, helping audiences both new and old to build relationships with institutions and curators. These ostensibly very different styles of exhibition have in common that they are immersive, allowing the viewers to place themselves socially or physically inside the story, or to engage with its themes together. The social aspect is also at the heart of the growing market for film festivals aimed at general audiences.

Another approach to eventizing movies is just to make the cinemas a lot nicer, with better chairs, better concessions, food and alcohol, increasing cinema's appeal to, for instance, grownups on dates. This strategy is working well both in mainstream and arthouse environments. At the extreme end are the dedicated luxury cinemas, offering experiences like butler service, Tempur mattresses, or massages.

While the future looks bright for movie theatres big and small, the sheer number of feature premieres means a theatrical window is not feasible even for all quality films – not even on the festival circuit. There is certainly room in the VOD marketplace for both strong curation and dedicated film libraries, but among the pieces missing from the distribution puzzle are still business models for social or distributed digital premieres.

## The Undiscovered Landscape

A complete digital transformation of the small screen landscape seems inevitable and will probably happen relatively fast since audiences neither understand nor much care about business models or back-end technologies. As we discussed last year, the end result will probably look something like TV has for the past few decades, only with consumers paying one or a few separate bills to services aggregating OTT content. Viewers are however likely to be allowed to pick their packaged channels more selectively than before.

The revenue streams will of course be radically different from the current models. Mergers and acquisitions are likely to continue as the biggest players scramble to establish dominance throughout the value chain. In the US, studios and networks are eyeing a future after affiliate fees and syndication fees, and considering whether owning the viewer relationship directly could provide a similar amount of revenue. Similarly, it seems feasible that a major technology company could purchase a major studio. If antitrust regulation is relaxed under the Trump administration, as net neutrality rules almost certainly will be, the media landscape is regardless likely to consolidate dramatically during the next four years. Changes in the US entertainment industry have global ripple effects. It is also likely that the cultural importance of US content specifically will diminish in the long term, a tendency that could be accelerated by isolationist policies.

## VR on the Verge

In the next 3-5 years, the fundamental grammar of VR storytelling will finally be developed, and the real leaps will happen once the production tools are more widely available. Some standardisation will help focus a splintered marketplace. Investment in "VR cinemas" today should be viewed as tests – exhibitors preparing for a coming generation of the technology that may not be easily available in homes. In the short run we are also likely to see a brief exclusive "theatrical" window for VR.

# A Swell of Films

BOBBY ALLEN: *We went to Locarno, Venice and Toronto. At the end of it we had 50 film links on our laptops, ready to be watched. They were really good films and I would like to acquire all of them. But we can't show every single film.*

DOMENICO LA PORTA: *Last year, around 1600 movies were produced in Europe; not all of them were distributed. The Americans came with 250 films and got 75% of the market share. People would say it's because they only do blockbusters but it's not true. They also manage a better placement for independent movies.*

CATHARINE DES FORGES: *When I started programming films, there was probably six to eight films released every week in the UK. Now its about 18-22. As the majority of box office in any one year is earned by a very small number of films, if you are a big distributor then you know that perhaps 70% of your income may come from two or three films. This means that you have to go all out for those films which are the most obviously commercial, and for a cinema it means that although there's a lot of choice, all of those films won't be treated equally in the way in which they are sold, and it's quite a risky proposition particularly if you don't make the right choices.*

*At the same time there are generally more films, because [they're] easier and cheaper to make. Some people would argue that it is better, that there is going to be more diversity and access. People who maybe in the past weren't able to make their own films are able to tell their own stories. If you let more people do something, there are going to be some better films. Instead of having maybe ten brilliant films a year, maybe you will have 50 brilliant films a year. You will also have 50 terrible films a year, where in the past you would only have ten terrible films...*

ROBERTO OLLA: *Nobody has the responsibility, nor the will, to take an overall view or leadership or decisions. In terms of regulations probably European institutions do, but of course nobody will do that. Can you imagine Anna Serner in Sweden or Peter Dinges in Germany, or myself, even, telling producers and filmmakers, "We believe we are making too many films now, we will reduce the quantity of films produced per year so that the market will readjust itself"? We would be kicked out. Nobody is questioning the quality of these films. But people are not going to watch them.*

An unsustainably high number of films is being produced in and for the North American and European markets.[1] Europe in particular is in a bind because of the box office dominance of US majors,[2] and the very real need to maintain a vital film culture in the many local languages and regions.

Even though cinemas are doing well and the number of screens globally is growing[3], screen real estate is dominated by blockbuster fare[4]. While access to theatrical distribution is shrinking, the democratisation of film production, the influx of additional funding from competitive platforms, a trend in funding towards supporting more and smaller films, and the growth in tax credits and production incentives are driving up the total number of films being made. It is not just that most of these films are not profitable; many of them do not reach an audience at all.

Even without record-breaking numbers of TV dramas competing for audience attention, navigating this amount of film content would be very difficult. Since mass media cannot cover this amount of premieres, and newspapers (which might) don't reach younger demographics anyway, connecting each film with its audience falls entirely on the distributor and exhibitors.

Only the biggest blockbuster premieres can afford the kind of wide-ranging mass media advertising that guarantees audience awareness. For smaller titles, extremely targeted advertising is the only way forward. Designing release cycles that allow for word-of-mouth growth is a possibility for certain types of films, but would require committed collaboration between the distributor and the exhibitors or platform.

## Too Many Cooks

JOËLLE LEVIE: *It would be very difficult for the European Commission to say to the countries that you cannot produce more than five or ten films per country and year. There are maybe 35 or 38 countries in Europe that have public funds, production incentives or small money to produce films. In each of those countries you have film schools or universities with cinema departments where you can learn how to make films. How can you control that? It's impossible. It's the market finally that will decide what will happen. There will be some producers that disappear, some directors that disappear because they have nothing to do in the business. They thought it would be easier. It's not an easy job.*

The elephant in the room is that there are too many filmmakers and production companies for the market as currently organised to sustain. In addition to their goals of supporting artistically outstanding, politically relevant, formally experimental or niche filmmaking, the national and regional European public funds are often, whether formally or from tradition, also concerned with keeping their local industries working. No one will say it outright, but this may put pressure on funders to continue to support filmmakers even when their work no longer connects with audiences or critics.

If the established filmmakers' work is failing, the only reasonable course of action both commercially and artistically is to support new voices, and targeted funding initiatives to this effect have proved effective in some countries. Competition especially for the scant opportunities for women and minorities being quite fierce, the artistic quality of the work coming up through earmarked programmes is often high, and some of it has demonstrated powerful audience appeal.

Obviously, no working filmmaker will retire because a younger director has made a successful film; what happens instead is an acceleration in serious competition for a static amount of funding. At the same time film schools keep churning out talent that will, for a few years at least, also give everything they have to break into the crowded market.

ROBERTO OLLA: *On the one hand it is good that Europeans have access to a greater quantity of content to choose from; diversity is good. On the other hand, the system is getting saturated. There will be a moment in which this overproduction of films and companies and authors will come to an end. It's certainly going to be painful for some. But in my opinion, it's not going to explode in the next three years. Maybe five.*

CATHARINE DES FORGES *I think 10-15 years ago you might have been... it's not to criticise any particular individual filmmakers, but I think you could have made a solid career by being a good filmmaker but not necessarily a brilliant filmmaker. Now there is a lot more competition, in terms of independent cinema, just to be seen. I think if you are a brilliant filmmaker you will succeed. And if you are just kind of good, you might have one or two films which work and then you may find it difficult to get further support.*

TOMAS ESKILSSON: *Of course it's easier to blame [the dominant exhibitors] or the distributor. Then it's never your film that is at fault... We have to get better at identifying what kind of film we're making, because unfortunately there will be about as many – maybe even a bit more, as new tax incentives are introduced all the time. Are we making a film that should work in the cinema and then live a long life across platforms? Or are we making something that should be released as a niche product to begin with?*

Funders who do support work for alternative platforms speak of unreasonable expectations, producers and talent sabotaging their own success by an unwillingness to consider alternative release strategies or different formats, even in the face of an impossible market place. Perhaps this is an inevitable side effect of working with artists: everyone believes, as they must, that their particular film will be one of the few to fly past all gatekeepers and into the hearts of the audience.

On the other hand, five years from now most film school graduates will have come of age in the digital multiplatform environment. For them, theatrical features may no longer have the highest status in the cultural pecking order.

## Funding Bodies in the Mirror

DOMENICO LA PORTA: *In Belgium you can manage to co-produce a two million euro film without anyone having to actually read the script – not even you as the producer. It's automatic money: if you spend money in the region and the country you get money back from both the region and the federal state. This is what we call the "Belgian double dip", meaning that the regional spending is also eligible for the federal tax shelter ...the rest comes from maybe a little bit of investment, but risk taking is generally kept out of the equation. As a mid-size producer, you can co-produce a film with France, Canada and let's say Luxemburg and apply that recipe three or four times per year. A lot of scripts are really poor and nobody really cares about distribution, since the producer takes a fee during production and has to move to the next project as fast as possible.*

ROBERTO OLLA: *The fact that there are many good proposals coming to us and we can support them at least partially is good. The problem is that as curators, we're failing, big time. We're proposing films that we believe are good, but the audience is not going toward the kinds of proposals that we're making. Where do you draw the line between giving the audience what they want – the larger audience – and at the same time creating and proposing new things and allowing innovation to happen? That is the difficult balance. We are clearly not finding it. And isn't it also a vicious circle... Producers and directors make those films because they know that funders like us will support them.*

**I was going to ask you that exact question. Are you funding the wrong work?**

*Is it the funders that are shaping the market, or are the funders following it? Of course, producers will propose to funders a film that they believe they will support.*

TOMAS ESKILSSON: *We have so many examples from the last*

*4-5 years of [Swedish] films that have no audience at all. And you could see on the page that it will have no audience. They should never have been theatrically released, it's meaningless. For it to be legitimate to even produce those films the budgets need to be significantly lower and you have to be thinking from the very start about how to even identify, find or communicate with the audience for this content. The funding bodies have to get so much better at not keeping hopeless projects alive. That is how development money is used today. Too much money and energy is spent on developing projects of which everyone knows it will never happen.*

**Do you do a post mortem for every project you've supported?**

*No. We talk about doing it all the time. But it requires such mutuality. We'd like to have that conversation, but the other party needs to want it too. We all need to be able to face sitting down, not to add salt to the wounds, but to figure out what we'll all take with us. What did the producer learn? The director? The screenwriter?*

Perhaps individual filmmakers should not be faulted for making the kind of film that funders will fund. A work that does not reach any audience even though it is granted a reasonable release is not necessarily bad or irrelevant. It might be targeted at a group that the chosen platform does not currently reach. Somewhere along the line not just filmmakers but also funders, sales people and distributors have made bad decisions.

Figuring out exactly how those calls are made is embarrassing and painful, but probably not as painful as the cull that will be forced upon the industry if we do not take action in our own houses. Naturally, every effort should be made to develop business models and new paths to market for national-language, arthouse and niche filmmaking. But part of the process will involve reviewing how funding decisions are made, and reflecting very carefully on who the audiences for those kind of movies could be, where they can be reached and how they might be cultivated[5].

JOËLLE LEVIE: *The producer, and even more the director, are not really preoccupied with the audience. Maybe some young directors will be, because they want to succeed and reach people? The old traditional directors are not interested. Each time, I raise the question "what is your audience for this film? Who would want to see your film?" And very often their responses are "people that are over 55 or 45 years old". And that's it.*

Any redirection of public funds as to formats, distribution requirements or types of projects, will be an arduous process involving political decision makers and local industries optimised to the existing system. During what is inevitably a multi-year conversation, the market conditions will continue changing. No new system will be flawless. But leaving the development of a sustainable production economy entirely to market forces is even less likely to produce a good result.

TOMAS ESKILSSON: *[At major regional fund FilmVäst] we have really tried to change. We are investing significantly more, in fewer projects. Then you have to demand more, both of projects for a broader audience and of cultural cinema [and ask yourself]: What are we trying to achieve? What should our ambition be? That is how you bring down volumes. But the funding system as a whole is not moving in that direction. Perhaps in five years there will be some first tendencies, but it should happen now, everyone should act on this now, on all levels.*

*At the same time, the transition will be tough. If the funding systems are incoherent, there is a risk that only production companies with big war chests survive. In Sweden perhaps SF Studio, FLX, a few more – and they mostly make TV drama. The ecosystem will be very difficult for everyone else.*

**What do you think should happen?**

*In some way all the central funders will need to agree on what needs to be done, what kinds of projects are worthwhile, what kinds of work can different distribution platforms support. And we must dare to talk about the production ecosystem. What is important? What is healthy? What do we want to survive and how do we make that happen? If we don't talk to each other, we will be funding bits of things all over the place, willy-nilly. Today we have no agreement at all, and all Swedish film productions are running late because the last bit of funding is always missing. Which is a little absurd since there is more money around over all.*

ROBERTO OLLA: *Something that could maybe help us understand what we could be doing, before it actually explodes under our noses, would be to create a big, big, big, big conference. Not one of those political nonsense ones where everything is already written down [before it starts]... I think it was in '89 that Assises européennes de l'audiovisuel took place in Paris. It was a huge conference where politicians, filmmakers, funders, television and film distributors and producers all got together and talked for a couple of days to come up with concrete proposals. That was the origin of many instruments like the MEDIA Programme, the European Audiovisual Observatory, and the Television Without Frontiers Directive, which later became the Audiovisual Services Directive. It shaped audiovisual policy in Europe – because François Mitterrand and Helmut Kohl really wanted it to work. It was up at that level, wanting to create the European Audiovisual Space. If there were such a political will it could work. Now, knowing the direction that our governments* *politically are taking, it will be very hard to find anybody who is able to gather that kind of conference or have the ideological coherence to give it the right direction.*

*The professionals can talk as much as they want, but they are not the ones who make the political decisions that are so important in terms of how much money should be devoted, the rules of the game in terms of exploitation, in terms of video on demand, and so on. We do need to get together with the decision makers.*

JOËLLE LEVIE: *Where the private market doesn't want to take the risks, it will be the role of public funds to take risks and try different ideas and put money in talent. They are thinking about it, they are not blind! But for the moment, the public funds are facing the same challenge – they have to prove to the government that the money they use to finance projects is used the right way. That means that the projects they finance are seen. The main challenge for public fund is really distribution. If you follow that thought process, at a certain point you will have to open up in terms of content and change the way you finance production, distribution, exports... Not many public funds are doing this, but it's a start. The fact is that they don't have more money, so they will have to decide if they decrease the money for feature films to put money in other formats.*

**1** The US total in 2015 was 708 theatrical releases, up 19% from ten years ago. (MPAA Theatrical...) The European total was 1643 feature film releases, up from 1547 in 2011. (European Audiovisual Observatory: 'Box Office...')

**2** ibid

**3** Fotnoten ska vara: By 8% worldwide in 2015, driven mainly by the 19% growth in the Asia-Pacific region. (*MPAA Theatrical...*)

**4** See also the 2015 Nostradamus Report.

**5** For further discussions about audience focus, please refer to last year's Nostradamus report.

# A Specialising Screening Ecosystem

CATHARINE DES FORGES: *Every presentation, every case study, every pop-up you hear about – the thing they always have in common on why it was successful is that it became an event. People say, 'I did this really difficult challenging film and 500 people turned up'! They brand it as an event, there's lots of marketing, people may dress up, there is talking before and after, lots of social media. If I had to sum it up in one sentence, how to make cultural cinema successful, that's how you do it.*

*But if you run a full-time cinema with five screens, how do you make four shows a day an event? You just can't. The answer seems to be much more about branding of the space. You inhabit it with people who are informed about the films so you pay attention to customer service. You can buy nice coffees, you can sit in the bar on Wi-Fi and work all day ... So cinema is not somewhere where you go and watch films, the cinema is somewhere where you meet people, where you feel safe and happy to go on your own, it's a home from home, an office, a social and creative space. How do we still make a living out of cinema? The more philosophical answer is that we make cinema seem relevant to the community.*

We can point at a tendency in the next few years for a kind of polarisation of the cinema-going experience. The commercial side will continue to bet on experience-enhancing technologies, or services like better seats or premium dining, that require big infrastructure investments. On the independent side, where those are not always possible, focus will by necessity be on live content, intentional community design, and human interaction. Here the key investment will be in the recruitment and training of suitably skilled staff.

If these are the extremes, there is still some room for straight-forward, plain film screening in the middle, but no one can afford to ignore the physical and social experience around the film. If you are reliant on return customers and word of mouth, as all exhibitors are, then the experience is the product. Naturally, theatrical exhibitors are still curators of film screenings, and that remains the unique selling point. But their business is about building relationships.

CATHARINE DES FORGES: *I think in the UK the independent cinema got its act together about ten years ago and now the commercial chains are changing their models too. [It used to be] 27 screens and you could buy popcorn, and it didn't matter if someone next to you was talking or on their phone but now people care far more about the experience. What you see is far more attention being paid to partnerships with coffee shops, attention paid to the customer and to their choices and experience.*

## Premium Cinema Rising

We are seeing the emergence of a specialised blockbuster cinema sector, which is physically immersive and enveloping, with the aim of bringing the viewer into films placing action and physical reaction front and center.

3D film has established itself comfortably in the mainstream; in the US, 3D box office in 2015 was up 20% from the previous year, taking 15% of the total[1]. The South Korean 4Dx format with its moving chairs, smoke effects and scents is performing well and growing internationally. Dolby Cinemas, which focus on image and sound quality with some interaction from the chair, are projected to be at 160 US locations by the end of 2018. Premium large format screens, including brands like IMAX, increased by 26% globally between 2014 and 2015, to two percent of screens in North America and Latin America and one percent in other markets. And so on.

These technically more immersive environments demonstrate strong per-screen averages[2], but are also very sensitive to trends in content. There is some debate as to whether Hollywood's relentless grinding out of big name IP[3] and action sequels can continue indefinitely. As many "surprise" flops have demonstrated, even fan audiences do demand a basic quality of storytelling. Experience-enhancing technologies might raise interest in weakly reviewed films artificially (for a few years, until audiences become accustomed to the effects).[4] Optimising certain sequences in blockbuster films for these platforms could also support the introduction of a brief exclusive premium cinema window.

The risk of relying on a type of content that may go out of style, and which is not currently released at an even pace over the year, can be mitigated by creating premium experiences around other formats. In 2017, IMAX is betting on (and investing to get) an exclusive premiere window for the Marvel

TV show *The Inhumans* during the September dearth of blockbuster premieres[5]. From the audience perspective, collective viewing experiences of TV content makes a lot of sense, and that yearning grows out of the investment TV brands have made in growing fandom around their IPs and engaging those of A-list actors. TV has very little to lose by a theatrical release for the first two or three episodes of a show, and commercial exhibitors might pick up a thing or two about monetising fan relationships[6].

"Luxury" or "VIP" cinema, with various levels of comfort and a range of services starting from in-theatre dining, is also a clear trend. Established chains are getting in on the action, seeing a positive tradeoff between loss of capacity and higher attendance plus enhanced concessions at higher price points[7]. New competitors are branding themselves from the get-go as a better experience.

When it comes to comfort, the sky really is the limit. In their luxury offering, Korean-owned CGV cinemas have launched Tempur mattresses with reclining features (and a USB charger, coat hanger and cookies). Qatar Airways has co-branded a "7 star theatre experience" with Novo Cinemas in Qatar, Bahrain and the UAE, offering valet parking, luxury lounges, gourmet food and fully reclining leather seats – a step up even from the Bankok Airways-branded screens at the Bangkok's Paragon Cineplex, where the ticket includes a massage at the cinema's spa.

On average, "luxury" in cinemas is defined in relation to expectations on your typical multiplex experience. But as the above examples make clear, true luxury also has a place in the market, and the best match for gourmet food is not necessarily fast-food film. The strongly curated, very high-end arthouse experience is a small niche with great potential to re-engage well-heeled tastemakers with contemporary cinema culture.

Meanwhile, the success of chains like Alamo Drafthouse and any number of independent cinemas around the world demonstrates that strong curation, decent food, and a sense of community have powerful audience appeal. Programmers consistently speak of how good experiences turn into relationships, in other words trust, allowing them gradually to program more challenging fare.

## Live Cinema

CATHARINE DES FORGES: *The data that's tracked on films on release only follows films that operate in certain patterns and only those films which are traditionally released. This means that data from further down the line, or on different kinds of releases are not tracked and that means that that the [alternative] landscape is undocumented and therefore unknown.*

In previous years we have discussed the necessity in an abundance market to add meaning and context to the specific work and the specific moment by, in essence, enhancing their "liveness".[8] Anyone interested in cinema innovation will have intuitively felt in the last years that special screenings are growing in importance. This year, Live Cinema UK released their excellent *Live Cinema in the UK Report 2016*, which finally presents numbers. While the UK independent sector is in many ways ahead of the curve, this study demonstrates just how widely "eventifying" film has caught on, and suggests a vast potential for growth.

In 2014-15, as many as 48% of UK independent exhibitors[9] – cinemas, festivals and pop ups – worked with what the authors of the report call *live cinema*, "a film screening using additional performance of interactivity inspired by the content of the film". If *event cinema* is often "live" in the sense of something happening in real time and being mediated to the screen, *live cinema* is live at the venue, and has a prerecorded piece of filmmaking at the heart of the event. Neither of the two terms are well known among the public, and there is even some confusion between them in the industry, but both deserve their separate places in the discourse.

Arguably, they have quite opposite effects on the screening ecosystem. While event cinema democratises access to special events, and is appreciated by exhibitors because of premium ticket prices, it also takes up important screen real estate from actual films. While good for exhibitors, event cinema does very little for film culture directly, beyond getting new visitor groups into the venues.

Live cinema does the opposite, bringing attention to and heightening the importance of the central film. Of UK live cinema events, 54% represent live soundtrack screenings, ranging from silent film screened with a solo accompanist to full orchestral screenings of film classics like *The Godfather* at venues such as the Royal Albert Hall. The other 46% includes everything from Secret Cinema's immersive theme party experiences to site specific documentary screenings.

82% of surveyed visitors at UK live cinema events were experiencing the form for the first time, but 95% were eager to try again, which points at significant room for growth. An overwhelming 89% felt the ticket prices were about right at typically GBP 15-20 outside London and GBP 20-35 in the capital. 38% of surveyed visitors were 25-34 years of age, with the 18-24 and the 55+ age brackets least represented. Interestingly, while 100% of surveyed live cinema attendees said they frequently go to cultural events, 15% of them said they otherwise never go to the movies.

Cinema is certainly not the only sector using special events to enhance interest in content. In the event industry there is worry about "event fatigue". The lesson from this is not that live cinema is unsustainable, but to not target the same audience segments all the time. From a relationship-building perspective, events for underserved groups who do not normally feel seen have potentially the greatest impact.

CATHARINE DES FORGES: *We have worked a lot with the BFI on archival film projects. At the moment we have a project called* Britain on Film *on tour, which is sub-curated from a much bigger BFI online project. We are producing six 80 minute programmes. They are focused on railways, rural life, black Britain, south-Asian Britain, LGBT Britain and coast and sea. When we distribute those programs, largely the people who screen them are not conventional cinemas. They play in [elder care] homes and schools and churches. Largely in rural areas outside of towns and cities. People absolutely love them, because it's living social history on the screen. You show a programme which concentrates on films from wartime, it will be in a church and they book it from us, and the funding enables them to hire it at a low cost. It also enables us to provide a speaker and lots of marketing material, and they will put on wartime food and they will all dress up in wartime clothes. And then they will all talk to each other afterwards. You've got something that starts off really as film screening, which a lot of people may assume is a very un-commercial screening choice. And it turns into a really exciting, sweet and emotional way for the community to get together. A lot of people who book them do not normally show films, so it is just another event like doing a concert or some other social event. You just have to have a structure in place in your organisation to enable that to happen.*

## The Festival Frontier

JOËLLE LEVIE: *The festivals have a new role in the film business. They become a window for first time features that allow first time directors to be seen, and not have the risk of the theatrical release. That's why some of the focused festivals like Sundance are so successful; it's a way for [studios] to scout new directors, for sales people to see films and talent. Maybe they will not distribute the first film, but they will be involved in the second one.*

CATHARINE DES FORGES: *Twenty years ago there were maybe 15-20 film festivals in Britain. Now there are about 400! I think some of the change is about people's work patterns. People in their 20s don't go to the same firm all day or have a career path where they work the same firm forever. They are used to the idea that you do different sorts of jobs, or freelance, and that is a viable way of living allowing you to do stuff on the side. So we have people who run pop-ups and they are not being payed, or being payed for their expenses... But not always! There are festivals that have started entirely voluntarily and worked their way up to employ people. In an economic sense it's a viable business. What it isn't is a conventional, recognised industry model.*

In the screening ecosystem, film festivals are growing in number and importance. In the next 3-5 years, release models with a festival tour as the theatrical window will be common and conventional for arthouse fare and even middlebrow studio film in foreign territories.

Major festivals that are all competing for the same exact films might struggle. Gambits to establish or expand film markets will continue for the next few years, but they cannot all succeed since there are only so many events a professional can annually attend, and the industry will not grow indefinitely.

The important growth here is in audience festivals, whether niche festivals organised around genres or film from a specific country, or broader festivals screening the kinds of films that would have had a traditional but limited release before the screen squeeze. Audience festivals function well both to activate local communities and for developing tourism.

CATHARINE DES FORGES: *In our course at the Motovun Film Festival in Croatia we had 30 or so European festivals coming in [for our training programmes]. They are not all necessarily well-known, but they are successful in their own right. The people who work there are paid a salary, they contribute to the economy of their town. Nobody has done enough work about the economic impact of film festivals on a wider scale as a sector, but with that many visitors coming, spending money in hotels and dinners at restaurants... It becomes a way of showcasing a town to other people as a destination, a shop window for a city or region and other industries or cultural activities may follow.*

## Film on Smaller Screens

DOMENICO LA PORTA: *I was in Brussels moderating the European Film Forum and heard twice on stage that 'theatres are still the best place to watch a film'. The guy was saying that as if it was obvious. I'm sorry – it's not obvious. It depends on what kind of film, the time you have at your disposal, your family life, your level of film addiction, your culture, the communities you are part of... It's 2017 and that statement hasn't been proven [right] for a while now although it might have been remotely accurate 50 years ago.*

TOMAS ESKILSSON: *Fewer films today are really suited for traditional distribution models, which is to say that fewer films belong in the cinemas. At the same time all film is produced on the assumption that it will have a traditional release, which really makes the budgets inflexible. We've argued for a long time* *for greater diversity. Films that really are for the big screen could be a lot more expensive than they are today – it's not very hard to identify the right projects.*

*There are some niche audiences in other places, at festivals or event screenings. But beyond those, if the films will meet an audience, it will be on another kind of screen. In the US we are already seeing more independent films produced without the studios, relying on platforms like Amazon, Netflix or Hulu. The big platforms, both US and Nordic, will take a bigger share in many more film projects here as well. And that will change the entire basis of how films are distributed.*

BOBBY ALLEN: *On the business side of things there is going to be more consolidation and more companies getting into trouble, closing or merging. I think the days of the big traditional, high volume sales agents are really numbered. I think we'll increasingly see boutique sales agents. Not handling 10 films a market, but a few films at a time, acting like a mix of executive producer and sales agent. Especially during this confusing time when lots of different things are happening and it's very difficult to reach the market and connect with the audience. To have a sales agent who is actually going to be willing to say, 'OK I've made my two, three, five or even ten great, traditional sales. But now what do I do? Ok, I'm doing a MUBI here, a TV deal there, a self release theatrical in these territories. It's time consuming, you can't do many and you need to be invested and have the equity to make it worthwhile.*

Cinemas are changing, and not for the worse. This is hopeful for film culture, but even so, the best most films can wish for is a very limited release.

The bulk of the work's reach will need to happen somewhere else (as of course it has for decades: film is an artform viewed primarily in the home)[10]. When asked how films could reach significant audiences, all of our experts mention, in the end, VOD. In the current landscape, this of course means the very services that especially cultural cinema are viewing as the cause of many of their troubles.

But the division of labour between different digital services is still to be determined. While for instance Netflix established itself in European markets with a combination of original premium and archive content, it now seems to rebalancing the offer towards premium with much less focus on the long tail. Netflix may have no interest in maintaining libraries of niche catalogue films, beyond high-profiled work they have invested in or own outright. Among the proliferation of SVOD services, this opens possibilities both for broad film libraries and a number of more specialised or curated services[11].

JOËLLE LEVIE: *I think the role of the distributor will decrease, I don't know if it will even exist. The way to access films will be different. Maybe not in three years, but it has started already. Many of the distribution companies merge or disappear because the revenues from the market is no longer there. I think that will continue and 3-4 years from now, what their role will be I don't know. Would it be like a kind of jury, in terms of choosing what will be the best VOD platform for the film? Maybe the theatre will not be the only market, maybe on the VOD they will take a kind of commission...*

TOMAS ESKILSSON: *Is it really true that arthouse films have a long tail? I wonder. We can't see the evidence of that. Today arthouse does very poorly in the cinemas, is not all that visible on VOD platforms, and has a minuscule broadcast audience. Much, much lower than they used to.*

Some kind of slower window system seems likely to emerge, where content is exclusive to TVOD[12] and/or specific services at least for a while – perhaps only those which, like arthouse service MUBI, programme very selective work and for a limited time only. Even linear broadcasting can play a role, if films are programmed more like events, perhaps with content exclusives and strong curation.

Most importantly for cultural cinema, we believe digital grassroots distribution and social curation will finally emerge. Paying for things online is now normalised and trivially easy, and targeted advertising is getting eerily good. Connecting a good film to a specific audience will not be difficult, especially if social media platforms figure out how to get a piece of the action. It just demands bravery in exploring how these new value chains would best be put together, and of course being very clear from far before the start of production on who the audience will be.

Anyone who can afford to experiment should do so now, and those who can't alone should pool their resources. This goes for knowhow as well as money. Initiatives such as the Propellor Film Tech Hub are an excellent beginning[13].

DOMENICO LA PORTA: *I don't know one cinema producer that already has another platform seriously in mind when he is developing a script for a film (except a series). They usually just focus on that medium, because the value chain is safe from development to exhibition. Every step on the way you have a middle man. It's not the same with the so-called transmedia sphere, because there are no unique business models, so you have to be creative and build a tailor made solution [every time]. There is best practice that you can take from every world. Like the freemium model, which comes from mobile gaming but could be applied to comic books or cinema with a little bit of "out of the box" gymnastics.*

*If you only work with film it will be complicated to tell a producer that his film should first and foremost premiere on the* *twitter feed of the main actor for instance, because this is where its audience might be. Their guy has 700.000 followers that are all potential viewers but they still take their [chances with] nationally windowed releases in a regular cinema where each film is competing with all the others. It's very complicated to disrupt the model, because too many people in the value chain would complain and the priority is to please them before the actual audience of the film.*

CATHARINE DES FORGES: *I think the business model has changed – it has to change. Always evolving, always different. It's only if you expect it to stay the same it's a disappointment.*

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**1** MPAA Theatrical...

**2** Lang, 'First 4DX...'

**3** IP is short for intellectual property, often used interchangeably with "storyworld", depending on whether the emphasis is on legal and economic or narrative and aesthetic aspects.

**4** As an example, I found that seeing *Fantastical Beasts* in 4Dx made the plodding first hour almost enjoyable, lifting the average of the full movie experience from middling to rather fun.

**5** Faughnder: 'The boldest move...'

**6** In early 2015, IMAX showed the season's two last episodes of *Game of Thrones* with a teaser for the upcoming season in 205 theatres. Ticket sales were nearly USD 2 million even though the episodes had aired and were streaming on HBO.

**7** Rouner: 'In the Age of Streaming...'

**8** For an excellent collection of international industry voices on these topics, please refer to the 19th Europa Cinemas Network Conference Resume. (See Sources).

**9** If Q&A:s are included, the numer is 63%; if event cinema is also included, a staggering 74% of UK independent exhibitors hosted screenings that were somehow different from the traditional "straight" showing of a movie.

**10** Pwc reports that in 2015, total electronic home video revenue in the US exceeded box office totals for the first time.

**11** This will of course depend on how the Digital Single Market plays out. Pan-European rights might regardless be possible to purchase for older or very niche films.

**12** If content will migrate through any kind of window system where availability might be contingent on specific subscriptions, even electronic sell-through might play a role for particularly beloved work.

**13** Launched by CPH:DOX, European Film Market, International Film Festival Rotterdam and Cinemathon, it aims to apply innovation strategies from the start-up world to film industry business models.

# The Undiscovered Landscape

TOMAS ESKILSSON: *We predicted the death of the Home Entertainment category 10 years before it happened. But everyone is totally taken aback anyway, because somehow we just haven't seen the consequences. We haven't truly reflected on how utterly different the financial landscape is now – not just for TV and TV drama, but for cinema too. And how it has added a layer of complexity, and how that changes everything from schedules to prerequisites.*

BOBBY ALLEN: *The thing I really hated a year ago is that when I did a panel or something it would be called "the disruptors". ...it's this technology itself that disrupts it. What we are trying to do is catch up with consumer behaviour. To find the audience and the consumers, where they are.*

FREDRIK AF MALMBORG: *I think the amount of drama being produced at the moment will go down a little. Right now we have both the new SVOD channels investing a lot, and all the broadcast channels investing a lot trying to fight them. Broadcast TV will not exist in 5-10 years like it does today. But the things that work will have a bigger worldwide audience. If you make a top quality series that the world wants to buy, then it is easier than ever as a producer to retain rights and make significant profits. For the top producers in each country in the world, impressive revenues are within reach.*

In the medium term, TV/streaming development is challenging to predict. There are just too many companies investing astronomical sums of money to tilt the transformation their way. In the slightly longer term, some tendencies are feeling inevitable, driven as they are by customer behaviour.

The rapid normalisation of connected TVs and OTTs[1] demonstrate that viewers are not wedded to linear broadcasting or even the technologies and interfaces of traditional TV. Choice, price and convenience are driving their viewing choices. An online subscription service is, to most, just a more convenient Pay TV.

The affiliate system represents the biggest source of revenue for Hollywood and is obviously not easy to disrupt. Assuming the shift to video streaming really is inevitable, the maths is of course very different. It seems obvious studios should sell directly to consumers if their content is valuable enough, and that the rest of the marketplace will be OTT:s representing or replacing networks. To control the individual number of subscriptions of each household, these services will be probably bundled in some manner, whether by the ISP or together with some other service entirely, like Amazon is doing with retail services, Prime and the over 100 additional SVOD services it offers[2].

3-5 years from now we will know a great deal more about when and how this all unfolds. The imminent release of "skinny bundles"[3] from players like YouTube and Hulu will give a useful measure of the marketplace. So will experiments like the CBS push for CBS All Access, or Disney's ESPN-branded niche sports OTT.

This is not just a thought experiment. Major media houses have been scrambling in the last two ears to acquire digital media assets and know-how especially when it comes to reaching younger demographics.[4]

**What do you think will happen in the VOD space three years from now?**

BOBBY ALLEN: *You know what I call this? I call this the Jenga moment. Like the game: you have to pull blocks out, and when you pull it out, if the whole thing falls down you lose. You see in the history of media these moments where everything explodes. I think for VOD that is going to happen, and a key moment will be when a company – probably Apple, Amazon or Google – buys a major studio. I think one of these guys are going to make a major move into the content business at some stage. For me that's something that could happen in the next few years. I think it's a natural progression, the moment when the distribution and exhibition side of things moves into the content business in a big way. You saw it when Sony bought Columbia, Tristar and those studios back in the 80's and 90's.*

*The second thing that I wonder about, and I have no information about this nor reason to think this other than looking at the Spotify model – but someone like Google, the sleeping giant, why aren't they going into content in a bigger way? They are already there with YouTube and Play and all these other things, but I just wonder: if Google decides that they want to be the Spotify of cinema, what will happen?*

From the tech end of the spectrum, an example could be YouTube, which has moved cautiously into original content and subscription services, and is now releasing a skinny bundle. One still hears people say that YouTube could never be a big platform for longer content. But YouTube as a second or even a first release window is already real, and will become increasingly appealing as a drama platform if its own TV gambles pay off.

Video advertising with its superior targeting is already a real threat to advertising-financed TV.[5] Within just a few years, audience measurement online will be sorted out, as will the technical problems with counting online ad views. As both reach and competition in online video increases on many fronts, price pressures on online video advertising might pull ad dollars from TV to the internet even faster.

FREDRIK AF MALMBORG: *The Turkish series that we are learning from are all put up on YouTube in Turkey for free two hours after they have aired. They get an enormous amount of viewers online. The first episode of our new series, Insider, had 10 million viewers on TV. After four days we had 10 million views on YouTube. The episodes are two hours long and they put in an ad break every seven minutes, and still it works! And this is still only in Turkish. If we would do this in a few languages from the start, we would have 50 million – [at a] CPM of 10.It's becoming quite good money – in fact USD 500.000 per episode.* [6] *That is in line with the total production budget. However, we foresee the CPM being doubled in a few years, and then the profit is substantial.*

*Through YouTube, Google now has a much better daily reach with video ads then all of the commercial channels combined, even in older target audiences... Maybe it's as simple as that: you produce a drama series and you put it up on YouTube directly. If we learn that marketing game, then instead of having half a million viewers in Finland we can get 50 million viewers in the world. It's a matter of starting to do those experiments to learn, and if you've done well with one series you get the promotion power to promote the next. It's a new ecosystem and someone needs to be there to invest in the production. I think YouTube will be an incredibly powerful alternative to commercial TV channels because they sell a much better product then the broadcasters do. You can geoblock, so everything is so easy to manage. And the CPM on YouTube will go up. Just think of it, if you would have put the original episodes of* Broen (The Bridge) *on You Tube, how many viewers do you think each episode would get? Probably in the range of 50-100 million. With a CPM of 10, that would be USD 0,5-1M per episode...*

*We are not a distributor. We represent the producers, and help them make as much money as possible. Sometimes we go in with MG, but we work much more with pre-selling, and that's a model we've learned mainly from the Turks. I think the producer should keep much more rights much longer. Get the money you need to write the script; maybe share some equity to do that investment. But retain the rights and as big a part as possible of the revenue.*

In the US TV market specifically, a significant source of income for studios is represented by cable and broadcast syndication – after steady growth during the last decade currently at over USD 25bn. On top of this is digital content revenue, in other words sales to digital services, projected to over USD 11bn in 2017[7]. Industry news report this number as a problem, since it is only half of what just cable syndication currently brings in.

Assuming we are only at the start of a shift towards digital, the number should probably be viewed as hopeful. Cable and broadcast syndication are slowing because of SVOD competition and expected to shrink rapidly when the turn comes. But audience interest in reruns is not likely to disappear, especially given the high quality of recent – and therefore as of yet un-syndicated – scripted content.

Eventually, SVOD will replace syndication, and there is no reason to assume the revenue will be much smaller than what was brought in by the old system. It just might not match the current situation, which is artificially bloated by both distribution systems existing in parallel and the competitive situation in the VOD marketplace. For shareholders, who always like to see infinite growth, this is likely to be a problem. In the production landscape, a readjustment to economic levels from a few years ago actually sounds healthy.

The number of original scripted series in the US has doubled since 2010 to a record 455 shows in 2016. Netflix's production spree, with 71 original shows just in English in 2017 – not counting children's programming – will push the "peak" of Peak TV ahead a year or two, after which the total number of dramas is expected to turn down. In the US, the cost of producing and marketing an hour of TV drama has gone up 20% in the last five years to USD 4-5M, according to FX Networks Research[8].

In the fragmented marketplace, the top 20 shows reach only 10.8M domestic viewers, and that equation is not sustainable over time, especially since not all that content will travel. The demise of bundled output deals is near, and content from other territories, including many non-English-speaking countries, is both growing and putting up healthy competition.

FREDRIK AF MALMBORG: *You have two billion people in the world who are used to watching dubbed drama. And all the videos on Facebook are already subtitled... The other thing is that broadcast television is so incredibly driven by ratings, if it doesn't work immediately it's changed or terminated, so American broadcast TV series are always developed for the average American. I think that's a horrible benchmark. Something that pleases the Trump voter, why would that be relevant for the rest of the world? I think if you produce something that pleases a Nordic audience, then that is a pretty good benchmark for an average person in the western developed world. For the rest of the world Turkey is a fantastic benchmark. The average Turk is very representative for 4 billion people in the world. That's* *one reason [Turkish drama] travels.*

*I'm frustrated that Western European commercial channels still haven't seen the commercial value of Scandinavian or Nordic drama. They go to LA Screenings and buy series that don't work. I think they would earn much more with European drama. And when the public channels buy, they say, 'oh, this is an acquisition, this is not our own production'.* Broen *attracted more viewers in the UK than* The Tunnel. *To pay 12.000 for a top Scandi drama that brings 4-5 million viewers is really a shame when they easily invest 2 million for local production with worse ratings.*

*[European] broadcasters say 'we will enter this project with 80% of the budget, the rest you need to find from abroad'. But who cares if they put up 80 or 100%? It has just become a stupid tradition. Put in 100%, retain all the rights and deal with them later, instead of giving it all away for a crap distribution deal. They very rarely see more money than the MG. The producer and the broadcaster are basically just work for hire.*

## Freedom Fries

As we go to press, Donald Trump has just been inaugurated and experts are struggling to make head or tail of his policy signals to the media sector. But it does not seem too soon to say that the overall mood of his administration is to deregulate where possible, even when limitations were put into place for good reason. Given the amount of political capital spent on actual life-and-death questions in Washington right now, there might be very little left to protect seemingly abstract regulation policies.

There are already signals from the FCC that net neutrality will no longer be protected[9], opening the doors for ISPs to give traffic from certain services or sources preferential bandwidth. Another question is whether antitrust (competition) laws – controlling the size and power of corporations in a market – are also under threat. If the US limit on broadcaster reach, currently capped at 39% of households, were to be lifted the TV landscape would rapidly look very different. Experts are also guessing the AT&T-TimeWarner merger will probably be approved, paving the way for deeper consolidation between media, communications and technology companies.

How much Trump campaign rhetoric should be taken at face value is anyone's guess, but if he is serious about a trade war with China, it does at the very least not bode well for the expansion of US technology companies in and content export to those markets.

**1** "Over the top services" is a collective term for media – here audiovisual media – transmitted over the internet by someone else than your internet service provider. OTTs include Netflix and Youtube, but not VOD services or Pay TV operated by your ISP.

**2** Richmond: 'Amazon's New Anime...'

**3** Just a few years ago a "skinny bundle" was a smaller channel package offered by cable or satellite TV companies to those not willing to pay for hundreds of channels. In 2017, "skinny bundles" are a direct challenge to these traditional TV providers. For a fraction of the cost of traditional cable, subscribers get a slim package of linear TV channels delivered over the internet. Many will combine their skinny bundles with for instance Netflix. The question at hand is whether skinny bundles will only appeal to the 20M US households currently getting only free TV, or whether they might drive existing cable customers to cord-cut.

**4** In 2016, Disney, for instance, acquired a significant share in Vice Media, and already owns BAM Tech (the streaming company that powers among others HBO Now) as well as a third of Hulu (the streaming joint venture with Fox, NBCUniversal/Comcast, and Turner/TimeWarner). NBC Universal acquired Buzzfeed and Vox Media, Univision scooped up Gawker and Turner picked Mashable and Refinery29. A Nordic example would be MTG's 2015 acquisitions of the Splay MCN and esports giant Turtle Entertainment.

**5** Connected TV, with its rapidly growing share of video advertising, is already moving towards individual targeting. And on January 20, 2017, YouTube announced ads can now be targeted based on information like users' previous Google searches. See Jolly: 'Making YouTube...' and Freewheel: Video...

**6** CPM (cost per thousand) is traditionally a measure for what advertisers will pay for a thousand ad impressions. In YouTube parlance, it is also used by creators to indicate how much they earn off a thousand views. These numbers are not identical, since Google takes a share of the advertiser CPM. (In addition, creators sometimes include other sources of revenue in "their" CPM). Which CPM is discussed is usually clear from context.

**7** Wallenstein, ibd

**8** Holloway et al: 'FX's John...'

**9** Wallenstein: '17 Media Trends...', Richmond et al: VideoNuze #352

# VR on the Verge

DOMENICO LA PORTA: *We generally meet two types of storytellers. People who are trained to be storytellers, who go to school to study scriptwriting and all that. Maybe they are not good storytellers – they just study tools and best practice. And you have the other type, the people who really want to tell stories because they are simply motivated to do so. By practicing they start to understand how it works. They start writing out of their comfort zones. That doesn't mean they are better storytellers either, but they are passionate. And the passion will overtake the platform limitations...The ones who will be passionate about breaking those walls, who start telling stories in VR – I hope they will find a way to communicate it, that it will be visible in their work. Right now I must say even Pixar, when they are doing VR, do it in a way that is expected from them. New mediums are still waiting for their punks, their pirates, their hijackers...*

Virtual Reality development continues as predicted with relatively affordable consumer headsets reaching homes in the last year, VR filmmaking showing a significant presence at key film festivals, and VR production growing rapidly in related fields, like advertising and social media.

The technologies are developing very fast and the sector has made some first moves towards collaboration, especially around technical standards[1] to increase cross-platform compatibility and consumer momentum in the fragmented market. In 3-5 years, there will be some harmonisation between platforms, distribution systems will have been established, and VR will probably be widely understood to be its own medium with its own nascent genres. Multi-participant or social VR will be an everyday phenomenon, and storytelling designed to be shared and experienced together will have taken a rapidly growing market share.

A real democratisation of the production tools might not happen in three years, but probably will in five. Studios and media companies will develop their in-house content first, followed by passionate independent storytellers/game designers. Access to public funding and practical support in the next crucial years will strongly affect which geographic regions will have become creative hubs in independent VR production. Meanwhile, the first generation of successful VR producers, often linked to hardware companies, are positioning themselves in distribution and through the development of original IP[2].

The cautious experiments with “VR cinemas” or “experience centers” like the half-dozen international locations announced by IMAX in January 2017[3], are today typically showcasing the exact same technologies and content already available in the homes for those who can afford it. Nobody expects that to be much of a business even three years from now, unless IP owners start producing premium content exclusively for these spaces. IMAX has indeed announced a development fund tied to an exclusive release window of a few months, and it is worth noting that major studios are also starting to treat VR as its own platform rather than just a medium for promotional spinoffs[4].

The investments should be viewed as preparation and tests for later but rapidly approaching generations of the technology that may not be available in the home. Bizarre though it feels to even type these words, VR and AR (augmented reality) technologies are very, very close to converging in something like a functional “holodeck”, where participants can step into fictions and interact with them with a high degree of physical autonomy. Perched as they’d be somewhere between the cinema, the escape room, immersive theatre and VR/AR experiences like The Void, the cultural moment for these kinds of entertainments has certainly arrived. Since the technology already exists in simple forms, the next three years are likely to see immense innovation in physical VR, with theme parks an obvious market entry point.

How much it is possible to charge for premium content, let alone for location-specific or “destination” VR, remains to be seen. The success of luxury cinemas and live cinema experiences suggest high price points might be feasible even for relatively simple content, especially during the next 3-5 years while the hardware is still too expensive relative to a content offering waiting to hit its stride.

DOMENICO LA PORTA: *[Imagine] once you are really immersed in a story, there is a paywall showing up. The paywall is telling you: look at that door leading to the direction you want to take, do it for ten seconds and pay for the access. You look over, and there is retina analysis linked to your PayPal account. Boom, you enter that door. Once it becomes [a common interface], it turns into a behaviour that feels as intuitive as touching an iPad for a kid. You would have to tease people for maybe ten minutes or one minute, depending on the content. But then, without having them break from the experience, they can pay and move forward. There is a model there. There are so many models that can be invented, just right now no one is inventing them because the old models are fighting against the migration of "old" types of contents, like films...*

Significant amounts of money are currently being poured into VR content production, primarily by hardware players eager to showcase technology and investors betting on the business models sorting themselves out eventually. As late as at the VR panels at Marché du Film's NEXT pavilion in May, industry leaders were still at a loss when asked to describe a content-based commercial ecosystem for their sector. In practice what seems to be evolving is a transactional model, with forays into "theatrical" and subscription services currently at embryonic stages and not necessarily viable. Regardless, the value of the global VR market is projected at over USD 30 billion by 2020 – and with AR included, the number is a staggering 162 billion[5].

As discussed in last year's report, the most urgent challenge for the sector is still the lack of even a most basic storytelling grammar for the new medium. Best practices are now at least starting to emerge[6], but this artistic frontier is where the financial investments into VR are certain to produce some real returns in the next three years.

**1** Halfacree: 'Global VR...', Khronos.org: 'Khronos Announces...'

**2** Gasking: 'The Value...'

**3** Reottgers: 'IMAX to open...'

**4** Roettgers: 'Ridley Scott, Fox...'

**5** IDC: 'Worldwide Revenue...'

**6** Baker: ' How Game Makers...'

# Sources

Our interviews were conducted in December 2016 and January 2017. In addition, we have benefited enormously from formal presentations and informal conversation at among others the Nordic Film Market, Marché du Film, the Edinburgh International Television Festival, the Copenhagen TV Festival, Media Evolution's The Conference, The Future of Storytelling Summit, the Future of Storytelling Festival, Living Games 2016, and Boost Hbg.

For links to the below sources, please refer to our website: www.nostradamusproject.org


Chris Baker: 'How Game Makers Are Struggling to Make VR Fun', *Rolling Stone*, October 14, 2016

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