The changing landscape for film and TV production

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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

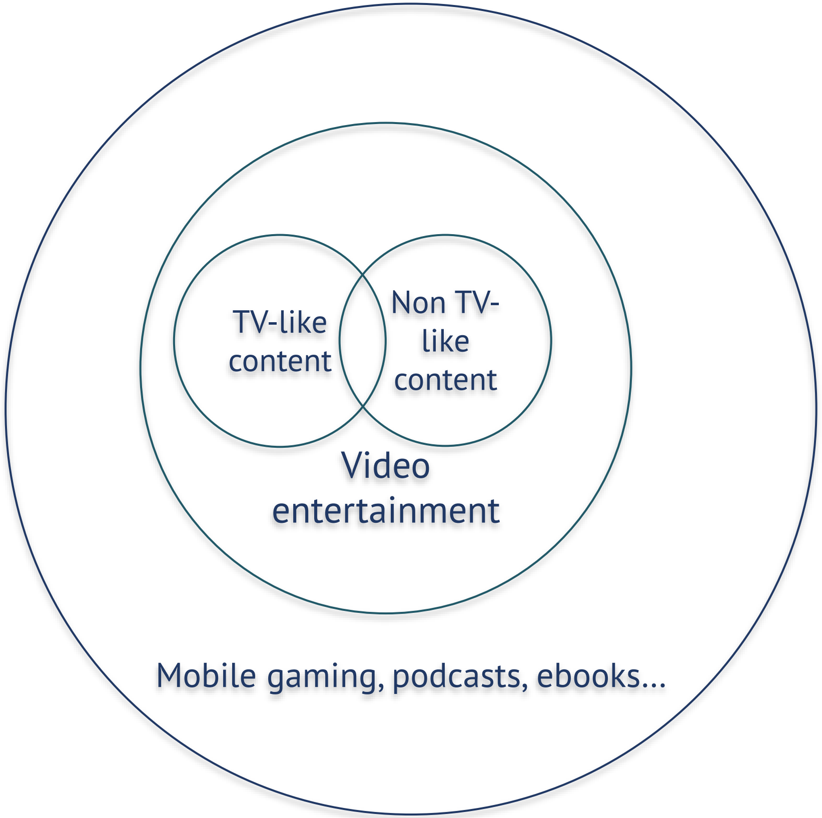
The story so far

The big picture: the audiovisual sector is completing its migration (in)to Internet

Enablers:
Broadband, new devices, connected TV

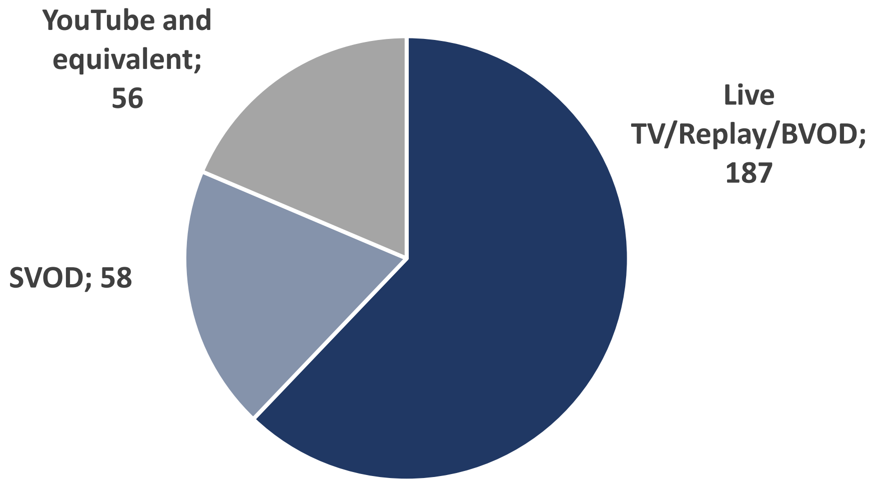
1. DVD: TVOD
2. Subscription: SVOD
3. Advertising: AVOD

A broader marketplace for video content in a broader entertainment market



New and different competitors

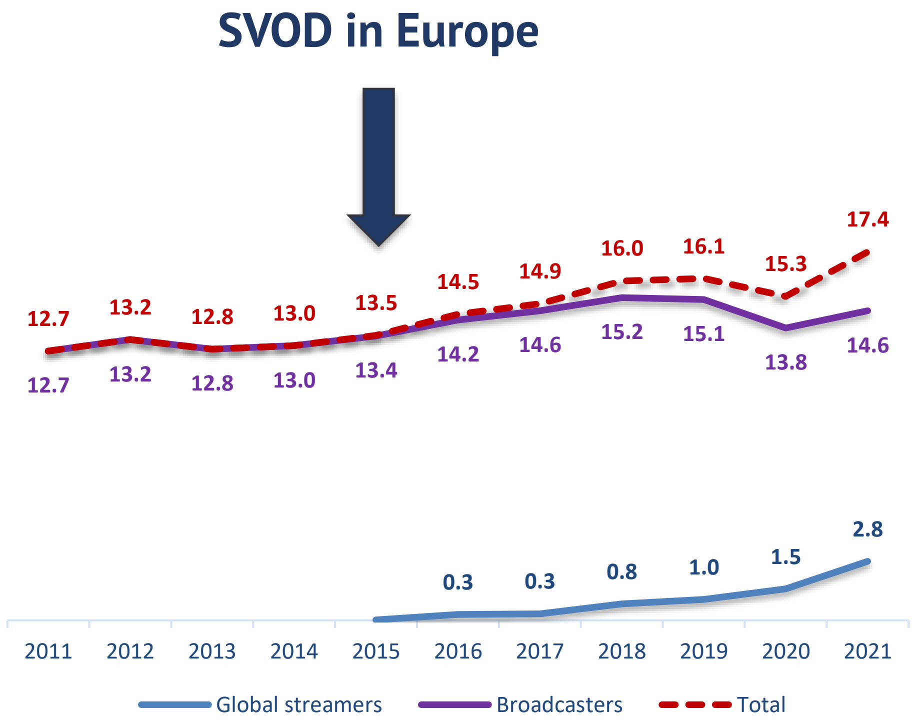
- Newcomers are **different**:
  - Some SVOD services do not necessarily aim at **profitability**.
  - **Different content** (short formats) but competing for TV advertising.
  - **Worldwide presence** to recoup investments in content.



Time spent watching video (UK, 2021)
OFCOM

More competition has turned into more investments in content

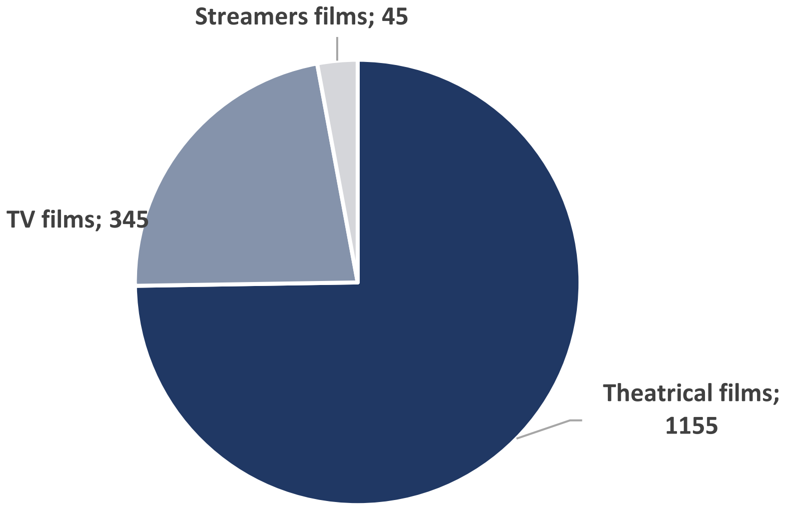
- ➢ **Streamers invested... and broadcasters reacted**

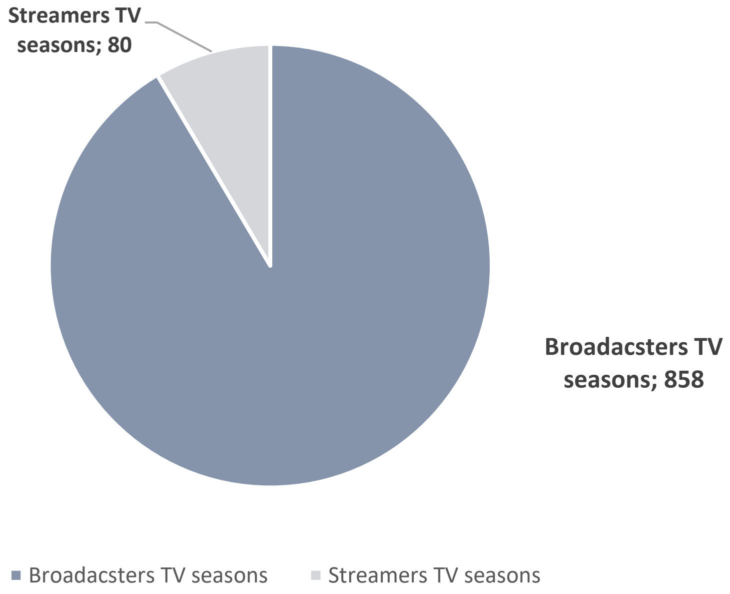


Investments in European original content (EUR bn)

But streamers impact on European production has to be put into perspective

- In 2021, streamers accounted for ≈3% of fiction “films” produced, and ≈9% of TV fiction seasons
- The picture would be quite different when looking at **budgets** or at certain segments of production (“HETV”)
- Whereas for films the investments were allocated across countries, for TV series, **UK** and **Spain** were the prime beneficiaries

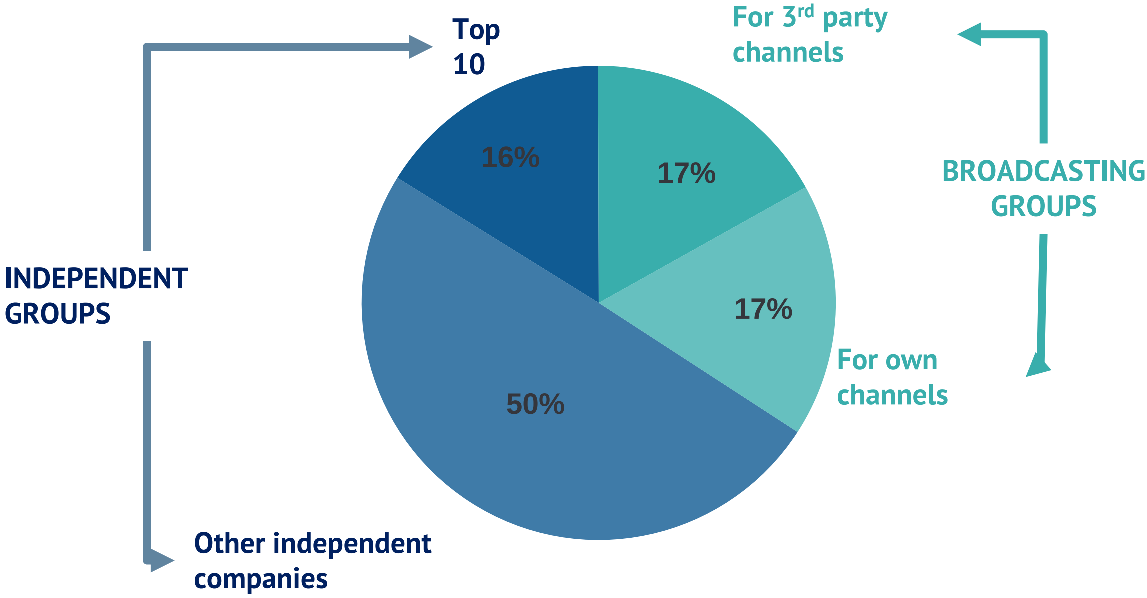




More investments in content transformed (to an extent) the (TV) production business

1 Leading to a **consolidation of the TV production sector** driven by:

- broadcasters threatened in core activities, redeploying to production.
- improving market power vs. streamer.
- need for equity for development and gap financing.
- optimise management of catalogues.



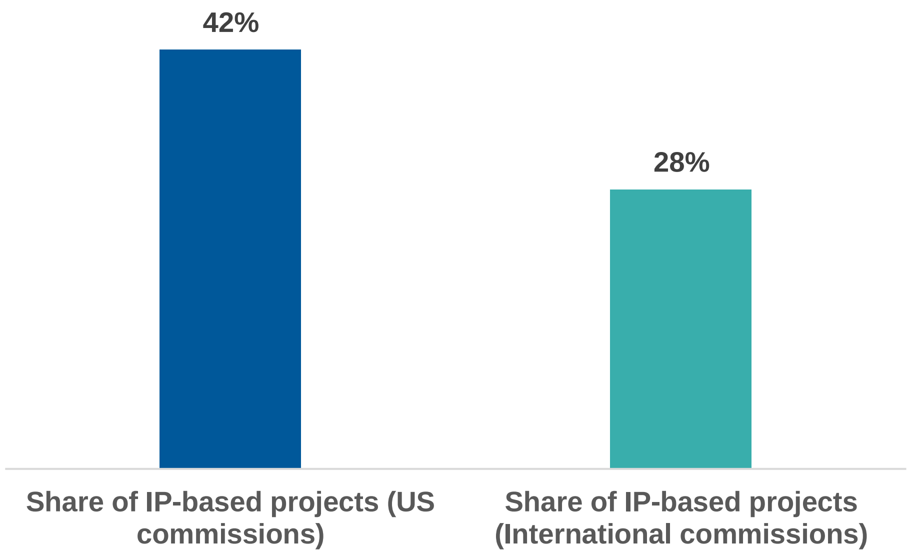
Less-than-13-episode tv fiction seasons by category of producer (2021, hours)

More investments in content transformed (to an extent) the (TV) production business

2

Reviving the struggle for the **control of rights/IPs** between producers/TV SVOD services

- because **streamers** entered the European production market with an approach of "production servicing companies" and (very) long term exploitation rights
- because adaptation of existing **IPs** is key to the streamers production
- because **secondary/non domestic exploitation** appear now promising for TV series



Share of originals (scripted and unscripted) based on pre-existing IP – H2 2021/H12022

AmpereAnalysis

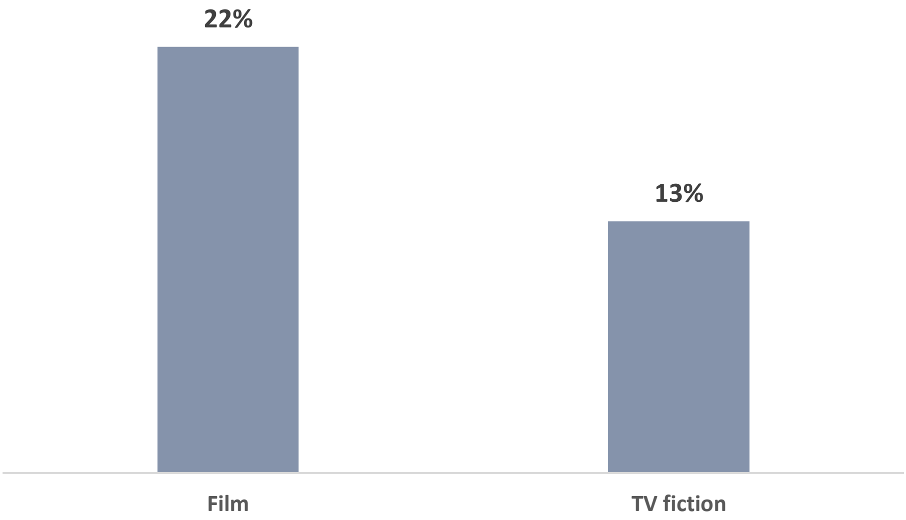
More investments in content transformed (to an extent) the (TV) production business

3

Changing the way the "**international market**" is considered:

- because Netflix (among others) demonstrated the potential for **circulation** of European works
- because higher budgets (to go beyond the legacy national prime time TV series) need to be **recouped** on a broader market.

- But highlighting how **co-productions** are underdeveloped for TV production.



Share of international coproduction (2021)

More investments in content transformed (to an extent) the (TV) production business

“**Austria** Changes the Game With New Incentives”

“**German** Motion Picture Fund doubles budget to €30m to attract international TV shoots”

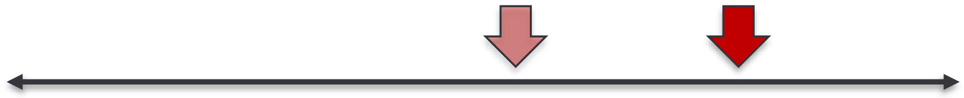
4 Launching **new escalation in the tax incentives race,** aiming primarily at non-domestic content, TV series, production services companies, while direct public funding is (probably) stagnating

“**Spain** Supercharges Incentives for Big Foreign TV Series”

“**France’s** Parliament Greenlights 40% Tax Rebate for VFX-Heavy Foreign Productions”

Policy shift?

Ensure diversity



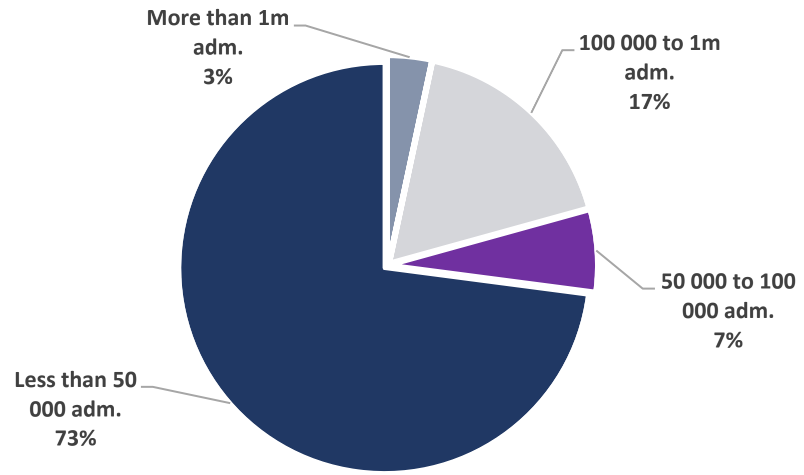
Increase competitiveness

But what about cinemas?

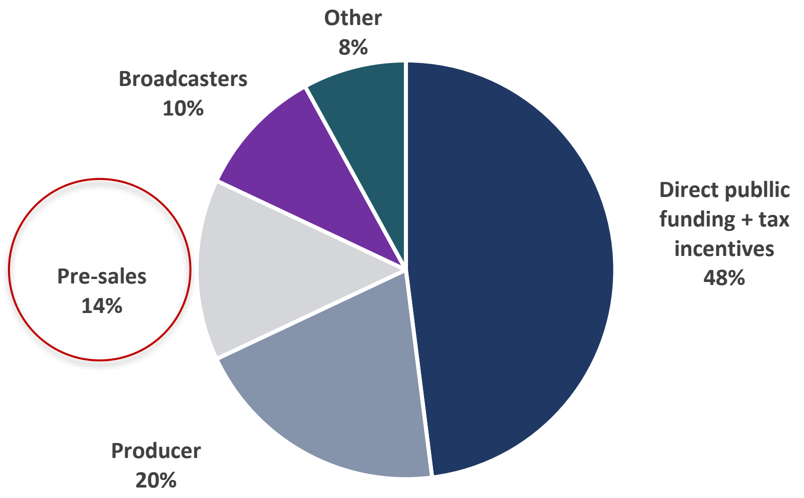
- Reminder: the **economy of films** is (for most films) not dependent on cinema admissions.
  - 73% of European films produced get less than 50 000 admissions in cinemas
  - Still, pre-sales, including MGs for cinema, are important, represent 14% of all financing, but concern higher-budget films.

- So… recovery of cinemas obviously matters, but only for a **fraction of European films.**
  - and actually depends to an extent on the Hollywood studios strategy.
  - also as on the orientation of main cinema chains towards a more high-end/entertainment model.

Pre-covid concentration in cinemas: admissions to European films produced in 2018



Breakdown of European film financing – excluding France (2020)



So: competition has increased investments in production, and increased viewers' expectations for « TV » content

BUT

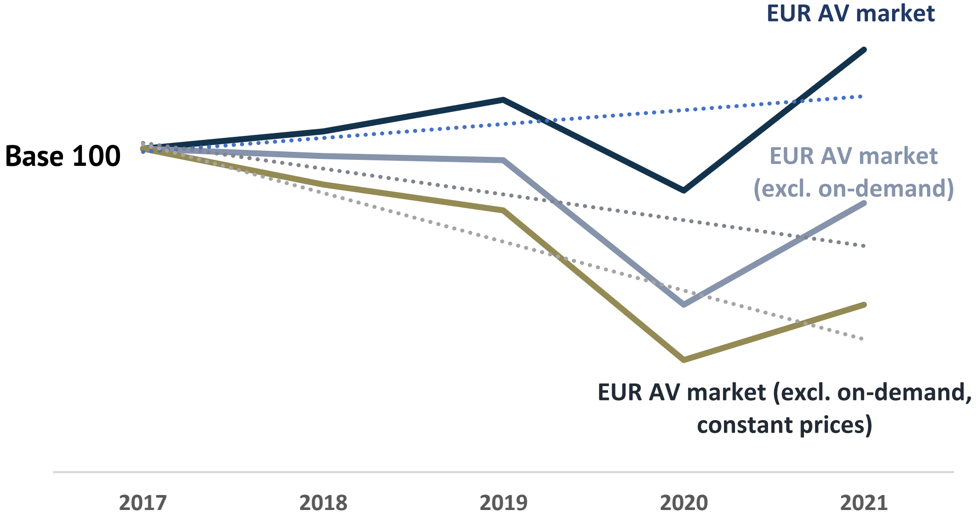
Is it sustainable?

Increased competition comes at a cost for private broadcasters and streamers

- Early signs of “**value destruction**”:
  - SVOD cheaper than Pay-TV.
  - Non-linear TV brings proportionally less revenues than linear.
  - Exclusive in-house streaming exclusivity damages Studios’ other sources of revenues.

- And, at the same time, pressure on **PSBs**’ revenues.

- Increasing production has triggered **inflation** of costs
  - but maybe limited by more production incentives.

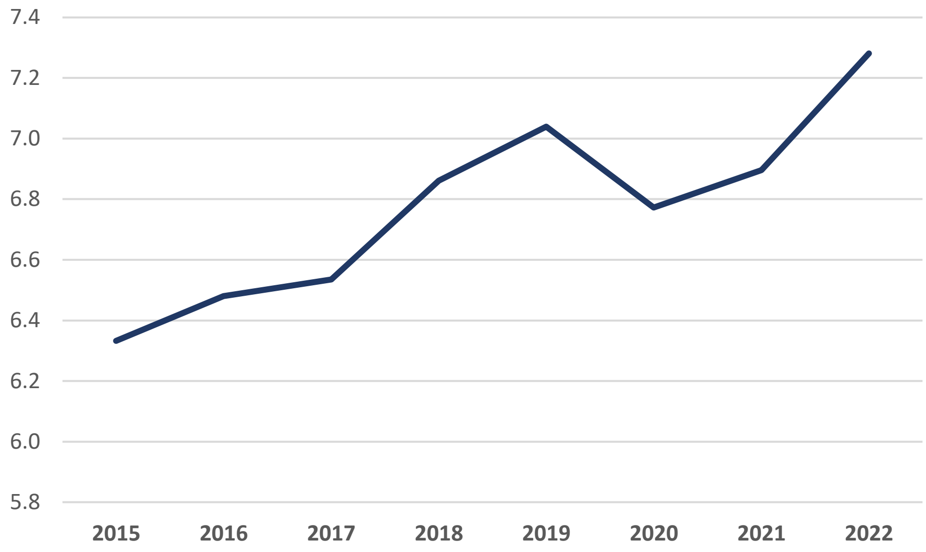


AV market revenues in Europe

Breaking the deadlock

1 Streamlining of the **SVOD market**

- Higher **tariffs** for SVOD.
- **Consolidation**, implying less investments in original content.
- SVOD moving into **advertising**, creating new competition for broadcasters.



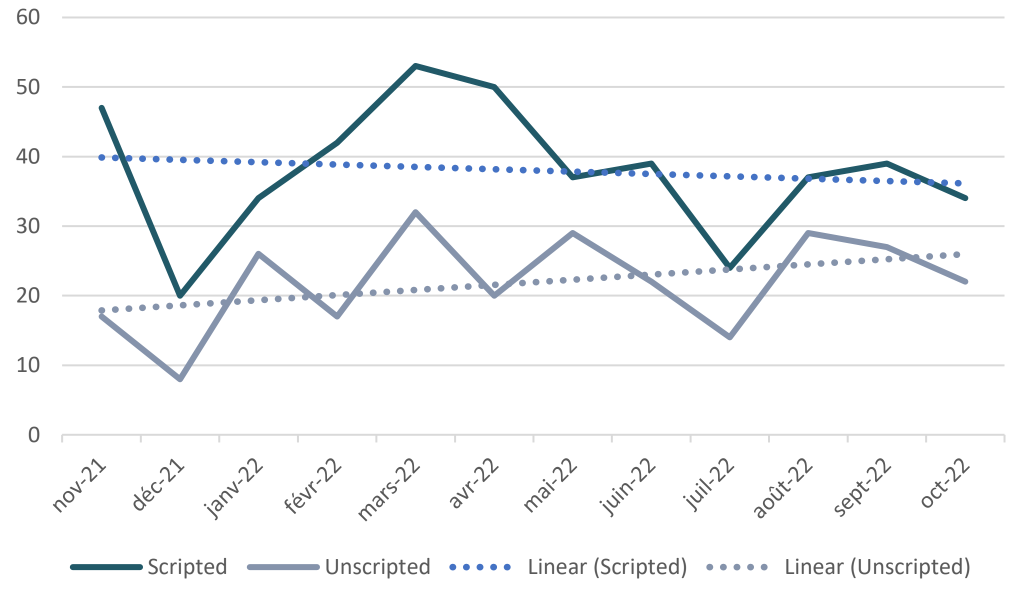
Average monthly revenue per SVOD subscription in Europe (euro)

Ampere analysis

Breaking the deadlock

2 Acting on **investments in content:**

- Rebalancing investments towards **unscripted**
- Going for "**quality**" rather " quantity".
- Limit risks by focus even more on pre-existing **IPs**



Netflixx: Scripted vs. unscripted commissions

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Breaking the deadlock

3 Adapting financing/exploitation models:

- **Streamers** heading towards to more “traditional” exploitation models
  - Less in-house streaming exclusives for studios.
  - Streamers coming back to “deficit financing”.
- **Broadcasters** opening up to coproductions/ secondary exploitations

GOT A TIP? The Hollywood Reporter NEWSLETTERS SUBSCRIBE

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Warner Bros. Discovery Renews HBO Content Deal With Japan's U-Next Streaming Service

U-Next will remain the home of HBO in Japan as WBD extends a strategy of selling content to local Asia-Pacific services rather than launching its own streamer in the region.

BY PATRICK BRZESKI MARCH 7, 2023 1:10AM

Breaking the deadlock

4

Aiming for “AI”-based productivity gains

Selected examples of AI use in production

Now	Tomorrow
Trailers & sport highlights	Editing, VFX in natural language
Better de-aging tools	Dubbing
Basic effects (color corrections)	Script-based video editing
Automated loglines	“Creative ideas”
Selection of best footages	
Additional background for characters	

So: trends and speculations

Trends

1. Increased **polarisation** between **low budget**/national/no value in secondary exploitation vs. **high budget**/international/long term value
2. Increasing pressure on the financing of **theatrical films**
3. More focus on the creation of **new IPs**
4. **Rights sharing** between TV/SVOD services and producers remains the dominant scheme.
5. **Continuing consolidation of the (TV) production sector towards "European studios"**
6. **Technology (AI)** infiltrating all steps of production/exploitation process, in particular in **low budget** productions

And pure (provocative) speculation !

A two-tier future for production?

Haute couture

- High-end content
- International reach
- High budget
- Long-term value
- Human-driven

Ready-to-wear

- Low-end content
- Local reach
- Low budget
- Short-term value
- AI-driven