UK Film Distribution:

What's Changing?

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This report has been produced in conjunction with the conference on the changing nature of UK film distribution taking place in London on 13 June 2016, organised by MeCETES with the support of the University of York and the Creative Europe Desk UK.

Introduction: film distribution in transition

Roderik Smits, Huw D Jones & Andrew Higson

Distribution is an essential part of the film industry and the wider creative economy, performing a crucial mediating role between filmmakers and audiences. On the one hand, distribution is about enabling filmmakers to access audiences; on the other, it is about enabling audiences to engage with creative works. Distribution professionals are the gatekeepers who in effect decide which films are made available to audiences.

In recent years, film distribution has been increasingly taken up as a subject in academic discourse and industry discussions. In line with broader changes within the media industries brought about by digitisation, the development of the online market is changing the nature and structure of film distribution, and this has implications for the film business as a whole.

Film policy institutions and trade associations operating at national, European and global levels are anticipating such change, and developing new ideas, initiatives and experiments to create a sustainable film business. The effects of such experiments are critical in accumulating the necessary knowledge on which future business expectations and decisions can be based. Key distribution organisations such as sales agents, distributors and newly emerging online players have in recent years participated in EU-funded initiatives such as the Tide Experiment and Walk This Way, developed with the purpose of exploring the potential of films in the online market by implementing some form of day-and-date releasing. Meanwhile, national film institutions have developed support schemes for online film distribution. The British Film Institute (BFI) Distribution Fund, for instance, recently introduced a 'New Models' awards to support experimental and ambitious release models, and creative marketing strategies that seek to exploit new opportunities outside traditional theatrical and marketing routes.

It is thus important to acknowledge the current transitional state of film distribution. The online market is still in an early stage of development, but it is widely predicted that it will gradually become the principal revenue market for an increasing number of films. At the same time, the pressure on the theatrical run in cinemas remains fierce. Low-budget and specialised films (e.g. foreign-language titles) in particular are competing in an overcrowded marketplace in which it is increasingly difficult to build up awareness and establish a profile, with most such films given only a modest theatrical release.

It is worth noting that such changes are by no means bound to distribution, but equally affects the structures of film financing, production, marketing and consumption. These changes generate both opportunities and threats to distribution organisations, providing an incentive to develop new strategies and to engage with creative talent, business partners and audiences in new ways.

This report focuses on the transitional state of the film business, analysing the implications of changes to distribution arrangements between producers, sales agents, distributors, (online) content aggregators and digital platform providers. Given the changes in the film distribution business, it is likely that online distribution will grow at an unprecedented pace, while at the same time becoming increasingly mature and structured, increasingly restricted by policy regulations (e.g. the EU's Digital Single Market) and affected by newly emerging external pressures.

Key themes in film distribution

Roderik Smits, Huw D Jones & Andrew Higson

The field of film distribution has historically been reshaped by technological change. While the theatrical release has long been acknowledged the first and foremost release window, the development of secondary windows such as home video and satellite and cable television have been critical to the film industry and the state of its economy since the 1980s.

The prospect of film revenues in the theatrical, (physical) home video and television markets has served, and continues to serve, the interests of producers, sales agents and distributors, the key players in the process enabling films as creative works to reach audiences. However, the development of the online video market is transforming existing distribution arrangements between producers, sales agents and distributors. There are three themes in particular which need to be analysed and understood in more detail, and which will be the focus of the event on 13 June: the changing nature of film distribution; online film distribution; and the convergence between film and television. We explore these themes in more detail below.

1. The changing nature of film distribution

The traditional windowing model, whereby films open exclusively in cinemas before they are introduced to the home video market, and thereafter on television, is being undermined by new release strategies. A growing number of films are now given a day-and-date release, whereby VOD and theatrical release happen simultaneously. Day-and-date releasing is opening up new opportunities for filmmakers and producers, while the role of film distributors has come under intense scrutiny. Distributors are now confronted with a paradox: there are more windows or platforms on which they exhibit films, but it is increasingly difficult to predict how their films will perform across these exhibition sites:

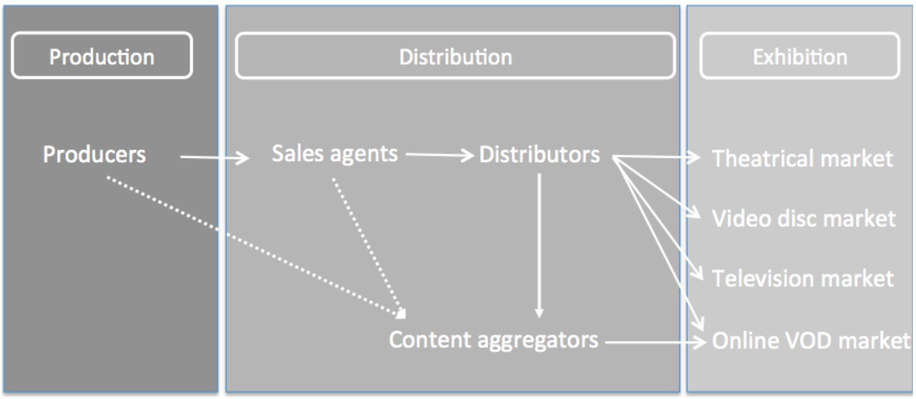
- Competition for screens in cinemas is fierce: films may be pulled from cinemas very quickly if average takings per screen plunge. At the same time, the theatrical market seems to be holding out, with the online market replacing the physical video market rather than theatrical revenues.
- The physical disc (home video) market has long been critical to the generation of revenue for distributors, but DVD and Blu-Ray sales are now declining rapidly.
- The online (home video) market is developing equally rapidly and facilitating new forms of mobility. Although it is likely that this market will replace physical disc sales in the near future, it has not yet developed into a mainstream revenue market.
- The value of films in the television market is changing with the development of online platforms. Television broadcasters have established their own streaming services on

which films and other forms of entertainment can be watched. Rather than control and schedule the availability of films on television, the focus here shifts to online audience preferences.

One response on the part of filmmakers has been the emergence of self-distributing producers who are not part of the studio oligopoly, sidestepping the traditional gatekeeping role of distributors (figure 1). Direct distribution is becoming increasingly common at the specialist or indie end of the market as an alternative to the traditional distribution process involving sales agents and distributors. These DIY distributors need to brand and market their own wares, but if these producer/distributor hybrids are to sustain their businesses, they need to be able to access the key online providers with their established audiences.

Another response, this time on the part of sales agents and distributors, has been to establish closer ties with producers (e.g. output deals or first look deals) to exert more control over the creative development and distribution of films, without competing with other distributors. Some are even turning to film production as a core activity. Other distributors such as London-based Curzon Film World – which owns the specialist distribution label Artificial Eye – have established their own on-demand platforms.

Figure 1: Film distribution arrangements



Content aggregators become important players in the online distribution process. Direct distribution arrangements become increasingly common to organise online distribution.

2. Online film distribution

The distribution business is thus at a crossroads. The online market is growing rapidly (figure 2). The emergence and consolidation of new ways of regulating and enabling the circulation of content across a range of different platforms through various forms of Video-on-Demand (VOD) releasing is changing distribution. Digitisation and new patterns of film consumption are forcing traditional distributors to develop innovative new ways to market films and make them available to audiences, allowing filmmakers to challenge accepted processes and procedures and seeing new types of players entering the market: from self-distributing producers and YouTube, to distribution consultants and content aggregators, to major digital providers such as Netflix and Amazon. What are the key issues here?

- There are now a great many online VOD platforms, from Netflix, Amazon, Google Play, Hulu and iTunes to the more specialist Curzon-on-Demand, BFI Player and We Are Colony. On the one hand, they provide audiences with more freedom to decide where, when and how they watch a wide range of films, from the latest releases to less recent productions, and from Hollywood blockbusters to indie, arthouse and world cinema films. On the other hand, new gatekeepers are emerging to regulate the access of producers to these online providers, while there is still much to be done to market films to online audiences and generate the vital revenue.

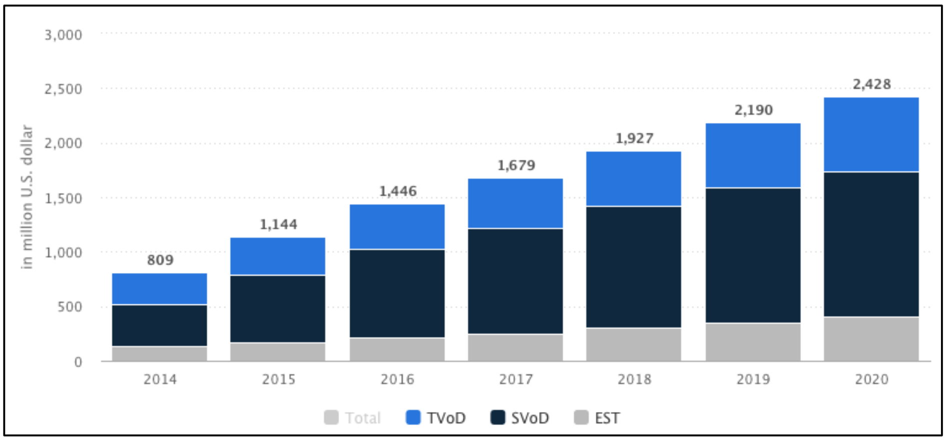
- Content aggregators are the new digital players, the new gatekeepers, between content producers and rights holders on the one hand, and the online VOD platforms on the other, including cable VOD operators such as Comcast and Time Warner. The business models of content aggregators and their impact on film distribution are however as yet little understood.

- Questions of access and diversity remain critical. There is a long way to go to establish an online world that offers unlimited choice to different audiences. Availability is bound by the logic of limiting and restricting access through exclusive contractual agreements with individual platforms, for limited periods of time. The Premium VOD business model is an example of such thinking.

- The major online platforms such as Netflix and Amazon seriously challenge the traditional distribution oligopoly and their business models. They operate in dozens of territories, with plans for even greater expansion, with huge budgets for both acquisitions and content creation, and unrivalled market intelligence due to the data they have from their millions of subscribers. What impact are they having on the distribution business as a whole, and what future is there for the theatrical market and theatrical distributors? Are these digital giants really friends and supporters of small, specialist films?

- The expansion of the online market has far-reaching policy implications. The EU is pushing ahead with plans to develop a Digital Single Market (DSM), with a vision that this will enable European consumers greater access to online films and TV programmes from other European countries. However, some European filmmakers object to the DSM on the basis that it will make it harder to finance their films by selling distribution rights on a territory-by-territory basis, ultimately eroding the diversity of European cinema. The EU has also mooted plans requiring on-demand platforms – including Netflix and Amazon's European operations – to make sure at least 20% of video content in their catalogue is made in Europe.

Figure 2: The growth of VOD market in the UK. Source: Statista (2015)



3. The convergence between film and television

While such change within the film business is inevitable, it is equally important to discuss the consequences for film as a medium, particularly in relation to the increasing popularity of television series. Digitalisation is bringing film and television closer together at an unprecedented pace. While the quality and availability of a greater number of television series continues to increase, this brings with it a change in the perception of television series, which are increasingly associated with the status of quality films and thus become a potential threat to the film medium.

We are now experiencing convergence at the level of production values, creative talent, distribution, and viewing on streaming services:

- Business analysts and observers have coined the phrase 'the third golden age' when referring to the popularity of television. Film producers increasingly point to difficulties with regards to recruitment and availability of creative talent, including well-known directors and actors.

- Key film festivals such as Toronto and Berlin launched programmes last year specifically designed for television series. This enables television series to build up profile through the film festival circuit.

- While many production companies already engage with both film and television, there is also a response from sales and distribution companies in the film industry, with some of them expanding into television. The UK distributor Arrow Films, for instance, has established a reputation for distributing film and television in recent years.

- Films and television series are both taking advantage of growth in the online market, and the same rules of exclusivity and restricted or limited access apply. The availability of television series in particular has increased dramatically on on-demand services. An example is Channel 4's recently launched streaming brand, 'Walter Presents', showing a wide range of foreign-language drama to UK audiences.

- As with the film industry, the fact that television broadcasters are facing fierce competition from online providers changes the nature of distribution, which is becoming increasingly dependent on revenue generated out of the online market, particularly from SVOD deals.

- While film estimates demonstrate a dramatic growth in SVOD revenue in coming years, the popularity of television series on streaming services could undermine such potential. How, then, does the film industry respond to the growing popularity of television series?

Foreign-language cinema in the UK

Huw D Jones

Earlier this year, German-language spy drama *Deutschland '83* made TV history when it became the UK's highest rated foreign language television drama with 2.5 million viewers.

This Cold War thriller is one of several successful TV imports – *The Killing, The Bridge* and *The Returned* are other examples – that have dispelled the myth that Britons don't do subtitles. Capitalising on the growing appetite for subtitled content, Channel 4 recently launched a new video-on-demand (VOD) service, Walter Presents, with over 600 hours of free-to-view programming.

But while foreign language TV dramas are enjoying unprecedented success, foreign language films have seen a dramatic slump at the box office.

Though overall cinema admissions have remained relatively stable for the last decade, admissions for non-English language films have declined by 56%, from 7.9 million in 2004 to 3.5 million in 2014, according to data from the British Film Institute (BFI). Excluding Bollywood films, tickets sales fell by 82%, from 6.2 million to only 1.1 million – equivalent to only 0.7% of the total UK box office.

A decade ago, four non-Bollywood foreign language films – *Volver, Pan's Labyrinth, Caché* and *Fearless* – managed to take over £1 million at the box office. Last year, there were none, with Argentinian comedy *Wild Tales* the highest-grossing title with £728,000.

Some audiences may be choosing to watch foreign language films at home online rather than in cinemas. Netflix offers a fairly large catalogue of international movies for a fraction of the cost of a cinema ticket, as do more specialised VOD platforms, such as MUBI, Curzon Home Cinema and the BFI Player. However, there are three more important factors behind the decline in foreign language cinema admissions.

Hollywood comes to the arthouse

Firstly, arthouse cinemas, the traditional champions of foreign language film, are increasingly showing mainstream Hollywood films, partly to attract the growing number of older, wealthier cinemagoers who tend to shun teen-orientated multiplexes. "You get cinemas which a few years ago would show a solid arthouse/independent programme suddenly showing *The Hobbit*," complains Robert Beeson of art-house distributor New Wave.

This is particularly the case within the so-called 'arthouse' chains - such as Picturehouse, Everyman and Curzon - which have emerged in recent years. In 2013, Cineworld, which owns 21 Picturehouse cinemas, was forced to sell three cinemas in Cambridge, Aberdeen and Bury

St Edmunds after the Competition Commission ruled there was 'considerable overlap' between the audiences and screenings at its multiplex and Picturehouse venues.

Meanwhile, multiplex cinemas – which account for 40% of the country's cinemas and 76% of screens – show few foreign language films other than Bollywood movies, which mainly appeal to Britain's South Asian community. In 2005, the UK Film Council introduced a scheme that persuaded one in four multiplexes to programme foreign language and other specialised films in return for a £50,000 digital projector. But with the UK Film Council's abolition in 2011, most have reverted back to showing mainly Hollywood movies.

Too many movies

Secondly, foreign language films are facing more competition than ever. Over the past decade, the number of cinema releases has almost doubled, from 451 in 2004 to 712 in 2014. In an average week, there are now 14 new releases, making it harder for smaller titles in particular to stand out. 'The big weekly film release tends to get quite a lot written about it while everything else gets a couple of paragraphs', grumbles Beeson.

The constant churn of new releases also hinders audiences developing through positive word-of-mouth. On average, subtitled films remain only four weeks in cinemas, down from six weeks in 2012. Many only receive a one-off screening during off-peak hours, as with the Picturehouse 'Discover Tuesday' or 'Vintage Sundays' slots.

Audience appeal

Thirdly, funding bodies are providing less support for foreign language films with mainstream audience appeal. In 2003, the UK Film Council introduced a scheme to support the marketing and distribution of specialised movies, including subtitled films. But while spending on foreign language film distribution has stayed at around £1 million per year, there has been a slight change emphasis since the BFI took over the scheme in 2011.

Whereas the more commercial-oriented UK Film Council tended to prioritise subtitled films with wide audience appeal, such as the German-comedy *Good Bye Lenin!* or the Chinese martial arts film *House of Flying Daggers*, the culturally-orientated BFI has favoured more challenging films by critically-acclaimed directors or festival winners. Earlier this year, for example, the BFI announced £100,000 in distribution support for six foreign language films, including the Chilean documentary *The Pearl Button*, which won the Silver Bear for Best Script at the Berlin Film Festival, and the Oscar-nominated Turkish-language drama *Mustang*, directed by Deniz Gamze Ergüven.

Yet, as the BFI's own cinema exit polls indicate, foreign language film audiences actually care more about the film's story or genre than whether it won an award or appeared at a festival.

The director, meanwhile, is a key draw only in a minority of cases (e.g. Pedro Almodóvar or Lars von Trier).

Policymakers should perhaps look more closely at the success of subtitled TV drama if they really want to boost foreign language film admissions. Part of the reason why shows like *The Bridge* and *Deutschland '83* have been so popular is because they place more emphasis on story and characters than directorial style. They also stick to formats (e.g. the police procedural) British viewers are familiar with.

Providing more support for subtitled films with mainstream audience appeal - such as comedies, action and thrillers - might be one way to revive foreign language cinema admissions.

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UK film distribution: what's changing for producers?

Roderik Smits

The debut feature of director Stephen Fingleton, *The Survivalist*, officially opened in the UK and Ireland on 12 February 2016. The film was made on a small budget of around £1 million, with initial financial support from the UK producer The Fyzz Facility, the BFI Film Fund, the UK Tax Credit and Northern Ireland Screen. Interestingly, it was green-lit and moved into production without a commitment from a sales agent or a UK distributor in place. This allowed the producer to think carefully about the distribution strategy. That is to say, at a time in which film distribution is changing, and self or direct distribution becomes an increasingly popular business model, it is no longer necessarily the case that producers rely on sales agents and distributors to distribute these types of films.

The self-distribution model

With several successful examples of self-distribution, it is becoming more common that producers deliberately take control over distribution of their films to cut out sales agents and distributors, thereby saving costs on their distribution fees. In other words, they rely on alternative distribution arrangements – organised directly by themselves or through distribution consultants – to negotiate deals with cinemas, (physical) retail stores, on-line services and television broadcasters.

Despite the popularity of self-distribution, the usefulness of this model in the UK film market, and the inherent opportunities it currently offers to UK producers, the approach needs to be put into perspective. It is until now applied only to the smallest, most modest budgeted films below £1 million. The main obstacle for other films to adapt to the logics of this model is the current state of the on-line market in the UK, which has yet to expand into a massive revenue market.

In responding to and anticipating further change in the next few years, the challenge for UK producers will be to pin down which distribution model works best for films; the existing distribution model through gatekeepers such as sales agents and distributors or the new self-distribution model. There is no doubt that the delicate balance for small low-budget films will gradually shift towards self-distribution.

The film festival circuit and theatrical releasing

As for all films with a sense of art-house appeal, the film festival circuit remains a popular strategy to introduce films internationally and build-up profile. It is the first form of film distribution through which films are exhibited in a relatively cost-saving way – by means of nominations for official festival programmes. In fact, some of the smaller (regional) festivals are actually prepared to pay for screening fees, and in this sense are also used to generate revenue.

The festival release is consequently accompanied by some form of theatrical release, for which a marketing campaign and release strategy will be developed to position the film in the local domestic market. It is at this point that substantial upfront investment (P&A costs) into the marketing campaign becomes important in supporting the release in cinemas, on-line, and other markets.

The involvement of distributors is crucial in this respect because they are usually prepared to make such funds available (in case of the UK market often with additional financing from the BFI distribution fund) and have developed partnerships with media companies. The support of distributors, in this way, adds to production financing provided by producers and their partners. Some UK producers might be prepared to invest in the marketing campaign by themselves, but that is certainly not the case for all producers – particularly the smaller producers cannot afford such investment. In short, films need investment towards distribution to be positioned against other films in as competitive a manner as possible.

Release strategies

The new day-and-date release, which is reshaping existing sequential release patterns, has not yet changed this process of value creation for films. It is the continuing need for distribution investment that puts limits on the current self-distribution model. While producers usually get in touch directly with exhibitors to organise a series of special screenings in some selected cinemas, often in combination with a Q&A, it is less likely that those films are given a formal theatrical release without a marketing strategy in place that supports the theatrical run.

Returning to the example of *The Survivalist*, the German sales agent K5 International picked up the film after the shooting period in November 2014, and immediately introduced the project to distributors at the American Film Market later that month. They prepared the film for its world premiere at the Tribeca Film Festival in April 2015, followed by a release at a range of other festivals, gathering critical acclaim and festival prizes. The first key distribution deal was closed with the US distributor Alchemy at the Cannes film festival in May 2015, while the UK distributor Bulldog Film Distribution became attached after the London Film Festival in October 2015, at which Stephen Fingleton won the award for Best Debut Director.

In acquiring all distribution rights for the UK and Ireland territory, the UK distributor was able to control and coordinate the marketing campaign and the release of the film in cinemas, on-line, and other ancillary markets. In addition to their financial contribution to the marketing campaign, they were awarded £60,000 by the BFI distribution fund to further strengthen its positioning across the UK and Ireland. They prepared the film for an exclusive two-month day-and-date release in cinemas and on premium VOD. The release date was strategically chosen, coinciding with the BAFTA ceremony for which Stephen Fingleton was nominated. The film opened modestly in about 25 cinemas in the first week. It was also available for rental on as much as 12 TVOD platforms, including global platforms such as Amazon, iTunes and Google Play and local platforms such as BFI Player and Curzon Home Cinema. The premium VOD arrangement kept on-line streaming prices high, ranging between £5.99 and £10.00, on par with cinema tickets. Those prices will drop as soon as the release opens up to other forms of distribution, and the film can be viewed via a plethora of on-line platforms such as SVOD, TVOD (on which the film can also be bought at that point), and also on DVD, Blu-Ray and television.

What's likely to change?

In various ways, this sort of day-and-date release is typical in the UK for small-budget films distributed through distributors, adding weight to the initial festival release which is important to negotiating subsequent deals with on-line services, (physical) retail stores and television broadcasters in the UK market, and international deals.

However, it will be increasingly difficult to hold on to this model for this type of film in the next few years. First, there is the trend that the release period of films on show in cinemas is shortening, with distributors calling into question if substantial marketing investment into theatrical releasing is still justified. Second, while the value of the theatrical market will continue to decrease for such films, the focus will shift further to the on-line market. This further strengthens the belief that distribution of such films could be organised without the involvement of distributors.

That is not to argue that the expertise of distribution professionals becomes obsolete. Although the notion of self-distribution suggests that producers organise distribution by themselves, they usually make use of sales agents, theatrical agents and/or content aggregators to distribute (small) films in local markets. This means that there are multiple hybrid forms of distribution in-between the self-distribution model on one hand, and the model through distributors on the other. The involvement of such distribution professionals, albeit as part of a different arrangement, remains important to producers to effectively organise distribution.

Such hybrid forms of distribution have become more common in recent years and producers are likely to continue anticipating change in the near future by privileging those arrangements for the smaller films. The on-line platforms will be the first and foremost market for such films, from which producers stand to benefit because a greater share of revenue out of this market will flow back directly to them. Producers, or, sometimes, sales agents, in this context, will deal directly with content aggregators, who oversee and coordinate the on-line marketing campaign and release strategy.

The changing nature of film distribution offers new opportunities but also challenges to producers. The delicate balance between self-distribution and distribution through distributors will remain an issue in the coming years. The continuing shift towards on-line distribution will not only affect this type of small-scale films described above, but will gradually move upwards to a category of higher budgeted films which are currently distributed through distributors. Such further change will confront producers and distributors with yet another challenge in the next few years.

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Mediating Cultural Encounters Through European Screens (MeCETES) is a three-year collaborative research project exploring contemporary European film and television drama, funded by Humanities in the European Research Area (HERA), and bringing together the Universities of York, Copenhagen and Free University Brussels. The project examines the production, distribution, reception and policy contexts that enable European audiences to encounter other Europeans through film and television drama.

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