Post for the Reboot blog [i]

The competitiveness of European cinema: "non-theatrical" cinema wins through S-VoD

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The big question of competitiveness appears in the different scenarios and studies on the recent evolution of cinema on both sides of the Atlantic. In particular, in this article we report on the specific study on the impact of the streaming sector -including VoD and SVoD- on the competitiveness of European cinema; which is one of the aspects that concern us in the Reboot consortium (WP2, Report D.2.2.).

The latest Focus 2023 report from the Marché du Film de Cannes[ii] raised a big question mark with the COVID-19 crisis now over as theaters have regained pre-pandemic audiences. To know if the European cinema data with 37% less wide release films compared to 2019, although with an average box office takings per film equal to 2019, are only " *repercussions of the COVID-2019 crisis that, to some extent, the pandemic has accelerated or, at least, revealed pre-existing weaknesses"*. What's going on, is it possible to reconcile diversity and competitiveness?
The weakness of the European film sector to which Focus 23 refers can be observed in different variables and paradoxes: such as "the decline in box office receipts but with stable production levels, at least in Europe", the growth of the market for "non-theatrical films" as opposed to those that are shown in theaters (...), thus opening the way for "new business models that challenge the "traditional deficit financing".
As of early 2023, some studios have balanced their strategies (e.g., The Walt Disney Co. which has capped releases through its Disney+ service), but it is still unclear what the final trade-off will be between theatrical release and live SVOD" with no prior theatrical pass-through.
This weakness of "theatrical" cinema is, on the other hand, in our opinion, a great opportunity for the S-VoD sector, and as we mentioned here, a growth factor that is "pulling" the entire cinema/audiovisual value chain (scriptwriters, production, acting, filming, dubbing, etc.). There are, therefore, doubts about the model, changes in strategy and a new technological paradigm, a combination that has accelerated the decision

making that explains the successful growth of VoD and S-VoD. But, before moving forward, let's rewind a little in time.

Flash back: the industry 10 years earlier

Although in 2014 in Spain we already had two S-VoD platforms (Filmin[iii] and Yomvi[iv]), to explain the emergence of the phenomenon it is inevitable to talk about Netflix as a disruptive milestone in the audiovisual sector (Neira, 2020, 35; Corredoira, 2023, 3). Netflix, which was born in 2007 as a DVD subscription rental company and in 2012 became an S-VoD platform, landed in Europe in 2012; first in Ireland and the UK, in Nordic countries, and arrived in Spain and Portugal in 2015, thus beginning a path of business and international expansion that had already begun in 2010 with the arrival in Canada and some Caribbean countries.

As mentioned above, it was the changes in the United States that have driven the development of VOD platforms on a global scale. On the one hand, the development of Netflix as a company dedicated exclusively to *streaming* -in parallel to the improvement in time and quality of network video-; on the other hand, the move by the major studios to adapt and position themselves in this new reality has influenced the internationalization of *streaming*. In Europe, the arrival of major international platforms was combined with the establishment of a regulatory framework and the emergence of national initiatives, such as Filmin in Spain, from the independent film sector, or Movistar +, from the major telecommunications groups.

KEY CONCEPTS

For the European Audiovisual Observatory of the Council of Europe,[v] *"VoD refers to content delivered over a managed network to a set-top-box and it is the kind of technology employed by Cable and IPTV providers".*

Subscription VOD or *S-VoD "is a business model traditionally associated with streaming video. Users pay a standard monthly rate for access to content which is streamed on request; this is to say no long term store of the content is made on the user's device."*

The Cambridge Dictionary defines S-VoD as *"a system for watching films or recorded programmes on the internet or television at any time".*

Beyond this generic definition, the fact is that VOD services are characterized by a wide range and heterogeneity of services that are being analyzed in detail in Reboot.

The development of VOD services in Europe

While in the U.S. the *majors* have played a central role in the development of VoD services, in Europe the evolution has been slower, says Focus 2023, albeit with a steady acceleration since 2012. *"During the COVID crisis, Hollywood studios indeed directed part of their production to streaming services, including their own services, and this trend continued in 2022 as a way to attract more SVOD subscribers[vi]".*

Image 1 shows who's who in the *Motion Picture Association* (MPA) i.e. the main association of the Hollywood industry until Netflix's entry that occurred in 2019, and how those companies also have their "window" on a VOD platform or service, making strategic decisions that remain in place at the present time (March 2024).

IMAGE 1. HOLLYWOOD "STUDIOS" ALLIANCES

The "MAJORS".	Warner Bros. (1923)	Disney Studios (1923)	Universal Pictures (1912)	Paramount Pictures (1912)	Sony Pictures (1924)
Owned today by	AT&T	The Walt Disney Company	Comcast	Viacom-CBS	Sony
Studios and production companies		20 Century Fox	NBC-Universal	Miramax	Columbia Pictures TriStar Pictures
		LucasFilm		CBS films	Metro-G-Mayer
		Marvel		Nickelodeon	United Artist
SVOD Service	HBO Max (formerly Vudu)	Disney + (before the launch of the app, on Hulu)	Vudu Hulu Showtime	Paramount+ Showtime	Netflix (2022)

Elaboration: Corredoira, L. Jean Monnet Chair, Modern Times Report (2023)

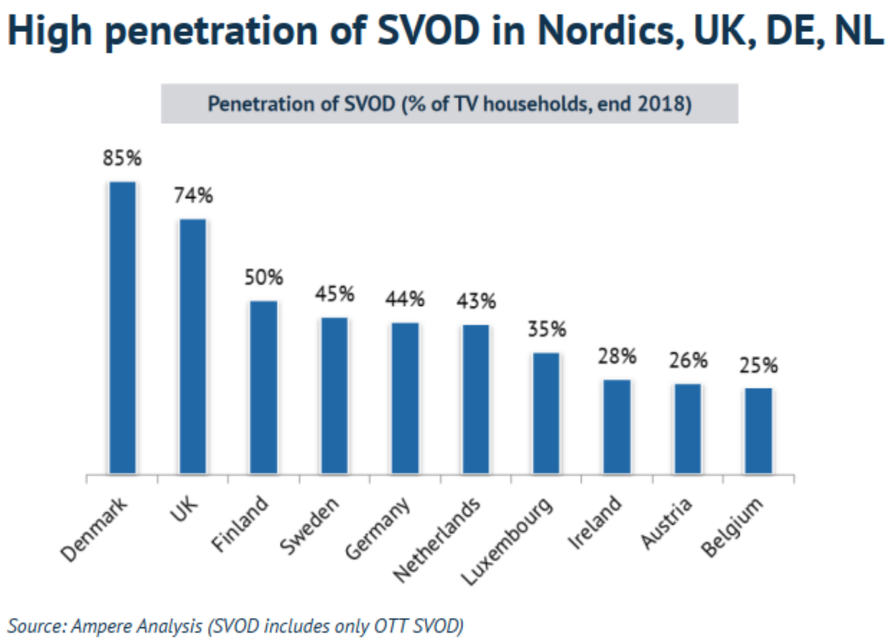
Back in Europe, looking back to 2009, only 14 service providers in the sector were originally from the film industry, whether in production (**MK2** in France or **Fandango** in Italy), distribution (such as **Cinemien** in the Netherlands or **Filmladen** in Austria) or sales agents (such as **Wild Bunch, the** result of the merger of the French group StudioCanal and the German Senator Entertainment[vii]), which can be explained, among other reasons, by the business diversity that characterizes the European film industry, not as solid or concentrated as the North American one. In those early years of VoD, the role played by television stations as service providers through the on-demand television modality also stood out (European Audiovisual Observatory, 2009[viii]).

Regulatory changes in the EU

In parallel to the changes and mergers in the film industry, the European Union institutions generated the first legislative measures and promotion programs to encourage the new digital market. The definitions of this new business and industrial reality have changed substantially, as reflected in the latest European Audiovisual Media Services Directive (Directive 2018/1808/EU hereinafter AVMSD[ix]). According to the definition (art. 1 a)[x]) with which the AVMSD starts, *audiovisual media services* include both cinema and television (broadcasting), information, VoD, commercial communication and other content aimed at the public.

We are therefore facing a definitive change that reorders the European audiovisual framework that includes not only VoD services, but also "Vloggers" and "YouTubers" within the users of special relevance, to comply with the principles and values of the standard, as well as with the requirements of transparency and jurisdiction. As member states (all 27 EU member states) have been transposing the AVMSD into their respective legal systems, VoD service operators are adjusting their programming and investments to comply with the rules of European work protection. In Spain, Law 13/2022, General of Audiovisual Communication[xi] , which transposed the Directive, requires them to purchase or produce 30% of the European catalog and to finance European and national audiovisual works in advance. The change is radical and has generated a growth in the sector. These laws have sought to rebalance the obligations between traditional broadcasters and online content distributors, guaranteeing free competition and consumer rights.

Together with the various Audiovisual Directives, the 2010 and 2018 Directives, other measures were implemented to guarantee the competitiveness and creativity of the European audiovisual industry in the emerging digital market (highlighting the Media Program). Strategies were designed to harmonize the single market by incorporating multi-territorial licenses in music, making content *roaming* mandatory for users and, protecting intellectual property rights[xii] .
Established national operators (from cinema, free-to-air and cable TV, telecom operators, etc.) were prioritizing their own VoD services. The most digitally developed countries were the fastest to adapt to the consumption of VoD services (UK, Denmark, Finland, Sweden and Germany) indicating the existence of a pre-existing market, but a lack of supply (European Audiovisual Observatory, 2015, 10).



PENETRATION OF SVOD MARTA JIMÉNEZ PUMARES. OBS, BRUSSELS, 2019, P. 15.

As indicated in the first S-VoD market studies (Grece[xiii]) a similar development is expected in the other European countries: *"smaller SVoD markets (but important markets when it comes to pay TV) which have not yet seen the entry of global players (in 2014) such as Spain, Italy or Poland could experience a comparable boost in* *consumer revenues once compelling SVoD services are launched, such as Yomvi (Canal+/Telefonica) combined to a market entry by one global player, as it was the case in October 2015 for Netflix in Spain, Italy and Portugal".*

The arrival of Netflix and other major international VoD services (Amazon Prime, HBO, etc.), the imposition of the monthly subscription model (S-VoD) over the transactional model (TVoD) and the reaction and adaptation of national operators (improving their interfaces, investing in production and licensing, internationalizing, etc.) were the definitive boost to the non-theatrical cinema market in Europe.
We conclude. We are currently facing a general restructuring of the audiovisual industry and production and broadcasting system, marked by the creation of alliances, takeovers and internationalization strategies and a high growth of audiences in the so-called "non-theatrical" cinema. The reader will learn more about this in depth in report D.2.2. of the Reboot.

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[ii] *European Audiovisual Observatory*, Focus 2023. World Film Market Trends, p. 7
[iii] Filmin.es
[iv] Which since 2016 has been part of Movistar +.
[v] Laura Croce and Christian Grece*,* Trends in video-on-demand revenues, *European Audiovisual Observatory*, November 2015, pp. 3-4.
[vi] Ibid. Focus 2023, p. 7.
[vii] Cfr. URL: https://bestofselecciones.wordpress.com/2017/06/25/quien-es-quien-en-el-mapa-de-agencias-de-ventas-internacionales-de-cine/
[viii] Cfr. European Audiovisual Observatory, 2009, p. 118.
[10] Directive (EU) 2018/1808 of the European Parliament and of the Council of 14 November 2018 amending Directive 2010/13/EU on the coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the provision of audiovisual media services (Audiovisual Media Services Directive) in view of changing market realities
Avilable at https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32018L1808

[x] Art. 1. *"audiovisual media service" means:*

(i)a service as defined by Articles 56 and 57 of the Treaty on the Functioning of the European Union, where the principal purpose of the service or a dissociable section thereof is devoted to providing ***programmes, under the editorial responsibility of a media service provider, to the general public****, in order to inform, entertain or educate, by means of electronic communications networks within the meaning of point (a) of Article 2 of Directive 2002/21/EC; such an audiovisual media service is either a* ***television broadcast*** *as defined in point (e) of this paragraph or an* ***on-demand audiovisual media*** *service as defined in point (g) of this paragraph;*

(ii) audiovisual commercial communication;';

[xi] Available at https://www.boe.es/eli/es/l/2022/07/07/13/con
xii See Corredoira, L., La Unión Europea ante el fenómeno de los contenidos digitales audiovisuales, *Proceedings of Industrial Law and Copyright,* Vol. 37 (2016-2017), Institute of Industrial Law, University of Santiago de Compostela, pp. 375-386.

[xiii] Christian Grece, *The SVOD Market in the EU Developments* 2014/2015, A publication by the European Audiovisual Observatory, p. 9.