

# VOD distribution and the role of aggregators

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## **VOD DISTRIBUTION AND THE ROLE OF AGGREGATORS**

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## Executive Summary

This report has been prepared by the European Audiovisual Observatory with the support of the European Commission. It aims at identifying emerging patterns in the distribution of audiovisual works on on-demand services and their impact on the value chain, with a particular focus on the role played by aggregators.

### VOD services are booming

- The total pay on-demand revenues in the EU have increased by 52% from 2014 to 2015.
- The rise of SVOD services is particularly striking (+95% from 2014 to 2015).
- Different business models and practices are encompassed in the notion of VOD: while the “access” model (pay-TV, SVOD) is gaining ground, ownership-oriented models (EST) are lagging behind.
- But revenues originated by VOD only represent 3% of entire audiovisual market.

### Still, European films struggle to access VOD

- According to a study carried out by the European Audiovisual Observatory, only 47% of European films make it to TVOD catalogues, versus 87% of US films.
- EU films represent 43% of all films in TVOD catalogues when counted on a unique basis (that is, once per title), vs. 41% for US films. However, when counting each occurrence of a film in all catalogues, the results are reversed (EU films only make up for the 27% of the films, vs. 59% of US productions), indicating that on VOD, EU films tend to circulate less than US productions.
- The data also show that, when available on TVOD, EU films are available in a smaller number of countries than US films.
- Only a limited number of films in the catalogue actually benefit from promotion on the homepage.
- This is particularly challenging for European productions, as they are only allocated one third of promotional spots on TVOD services.

### VOD distribution strategies are far from being stabilised

- How VOD should be positioned in the current media chronology is still debated.
- While VOD distribution looks like a promising business opportunity, incumbent players might find it difficult to swiftly adapt to new exploitation models as the coordination of a digital distribution strategy requires specific expertise.
- Incumbent players are experimenting with different distribution practices.
- Day-and-date release, that is, the simultaneous availability of a film across different release windows, might maximise promotional efforts and increase visibility.
- The combination of DVD and VOD, in particular, seems to have a positive effect on sale.
- VOD has also been combined with other windows in various forms for promotional purposes (e.g. direct-to-festivals).
- Straight-to-VOD distribution strategies usually concern those films that are expected to perform poorly at the box office. This allows distributors to fulfil their contractual obligations



in a certain territory without investing resources in prints and advertising (P&A) for a theatrical release.

- Genre films (action, horror, thrillers), having a long-standing tradition of direct-to-video distribution, can also be viable candidate for straight-to-VOD.

#### **Bundled vs. stand-alone VOD rights**

- Data suggest that the theatrical release of a film seems, to some extent, linked to a VOD release at a later time, at least on transactional VOD.
- For the most successful European films, VOD finds its place within the traditional distribution model, where a national cinema distributor player with an in-depth knowledge of the market, will directly negotiate with the VOD services.
- Releasing the films on VOD may prove to be more difficult for films with a lower commercial potential or not supported by a successful theatrical release upfront.
- Therefore, there is, to some extent, an “unexploited” VOD market for a significant number of films in several countries. But the size of the market is still limited and VOD is faced with fierce competition for visibility. The economic relevance of pursuing untapped VOD opportunities seems to be limited to a minority of these films, suggesting the need of a selective approach.

#### **The surge of a new player, the aggregator**

- Aggregators have carved out their role in the digital distribution landscape through a diversified set of functions, mainly revolving around two pillars. First, they process the digital file in order to deliver it to the platforms in accordance with their technical requirements. Secondly, they gather large catalogues of titles, which allows rights holders to place their content on those global platforms that require a minimum volume of films.
- In addition, they can also offer technical, PR and marketing-related services, as well as strategic advice and content curation.
- Aggregators can either adopt a flat-fee or revenue-sharing business model, depending on the kind of service offered.

#### **Aggregators are facilitating VOD distribution under many aspects**

- Aggregators might be an effective and time-saving solution to streamline the operational pipeline towards VOD distribution, since the high number of contracts can represent a considerable burden for both right holders and platforms.
- Because of their specific know-how, they are in the position to coordinate digital distribution strategies and engage in content curation.
- Aggregators can help increase the cross-country circulation of European films that are mainly distributed in their national countries, by making these titles available on VOD in territories where they are not released in cinemas. However, it is still difficult to assess the demand for this kind of titles on VOD.

**However, aggregators are confronted with a series of challenges**

- In order to maximise their revenues, it is key for aggregators to build scale in terms of catalogues of titles and geographical coverage.
- VOD distribution is a low-margin business and distributors and right holders might perceive aggregators as another intermediary in the value chain, which would weaken their own share of the revenues.
- It is expected that (at least some) distributors might gradually develop their own expertise in areas that are part of the aggregators' core activities (e.g. marketing, technical services, etc.). These transformations might undermine the aggregators' distinctive role and portfolio of functions.
- Aggregators may risk to be confined to niche (and thus less lucrative) film segments, such as titles with little commercial potential that do not benefit from a theatrical distribution.
- In order to minimise these risks and manage the "coopetition" with other players, aggregators will probably enrich their mix of servicing to increase their added value, combining technical services with digital marketing, content sourcing and curation.



## Introduction

The exploitation of audiovisual works, and films in particular, is traditionally based on two pillars:

- a release windows chronology, mainly agreed upon on a contractual level, with theatres being the first (usually exclusive) window;
- a territory by territory exploitation of rights, based on two rationales: first, the (pre)financing of films by different players along the value chain (cinema distributors, TV channels, DVD publishers) mainly active on a national basis; secondly, the need to exploit the films according to national specificities, in order to recoup the investment in production.

Over the last years, video-on-demand (VOD), and more specifically pay-VOD has been surging, and established itself as a new outlet for the distribution of audiovisual works. However, its economic weight within the global audiovisual market still remains limited and, generally speaking, a financially sustainable distribution strategy cannot be based on VOD alone. Furthermore, opinions differ regarding the best placement for VOD within the current windows system.

Another challenging aspect originates from the hybrid nature of VOD, a notion that in fact encompasses very different services. On the one hand, Transactional VOD (TVOD) seems to be the natural successor of DVD (even if its revenues do not compensate for the collapse of physical video); on the other hand, Subscription VOD (SVOD) competes more directly with the traditional pay-TV channels which have, in turn, launched their on-demand catch-up services.

Whatever the type of VOD, some of its characteristics seem to be in contrast to the traditional territory-by-territory approach. Some of the key VOD players are active in several countries on a European basis. Also, national VOD players do not participate or only participate marginally in the pre-financing of films.

Under the correct assumption that European films struggle to access VOD services, **aggregators** have come to the fore, building their role of intermediaries and gatekeepers on some key aspects of the VOD market:

- big VOD platforms have enough market power to impose right holders a minimum volume of titles in order for their content to be featured in VOD catalogues;
- specific technical, business and marketing expertise is needed to ensure that films are available on the major VOD platforms.

Part of the aggregators' added-value lies in their capacity to guarantee audiovisual work a distribution that is as wide as possible, beyond the theatrical-driven, country per country, VOD release. In a context where the global resources available for film financing are under pressure, this new intermediary may contribute to increase the size of the pie, maximising revenues for VOD. At the same time, as aggregators claim their share in what could be a low-margin business, this might lead to the disintermediation of traditional players (e.g. distributors).

This report therefore intends to provide some elements to address the following key questions: is VOD becoming automatically integrated within the current territory-specific distribution system, with national distributors playing a key role and leading the exploitation on all windows in their national markets? Or does VOD per se imply a specific exploitation model, hinged on a multi-territorial focus and coordinated by highly specialised players?





## Structure of the report

This report sets out to explore recent developments in VOD distribution in Europe, with a special focus on the emergence of film aggregators. In order to better contextualise the role of these new players, we will also provide some background information on the evolution of the digital distribution landscape.

In the first chapter, we will describe in more detail the characteristics of different VOD services, and identify current models, challenges and opportunities in online film distribution. Furthermore, we will put VOD services into context, considering it within the overall audiovisual market.

In the second chapter we will draw on previous research carried out by the the European Audiovisual Observatory in order to provide an overview of the offer of VOD catalogues in Europe. First, we will analyse the composition of VOD catalogues, identifying the shares of film with EU origin available on a selected sample of TVOD services. In this section we will also address the question of visibility, trying to determine how many titles available on VOD services are actually promoted. These analyses are based on data gathered through a tailor-made web-scraping tool and on a data set collected by the company AQOA.

The third chapter will focus on the film distribution landscape and will explore emerging distribution patterns and strategies across new and traditional channels. In particular, we will put VOD in relation to theatres, trying to determine to what extent online availability and theatrical film distribution overlap geographically and highlighting possible differences in the circulation of films in cinemas and VOD. To do so, we will rely on data from the Observatory's LUMIERE database as well as on the data set referred to in the second chapter.

In the fourth chapter, we will finally focus on film aggregators and will try to better understand their activities and role within the film distribution landscape vis-à-vis other market players. For this section, we will also rely on qualitative investigation carried out by the Observatory through semi-structured interviews, held by telephone, email or in person, with relevant stakeholders from the industry (aggregators, consultants, distributors, producers, VOD services). In most cases our sources accepted to share information on sensitive business data subjected to a confidentiality agreement.

### **Definition of “film aggregators”**

Please note that in this publication the term “aggregators” is not to be understood in its broader meaning of “websites that collect and make available online audiovisual content from other sources”, a definition that would also encompass video hosting websites and VOD platforms such as YouTube and Netflix. In this report, the definition of “film aggregators” refers to those companies that serve as middlemen between right holders and VOD platforms, often providing technical, localisation and marketing services.



# 1. Background on the VOD market

## 1.1. The concept of “on-demand” includes very different services

### Pay on-demand services

#### TVOD (Transactional video on-demand)

In transactional video on-demand services, such as Apple’s iTunes or Google Play, films or audiovisual contents are available either for download (electronic sell-through / EST) or for online rental. Customers pay on a pay-per-view basis while right holders receive a commission on transactions.

TVOD can be seen as the digital evolution of the physical home video store and in fact this release window tends to overlap with DVD and Blu-ray. In particular, EST is often compared to a digital version of the DVD. However, EST only makes for a small part of all TVOD transactions, the majority of them consisting in rentals and online streaming.

TVOD services do not normally invest in licensing and financing new productions (which is something that SVOD services do). In order to be profitable, this model has to build a certain volume through selling or renting large quantity of contents. In general, TVOD services are more likely to focus on recent releases, as the revenue per view is higher for new productions.

As a trend, the VOD window is getting more and more competitive and receiving visibility is becoming increasingly difficult. Big TVOD services might enhance visibility for certain contents (through dedicated promotion in the front-page) but they do not normally make an upfront selection of the contents, as their objective rather focuses on gathering large catalogues. For small producers and distributors it might therefore be a challenge to have their content included in the catalogue of certain TVOD services, as the latter typically prefer to strike deals over huge volumes of content.

#### SVOD (Subscription video on-demand)

SVOD services grant their customers access to a catalogue of contents against a monthly fee: this is the case, for instance, of Netflix, Hulu or Amazon Video. While most services focus exclusively on one model, some portals, like the Austrian Flimmit, offer customers the opportunity to choose if to purchase a single film or to opt for a subscription service.

The predictable expansion of Netflix in Europe has deeply influenced the digital landscape and the company’s massive promotional investments have resulted in increased consumer awareness.

The popularity of SVOD services must be considered within the more general shift from ownership to access in the audiovisual industry. Under many aspects SVOD replicates the pay-TV model and it is probably the ideal formula as far as consumers are concerned. Customers have access to an “all you can watch” formula for a flat monthly sum, which allows for a low-risk exploration of back catalogue titles and lesser known contents.



In order to limit subscriber churn, SVOD services are increasingly investing in exclusive premium content. This, coupled with a diversification of the offer (TV series, fiction films, documentaries) represents a considerable competitive advantage for SVOD when compared to TVOD. TV series, in particular, play a pivotal role in sustaining customers' consumption patterns. All these elements suggest that in the future SVOD services might become major competitors to free and pay-TV in Europe, triggering a wave of cord-cutting, as we are seeing in the US market.

While the majority of pay-TV channels work on revenue-sharing, most SVOD deals are non-exclusive and based on flat-fee model (with a few exceptions, such as Mubi and Hulu). For SVOD, as a general rule, revenues might be too low to make the model financially sustainable, except for US big studios that can be certain to rely on high returns.

Finally, many right holders are reported to be still reluctant toward SVOD, since it is commonly assumed that SVOD, being the last window in the distribution chain before AVOD, implies a decline in the value of a title. Another frequent concern is that SVOD deals could block opportunities for pay-TV channels that have their own VOD services.

#### **Synthesis on pay on-demand services: TVOD and SVOD are essentially different**

TVOD and SVOD are often analysed as two sub-segments of the pay on-demand market but they actually differ in their business practices in a significant way.

- TVOD can be regarded, to an extent, as the dematerialisation of the DVD and Blu-ray retail and rental services, as both options provide the possibility to rent or purchase a single title (a film or an audiovisual work), whether in a physical or dematerialised format. TVOD usually works under a principle of revenue-sharing between the right holder and the TVOD service.
- SVOD should probably be considered as a particular form of pay-television. Like a pay-TV channel, a SVOD service gives customers access to a vast array of more or less exclusive content. Of note is also the fact that pay-TV channels often propose catch-up services, i.e. a non-linear access to their catalogues.

Considering TVOD and SVOD as the same market may therefore be misleading when analysing their distribution strategies.



## **AVOD (Advertising-based video on-demand)**

AVOD services are free for customers, as the service is sustained by advertising streamed around the contents (e.g. YouTube). Right holders are usually compensated through a combination of flat-fee or minimum guarantees (MGs) and revenue-sharing. Since AVOD is the last window of the digital exploitation cycle, right holders are generally weary of this type of services and associated it with a decline of content value. However, there is some evidence that in certain cases AVOD streaming could actually boost sales of the same film on EST, in the same way a theatrical release would do with DVD sales.

Finally, some services can also operate on a “freemium” model, giving audience free access to certain titles but requiring a subscription for premium contents.

## **1.2. Film and TV**

Research carried out by the European Audiovisual Observatory suggests that European films face hurdles in accessing on-demand services and that they suffer from a lack of visibility when they are included in these catalogues (we will look at this topic in more detail in the second chapter of this report).

In recent years, the popularity of high-quality TV productions has caused a big shift in the industry (in the past mainly focused on film), as successful TV series can steadily guarantee the audience’s interest over time, making them extremely appealing to VOD services.

In Europe, TV content is available both on SVOD and IPTV platforms but not all VOD services include TV series in their offer. In some countries the infrastructure for the VOD distribution of TV content might not be very developed or coordinated (e.g. iTunes and Google Play only have a store for TV content in a few European territories). In certain countries there might be cases where a series is not available on OTTs after having been broadcast on TV, which generates a gap in the windowing system and can favour piracy and illegal streaming.

On the other hand, local OTTs might suffer from a competitive disadvantage over the provision of TV series. In fact, distributors often prefer to break deals with traditional broadcasters, that can finance productions based on framework contracts, while OTTs usually pay based on the final balance.

In some cases, public broadcasters have signed off deals with VOD services: in 2014 the Austrian public TV ORF partnered up with the VOD platform Flimmit, licensing a bundle of TV series from their archives.

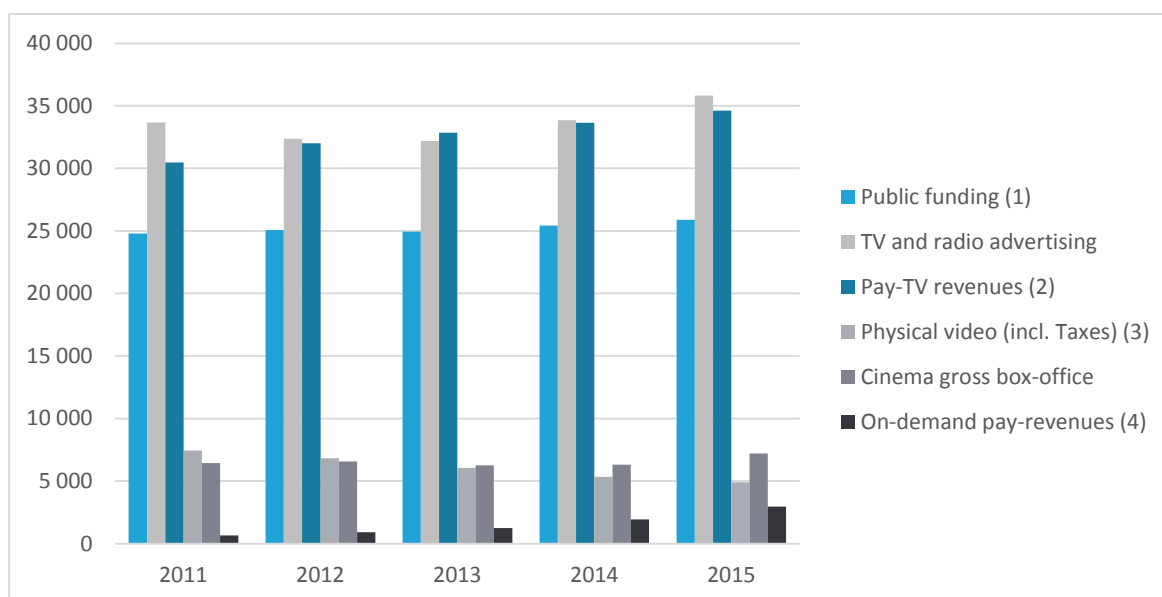
Finally, there is an ongoing debate over the nature of VOD rights: some broadcasters, that normally buy TV rights as a coproduction share, might want to conflate VOD and AVOD rights in TV rights, while distributors maintain that these two rights are of different kinds and should be sold separately.



### 1.3. Sizing up the market

Pay-VOD services have been rising steadily in the EU in the last couple of years. The total pay on-demand revenues in the EU have shown an increase of 52% from 2014 to 2015, as well as a compound annual growth rate of 45% over the period 2011-2015.

**Figure 1: Evolution of the audiovisual market in the EU (in EUR millions).**



Source: OBS, Warc, Ampere Analysis, IHS.

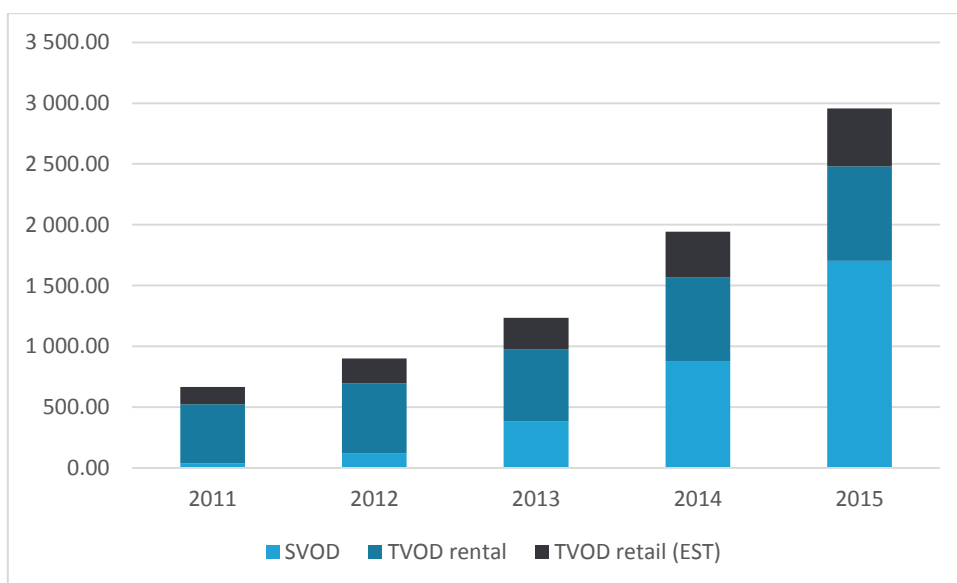
- (1) Estimated from the public revenues of the public broadcasters.
- (2) Includes TV subscription, PPV and TV VOD revenues.
- (3) Data related to 19 countries.
- (4) Data missing for some EU countries.

The growth is particularly striking in the case of SVOD revenues that have risen by 95% from 2014 to 2015, with a compound annual growth rate of 161% over the period 2011 – 2015.

Revenues from TVOD services have also experienced a considerable upturn, although not as sharp as SVOD, marking an increase of 28% for retail (EST) and of 12% for rentals.



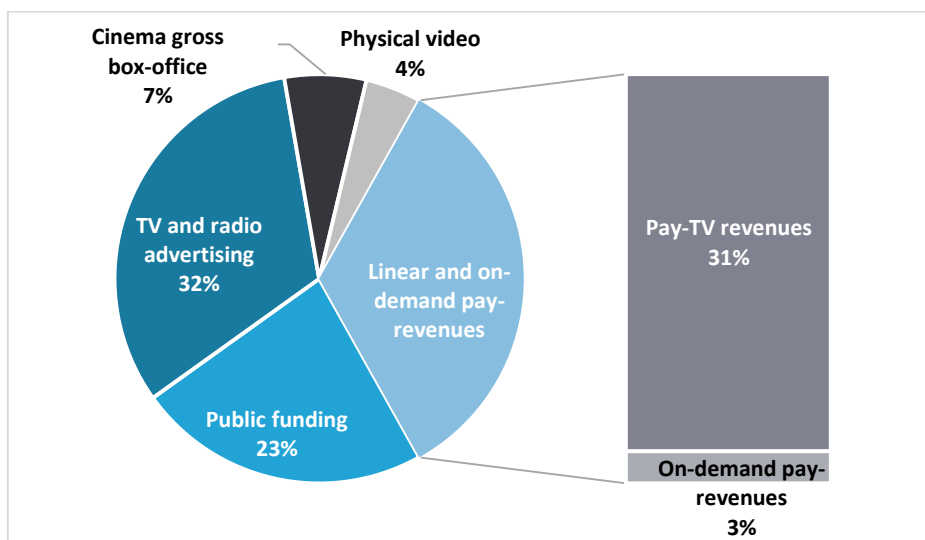
**Figure 2: On-demand pay revenues (in EUR millions).**



Source: OBS, Ampere Analysis.

However, it is important to stress that, in spite of the clear growth trend, VOD revenues are still scarce when compared to the overall audiovisual sector: in 2015 they represented only 3% of the total revenues in the EU audiovisual market.

**Figure 3: EU audiovisual market share in 2015.**

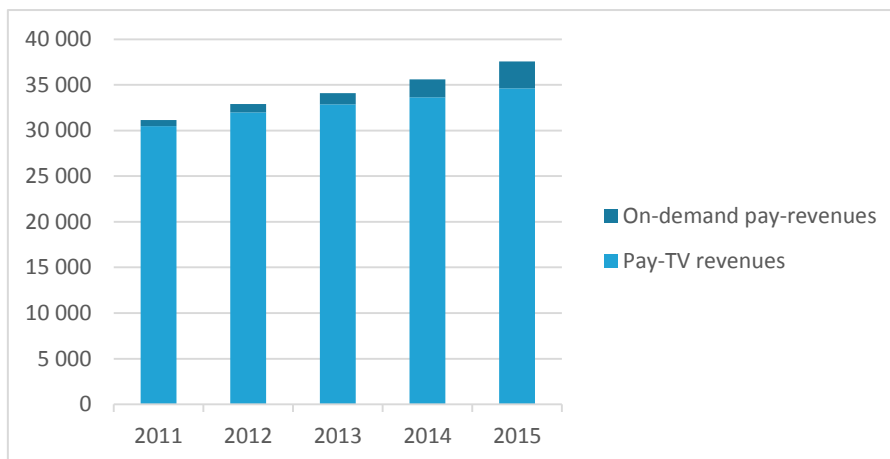


Source: OBS, Warc, Ampere Analysis, IHS.

When we narrow down the analysis to linear and on-demand pay-revenues, pay-TV still represents by far the biggest share (92%), with VOD services lagging significantly behind with 8% of the revenues (only 3% of the overall audiovisual market revenues).



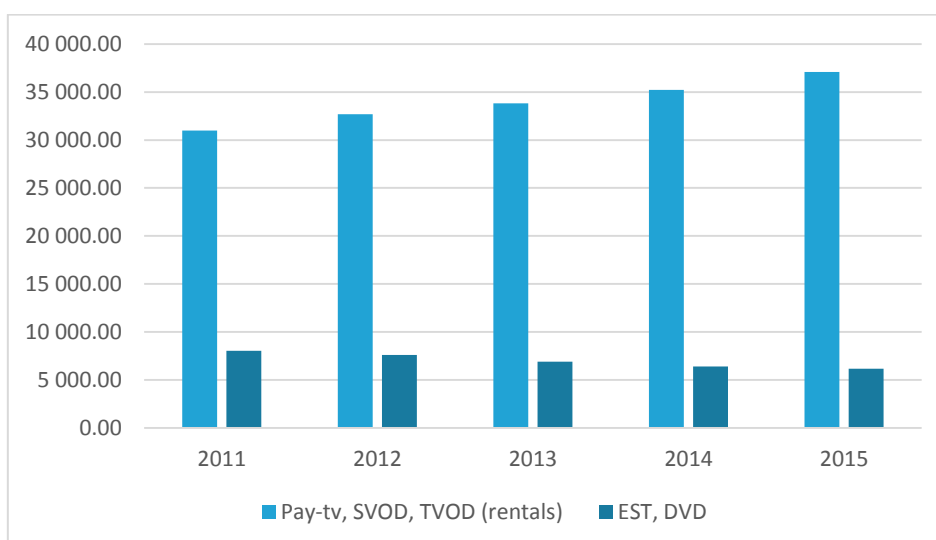
**Figure 4: Linear and on-demand pay-revenues share in the EU in 2015 (in EUR millions).**



Source: OBS, Ampere Analysis.

A cross-cutting analysis could be carried out merging on the one hand pay-TV and SVOD revenues, and on the other physical video and TOVD (both rentals and EST). This partition challenges the classical understanding of VOD (that conflates SVOD and TVOD into the same category) while emphasising opposite patterns in consumer behaviour reflected by the dichotomy access (pay-TV, SVOD) versus ownership (DVD, EST). The ownership model is clearly taking hold, showing an increase of 5% from 2014 to 2015, while the ownership category (EST + DVD) is progressively declining (-4% from 2014 to 2015).

**Figure 5: Access vs. ownership in the EU (in EUR millions).**



Source: OBS, Ampere Analysis.



## 1.4. Availability and visibility

Having films available on global platforms does not automatically entail that they will reach an audience, paradoxically, not even when contents are available for free. In fact, it is commonly assumed that a film available on an online platform will not sell well unless it appears on the homepage of the digital storefront, as a result of targeted promotion.

Increasing visibility is one of the main challenges for online distribution. This is especially true for global platforms: if on one hand big online services represent a better opportunity to boost the visibility of a film compared to small or local platforms, a lot of promotional effort will be required to keep the title visible on the storefront, given the bigger size of catalogue offered by global players. To this regard, some distribution professionals point out that VOD distribution is no magical panacea to the overproduction of titles in the film industry, a problem that also concerns productions featuring famous cast.

As a general rule, relying on a multi-channel strategy allows to cumulate marketing efforts, which results in a positive impact on the visibility of the film. Theatrical release is still key in increasing exposure, and can determine the performance of a title in the following windows (VOD, DVD, TV). This does not depend so much on the theatrical success of the title, but on the “buzz” and the overall attention that the film has received in the context of a traditional prints and advertising (P&A) campaign.

The promotional benefit of the theatrical window on digital sales is particularly relevant in the case of documentaries and arthouse films, that normally perform much better with a theatrical release upfront. Players like the arthouse SVOD service MUBI for instance, are venturing into theatrical distribution alongside their VOD core business, to implement an integrated promotional strategy and boost digital sales.

Conversely, documentaries and arthouse films that skip the theatrical release may struggle to get visibility and create awareness on VOD platforms, as they might be totally unknown to the audience, which argues in favour of having wide portfolio in terms of genres and types of content.

Also, in order to better promote arthouse films, it is paramount to find an effective marketing angle, such a special occasion or a link to a news topic.

Social media marketing can be a powerful tool to engage audiences and is much cheaper than traditional film distribution P&A. Yet, for digital libraries that only include catalogue films and no premium content, the costs of a global digital marketing campaign – necessary to obtain visibility on line platforms – might still be too high, as it is difficult to demand for old films the same price range of recent content.

## 1.5. Global, pan-European and local players

The VOD market in the EU is very fragmented and is split between telcos and cable companies (working through set-top boxes) and OTT (offering contents on multiple devices). Different platforms have different catchment areas and scope and might be available both as IPTV platforms and on internet, which allows them to reach a larger audience.





Examples of global services are Netflix, Amazon Video, Hulu (SVOD) and Google Play and iTunes (TVOD). Some players are active on a pan-European level, operating in more than three countries. Examples include Viaplay, Sky Online, SFAnytime, Wuaki.tv, ChiliTV. Big players strongly need to build scale in order to amortise costs and elements such as original contents and catalogue size make the difference when it comes to attract new customers or subscribers.

New regional and local players are arising to either contrast or complement the offer of global ones. However, they might struggle in the competition for deals over global contents as, even if most VOD deals are non-exclusive, big players are now pressing for exclusive deals in order to better differentiate their offer.

#### **What is the impact on VOD distribution?**

The exploitation of films in theatres, or of films and TV programmes on television, remains mainly organised on country-by-country basis. Several factors account for this market structure, such as different consumer tastes, and the fact that TV channels, cinemas distributors or exhibitors mainly work on a national level.

As for on-demand services, players with a different geographical scope coexist:

- National on-demand services, i.e. services addressing only one or two countries;
- Pan-European services, with linguistic versions for different territories, but a right acquisition process rather centralised.

## **1.6. E-commerce vs. curation**

When talking about on-demand services, a distinction should be made between big digital storefronts and smaller, highly curated-services. The services in the first category replicate the model of big e-commerce stores and usually offer vast catalogues of contents available *à la carte*, with little or no curation. One example is iTunes, where it is possible to find practically anything, from mainstream to arthouse and genre films. Since their scope is to propose as many titles as possible, these services tend to accept any content from right holders, provided that specific technical standards are respected. The only restriction to place their content on this kind of platform lies in the threshold volume of contents, as most of these services only strike deals over a minimum amount of titles.

On the opposite side, there are those services with a highly curatorial approach that carefully hand-pick their contents, like a small, dedicated shop. These services usually adopt a stricter editorial line, e.g. they specialise in arthouse films (e.g. Curzon, Filmin, Universciné, Mubi, BFI Player, ARTE), independent production or specific genres (horror, documentaries, LGBT, etc). Rather than looking for a volume of available content, they aim to select works that are appealing to their target audiences, putting on sale a collection that is consistent with their editorial line.

Subscription on-demand services also tend to select contents that match their editorial line.

This distinction between the “e-commerce” and the “curated” model translate in different approaches as regards the promotion of audiovisual content. When a vast amount of content is



available, there are still limits to the number of programmes that can be promoted by the service. Thus, further promotional efforts carried out by the right holders or their representative may be needed. Conversely, for VOD services that have a specific editorial line and are therefore more selective, the promotion of the content may represent a core part of their own activities.

**What is the impact on VOD distribution?**

Placing films or programmes on big on-demand services with a large volume of diversified content may appear as a primarily technical process, as the only requirement for the right holder is to adapt to the service's terms and technical standards. In these cases, however, a considerable promotional effort should also be taken into account.

By contrast, when distributing content to VOD with a defined editorial line, the key aspect is to identify the right platform for a given title. Here, promotion and curation are usually taken care of by VOD services themselves.



## 2. The access of European films to VOD

The on-demand sector lacks transparency as regards the revenues generated by individual audiovisual works or the shares that are actually flowing back to right holders. The only available statistics concern the availability and visibility of films on on-demand services.

### 2.1. Only 47% of European films make it to VOD

A previous study<sup>1</sup> by the European Audiovisual Observatory explored the relationship between theatrical distribution and VOD availability. One of the objectives of the report was to identify how many of the films theatrically released in the EU in the period 2005 to 2014 were available on a sample of 75 transactional VOD services in October 2015.

#### Methodology for the analysis of the VOD catalogues

Using a dedicated software tool, a total of 28 150 unique film titles (when single-counted) was retrieved from 75 Transactional VOD services across the EU. Only TVOD services accessible over the internet (so-called “Over-the-Top” VOD services) were included in the survey, leaving aside those ones that are only accessible through set-top boxes of cable, satellite or internet services providers. These data should be interpreted with caution, since the considered sample of TVOD services does not take into account cable or IPTV operators as well as other possible OTT services, where a larger share of EU films might be available.

At least 2 VOD platforms were included for each country, with the exception of Malta, Portugal, Slovenia, Slovakia and Romania where we only had access to one service.

Each individual film title retrieved from the VOD catalogues was matched with its country of origin and year of production using the Observatory’s LUMIERE database.

Strong differences stand out depending on the region of origin of the films:

- only **47%** of the 10.828 **EU** films theatrically released in the European Union between 2005 and 2014 were available on at least one TVOD service of the sample;
- on the other hand, **87%** of all **US** films released in EU cinemas in the specified time period were available on at least one TVOD service.

<sup>1</sup> “How do films circulate on VOD services and in cinemas in the European Union? A comparative analysis”, European Audiovisual Observatory, 2016.



**Table 1: Share of theatrically released films available on TVOD services by region of origin (in units and %, data scraped in October 2015).**

|                    | Films theatrically released 2005 - 2014 | Available on VOD October 2015 | Percentage available on VOD |
|--------------------|---|-------------------------------|-----------------------------|
| EU Films           | 10 828                                  | 5 046                         | 47%                         |
| EUR Films          | 747                                     | 275                           | 37%                         |
| US Films           | 2 748                                   | 2 404                         | 87%                         |
| INT Films          | 2 506                                   | 1 034                         | 41%                         |
| <b>Total Films</b> | <b>16 829</b>                           | <b>8 759</b>                  | <b>52%</b>                  |

Source: LUMIERE, OBS

These data suggest a considerable difference in how films circulate across the EU, based on their territory of origin.

## 2.2. EU films circulate less on VOD than US films

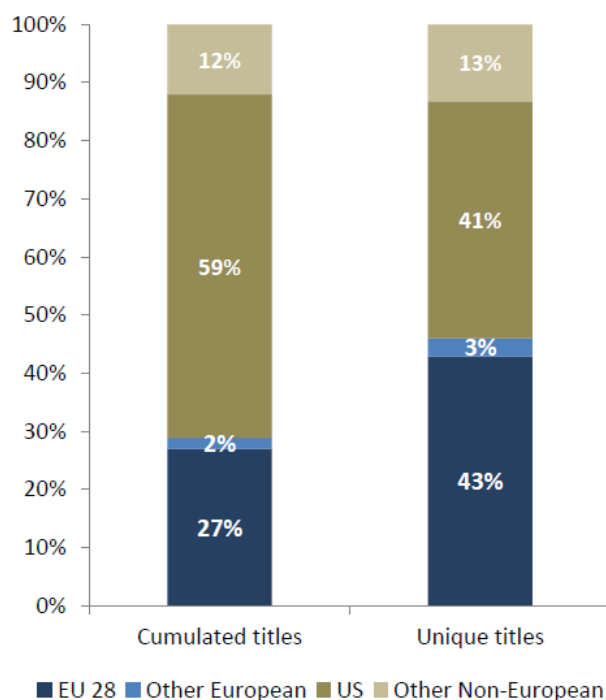
In another study<sup>2</sup> published in 2015, the European Audiovisual Observatory undertook, at the request of the European Commission, a research project to analyse the composition of film catalogues on selected TVOD services in the EU. The study provided an insight into the distribution policies of VOD platforms as well as into the diversity of audiovisual works made available to the public. One of the research angles focused on the circulation of films on VOD, i.e. the number of countries where films were released. The analysis of the VOD services catalogues showed that:

- when counted on a unique basis, EU films represent 43% of all films available vs. 41% for US films;
- however, on a cumulated basis, that is, when taking into account the number of VOD services where films are available, EU films only represent 27% of the total film offer vs. 59% for US films.

<sup>2</sup> See the publication "[Origin of films in VOD catalogues in the EU](#)", European Audiovisual Observatory 2015.



**Figure 6: Share of EU films on 75 TVOD services across the EU.**



Source: OBS

#### Difference between unique and cumulated titles

When films are counted on a **unique basis**, a given film is counted only once even if it is available on several TVOD services.

When films are counted on a **cumulated basis**, each occurrence of a film on several TVOD services is counted.

These figures show that, when released in TVOD, EU films are available in a smaller number of countries than US films:

- EU films are released in VOD on average on 2.8 countries;
- US films are released in VOD on average in 6.8 countries.



## 2.3. EU films are less visible on TVOD services than US films

The availability of films on VOD platforms alone cannot give a full picture of the visibility of films. Promotional strategies, such as making films visible on the services' homepages, are also key in bringing the content to the audience. As a matter of fact, audiences are less likely to watch those titles that do not appear on the virtual storefront's homepage.

In order to have a better understanding of what films benefit from more visibility on VOD services, the Observatory carried out another study<sup>3</sup>, building on data provided by the company AQOA.

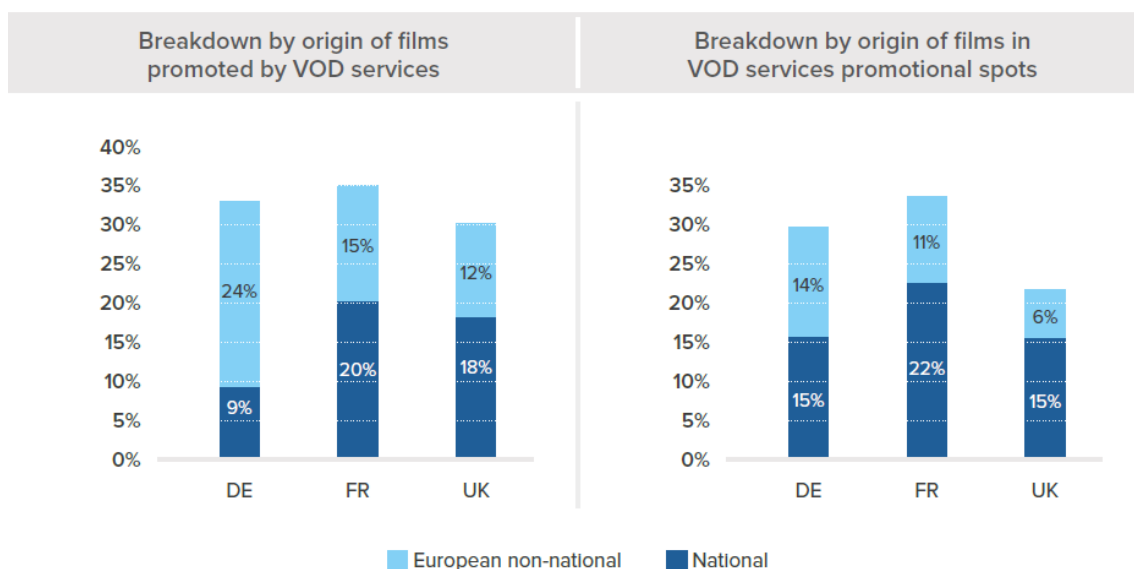
### Methodology for the analysis of visibility

AQOA monitors a representative sample of TVOD services in France, Germany and the UK, available either on cable/IPTV or OTT. The homepages of the TVOD services have been tracked for one month to identify the country of origin of the titles promoted.

The analysis shows that:

- only a small minority of the films in the catalogues actually benefit from promotion on the homepage;
- a large majority (86%) of promotional spots is allocated to recent films (= released in 2014 or after). The 10 most promoted films take 40% of the promotional spots;
- one-third of all films promoted are European productions;
- 28% of promotional spots are allocated to European films.

**Figure 7: Promotion of EU films in 3 countries on TVOD services**



<sup>3</sup> "The visibility of films on on-demand platforms: Germany, France and the United Kingdom", European Audiovisual Observatory, 2015.



Source: OBS

**Key take-aways from the analysis of the presence of EU films on VOD services**

EU films seem to face a series of bottlenecks as regards their availability on VOD:

1. only a minority of EU films released in cinemas are released in VOD;
2. when available on VOD, EU films are only released in a small number of EU countries;
3. when available on VOD, European films suffer from a lack of promotion.



## 3. Emerging distribution patterns

### 3.1. The context

The European film distribution market has experienced significant changes over the past few years. The video on-demand is surging, driven in particular by the subscription based on-demand services (SVOD), while the physical home video market (DVD) has taken a considerable slump.

The digital environment is changing quickly and competition among digital players is getting rife. Digital rights are gaining momentum, and the establishment of a digital distribution landscape helped right holders to overcome some general reluctance towards VOD, especially in certain countries. Big expectations are pinned in VOD distribution since it is relatively inexpensive, both for distributors and right holders, as it does not involve some of the costs associated with theatrical distribution, like MGs and fixed release fees. Also, digital advertising is far cheaper than traditional P&A.

For now, however, **VOD is not the new DVD** and revenues from VOD rights are still scarce.

In addition, while right holders see in VOD a big business opportunity, they might find it difficult to swiftly adapt to new models and practices. Many elements are putting a lot of pressure on distributors, sales agents and producers.

First of all, it might not be so straightforward for right holders to place their contents on VOD platforms. To begin with, the placement of content on VOD platforms might be subject to the adoption of specific technical standards. This has led to the emergence of so-called “film aggregators”, companies that act as middlemen and deliver the contents from the right holders to the VOD services, often taking care of related technical aspects, marketing strategies and intelligence. Sometimes working with aggregators is a necessary step for right holders to make their contents available on VOD services, since, as a general rule, global platforms like iTunes do not negotiate directly with small distributors and might set a minimum threshold of volume for film catalogues.

Furthermore, the coordination of a digital distribution strategy requires specific expertise in different fields. Finally, technical costs to process and upload the file on online platforms (to which should be added localisation costs) can be still relatively high, normally to be paid upfront by right holders or to be advanced by aggregators.





## 3.2. VOD circulation and the window system

Based on the current media chronology in EU countries<sup>4</sup>, the length of the exclusive theatrical window goes from 3 to 4 months, after which a film can be exploited online on TVOD services (a window generally aligned with the DVD release). SVOD – the last window to be exploited before AVOD – is only scheduled much later, as it is commonly assumed that SVOD implies a decline in the value of the title. Moreover, there can be a certain variation in the length of each release window across different countries.

Some of our interviewees lament that there is still certain reluctance towards VOD among incumbent players in theatrical and TV distribution, as they fear a disruptive shift towards VOD, especially in countries where the market is highly regulated. For instance, if a film is aired on TV, the title will be “frozen” on VOD services during that time, which – some argue – might be a mistake, since there is no proof of VOD hampering the TV window.

Even if the system can allow for some flexibility (in some countries the theatrical window might be shortened for low-grossing films), the length of the theatrical window tends to be the same for all films, regardless of the type of production and no matter how long it has been in cinemas. This might strongly penalise independent and low budget productions (that usually run in cinema for a short time) due to the considerable time gap between the first and the second window. Some industry players point out that window schedule should be decided on a case by case basis as for certain titles reducing the theatrical window could result in a positive marketing and promotional impact, maximising the film’s overall visibility without necessarily harming theatrical sales.

Another argument in favour of the reduction of the first window is the need to fight piracy by providing an alternative legal option as early as possible. Currently, after the theatrical window, titles might not be legally available for weeks or even months before appearing on VOD.

Day-and-date release, that is the simultaneous availability of a film across different distribution windows (typically cinema + VOD but also VOD + DVD), also enjoys support from some industry players, who argue that this strategy would maximise the effects of a promotional campaign rather than cannibalise theatrical sales. The combination of VOD and DVD, in particular, seems particularly effective.

Players have been experimenting on day-and-date in various forms, e.g. releasing a title both on VOD and in DVD just after a series of promotional screenings, or releasing the title on VOD while it is screened at festivals (direct-to-festival). This model is particularly used for small productions, especially documentaries and arthouse films. By contrast, US majors have tried to release mainstream blockbusters on a “premium” VOD basis, making the title available on VOD during the theatrical window but at a higher price than the one at which it would be normally sold during the regular VOD window.

Day-and-date release is successfully applied by vertically-integrated companies (e.g. Curzon in the UK). However, even if it seems to be a promising strategy (at least for selected titles), day-and-date is often met with reluctance by exhibitors, especially when it comes to multiplex cinemas – while arthouse theatres may look at this model more favourably.

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<sup>4</sup> In certain EU countries (France, Bulgaria, Portugal) the windows system is enforced by legislative provisions or based on a regulatory framework (e.g. when financing is only granted if a theatrical release takes place), but in most territories it is just agreed upon at an industry or contractual level.



Finally, it is worth noting that cross-border circulation of non-national EU films on VOD services might be particularly challenging, due both to cultural specificities and to different release dates and windows chronologies.

### 3.3. Many distribution scenarios

Depending on the country, a title can be distributed on TVOD starting from 3 or 4 months after the theatrical release. TVOD rights are usually sold by distributors on a non-exclusive basis, the specific terms of the agreement usually depending on the box office performance.

Even if distributors generally buy all rights in a bundle, there might be cases when the film is only released on VOD platforms, bypassing the theatrical window, a strategy defined as direct-to-VOD (also straight-to-VOD). This can either be a deliberate choice (for films that are produced to be exclusively available online) or be driven by financial interest (e.g. films that are expected to perform poorly at the box office). An example is the case of genre films (thriller, action, horror), that have a long-standing tradition of straight-to-home video distribution in VHS and DVD, which could be realistically shifted to VOD. This strategy is generally considered more questionable for other types of content, such as documentaries or dramas, and for European arthouse titles.

Moreover, delivering films on VOD platforms might be a way for distributors to fulfil their contractual obligations to make a title available in a certain territory without investing resources in prints and advertising. When, for instance, a US production obtains poor box office results in the national market, European distributors may deem that the title is not worth being theatrically released in certain territories, and may choose to release it only on VOD platforms to avoid burdensome P&A costs. Interestingly, this is more the case for mainstream productions (romantic comedies, family content, genre films) than for arthouse titles.

When it comes to European productions, distributors may also opt for a direct-to-VOD release in certain countries to cope with the linguistic fragmentation of the markets. For instance, it can happen that a French title is only released in theatres in French-speaking Belgium while only being distributed on DVD and VOD in Flemish-speaking Belgium and the Netherlands.

For small European productions, it might be difficult to find a distributor outside their country of origin, which may result in the films being totally unavailable in some territories. When these titles are not supported by local distributions, it might be sales agents that place them on online platforms through an aggregator, with the advantage of maximising the audience reach without the risk of cannibalising theatrical revenues. This could entail, for example, the simultaneous release of the same films in theatres in certain countries, and on VOD in other markets. This model is supposed to favour cross-country circulation of small films and has been staunchly supported by aggregators such as Under the Milky Way.

Finally, films might not be available on online platforms after having been re-released in theatres (e.g. catalogue films) because of reluctance from right holders or distributors, as some of them hold that a previous theatrical re-release could hamper the potential outcome of a VOD strategy. However, this is increasingly less the case as many distribution experts are challenging this assumption.



## 3.4. Bundled vs. stand-alone VOD rights

### 3.4.1. Should all films be available on VOD?

As DVD revenues have been sharply decreasing, the logical move for right holders and distributors has been to include video-on-demand in the bundle of rights acquired by a distributor for a given country. Yet, generally speaking, the additional revenues brought by VOD are still far from compensating for the losses in DVD revenues. Moreover, some players point out that the reluctance towards VOD is still to be overcome and in certain cases, especially for catalogue films, VOD rights are left unexploited.

Yet, from the point of view of some distributors, not all films should necessarily be released on VOD on all territories, even if they have been released in cinemas, for a series of reasons:

- without a satisfactory performance in cinemas, a film will not get the necessary exposure and marketing investment to raise the interest of VOD services providers and trigger a significant sales rate;
- the release of a film on VOD, and in particular on SVOD could jeopardise the possibility of a selling the rights to a television channel at a later stage.

Market players hold conflicting opinions on the subject: some distributors maintain that making films available online without assessing the demand is pointless, as revenues would be too low to justify a promotional investment, even if exclusively digital. In return, other stakeholders stress that online distribution is a long tail business and that revenues should be considered in the long run. Furthermore, the VOD availability of films in territories where they are not theatrically released would boost cross-country circulation for many film works, helping to sustain cultural diversity in the European audiovisual industry.



### 3.4.2. Figures suggest a certain proximity between theatrical and VOD releases

The following analysis sets out to determine to what extent theatrical and VOD distribution of EU films overlap in the same EU territories, pinpointing existing distribution trends and strategies.

By identifying how many titles are available both on online VOD platforms and in theatres in the same countries across the EU, we aim to estimate the level of geographical proximity in the theatrical release of a given film and its availability on TVOD services. To do so, we use data from LUMIERE, the European Audiovisual Observatory's film database, and compare it with results from our previous research on VOD platforms.

#### **Methodology for the analysis of geographical proximity between theatrical and VOD releases**

The analysis draws on the European Audiovisual Observatory's LUMIERE database as well as on the analysis of VOD catalogues. It covers:

- films on release between 2011 and 2015;
- films with an EU origin. We have considered the first country of production listed in LUMIERE as the main country of production. Please note that so called "GB Inc" productions (i.e. British films produced by American companies established in the UK) have not been included in our sample of films;
- films with some commercial potential outside their country of production. To estimate it, we have used three criteria:
  - films that have obtained a total of at least 10 000 admissions across the EU markets during the 5 years of theatrical exploitation;
  - films theatrically released in at least 1 EU non-national market;
  - films that have obtained in EU non-national markets a number of admissions that equal at least 20% of national admissions.

Films with less than 1 000 national admissions (overall figure in 5 years of theatrical exploitation) were excluded.

The combination of these criteria is meant to leave out those productions that were mainly presented at film festivals or similar events, without really circulating in theatres. We assume that the films selected through these criteria are the ones with real commercial value and benefitted from a promotional strategy. A total of 807 films in LUMIERE met the criteria mentioned above.

Drawing on previous research carried out by the European Audiovisual Observatory in 2015<sup>1</sup>, we have therefore matched the films obtained from LUMIERE with data on the availability of film catalogues on VOD platforms. In order to gather and analyse film catalogues available on selected VOD platforms in the European Union, the Observatory used a dedicated web-scraping software tool retrieving individual film titles for each VOD service: 75 VOD platforms were selected across all EU countries, based on their accessibility over the Internet and their presumed significance for the national markets.



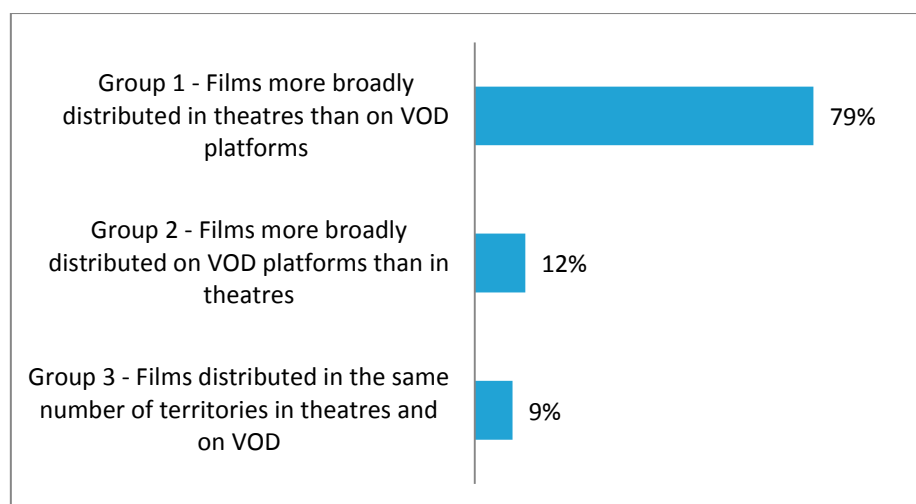
Our analysis only takes into consideration transactional VOD services (TVOD), such as Apple's iTunes or Hulu. Subscription VOD services (SVOD) are not considered for the purposes of this study. TVOD services only accessible through set-top boxes of cable, satellite or Internet service providers were not taken into consideration.

The software identified a total of 26 483 unique films that were available on the 75 selected VOD platforms during the time frame when the film titles were retrieved (end of September and October 2015). Among these films, 11 347 films had an EU origin.

After matching data from LUMIERE with that obtained from the web-scraping software tool, we restricted our sample to 677 films that have been made available both on VOD platforms and in theatres.

On average, films in the considered sample were available in 6 countries on TVOD platforms and in 10 countries in theatres, which suggests that these titles might benefit from a better circulation in the traditional distribution circuit rather than on VOD.

**Figure 8: Differences in VOD availability and theatrical distribution (in% of films of the sample).**



Source: LUMIERE, OBS

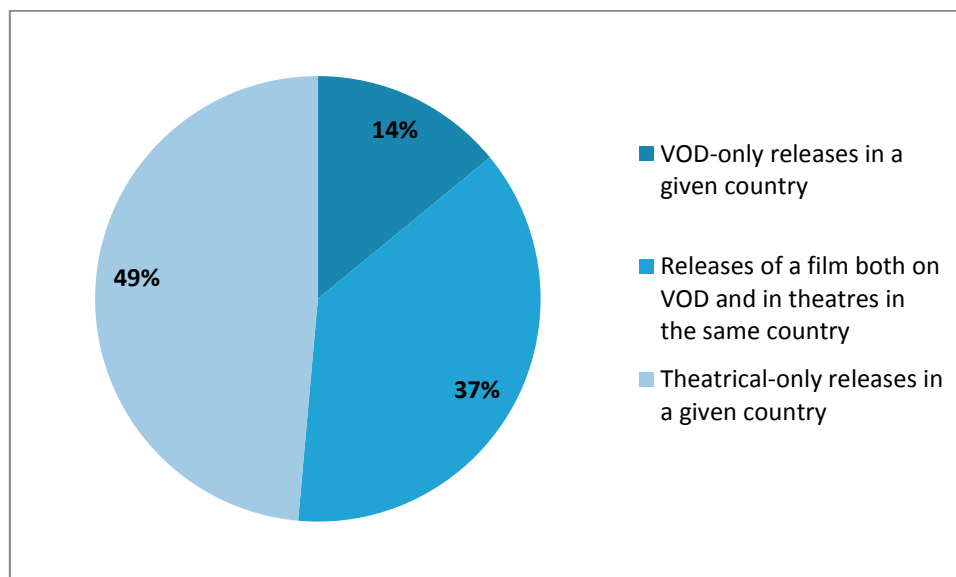
This information alone, however, gives no indication on whether films are released in theatres and on VOD in the same countries. We therefore analysed all the releases country by country (whether in theatres, on VOD or both). Considering all releases (7 967 releases)<sup>5</sup>:

- in 49% of the cases, the film was only released in theatres;
- in 37% of the cases, the film was released both in theatres and on VOD;
- in 14% of the cases, the film was only released on VOD.

<sup>5</sup> A release here is the release of one film in one country in a single window (cinema or VOD).



**Figure 9: Breakdown of releases by window**



Source: LUMIERE, OBS

These figures translate into the following observations:

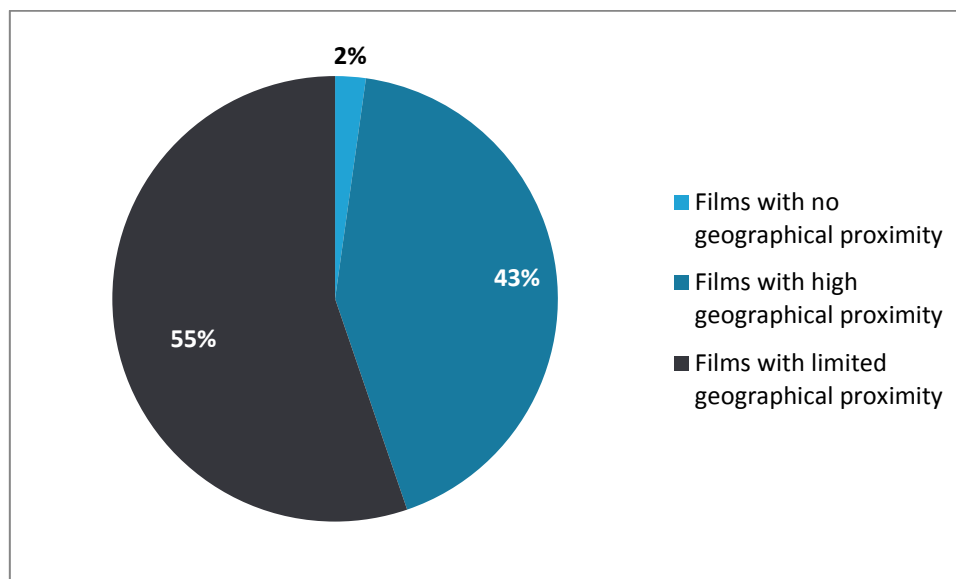
- The release of a title both in theatres and on VOD in the same country only represents a minority of all releases.
- When a film is released on VOD in a given country, it has also been released in cinemas (not necessarily simultaneously) in 73% of the cases.
- About 1 out of 7 VOD releases takes place in a country where the film has not been released in theatres.

If we do not focus on the number of releases but rather on the number of films in our sample, the analysis shows that:

- When looking at territories, for 43% of the films, VOD availability appears to be strictly linked to the release in theatres.
- For 55% of the films in the sample, the countries of VOD availability seem to overlap only in part with the territories of theatrical release.
- For 2% of the films, there is no geographical link between the release in theatres and the release on VOD.



**Figure 10: Geographical proximity between VOD and theatrical distribution coverage.**



Source: LUMIERE, OBS

Therefore, it seems that there is not a full overlapping between the release in cinemas and the release on VOD. In particular, this seems to be due to the following reasons:

- the fact that films are released in fewer territories on VOD than in theatres;
- in a minority of the cases, films are directly made available on VOD, without a release in cinemas in the same country (direct-to-VOD). In the DVD era, straight-to-video distribution was frequent in the case of US productions with no theatrical release in Europe. This model was later extended to the VOD era (straight-to-VOD). It can also apply to European films that are exclusively released on VOD in a given country, while benefitting from theatrical distribution in other territories (often the national market).

Still, even if the territories of theatrical and VOD distribution do not fully overlap, the analysis suggests that exploitation in cinemas and exploitation in VOD are linked:

- as we mentioned, a vast majority of VOD releases (73%) take place in countries where the film has also been released in cinemas;
- for most films, there is at least a partial overlapping between the cinemas and the VOD releases<sup>6</sup>.

<sup>6</sup> Please note that the release in cinemas may have taken place several years before the release on VOD.



### 3.4.3. Many films are not available on VOD

As detailed in the previous section, a series of factors tend to support the view that VOD exploitation should be “bundled” with the other windows.

- More limited resources in film funding imply that a theatrical distributor supporting a film might want to recoup its investment on as many windows as possible.
- When promoting a film on VOD platforms, a (theatrical) distributor will benefit from a previous theatrical release.
- A distributor will have an overall view of its national market to make the appropriate trade-offs, including the possibility of not releasing a film on (S)VOD if this may jeopardise the opportunity to obtain a TV sale.

Still, as described in Chapter 2 of this report, a number of European films are not available on VOD in a number of countries. These films include:

- films not released on VOD, not even in the countries where they were theatrically released;
- films available on VOD only where they were released in cinemas but not in other territories. The largest segment here probably includes films with a limited number of countries of theatrical distribution, implying that many countries could theoretically be addressed through a VOD-only (“Direct-to-VOD”) release strategy;
- older films (“back catalogue”), not currently released in cinemas, not available on VOD.

Additionally, another segment covers non-European films that are not released anywhere in Europe.

Theoretically speaking, the availability on VOD could be therefore improved for a large number of films in a many territories. Increasing availability would indeed give many more European citizens access to a diversified catalogue of European content. But it would by no means guarantee a significant increase in revenues.

- Obviously, not all films have a market potential in all European countries.
- VOD distribution can bring additional revenues but also entails some financial burden, including transactional and administrative costs, shrinking the net margin for the right holder or its distributor.
- More structurally, VOD services (at least transactional VOD services) probably follow the “Pareto rule”: 80% of revenues are brought by 20% of the catalogue. As mentioned before, the availability on a TVOD catalogues alone, does not provide film with visibility, and significant additional promotion efforts are needed. As the market remains, on the one side, still limited, and on the other fiercely competitive (as the TVOD platforms offer customers huge catalogues of works), only a small number of films would derive significant additional revenues from an improved availability on VOD services.

As we have already discussed, for now the VOD is far from replicating the success of what used to be DVD market in the past. Many players expect that the shrinking of the DVD market will open up further opportunities for VOD in the long term. However, not everybody agrees on that, countering that piracy has dramatically changed consumer behaviour, which will make difficult to make VOD a profitable model.





The DVD market is experiencing a steep decline globally, with variations across regions. If in the Nordics right holders almost stopped producing DVDs altogether (with digital rights booming at the same time), in Benelux DVD resists as a seasonal business. In contrast with the general trend, in Italy, according to a recent report by UNIVIDEO<sup>7</sup>, DVD sales increased by 5% in 2015. This can be explained both by a digital divide still affecting the country (especially when it comes to high-speed internet access) and by the added value brought by extra contents featured in the DVD.

VOD and DVD rights are often grouped together, as it is generally assumed that cumulated distribution efforts boost the overall promotional exposure. Furthermore, the production costs for DVD are dropping, which is another incentive to consider a DVD release along with the VOD, especially in the case of direct-to-VOD strategies.

### **Synthesis on the bundling of VOD rights with other rights**

For the time being, the theatrical release of a film seems, to some extent, linked to a VOD release at a later time, at least on transactional VOD, due to several reasons:

- theatrical distributors obtain the rights for all windows in their countries;
- VOD is considered as the “natural” evolution of DVD;
- theatrical releases are a powerful promotional tool to raise the interest in VOD services.

Still, this does not mean that all releases in cinemas will necessarily imply a release in VOD:

- the distributor may not believe in the commercial potential of a VOD release to bear the transactional costs associated with identifying and negotiating with VOD services;
- the theatrical release may have led to disappointing results, resulting in little or no promotional impact on VOD sales;
- revenues generated by VOD services are still limited, which may lead the distributor to prefer not to expose the film in VOD and rather aim for a more lucrative TV sale.

For the most successful European films, therefore, VOD will easily find its place within the traditional distribution model, with a national player with an in-depth knowledge of the market negotiating directly with the VOD services. Releasing the films on VOD may prove to be more difficult for films with a lower commercial potential or those that are not supported by a successful theatrical release upfront.

Therefore, there is, to some extent, an “unexploited” VOD market for a significant number of films in several countries. But the size of the market is still limited and VOD is faced with fierce competition for visibility. The economic relevance of pursuing untapped opportunities in VOD distribution seems to be limited to a minority of these films, suggesting the need of a selective approach.

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<sup>7</sup> “Rapporto UNIVIDEO 2016”, <http://www.univideo.org/download/RapportoUnivideo2016.pdf>



## 4. The role of aggregators

The function of VOD aggregators is directly linked to the surge and the expansion of VOD services. As the VOD market itself, the role of aggregators is changing, evolving from technical provider to digital distribution consultant. The rationale for resorting to aggregators is twofold:

- On the one side, they support the distributors in placing contents on VOD platforms. Many films released in theatres in a given country do not make it to VOD in the same territory, due to a series of reasons: high number of platforms on the market, transactional and technical costs perceived as too high, need for significant marketing investments, etc. Here, the added-value of aggregators rests in their knowledge of the market and in the possibility to achieve economies of scales managing larger catalogues than individual distributors.
- On the other side, and probably more importantly, aggregators can help develop the “straight-to-VOD” market. There is indeed an opportunity to release certain films on VOD in countries where the film has not been previously released in theatres. In this case, aggregators partner directly with producers and/or film agents, to design and put in place “straight-to-VOD” exploitation strategies, which could possibly maximise the footprint left by European film releases.

### 4.1. An evolving concept

Aggregators have first emerged as **gatekeepers** in granting right holders access to big VOD platforms. As a matter of fact, global VOD services (such as iTunes or Netflix) appear to be reluctant to break deals with distributors over small catalogues, making it sometimes necessary for right holders to go through a **middleman that gathers a larger** volume of films (a process known as **content aggregation** or **syndication**). Aggregators will then help distributors – or even individual filmmakers – place their contents on global platforms that will only strike deals over a certain volume threshold.

However, from the perspective of distributors and producers, the core function of the aggregators is not so much gathering contents (the actual content aggregation) but ensuring the delivery of the digital file to the VOD platform, with the related technical processing that this might entail.

Aggregators (or at least part of them) have progressively extended their services to other related areas:

- **Advisory services:** advising right holders (producers, agents, distributors) on how to achieve the full potential of the on-demand market(s), and providing solutions to better monitor the actual performance of films on VOD.
- **Marketing:** ensuring the promotion of audiovisual works both on the VOD services and through other channels.
- **Content sourcing:** offering white label services to third parties, putting together VOD catalogues for other players, in which case they also perform a curatorial role in selecting the contents.



## 4.2. A broad portfolio of activities

Aggregators might wear several hats as their portfolio of activities can include a broad range of services.

Most of them will deal with the core **technical and operational aspects** connected with digital distribution in order to deliver the content to online platforms. These services normally include content digitisation, encoding, delivery, metadata management, text localisation and master quality control.

Most aggregators support right holders in delivering contents to VOD platforms depending on their specific technical standards. This is especially the case of market leaders such as iTunes and Netflix, while other platforms can either draw their own standards on iTunes or have their own settings. iTunes, for instance, has an official list of “approved” aggregators and encoding houses<sup>8</sup>, i.e. companies that are apt to encode digital files in accordance with its standards.

Aggregators might take care of creating subtitles and close captions, as well as synopses and artworks for the films. Some companies may also develop VOD platforms for various devices.

When delivering to AVOD platforms, aggregators can also serve as partners to big studios to optimise their content, e.g. assembling and packaging together several short clips so that the contents fit the YouTube model, based on longer formats.

**Digitisation** and **automatisation** being the two key words in the current film digital distribution landscape, aggregators also meet the demanding need to streamline the **administrative pipeline**, as big VOD platforms might deal with thousands of companies and content providers. Given the huge volume of contracts and paperwork involved in the business, aggregators might effectively narrow down the administrative burden borne by the platforms. Aggregators can be a time-saving solution for right holders as well, allowing them to have their content made available more easily across multiple VOD platforms without negotiating with each of them individually. This way it can make easier for right holders to exploit digital rights – that in some cases are overlooked or not fully exploited – and maximise their revenues.

Aggregators may stick to the role of a mere technical provider or offer a combination of services, including content curation. They can be apt to coordinate the development of a digital distribution strategy across different platforms and countries, provide advice on editorial and curatorial aspects and help their clients integrate regulatory constraints into their catalogue (e.g. obligatory investments in national content). Some aggregators also provide digital marketing and PR servicing – e.g. buying Google ads – and might also carry out or advise on digital marketing campaigns. **Social media marketing** is a powerful tool to develop audience engagement and is much cheaper than the costs associated to traditional film distribution activities

Aggregators might also gather marketing intelligence data, helping right holders to set an appropriate price for a given title and decide on the best timing to release it with an eye to the competitors’ offer. Clients regularly receive detailed reports to monitor sales, prices, performances and statistics for each film on different platforms.

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<sup>8</sup> While an encoding house mainly takes care of technical aspects and the delivery of the digital file to iTunes, an aggregator primarily deals with content syndication and can either outsource the delivery or doing it itself. This distinction is mainly applicable to U.S. players while is pretty blurred elsewhere.



Right holders may resort to aggregators either when they have no choice, i.e. to position their content on those online services that require them to go through a middleman or within a broader distribution strategy across different platforms, including those ones that would accept to deal with single distributors directly. In this case, aggregators can play a role in designing and implementing bespoke digital distribution and marketing strategies for their clients.

Having more leverage in negotiating over a package of contents, aggregators may potentially help right holders to secure better deals with platforms. Moreover, in the case of small films that did not benefit from a theatrical release in non-national markets, aggregators can actively help find opportunities for digital distribution in those territories, like in the case of the EU-funded Under the Milky Way.

Sometimes aggregators offer consulting and rights management services, providing much-needed expertise on new digital distribution marketing models (e.g. working to ensure the best possible positioning for a film online), as the digital landscape may still represent an uncharted territory for many established players operating in theatrical film distribution. Some aggregators, like the Netherlands-based Rights stuff, may exclusively focus on rights management and strategical consulting and outsource encoding and other technical aspects. In these cases aggregators might acquire and collect VOD rights and license them out to online platforms, taking care of curatorial and programming aspects.

### **4.3. Players from different backgrounds position themselves in the aggregation business**

Companies offering aggregation services hail from different business backgrounds, ranging from digital postproduction to distribution. Some aggregators are worldwide players, while others focus on specific countries but in general their scope covers multiple territories. Most of them work with both global platforms and small national ones. They might deal with film content exclusively or also with TV shows, across TVOD, SVOD and AVOD platforms.

Senior staff working at aggregators often have an expertise in international sales (Level K), film production and financing (Sweet Chili Entertainment), rights management (Rights Stuff), film distribution (Doco Digital) or digital sales (Premiere Digital).

In certain cases, aggregators might be spin-off companies of larger firms, like the French VOD Factory that was funded by staff members of the French telco SFR. The company first started providing content syndication and curation, later expanding its offer to include technical and marketing services. Other times, it is established technical operators that later decide to add content syndication to their portfolio.

Some online platforms also offer aggregation and white label services for third parties, such as Filmin, Universciné and Chili TV.

Content syndication might also be taken over by the digital rights department of big media companies, like in the case of the Italian RAI COM, RAI's digital distributor, that also operates as an aggregator. Physical home video companies, like the Italian CG Entertainment, also saw in digital rights a natural development of their core activities.

**Table 2: Examples of players moving into VOD aggregation**

| Activity of origin        | Rationale for moving into VOD aggregation  |
|---------------------------|--|
| <b>Technical services</b> | Extending the provision of technically compliant digital master files to the pre-negotiation of contracts with the main platforms. |
| <b>Distributors</b>       | Bundling catalogues of content to address VOD services.  |
| <b>Agents</b>             | Dealing directly with VOD services in the absence of a national distributor.   |
| <b>Consultants</b>        | Designing digital strategies.  |
| <b>On-demand services</b> | Negotiating VOD rights both for their own services and other (foreign) services.   |
| <b>DVD publishers</b>     | Leveraging their DVD rights to aggregate VOD rights.   |
| <b>Pure players</b>       | Positioning themselves as neutral players in the value chain.  |

Source: OBS

#### **Aggregators: mission and activities**

As many VOD services will not break deals with right holders over small-sized catalogues, aggregators carved out their role of gatekeepers between platforms and right holders. Going through an aggregator is often the only way for small distributors to place their content on global platforms.

As the function of aggregators is delivering the digital file to VOD platforms, most of them will also offer a series of technical services related to digital film distribution, such as encoding and localisation. In addition, they can provide a combination of other services, ranging from marketing and PR, to rights management and content sourcing. Some aggregators might also serve as digital distribution consultants, helping design and implement bespoke distribution and marketing strategies.

Given the huge amount of transactional burden weighing down on both right holders and VOD services, aggregators represent an effective and time-saving tool to streamline the administrative pipeline in digital distribution. Finally, for small European films with little or no cross-country circulation and limited commercial potential, aggregators might actively help find opportunities for VOD releases in those territories where these titles are not distributed in theatres.

## **4.4. The business models**

Most aggregators work on a revenue-sharing basis, advancing technical costs (that in any case end up being covered by the distributor) and keeping a royalty from right holders. This percentage is considered stable in the market at around 20% (but it can rise to 50% in some cases). Generally speaking, the professionals we have interviewed pointed out that aggregators offer very similar



deals, meaning that there is not real competition among them and there is little room for negotiation.

Other aggregators, such as the Rights Stuff and Premiere Digital, go against the grain and work on a flat-fee model, without retaining the IPs like it happens in revenue-sharing.

Some aggregators apply different business models depending on the type of service provided. For instance, they might charge a fixed fee for technical servicing under a single contract (e.g. processing the file, setting up, developing and maintaining a platform) and shift to revenue-sharing when they also provide strategic marketing and promotional advice, advancing technical costs (Chili TV, MoMedia).

Normally aggregators will not pay MGs to distributors as revenues are too low, which reflects a similar tendency to risk aversion in theatrical distribution. There are, however, exceptions to the rule: for example they might accept to pay MGs when making deals with big groups and US majors or vertically integrated studios.

CG Entertainment, for instance, usually works on a revenue sharing basis, taking care of both technical and marketing aspects and coordinating the digital distribution strategy. However, they might also take more entrepreneurial risk, acting as licensees with selected distributors, meaning that they invest in the film and buy joint distribution licenses for VOD and physical home video rights. In these cases, they pay MGs, but this is mainly due to the fact that the agreement also involves DVD, since conflating these two markets responds to the need to multiply the sources of revenues. This model is especially used with independent cinema players that only have a distribution structure in place for theatres, as theatrical distribution alone can represent a huge financial effort for independent cinema.



## 4.5. The aggregators in the film distribution chain

As mentioned in previous sections, aggregators can act both as technical service providers (in which case they mostly charge on a flat-fee basis) and as sub-distributors, when taking IPs from right holders (in which case they mostly adopt a revenue-sharing model). It is difficult to establish a univocal profile, as models and practices can largely vary. We have also seen that when sourcing content, some aggregators might realistically act as distributors for digital rights, in which cases they might also accept to pay MGs.

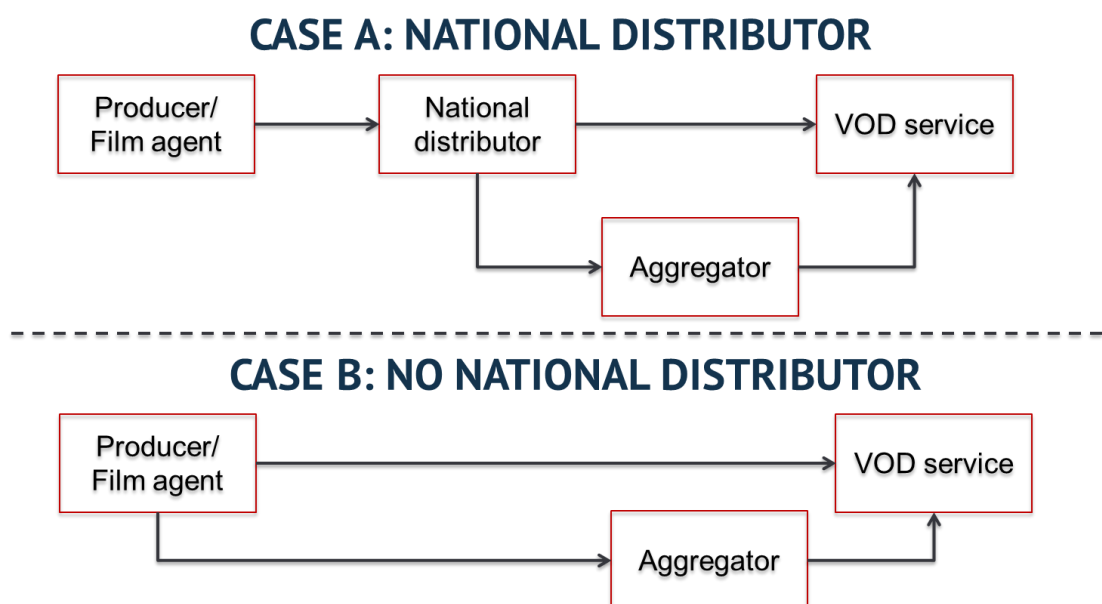
Aggregators' clients are mainly film distributors but also producers (especially when it comes to place content on Netflix) and TV channels. For TVOD, producers might work with aggregators for low budget projects that are only released online, so bypassing traditional distributors. Some producers, on the other hand, only engage aggregators to manage the digital rights of special and extra content related to the films in their catalogue (interviews, backstage clips, etc). Sometimes it is sales agents that work in direct contact with aggregators, e.g. when they do not find a local distributor for a given territory.

From the point of view of online platforms, aggregators are very valued as they the only way of dealing with a big number of content providers. On the other hand, their emergence is met with conflicting reactions by other established distribution players. While most distributors generally see aggregators as useful tools facilitating new business opportunities, some companies say they prefer to hire aggregators as technical providers (for encoding, delivery, synopses and artworks), paying flat-fees without sublicensing digital rights. This attitude reflects the feeling that aggregators could represent a threat for distributors, as VOD distribution is a low-margin business and having to pay another middleman may reduce revenues that for now are relatively low. These distributors would also prefer to talk to big platforms themselves, without any intermediary. Some even choose to develop their own technical equipment and invest in the creation of a centralised digital library and dedicated studios from which they supply all the platforms. Another criticality reported about aggregators is the alleged lack of transparency about sales, since it is sometimes difficult for distributors and producers to track what aggregators do given their scale.

In turn, most aggregators stress that they are not replacing distributors or sales agents, their core mission being to help maximising the potential of the VOD window, improving visibility for the films and opening up opportunities that are not currently exploited. Aggregators are indeed perceived as an added value when they coordinate digital distribution across countries, offering precious advice on marketing strategies (making proposals on pricing, positioning, marketing intelligence, etc) and know-how of the digital environment. At the same time, however, since digital distribution is a growing market, it is reasonable to expect that in the future traditional distributors might develop in-house at least part of this expertise.



Figure 11: The aggregators in the VOD distribution chain



Source: OBS

#### Aggregators: business model and value chain

Aggregators can either work on a flat-fee basis or on revenue-sharing. In the latter case, they function as sub-distributors, retain IPs from the right holders and keeping a royalty that can range from 20% to 50% (the platform pays the aggregator, which in turns pays the right holder). Some aggregators can apply either of the two models depending on the single case and on the type of services provided: flat-fee is usually the preferred option for technical servicing, while revenue-sharing might apply when the aggregator takes care of marketing aspects and coordinates the digital distribution strategy.

Minimum guarantees are normally out of the picture, as they entail too much financial risk, especially because VOD revenues are still relatively low. However, aggregators might pay MGs under specific circumstances, e.g., when breaking deals with big US studios or when conflating VOD and physical home video rights.

Aggregators mostly work with distributors but they can also deal with producers directly, especially for VOD-only releases.

Aggregators are considered by most incumbents as a practical solution to streamline VOD distribution and untap new business opportunities. On the other hand, there is a perception, especially among distributors, that the presence of another middleman in the value chain might further reduce the already scarce revenues coming from digital rights.

If for now it appears that the aggregators' added value resides in their specific know-how in digital distribution and marketing and in their capacity to facilitate deals and maximise revenues, it is expected that distributors might develop their own expertise in a least some of these areas in the future.





## 4.6. The challenges for VOD aggregators

Aggregators have built their role around certain needs of the on-demand market, developing specific skills to exploit previously untapped business opportunities. In a strongly competitive landscape, they now face challenges that are either inherent to the structure of the market itself, or to the competition with established players.

### 4.6.1. Will aggregators lose their distinctive features?

Aggregators have made inroads in the VOD market building on specific know-how in different areas, mastering the technical specificities for different platforms, providing strategic advice related to the digital distribution landscape and liaising with VOD services in order to distribute audiovisual contents.

Some of these activities are likely to become less and less a distinctive prerogative of aggregators, as distributors might develop their own digital expertise in-house, whether it comes to market intelligence or to technical standards. This might have repercussions on aggregators, and eventually undermine their role as technical providers. More in general, complying with technical specificities might be soon turning into a utility.

However, aggregators might consolidate their status of gatekeepers as many small rights holders with a limited catalogue will still need them to deliver content to global VOD platforms. For those right holders that can directly engage with VOD services, resorting to aggregators might still be a way to simplify their administrative pipeline.

Finally, aggregators might address the competitive risk of losing their market specificity by strengthening their expertise across several fields:

- multi-territorial distribution (see section 4.6.4), e.g. facilitating the cross-country circulation of films across Europe on VOD services;
- marketing activities to stimulate the interest in content available on VOD;
- content curation, i.e. selecting and assembling packages of contents that are relevant to specific platforms, combined with additional promotional support tools.

### 4.6.2. A niche business?

European films with a certain level of commercial potential seem, to some extent, to smoothly make their way to VOD platforms. Theatrical distributors handle all the rights and those who have enough scale will be able to engage directly with on-demand services.

As we mentioned, theatrical distributors might still hire aggregators for technical or advisory services like planning a digital distribution strategy, but they might also gradually integrate these functions within their portfolio of activities. If there is a risk that aggregators might lose their unique status in some fields (technical services, market intelligence), their strengths in the long run might reside in their capacity to serve as gatekeepers, facilitating the delivery of content from small right holders to platforms that only accept deals over huge volumes of content.



This appears to be of high relevance for the VOD distribution of niche and arthouse content, either when these titles are not available at all on VOD, enhancing their cross-country circulation, or when they are only released on VOD platforms in the same territories where they are released in cinemas. Another niche segment for aggregators might be the direct-to-VOD release of older titles (“back catalogue” films), without a complementary theatrical distribution.

Under this scenario, aggregators would risk to be confined to less lucrative film segments, dealing with titles with little commercial potential, whereas most of the VOD revenues are generated by films managed by cinema distributors. Since the cross-country VOD distribution of non-national European film is just at the beginning, it is still difficult to realistically assess the demand for this part of the market.

In order to minimise these risks, aggregators might experiment with different business models, e.g. operating on a flat-fee basis for films with a low commercial potential (so to recoup their costs) and on revenue-sharing for more successful titles. In this context, engaging in content curation (selecting and packaging contents) might also represent a major asset for aggregators, which would allow them to better differentiate and customise their mix of services.

### **4.6.3. Mitigating the risk over different windows**

Since revenues from VOD rights are still relatively negligible, relying on a distribution strategy that only focuses on VOD may not be a viable option for most film productions. To mitigate the risk, a digital distribution strategy may need to include also other windows (cinema, DVD and / or TV rights) along with VOD and SVOD rights. Exposure over different distribution channels also results in a positive impact on the visibility of a film, especially when there is no previous theatrical release.

Some aggregators, especially those that are also active in physical video distribution, are therefore trying to bundle DVD and VOD rights for a given title. In particular, there is a growing perception, among industry players, that day-and-date release practices might serve this purpose, as the simultaneous availability of a certain film on different windows (e.g. cinema + VOD, or DVD + VOD) would bolster the promotional outcome.

### **4.6.4. The need for scale**

As detailed in the previous sections of this report, films with a high commercial potential are more likely to position themselves in the classic country-based and cinema-driven distribution scheme, whereas “smaller films” may not benefit from theatrical distribution prior their release on VOD (because, for instance, the estimated target audience is too limited to justify the cost of a theatrical release).

We have seen how one the aggregators’ core assets lies in broadening the geographical scope of VOD distribution and therefore, when relevant, in helping targeting as many territories as possible, maximising revenues for the right holders and seeking out unexplored business opportunities.

Since a core competitive advantage of aggregators consists in their capacity of mediate between local right holders and big platforms, it is crucial for them to foster these business relationships in order to gather large catalogues of rights across different territories.



In order for their model to be sustainable, aggregators strongly need to achieve a certain scale, both in terms of geographical coverage and volume of the contents they represent, also engaging in content curation when needed.

### **The challenges ahead for aggregators**

Aggregators have carved out their role of intermediaries in the digital distribution landscape by offering a diversified mix of services, spanning different areas (technical, marketing, content syndication, curation).

However, in a growing and competitive market, the aggregators' unique offer might be undermined by other players: e.g. theatrical distributors might realistically acquire their own expertise in several fields that represent the aggregators' core business, a risk that concerns in particular marketing and technical aspects.

Yet, even envisioning such a scenario, aggregators would rely on some specific assets:

- some distributors will still need them to deliver content to major VOD platforms, as these services only ink deals over a minimum threshold of titles;
- they may effectively engage in content curation, selecting and packaging contents for the right holders;
- they are taking hold in opening up new business opportunities with regard to the cross-country circulation of titles on VOD platforms, resulting in an increase of consumer revenues.

The last point is particularly relevant to niche films (arthouse, documentaries, back catalogue works, etc) that do not benefit from theatrical distribution in certain countries and that could instead be made available on VOD platforms on a multi-territorial basis. However, this aspect entails some degree of risk, as these titles might have limited commercial potential and it is difficult to accurately estimate the extent of the demand.



## 5. Conclusions

The upsurge of VOD has brought about some major changes, paving the way to the establishment of new players and, to some extent, reconfiguring the audiovisual distribution landscape.

Yet, in spite of the rapid growth, VOD still is a nascent market, where different distribution practices are evolving and being tested. In the short term, cinemas are likely to continue playing a key role in film distribution, as for now the theatrical release still drives the promotional impacts on sales along all the exploitation windows.

The growing offer of VOD services, active both on a national and pan-European (or quasi pan-European) level, has raised expectations that VOD could work towards a more integrated audiovisual market. Yet, the exploitation of audiovisual content is still hinged on a mainly country-specific model, as film distribution is organised on a national level, with the theatrical release window driving the distribution chain. These elements, coupled with cultural specificities on a regional and national level, account for the fact that for now it is still challenging, if not unrealistic, to have a European title released on VOD simultaneously across different countries.

Many argue that VOD is a good solution to improve the circulation of films that are not distributed in cinemas at all or that are only theatrically released in some countries. This perspective has inspired some optimism, as VOD could be a promising opportunity to promote the cross-country circulation of a culturally diverse variety of films. This is of particular relevance to many small EU films that do not benefit from theatrical distribution outside their national market.

Currently, however, many films do not make it to VOD in many territories, mainly because they were not theatrically released in the same market. The fact that global platforms impose right holders a threshold number of titles represents another barrier to the access to VOD services. Furthermore the administrative burden of dealing with many platforms over different territories (each one requiring different technical standards) can be remarkable.

In this regard, aggregators appear to be an effective solution in opening up the way to VOD services for (small) European films, as they help right holders overcoming technical and transactional obstacles and unlocking new sales opportunities.

These “digital native” companies (at least some of them), have an in-depth understanding of the digital distribution market and therefore play a strong role in designing and testing innovative release strategies, which are greatly needed to untap the unexploited potential of the on-demand market.

Expectations in VOD, however, might be set too high. Some stakeholders try to dampen the enthusiasm for VOD and urge caution about its possible impact on the overall sales, warning that the demand for small European films on VOD platforms might be overestimated. Furthermore, as we stressed in this report, VOD distribution availability alone does not translate into sales, and marketing and promotion are paramount to boost the visibility of the titles. However less expensive than traditional P&A, promotion of VOD releases still require financial investments and the outcome of an exclusively digital campaign might not equal the impact of a multi-channel promotional strategy.



The rise of aggregators might have, at least to an extent, unsettled the film distribution chain. These new players are both perceived like a useful intermediary – helping distributors to make the most of their rights – and a digital distributor – dealing directly with sales agents or right holders for films without a distributor. Therefore distributors and aggregators find themselves in a delicate position of “coopetition”, and they could both be faced with an increased competitive pressure: distributors might internalise some of the services provided by aggregators while aggregators may need to find ways to mitigate their risk by building scale or acquiring additional rights other than VOD.

In this context, the specificity of aggregators will probably depend on their capacity to successfully balance and combine different services and competencies: integrating their expertise in digital marketing with knowledge of local markets, assembling packages of curated contents for a variety of platforms and ensuring audiovisual works the widest possible circulation.



## Annex: 75 TVOD services and catalogues

| VOD Service               | Coverage   |
|---------------------------|--|
| <b>Blockbuster</b>        | DK   |
| <b>Bnet</b>               | HR   |
| <b>Cdon</b>               | SE   |
| <b>Chili</b>              | AT, DE, IT, PL, UK   |
| <b>Curzon home cinema</b> | UK   |
| <b>Dkino</b>              | SI   |
| <b>Flimmit</b>            | AT   |
| <b>Hol</b>                | GR   |
| <b>Ipla</b>               | PL   |
| <b>iTunes</b>             | AT, BE, BG, CY, CZ, DE, DK, EE, ES, FI, FR, GR, HU, IE, IT, LT, LU, LV, MT, NL, PL, PT, SE, SK, UK |
| <b>Lattelecom</b>         | LV   |
| <b>Maxdome</b>            | DE   |
| <b>Maxtv</b>              | HR   |
| <b>Megogo</b>             | CZ, EE, LT, LV   |
| <b>O2tv</b>               | CZ   |
| <b>Oyo</b>                | HR   |
| <b>Pathé Thuis</b>        | NL   |
| <b>Playplus</b>           | SE   |
| <b>Seenow</b>             | RO   |
| <b>Sfanytime</b>          | DK, FI, SE   |
| <b>Skynet</b>             | BE   |
| <b>Strefavod</b>          | PL   |
| <b>Tangotv</b>            | LU   |
| <b>Timvision</b>          | IT   |
| <b>Toya</b>               | PL   |
| <b>UniversCiné</b>        | BE, FR   |
| <b>Videoland</b>          | DE   |
| <b>Vodo</b>               | GR   |
| <b>Volta</b>              | IE   |



|                   |                            |
|-------------------|----------------------------|
| <b>Voyo</b>       | BG, CZ                     |
| <b>Wuaki</b>      | AT, DE, ES, FR, IE, IT, UK |
| <b>Youseeplay</b> | DK                         |
| <b>Ziggo</b>      | NL                         |