CENTER FOR SOCIAL MEDIA
School of Communication
American University

THE NEW DEAL: VERSION 1.5

Monetizing and Mission

ITVS

June 2007

Funded by the Ford Foundation
A Future of Public Media Project

centerforsocialmedia.org/newdeal2007

FOREWORD

By Sally Jo Fifer, President Independent Television Service

Public broadcasting has carved out a hard-won place in media over the last 40 years. Now, with the explosion of new technologies, we're facing unprecedented opportunities. The new media landscape invites us to create new kinds of public media for a participatory era, to open the rich public media archive to new audiences, and to find new ways to champion the independent filmmakers whose work makes public broadcasting unique.

We could choose not to take these opportunities. We could hope we've seen the last of the big changes and that things are settling down. We could try to insert ourselves into the slipstream of commercial enterprise and hope that the emerging marketplace will be kind to those of us who put mission above money. We could trust that today's open virtual spaces will continue to stay open to everyone and that we'll be able to use them without changing any of today's production practices or relationships. We could spend our time arguing about who's supposed to take charge of innovation and adaptation.

Or we can absorb the lessons of the past and find ways to work together—to identify stakeholders in the public media community, build relationships that put the public mission of public media in the center of our work, and seize the chance to create new public media practices.

For ITVS, the first step into this brave new world is to make sure that the relationship between independent producers and public broadcasting is solid. We expect a lot from independent producers; we believe that they're the heart and soul of public broadcasting. They explore issues that mainstream journalists haven't even heard of yet. They talk to people we've never heard from. They come to a project from within networks of culture and experience that reflect the rich diversity of our nation. More than that—independent producers do their work in the hope that it can make a difference in the public life of our democracy. That is what ITVS exists to do as well, and that is a core mission of all public media.

Today that mission means that the producer's work doesn't end with the television broadcast but is part of an extended web of meaning that can live digitally and have an impact on real lives long afterward. Public media stakeholders must carry on our mission in the crazy, unpredictable, exciting, and important digital environment. We also must find ways to protect the financial interest that allows independents to continue creating.

High-quality content is still the most valuable asset that any distribution system has to offer. The identity and diversity of public media are at risk if the most talented independent producers are drawn away from public media, and their work severed from its public broadcasting mission and roots as it is absorbed into the archives of large commercial media companies.

All of us within public media are facing the same challenge of matching up resources, knowledge, and mission in a constantly changing environment. We know we are going to have to experiment with new financial models. Going it alone is not the answer. It's our hope that this report adds to our mutual understanding, fosters the ability of independents and public media to work together, and helps bring socially valuable work to people in innovative ways that can build a robust future for public media and a healthy civic life.

June 2007

REPORT

By Pat Aufderheide, Professor and Director, Center for Social Media

EXECUTIVE SUMMARY

A year after our 2006 research into independent filmmakers' contract terms for new media and other postbroadcast rights, we have once again surveyed the landscape. The online environment continues to expand, but it remains very much a frontier. We see many of the same issues recurring this year as last year, and yet we also see striking changes—a duality reflected in the title of this report as *The New Deal, Version 1.5: Monetizing and Mission.*

For independent filmmakers and for public broadcasters, two stakeholders who uniquely need each other, this is a time to draw on each other's capacities to make public media.

In the chaotic, inventive, and frenetic atmosphere of online video, producers of independent films and rights holders to those works, including public broadcasters, are beginning to see very small amounts of revenue from online distribution. While traditional television remains critically important, especially as the "head" to a "long tail" marketing strategy, and the mature DVD market remains very lucrative, online platforms are gradually taking shape as tomorrow's delivery system of choice for many people. This is a timely moment to assess and assert the importance of public media online.

For independent filmmakers and for public broadcasters, two stakeholders who uniquely need each other, this is a time to draw on each other's capacities to make public media. It is a critical time to imagine a productive relationship to build truly public spaces in the online world. That imagination will need the noncommercial equivalent of venture capital—taxpayer funds—to become reality, but only the stakeholders who have already invested in public media can make the case for public support.

APPROACH AND PARTNERS

This study is grounded in long-form, open-ended interviews with leading stakeholders in the field of independent media production and distribution. It is a product of nonprofit alliance between American University's Center for Social Media and public broadcasting's Independent Television Service.

Researcher Maryam Roberts conducted more than 30 interviews with representatives of leading broadcasters and cablecasters; independent filmmakers and production houses; and distributors, including educational and home video distributors and providers of online video platforms. Tamara Gould, vice president for distribution at the Independent Television Service, worked closely with Roberts to focus the scope of research and enable access to important partners. Roberts explored how stakeholders are negotiating the deals to marry content and online accessibility. In addition to general queries about their experience with online distribution, she asked five questions:

- Who is typically making digital distribution deals—filmmakers or distributors?
- What are average percentages for independent filmmakers, both for download-to-own and ad-based streaming?
- Who pays for encoding, formatting, metadata, editing?
- What kind of license period and exclusivity are expected?
- What are the typical business models offered to independents? How are these models maturing for independents?

Pat Aufderheide at the Center for Social Media (CSM), part of the School of Communication at American University, with support from graduate students, including Elizabeth Nolan Brown and Ankwei Chen, and using research from CSM research fellows Katja Wittke and Jessica Clark, provided background research on the state of the field and analysis of the interview data.

All interviews were conducted with a promise of confidentiality.

TREND ANALYSIS

Television beyond broadcast continues to expand. Digital video recorders are now in a fifth of television homes, permitting viewers to create their own program collections. In the online environment, YouTube has become a symbol both of the growth of participatory media and of the importance of online video platforms. YouTube, however, is only one of many kinds of online video platforms that specialize in user-generated content and the popularization of clips from networks. As these platforms proliferate, they are attempting to distinguish themselves one from another both with services and with content. They are hungry for product, quickly building archives and profiles. Businesses as varied as Babelgum, Jaman, Joost, BitTorrent, IndiePix, and Nomadsfilm are creating brand identities that evoke the integrity and quality of independent production. Social networking elements are routinely incorporated. For example, Jaman allows viewers to chat online while watching programming. Commercial broadcasters, which have been trying to drive viewers through their own portals, are now beginning to accept—with CBS in the lead—the need for their programs to appear in as many spaces as viewers might encounter. Television, once a discrete activity, is becoming a ubiquitous feature of work, play, and interactive projects.

While industry consolidation seems inevitable, for now proliferation is the norm, partly because no online video enterprise is as yet profitable. The Google purchase of YouTube for $1.65 billion in stock is widely seen as the beginning of consolidation, but many new enterprises are still waiting for their venture capitalist, or larger corporate backer, to appear with backing or a purchase offer. In some cases that backer may be a large media corporation; MTV and Paramount have invested in BitTorrent, and Viacom and CBS have invested in Joost. Thus, the new online environment could become not only less diverse but more subject to the concerns of large media companies.

Business models are varied, and include

- Advertising (AOL, Revver, Joost). This is typically a "streaming" model, delivered live, short or full length. Ads can be placed within the program file or on the surrounding Web page.

- Download-to-own or -rent (IndiePix, CinemaNow, Bit Torrent, iTunes, Google Video, Amazon Unbox). Rental is also known as video-on-demand (VoD) and pay-per-view. Download-to-own can be to a home computer or another device; you may be able to purchase the right to move it between devices or burn it to a DVD.

- Subscription (Cinema Now, Akimbo, Netflix's experimental video-on-demand platform). This model allows a customer to pay monthly, with a certain number of titles per month to view within a certain time period (36 hours for Netflix). A higher subscription allows consumers more flexibility.

Producers are finally beginning to make money online, at least on mainstream entertainment product. In 2006, Disney claimed almost $17 million in iTunes revenue from its television programs. This was a mere fraction of a percent of its $4.3 billion in ABC ad revenues, but it was an important change from the year before. More and more people are turning to online platforms for video; *South Park* pulled one million downloads in six months on iTunes in 2006. By comparison, independent and public television revenues are miniscule, despite the fact that since PBS launched its podcasts in September 2005, there has been at least one PBS podcast in iTunes' top-100-most-popular-podcast list every week.

Many in television expect online or digital download video to be a minor part of the business for some time to come. A recent Forrester survey showed that only 9 percent of online adults paid to download a movie or TV show in the last year. Netflix projects its transition from DVDs to a VoD model—a transition it originally considered near term—to be perhaps five or even ten years away because of consumer reluctance to adapt and infrastructure limitations.

Some blame the relatively slow broadband baseline that the federal government has accepted; downloading, even with compression, is still achingly slow and sometimes problematic for many home computer users. Computer-television interfaces continue to be awkward. Although VoD services of cable companies have found growing demand, the great majority of American television households do not have a digital video recorder. How to make and keep data secure—the key to many business models—is a perpetual cat-and-mouse game with hackers, and consumers have been hostile to many forms of digital rights management. But online video providers are now establishing relationships with producers that they hope will endure and develop as they themselves grow.

At the same time, the mature market for DVDs is aging gracefully. The growth of DVD sales has slowed, but the DVD market remains very important—particularly for independent producers, who consider it the most important source of postproduction revenue. Those who sell DVDs, however, are struggling to find audiences, as the market is flooded by more product than ever before and the amount of retail space for less-than-blockbusters has shrunk.

In fact, online as elsewhere, attention is still concentrated at the top, as the 80/20 rule continues to hold true: 80 percent of the sales revenue comes from 20 percent of the buyers. Online platforms and digital storage units potentially offer low-cost ways to offer material with a low demand for a long time (the so-called "long tail" phenomenon), but even the successful low-demand products usually need at least one higher-demand moment around their launch. Finding what Peter Broderick calls a "personal audience" requires careful strategizing. Many independent filmmakers expect a launch on broadcast or cablecast to function as the "head" of a "long tail." Social networking, of course, provides new opportunities for those whose mission matches them. For instance, Brave New Films, which at the moment is only producing short, Internet-distributed films, works closely with powerful grassroots organizations, such as MoveOn.

Traditional television is still a very important medium and likely to remain so in the near term. Even in new environments, the cruel traditional logic of blockbusterism is also still important. New media platforms are significant but still very secondary sources of revenues. They are somewhat more important sources of promotion for more traditional revenue streams.

At the same time, the online environment is an important zone, because it is the active zone of experiment and the direction in which television is changing: toward the personal collection (and sharing) mode of experience television rather than the passive channel tune-in, and toward participation and networking rather than audience-hunting. In the online world beyond television, this trend has long since become dominant. In massive multi-player games, in alternative online universes such as Second Life, in the ubiquitous use of MySpace and Facebook and similar social networking sites—all of which are media-rich—and in the ever-important bellwether industry of advertising, participation in media creation, enabled by digital networking, is central.

ANALYSIS OF RESEARCH

Our research focused, within these general industry trends, on independent production and the organizations that independents and public broadcasters turn to as they explore the online environment. Independents have long been the heart of public broadcasting, which as a decentralized network of organizations has no central production capacity. Both independents and public broadcasters are now trying to launch themselves usefully in the online environment, and their decisions will affect each others' future.

Last year at this time, there was no money in the online marketplace for independents, and there were almost no deals. Now there are deals (Google Video, Revver and iTunes are dependably generating payments), but there is no coherence or consistency. Stakeholders in this group, including both individual producers and distributors, are indeed seeing revenue. But even with high-percentage deals, for independents the revenue is still typically in the four figures.

Who is typically making digital distribution deals—filmmakers or distributors?

A few filmmakers deal directly with online providers for postbroadcast, but mostly distributors are doing the deals. The most dependable platforms from a revenue standpoint, such as Google Video, iTunes and Netflix, in practice rarely deal with individual producers. Google Video, for instance, establishes contracts only with holders of more than 1,000 hours of material. Independent filmmakers still need their aggregators. Many independents are giving distributors new media rights bundled (and continuing to hold onto their lucrative DVD rights), and distributors are sometimes exploiting them successfully. But their efforts are still in the demonstration or experimental range, and some distributors are doing nothing with these rights.

Certain distributors see digital distribution that they control as their future. For educational distributors, which have survived on high-priced institutional sales, the technological prospect of a price-per-use model seems inviting. Instead of a one-time sale, these distributors could look forward to collecting a small license fee from each classroom student indefinitely. However, there is no evidence from the current environment that such a prospect is near term, and other educational distributors see threats to their traditional business models in any digital distribution, since it may challenge their core market of high-priced institutional sales.

What are average percentages for independent filmmakers, distributors, and public broadcasters, both for download-to-own and ad-based streaming?

The range is extremely wide. Producers can expect anywhere from a 15 percent to a 50 percent cut of online revenues if they work with a distributor, broadcaster, or other aggregator, and a 30–80 percent cut of online platform revenue if they do direct deals with online providers. More zealous companies, like IndieFlix and GrapeFlix, are offering 70–80 percent to independents, with the online provider incurring all the costs. For ad-based models, the average percentage is generally split 50–50 with the Internet company assuming all sales and administrative costs of sales.

Who pays for encoding, formatting, metadata, and editing?

It depends. Encoding/formatting cost estimates ranged from roughly $200 for a 60-minute documentary (for volume business) to $8,000 per hour for highly tailored work done on a retrofit basis, which includes editing and removal of packaging. Each platform is distinct technically and offers different deals. This nonstandardization is often frustrating to producers who need to supply outlets with multiple technical deliverables.

What kind of license period and exclusivity are expected?

License periods for online distribution tend to be longer than last year at this time for online contracts—five to seven years, much like broadcast contracts. For the time being, nonexclusivity is the norm, as it was last year at this time. Sometimes the same content is available on multiple Web sites, often for different prices. However, it is expected that with consolidation, the rising importance of digital or Web video, and shakeout of business models, providers will expect exclusivity. Distributors will continue to demand and to value highly exclusivity from independent producers, since it enables deal making on new platforms.

What are the typical business models offered to independents and public broadcasters? How are these models maturing for them?

Independents and public broadcasters are typically participating in deals where they take a percentage of any advertising sales for ads placed around or during their program, a portion of revenue from download-to-buy or -rent sales, or a portion of revenue from subscription-based services.

Advertising sales thus far have been minimal for independent work. Download-to-rent and own models are potentially more lucrative, but many producers have expressed concern that making their work available for $1.99 online cuts into their potential to sell DVDs for prices closer to $14.99 and above. Producers and distributors expressed some reservations about low prices in the current (experimental) subscription model.

Thus, the problem that producers face is that online revenues, still tiny, may threaten the more dependable revenue from institutional and home video and DVD sales. Since many independent producers currently depend on this ancillary income to cover deferred production expenses or to supply startup costs for their next film, this is a challenging moment. Nonexclusive online deals could potentially erode traditional hard-copy sales, though there is no demonstrable evidence to prove this yet. Do producers take a gamble on reaching larger audiences and attracting new sources of revenue, or do they stick with the more tried and true? Any way that public broadcasters and independents jointly explore the future must consider the tradeoffs that independents will make when they license digital media rights that force a choice between traditional distribution and this brave new world.

A BIT OF HISTORY

U.S. public broadcasting has never developed new business platforms. It entered both radio and television after commercial interests set the terms. However, it has uniquely been a zone of experiment in using new technologies for media that serve public knowledge and action.

Public radio stations were the first to inhabit the FM space, demarcating it as a zone for musical and storytelling innovation. (FM was allocated to public radio primarily because commercial radio stations didn't want it.) Public television stations were the first to explore UHF (similarly shunned by commercial broadcasters), turning it into valuable virtual real estate. Public television was a pioneer in using the then-recently-developed satellite technology for nationwide transmission. Public television also developed the closed-captioning technology that benefits not only the hearing impaired but many others, including museum goers.

Other issues

The interviews also yielded information about use. The most common uses for online media are as extensions of traditional television. The two typical uses are for promotion (putting up a trailer, preview, or clip) or for download. Internet promotional previews and also downloads offered appear to feed DVD sales; at least one producer noted rising DVD sales in a flat market, attributing it to Internet promotion. Some public broadcasters are placing their work on Open Media Network (which has actively courted public broadcasting) hoping to create a one-stop-shopping site for public media. Independent filmmakers and public broadcasters have barely scratched the surface of social media and its potential. They have not yet capitalized on the community-building potential of online sites, for instance, nor moved to market multiple versions or even individual elements of their work (such as musical elements, photographs, or goods or services showcased in the program).

In general, both independent producers and public broadcasters have waited this year for opportunities to come to them, cautiously trying out new ways to extend existing practices and in some cases researching future possibilities. At the same time, many new opportunities have come to them, in the shape of new online video platforms, only some of which will survive. The next year may bring more change. PBS has recently hired a new interactive team and is committed to experimenting with a variety of partners, such as iTunes, Google Video, and AOL.

CONCLUSIONS

The broadcast/cablecast television "window" continues to be critically important to the future of a film, and the online video environment at this moment is less easy to negotiate for individuals than for holders of archives and other institutions with multiple holdings. Increasingly it is important for both independent producers and public broadcasters to inhabit the online environment productively. This is as important for reasons of mission as of monetizing. Independents and public broadcasters will continue to need each other whenever mission—the service of public knowledge and action—is important.

This year's survey of industry practices around independent production for and beyond public broadcasting suggests that both broadcasters and independents are struggling with the nature of the opportunities available online. They perceive the online environment as a not-always-friendly extension of their primary business of getting films to audiences. They want to know how they can continue to recoup costs from showing product, without losing control. Services are growing up that aim to meet those needs, showcasing movies for rental and download in a video-on-demand structure, with social networking add-ons.

At the same time, the larger digital media environment is changing dramatically, putting the user in the center of the story. In this noisy, overheated environment, brands are more critical than ever, as individual users become aggregators pulling disparate material from a variety of sources and platforms. As these users create their own experience and curate their own spaces, "brand" has become a crucial sorting mechanism and a short cut to identity (as commercial broadcasters have realized).

Independent filmmakers by definition lack branding, and some have successfully used public broadcasting for a cultural identity for their work. Public broadcasting has a strong identity within American television culture, even among people who profess not to use it. Public broadcasters, both producers and distributors, have a unique claim to quality and significance—to make and brand work that is important for participation in public life. Public broadcasting brands could let people form a public "zone" within their own media spaces and grow virtual zones within broader social networking spaces as well.

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In fact, it is possible to imagine a public media online environment that could be a real home for independents—not only today's makers of superlative documentaries and insightful fiction films but the many people growing up with a Facebook account fueled by YouTube creations and mobisodes. Were it to be properly funded by taxpayers, such a public media site could offer the general public curated, branded collections, available free just as public broadcasting offers its work free today.

Of course many features of this future public media depend on decisions outside the control of either independent producers or any one entity in public broadcasting. Will taxpayers invest in public media beyond broadcast? Will policymakers ensure that everyone can get access to online resources, not just those who can pay? Will they ensure that the nation's broadband platform is adequate to the digital opportunities for commercial and noncommercial expression alike?

Some features of this future vision for public media are, however, affected by choices that independents and public broadcasters make today. Two questions arise from this year's study:

Will public media makers and broadcasters use the public broadcasting "brand" to design new public practices or will today's public media be dispersed, benefiting new platforms but neither producers nor public media?

Will public media stakeholders look to new media merely to recoup costs or as sites of new online public practices?

There are many ways to answer those two questions productively. First, media makers must choose their partners carefully. They need to work toward contracts with distributors, co-producers and providers that permit them to participate, not only in revenue, but also in network building and the cultivation of "personal audiences." They need accountability and feedback, not only about revenue, but about reach and impact.

Independents also need to share their own knowledge about the terms of contracts and results of experiments in online video with the community that shares their mission, so that other members of the public media community do not have to reinvent the wheel. They can do that on the Center for Social Media site for this report (at www.centerforsocialmedia.org/newdeal2007), in fact, as well as within independent virtual communities such as d-word and Doculink. Knowledge is particularly powerful in the chaotic, formative moments of a marketplace.

Public broadcasters that want to win the trust of producer communities both established and emerging need to consider the importance of ancillary revenue to independents—before they ask them to forgo proven outlets in order to experiment with new ones. Public broadcasters also need to demonstrate a capacity to navigate the online environment for the benefit, not only of individuals and institutions, but of the public good. The short-term goal of monetizing current operations cannot ultimately be met without meeting the larger mission goals.

Public broadcasters need to offer independents both a fair share of revenues and inclusion in creative experiments in shaping public practices in the online environment. Strategic leadership for public media can make public broadcasters a valuable partner for independents and online providers alike. This is because online providers need reliable aggregrators of independent product, while independent producers—public broadcasting's core resource—need innovation that values not only profit but public mission, and they cannot create a new market space for themselves on their own.

The new media marketplace is finally emerging, and risk factors have changed. Focusing cautiously on monetizing in the short run could, for public broadcasting, be counterproductive if public broadcasting by so doing gives up the opportunity to create a public identity for itself and its most vital source of high-quality production—independent producers. Similarly, independent producers need to assess how much risk they undertake as they are, inevitably, thrust into new marketplaces; there is no safe haven in mature business models. They need to demand from potential partners protection not merely of today's profits but also of tomorrow's public media.

Both independent producers and public broadcasters stand to lose in the emerging digital landscape if they cannot take judicious risks to experiment with the unique possibilities of the new media environment.

THE CENTER FOR SOCIAL MEDIA

The Center for Social Media is part of American University's School of Communication, which is headed by Dean Larry Kirkman. The center analyzes and showcases media for public knowledge and action. This project is part of its Future of Public Media project, funded by the Ford Foundation.

THE INDEPENDENT TELEVISION SERIVCE

The Independent Television Service (ITVS), funded by the Corporation for Public Broadcasting, brings to local, national and international audiences high-quality, content-rich programs created by a diverse body of independent producers. ITVS programs take creative risks, explore complex issues, and express points of view seldom seen on commercial or public television. ITVS programming reflects voices and visions of underrepresented communities and addresses the needs of underserved audiences, particularly minorities and children.

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Funded by the Ford Foundation

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