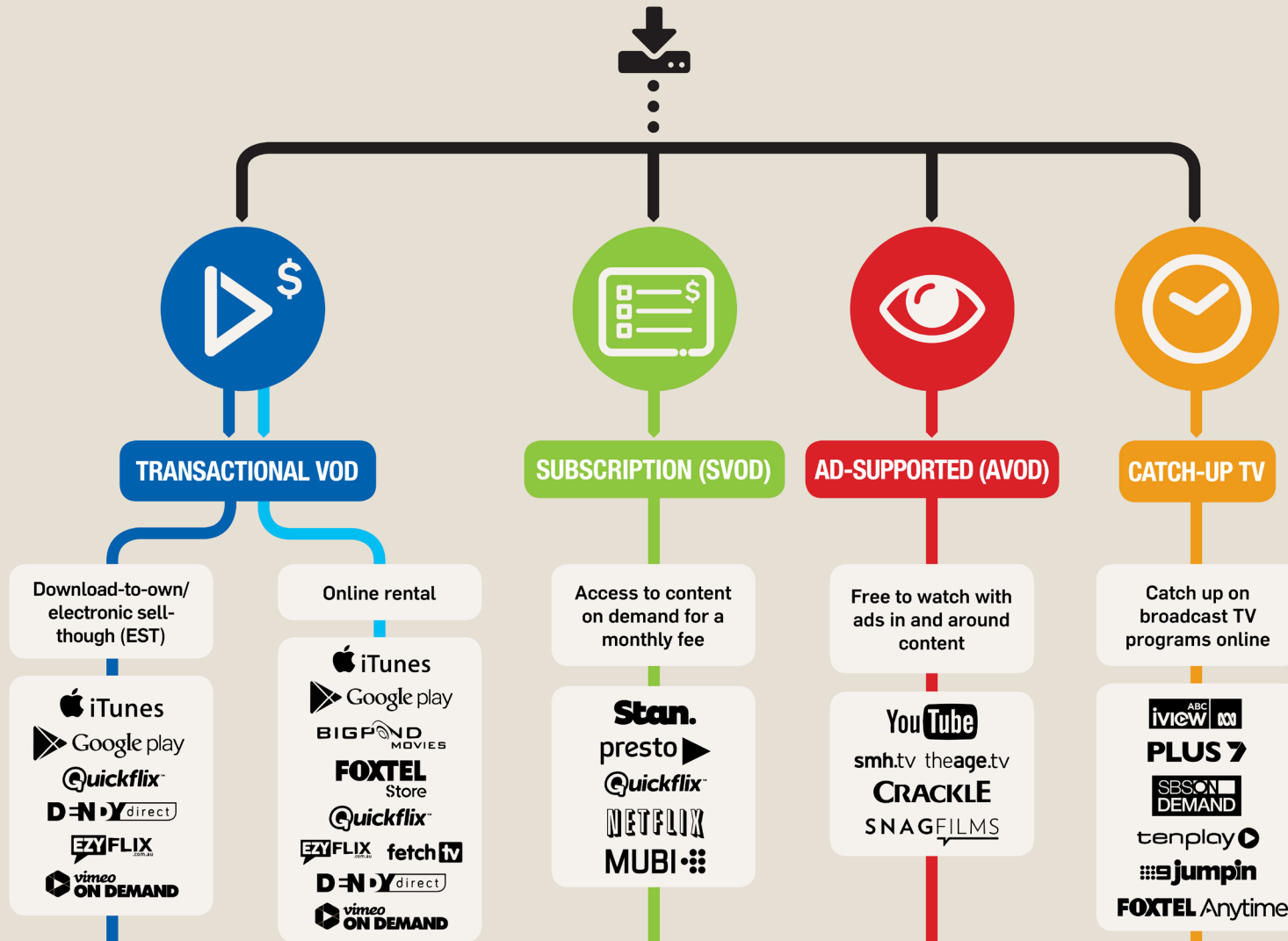
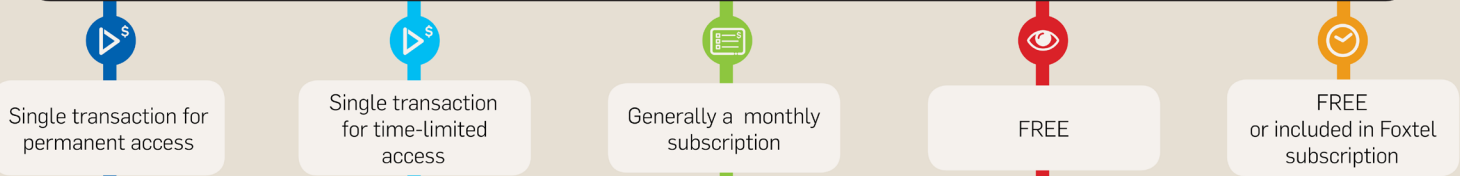


What's the deal with VIDEO-ON-DEMAND?

Online access to movies and TV is not only changing audience behaviours and expectations, it's also impacting on the business models that enable content to be financed and produced. Complex deals determine how content reaches audiences and who earns revenue from VOD. Here we set out some of the key structures that currently influence deals across the range of VOD platforms presently available in Australia. These structures will continue to evolve as the Australian VOD market matures and consolidates.



HOW DOES THE VIEWER PAY FOR THE CONTENT THEY WATCH?



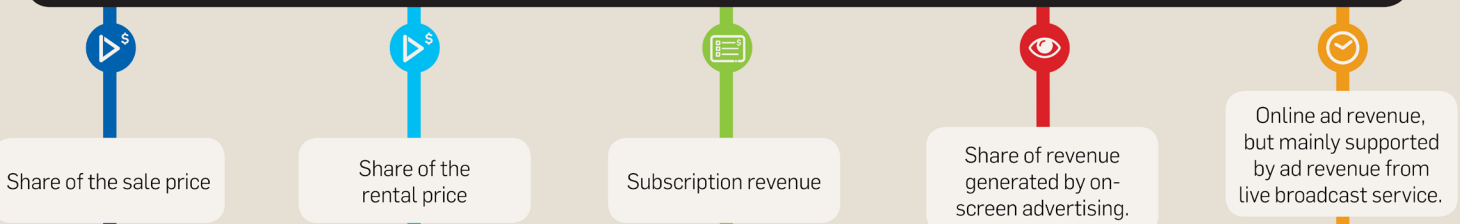
HOW MUCH DOES IT COST? (Based on typical costs in Feb 2015)



For some TVOD services (such as iTunes), distributors select a wholesale price from a series of tiers, which dictates the retail price for consumers.

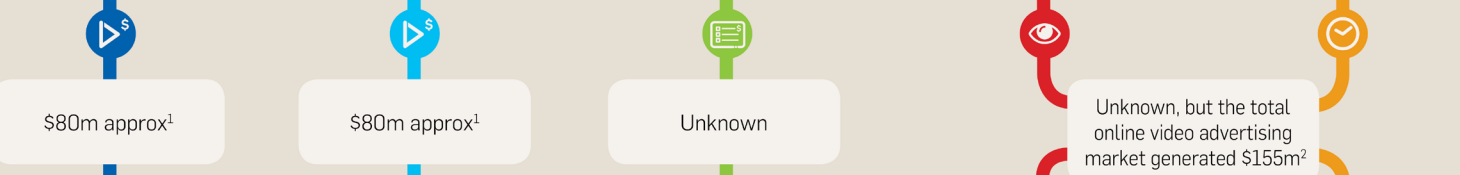
Direct TVOD services such as **Vimeo On Demand** allow rights holders to set their own prices

HOW DOES THE VOD SERVICE MAKE MONEY?



The value of Catch-up to the broadcaster is primarily in helping retain audiences for live broadcast offerings.

HOW MUCH DID AUSTRALIAN VOD SERVICES EARN IN 2013?



Australian TVOD release for feature films is usually 120 days after cinema release, as required by exhibitors. Some films reach the home entertainment market earlier by 'four-walling' - payment of a flat fee to hire cinema screens.

ABC iview has announced 'link to buy', enabling purchase of programs through iTunes once the Catch-up window has expired. The ABC takes a share of each purchase.

WHERE DOES VOD FIT INTO THE RELEASE CYCLE?

VOD release can come anywhere in the release cycle depending on the producer's and the rights holder's strategy for exploiting content. Platforms that precede a VOD release will usually require holdback against one or more types of VOD.

Some Australian films have been released in the US on VOD with simultaneous (or close to) cinema release, including *The Hunter*, *The Babadook* and *Felony*.

Broadcasters sometimes offer programs on their Catch-up services before TV broadcast. Additional rights may need to be cleared for this type of VOD release.

Nine Network released the entire drama series *Gallipoli* on **Stan** following the broadcast of the first episode.

In the US, The Weinstein Company will release *Crouching Tiger, Hidden Dragon II: The Green Legend* simultaneously on **Netflix** and in **IMAX** cinemas.

Vimeo On Demand provided up front finance for *High Maintenance* season 2, and has partnered with crowdfunding platform **Indiegogo** to match funding for select films.

Some international services such as **Netflix** are commissioning content, including Australian children's series *Bottersnikes and Gumbles*.

EST release usually occurs before or simultaneously with online rental and DVD/Blu-ray.

Online rental release usually occurs simultaneously with or up to a few weeks after EST release.

Varies depending on strategy for exploiting content. The bulk of the content on SVOD has been exploited on other platforms first.

Usually after other revenue streams have been exhausted.

Usually immediately after TV broadcast and available for one to four weeks. Some series are 'stacked' – episodes are made available on Catch-up as they air and stay on the service until the whole series has completed its broadcast run.

Although rare, there are instances of programs screening on other platforms after AVOD, eg **YouTube** series *Plonk* was acquired for broadcast in Australia by **Network Ten**.

DO VOD SERVICES EVER REQUIRE AN EXCLUSIVE WINDOW?

Generally non-exclusive

SVOD services acquire both exclusive and non-exclusive rights. Lower licence fees are paid for non-exclusive rights. Holdbacks against other platforms for exclusive content vary.

Generally non-exclusive

Holdbacks against other broadcasters and some SVOD. Holdbacks against home video vary.

DO VOD SERVICES EVER COMMISSION CONTENT AND/OR FINANCE PRODUCTION?

Generally no, but with exceptions

Content on SVOD is primarily acquired. SVOD services may contribute to financing of some content by paying licence fees.

Generally no, but with exceptions

Generally no, but with exceptions

ABC has funded some content to premiere exclusively on **iView** eg *Wastelander Panda*.

YouTube has announced that it will fund new content from some of its top creators.³

HOW DOES THE CONTENT GET FROM THE PRODUCER TO THE VOD PLATFORM?

As for other release platforms such as DVD, domestic distributors and sales agents may sell content for VOD release. They may handle VOD distribution as part of an overall home entertainment deal, or VOD deals may be negotiated separately. Sometimes other VOD-specific intermediaries are involved.

The more intermediaries involved, the more players taking a cut of the revenue. However, intermediaries are often needed to effectively market and exploit content.

Australian SVOD service **Stan** is developing original content, including a series spin-off to the *Wolf Creek* movies.

Aggregators in Australia include **Under The Milky Way**, **Madman Digital** and **ATOM**.

■ Aggregators may deal directly with producers to encode the content and distribute to VOD services. They usually only take the rights for the particular TVOD services they deal with, and generally don't offer advances.

■ Distributors or sales agents may sell content to TVOD services.

■ Producers may approach some TVOD services such as Vimeo On Demand directly.

A distributor or sales agent generally sells content to the SVOD service. SVOD services usually pay a flat licence fee.

Producers may approach AVOD services directly or a distributor or sales agent may be involved.

Producers may go through multichannel networks (MCNs).

In most cases, sales to Catch-up TV services are included as part of a broadcast sale. Distributors or sales agents are often involved in sales to broadcasters.

MCNs assist producers to maximise ad revenue, cross-promote with other channels and provide various other services. **Totem** is an Australian MCN.

Producers can deal directly with **YouTube**.

If a sales agent sublicenses VOD rights to a distributor, both may take commissions on revenue.

HOW DO THESE INTERMEDIARIES MAKE MONEY?

Intermediaries generally retain a share of any VOD revenue forwarded on from the VOD service – whether from consumer transactions, licence fees or advertising revenue – as set out in the deal with the producer or rights holder. Some may also require flat fees or recoupment of costs off the top. If there are multiple intermediaries, each will need to take their share of revenue.

Aggregators take a share of the price of each unit sold/rented. In addition, rights holders usually pay aggregators to encode the content in the correct digital format. **Distributors** receive a set wholesale price for each unit sold. Sharing of retail VOD revenue with the producer is also possible.

Distributors take a share of the licence fee paid by SVOD services.

If a **distributor** is involved they are likely to take a share of ad revenue.

MCNs usually take a share of the ad revenue.

Distributors take a share of the licence fee.

SO HOW DOES THE PRODUCER MAKE MONEY FROM VOD?

The deals in place with VOD services and/or intermediaries dictate the producer's potential share of any revenue generated by the VOD release of their content.

AND HOW MUCH CAN PRODUCERS EXPECT TO MAKE?

As with other release platforms, the producer's potential to earn revenue from VOD depends on several factors: the volume of VOD viewings, the price paid by consumers, and the deals in place with the VOD service and intermediaries.

Producer generally receives a share of VOD revenue as set out in the deal, either from first dollar or, where applicable, after the VOD service's and/or intermediaries' commissions and costs have been taken off the top.

Producer generally receives revenue from the licence fee paid by the SVOD service, after intermediaries have taken their commission or share.

Producer generally receives a share of ad revenue. There may also be revenue from brand sponsorship and merchandise sales.

Rights are usually included as part of the licence fee paid for the TV broadcast rights. For series stacking or availability before broadcast, producers may negotiate with the broadcaster.

On **YouTube**, producer is paid an amount per thousand views of ads run against their content.

Transactional VOD receipts are a small but growing proportion of home entertainment revenue, reaching 15% of the total Australian home entertainment market in 2014. For feature films released on TVOD in the US simultaneously (or close to) cinema release, TVOD can account for a significant proportion of revenue.

Varies depending on stage in distribution cycle. Higher licence fees paid for newer content.

Revenue potential in the Australian market is low relative to other platforms.

Catch-up TV rights are usually included as part of the broadcast licence.

Content on **YouTube** has to be inexpensive to produce and likely to generate many views to be commercially viable as a standalone release.

In the US, some films have been successful on VOD with simultaneous (or close to) cinema release. *Snowpiercer* grossed US\$4.5m at the box office and US\$6.5m on VOD, *Black Death* US\$22,000 at the box office and US\$4m on VOD.



www.screenaustralia.gov.au/research

Infographic: **Anthony Calvert**

¹ AHEDA. AHEDA members comprise approximately 90-95% of the Australian home entertainment market. ² PwC Australian Media and Entertainment Outlook 2014-2018 ³ <http://youtube-global.blogspot.com.au/2014/09/investing-in-creativity.html>