

Online Independent Film Distribution – What is missing?

By

Perihan AbouZeid

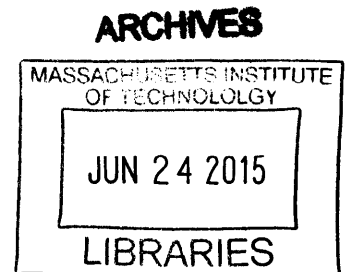
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ABSTRACT

This thesis proposes a new model for online platforms for independent films. Today, platforms such as Netflix, iTunes, and YouTube are in the face of major industry challenges: more competitors are entering the market; consumers are demanding more diverse content and higher quality service; and cost of content acquisition keeps increasing. In addition, the independent film industry has a fragmented value chain, which makes it challenging for filmmakers to fund and distribute their films.

By applying the platforms framework proposed by Prof. Annabelle Gawer, as well as the “coring and tipping” strategy outlined by Prof. Gawer and Prof. Cusumano, the analysis in this paper shows that a company can become a platform leader by integrating two sides of the value chain: distribution and funding. This strategy will incentivize filmmakers and distributors to use the platform instead of competitors; and it will solve the problem of industry fragmentation. This model can also give the platform access to new data on its consumers’ preferences; and enable it to acquire films in its early stages at a lower cost.

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1 Introduction

Different players in the entertainment industry, from major studios and distributors to financiers and sales agents, have spent thousands of hours and millions of dollars in effort to understand what makes a film successful. Identifying the key factors that contribute to the final economic performance of any particular film (box office sales, online downloads, etc.) is vital to making decisions on which films to produce in the future.

This desire is particularly difficult to satisfy for independent films, which are by definition made for a niche market. Independent films belong to the *arts* category of entertainment, which is why their success is not only evaluated by their box office performance, but also by the awards they receive from festivals and annual awards ceremonies. Such recognition can become the main gateway for independent films to receive distribution offers, including theatrical screening, DVD, and digital distribution. Over the past decade, the number of online film distribution platforms, while still small, has almost doubled, with major players including Netflix, iTunes, Hulu, and Amazon Prime. Along with the fast growth of video-on-demand consumption, and decreasing cost of film production, one would expect the independent film industry to be predominantly profitable. However, this is not the case: independent filmmakers are still struggling to finance their films and distribute them later to reach an audience.

This paper addresses the issues of independent film distribution, with a focus on online film platforms. The analysis is based on the integrative platforms framework presented by Prof. Annabelle Gawer, Associate Professor in Strategy and Innovation at Imperial College London. The paper also analyzes the different models of online distribution of independent films and the challenges faced by these platforms given today's market trends and anticipated future changes. Finally, the paper proposes a

concept for a new film platform that can overcome these challenges, and succeed in a highly competitive market. This platform combines video-on-demand and crowdfunding, which integrates the two most complicated and fragmented part of the independent film value chain. This strategy offers filmmakers and distributors more incentives than competitors do, and allows the platform to offer users a more tailored experience that meets their tastes. This model can also give the platform access to new data on its consumers' preferences; and enable it to acquire films in its early stages at a lower cost.

1.1 Integrative Platforms Framework

Prof. Annabelle Gawer and Prof. Michael A. Cusumano describe a technological product as a platform if it satisfies two conditions: (1) it performs an essential function within a “system of use” or solves an essential technological problem within an industry, and (2) it is easy to build on by other new users, to expand the system of use.¹ For example, Google’s Android can be described as platform, since it is an essential component for many mobile devices that rely on this operating system (essential function); and also because mobile app developers can easily build on it.

Later, in early 2014, Gawer introduced the framework of integrative platforms, which I will integrate into my analysis of the different issues in the independent film distribution industry. The key value of this framework is that it overcomes some of the shortcomings of the two main theoretical perspectives that have been used in the analysis of platforms for the past two decades: the economic and the engineering design perspectives.² The economic perspective focuses on the elements that affect a

¹ Gawer, A., & Cusumano, M. (2008). How Companies Become Platform Leaders. *MIT Sloan Management Review*, 49(2), 28-35.

² Gawer, A. (2014). Bridging Differing Perspectives on Technological Platforms: Toward an integrative framework. *Research Policy*, 43(7), 1239-1249.

platform's performance in a competitive market, while the engineering design perspective focuses on platform innovation. Gawer argues that platforms should not be interpreted as either types of markets or technological architectures, as these literatures "[restrict] them to either being consumers or collaborative innovators;" and did not reflect how platforms can "evolve, and play both roles, in non-separable ways." For example, the economic perspective would treat Apple and its apps and Netflix as direct competitors, given that each of them offers consumers a video streaming service. In contrast, the engineering design perspective would treat them as collaborators and agents toward innovation: Netflix develops and designs apps to be added to the Apple TV apps suite, and Apple makes available the API that can allow Netflix to build its own app, and serve the segment of its consumers who own Apple television sets.

Instead, Gawer recognizes platforms as "evolving organizations that: (1) federate and coordinate constitutive agents who can innovate and compete; (2) create value by generating and harnessing economies of scope in supply or/and in demand; and (3) entail a modular technological architecture composed of a core and a periphery." She lists six criteria that characterize *integrative platforms*, and fundamentally differentiate them from other descriptions in the literature:

- a) Platforms can exist in various organizational settings: within firms, across supply-chains, and across industry ecosystems.
- b) Constitutive agents of platforms are: a firms and its sub-units, in the case of internal platforms; an assembler and its suppliers, in the case of supply-chain platforms; or a platform leader and its complementors, in the case of industry platforms.
- c) All platforms share a common modular architecture organized around a core and a periphery.

- d) All platforms have technological interfaces between the “core” and the “periphery” and the degree of the openness of these interfaces varies depending on the organizational setting of the platform, i.e. within firms, within supply-chains, or within ecosystems.
- e) A platform’s access to innovating agents and their diverse capabilities increases as the scope of the platform broadens from internal platform through supply-chain platform and on to industry platforms.
- f) Coordination mechanisms differ according to the type of platform. Coordination is ensured through managerial hierarchy for internal platforms, buyers-suppliers contracts for supply-chain platforms, and ecosystem governance, for industry platforms. (Exhibit 1)

She stresses the significance of the condition of *federation and coordination* in the first characteristic of an integrative platform, as opposed to mere coordination of agents, as proposed by the engineering design perspective. This approach recognizes that “neither the existence nor the process of federation of complementors into a collective can be taken for granted, especially in the case of industry platforms.” This is particularly important to maintain a platform’s leadership, and to create a common identity for the agents of the platform. For example, Google makes its Android platform open to developers to act as collaborative complementors to its own innovation, by creating and making available APIs (interface) for developers to build apps. Google created a dedicated website for Android developers³ as a key resource to offer them information, and allow for collaboration. It also helps create a sense of prestige and identity for those developers, which grants Google leadership in the market. Without this process of *federation*, the coordination of agents would not happen, especially given

³ Android Developers. (n.d.). Retrieved May 8, 2015, from <http://developer.android.com/index.html>

that there are typically no contractual agreements between Android (platform) and developers (complementors), or at least until the app (complementary innovation) is contributed.

Gawer's conceptualization of platforms is consistent with theories presented by both the economic perspective and the engineering design perspective. It is consistent with the economic perspective in the way it recognizes the importance of viewing platforms as double-sided markets. In the case of industry platforms, "the relationships between the platform's constitutive agents are purely transactional, and the pricing mechanism is the principal mode of coordination among platform agents." Similarly, it maintains the condition modular architecture and the core-periphery structure throughout all categories of platforms, as presented by the engineering design perspective. Yet it overcomes the most problematic assumptions presented by the economic and engineering design theories: it does not assume that the constitutive agents of the platform play the fixed role of a buyer as proposed by the economic perspective; and does not assume they play the fixed role of a complementor, or that platform interfaces are stable, as proposed by the engineering perspective. Gawer proposes a framework that recognizes that the roles of the platform's constitutive agents can evolve over time.

In addition, Gawer presents technological platforms in the form of an *organizational continuum* that shows an organizational form corresponding to each degree of interface openness, as well as a set of capabilities, and a type of governance, which offers "fluidity, and possible evolutionary pathways" between the different configurations. By changing the scope and degree of openness, platforms can therefore move along two axes: innovation and competition. The broader the scope, i.e. moving from internal platforms, through supply-chain platforms, on to industry platforms, the number of constitutive

agents that are incentivized to innovate on the platform increases. However, as agents are more autonomous with more open interfaces that are not governed by contractual agreements, they are more likely to engage in a competitive behavior with other constitutive agents, including the platform owner. Industry platforms should therefore expect their leadership to be threatened by competition from their own complementors. She infers four hypotheses based on this conception:

- a) As platform interfaces become more open, more agents will be attracted into the platform ecosystem, and the platform leader will be able to access a larger set of potentially complementary innovative capabilities.
- b) While a large proportion of the platform ecosystem's agents will innovate in ways that are complementary to the platform, a number of them will start innovating in ways that become competitive to the platform.
- c) Emergence of competition from complementors will depend on the governance of the ecosystem, as collaborative governance will increase complementors' incentives to innovate in platform- enhancing ways.
- d) Emergence of competition from former complementors is in turn likely to create a reaction by the platform leader to start competing back with these former complementors-turned-rivals, either by enveloping them, or by closing its technological interface, in effect moving away from being an industry platform towards becoming a supply-chain platform.

To illustrate these hypotheses, consider the example of YouTube. The online video platform was designed to be open to an unlimited number of content creators. Millions of users and organizations started uploading their videos on the platform, with a wide range of production quality, length, and narratives. Consequently, YouTube introduced a number of API's that can allow developers to utilize the platform's technology on their

own web or mobile applications. But eventually, as content creators started realizing the value and growth of video-on-demand (VOD), many of them decided to develop their own VOD platforms, migrate their content to them, and capture the entire monetization value solely, as opposed to sharing it with YouTube. This forced YouTube to invest in strategies to retain those content creators, as well as their advertisers.

1.2 Companies as Platform Leaders

Prof. Gawer and Prof. Cusumano introduce two kinds of strategies for companies that decide to turn their products into platforms to become market leaders: ‘coring,’ in the case of new platforms, and ‘tipping’ for existing platforms to beat their competition.⁴ They also identify the key technological and business aspects of the platform strategy that a company has to undertake for its platform to become a market leader. When it comes to coring, platforms should consider key technology actions that:

- solve an essential system problem;
- facilitate external companies’ provision of add-ons;
- keep intellectual property closed on the innards of its technology; and
- maintain strong independencies between platform and complements.

On the business side, platforms should also attempt to:

- solve an essential business problem for many industry players;
- create and preserve complementors’ incentives to contribute and innovate;
- protect its main source of revenue and profit; and
- maintain high switching costs to competing platforms.

While for existing platforms who will use the “tipping” strategy to win the battle against competition, the technology actions to consider are: developing unique,

⁴ Gawer, A., & Cusumano, M. (2008). How Companies Become Platform Leaders. *MIT Sloan Management Review*, 49(2), 28-35.

compelling features that are hard to imitate and that attract users, and absorbing and bundling technical features from an adjacent market. Also for the tipping strategy, the business actions to consider are: providing more incentives for complementors than other competitors do, rallying competitors to form a coalition, and considering pricing or subsidy mechanisms that attracts users to the platform. Throughout this paper, I will rely on the platform framework, and ‘tipping and coring’ to analyze the current industry status, and recommend key strategies for platforms to become leaders.

2 Transformation of Independent Film Distribution

Film distribution has changed significantly since the “golden age” of film. The Internet has played an important role in this transformation, especially for independent filmmakers, who are now able to promote their films without the need for massive marketing budgets or Hollywood connections. It has also allowed major studios to build strong interactive marketing campaigns that can “go viral” across the world. In 2008, a few months before the premiere of “The Dark Knight,” 42 Entertainment, a California-based company specializing in the creation of alternative reality games, started a viral campaign to promote the film, on behalf of Warner Bros. studios. The campaign started by launching a website for the political campaign of Harvey Dent, a fictional character in the film played by Aaron Eckhart, following up with a vandalized version of the campaign, revealing the image of the joker, another character in the film played by Heath Ledger (Exhibit 2). The campaign continued on with other interactive activities, such as a couple of scavenger hunts, asking fans to uncover clues at certain locations in major cities, and sending photographs of their discoveries.⁵ By mid July, premiere week

⁵ *Dark Knight – Viral Marketing Campaign*. [YouTube Video]. (2009). <https://www.youtube.com/watch?v=VpuC7HhCPWA>

of the film, more than ten million fans had participated in this campaign, around the world, leading to a global box office success.

The Internet has also introduced a democratic means of independent film financing, and has created a new, now important market for films. Crowdfunding platforms have allowed thousands of rising filmmakers to fund their news projects, the majority of which are short films, and build a resumé of their works that they can use when seeking financing for bigger projects. In 2014, about half a million campaigns were started on crowdfunding platforms to finance film projects.⁶ Additionally, thousands of feature-length films and documentaries are now available on several online video-on-demand websites for users to watch, which generates a new source of distribution revenues and extend the life of the films. Unlike the past, when the stores would not stock an old title that was not a blockbuster, online video-on-demand platforms enabled films to earn revenue from the "endless shelf" in the cloud. However, independent films still need to make an effort to distribute and monetize their films online. It is almost impossible for filmmakers to sell their films directly to the platform owner; instead they have to go through an aggregator that acts as an agent and presents the film on behalf of the filmmaker to one or more of those platforms in exchange of a fee. These aggregators rely on their internal capabilities and industry connections to compete in the market for better films.

While revenues from online distribution are still limited, compared to those of theatrical, cable, and DVD, they are growing annually. Many independent films are now generating tangible revenues, despite the fact that they do not have A-list stars, or that they are, in some cases, the first production of their filmmakers.

⁶ Holm, J. (2015, January 19). Crowdfunding Statistics and Analytics for Film and Video in 2014. *Wired Innovation Insights*.

The Square is a perfect example of a success story that can be mostly accredited to the power of the Internet. In January 2013, Jehane Noujaim, the filmmaker behind the independent documentary that covers the story of the Egyptian uprising in early 2011, resorted to the Internet to crowdfund her film. She successfully raised \$126,020 on a \$100,000 goal. The documentary won awards at Sundance Film Festival, and Toronto International Film Festival, and was later nominated for the Oscar for best documentary feature. It was released on Netflix exclusively on January 17, 2014. The film might not have been widely recognized or available for a global audience if platforms like Kickstarter or Netflix did not exist. Today, there is more opportunity for filmmakers to build an audience than ever before. However, it is noteworthy that *The Square* had a budget of \$1.5 million, and made only \$124,244 in box office.⁷ The terms of the agreement with Netflix, including the licensing fees paid to acquire the documentary exclusively have not been disclosed; but one can be certain that overall the film has not made a profit. This raises the question of what could be missing in the existing models of independent film distribution to make the business economically viable for filmmakers and other members of the value chain.

The following table illustrates a simple comparative analysis of the different categories of platforms that are available for independent filmmakers, at different stages of the filmmaking process, in respect to Gawer's integrative technological platforms framework:

⁷ IMDB http://www.imdb.com/title/tt2486682/business?ref_=tt_dt_bus

	Aggregators	Film Festivals	Video-on-demand	Crowdfunding
Type of platform	Internal	Supply-chain	Internal/Supply-chain / Industry	Industry
Level of analysis	Firm	Firm / Supply-chain	Firm/Supply-chain / Industry ecosystem	Industry ecosystem
Platform's constitutive agents	Internal departments (film selection, business development)	Filmmakers, distributors, aggregators	Internal departments, major studios, distributors, aggregators, other platforms	Content creators, app and web developers
Technological architecture	Core: aggregation; periphery: value-added services	Core: selection and screening; periphery: distribution support	Core: distribution; periphery: original productions, technologies	Core: money transfer; periphery: distribution support
Interfaces	Closed within firm, not disclosed externally	Widely open for submission, only a few are selected	Selectively open to supply-chain / open API's	Public API's, open to complementors
Accessible innovative capabilities	Firm capabilities of outreach, sales, and films selection	Firm's internal marketing and selection capabilities	Supply-chain capabilities (studios and distributors)	Unlimited pool of external capabilities
Coordination mechanisms	Authority through managerial hierarchy	Contracts with studios and distributors	Contracts with studios and distributors	Ecosystem governance (regulation, pricing)
Examples	bitMax, IndieRights, Film Buff, LevelK	Sundance Film Festival, Tribeca Film Festival, Toronto International Film Festival	Netflix, Hulu, Amazon Prime, iTunes, YouTube	KickStarter, IndieGogo

2.1 Film Festivals

Most independent filmmakers are generally motivated by the art of filmmaking, rather than the potential economic gains. In the old days of distribution, when there was a

small number of festivals, distributors had to network with filmmakers to find films, then manage the entire business of distribution. Festivals have always been the first stop for filmmakers, as they primarily appreciate the *art* in their films, rather than the economic valuation. But over the years, distributors have started relying on festivals to source films that are worthy of distribution. Recognition at festivals represents the first stamp of approval that attracts media coverage (free publicity), and builds a reputation for the film, which makes it more sellable. It also strengthens the reputation of the filmmaker, which helps when they are fundraising their next film projects.

Independent filmmakers almost always submit their films to festivals, both to gain traction and to increase their distribution opportunities. This allowed film festivals to be structured as supply-chain platforms that offer an interface to a selective number of filmmakers to showcase their talents, and connect to key individuals and organizations that can offer them extended opportunities of marketing and distribution.

Today, more and more films are being produced, because technology has made it possible. There are thousands of festivals around the world, as well, to which filmmakers can submit their films. This means that filmmakers have to be diligent in evaluating and selecting which festivals to apply to in order to have the highest potential of being distributed to the general public. That is how film festivals shifted their strategies from coring to tipping. Initially, the festivals were solving the industry-wide problem of lack of venues to showcase and promote independent films; but now, with thousands of festivals in the market, each of them has to consider a strategy to tip their platform, and attract both talents and audience. Some festivals introduced added services such as distribution support services, in order to incentivize filmmakers to submit their films to that festival instead of competitors; others decided to focus on niche markets, such as short films, documentaries, or culture-based films. What is clear

is that for festivals to remain competitive, they have to find ways to extend their capabilities beyond those of their internal departments, especially with film selections, with thousands of films being submitted every year. It would not be surprising to see a festival creating a technological platform to enable crowdsourcing of film selections, by a select number of reviewers within the aggregation and distribution community.

2.2 Specialty Film Distributors

Until the 1990s, foreign films represented a distinct market sector that occupied a small percentage of the US box office, and were only supplied by independent distributors. Miramax became the leader of this market through handling American independent films like *Sex, Lies and Videotape*, and British productions like *The Tall Guy*.⁸ Miramax brought the market's attention to a new category of films that were essentially considered to belong to the art film market that did not have strong commercial appeal. Miramax was not the first company to focus on independent and foreign films. In 1981, Universal, Fox, and United Artists each launched their own division to distribute the same category of films; but Universal and Fox's divisions struggled and shut down in less than a year (McDonald). Miramax was successful in fulfilling its coring strategy, by handling specialty distribution, and effectively marketing independent and foreign films to a niche market, effectively. In 1993, Miramax was acquired by the Walt Disney Company, which marked a new phase of interest by the studios in specialty distribution (McDonald). While Miramax remained committed to the distribution of independent and foreign films, its acquisition led to the company's shift towards more commercial films that were typically appealing to major studios. In fact, the company's survival was a result of major box office successes like *Pulp Fiction* by Quentin Tarantino in 1994. In

⁸ McDonald, P. (2009). Miramax, Life is Beautiful, and the Indiewoodization of the Foreign-language Film Market in the USA. *New Review of Film and Television Studies*, 7(4), 353-375. <http://dx.doi.org/10.1080/17400300903306706>

other words, instead of continuing to tip specialty films distribution, Miramax decided to tip its commercial films production by creating *unique, compelling* films that are hard to imitate, and that attract users.

Miramax also proved the significance of earning awards in the market of distribution. The company followed the four common strategies for its films: building a film's reputation through festivals; platform releasing to attract strong reviews from critics and generate favorable word-of-mouth amongst cinema-goers; constructing a marketing campaign to mask a film's foreignness; and aggressively chasing awards recognitions (McDonald). By accumulating awards, and having one hit after the other, Miramax was able to blur the lines between independent films (art film market) and Hollywood (commercial film market). Miramax was sold by Disney in 2010 to Filmyard Holdings; the sale included 700 films, and the "Miramax" name. In March 2011, the company announced that it was in talks with video streaming platforms, including Netflix, Hulu, Amazon, and Google, to license its 700-film library on their platforms. Today, almost all of these films can be easily found on one of those platforms, with the majority on Netflix.⁹ The company in this case is 'tipping across markets' by absorbing and bundling features from an adjacent market (online distribution). Yet, specialty films are still faced with the challenge of getting access to distribution. There are still not enough platforms to distribute these films to a wider audience.

2.3 Video on Demand

In the early 2000s, video on demand was becoming the hot topic of the entertainment industry. With the advancement of technology, and increasing popularity of streaming

⁹ Chmielewski, D., & Fritz, B. (2011, March 25). Miramax in Talks with Netflix, Google, Hulu, Others for Digital Distribution Deal. Retrieved from <http://latimesblogs.latimes.com/entertainmentnewsbuzz/2011/03/miramax-netflix-google-hulu-digital-distribution.html>

videos on the Internet, on platforms like YouTube, there was a strong and clear indication that video on demand would be the “next big thing.” This high-growth market attracted many players that wanted to capture demand early on. In addition to YouTube, which was introduced in 2004 as a free video streaming service, other services included iTunes (by Apple), Vongo (by the Starz cable channel), and CinemaNow (by Lionsgate), Microsoft, and Cisco. Walt Disney also introduced MovieBeam, which required users to purchase a set-top box, and pay per film viewed.

By mid 2008, users could stream videos online through three main channels. The first was free streaming services with advertisement placements, such as YouTube, and various network websites, including Hulu. The second channel was ad-free service that generated revenues from selling the content instead, and offered users digital ownership of the content, such as iTunes. And the final channel was the online video rental and pay TV, which offered low-priced temporary downloads of films¹⁰.

iTunes was the first to introduce selling full-length films, in September 2006, which entailed downloading the film from the iTunes store. From that point onwards, the rules of the game for independent film distribution would significantly change. Initially, studios were not giving a priority to platforms like iTunes because they were making money off of DVDs and Blu-ray sales, as well as theatrical distribution. This allowed independent films to be available on store front of iTunes. Yet, it was not easy to put one’s film on iTunes. Mickey Slevin, the Head of Finance and Operations at FilmBuff, a New York based independent film distributor, described getting an iTunes deal as a barrier to entry. “You couldn’t get on iTunes just by snapping your fingers. You had to get through somebody that has a deal with iTunes.” This created a market for sales agents and *aggregators* that could be commissioned by independent film producers to

¹⁰ “Netflix,” Harvard Business School, Willy Shih, Stephen Kaufman, David Spinola. April, 2009.

find distribution opportunities on their behalf. *Aggregators* are simply companies that collect independent films from individual filmmakers, and supply them in bulk to major online video-on-demand platforms, such as iTunes, Netflix, Amazon Prime, Hulu, and Google, which sell or rent films directly to the users. Aggregators and distributors offer independent filmmakers either minimum guarantees (MGs), which put a limit on how much filmmakers make off of their films, or a shared-revenue model, through which they partner with the filmmaker on every dollar the film makes. The benefit of the latter is that the filmmakers enjoy the upside of their films, but it also means that they have to invest more effort, time, and money to promote the film effectively.

Additionally, with the rise of independent film festivals, filmmakers have rushed to submit their films, both to get a chance at industry recognition, and potential distribution opportunities. The competition for distribution offers becomes fiercer every year. Slevin noted that “there were great films that were made by great talents that were not able to find distribution at all.” During the early days of online video streaming, DVDs were the next best alternative to producers, if their films did not receive theatrical screening offers. But DVDs were expensive. An average film needed a minimum of twenty to forty thousand dollars to be released on DVD¹¹. When a film has an overall budget of a hundred thousand dollars, this option becomes less feasible. The rise of online video on demand platforms dropped the distribution cost significantly. During that period, it cost FilmBuff less than ten thousand dollars get a film live on cable video on demand platforms, and on Hulu, which had first started at that time. “John [Sloss] started Cinetic Rise Management, which is now FilmBuff, to be an outlet for films that did not get picked up at festivals; to find them a market, and give them a voice.” Digital distribution was the core of FilmBuff’s strategy. Today, the New York based

¹¹ Slevin, M. (2015, February 4). Independent Film Distribution [Personal interview].

distributor can get a film live with a budget under five thousand dollars, across the entire world. In an interview with Jerome Courshon, a film producer and distribution expert, Linda Nelson, CEO of Indie Rights shared that today independent films can generate about ten thousand dollars of annual revenues. “Some films have really high production value, but if lacking name actors or a popular genre, it may be better for them to start looking into digital early on.”

There are three main types of online video-on-demand platforms: ad-based free platforms, e.g. YouTube, subscription-based platforms, e.g. Netflix, and pay-per-download-based platforms, e.g. iTunes. Subscription platforms like Netflix and Amazon Prime pay licensing fees to acquire films, while transactional platforms like iTunes pay producers on a monthly basis, or 60/90 days post-sale, based on the films performance, i.e. number of downloads. Most films will launch in the transactional window first, such as iTunes, before moving into subscription. When Amazon Prime or Netflix ask for an exclusive windowing first, the distributor has to weigh in the cannibalization effect of not having it on a transactional platform.

The following table compares five video-on-demand platforms that are leading the market today, based on the integrative platform framework presented by Gawer:

	Netflix/Hulu	iTunes	Amazon Prime	YouTube
Type of platform	Internal	Supply-chain	Supply-chain	Industry
Level of analysis	Firm	Supply-chain (studios to distributors to platform to users)	Supply-chain	Industry ecosystem
Platform's constitutive agents	Internal departments (content acquisition, original programming)	Major studios, distributors, aggregators	Major studios, distributors, aggregators, other platforms	Content creators, app and web developers
Technological architecture	Modular design, core: selection and distribution of films online; and periphery: production of original programming, and development of add-on technological features, e.g. data analytics			
Interfaces	Closed within firm, not disclosed externally	Selectively open to few distributors and aggregators	Open to few studios and distributors for films and other platforms for apps	Public API's, open to all content creators
Accessible innovative capabilities	Firm capabilities (films selections, data analytics, original content creation)	Supply-chain capabilities (mainly distributors and aggregators)	Supply-chain capabilities (mainly studios and other platforms)	Unlimited pool of external capabilities
Coordination mechanisms	Authority through managerial hierarchy	Contracts with studios and distributors	Contracts with studios, distributors, and other platforms	Ecosystem governance (ad pricing)
Current challenges	High cost of content acquisition, high cost of original productions, potential market saturation, complex operations	Talent and partners' retention against competition, decline in transactional content consumption	Increasing overheads, high cost of original productions, high cost of content acquisition	Quality control on added content, attracting premium content creators, customer retention

2.3.1 Ad-based Platforms

These platforms offer users a free service to watch videos for free, and they rely on ad placements to generate revenues. YouTube is the largest ad-based video streaming platform, which can be described as an industry platform based on Gawer's integrative platforms framework. Initially, the platform was open to any user that wants to upload their videos; and shortly after its launch, YouTube started offering APIs as open interfaces for developers (complementors) to create their own video streaming, data, or analytics programs on their own websites.¹² This allowed YouTube to be on thousands and thousands of websites that stream videos, and to accumulate and analyze data on user behavior on all of those websites. The platform openness also led to a massive network effect that made YouTube the number one video-streaming platform with one billion users, hundreds of millions of hours of videos watched every day, and three hundred hours of video uploaded every minute.¹³ The ecosystem was primarily governed through users viewership that drove ad placements. Advertisers would spend a percentage of their digital advertising budgets on YouTube, only on videos that generate a significant number of views. Many of them also avoid controversial subjects, such as politics, or religion. But today many content creators that previously used YouTube's interface have built their own video-on-demand platforms, to avoid sharing revenues with YouTube.¹⁴ As more competitors enter the market, the platform's

¹² YouTube — Google Developers. (n.d.). Retrieved May 8, 2015, from <https://developers.google.com/youtube/>

¹³ YouTube Statistics. (n.d.). Retrieved May 8, 2015, from <https://www.youtube.com/yt/press/statistics.html>

¹⁴ Although not confirmed by YouTube, the platform's revenue share with content creators is widely estimated at 55% for partners. (eMarketer)

revenue growth is expected to slow to 6.2% in 2017 from 39% in 2015, a total of \$1.99 billion.¹⁵

With millions of videos on YouTube, the platform had to look for ways to increase the quality of the videos, and enable the advertisers to pick the good videos through the 'clutter,' in order to generate more revenues for premium content creators, and retain them on the platform. YouTube, therefore, launched new interfaces, such as its YouTube Space: a number of video production facilities that are open for content creators to use to create videos, and meet other talents.¹⁶ The platform also introduced a premium paid service to enable its top video channels to charge users to view their content. Further, the company has just announced that it has entered into an agreement with DreamWorks Animation to release feature films over the next two years.¹⁷ This is a major change in YouTube's strategy, as it will directly compete with its main suppliers (complementors): film studios and premium content creators. It also indicates that the platform may not for much longer support average content creators, who produce short-form videos, or the many aspiring independent filmmakers, who rely on platforms like YouTube to promote their short films, and build a reputation. In the same interview with Jerome Courshon, Linda Nelson said, "since ad-supported sites have to spread advertising revenue among their content providers, they would rather give popular content providers more revenue to encourage them to supply more content. If films aren't performing, they are just diluting the advertising pool, so they may get dropped if they are of inferior quality or don't get any views."

¹⁵ Verna, P., Chadwick, R., & Rotondo, A. (2015, March 1). Q1 2015 State of Video. Monetization, Audience, Platforms and Content. EMarketer.

¹⁶ YouTube Space. (n.d.). Retrieved May 8, 2015, from <https://www.youtube.com/yt/space/>

¹⁷ Raman, R. (2015, April 28). YouTube to Fund Premium Content, Signs Film Deal (A. Dwivedi, Ed.). Retrieved May 8, 2015, from <http://www.reuters.com/article/2015/04/28/us-youtube-content-idUSKBN0N1HO20150428>

This means that YouTube is gradually shifting its model to being more of a supply-chain platform by making its interfaces selectively open to premium content creators. In addition, at the Code/Mobile conference in October, 2014, YouTube CEO Susan Wojcicki said, “YouTube right now is ad-supported, which is great because it has enabled us to scale to a billion users; but there are going to be cases where people are going to say, ‘I don’t want to see the ads, or I want to have a different experience.’”¹⁸ This is a clear indication that YouTube will limit its openness as an industry platform.

Hulu is another platform that relies on advertisements as the main revenue source for the company. However, the platform offers a *freemium* model, through which users can enjoy watching a library of films and television shows for free, in return for watching ads in the middle of the film or show, or upgrade to *Hulu Plus* for an ad-free and HD service. At the *Pulse* conference at the University of California – Los Angeles, CEO of Hulu said that ads still represent the majority of the company’s revenues.¹⁹ Since January 2011, Hulu has been streaming its own original programs, such as *The Morning After* and *Battleground*. Unlike YouTube, Hulu operates as an internal firm. The company’s internal departments are responsible for all business operations, from content acquisition and marketing, to technology development and production of original programming. In other words, Hulu is adopting an internal platform model when it comes to selection and creation of content, which increases its risk and limits its access to innovation capabilities. Yet, it is adopting a more open model, when it comes to advertising, where it is allowing any advertisers to place their ads on the platform,

¹⁸ Goode, L. (2014, October 28). Susan Wojcicki Wants to Sell You YouTube Video Subscriptions (Video). Retrieved May 8, 2015, from <http://recode.net/2014/10/27/susan-wojcicki-code-mobile-2014/>

¹⁹ Hopkins, M. (Director) (2015, January 30). Mike Hopkins ('01), CEO, Hulu. *Pulse Conference*. Lecture conducted from Center for MEMES, Los Angeles.

and “complement” the user experience.²⁰ On the other hand, users are becoming more frustrated and less tolerant to advertising when watching video over the Internet. This poses a threat to Hulu, and might force the company to consider a new business model.²¹ But, if the advertising revenues are gone, and they remain an internal platform, the risk is even greater.

2.3.2 Subscription-based Platforms

A subscription-based platform essentially acts as either an internal or supply-chain platform. The scope remains limited to the process of licensing films and making them available online for users to watch on an all-you-can-eat-basis. Constitutive agents are mainly major studios and distributors and aggregators of independent films, who provide the platform with a lineup of films to add to its library; and in the case of internal platform, the entire process is done internally through different organizational departments. Netflix is the world’s leading subscription-based film streaming platform, with a total of 57.4 million subscribers worldwide as of December 2014. The platform operates as an internal platform; and it offers no interfaces to external individuals or organizations to complement its innovation. When it first started, Netflix had an exaggeratedly attractive offer to filmmakers. A filmmaker would receive the first payment when he/she signs the deal, then receives the rest of the payment 60 days later in full. But it did not take too long for Netflix to change its model to making quarterly payments over the course of the deal, with their average terms being 2-3 years. With its large customer base, Netflix has created indirect network effects that make every independent filmmaker hungry to have his/her film on the platform. But

²⁰ Hulu has features like “Ad Selector” that allows users to control their ad experience during video playback, by choosing the ad they want to see. <http://www.hulu.com/advertising/ad-products/>

²¹ Accenture Video-Over-Internet Consumer Survey 2013: Winning the Trust of the Sophisticated Consumer. (2013, April 5). Retrieved May 8, 2015, from <http://www.accenture.com/us-en/Pages/insight-acn-video-over-internet-consumer-survey-2013.aspx>

like other major video-on-demand platforms, the company only works with a limited number of distributors and aggregators to source independent films. This closes the door to hundreds of filmmakers whose films do not receive recognition at festivals or theatrical distribution, and also limits Netflix's access to innovation capabilities from other filmmakers. The independent film category on Netflix includes films like *Good Will Hunting*, *Crash*, and *Silver Lining*; all have A-list stars, and had strong box office success (Exhibit 3).

Netflix has also invested in producing its own original episodic content, and has achieved an outstanding success with its first production *House of Cards*, starring Kevin Spacey. Building on this success, the company announced in 2014 that it would expand its original programming into films. This may be bad news for major studios that rely on Netflix as the largest digital distribution platform, but it could also be good news for independent filmmakers. As the independent writer and cinematographer Robert Hardy described it: "If Netflix does decide to make the foray into original films, they would likely start large-scale, something with notable directors and A-list talent. If this strategy is profitable with big-budget filmmaking (and it almost certainly would be), the company, with its spot-on statistical analysis and built-in audience, would be in a unique position to become not only a leading distributor of independent films, but also a notable funder of these films."²² However, it also means that the room for independent films to be acquired and streamed on Netflix will become smaller, which is not very good news for filmmakers. In other words, while the platform could potentially act as a supply-chain platform and expand its coordination mechanism to manage relationships with more independent filmmakers and distributors through contracts, it remains

²² Hardy, R. (2013, October 30). Netflix Expanding into Original Movies? Here's How it Could Affect Independent Filmmakers. Retrieved May 8, 2015, from <http://nofilmschool.com/2013/10/netflix-expanding-original-movies-independent-filmmakers>

closed on innovation by limiting the content selection capabilities internally (data analytics), which could provide less incentives to distributors and filmmakers, and make it tougher for Netflix to retain them.²³

Amazon Prime is another exceptional example of subscription-based platforms that could be on its way to becoming the leader of this market. The platform, which started as an e-commerce site for books, and expanded to a wide variety of products, now offers subscription service to an entire suite of content, including music, radio, TV shows, and films. In early 2014, the company extended its offerings even further by introducing *Amazon Fire*, a digital media player and microconsole that allows users to stream video content and play video games. This is a perfect example of Gawer's theory on the fluidity and evolution of technological platforms, and the tipping strategy. Amazon moved from a supply-chain platform that coordinated trade of books with publishers, and sold them to users; then it moved to an open platform, where vendors could sell directly to users; it also created APIs for innovators to develop apps that can complement the platform; then it diversified its offerings more by offering a content streaming service, and offered support to content creators (complementors) to submit their ideas for new content to be produced.²⁴ Now with Amazon Fire, the platform allows developers to create a wide variety of apps that users can access directly on the streaming device. Similar to Apple TV, these apps are also created by other major platforms like Netflix, Hulu, and HBO Go. So, while Amazon Prime and Netflix act as competitors in the space of video-on-demand platforms, Netflix becomes a complementor to Amazon on its Amazon Fire TV service. However, with Amazon having access to users' online behavior on different levels (shopping, reading, radio, music, and film consumption), it is expected to have a

²³ Netflix does not share any information on films performance on the platform with the filmmakers. Other platforms like iTunes and Vimeo provide filmmakers with more details on number of views, and data about their audience.

²⁴ Amazon Studios. (n.d.). Retrieved May 8, 2015, from <http://studios.amazon.com/>

stronger ability to understand consumers' demands, and to build more accurate predictive models on which content can become successful. It was no surprise when Amazon announced that it would invest in producing 12 films a year, after their original show *Transparent* won a Golden Globe, in early 2015. In other words, to tip its platform, Amazon provided more incentives for content creators, rallied its competitors and turned them into complementors, and bundled technical features from the market of digital media players.

Today, subscription-based platforms face major challenges, including the high cost of acquisition for high quality films as major studios and distributors continue to raise the licensing fees for their films. While expansion of original programming can overcome this problem, it creates another challenge of maintaining the standard of high quality productions that require large investments, and still being profitable – a balance that is difficult to strike. Additionally, new competitors keep entering the market that fight for a bigger share of wallet with platforms like Netflix, Hulu, and Amazon Prime. eMarketer identified two reasons behind the growth in subscriptions to online video-on-demand platforms: “the growing competition in the video space is forcing content owners to seek all available revenue streams; and as networks decouple from cable and satellite providers in response to consumer demand for a la carte services, subscription plans may seem more attractive than ad-based ones.” Recent entrants into the subscription-based platforms market include Dish Network, which launched Sling TV, a \$20-per-month package that includes major cable networks such as ESPN, AMC and TBS; and HBO that recently announced the long-awaited standalone digital service HBO Go for \$15 per month. All of these platform will fight for the acquisition of the best film libraries, attraction and retention of customers, and retention of talents; each of these priorities are difficult to manage within firm-level platforms; and together they pose a

more complex dilemma to address.

2.3.3 Pay-per-download Platforms

In September 2006, iTunes started to sell full-length films. The current prices for these films range from \$9.99, \$14.99, and \$19.99. iTunes also gives the option of renting films, at prices that range from \$0.99 to \$4.99. Once the viewer begins to watch the movie, he/she has twenty-four or forty-eight hours to finish the film before it expires. The platform therefore acts a supply-chain platform in the form of a marketplace that connects two sides of the value chain, the distributors and the consumers. Because of the “transactional” nature of services like iTunes, independent filmmakers are paid for their films based on their performance, on a shared revenue basis (70% of revenues go to filmmaker, and iTunes retains 30%). This means that filmmakers have to invest time, money, and effort into marketing their films in order to increase the number of downloads and generate higher revenues. When it first started, iTunes worked with no more than five distributors (constitutive agents) that aggregated independent films on behalf of the platform; it was a closed supply-chain platform. Now the number of approved distributors by iTunes has increased to 15 distributors, which although still small, has shifted the added value brought to filmmakers by distributors, from increasing the chances of getting the film on iTunes, to getting the films to ‘surface’ on iTunes. Especially with the increasing number of major studio films on the independent store, distributors become more valuable to independent filmmakers, if they can get their films to be on the top lists of the store.

As more consumers are turning to subscriptions rather than pay-per-view platforms, iTunes has the major challenge of retaining its customer base, and filmmakers, whose films can be distributed on the iTunes store. On the technology side,

the company can tip the platform by introducing more sophisticated recommendation algorithm that offers users a more tailored experience, especially for niche markets. For example, foreign films are listed as one genre on the iTunes store. There is no way for users to filter films based on country or language. Integrating social media as an adjacent market can also enhance the experience of users, as they would see what their friends are watching; it would also help iTunes create network effects. As for talents, the platform should consider offering more incentives to filmmakers and aggregators, possibly by opening up the platform to more aggregators, providing enhanced data analytics, or offering subsidized marketing services for films to be able to surface the platform.

2.4 Social Media

The proliferation of social media use has been a game changer for independent films. Independent filmmakers who are looking to produce low budget films can utilize social platforms like Twitter, Facebook, LinkedIn, YouTube and Instagram not just to promote films, but also to cast, staff and fund projects.²⁵ Today, filmmakers can do marketing and engage with their fans on social media practically for free. Social media platforms are great examples of industry platforms that create interfaces (API's) to allow an unlimited number of complementors (app developers) to build new products within the platform. Many analysts credit Facebook's scalable growth to opening its platform to developers to create add-on apps. The development of social media 'share' buttons on other content platforms also gave those platforms access to an unlimited number of content creators and curators. The platform has become a content provider for the users by the users.

²⁵ Michaelian, B. (2013, November 16). Social Media Is a Major Game Changer for Independent Film. Huffington Post. Retrieved from http://www.huffingtonpost.com/britt-michaelian/social-media-is-a-major-g_b_4284162.html

This also led to the creation of a strong direct network effect, a point I will elaborate on later.

An effective social media marketing strategy requires a multi-platform approach that promotes the film across different platforms, such as Facebook, Twitter, Instagram, and Tumblr. However, most filmmakers are still focusing on getting their movie made and are failing to take advantage of early social media marketing to build a buzz for their film. As a result, many filmmakers decide to invest in paid social media ads, and hire a social media guru to manage their campaigns. It should be noted that the actual distribution platforms do very little marketing, unless the film really starts to perform. So filmmakers need to secure enough reviews, "Likes" and sales, for major platforms like Amazon, Hulu and iTunes to feature their films. This could also be a starting point for social media platforms to offer tailored packages for independent filmmakers, especially for a platform like Facebook that is slowly expanding into video. In fact, Facebook can tip its platform in the video space by treating aggregators as complementors, and offering them incentives to promote their films on the platform. This will guarantee a good flow of premium content that can be monetized later, and will lock in users who will consume and *share* this content.

2.5 Crowdfunding

Financing is the first thing that gives the independent film project legitimacy, as it proves that the script is worth spending money on, and turning into an actual film. It can be seen as the most complex stage of the filmmaking process, as it includes multiple stakeholders, and involves fierce competition. The filmmaker works with director, and sometimes the production company, to identify casting and production needs, and estimate what the budget for the film would be. Then they look into financing sources,

which include production companies, local and national foundations, equity financiers, and tax incentives and/or subsidies.

Financiers in the US source new projects mostly from building partnerships with recognized filmmakers, and attending events like the American Film Market in Santa Monica, CA, where more than four hundred production companies converge once a year to finance films in varying stages of production. Many countries offer tax incentives to attract film business. A tax incentive is a percentage of a film budget that is paid back as a reward for bringing the film business to a certain state. Alaska has the highest tax incentive at forty four percent. Some financiers require distribution agreements to fund a certain film project. That is why the stage of financing also includes pre-sales efforts, which is usually conducted by a sales agent. Many films make money from foreign distribution; but if that is not available, filmmakers and producers look into digital distribution as well, which is the subject of this research paper.

Over the past few years, crowdfunding has been introduced as an additional source of funding for independent films. Massolution forecasts that crowdfunding for films will reach a total of \$1.97 billion by end of 2015.²⁶ And the World Bank expects crowdfunding to surpass \$300 billion in transactions by 2025.²⁷ Due to network effects, and similar to other online markets, crowdfunding has been dominated by a few platforms, mainly GoFundMe, KickStarter, and Indigogo. Consolidation yields benefits on both sides of the platform: for creators, the value of a platform increases with the number of funders, and for funders, the value of a platform increases with the number

²⁶ Global Crowdfunding Market to Reach \$34.4B in 2015, Predicts Massolution's 2015CF Industry Report. (n.d.). Retrieved May 8, 2015, from <http://www.crowdsourcing.org/editorial/global-crowdfunding-market-to-reach-344b-in-2015-predicts-massolutions-2015cf-industry-report/45376>

²⁷ Rossenfeld, C. (2014, December 29). Crowdfunding: Expanding the Investment Arena. Globest. http://www.globest.com/reform/69_9/national/finance/Crowdfunding-Expanding-the-Investment-Arena-353808-1.html?pg=2

of creators and other funders.²⁸ KickStarter and Indiegogo are the two most popular crowdfunding platforms amongst filmmakers, with 26% and 45% of total projects falling under the film category, respectively. As of April 29, 2015, KickStarter has reported a total of \$275 million of pledges for 46,382 film projects, and a success rate of 38.57%.²⁹ The majority of the campaigns pledge for an amount between one and ten thousand dollars (Exhibit 4); and as expected they are geographically concentrated in California and New York (Exhibit 5).

Initially, crowdfunding was attractive to independent filmmakers who would not have the resources and relationships to finance their projects. This is especially true for short films with small budgets that are not attractive to financiers because they would not generate revenues; via crowdfunding, families and friends support the filmmaker out of love and courtesy, without any expectations of return. This is in contrast to the nature of Hollywood, which would only invest in films with high-expected returns. But, recently crowdfunding started attracting some Hollywood heavyweights, such as producer Bill Johnson, Co-Chairman of Lotus Entertainment, who started his own crowdfunding company *Crowdfundfilms*, and screenwriter Charlie Kauffman, who used KickStarter to fund his first animated film.³⁰ The campaign of *Veronica Mars* set a new record for crowdfunding films. Typically, independent film producers would resort to crowdfunding platforms to raise enough funds to get their films off the ground, but in the case of *Veronica Mars* the producers already had distribution agreements with Warner Bros., and the film already had a fan base from the three years it ran as a show

²⁸ Catalini, C., Ajay, A., & Goldfarb, A. (2014). Some Simple Economics of Crowdfunding. *The National Bureau of Economic Research*, 14, 63-97.

²⁹ Kickstarter Stats. (n.d.). Retrieved May 8, 2015, from <https://www.kickstarter.com/help/stats?ref=footer>

³⁰ Pozin, I. (2012, December 20). Crowdfunding: The Future Of The Film Industry? *Forbes*.

on television.³¹ The campaign succeeded to raise \$5,702,153 million in total, 185% above its initial target of \$2 million. This could be the start of a new wave of major studio projects financing their projects (or some percentage of their budgets) through crowdfunding, hoping to engage their fans and reduce their risks early on. This could pose a threat and an opportunity to independent filmmakers (threat from large studios competing for the limited page space on crowdfunding sites; and opportunity because more users will be driven to those websites and can support other projects as a consequence).

While crowdfunding platforms are structured as industry platforms that provide interfaces to empower filmmakers to fund their projects, they still do not provide enough value to campaign owners that can make them come back to the same platform. The majority of backers of an average film crowdfunding campaign are driven to the campaign by the filmmaker's marketing efforts. Platforms like Kickstarter or Indiegogo do not guarantee traffic to any campaign from the platform's regular visitors. In addition, the difference between the time at which a film crowdfunding campaign succeeds to raise its pledge, and the time the film is actually released is quite long – could be more than a year. By that time, backers would probably forget about the film, or at least their enthusiasm would fade away. Current crowdfunding platforms offer limited features to allow the filmmakers to engage with their backers throughout this process; and they do not support the filmmakers to find distribution, unlike many independent film financiers. The first company to introduce features and services that address these issues will be able to *tip* its platform and become a market leader for film crowdfunding. It could be easier for such platforms, given that they are already open

³¹ Garrahan, M. (2013, March 14). 'Veronica Mars' Sets Crowdfunding Record. Financial Times. Retrieved from <http://www.ft.com/intl/cms/s/0/39182f68-8cc4-11e2-8ee0-00144feabdc0.html#axzz3YpEVQ5Pz>

industry platforms. They could simply API's for other developers to create add-on apps that serve further needs of filmmakers.

3 Challenges Going Forward

Despite the introduction of numerous technological platforms that facilitated different parts of the independent filmmaking process, from financing to marketing and distribution, the industry remains to suffer from major challenges that put it at risk, especially in respect to film distribution, which is the subject of this paper. The growth of video-on-demand is attracting new competitors into the market, including platforms like YouTube that were structured as open industry platforms, showing content creators, from independent filmmakers to major studios, the value of digital content monetization. The advancement in technology has also reduced cost of innovation. The competition is no longer driven by technology, but rather by the quality of service, which is a tough challenge for any company. What makes this challenge even tougher is that these competitors are fighting for a bigger *share of wallet*, within their target markets. In its 2013 "Video-Over-Internet Consumer Survey" report, Accenture revealed that while 62% of consumers are willing to pay for a monthly subscription to access on-demand content online, most of them report they will pay the equivalent of less than \$10 on a monthly basis. The report also highlighted that as online consumption is maturing, consumers are getting more sophisticated: they want to pay less for content overall, but they will pay more for getting specifically what they want. But knowing what consumers "specifically want" is not an easy question to answer. Some platforms have succeeded to utilize its data on online consumer behavior to

create original productions that attract more users, e.g. House of Cards by Netflix.³² But this strategy is largely unsustainable, as it requires huge investments in producing studio-level productions, with limited channels of distribution (mostly online-only); besides, user behavior is constantly changing, and platforms may not be able to respond as quickly as needed to retain those customers. As a result, the switching cost for the users becomes very low, as they can simply subscribe to one platform for the duration of their favorite show, and then switch to another one.

Additionally, on the industry side, the independent film value chain has a fragmented structure. For an independent film to reach the end user, it has to go through the process of getting the filmmaker, financiers, producers, cast, sales agents, aggregators, distributors, festivals, and critics, all operating independently, to be on the same page, and support that film in their different capacities. Moreover, it is usually the filmmaker who has to manage this process, and coordinate between different parties. This requires a skillset that most filmmakers do not have, and distracts them from focusing on their main responsibility towards the film: *making it*. This is why many good films that could potentially meet the consumers' diverse demands end up never seeing the light of day; and for the few that get produced, if they do not get selected by one of the major independent film festivals, they never reach the audience. To understand these challenges in depth, I relied on industry reports, as well as Netflix's annual report, as an example of leading video-on-demand platforms. I also interviewed 32 independent filmmakers from different countries, to recognize their perspective on the challenges in the industry, and how they can be overcome. The following is an in-depth analysis of these challenges, in respect to Gawer's platforms framework.

³² Carr, D. (2013, February 24). Giving Viewers What They Want. The New York Times. Retrieved from http://www.nytimes.com/2013/02/25/business/media/for-house-of-cards-using-big-data-to-guarantee-its-popularity.html?_r=0

3.1 Low Barrier to Entry

There is a low barrier to entry in this market, which will quickly drive prices down. If a company can afford the technology development costs, and has access to content, nothing could possibly stop it from starting its own video-on-demand platform. HBO just announced it is launching its own standalone digital service HBO Go for \$15 a month, which gives customers access to the entire channel's content library, in addition to its own original programming, such as *Game of Thrones*. Netflix is making this bet on original programming in the hopes of winning the market not just by paying top dollar for licensing content, but also crafting original content that is going to win over the market and keep their customers captive. Analysts are waiting to see whether they are going to be able to keep enough customer captivity and make their users willing to pay high prices for premium service, or switching costs will be so low that drive prices low, and create just efficient aggregators of content. Exclusive content is also another source of maintaining strong position. Customers have shown willingness to wait for content to be on platforms like *House of Cards* on Netflix, or *Game of Thrones* on HBO; but shows with such high demand are difficult and expensive to make. Even Facebook is slowly entering the video-on-demand space, by creating features for users to upload video content (for free), which a model similar to YouTube. The key difference between Facebook and YouTube, however, is that Facebook has created strong network effects that increase the viewership of these videos, and keep the users on the platform. It will not be surprising to see Facebook collaborating with filmmakers, and offering them incentives to upload their films on the platform.

From the perspective of coring and tipping, the low barrier to entry eliminates the option of offering pricing or subsidy mechanisms to attract users to the platform, simply because this will start a pricing war, and could reach a point where platforms will not be

able to sustain profitability. It also leads to low switching costs, given the current structure and design of platforms, which is against one of the key actions to consider to become a platform leader. As a result, the platform will have to consider creating new technical features that are difficult to imitate, bundling with features from adjacent markets, or providing more incentives for complementors than competitors do.

3.2 Growing Demand for Diversity

Netflix lists in its 2013 annual report that the quality of their service and movie selections is their number one business risk, in the face of competition. “The relative service levels, content offerings, pricing and related features of competitors to our service may adversely impact our ability to attract and retain members. If consumers do not perceive our service offering to be of value, or if we introduce new or adjust existing features or change the mix of content in a manner that is not favorably received by them, we may not be able to attract and retain members.” Consumers are looking for more relevant and diverse content, besides the mainstream taste they adopt; but understanding what the different tastes are and develop a film library that matches them is an extremely difficult task. Netflix collects a massive amount of information about its users’ behavior, from streaming hours, time of days and week, and genres preferences, to ratings, searches, geo-location, and social media data. It even analyzes data on the films, such as when credits appear, and how different posters or images affect users’ behavior.³³ Yet, Netflix Senior Data Scientist Mohammad Sabah shared that only 75% of users select films based on the platform’s recommendations, which means that there is still room to enhancing user’s experience. “Of course, it’s not that simple. In some cases, for instance, a popularity bias will arise that artificially skews a

³³ At SXSW in March 2015, Netflix VP of Product Innovation, Todd Yellin talked about the platform’s A/B testing strategy, and give the example of the use of 3 different posters for the TV show “Breaking Bad” to understand which one drives higher retention rates and streaming hours for the show.

recommendation toward popular movies or TV shows rather than what's really relevant based on a viewer's interests. *Terminator* might be followed by *Big Daddy* followed by *Family Guy* followed by *Hot Tub Time Machine* — four pieces of content for which the most-prominent linking factor is their overall popularity. Popularity does matter when recommending movies, though, so Netflix must account for it by factoring it into the transition algorithm." Complicating things even more is that, contractually, movies are only available for streaming and only show up on the landing page for certain periods of time. So, recommendations not only have to be relevant, they also have to be available.³⁴ It seems that this challenge led Netflix (and similar platforms) to focus on "popular" mainstream films, and avoid content that is directly targeted to niche audiences. For example, today Netflix only holds 131 Indian films, 68 Korean films, and 38 African films, despite India, Nigeria ranking first and second in highest number of films produced per year, and South Korea being one of the fastest growing film industries in the world.³⁵ One strategy to address this issue is to tip across markets, but bundling features from adjacent markets, similar to how Amazon is relying on its e-commerce information about consumers to influence its video-on-demand offerings. This, however, may require closed platforms like Netflix to be open to external complementors, who by default will need additional incentives.

3.3 High Cost of Content

Netflix also reports that high costs of content acquisition pose another threat to its operations: "The long-term and fixed cost nature of our content licenses may limit our operating flexibility and could adversely affect our liquidity and results of operation."

³⁴ Harris, D. (2012, June 14). Netflix analyzes a lot of data about your viewing habits. Retrieved May 8, 2015, from <https://gigaom.com/2012/06/14/netflix-analyzes-a-lot-of-data-about-your-viewing-habits/>

³⁵ Redfern, R. (2013, July 16). 3 Countries With Booming Movie Industries, That Are Not the U.S. Retrieved May 8, 2015, from <http://mic.com/articles/54609/3-countries-with-booming-movie-industries-that-are-not-the-u-s>

Forbes considers the main risk that the company faces in the long run is “if the subscriber base flattens out, Netflix will need to spend additional amount on content in order to retain its customers while not having enough room to grow its revenues. This could happen due to market saturation or competitors catching up.”³⁶ In other words, platforms like Netflix will have to acquire *or produce* more content, and ensure that this content is diverse and meets its users’ tastes, in order to retain its consumers, and maintain its leadership position, in the face of a growing competition. This is another major challenge that eliminates the option of competing on price, to tip the platform. Also, offering incentives to complementors requires opening up the platform to external innovators, which could mean sharing some of the platform’s key proprietary technologies, i.e. *secret recipe*. For Netflix to keep its current structure, it has to discover the magic formula to lower cost of content, and increase consumer adoption and retention, and doing it all internally, without the help of other complementors, or the integration of technologies from other market, which is practically impossible – *at least with the available technologies*.

3.4 Fragmentation of the Value Chain

In addition to the challenges faced by each of the platforms on an internal level, there are industry-wide problems that make independent film distribution even more challenging. The independent film industry is structured in a fragmented way that adds complexity to the entire filmmaking process, especially financing, and causes to a lot of challenges. (Exhibit 6) Peter Bloore, a Visiting Fellow in Creativity and Media at the Centre for Creative and Performing Arts, at the University of East Anglia identified some of the major issues with the independent film industry value chain: the large number of

³⁶ Trefis, T. (2014, July 23). Netflix Continues Subscriber Growth but Next Few Quarters Will Weigh on Profits. Forbes.

collaborating individuals and organizations; the separation of the producer from the distribution and marketing process; the vacillating power of the writer; and the fact that lawyers and accountants appear to have the most stable jobs in the industry (because they can earn money at every stage of the value chain).³⁷ Major Hollywood studios have overcome this problem through vertical integration across the value chain. Most studios handle their own film financing and marketing operations, as well as distribution. While this increases their overheads and required skillsets, it allows them to streamline the process, and generate revenues at different points. This means they control the upstream suppliers and the downstream distributors, in turn ensuring massive profits, consistency of product, huge control over how the films are marketed, and high entry barriers for potential competitors (Brooke). In other words, Hollywood studios decided to become more of internal platforms, where innovation is done through their sub-units, rather than being open to external complementors through a supply-chain or an industry platform model. However, the independent film industry has struggled to follow the same model, and has remained fragmented throughout the years, which makes it more difficult for online film streaming platforms to source independent films efficiently and effectively.

3.5 Distribution of Long-tail Content

The challenges posed by the industry do not just exist in the way it is structured. Despite the growth in video-on-demand platforms, distribution remains to be a major challenge for independent filmmakers around the world, especially for those, whose films do not include A-list stars. Despite the growth in video-on-demand platforms, distribution remains to be a major challenge for independent filmmakers around the

³⁷ Bloore, P. (2012). Re-defining the Independent Film Value Chain. *UK Film Council*. Retrieved April 14, 2015, from http://www.ukfilmcouncil.org.uk/media/pdf/h/b/Film_Value_Chain_Paper.pdf

world, especially for those, whose films do not include A-list stars. Lisa E. Davis, Partner at Frankfurt Kurnit Klein & Selz, PC, said at a Tribeca Institute event that independent filmmakers still struggle to find an audience, and monetize their films. "Internet doesn't change that, but at least it prevents a barrier to expression. It's not empowering to filmmakers; it just prevents disempowerment."³⁸ This is because major platforms do not open their doors to specialty films easily. They do not want, or have the capacity, to work directly with independent filmmakers and spend time, money, and effort on curating good films and paying thousands of filmmakers individually. iTunes for example only works with fifteen aggregators that curate the entire library of independent films from around the world³⁹. In addition, studios are no longer ignoring pay-per-download platforms like iTunes, but are rather are giving it a high priority, as they realized the growth potential they have from digital distribution. Studio produced films are now taking up a huge space on the iTunes store. Today, the independent store features films like Birdman, produced by Fox SearchLight, a subsidiary of Fox Entertainment, Last Knight and Beyond the Reach, produced by Lionsgate, and Cake, by 20th Century Fox (Exhibit 7). Independent films are being squeezed out of transactional platforms, and the subscription model is becoming a more viable option. However, major video-on-demand platforms do not want, or have the capacity, to work directly with independent filmmakers and spend time, money, and effort on curating good films and paying thousands of filmmakers individually. iTunes for example only works with

³⁸ Knappenberger, B. (Director) (2015, February 4). Current Topics in the Online Distribution of Independent Film. Tribeca Lecture Series . Lecture conducted from Tribeca Film Institute, New York.

³⁹ iTunes Movie Aggregators List. Apr. 22, 2015.

<https://itunesconnect.apple.com/WebObjects/iTunesConnect.woa/wa/displayAggregators?ccTypeId=7>

fifteen aggregators that curate the entire library of independent films from around the world.⁴⁰

In addition, many distribution companies, which initially launched their business to offer opportunities to films that did not make it to festivals, have mostly grown into becoming more of a curatorial business. The aggregation model has eventually become about “who could be the cheapest distributor,” as noted by Michael Slevin, from FilmBuff. The company’s main focus is now on creating value-added services, like marketing, public relations, design, and analytics. “We are no longer the gateway for films that did not get picked up at festivals; but we are at the festivals, picking films.” While it might make sense for the aggregators to offer these services to attract and retain filmmakers, i.e. tip their platforms, it still means that thousands of independent films that serve different consumers’ tastes will never receive distribution or reach the right audience. There is clearly a critical need for a solution to help users with unique tastes find films that can meet their expectations.

4 Coring and Tipping a Video-on-demand Platform

There has been some key changes over the past decade in the independent film industry, which are expected to expand even further: the decrease of film production costs as a result of advanced technologies in filmmaking hardware and digitization of post-production software, the emergence of the trend of self-distribution by producers directly to consumers; growth online video consumption through internet downloads or video-on-demand, and declining costs of marketing due to rise of cost-effective digital advertising platforms such as social media. At the same time, the industry is facing

⁴⁰ iTunes Movie Aggregators. (n.d.). Retrieved May 8, 2015, from <https://itunesconnect.apple.com/WebObjects/iTunesConnect.woa/wa/displayAggregators?ccTypeId=7>

challenges from an increasing competition with major studios that are turning to producing more independent films, and film distribution platforms producing their own original films, which shrinks the space available for other independent films to be distributed on the same platforms. Given the market conditions, and anticipated changes, a film distribution platform should typically focus on four main objectives: retaining creative talents and building strong relationships with producers to ensure a consistent lineup of good films; reducing overall costs but especially those of technology development and content acquisition; retaining customers in the midst of aggressive competition from other platforms; and streamlining the process of content acquisition (and in some cases original content production) to be able to acquire more films and satisfy the consumers' diverse demands.

One possible idea for a new film startup is creating an online platform that combines video-on-demand and crowdfunding, focusing on specialty films, i.e. independent or culture-based, e.g. Indian films. This concept can potentially solve both technological and business platforms of the industry, and create a new value for consumers and make it easier to retain them. Looking back at the challenges of the independent film industry, a platform like this will not have to compete with the major players that keep entering the market, as it will focus on its own specialty market that isn't as attractive to big platforms. It will serve the non-mainstream taste of users, who are underserved by current platforms. It will not have to bear high costs of content acquisition, as specialty films typically cost less to license. It will also take a major step towards vertical integration across the value chain and overcome the issue of its fragmentation. Finally, it will incorporate a market design approach for long-tail content, creating a bigger opportunity for filmmakers to distribute their films.

4.1 Coring the Platform

As previously mentioned, coring this new platform requires the consideration of key actions on both the technology and the business side. Technology actions to consider are: solving an essential system problem; facilitating external companies' provision of add-ons; keeping intellectual property closed on the innards of its technology; and maintaining strong independencies between platform and complements. The business actions to consider are: solving an essential business problem for many industry players; creating and preserving complementors' incentives to contribute and innovate; protecting the platform's main source of revenue and profit; and maintaining high switching costs to competing platforms.

Accordingly, a mash-up of crowdfunding and video-on-demand streaming can allow the platform to be structured as industry platform, as it will create the channel for talents to fundraise for their projects, and users to influence which films deserve being made. This is similar to the case of YouTube Creator Hub, and Amazon Studios; but it should also be opened up to app developers, who can use the platform's APIs to develop applications that can be embedded on other platforms, such as smart TV, game consoles, and set-top boxes. These complementors can also be film festivals and film schools that need features to manage their films, and talents database on the platform. This allows the platform to reduce the cost of innovation, generate revenues from sources other than its own site, and incentivize complementors to contribute to the platform.

This strategy can also help solve an essential system problem, as it gives the platform a chance to develop a better recommendation algorithm that can capture users' preferences more effectively. With an integrated solution that have both video streaming and funding, along with social networking features, the platform will have

access to more sources of data on users' behavior. Amazon Prime and YouTube have this advantage, since they track users' other online activities, such as online shopping, in the case of Amazon, and emailing and internet browsing, in the case of Google. Targeting a specific niche market of users with homogenous interest could also be another way to achieve this goal, albeit shrinking the market opportunity.

4.2 Tipping the Platform

In order to tip the platform after launching and coring it, the company needs to consider technology actions (developing unique, compelling features that are hard to imitate and that attract users, and absorbing and bundling technical features from an adjacent market) and business actions (providing more incentives for complementors than other competitors do, rallying competitors to form a coalition, and considering pricing or subsidy mechanisms that attracts users to the platform).

It is in the platform's best interest to become the 'home for talent' by offering filmmakers and producers services that can address their challenges. One feature that can be easily implemented in today's existing platforms is adding talents information (e.g. biographies, awards, filmography) to the website, as a value-added service to the talents to market themselves and their work. Today for example, on Netflix, it takes 4 to 5 steps to get to the dedicated page of a specific talent, and all it has is the list of films in Netflix's library that is associated with this talent. The same process takes 2 to 3 steps on iTunes, and similar to Netflix, only shows a film list. If the talents and producers find that they have dedicated pages to promote their achievements to the platform's wide audience, they would be more inclined to use this platform over the other. Having social features, through which the talents can interact with their fans, can be another layer of this value-added feature. It would also satisfy the requirement of creating a technical

feature that cannot be imitated, as social features create and grow through network effects that bring consumers back to the platform. Imagine if Netflix had a comments section, similar to that of Facebook, where users can interact with each other, and with the talent, and share favorite films with the friends. Users will not give up on their 'social wealth' and switch to another platform.

Secondly, the vertical integration between funding and distribution will allow the platform to benefit from economies of scope, bundle technical features from an adjacent market (crowdfunding), generate revenues at different points of the filmmaking process, and streamline the content acquisition process, as it will get access to the films at the early stage of financing. This strategy can also incentivize producers to license or sell their films exclusively to this particular platform, because they would have stronger relationship with the company, which can lead to financing their new projects. The platform will also benefit from learning the proper techniques of financing an independent film, which can support its original productions planning, and allow it to develop a stronger ability to evaluate films that are open for licensing. If the platform considers integrating with a crowdfunding platform, it can gain another added benefit of validating the concept, and leveraging on the fan base created by the crowdfunding campaign, when the film is released on the platform. It could also reduce the cost of content acquisition, if the platform licenses the film as early as it shows traction on the financing side.

4.3 Potential Threats and Further Research

This startup proposition needs further validation, as it falls short on analyzing the effect of piracy, trends in consumers' willingness to pay for video content (especially the millennial generation), and the effect of equity crowdfunding (Job's Act) on independent

film. Additionally, further research needs to be conducted to understand and calculate the opportunity in addressing specialty film lovers, such as the Indian community in the U.S. or independent film fans.

Appendix

Exhibit 1: Gawer’s Classification of Technological Platforms

A classification of technological platforms.

	Internal platform	Supply-chain platform	Industry platform
Level of analysis	• Firm	• Supply-chain	• Industry ecosystems
Platform’s constitutive agents	• One firm • Its constituent sub-units	• Assembler • Suppliers	• Platform leader • Complementors
Technological architecture		• Modular design • Core and periphery	
Interfaces	• Closed interfaces Interfaces specifications are shared within the firm, but not disclosed externally	• Interfaces selectively open Interface specifications are shared exclusively across the supply-chain	• Open interfaces Interface specifications are shared with complementors
Accessible innovative capabilities	• Firm capabilities	• Supply-chain’s capabilities	• Potentially unlimited pool of external capabilities
Coordination mechanisms	• Authority through managerial hierarchy	• Contractual relations between supply-chain member organizations	• Ecosystem governance ◦ In the special case of multi-sided markets: exclusively through pricing
Literature	• Sanderson and Uzumeri (1995) • Meyer and Lehnerd (1997) • Simpson (2004)	• Brusoni (2005) • Zirpoli and Becker (2011) • Sako (2009)	• Gawer and Cusumano (2002) • Baldwin and Woodard (2009) • Boudreau (2010) • Eisenmann et al. (2011)
Examples	• Black and Decker (machine tools) • Sony Walkman (consumer electronics)	• Renault–Nissan (automotive manufacturing) • Boeing (aerospace manufacturing)	• Facebook (social networking) • Google (Internet search and advertising) • Apple iPhone and Apps (Mobile)

Exhibit 2: The Dark Knight Campaign Ad



Exhibit 3: Netflix Independent Film Homepage

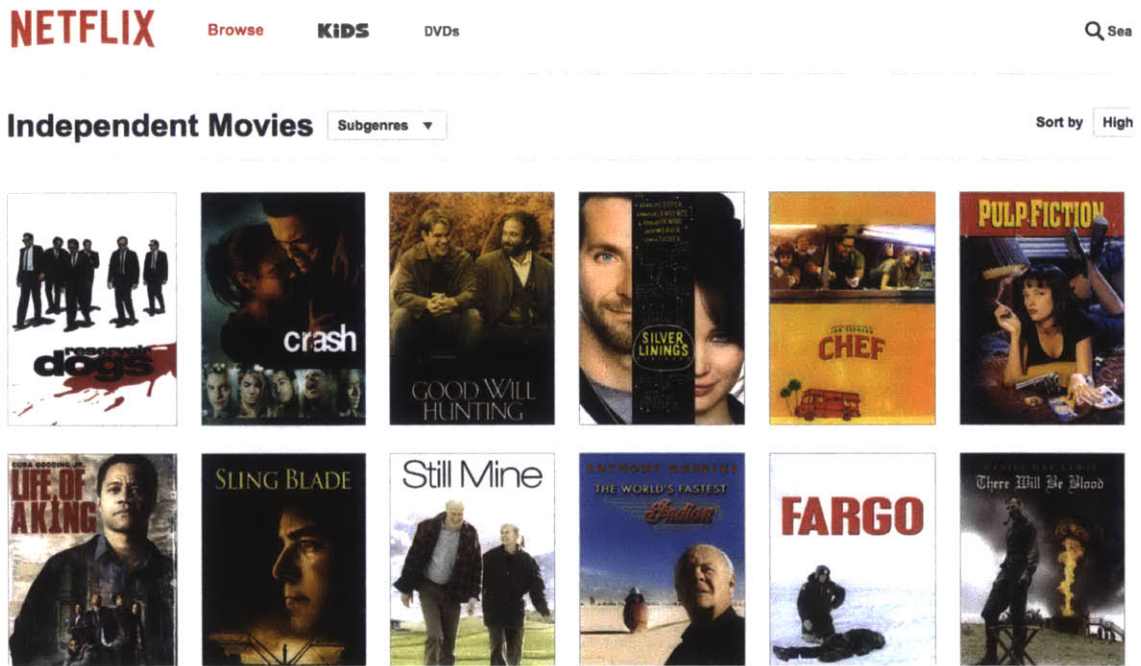


Exhibit 4: Breakdown of KickStarter Film & Video Campaigns (by budget)

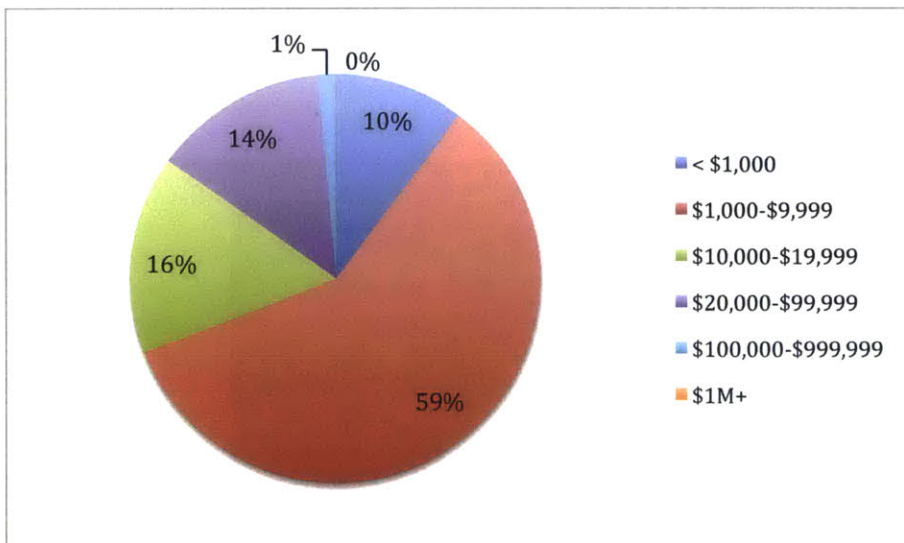


Exhibit 5: Top Kickstarter Locations for Film & Video (by city)

(c) Film & Video Overall		(d) Film & Video Per Capita	
1	Los Angeles-Long Beach-Anaheim, CA	1	Missoula, MT
2	New York-Newark-Jersey City, NY-NJ-PA	2	Bennington, VT
3	San Diego-Carlsbad, CA	3	Los Angeles-Long Beach-Anaheim, CA
4	San Francisco-Oakland-Hayward, CA	4	Ithaca, NY
5	Chicago-Naperville-Elgin, IL-IN-WI	5	Taos, NM
6	Seattle-Tacoma-Bellevue, WA	6	Bozeman, MT
7	Boston-Cambridge-Newton, MA-NH	7	San Diego-Carlsbad, CA
8	Austin-Round Rock, TX	8	Jackson, WY-ID
9	Washington-Arlington-Alexandria, DC-VA-MD-WV	9	Clarksdale, MS
10	Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	10	Boulder, CO