



A Guide to Financing and Distributing Immersive Entertainment and Art

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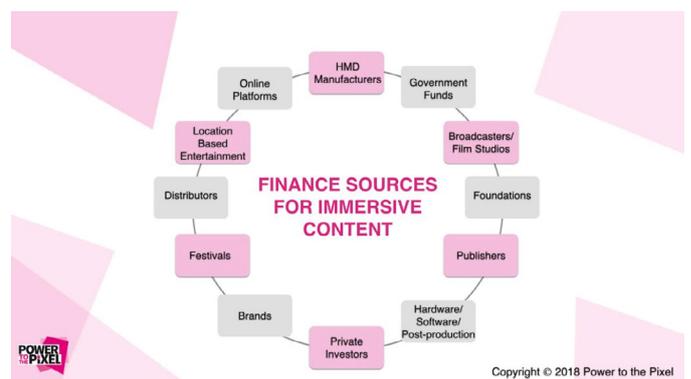
As immersive content evolves as an art form, its consumer market remains nascent. With limited numbers of headsets in the hands of consumers and location based entertainment venues launching slowly the question remains, who is taking the risk and investing in producers and creators who are experimenting in this exciting new medium and furthermore, how can these first-movers engage with audiences and monetise their work?

Digital Catapult and Arts Council England’s recent CreativeXR programme gave a much needed boost to early stage immersive content creators of all kinds, but the challenge of financing and distributing experimental content still remains. We asked Liz Rosenthal, CEO of Power to the Pixel and Programmer of Venice International Film Festival’s immersive content section and market, to help demystify the emerging finance and distribution ecosystem.

Over \$1 billion was invested in immersive entertainment and art in 2017

Most of this finance has come from hardware and software companies interested in stimulating the industry and selling their products, and from studios and brands financing VR content as a marketing expense. The majority of this funding has been directed at large established entertainment studios and advertising agencies producing content that’s linked to existing IPs and brands. Unfortunately though, little money is being spent on independent artists.

However, it’s not all bad news for independents. An appetite for experimenting in immersive content is rapidly growing across multiple creative industry sectors and beyond, presenting a myriad of new opportunities for pioneering producers willing to cross industry silos and piece together finance from multiple sources and territories.



This guide will first explore the different types of financing available, from HMD (head-mounted display) manufacturers, to public funding, private investors and brands, and includes a range of known examples of content financed in this way. It then looks at emerging distribution and monetisation options, examining the role of festivals and media distributors, as well as considering online and location-based distribution options.

FINANCING PRODUCTION

HMD Manufacturers

Lack of compelling content is frequently cited as one of the main reasons for lower than expected VR headset sales. With the frequent release of new models, HMD manufacturers need high-end content that appeals to potential diverse consumer groups. Every manufacturer, to a greater or lesser extent, invests in entertainment and artistic projects, especially when it comes to new product launches.

For example, Oculus is particularly active in financing non-games content and has a specialised funding stream dedicated to entertainment and artistic projects. Its titles often dominate festival line-ups with five experiences selected for the last Sundance Film Festival 2018: Dispatch (Edward Robles); Space Explorers (Felix & Paul); Masters of the Sun (will.i.am and The Black Eyed Peas); Spheres (Eliza McNitt); Wolves in the Wall (Pete Billington).

A further example from this year's Sundance Film Festival is *inK Stories' Hero* (Navid & Vassiliki Khonsari). This fully multi-sensory experience, blending interactivity with Cinema Verité, was produced for Starbreeze's future Location Based Initiatives in the StarVR Virtual Reality HMD. Another recent initiative for artistic projects, HTC Vive's VIVE Arts, a multi-million dollar global VR programme to advance creation and appreciation of The Arts, has invested in a number of gallery projects including *Modigliani VR* for Tate Modern and *From Life* at London's Royal Academy. As for AR, with lack of available consumer hardware, these creative projects will be mostly limited to smartphones in the coming year. However, with news starting to trickle in about the long anticipated Magic Leap mixed reality headset, we'll probably not have to wait long to see how the \$2bn startup and other AR HMD manufacturers will be investing in content to showcase their wares when they are released to consumers in 2019.

Government Funds and Co-production

It's predicted that increasing numbers of national and regional institutions will fund immersive content in 2018, and a number of national film and arts funding institutes have announced their intention to launch or are about to launch an immersive content strand.

In the UK, the CreativeXR programme, run by Digital Catapult and Arts Council England, recently supported 20 creative teams in the creation of a diverse range of proof-of-concept, immersive projects. This programme offers access to early stage finance of up to £20k, connections to industry leaders and commissioning bodies, and the opportunity to pitch for further development funding. Meanwhile, through £33 million in funding, UKRI's 'Audiences of the Future' challenge is providing significant opportunities for content innovators to access funding and support for audience-facing immersive demonstrators.

To date, France and Canada have both funded a significant number of projects through national funds such as the Canada Media Fund, French CNC and through their numerous regional media development funds. Projects instituted by the producers of leading French studio Atlas V *Notes on Blindness*, *Battlescar*, *Alteration* and *I Philippe* – were all financed through CNC in co-production with various national and international partners. These government soft funds are intrinsic to the high numbers of award-winning projects and the ability of a new group of producers to push the medium forward in these two countries. Due to the

high cost of VR production, co-production between producers in territories with significant soft funding opportunities is often the only way to raise finance, where it can prove impossible to source from one territory alone. On the other hand, AR presents a huge opportunity for commissioning projects that map art, stories and experiences to the real world. Funding could potentially be sourced from non-media related government funds such as municipal, tourist and environmental agencies. A recent example of this is *The Gruffalo Spotter* by Magic Light Pictures and Nexus Interactive Arts, which brings to life the characters from the popular book at 26 forests across the UK, and which was funded through the UK government's Forestry Commission.

Broadcasters and Film Studios

Traditional media companies have mostly invested in VR companion pieces connected to linear IPs. Recent examples include *Isle of Dogs VR* that 20th Century Fox's innovation division FoxNext financed to sit alongside Wes Anderson's feature; the BBC's first AR app accompanying BBC Two's *Civilisation* series enabling people to explore historical artefacts from UK museums in virtual exhibitions, and Sky's *Gomorrah VR*, a special interim episode linking season two and three of this hit TV show. Public Service broadcasters are more likely to invest in experimental forms and native immersive content. Notable examples are: French/German cultural channel ARTE whose multiple VR commissions include *Notes on Blindness*, *I Philippe*, *Battlescar* and *Alteration*; and the BBC whose credits include *Easter Rising*, *Home: a VR Space Walk*, *The Turning Forest* and *We Wait*. However, commercial broadcaster Sky is also investing significantly in native VR projects including *Hold The World*, featuring Sir David Attenborough and *Rebel Queen*, the story of Egyptian Queen Nefertiti.

Foundations and NGOs

Some of the first acclaimed VR narratives were social impact projects such as *Clouds over Sidra* and *Waves of Grace* (Chris Milk & Gabo Arora) that lead to huge interest from NGOs to use VR as a tool convey important human and environmental stories.

A wide range of foundations who previously supported social impact film, media and arts projects are now starting to offer grants for immersive projects. A recent example of this is *Unrest VR* (Jennifer Brea, Amaury La Burthe) which accompanies a feature film describing the devastating effects of chronic fatigue syndrome and was supported by social impact filmmaking foundation 'The Fledgling Fund'. Another example is *Awavena*, a collaboration between artist Lynette Wallworth and the Amazonian Awavena tribe, which uses VR like 'medicine' to open a portal to another way of knowing. This was supported by the Ford, Skoll, Pritker and Robert Rauschenberg Foundations. Oculus also runs an annual programme, 'VR For Good' Creators' Lab that matches 10 filmmakers with 10 NGOs, supporting the filmmakers' projects with finance and mentorship.

Publishers

When it comes to VR, a number of forward-thinking newspaper and magazine brands are experimenting with news, current affairs, travel, lifestyle and cultural experiences to attract new audiences and establish their brands as being innovative. The majority of these publishers produce their own in-house projects, which are available through branded apps, to increase accessibility as 360° videos that can be streamed online. The commissioning of third parties is rare, but some acquire content from outside producers.

In the UK, The Guardian's VR division has produced in-house content such as *Limbo*, *6 x 9* and *First Impressions*, which it publishes through its own app. Meanwhile, The New York Times is another of the most committed publishers, with a dedicated VR app helped by funding from tech giants Samsung and Google. The Times produces one six- to 10-minute VR film a month, a one- to two-minute 360° video per day and acquires content from outside producers. An example is UK production company VR City's *Indefinite* (Darren Emerson), an exploration into the uncertainty and despair of the UK's detention system, being acquired for North American distribution.

The rise of AR allows publishers to bring stories to life, in a whole new way. In 2017, hip-hop group the Black-Eyed Peas partnered with Marvel to release a graphic novel, *Masters of the Sun*, where an accompanying AR app allows readers to delve deeper into the story through animated graphics and text. *Supersaurs*, a 6-book series created by author Jay Burridge and published by Bonnier Zaffre, shows how AR can be used to engage younger readers. Set in a world where dinosaurs never died out, the AR app makes the dinosaurs roar and roam around and allows users to actively participate in a 50-mission game that requires lateral thinking. Other publishers are producing standalone AR apps of existing brands for example *My Hungry Caterpillar* and *Harry Potter*.

Educational publisher Pearson is starting to develop AR native learning tools through a partnership with Microsoft to develop content for HoloLens, and it recently announced that it would be expanding this to provide school modules on Windows Mixed Reality headsets. The first five applications are being licensed to schools all over the world for the 2018-19 back to school season.

Hardware, Software and Post-production Services

Many are still vested in supporting content that demonstrates their services or product and there are a number of examples of this. Intel recently partnered at early development stage with Eliza McNitt, the director of three-part series *Spheres* which sold at Sundance for a seven figure sum.

Technicolor's Experience Centre in LA runs an Artists-in-Residency programme, allowing creators specialising in different mediums and backgrounds to flourish in the immersive sphere. Examples of projects that were supported and financed are: *Tree VR* by Milica Zec and Winslow Porter; and *Awavena* by Lynette Wallworth. Artanim, the Swiss R&D foundation and creator of the motion-tracking technology behind recently launched *Dreamscape Immersive LBE* (location based entertainment) company, partnered with contemporary choreographer Gilles Jobin to create his multi-person, free-roam dance experience, *VR-I*. Finally, software companies such as Unity and Unreal are well established in the immersive content world, however it is thought that their support of content will probably shift to fewer high-profile IPs.

Private Investors

Private investors and venture capital groups are more likely to invest in VR and AR related hardware and software startups than content. Individual entertainment IPs or smaller production companies in the entertainment sphere are often deemed too high risk, due to lack of potential scalability and current low HMD consumer uptake. For this reason, it is usually only top end studios with established track records that are able to raise substantial funding. Two examples are leading US animation studios

Penrose, the producer of Venice Grand Jury Prize winner *Arden's Wake* (Eugene Chung) who raised \$8.5m and *Baobab* producer of *Asteroids* and *Rainbow Crow* (Eric Darnell) who raised \$31m. Both raised capital over two funding rounds 2015 & 2016. With location based content (LBE) being touted as a major driver to building consumer appetite for immersive content, two LBE VR startups recently received substantial capital: *Dreamscape Immersive* who raised \$36.7m last year to launch six centres in the US and one in the UK; and *Two Bit Circus* who raised \$21.5m to build a portfolio of next generation micro-amusement parks in the US.

Brands

Most relationships between producers and advertisers are work-for-hire service deals, with VR or AR being a segment of brand campaigns. Rare examples where brands are involved in art projects as 'patrons' are; *Carne Y Arena* (Alejandro Iñaritu), a six-minute VR take on the plight of immigrants trying to cross the border from Mexico to a better life in America which was financed by the Prada Foundation; and AI thriller *Alteration* (Jérôme Blanquet) which was partly financed through the Audi Talent Awards.

With the release of Apple's ARKit and Google's ARCore, along with hundreds of millions of AR capable phones, digital marketing expert Jason Hall recently pointed out in *Forbes* that "augmented reality (AR) marketing takes the reins from virtual reality platforms to create a new, interactive consumer experience. It is so popular right now and its growth is expected to reach \$117.4 billion by 2022."² As money pours into this sector in 2018, there are huge opportunities for independent studios and artists to take on client work to experiment with what works, long before head mounted AR devices are released into the consumer market in 2019.

DISTRIBUTION AND MONETISATION

Until recently, VR financiers were in experimental mode, investing in short-form content to help kick-start the industry, showcase technology and hardware, establish competitive advantage and in the case of traditional media companies, learn about a new medium that could affect their core businesses. Iterative prototypes were often showcased at festival and industry events, with the most common deal taking the form of funding provided in exchange for a window of exclusivity on manufacturer or distributor's storefront without further planning for wider distribution or exploitation. Hence, profit is often not a key driver.

However, the industry is rapidly professionalising and proving return on investment and audience reach is becoming a more important factor in content funding decisions, despite the experimental nature of the medium. A variety of distribution platforms and revenue models are emerging across two main areas: location based entertainment (LBE), and through online platforms for entertainment consumed at home and/or on mobile devices.

Licensing expert Wendy Bernfeld underlines that "maximising exploitation and audience reach for high-end VR content increasingly requires a careful balancing of platforms and windowing, a similar way to how traditional film and TV is premiered and licensed, paying attention that free exhibitions do not interfere with potential paid acquisitions". Therefore, designing a comprehensive distribution and engagement strategy at project development stage is becoming a necessity for securing investment.

Developing the right format should be one of the first considerations. Producers and creators should think how a VR project could have multiple versions that can be experienced on mobile, high-end headsets at home and also as a premium location based experience out of the home. Most independently produced VR projects to date have been short-form content with runtimes of 20 minutes or less. Financiers and creators have been testing what works creatively, in terms of possible monetisation, and also with consideration of the fact that equipment becomes uncomfortable for longer periods of use.

The Emerging Trends in 2018 report¹ predicts that in 2018 "the length and depth of VR experiences will increase for at home content." It recommends that narrative linear projects should have a runtime of 60 minutes, broken into episodes of 5 to 20 minutes in length and interactive experiences should include a minimum of two hours of gameplay with sessions lasting around 15 minutes. They go on to suggest that, "We believe production budgets between \$100k and \$1m are the sweet spot. That's enough money for a small team to produce high-quality VR content, but it's also a small enough budget range to provide a reasonable chance of a project turning a profit."

In the AR sphere, over the coming year, we will see a huge number of projects that are destined mostly for mobile devices. AR headsets are not yet in the hands of consumers and people are still figuring out how to make story experiences work in AR. However when thinking about showcasing work in exhibitions or festivals, producers should consider a premium version featuring one of the new head-mounted displays.

Festivals

For arts and cultural projects, selection, awards and press from world-class festivals are essential for industry and audience validation and future monetisation opportunities, particularly for the many small or newly formed creative companies. Planning a festival strategy and choosing the best place to premiere work should be the starting point of any distribution plan. Consider festivals with significant press attendance and awards for a premiere. Festivals have varying requirements for premieres, for example Venice Film Festival, the only A-list festival with an official competition selection for immersive content, Venice VR, with a jury and awards requires World and international premieres. Other important festivals for VR and AR work are Sundance, Tribeca, SXSW and for documentary, Sheffield and IDFA. For room-scale and installation projects it is even possible to earn performance fees at specialist arts, dance and music festivals, for example Quebecois touring festival, where Mutek pay fees for exhibition of immersive content in the same way they pay artists to perform.

Some festivals even commission projects on an annual basis. Venice Film Festival finances three projects out of the 10 developed through its Biennale VR College with €60k per project from a sponsorship with Sony. The films go on to be premiered in its Venice VR section. Other examples of projects financed by festivals are: VR City's Indefinite, financed through Sheffield DocFest's annual immersive content award; and Marshmallow Laserfeast's In The Eyes of the Animal, commissioned by touring festival, Abandon All Normal Devices. Festivals can also be efficient networking places for seeking finance, co-production and distribution partners. Look for events with substantial project finance markets, accelerator pitches and a large commissioner and buyer presence.

Distributors

As multiple opportunities grow for revenue generation, international distribution companies from traditional media areas are beginning to set up VR divisions. French distributors mk2 and Wide started acquiring and licensing VR projects over a year ago. UK documentary distributor Dogwoof recently launched their VR outfit 'The Other Set' with the acquisition of Zikr (Gabo Arora) and VR financing and distribution venture, CityLights, acquiring Spheres (Eliza McNitt) for a reported \$1.4m dollars at this year's Sundance.

Licensing, negotiating deals and collecting revenues across multiple platforms and territories can be time consuming and requires expertise. Working with an international distributor or licensing expert can increase distribution chances for smaller production companies. Similar to the film and TV world, distributors tend to board projects that win awards and critical acclaim at festivals or have well-known talent attached. After the Sundance deal for Spheres, we are likely to witness more frequent offers of minimum guarantees for completed projects and we will see distributors getting involved in high-profile works at an earlier financing stage. This is all good news for independent producers who have had to deal with every aspect of finance and distribution to date.

Online Distribution

Return on investment is becoming a real possibility through licensing to existing VR platforms and to a multitude of new players about to launch (who are in stealth mode), acquiring as much content as possible pre-launch.

A presale to a platform at production finance stage is only likely to happen with projects featuring or produced and directed by established talent. An acquisition of a completed project is more common, but generally follows awards and critical acclaim at festivals.

In February, at this year's VR Now Conference at the Berlinale, Antoine Cayrol, producer and co-founder of French production outfit Atlas V, outlined the ballpark amounts he has come to expect for three different license deals of the same work. According to him, a period of exclusivity for the first six months should earn a six figure sum on a presale; followed by an acquisition for continental exclusivity for a five figure sum; followed by an acquisition for continental non-exclusivity for a low four figure sum. As mentioned previously, for online platforms, it is important to consider multiple versions of projects in order to reach consumers of both mobile and high-end devices. 360° video and cinematic VR content, for example, have the potential for licenses across multiple channels. Many of the curated VR platforms and brands from the broadcasting, publishing, cable, VOD and Telecoms world have created downloadable branded apps for viewing on mobile devices and also often allow for content to be streamed on web platforms. Much of this content is free to view for consumers and the producer is paid a flat fee on acquisition. Interactive content for high-end headsets is generally available to consumers as a transactional purchase or download (EST) for a flat fee from store fronts Oculus, Viveport, Playstation VR and Steam. Where there is no presale or acquisition involved and the producer self-publishes, the revenue split tends to be around 70/30 in favour of the producer. Viveport also provides a Subscription (SVOD) model for games content. AR content for mobile devices tends to follow mobile app revenue models which are either Free-to-Play/ Freemium, Ad-based or transactional purchase (EST). The first two are the most popular revenue generating models in the mobile app space.

Location Based Entertainment (LBE)

Many industry pundits believe that LBE is the first way that VR can be monetised, and outfits are springing up in all kinds of venues, including cinema foyers, shopping malls, arts centres, galleries, museums, shopping malls, theme parks, airports and pubs. LBE comes in four basic types according to Charlie Fink, in a recent Forbes article, Can VR Save The Movie Theater, Or The Mall?³

1. VRcades that feature high-end consumer systems from HTC Vive and Oculus;
2. Stand-alone casual VR such as VR Coasters with a minimal footprint;
3. VR theatres which usually feature swivel chairs or pods; and
4. Free roam, or warehouse scale, VR.

Fink goes on to say that "in 2016, China had an estimated 5,000 VRcades (TechinAsia says there are 12,000) far more than any other nation followed by 1,000 in the US and 500 in Japan, Korea and the rest of Asia."

LBE offers a number of advantages. Where home set up is expensive and equipment is mostly non user-friendly, LBE allows consumers access to premium VR content often, for the first time, creating an appetite for the medium in the best possible environment. This is especially the case with free roam experiences that allow consumers to do things deemed impossible in an at-home setup with impressive fully immersive multi-player, multi-sensory, motion-tracked experiences in a carefully designed space. However an ability to scale threatens their success with high overhead and limited consumer through-put being an issue at the moment.

Free-roam operations that are expanding or launching this year such as The VOID, Dreamscape Immersive, Nomadic, Tick-Tock Unlock are turn-key operations, exhibiting only the content they produce through customised hardware and software. Setting up these operations requires substantial investor backing as mentioned previously when discussing private investors.

VRcades for gaming content tend to be much smaller bootstrapped businesses than the free-roam models. The VR Concept is a new VRcade outfit running four profitable locations in Greater London pubs that contain event spaces. Founder Oli Lane points out that VRcades are not the right kind of venue though for more contemplative work, saying, "People going to arcades are typically paying for a short(ish) burst of novel experience and so an art-house piece does not offer a good guarantee of value for money."

A big issue for entertainment and arts content is the lack of permanent exhibition venues. In France, cinema owner mk2 has launched two VR locations in Paris and plans to roll out more in the coming year. In the UK we have no permanent venues for non-games immersive content. IMAX has opened its first venue in Old Trafford but only showcases content linked to big IPs or games. The kind of work mentioned by Oli Lane of The VR Concept, that doesn't sit well in VRcade type locations is only available to audiences in ad-hoc pop up events, festivals and in exhibitions at venues such as Somerset House, Royal Academy and The National Theatre Foyer.

Another gaping hole in the ecosystem, is a distribution service to deliver and license LBE editions of projects across multiple platforms and devices. Platforms such as Springboard, Viveport and Steam are solving some of these issues for games developers and VRcade owners. In free-roam venues such as The Void or mk2's VR centres, or art galleries, consumers mostly pay a fee for a limited time slot or programme

compilation. Producers generally share revenue after costs, but there is rarely profit because there is no scalability yet across multiple venues and the setup and overhead costs are too high for individual operations and exhibitions. It's a chicken and egg situation. A distribution service that allows for a frictionless delivery and licensing of content, could incentivise venues to start experimenting with VR content leading to LBE as a potential revenue stream.

Immersive content has come along way in a short time. In just four years, it has evolved from an experimental form, hidden in the depths of pioneering university research departments, to works of art and entertainment that are wowing audiences in world-class film festivals, galleries and theme parks. It feels like this new form will reach and connect with people in ways that we can't possibly imagine. Earlier this year, Warner Brothers signed a deal with Intel to create VR entertainment for self-drive cars, a potentially huge platform that a few years back, would have seemed like distant sci-fi.

Immersive technologies will transform many spheres of our life. We are starting to see how they will affect training, education, healthcare, medicine and retail and many other industries. There are also potential lucrative associated business-to-business opportunities for creative studios in all of these areas of content production. However the market for consumer entertainment is still premature. Stephanie Llamas recently underlined in Forbes that "Stakeholders use revenue and audience figures to measure success, though this is clearly premature. There are only 43 million global unique users in 2017, so the audience for any specific experience is small".⁴ She underlines how we need to allow time for consumers to adopt this technology and also gain an understanding of consumer use of the medium as it evolves, long before we start making assumptions about its success or failure.

René Pinnell, CEO of Kaleidoscope, stresses the importance of programmes that support producers and creators pioneering this format as it evolves. "It took cinema more than 100 years to develop into the art form we enjoy today, and just like cinema, it's going to take time for virtual reality to mature as an art form. But we're never going to get there unless we invest in artists."

Investment into innovative technologies seems to be a no-brainer from both the public and private sector, whilst innovative content can be one of the hardest areas to finance. However it is clear in the case of immersive technologies, that compelling, meaningful and well-designed content will be one of the main drivers to the success of this new platform, and it is important to support the pioneering artists, producers and developers who are experimenting with this exciting and nascent medium.

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