Welcome to the metaverse

In-depth: Motion picture industry and major studios

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“Welcome to the metaverse”: déjà vu anyone?

For the media and entertainment industry, the dawn of the metaverse and the word soup of acronyms that accompanies it, is the latest high profile technology wave that threatens to simultaneously upend established distribution models and reinvent both the experience and relationship with the audience.

Many companies will feel they have been here before.

The last 25 years have seen digital distribution relegate physical content formats to history. Likewise search and on-demand services have transformed audiences’ ability to find the content they want when they want it. Device types have changed from fixed heavy boxes, to always connected mobile-first form factors.

What is forgotten is how many companies never recovered from these changes, never adapted and and never took a positive approach to the advance of new technology until it was too late. Change was forced on them, and new companies rose where others failed: Netflix, Spotify, Amazon.

Our definition of the metaverse

- A combination of physical and digital worlds—embodying a unified digital presence into physical and virtual lives
- Fully formed high fidelity 3D worlds that embrace mixed reality via AR/VR
- Always on, persistent, and real time
- Unlimited immersive and social interaction that can occur at any scale
- A seamless digital economy delivering creation and marketplace opportunity
- An advanced workspace with new forms of collaboration, productivity and communications

It is clear that a fully realised, *fully optimised* metaverse is many years away. There will also be multiple metaverses which will have varying degrees of interconnectedness. As such, the broad sweep of its capabilities will result in usage and experiences that we cannot foresee.

Our working definition of the metaverse is therefore focused on the broad components *and their utility* that will redefine the global digital experience in the future.

Major studios: SVOD remains the primary focus

The motion picture industry remains the flagship category for franchise IP and continues to have an outsized influence on the shape of the overall content industry—even when the games industry now has larger overall revenues than theatrical release. As it has pivoted towards D2C (primarily SVOD) services in the last few years, mostly launched in response to faster industry movers such as Netflix, we expect that the metaverse will be viewed through an investment prism that is clearly in the shadow of retail movie exhibition and SVOD service investment. There is also a long history of failed experiments related to interactive entertainment, especially games, that any metaverse initiative needs to overcome.

The SVOD model is still operating at a loss for all major studios, as cash is channelled into programming, marketing and still-significant capital investment in technology. A model where consumers binge $100 million of premium programming in a day is not sustainable in the long term, and we expect corrections to happen to SVOD businesses in the coming 24 months, in line with the broader macroeconomic slowdown.

Engaging with major studios directly on the metaverse will remain challenging for the next 24 months; currently it is relegated to a licensing opportunity for studios who conflate crypto, NFTs, and games, without a broader strategy for audience engagement with franchises and immersive experiences. It has not yet reached a critical mass of thought or influence in the upper echelons of most major studios.

Our longer-term view is more positive: the metaverse and interactive entertainment will eventually form a critical pillar of studio D2C strategy, which will boost subscription services and tie in with other consumer products and theme parks. Only Disney at this point has addressed this explicitly with appointments in executive leadership, but it hasn't yet provided a steering influence on other studios.

NETFLIX

Disney+ Paramount+

HBO max

peacock

Studios' flip-flops on interactivity and games

The tide has gone out on interactivity, and has yet to come back in.

The motion picture industry has what could best be described as a tidal relationship to all forms of interactive entertainment—it has ebbed and flowed over the last 30 years. At one point all major studios had their own interactive entertainment divisions, with first-party studios, producing games for consoles.

Since 2018 investment on gaming at major studios has radically reversed; Universal and Disney pulled out of the first-party studio business altogether and focused on licensing. More significantly, interactive entertainment talent has moved on, and all games-related endeavors have been parked in the depth of the consumer entertainment divisions—with few cheerleaders and a long way from strategic studio decision-making.

Warner Bros. now stands alone as the only major studio with a dedicated AAA game division and its own first-party studios: Warner Bros. Interactive Entertainment.

Metaverse experiences and interactive entertainment development in-house will continue to be negatively impacted by being part of non-production divisions, and their distance from C-level investment decisions. It's notable that at Netflix, games reports directly to product development—we consider this an appropriate model that should be replicated.

As major studios are arguably over-indexed on SVOD, the need for stickier content to maintain D2C subscription services is likely to provide an opening for interactive entertainment. Options for engagement will vary significantly by studio due to constraints from parent companies which are currently focused on debt reduction and D2C growth.

WARNER BROS.
INTERACTIVE ENTERTAINMENT

Metaverse-friendly expertise remains limited for most studios

Most major studios have limited capability in-house to execute complex digital initiatives and will require turn-key partners to assist in creative and technical execution.

There is currently a lack of R&D and strategy expertise—long hollowed out as studios have retrenched from interactive entertainment.

Only Disney currently has a Chief Metaverse Officer—an important first step.

Integration with existing D2C platforms will be a major hurdle—Disney (and Netflix) will be closely watched to assess how they integrate interactive entertainment into their existing apps.

	Disney	Paramount Pictures	Sony Pictures	Universal	WB
Chief Metaverse Officer	✓	✗	✗	✗	✗
D2C/SVOD/FAST	Hulu, Disney+	Paramount+, Showtime, Pluto	✗	Peacock, Hulu (via Comcast), Xumo	HBO Max, Discovery+
First-Party Game Studios	✗	✗	✗	✗	✓
Game Publisher	✗	✗	✗	✗	✓
Licensing	✓	✓	✓	✓	✓
In-house digital IP development and R&D	✓	✗	**via Sony Interactive Entertainment*	✗	✓

[Source: Enders Analysis]

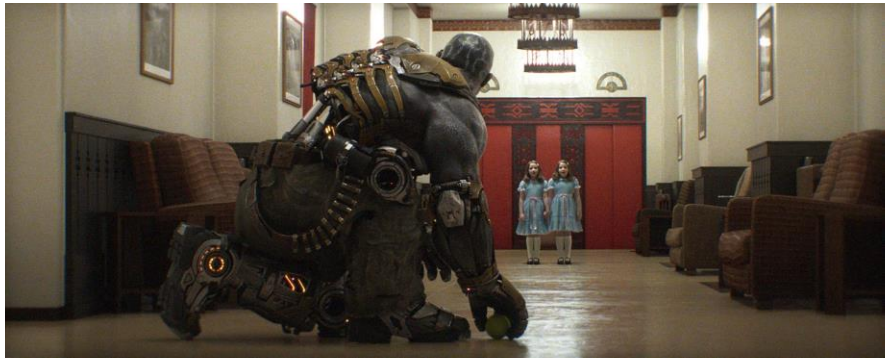
Film libraries are less important than franchises

Even with 100 years of film library at major studios, those looking to engage on any digital initiative are still faced with the stark fact that **there are comparatively small numbers of suitable assets available—namely film titles, stills, music, but very few usable digital assets as such.** Studios are realistic that they have limited turn-key assets available beyond some older 3D titles that have been repurposed for use in VR environments.

The IP held directly by studios is of greater consequence, and studios have long experience in the complexity of licensing, particularly around major franchises that lend themselves to expansion across consumer products. Licensing remains a high hurdle for any emerging market looking to use film-based IP—economically as well as creatively, as we shall cover.

Studios are now more invested in core franchises than ever before—particularly as they pertain to expansion across SVOD and sequel fever, but also reflect a skew towards an audience that is well suited to interactive entertainment. So far studios haven't broadly connected those strands together—they've outsourced their interactive entertainment assets.

Studios will always face tension as to what part of the value chain they want to operate in—particularly with how exposed to margin loss they become in the consumer products or interactive entertainment categories. At present there remains considerable open space around metaverse initiatives, as most studios have pulled out of first-party interactive entertainment, and that is very unlikely to change over the next 24-36 months. Our view is that this is broadly conducive to engagement by third-party metaverse specialists.



The Shining (1980) recreated in *Ready Player One* (2018), *Avengers Endgame* (2019)

Licensing is slow and expensive, but still the primary starting point

Expanding film franchise IP into the metaverse via a licensing model will require fortitude and patience—financially and creatively—with some limited operational variances between studios. The model is mostly mercenary, and often arbitrary, particularly in new product or service areas. There is evidence of internal tension as the desire to experiment in new spaces with new partners grates against the revenue requirements of licensing sales.

Studio requirements to maintain creative control, and preserve creative intent, remains an enormous obstacle to speed of deployment and creative execution via third party. **Currently there is a small window related to experimentation available (still upon payment of a licensing fee) which we expect to close as studios take a longer-term approach to the space.** Approaching via studio marketing engagement is a more viable prospect in the short term.

Licensing contracts always include terms around content security and preserving image and reputation—these may prove too onerous in more "open world" metaverse experiences.

Disney and McDonald's (above), Warner Bros. and Fortnite (top right)

The European licensing arms of major studios have limited input and influence on more technically complex licensing deals—**engaging with Hollywood directly remains a costly but necessary requirement.**

Apple and Meta are likely to reset the licensing space when they launch new MR (mixed reality) products with film IP. Apple has a long track record of working closely with Disney on new product launches—we anticipate this will continue. Meta has launched the Quest Pro headset with licensed content from NBCUniversal.

The entrenched studio bias towards licensing has resulted in ongoing speculative business around NFTs: in contrast to interactive experiences, NFTs are simple to license. All major studios at some point have made NFTs available based on their IP (e.g. Paramount Pictures have released Star Trek NFTs, Warner Bros. with The Matrix and Looney Tunes, etc.) However, pure digital collectibles are strategically peripheral compared to the hard work of licensing full metaverse IP extensions.

Exhibition marketing is a viable market entry strategy

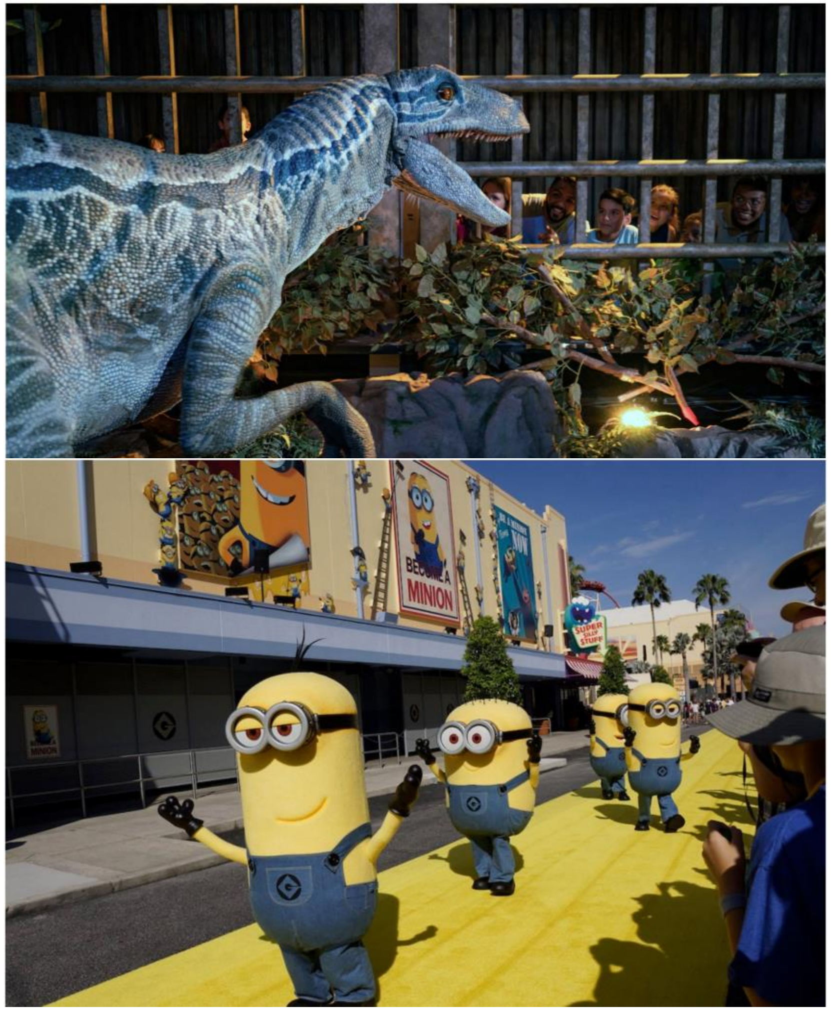
Engaging with film IP via exhibition marketing is a viable and important strategy.

Marketing support of theatrical releases remains a vital avenue for additional creative investment around key franchises. Major studios have shown they are still willing to invest heavily (up to $100 million for blockbusters) in the space with experiential marketing such as events and exhibitions, in addition to significant online advertising and promotion.

There is a viable and important niche for full-service partners offering immersive experiences and metaverse expertise to be part of the marketing spend for major studios releases—building credibility with major studios and allowing initial, albeit limited deployments, with key franchises.

London-based agencies retain an outsized role in global promotion for theatrical release, offering creative leadership and expertise, with a track record with all the major studios along with Netflix and Amazon. **Engagement via creative agencies is likely to be faster and more cost-effective than dealing with major studios directly in the short term.**

Marketing engagement is, by definition, project-specific, short-run, and of limited shelf-life. Timelines for end-to-end project delivery can also be aggressive (sometimes as short as three months) subject to adjustment of release dates and the requirement for project secrecy. However, there is more capacity to engage on localised content, and physical events, which can then offer a wider range of creative experiences than merely online.



Jurassic World immersive experience, Minions Universal Orlando

Theme parks: could they become a hot metaverse property?

For Universal, Disney, and Warner Bros., theme parks remain an immensely profitable enterprise, particularly as domestic US revenues have now rebounded to pre-pandemic highs. Theme parks represent the apogee of franchise expansion and a truly global drawcard.

Disney, the largest and most influential operator, has already signaled that it sees an opportunity to amalgamate digital and physical experiences into a version of what could become a Disney metaverse. Allowing those who are unable to visit parks due to distance and cost (Day passes at Disneyland can cost $160+), and super-serving a very dedicated mega-fan audience of repeat visitors, does present a valid addressable market.

Universal's Epic Universe opens in 2025 (above),
"Designing The Disney Wish" (top right)

Theme parks lend themselves well to MR and 'digital twin' immersive experiences. Even taking the obvious issues with VR (namely motion sickness), we expect studios will begin looking at options to exploit theme park experiences in the metaverse over the next 24 months.

We expect Disney digital theme park experiences to be launched into the market sooner than other theme park operators, and probably in conjunction with new MR hardware (e.g. from Apple or Meta) within the next 12 months. This could provide Disney with a profound lead over its competitors with early access to new platforms.

Theme parks will be a rich source of well-produced VR/MR content, but without shared virtual spaces that will at best be a trailer for a true metaverse theme park.

Disney: in pole position but haunted by its games past

Under the leadership of CEO Bob Chapek, formerly head of the consumer products and parks division, Disney's public pivot towards the metaverse being focused on parks and consumer products as a blend of physical and digital worlds is not in the least surprising. It is, however, an interesting gateway from which to approach the space, as it is directly additive to existing physical experiences, and can engage audiences via what is, in effect, a digital add-on. Pushing any metaverse initiatives onto the balance sheet of the Disney Parks, Experiences and Products division is another consideration—most Disney R&D spend resides there. Recall that Disney Infinity (2013-2015) combined physical toys with digital games and world building: a metaverse prototype.

The appointment of a Chief Metaverse Officer, Michael White, is unique among all the major studios and provides some clearer leadership across the company. It's a promising first step.

Disney remains dogmatic in its view on interactive entertainment and games—that it "lacks scale and expertise". This has been reinforced by years of executive influence against games internally (especially by Bob Iger) and previous false starts with initiatives such as Club Penguin. We do not believe that this considers the dramatic changes in revenue models (especially subscription gaming) and technology (cloud gaming) that is occurring, and places Disney in a strategically challenged position long term at the wrong end of the value chain given its IP strength. This will be a strong headwind against broader metaverse initiatives.

Game licensing still retains silos related to franchises that provide additional friction to engagement: Marvel and Lucasfilm operate separate licensing teams for interactive entertainment—there is no one-stop shop.

There is ongoing industry speculation regarding an EA/Disney takeover—which may have considerable implications for sports gaming, combining EPSN and EA's sports franchises. While risky, a large-scale investment in interactive entertainment is more likely than Disney rebuilding its expertise in-house.

Disney Infinity

Sony Pictures: PlayStation IP is the new goldmine

In the 1990s licensed games were commissioned to cash in on movie-driven IP. These games had to launch alongside the film, so were developed under crunch conditions, sometimes in a matter of weeks, with shoddy results. Today, gaming IP itself is a hot property that can dictate the terms of play. Spinning TV shows out of game franchises like The Witcher and Cyberpunk has proved an enormous success for Polish developer CD Projekt Red. Both series got huge viewership, while sales of *The Witcher 3* doubled in 2019 following the Netflix show, and increased again in 2020, despite the game first releasing in 2015. **With gaming IP bigger than ever, and games themselves getting updates or rereleases 5+ years after launch, the synergies to be had with crossover content and marketing are irrefutable.**

After years of operating as individual silos, with very limited cross-company engagement, Sony Pictures and Sony Interactive Entertainment (SIE) are now closely aligned and co-operating on a variety of IP related initiatives designed to broaden audience appeal across platforms. PlayStation Productions (effectively a JV between Pictures and SIE) is actively developing movies and TV shows based on PlayStation IP (like The Last of Us, Uncharted, *Horizon Zero Dawn*) Any Sony Pictures IP in development is highly likely to give SIE first right of exploitation related to interactive entertainment.

Sony Corporation has been bullish in directly addressing the metaverse as part of its corporate strategy of *Kando* spaces—effectively stretching IP across Sony Group businesses (music, movies, games, consumer electronics), providing more D2C services, and defining this as "metaverse". The proposition is designed to drive shareholder value in synergies across Sony content and products in a way that has never been adequately realised at the group, but is conversely likely to slow down any third-party opportunities and leave gaps that Sony is unable to exploit internally.

Uncharted 4 (2016), *Uncharted* movie (2022)

We view Sony Pictures as a closed shop on any new initiatives related to VR in the lead up to release of the Sony PSVR2 in 2023. Given the tightly controlled developer environment of the PSVR2 inside the PlayStation ecosystem we expect very limited engagement opportunities to be available.

Sony Pictures remains committed to ad-hoc and opportunistic licensing and relies on a limited range of game show IP (Wheel of Fortune, Jeopardy) which has long been exploited in the video game space. Without any in-house development capability, these remain open to further development.

Warner Bros. Interactive overshadowed by Discovery merger

The Warner Bros. Discovery (WBD) merger continues to roil as David Zaslav's team endeavours to lower overheads and streamline operations in a bid to reduce losses and meet obligations related to its huge debt pile of $50+ billion. **WBD is still running a substantial loss on its D2C operations, and this will provide an additional chilling effect on new investment (especially unproven areas such as the metaverse).** We expect this situation to continue until 2024 at the earliest, when WBD is likely to return to being an acquisition target.

WB Interactive Entertainment (WBIE) is a sustained bright spot, following a full reset of its game slate and the release of critically acclaimed games. WBIE has full stack game development across all platforms (PC, mobile, console), giving it considerable technical capability to engage on metaverse initiatives as part of its wider game strategy.

However, WBIE still maintains a traditional game studio and revenue structure that delivers lumpy, hit-based earnings, and has yet to adequately address its long-term product strategy, especially as the games industry shifts towards subscription services. It's also buried deep in the consumer products business, lacking visibility. This makes it an ongoing target of sell-off speculation and limits its ability to undertake truly experimental investment.

Warner franchises arguably rank second only to Disney in terms of global appeal and reach and are particularly well suited for interactive entertainment with the DC Universe and Harry Potter being the two prime drawcards. They still have considerable engagement challenges: The DC Universe is currently seeking new executive leadership as it struggles to challenge Disney's Marvel. Harry Potter is clearly a more UK-friendly franchise but requires additional navigation between WB and the Wizarding World of JK Rowling, which both have creative and business oversight into any new initiatives.

Batman: Arkham Origins (2013), *MultiVersus* (2022), *Hogwarts: Legacy* (2023)

Netflix, Paramount and Universal

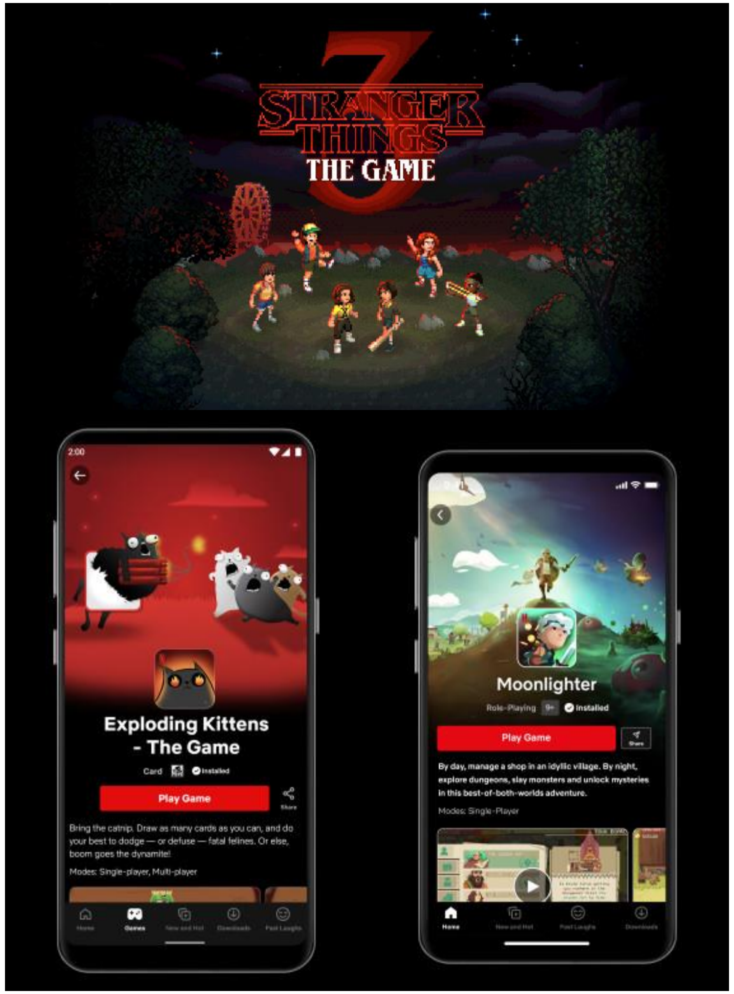
Netflix, effectively a major film studio, is now a fully fledged game developer, with its own in-house studios. Currently building a new pillar to complement its SVOD service, albeit classified as an experiment, Netflix has a refreshing and modern approach to product development, with strong technical expertise combined with a bias towards rapid execution and iteration. Netflix resists (both internally and externally) referring to any type of "franchise strategy", but in practice clearly has, with a consumer products division in-house, and full franchise exploitation of hits such as Squid Game and Stranger Things.

There is an ongoing commitment to providing low-friction experiences, with an 'all you can play' model for games as part of the subscription. How a planned new advertising tier affects games is yet to be revealed, but it could provide a small window for new initiatives for interactive entertainment to drive upgrades.

Netflix has publicly stated it sees limited opportunity around VR—particularly for long-play programming, which is consistent with other studio positions. **It has, however, been radical in building new interactive entertainment experiences**, such as *Black Mirror: Bandersnatch*, which are far more friendly to future metaverse entertainment scenarios.

Universal Pictures and **Paramount Pictures** both have well-established but small interactive entertainment teams that are in continuous licensing mode and are responsible for metaverse opportunities. **Within the confines of a licensing model, our view is that both studios have considerably wider engagement flexibility than other majors, especially in terms of creative design opportunities, and with less strategic tension with other internal divisions or even their parent companies.**

In addition to Paramount and Universal's deep IP reservoirs (Star Trek—Paramount, Jurassic Park—Universal), Universal finds a complement in also having a significant theme park division.



Netflix mobile games

Games production skills will bring studios closer to the metaverse

The model for digital FX in TV and film production is rapidly evolving as game engines such as Epic's Unreal are used to render digital sets in real time on large scale volumetric walls. Shown to great effect in behind-the-scenes footage of *The Mandalorian* and other Star Wars productions, amongst others, this model is a blending of digital assets and environments with physical production—reducing the need to build physical sets, allowing greater creative expression, and speeding up postproduction FX processes.

This production technique is rapidly evolving and driving sustained demand for talent with game software and design experience—bringing digital 3D environment building (long a speciality of games development) directly into the Hollywood production landscape.

Filming *The Mandalorian* (above), Samsung's "The Wall" (top right)

While there have been claims that digital assets created for Hollywood productions will ultimately be easily integrated into other interactive entertainment products, the reality is more complex and production specific. Rework will inevitably be required. However, the alignment is gradually occurring, with game software engines as the bridge, and game design language and techniques are permeating film and TV production. **This shared design language will be beneficial to content creation that bridges across platforms—bringing studios closer to metaverse and interactive entertainment experiences.**

For these efficiencies and opportunities to be realised, interactive entertainment and metaverse requirements need to be integrated into production planning at the earliest stages. This requires a combination of studio engagement and desire, but also specialist metaverse/interactive entertainment expertise to be provided at the earliest stages of production. Even then the lead times will be very long—leaning toward in-house teams being required. At present only Disney and Netflix will be able to consistently achieve that level of production integration.

This dynamic reinforces the importance of franchises over catalogue content. From a production standpoint, studios would have to start from scratch to build metaverse-ready digital assets for beloved older titles.

Other Hollywood considerations

There remains ongoing (and in some cases considerable) concern from studios regarding the exposure of franchise IP, particularly as part of interactive experiences, on uncontrolled or open platforms (e.g. Decentraland). This is an issue that will continue to be expressed in tighter licensing terms requiring either pre-approval for distribution, or a strictly maintained list of 'friendly' options. **Ultimately, we anticipate studios will lean into 'closed box' experiences, that will limit any type of open metaverse interaction.** This reinforces our view that interoperability scenarios between metaverse worlds will be divided along creative as well as business lines.

All major studios still retain strong coverage of industry technology standards bodies. We expect that they will have outsized influence in the development of metaverse standards moving forward, and that engagement on standards issues is likely to be an additional opening to working with studios directly on franchise IP.

Amazon's purchase of historic Hollywood studio MGM closed in March 2022. While Amazon has significant game service assets (including Twitch), they remain loosely aligned without a clear strategy. First-party game production has also faltered. While there may be an Amazon service home for some MGM IP in the future, on current trajectory we expect long lead times (24 months+) before major initiatives are delivered.

Finally, a new generation of independent studios is beginning to achieve cut-through combining movie making with interactive productions, such as Annapurna Interactive. Without the restrictions of studio decision making, the engagement opportunities are more varied and dynamic. In the long roll-out ahead, the first step of working in the film space is also the most familiar: engaging directly on joint productions with indies is likely to be the fastest (and possibly most influential) way of achieving breakthrough on first generation film-based metaverse experiences.

Annapurna Interactive

Will Meta and Apple jumpstart the metaverse for studios?

Meta's "multiyear partnership agreement" with NBCUniversal, a long-term licensing agreement that also brings OTT Service Peacock to Quest VR headsets, will be an important test case in creating, promoting, and building a business case around film and TV IP for VR and the metaverse. While necessarily US-centric in nature to start, **Meta will need to provide a strong guiding hand creatively and technically to ensure the project is a success, and to evangelise the platform across the Hollywood studio content space.** Notable from Meta's Connect keynote was the lack of Hollywood talent or executive participation with Mark Zuckerburg to support the announcement—a huge miss that would have benefited both companies and given more solidity to the project.

Other studios will be watching Meta/NBCUniversal with interest, undoubtedly hopeful of a jumpstart effect, but also lining up for the next likely launch (and development funding)—Apple's widely rumoured MR headset in 2023. While Disney remains the front runner for any Apple launch product, and probably exclusively for some experiences, an announcement with any studio will move the industry further forward, and provide the tipping point for remaining studios to speed up their metaverse initiatives.

While VR experiences are an important and high-profile component of the metaverse, the easier part (both creatively and technically) remains '2D' experiences with existing devices, not requiring any VR headset. This is currently the missed opportunity—one that Meta is also beginning to reinforce publicly—which provides a **wide open space for studios to experiment at lower cost and with a wider range of creative and technical partners other than big tech.**

Non-VR experiences will provide a faster route to market, at lower development cost than optimised for VR, and with the greatest opportunity through reach to generate important insights regarding revenue models and commercial viability. Studios ignore this part of the metaverse at their peril.

Meta Quest Pro

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