

# The film industry

Panel on IT disruptions in the media sector

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# Content

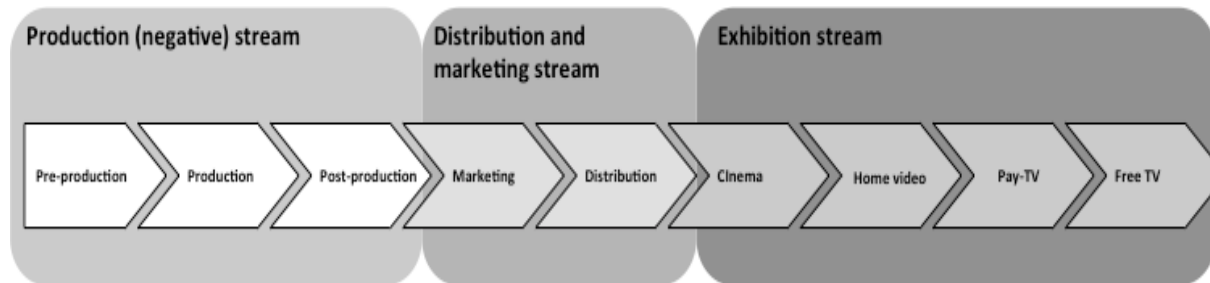
- Main conclusions of book
  - drawing on project iMinds-SMIT conducted for IPTS
- Salient characteristics of film industry
- European strengths and weaknesses
- Digitalization opportunities and threats



# Characteristics of the film industry

- Cultural and economic value
  - 75' firms, 400', employees, € 60 billion
- Strong European tradition of public support
  - > € 2 Bn of which most is national (or sub-national), 2/3 to production

- Value chain:

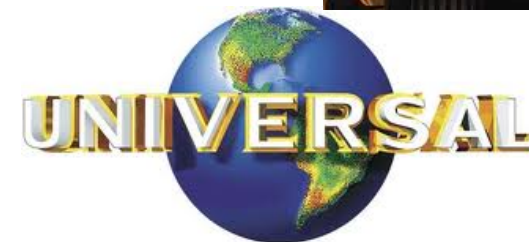


- Particular economic characteristics
  - Prototype (fixed vs. reproduction costs), strong economies of scale and scope, pricing (value largely not reflected in price), uncertain demand, semi-public goods, hit-driven
- Business strategies
  - Concentration & integration, portfolio approach, (stars, genres, sequels), versioning (release windows)
- Hollywood majors dominate the value chain

# Hollywood majors

Companies	Country	Movie subsidiary	Revenues 2009 (USD Bn)
Sony	JP	Sony Pictures, Columbia	30.2
Walt Disney	US	Walt Disney Studios	25.5
Time Warner	US	Warner Bros.	22.8
News Corporation	US	20th Century Fox	22.7
NBC Universal	US	Universal Studios	15.4
Viacom	US	Paramount, Nickelodeon, MTV	13.6

Source: European AV Observatory



# US movies dominate in Europe

European theatrical market shares

Region	2006	2007	2008	2009	2010
US	63.4%	62.6%	65.5%	66.9%	68.0%
European films	27.9%	28.1%	28.3%	26.8%	25.3%
EUR inc/US co-productions	5.6%	7.5%	4.4%	4.0%	5.4%
Others	3.2%	1.8%	1.8%	2.3%	1.3%

Source: European Audiovisual Observatory

- Same patterns across all platforms
- In spite of > 60 % of films released in Europe being European
- European films do not circulate well across borders

..and elsewhere

Country	Market share European films	Market share US films
Mexico	3%	81%
Argentina	5.5%	82%
Brazil	3%	86%
South Korea	3%	47%
India	2%	10-12%
Japan	5-9%	50%
US	3.3%	94.5%

Source: European Commission

**Hollywood is the common film culture in Europe and beyond**

# European strengths and weaknesses

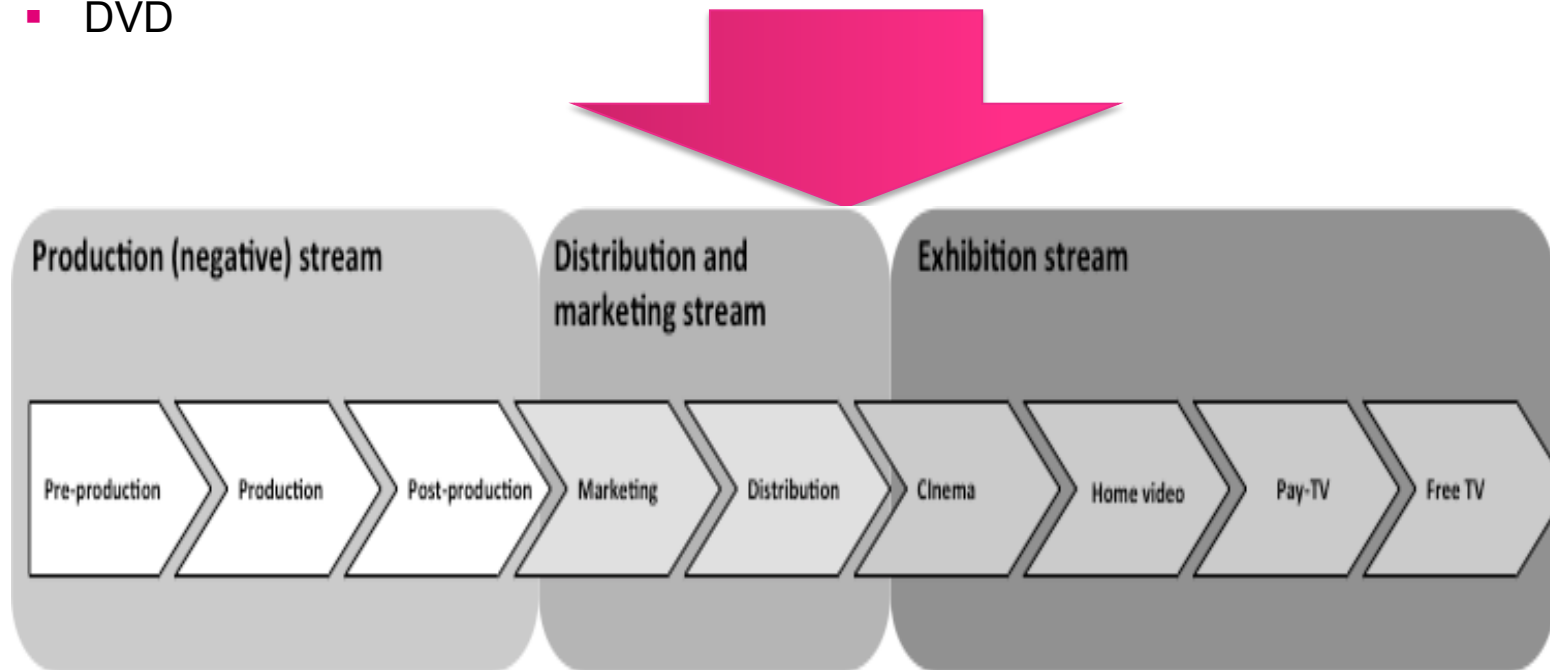
Value network	Strengths	Weaknesses
		<ul style="list-style-type: none"> <li>• Lack of integrated majors</li> </ul>
Production	<ul style="list-style-type: none"> <li>• Large and diverse number of companies and films</li> <li>• Creative cinema tradition</li> </ul>	<ul style="list-style-type: none"> <li>• Low investment levels</li> <li>• Lack of private funding</li> <li>• Dependency on public support</li> <li>• Lack of selection and development</li> </ul>
Distribution / Marketing	<ul style="list-style-type: none"> <li>• Many films distributed</li> <li>• Strong film festival tradition</li> </ul>	<ul style="list-style-type: none"> <li>• Fragmented and concentrated market</li> <li>• Lack of marketing tools and budgets</li> </ul>
Exhibition / Consumption	<ul style="list-style-type: none"> <li>• Large, mature and varied consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Dominated by Hollywood movies</li> <li>• Lack of cross-border circulation</li> </ul>

# Digitalization disrupting this?



# Digitalization impacts whole value network

- 1980s and 1990s
  - Sound production
  - Digital imaging (CGI computer generated imagery)
  - Editing
  - Digital cameras
  - Digital sound systems (cinemas)
  - DVD
- 2000s – now
  - D-cinema and 3D
  - Digital Television
  - Internet retailing and 'rentailing'
  - Digital distribution – VoD, sharing platforms etc.



# Opportunities and challenges

Value network	Opportunities	Challenges
Production	<ul style="list-style-type: none"> <li>- Flexible and more cost-efficient production</li> <li>- Stronger audience ties</li> <li>- Financing</li> </ul>	<ul style="list-style-type: none"> <li>- Increased (global) competition</li> </ul>
Distribution	<ul style="list-style-type: none"> <li>- Cost-savings and flexibility</li> <li>- Content customisation</li> <li>- Online and viral marketing</li> </ul>	<ul style="list-style-type: none"> <li>- Blockbuster-driven character of distribution increased</li> <li>- Difficult to draw attention in a world of abundance</li> </ul>
Exhibition / Consumption	<ul style="list-style-type: none"> <li>- Flexibility and differentiated theatrical programming</li> <li>- VoD potential</li> <li>- new business models</li> <li>- Long tail</li> <li>- Increased 'buzz' for smaller titles in shorter release window context</li> </ul>	<ul style="list-style-type: none"> <li>- ( Digital cinema roll-out )</li> <li>- Slow-down home entertainment market</li> <li>- Lack of strong pan-European VoD players</li> <li>- Online licensing/copyright issue</li> <li>- Piracy</li> <li>- Release windows system adaptation</li> </ul>

# Pending questions for policy

- Public funding and lower entry barriers largely at production side
  - But, challenges mainly at distribution and consumption side
  - Reconfiguring support?
- The old will not go out, and the new is not in yet
  - Protecting legacy players or stimulating new ones?

Thanks

Panel discussion



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