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**MASTER OF EUROPEAN AFFAIRS PROGRAMME
BUSINESS SECTION**

Master thesis

**FILM DISTRIBUTION AND
EXHIBITION IN THE EU**

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ABSTRACT

This paper examines the film distribution and exhibition sector in Europe. The general analysis of these sectors' situation in Europe was made. Moreover, the comparative and more in depth analysis of three countries by the Porter's five forces model was made; These were United Kingdom, France and Denmark. The need for research was influenced by the fact, that 70% of the movies watched in Europe are of American origin. Moreover, the major companies within the film distribution market are also American, leaving 36% of the market for non- US companies. Due to the previous lack of studies on European film distribution and exhibition market from business and business law perspective and the shortage of more in depth analyses about the competitive environments, tendencies within the national markets, fair competitive situation for major and smaller- medium sized companies, this kind of analysis in this paper was done. The aim was to see whether there is a Single European Market within these sectors, or the situation differs from country to country.

Overview of the legal environment show that at the European level various financial supports are offered in order to enhance European films' cross- border movement. The analysis on the competition law, show that the fair competitive situation in these areas should be constantly monitored, and sometimes the exemption for the somewhat dominant position might be provided in the economic industry's downturn times. Paper also illustrates some of the national regulations, which could be considered to be standardized in the future at the European level.

The business environment was analyzed from the Porter's five forces model perspective, to determine what forces shapes the national markets' situation in the sectors as they are. The analysis of vertical integration and horizontal concentration was also included within the extended analysis. Types of Porter, Bartlett and Goshal strategies theories were used in order to understand the keys to success of the major European and non- European companies within both sectors. Finally, the paper concluded with the pre- historical background analysis of the American movies' success in Europe and moreover the importance of the language and the issues dealing with it were also discussed.

The analysis concluded with the findings that the European Single Market is fragmented in these two sectors. Moreover, pre- historical issues of American audiovisual sector's participation in Europe, cultural variety and culturally unbiased American products impact the situation of similar feature- American films' dominance as it is from the film viewer's perspective. From the further perspective the situation is impacted by American companies long time know- how, and mostly by the horizontal concentration and vertical integration and geographical scope of the markets they operate.

Keywords: Competition law, European financial aid regulations, distribution, strategy, horizontal concentration, vertical integration, cultural differences, importance of the language, United Kingdom, France, Denmark.

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IV. ABBREVIATIONS

BER	Block Exemption Regulations
BFI	British Film Institute
CFI	Court of first instance
DB	Association of Danish cinemas
DFI	Danish Film Institute
EC	European Community
ECJ	European Court of Justice
EU	European Union
FAFID	Association of Danish Film Distribution
GBO	Gross box office
NFC	Netherlands's Audiovisual Centre
UIP	United International Pictures

Country abbreviations

DE	Denmark
ES	Spain
FR	France
NL	Netherlands
SE	Sweden
IT	Italy
UK	United Kingdom
US/ USA	United States of America

1. INTRODUCTION

1.1. OBJECTIVES

The European Union is constantly growing and with the current 25 Member States it makes the European Union Common Market one of the major economic areas in the entire world. Freedom of services, goods is being exploited within this European Common Market and many European Community laws are meant to encourage this kind of flow and to enhance the European economic prosperity. Unfortunately, the profits from the audiovisual sector's unit- films distributed and exhibited in Europe are by approximately 70% gained by American films and American major companies.¹

While linguistic and cultural variations within Europe hinder the cross- border movement of productions, there is a continuous dominance of the US production flood into the region. The US' main export earner is the audiovisual sector with its major market- Europe. However, the EU trade deficit with the US is annually approximately € 6- 7 billion. These figures show that the European Union is not properly or fully exploiting its own market and it should look for growth possibilities from within.²

Besides the British films, which like Hollywood movies reach international audiences more easily, successful European films achieve most of their box-office success in their domestic markets. In 1999, 77.61% of box- office receipts for European films were earned in their domestic markets.³ Lack of marketing techniques, distribution channels, cooperative strategies of the interrelated businesses and cultural differences in the EU with reflection in the audiovisual works, creates difficulties for movies to travel within this EU single market.

Moreover, *““Complex products”, such as movie films, are logically culture bound, because they need high interpretation of activities and require the knowledge of the local context in order for the film to be fully understood and enjoyed. One of the reasons for the limited global success of most movie films, except American ones, is that they rely on*

¹ http://www.obs.coe.int/online_publication/expert/filmdistcompanies.pdf.en, p. 7.

² “Mid- term evaluation of the Media plus and Media training programmes”, Media Consulting Group/SECOR for the DG EAC C3- Final Report, April.

³ Anne Jäckel “European film industries” BFI. 2003, p. 86

local cues which are not easily understood and by foreign local audiences. In opposition, the success of American movie films is based on their weak contextuality, simplified characters, reliance on the universe appeal of violence, love and wealth, and their simple moral dichotomy, where good struggles against evil.”⁴

Therefore, definitely, the cultural aspects play a role in film distribution and exhibition industries. The ethnocentrism, general favourability for the American culturally unbiased films impacts the present situation in Europe.

With this background on mind, by first analysing the legal issues on European Community and elements of it on the national level and further perspectives towards standardizing laws the strategic analyses of the chosen countries’ competitive environment and of the top European and non- European film distribution and exhibition companies were made. Furthermore the cultural aspects were taken into consideration in order to understand such research questions:

RQ1: Is there a single European market within film distribution and exhibition sector and whether we want it?

RQ2: Is there different competitive environments, tendencies in the analysed countries?

RQ3: What are the keys to success, strategies, management styles used in order to become the leaders in the industry?

RQ4: What are the cultural reasons, hindering the European film cross border movement?

1.2. DELIMITATIONS

Various delimitations took place throughout the paper. First, that the topic and the perspective to look at it (from business law and business outlook) is really quite new, and

⁴ Ct. Jean-Claude Usunier “Marketing across cultures”, third edition. Financial times, Prentice Hall, p.150-151.

especially in Europe (where it is mostly viewed from cultural perspective) made it really difficult to find any similar previous researches in this area.

The research of this thesis was limited to cinema, legal video (DVD, VHS) and television film distribution areas. Whereas, film distribution through pay- tv, Internet, through illegal options (downloading from internet, DVD, VHS piracy) were not taken into consideration. The reasons behind this lies in the simple fact that the Internet, piracy became such big research topics themselves, that it would take another research to analyse the differences and particularities of these film distribution and exhibition forms compared to others and there is simply not enough space to deal with it in a proper way in this thesis.

The issues connected with national state aid were also not discussed in this paper, because there are not so much differences of the extent of national state aids. Moreover, they are mostly provided for film production (not distribution or exhibition) and to analyse their peculiarities at the deeper extent would also just be too broad aim for the topic and would use much more space of the thesis.

The fact that the Author does not know the Danish language and has not very fluent knowledge in French might also delimit the research to have been made more in depth. But the dictionaries were invoked for help and there was lots of internet research done and gathered and especially a substantial level of communication with film distribution and exhibition professionals in Denmark was done.

1.3. METHODOLOGY

The chapters 2- 6 take a closer look at the theoretical and practical background of the issue. After having discussed the situation and research problems in the sectors, a closer look is taken at the at the legislation and audiovisual policies, which are meant to establish European Community regulatory framework, improve the European film distribution and exhibition sectors' functioning also by providing financial support and by ensuring the fair competition in these areas.

In the legal part primary, secondary legislation and the case- law analysis is made. In the business part the general film distribution and exhibition sectors' situation in Europe

is being discussed, as well as the chosen countries for the competitiveness situation analysis: United Kingdom, France and Denmark is being analysed by the Porter's five forces model. The analysis of horizontal concentration and vertical integration is incorporated into the theory. In the chapter 5 the most successful European and non-European representative companies from both sectors' are analysed by the types of Porter strategy, the types of Bartlett and Goshal strategy, resources (most valuable, rare, inimitable, etc.) and by their international management styles. Finally, the historical background for the American films' success, the factors which make European films less attractive when crossing national borders and the importance of the language are being discussed.

Empirical research is done in chapter 4 mostly, where interviews with Danish Film Institute personnel: cinema and marketing coordinator Pernille Munk Skydsgaard and festival manager for feature films Lizette Gram Mygind are gathered. The questions asked were about the general film distribution and exhibition situation in Denmark, about Danish films' export abroad, about vertical integration, laws, present possible problems within the Danish film distribution and exhibition sector, smaller companies' situation in the market.

Moreover the telephone interviews were collected with John Wilkinson, Chief Executive of Film Exhibitors' Association in UK and Jonna Jensen, project coordinator at the Danish Film Exhibitors' Association (Danske Biografer). The telephone interview questions were mostly concerned about the national laws: media windows, vertical integration, alignment practises, minimum exhibition periods, block booking, etc. Interviewers were also asked for their opinion about the competitive situation within the distribution and exhibition sectors in the countries. Consequently, according to the results of the interviews national laws were not found to be of the problematic origin; the only differences and problems were minimum exhibition periods (in Denmark the film is asked to be exhibited for longer period of time (4 weeks), than in UK (2- 4 weeks).

Moreover, some apprehensions were obtained by e- mail, such as from Susan Newman-Baudais, the analyst of department of information on markets & financing at European Audiovisual Observatory about the extent of vertical integration in France and about

other general understanding of European film distribution and exhibition sector and the capabilities of a European companies' in it better.

Moreover, the surveys on film distribution and the survey on film exhibition were sent by e- mail to the companies operating in the sectors in United Kingdom, France and Denmark.

The questionnaire was mostly based on multiple- choice questions⁵ and the response categories were derived from the theory. Additionally, in order to capture a more complete picture, some open questions were left, such as the company name, year since when the company operates, whether it has their parent company or subsidiaries abroad. Moreover, the more in depth question if they see legal, cultural, other obstacles for films to be distributed or exhibited was also left open. The answers to the latter question in majority of times contributed to the very good practical awareness of the industries' situation.

Generally the questionnaire was designed to be short and clear cut and attempted to avoid ambiguous words, leading questions, implicit alternatives or other potential causes for bias. The e- mail survey collection method was chosen for the fast response time, easy accessibility and financial reasons. The drawback of the e- mail data collection is that the ambiguous questions could not be explained and the response rates of such data collection method are usually low.⁶

Indeed, unfortunately, only 4 surveys were answered and two company representatives apologized for not being able to answer, because they claimed that they were very busy preparing for the Cannes festival at that moment.

⁵ See Annex I.I. "Surveys on film distribution and exhibition".

⁶ Churchill, Gilbert A. and Dawn Iacobucci "Marketing Research – Methodological foundations", Ohio, 2000, p. 296.

2. LEGAL ENVIRONMENT

2.1. INTRODUCTION TO EUROPEAN AUDIOVISUAL POLICY

One of the first attempts to shape a Community audiovisual policy was made when there was a development of satellite broadcasting and the rapid increase of audiovisual import from the United States, which led that the Commission presented a Green Paper in 1984 on the establishment of a Common market in broadcasting⁷. Further principles for the audiovisual policy were developed by adopting a Green Paper on the convergence of the Telecommunications, Media and Information technology sectors⁸, and of a Communication on principles and guidelines for the Community audiovisual policy in the digital age⁹.

The Treaty on European Union, which was enforced from the 1st of November 1993¹⁰ and the Treaty establishing the European Community¹¹ encourages the co- operation between Member States in the fields of artistic, literary creation (including the audiovisual sector). It also underlines the importance of cultural variety in its action under other provisions of the Treaty. Moreover, the Protocol on the System of Public Broadcasting, attached to the Treaty of Amsterdam specifies how the Treaty rules are applied in that area.¹²

⁷ COM (84) 300 “Green paper on the establishment of the Common Market for Broadcasting, especially by Satellite and Cable”, the 14th of June, 1984.

⁸ COM(97)623, “Communication to the European Parliament, the Council, the Economic and Social Committee and the Committee of the Regions”, the 10th of March, 1999.

⁹ COM (99) 657, “Principles and Guidelines for the Community’s Audiovisual Policy in the Digital Age. Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions”, the 14th of December, 1999.

¹⁰ The Maastricht treaty, the 7th of February, 1992.

¹¹ EC Treaty, the 24th of December, 2002.

¹² Protocol N832 on “the system of public broadcasting in the Member States” annexed in 1997 to the Treaty of Amsterdam.

The actions adopted in three main areas are:¹³

1. a regulatory framework allowing to realize the European single market for broadcasting and to aim at protecting minors from access to harmful audiovisual content,
2. European level support mechanisms, complementing the systems existing at national level,
3. external measures, mostly aimed at the defence of European cultural interests in the World Trade Organization's context.

The "Television without Frontiers" directive (89/552/EEC) adopted on 3 October 1989 by the Council¹⁴ and amended on 30 June 1997 by the European Parliament and the Council Directive 97/36/EEC¹⁵ aims to encourage and diversify European film production and to certify those productions a minimum of market access with regard to broadcasting rights. According to this Directive, EU Member States are obligated to ensure that broadcasting organisations have a majority of European works on their national broadcasts- "whenever it is practicable". The Directive, aiming to promote independent audiovisual productions (independent from broadcasting organisations) also notes, that the Member States must certify "whenever it is practicable" that a minimum of 10% of broadcaster's programming budget must be devoted to the acquisition or commissioning of independent European productions ("quotas"). The directive also ensures that events which are of major importance for society of a Member State cannot be broadcasted in such a way that a substantial part of the population of that Member State is deprived from seeing them. To sum up, this Directive provides for the Community coordination of national legislation in the following areas:¹⁶

- law is applicable for television broadcasts;

¹³ http://ec.europa.eu/comm/avpolicy/reg/index_en.htm

¹⁴ Council Directive 89/552/EEC on the "coordination of certain provisions laid down by Law, Regulation or Administrative Action in Member States concerning the pursuit of television broadcasting activities", the 3rd of October, 1989.

¹⁵ Directive 97/36/EC of the European Parliament and the Council amending Council Directive 89/552/EEC on the "coordination of certain provisions laid down by law, regulation or administrative action in Member States concerning the pursuit of television broadcasting activities" of 30th of June, 1997.

¹⁶ http://ec.europa.eu/comm/avpolicy/reg/tvwf/index_en.htm

- promoting the production and circulation of European works;
- access of the public to major (sports, concerts) events;
- television sponsorship and advertising;
- protection of minors;
- right of the reply.

2.2. EUROPEAN LEVEL SUPPORT MECHANISMS FOR FILM DISTRIBUTION AND EXHIBITION

2.2.1. MEDIA SUPPORT

Financial support measures have been adopted in order to encourage the European industry to take advantage of the European single market. Consequently, the MEDIA I programme (1990-95) was adopted by the Council in 1990. As a result of the positive outcomes of this programme, the MEDIA II (1996-2000) programme was adopted, focussing on training, development of audiovisual projects and distribution. The MEDIA II was a great success, because the number of European films distributed outside their country of origin increased from 14% in 1996 to over 22% in 1999. Finally, there was the Council's decision 2000/821/EC of December 2000¹⁷ for the programme of MEDIA Plus (2001-2006), which is currently in force. MEDIA Plus with a total of € 400 million budget makes funds (57.5% of the total MEDIA budget) available to support the distribution of EU films outside their country of origin. Generally, nine out of 10 film distributed outside their country of origin benefited from MEDIA Plus support.¹⁸

The MEDIA program provides financial supports for the production, distribution and promotion of European audiovisual works, whether it is fiction (cinema and television), creative documentaries, animation or multimedia.¹⁹ Additionally it aims to encourage digitization and networking, as well as to help to develop the sector in countries or regions that have a low audiovisual production capacity and have linguistically or

¹⁷ Council Decision 2000/821/EC of the 20th of December 2000, "Implementation of a programme to encourage the development, distribution and promotion of European audiovisual works (Media plus-development, distribution and promotion).

¹⁸ http://ec.europa.eu/comm/avpolicy/media/index_en.html

¹⁹ http://europa.eu.int/comm/culture/portal/activities/cinema/c_distribution_en.htm

geographically restricted market. The MEDIA program is eligible to the following countries: the 25 EU member states and Norway, Iceland, Lichtenstein, Bulgaria²⁰ and Switzerland²¹.

The **programme aimed for the development and distribution** accounts for about 57.5% of the MEDIA program total budget and it is aimed for the distribution of audiovisual works' area. There are several schemes in order to obtain funding:²²

- The automatic scheme

It aims to encourage investment in European films that originate outside from the distributor's home country (non- national). The scheme is designed in two stages: first, a subsidy based on the number of admissions for recent non- national European films is provided and afterwards the funds generated from this area are reinvested in co-production, minimum guarantees and distribution expenditures of new European non-national films.

- The selective scheme

It aims for the groups of at least three distributors, operating in different country markets, which plan to distribute a recent non- national European film. The funding goes for promotion, publicity, print production expenditures and overheads. A distributor can secure up to € 31,000 for dubbing and subtitling and an interest- free loan repayable from the distributor's net returns from the theatrical release during one year. The maximum financial funding is 50% of the distribution budget or maximum of € 158,000 per distributor.

- Sales agents

It aims at companies, which specialize in international distribution to provide financial support for further reinvestment in new European films. This scheme is designed in two stages; the grants depend on the agent's activity in international film sales during the last four years. MEDIA Plus also considers the number of paying admissions sold by European distributors for those films outside the main country of production during a period of one year. The funds generated by these grants later can be reinvested in

²⁰ "MEDIA", Screen international, February, 2004, p. 8-10.

²¹ <http://europa.eu.int/rapid/pressReleasesAction.do?reference=IP/06/413&format=HTML&aged=0&language=EN&guiLanguage=en>

²² Ibid., p. 10.

minimum sales guarantees as well as promotion and marketing costs of new non- national European films.

- Video and DVD publisher

This scheme consists of two stages as well. A grant awarded is based on the European video/DVD publisher's net revenues from the sale of recent non- national European films (fiction, documentary or animation of minimum 50 minutes) during the specific period of time. The stated net revenues are afterwards adjusted towards encouraging sales of films from smaller markets. The amount received is then reinvested in the costs of producing and promoting new non- national European works on DVD or on video. The grant for this is 30% of the adjusted certified net revenues up to € 210,000.

Independent TV production companies with a program not intended for theatrical release (animation and creative documentary for minimum 25 minutes and fiction minimum 50 minutes) can also receive financial support. Distributor and two broadcasters from at least two MEDIA member states in different language zones should contribute half of the finance. A grant could be of maximum 12.5% of the budget for animation and fiction and a maximum of 20% of the budget for documentaries is available (maximum of € 523,000).

There is also the Decision n°163/2001/EC of the European Parliament and of the Council of 19th of January, 2001²³ for **the Media Training Programme**, which aims to train audiovisual professionals and to increase co- operation among the European training providers. The applicants for the financial support can be film and television schools, audiovisual production, distribution companies, specialized professional organizations and training centres.

The promotion and market access programme (8.5% of the total Media Plus budget) aims to facilitate the audiovisual works' participation in major European and international events and also to encourage co- operation between European promotion operators. The grant could be available for the projects of an event, which aims to improve the access of professionals to industry markets, trade shows, including co- production and financing initiatives and events. The funding for festivals organizers

²³ Decision N°163/2001/EC of the European Parliament and the Council of 19th of January, 2001 "Implementation of a training programme for professionals in the European audiovisual programme industry".

covers expenditures in promotion and advertising, equipment hire, subtitling and translation and print transport. In order to be eligible for financial support the festival must be a part of festivals' network and screen at least 70% European films from at least six different MEDIA Program member states.²⁴

The aim of **the Pilot project programme** (5% of the total MEDIA plus budget) is to support the use of new digital technologies in the European audiovisual sector in the areas of distribution and exhibition by, for example, helping companies to digitize content and archives. The participation of several partners from different European countries is required in order to be eligible to apply.²⁵

2.2.2. EUROPA CINEMA

Media has a specific programme, which is managed by “Europa Cinemas”, an intermediary organisation, meant to support the network of cinemas exhibiting European films.

“Europa cinemas” network is present in 325 European cities and supports 597 cinemas with total number of 1 402 screens. “Europa cinemas” gives support to cinema exhibitors in order to encourage the showing of European films and particularly European non national films, and also to encourage the initiatives for Young Audiences. At present “Europa cinemas” tries to extend their activities by introducing digital cinema in cinemas, by organizing several regional conferences on digital cinema and by offering support for showing films in digital format²⁶.

There is also a possibility for some projects to receive funding from the e- Content program, which aims to encourage the digital content market, by involving the creation of audiovisual databases and development of tools to facilitate, for example, searches for information in several languages or the subtitling of audiovisual works.²⁷ The User-friendly information society program funds the development of Internet platforms incorporating the management of video data. Although, still the global standards should be set for the launch of electronic cinema and for the international distribution of

²⁴ “MEDIA”, Screen international, February, 2004, p. 7.

²⁵ “MEDIA”, Screen international, February, 2004, p. 9.

²⁶ <http://europa.itnetwork.fr/en/programmes/media/index.php>

²⁷ <http://www.cordis.lu/econtent/>

European digitized works²⁸. A European Digital Cinema Forum was set up in 2001 in order to work on establishing the common standards and towards developing and understanding this new market.

Moreover, there also could be financial support possibilities from the EU Structural Funds under the regional development activities for the projects, which involve the installation of equipment for audiovisual or multimedia services.²⁹

The 27 participating countries are: United Kingdom, Austria, Belgium, Bulgaria, Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Latvia, Liechtenstein, Luxemburg, the Netherlands, Norway, Poland, Portugal, the Republic of Slovenia, the Slovak Republic, Spain, Sweden and Lithuania.³⁰

2.2.3. EURIMAGES

Eurimages is a Council of Europe fund for the co- production, distribution and exhibition of European cinematographic work. Currently it is available for Bulgaria, the Czech Republic, Hungary, Poland, Romania, the Slovak Republic and Turkey.³¹ The Eurimages programme complements the European Union's audiovisual programme MEDIA Plus, by making aid available to those European countries, which are not eligible for the Community programme.

Eligible distribution companies must be wholly independent from any broadcaster organisation. The distributed film must be produced either by one single producer from a member state of Eurimages or have no less than 50% of co- producers from Eurimages member states. Additionally, the director must be European, and the film itself must be "European" under the conditions laid down by the European Convention on Cinematographic Co- production.

²⁸ http://europa.eu.int/comm/culture/portal/activities/cinema/c_distribution_en.htm

²⁹ Ibid.

³⁰ "MEDIA", Screen international, February, 2004, p.12.

³¹ Michel Gyory "Making and distributing films in Europe: the problem of nationality", European Audiovisual Observatory, January 2000.

2.3. EUROPEAN COMMUNITY'S COMPETITION POLICY AND CASE LAW

The European Community's competition policy's goal is to protect and develop effective competition in the common market. The legislative framework of European competition policy is provided by the EC Treaty articles 81- 89. Further rules are created by the Council and Commission regulations.

The Article 81 of the EC Treaty applies to agreements, that might affect trade between Member States and which prevent, restrict or distort competition. The first requirement for the Article 81 to apply is that the agreements in question are capable of having an appreciable effect on trade between Member States. When this requirement is met, Article 81 (1) prohibits agreements which appreciably restrict or distort competition.³²

1. The Article 81(1) of EC Treaty provides that *“The following shall be prohibited as incompatible with the common market: all agreements between undertakings, decisions by associations of undertakings and concerted practices which may affect trade Member States and which have the object or effect of the prevention, restriction or distortion of competition within the common market... ”*, and in particular those which.³³

Direct or indirect fixing of purchase, selling prices or any other trading conditions; limiting or controlling production, technical development, markets, investment; sharing markets, sources of supply; application of dissimilar conditions to equal transactions with other trading parties, thus placing them at a competitive disadvantage; and making the conclusion of contracts subject to acceptance by the other parties of supplementary obligations which, by their nature or according to commercial usage, have no connection with the subject of such contracts is forbidden.³⁴

³² EC Treaty, Article 81.

³³ Cf. Article 81 EC Treaty.

³⁴ EC Treaty, Article 81.

As an exception to this provision, Article 81 (3) provided that: “ *The provisions of paragraph may however, be declared inapplicable in case of any agreement..., any decision..., any concerted practice..., which contributed to improving the production or distribution of goods or to promoting technical or economic progress, while allowing consumers a fair share of the resulting benefits and which does not impose restrictions which are not indispensable to the attainment of these objectives and do not afford such undertakings the possibility of eliminating competition in respect of a substantial part of the products concerned*”..³⁵

From 1980 to 1990s delivered a number of decisions on various agreements between undertakings in the audiovisual sector. Several of these decisions concern agreements on the conditions for awarding operating licenses for the use, distribution and commercialization of television or cinema productions. As it was the case with decisions in UIP³⁶, Film purchases by German television companies³⁷, Film purchases by French television companies³⁸ and those concerning more specifically the rights for broadcasting sports programmes such as Screensort/ Members of the EBU³⁹ and the EUFA⁴⁰.

On 1st of June, 2000 new European competition rules on distribution and supply agreements, known as “vertical agreements” entered into force. Vertical agreements are agreements for the purchase and sale of goods or services that are entered into between companies operating at different levels of the production or distribution chain.

³⁵ Cf. Article 81 EC Treaty.

³⁶ 89/467/EEC: Commission Decision of 12 July 1989 relating to a proceeding pursuant to Article 81 of the EEC Treaty (IV/ 30.566- UIP), Official Journal L 226, 8th of March, 1989, P. 0025- 0034.

³⁷ 89/536/EEC: Commission Decision of the 15th of September 1989 “Film purchases by German television stations” Official Journal L 284, 3rd of October 1989, p. 36.

³⁸ 298/83 Commission Decision of the 28th of March 1985 “abuse of a dominant position- broadcasting of cinematographic films on television”,
http://europa.eu.int/smartapi/cgi/sga_doc?smartapi!celexplus!prod!CELEXnumdoc&lg=EN&numdoc=683J0298.

³⁹ 91/130/EEC of the 19th of February 1991, Screensport/ Members of the EBU, Official Journal L 63 of the 9th of March 1991, p. 32.

⁴⁰ Commission Decision of the 23rd of July, 2003, Official Journal L 291, the 8th of November 2003, p. 25.

Distribution agreements among manufacturers and retailers are typical examples of vertical agreements.⁴¹

Vertical agreement, that simply determine the price and quantity for a specific sale and purchase transaction do not normally restrict competition, whereas a restriction of competition may occur if the agreement contains restraints on the supplier or the buyer. The examples of such vertical restraints could be an obligation on the buyer not to purchase competing brands (non- compete obligation) or an obligation on the supplier to only supply a specific buyer (exclusive supply).

Vertical restraints might also have positive effects, though whether a vertical agreement actually restricts competition and whether in that case the benefits outweigh the anti-competitive effects often depend on the market structure. Therefore, the individual assessment on each case is required. Therefore, the Commission has adopted Regulation (EC) No 2790/1999, “the Block Exemption Regulation”, which entered into force on 1st of June, 2000.⁴² This regulation renders by block exemption the prohibition of Article 81 (1) inapplicable to vertical agreements entered into by companies with market shares not exceeding 30%. The Commission has also published the “Guidelines on vertical restraints”⁴³, which describe the approach taken towards vertical agreements not covered by the “Block exemption regulation” (BER).

The BER contains certain conditions, which had to be fulfilled before it renders the prohibition of Article 81 (1) inapplicable for a specific vertical agreement. The first condition is that the agreement does not contain any of the hardcore restriction set out in the BER. The second requirements concerns that a vertical agreement covered by the BER if the supplier of services does not have a market share exceeding 30%. Thirdly, the BER contains conditions relating to three specific restrictions.

The BER has five hardcore restrictions, which lead to the exclusion of the whole agreement from the benefit of the BER, even if the market share of the supplier or buyer is below 30%.

⁴¹ European Commission on Competition policy in Europe “The competition rules for supply and distribution agreements”, Office for Official Publications of the European Communities, Luxembourg, 2002, p. 4.

⁴² Commission Regulation (EC) No 2790/1999- the European Commission’s Block Exemption for Vertical Agreements, the 29th of December, 1999.

⁴³ Commission notice- Guidelines on Vertical Restraints, Official Journal C 291, the 13th of October 2000, P. 0001- 0044.

- 1) Resale price maintenance: a supplier is not allowed to fix the price at which distributors can resell his products (though, the imposition of maximum resale prices or the recommendation of resale prices is normally not prohibited).⁴⁴
- 2) Restrictions concerning the territory into which the customers or to whom the buyer may sell, since distributors must remain free to decide where and to whom to sell. The BER allows exceptions to this rule, which, for example, enable companies to operate in exclusive distribution system or a selective distribution system.⁴⁵
- 3) Concerns selected distributors, which can in no way be restricted in the end- users to whom they may sell. Selective distribution also cannot be combined with exclusive distribution, with the exception that it is allowed to apply a location clause: the supplier may commit itself to supply to only one distributor in a given territory and can require the distributor to sell only from a given location.⁴⁶
- 4) The selected distributors must remain free to sell or purchase the contract goods to or from other appointed distributors within the network (they cannot be forced to purchase the contract goods exclusively from the supplier).⁴⁷
- 5) Concerns agreements, which prevent or restrict end- users, independent repairers and service providers from obtaining spare parts directly from the manufacturer of the spare parts.⁴⁸

The BER applies to all vertical restraints other than the abovementioned hardcore restraints, although it also imposes specific conditions on three vertical restraints: non-compete obligations during the contract; non-compete obligations after termination of the contract and the exclusion of particular brands in a selective distribution system. When the conditions are not fulfilled, these vertical restraints are excluded from the exemption by the BER.

Horizontal co- operation agreements are also regulated by EC community law and falls under the Article 81 of the EC Treaty (2001/C 3/02). A co- operation is considered of a

⁴⁴ Ibid., p. (47- 48).

⁴⁵ Ibid., (49-52).

⁴⁶ Commission notice- Guidelines on Vertical Restraints, Official Journal C 291, the 13th of October 2000, P. 0001- 0044 (53-55),

⁴⁷ Ibid., (53-55).

⁴⁸ Ibid., (56).

“horizontal nature” if an agreement or concentrated practice is entered into between companies operating at the same level(s) at the market. Mostly, horizontal cooperation amounts for cooperation between competitors.⁴⁹

Horizontal cooperation might lead to competition problems. For example, if the cooperating parties agree to fix prices or output, to share markets, or if cooperation allows the parties to maintain or gain market power and thereby causes negative market effects with respect to prices, output, innovation, variety of products and etc. On the other hand, horizontal cooperation might lead to notable economic benefits, such as sharing risks, saving costs, pooling know-how and launching innovation faster. Particularly, small and medium-sized enterprise cooperation is beneficial for adapting to the changing market place.⁵⁰

Therefore, the Article 81 provides the legal framework for a balanced assessment taking into account both: anti-competitive effects and economic benefits. Economic benefits, fair share for the consumers, indispensability, and no elimination of competition are looked at when analyzing the competitive impact of companies involved in horizontal co-operation.⁵¹

Article 82 EC indicates, “*Any abuse by one or more undertakings of a dominant position within the common market or a substantial part of it is prohibited as incompatible with the common market in so far as it may affect trade between Member States*”.⁵² There are two conditions, which fall under these provisions: first, being the existence of a dominant position, secondly abusing the dominant position. Consequently, not the size itself, but the abusive behavior is prohibited by Article 82.⁵³

The EC Treaty article 81 (the exemption) and the undertaking of United International Pictures⁵⁴

⁴⁹ Commission Notice- Guidelines on the applicability of Article 81 of the EC Treaty to horizontal cooperation agreements, Official Journal C 003, the 6th of January, 2001, P. 0002-0030.

⁵⁰ Ibid.

⁵¹ Ibid.

⁵² Cf. Article 82 EC Treaty

⁵³ Korah, V., “Introduction to EC Competition Law and Practice”, Hart Publishing, the 7th edition, p. 80.

⁵⁴ 89/467/EEC: Commission Decision of 12 July 1989 relating to a proceeding pursuant to Article 81 of the EEC Treaty (IV/ 30.566- UIP), Official Journal L 226, 8th of March, 1989, P. 0025- 0034.

The first notification of UIP (a joint subsidiary of the American company Paramount Communications Inc., the Japanese company MCA Inc. and the French company Metro Goldwyn Mayer Inc.) agreements was made to the Commission on the 11th of February 1982. The Commission considered, after a preliminary assessment of the agreements, that restrictions of competition falling under Article 81 (1) resulted both from the creation of a joint venture itself and from certain provisions in the UIP agreements, above all some exclusivity clauses. Consequently, the proceedings were opened against UIP on 21st of May, 1985.

The modifications by the ECJ made were meant to ensure the highest possible level of the autonomy for the UIP partners within the EU member countries. The exclusivity provisions were limited in their effect, because they only gave UIP a right of first refusal to the partner's films, meaning that the partners must offer their films first to UIP for distribution in the EU, rather than making UIP the only possible distributor. If UIP decides not to distribute a film, the parent company should be allowed to require UIP to distribute the film itself or to use a third party.

There was also a note about the establishment of an arbitration procedure, which is a practical means of solving common cinema industry problems, such as allocation of films and access to the exhibitor's screens. The arbitration practice was mostly beneficial for small independent exhibitors.

The renewed exemption was provided after having examined the complaints, carrying investigation about UIP premises and possible anti-competitive behavior when no evidence was found about UIP's anti- competitive practices.

UIP does not seem to provide the partners with any value added tool by coordinating the fixed film release dates in the market. Moreover, film is a heterogeneous product, which is a risk reducing element of an anti- competitive co- ordination of release dates. Furthermore, a considerable number of players in the European market (independent producers, distributors and exhibitors) brought evidence of UIP's efficient performance and proper commercial behavior. Moreover, the Commission found that UIP performed only moderately over the period during the first exemption. In 1989 UIP's average EU market share was 22%, in 1997 it was 13% and in 1998 it was 17%. Therefore, the

exemption was given under the article 81 (1). Though, several new changes were made to the UIP agreements:

- the UIP's right for the first refusal to distribute partner's films in the EU is now applied on a Member State basis, rather than for the whole EU territory. The agreement was made less restrictive on competition, because in countries where UIP did not distribute a partner's film, alternative distributors could be used.

- the UIP was no longer required to make its best efforts to maximize each partner's profits for each film distributed by UIP.

On 9th of September 1999, the Commission renewed the exemption from 1989 under Article 81 (3) of the EC treaty of the agreements establishing UIP, because it only contributed towards improving the distribution of goods (especially during economic downturn for cinema business years) and allowed consumers to benefit as well.⁵⁵ The Commission has reserved the right to re- examine the UIP exemption in every 5 years by issuing the comfort letter.

The case therefore shows an example how ECJ tries to monitor the fair competitive situation in the film distribution industry in Europe and how horizontal agreements and vertical integration agreements might be more beneficial than distorting competition. The practice of the fixed film release dates with all the exhibitors who show UIP distributed films, normally could hinder the article 81 (1), though taking into consideration the economically downturn situation present at that time in the industry and the heterogeneous origin of the product this practice was exempted by 81 (3). Moreover the change of the UIP's right for the first refusal to distribute their partner's movie into a possibility to refuse, but then still to find a third party to distribute film in the EU member state was also made in order to make the competition less restrictive.

⁵⁵ Organisation for economic co-operation and development, "Competition policy and film distribution" 1996, Paris, p. 63.

2.4. ELEMENTS OF LEGAL ISSUES AND PRACTISES AT NATIONAL LEVELS IN EUROPE

The Danish Competition Authority decided that an agreement concluded by the Association of Danish Film Distribution (FAFID) and Danish Cinemas (DB), comprising almost all film distributors and cinemas in Denmark should be changed. According to the agreement, the cinemas were not allowed to lower the ticket prices, nor to use free tickets or any other types of discounts without consulting the film distributors prior. Therefore, a cinema could not compete on prices against the wishes of the distributor, because the latter one could refuse to deliver new films to cinema. Therefore, this was a competition restrictive measure, not allowing the cinemas to decide how to compete for customers themselves⁵⁶.

Moreover, the agreements included possibilities for film distributors collectively to punish the individual cinema, for example, by stopping the delivery of films if the cinema had financial difficulties. Therefore, this possibility was eliminated by the Danish Competition Authority, because it has to be up to the individual film distributor to decide whether it wants to distribute films for a given cinema. Consequently, the FAFID was permitted to inform the individual film distributor about cinemas' failure to pay, etc.⁵⁷

In the **Cecchi Gori- Safin** case in January 1995 by the Italian Authorities the acquisition of the controlling interest in the Safin Cinematografica Spa company by the Cecchi Gori Group were concluded to be a failure, because of not submitting a prior merger notification. The Authority pointed out that the Cecchi Gori group, which already owned a control stake in the Teseo Cinema Srl cinema circuit, after the acquisition controlled about 50% of all the cinemas in Rome as a result of the acquisition. The Authority noted that such market position could enable the Cecchi Gori group to act independently of suppliers and consumers. The only remaining exhibitor able to effectively compete with the Cecchi Gori circuit was the Cinema 5 circuit, which then

⁵⁶ Annual report on competition law and policy in Denmark, p. 4.

⁵⁷ Ibid., p. 5.

owned 33% of the cinemas in Rome. Simultaneously, the Authority noted that other exhibitors in the market might eventually be able to set up a third competing circuit. At the time of the investigation, about 30 cinemas' licences for cinemas, which had been closed down over the years were available in the city of Rome for any other exhibitors wishing to purchase them. On this basis, the Authority ruled that through this acquisition, the Cecchi Gori group had obtained a dominant position in the city of Rome which did not seem to be likely to eliminate or substantially reduce competition on a lasting basis in view of the actual and potential structure of the market. The operation was therefore found to be lawful, in compliance with section 6 of the Act⁵⁸.

In the Cecchi Gori case, it could be seen, that distortion of competition by a dominant position is also controlled by national laws and authorities, but the present economical downturn situation in the sector at that time might also be taken into account (similar issue with the case of UIP). Therefore, mostly by creating a dominant position, exploiting the economies of scale, know-how might not distort competition fiercely, especially until the industry sector gets more economically buoyant.

2.5. PERSPECTIVES FOR FURTHER LAW CONSOLIDATION AT THE EUROPEAN LEVEL

Regulatory impediments on the circulation of European films

Agreement on censorship coordinated at the European single market level and if there was one certification authority for the whole of the European Union it would be ideal for the European film industry, although cultural differences prevent this for the foreseeable future.

Enforcement of copyright to fight video, Internet piracy are also important elements when considering regulations in order to improve circulation of European films. Hence,

⁵⁸http://www.agcm.it/agcm_eng/RELAZ/ANNRPT94.NSF/ddbc47e23dd55f7fc125650e0048aff3/f5be66c766c1bcadc12564d6004d093e?OpenDocument

the European commission initiative to draft a directive aimed at improving copyright enforcement at European level should be really useful.⁵⁹

Media windows⁶⁰

In several European countries there exists a legislated “windows”, such are the mandatory periods, which dictate at which point a film might move from one media to another (cinema, video, television). Such windows are aimed to promote the life of a movie. Though, in reality they deny distributors the ability to promote and distribute each movie on its individual merits and thus they have a detrimental impact on the growth and livelihood of the audiovisual industry.

The issue of Media windows was already raised in the European Community level with the case law of **The NFC (Nederlandse Federatie voor Cinematografie) vs Commission case⁶¹**

Where the final decision of Commission was to leave the chronology of windows at the national level. Where, in case of Netherlands each film first should be distributed and exhibited in the cinemas, then, after the six month period it could be distributed in the form of VHS, DVD and in art cinemas. After the 12th to 21st month period the film could be distributed for the pay- television and finally after 24 months the film could be distributed and shown in free television.

The timing of the subsequent media releases needs flexibility too in order to ensure that the individual Members State market needs are addressed. Cultural differences exists: in cinema- going habits, national holidays, film festivals, etc., leading to the conclusion, that films must often be released at different times throughout the EU in order to gain maximum exposure. Even climatic differences across the EU dictate separate release

⁵⁹ European Film Companies Alliance, “Response to the Commission’s staff working paper on certain legal aspects relating to cinematographic and other audiovisual works (SEC (2001)619- 11/4/201), the 28th of June, 2001, p. 5.

⁶⁰ Motion Picture Association, “Submission in response to the Commission Working Document on Certain Legal Aspects Relating to Cinematographic and Other Audiovisual Works”, 2001, p. 9.

⁶¹ Organisation for economic co-operation and development, “Competition policy and film distribution”, 1996, Paris, p. 62-63.

patterns, for example, in such countries like Italy a substantial number of cinemas close down completely during the July- August period.⁶²

⁶² Motion Picture Association, “Submission in response to the Commission Working Document on Certain Legal Aspects Relating to Cinematographic and Other Audiovisual Works”, 2001, p. 10.

3. GENERAL MARKET SITUATION IN EUROPE

3.1. GENERAL MARKET SITUATION

According to the European Audiovisual Observatory 764 films were produced and distributed in the 25 EU Member States (689 films among the EU 15) in 2004 (2% growth since 2003). Admissions in the 15 EU member states were above 1 billion (6% increase since 2003). Number of screens was approximately 28 970 in 2003 (the latest data available) with 9 887 of the screens in multiplexes (EU 25). Solid results in the major markets were the major contributors to the overall total of 1 billion with a prominent growth registered in several countries, such as France (+12.3%), Italy (+9.5%), Germany (+5.2%), Spain (+4.7%) and the United Kingdom (+2.4%). The new EU member state Poland experienced 33.4 million admissions with a significant 40% increase since 2003. Cinema attendance in Austria also grew by 9.4% when comparing with an unsuccessful year of 2003. Among the Nordic and Baltic markets, Danish cinema attendance grew by 4% and Latvian cinema attendance by 45% respectively.⁶³

Table 1: Produced full-length films, number of screens and admissions (€ M) in Europe

	Produced full-length films	Screens	Admissions (M) ⁶⁴
1999	669	24 527	870
2000	661	24 921	896
2001	718	24 862	996
2002	723	28 495	1 000
2003	750	28 970	950
2004	764	-	1 005

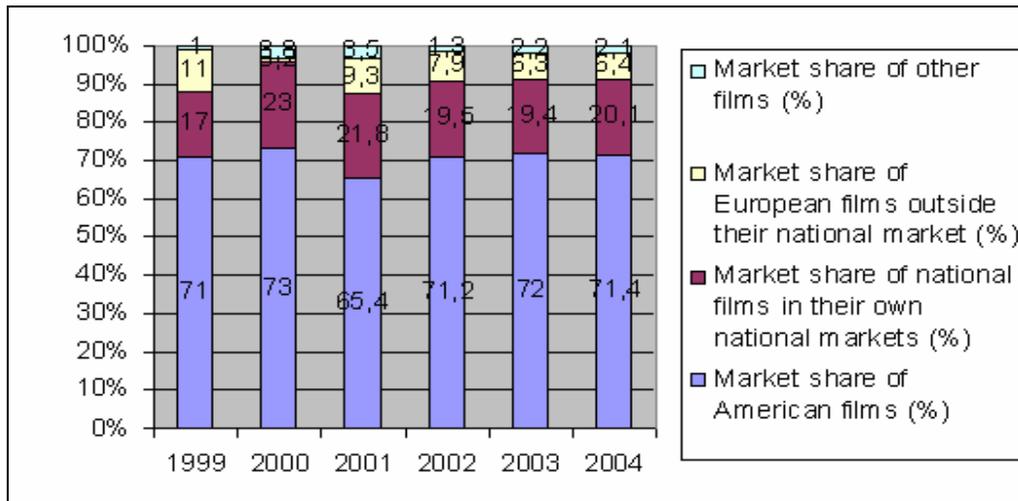
According to European Audiovisual Observatory, European films accounted for around 26.3% of total admissions in the 25 European Union countries in 2004, similarly as in

⁶³ Tendances du marché mondial du film, Focus 2005. Observatoire Européen de l'audiovisuel. Marche du film, p. 21.

⁶⁴ Ibid., p.35.

2003 (25.7%). European films were particularly strong in a number of the major markets, such as German films in Germany and French films in France. In the United Kingdom the admissions share for local films also moved ahead, from 10.2% in 2003 to approximately 23.6% in 2004. The overall market share for American films in the 25 Member States stood at around 71.4%, again similarly as in 2003 (71.1%).

Figure 1: Market shares of films by their origin in Europe



In general the distribution and exhibition sectors, numbers grew with larger turnovers. Across Europe, French companies were outstanding in addition to the US majors (Pathé, UGC, Europalaces and Canal+), indicating the continuing strength of the French film industry. French companies were also outstanding in the top 15 European film production companies. Only six non- single- purpose UK companies could be identified in the top 50 European film production companies in 2002. There were 455 companies within the film and video distribution area (growth by 28% since 1996) and 200 companies within the film exhibition area (growth by 29% since 1996).⁶⁵

⁶⁵ UK Film Council Statistical Yearbook, Annual review 2004/05, p. 87.

Table 2: Top 15 film companies in Europe, 2003⁶⁶

	Company	Activities ⁶⁷	Country	Revenues € M in 2002
1.	Walt Disney International	DISFILM, DISTV, RIGHTS, VID	UK	1,302,582
2.	Time Warner Entertainment	DISFILM, DISTV, VID	UK	938,698*
3.	Group Pathé	EXH, DISFILM, VID, RIGHTS, TV, PRODFILM	FR	631,000
4.	United International Pictures BV	DISFILM	NL	545,093
5.	Embassy Eagle Holdings	PRODFILM, DISFILM	NL	526,763
6.	UGC	EXH, DISFILM, VID, RIGHTS, PRODFILM	FR	523,752
7.	United Cinemas Intl Multiplex BV	EXH	NL	429,879
8.	Europalaces	EXH	FR	380,019
9.	Group Canal+	PRODFILM, RIGHTS	FR	351,000
10.	Egmont Nordisk Film	DISFILM, VID	SE	345,285
11.	RAI Cinema	PRODFILM, RIGHTS	IT	311,252
12.	Odeon	EXH	UK	283,863
13.	Warner Bros. France	VID	FR	275,306*
14.	Medusa Film	PRODFILM, DISFILM, EXH, VID	IT	262,479*
15.	Bavaria Film Gruppe	PRODFILM, PRODTV	DE	255,500

⁶⁶ UK Film Council Statistical Yearbook, Annual review 2004/05, p. 91.

⁶⁷ Definitions: DISFILM- film distribution; DISTV- television distribution; RIGHTS- trade in television rights; VID-video; EXH- exhibition; PRODFILM- film production; PRODTV- television production; TV- television.

3.2. FILM DISTRIBUTION SECTOR IN EUROPE

It is not easy to analyse the number, market shares, the number of activities the film distribution companies are involved. There is vertical integration and overlap of activities of some major companies (production/ distribution/ exhibition). There is an overlap of distribution activities (theatrical/ video/ sales) as well. Moreover, there is non-availability of comprehensive financial statements in several countries (Austria, Denmark, United Kingdom, Netherlands, etc.).⁶⁸ At present there are around 400 companies in EU involved in theatrical distribution, around 300 companies involved in video distribution and approximately 50 companies in the EU involved with sales (editorial selection, international promotion, contracts).

The distribution of American films is mostly made by one joint- venture between US major companies with subsidiaries in various EU countries: United International Pictures (Paramount, Universal and previously MGM). Secondly, by National theatrical distribution subsidiaries of Walt Disney (Buena Vista), Columbia and Warner in majority of EU countries. Thirdly, by joint ventures between US majors and national companies (e.g. Gaumont- Buena Vista International, Warner Sogefilm, Columbia Tristar Egmont, etc.). Finally, American films can also be distributed by European companies (Entertainment Film Distributors, Nordisk Film, etc.).⁶⁹

The distribution of European movies could be carried out in such ways and have such tendencies. Though there is no European major (the failure of PolyGram project) it could be carried out by the distribution companies, which are integrated film groups (Pathé, UGC, Gaumont in France, Kinowelt in Germany, etc.). Secondly, by the distribution companies, which are integrated in TV groups (BAC Films/ Canal+, SND/RTL Group, Constantin/ Kirchgruppe, etc.). Thirdly, by the distribution companies, which are integrated in exhibition groups (Lusomundo in Portugal, Laurenfilm in Spain, etc.). Fourthly, by the independent production companies with distribution activities (Aurum

⁶⁸ The fragmented universe of film distribution companies in Europe, European Audiovisual Observatory, Contribution to the workshop “Distribution of European films”, Venice, the 29th-31st of August, 2003, p. 6.

⁶⁹ Ibid., p. 8.

Producciones, Eagle Pictures, etc.). And finally they can be distributed by the distribution initiatives of individual art-house theatres.⁷⁰

Figure 2: Market shares of US companies in EU market⁷¹

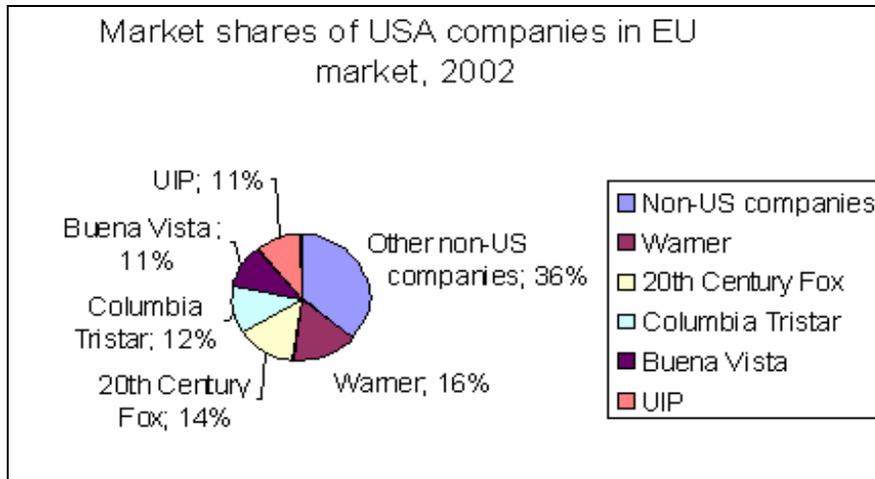
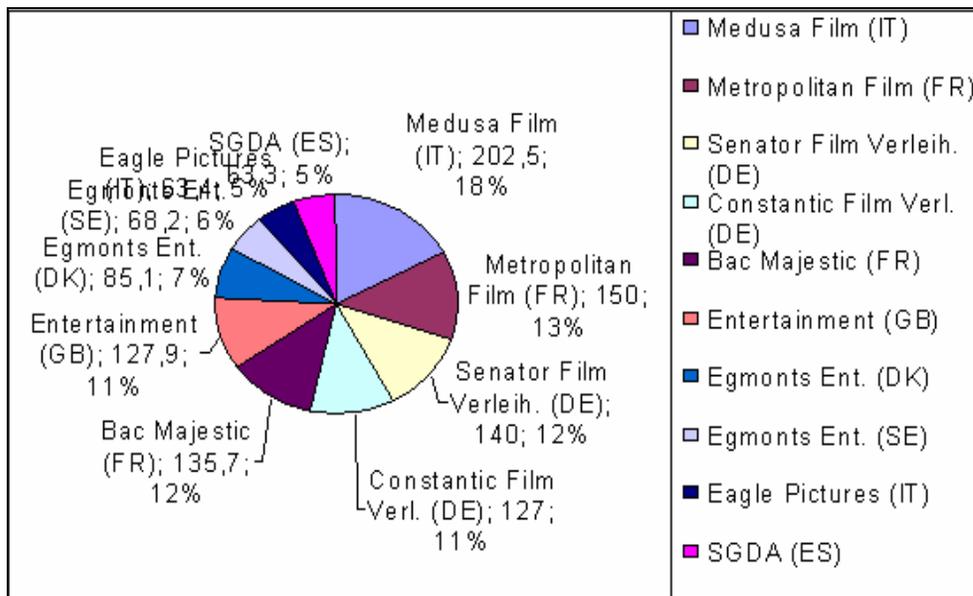


Figure 3: The top 20 European distributors (excluding companies partially or fully owned by US companies) by operating revenue (€ M)⁷²



⁷⁰ Ibid., p. 9.

⁷¹ Ibid., p. 7.

⁷² The fragmented universe of film distribution companies in Europe, European Audiovisual Observatory, Contribution to the workshop “Distribution of European films”, Venice, the 29th-31st of August, 2003, p. 15.

3.3. FILM EXHIBITION SECTOR IN EUROPE

Film exhibition sector in Europe is not that densely concentrated with US majors, in fact, only 4 companies out 13 major European exhibitors are US companies, but none of them are among the top three. France is the major player within the European exhibition sector. Some Australian, South African companies are also among the major exhibition companies in Europe.

Table 3: Leading Operators of Pan- European Cinema Circuits (2001) (ranked by number of screens) ⁷³

Company	Parent country	European Territories	Total sites	Total screens	Screens per site
UCI Cinemas	UK/US	7	85	738	8.7
UGC	France	5	82	693	8.5
Europalaces	France	3	80	667	8.3
Village Roadshow	Australia	6	49	483	9.9
Warner Bros	USA	2	37	380	10.3
Greater Union	Australia	3	46	305	6.6
National Amusements	USA	1	17	224	13.2
Kinepolis	Belgium	4	17	219	12.9
Ster Kinekor	South Africa	8	13	152	11.7
Loews Cineplex	USA	3	14	114	8.1

⁷³ Anne Jäckel “European Film Industries”, BFI, 2003. p.125.

International Theatres	Israel	3	12	108	9.0
AMC Theatres	USA	4	5	100	20.0
Minerva	Netherlands	2	21	89	4.2

Table 4: Leading European exhibitors⁷⁴

Exhibitor	Number of screens	Countries
ODEON/UCI	1 453	UK and 6 other countries
Cine-UK	763	UK
EuroPalaces	754	France and 3 other countries
UGC	507	France and 4 other countries
Kieft&Kieft (Cinestar)	478	Germany and 4 other countries
Vue (SBC)	385	UK and Portugal
CGR	352	France
CinemaxX	350	Germany and Denmark
Yelmo Cineplex	304	Spain
Kinepolis	284	Belgium and 4 other countries

3.4. FILMS ON VHS AND DVD IN EUROPE

In Europe, as everywhere else in the world there is a remarkable decline in VHS use and notable growth within the DVD sales and rentals. According to the European Audiovisual Observatory 2003 the difference between the retail turnover from 1997 till 2002 (€ M) in European countries total was: cinema + 1 468, Video – 861, DVD + 5 967. Therefore, it could be seen, that the VHS retail turnover fell quite dramatically, whereas the DVD sales and rentals grew by 27 % since 1997 till 2002. Cinema turnover grew by 52 %.⁷⁵ The European country, which buys most of DVDs is United Kingdom (in 2002 it

⁷⁴ Screenvision, pure cinema “European cinema market”, 2004. p. 8.

⁷⁵ Dr. Joachim Ph. Wolff, the presentation of the MEDIA Salles “European Cinema Yearbook- 2004 final edition”, “The relation between the turnover of Video/DVD and of cinema attendance, 13th of February, 2005. p. 5.

was € 4 042 million retail turnover on VHS/DVD sales and rentals). Then UK is followed by France with € 2 054 million in 2002 for VHS/DVD rentals and sales.

Table 5: GBO of cinemas and retail turnover of Video and DVD (rental and sales) € M, 2002⁷⁶

Country	Media	2002
Belgium	Cinemas	136
	Video/DVD	338
Denmark	Cinemas	100
	Video/DVD	282
France	Cinemas	1 028
	Video/DVD	2 054
Finland	Cinemas	53
	Video/DVD	111
Italy	Cinemas	583
	Video/DVD	569
Netherlands	Cinemas	156
	Video/DVD	542
United Kingdom	Cinemas	1 180
	Video/DVD	4 042

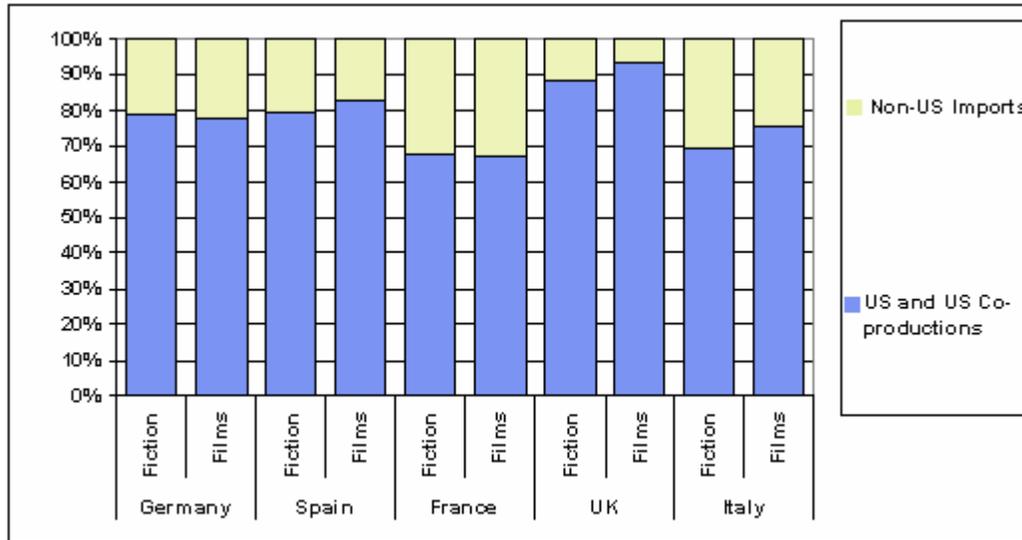
3.5. FILMS ON EUROPEAN TELEVISION

Various TV companies control theatrical/video distribution companies and/or have set up their own international sales companies. Though Canal+ project was meant to handle European theatrical distribution and a network of pay-TV companies has failed.

The United Kingdom had largest TV company revenue: € 17.3 billion in 2003, compared with Germany € 13.6 billion, with France € 10.5 billion and Italy with € 7.6 billion.⁷⁷

⁷⁶ Ibid, p. 5.

Figure 4: Volume of US- originated fiction and films imported and broadcast on television channels in the five principal European markets (2001)⁷⁸



Therefore, it could be seen that Italy and France are the two countries least dependent on imports of American origin material, with 69% of fiction imports and 75% of feature film imports into Italy coming from the USA and with 68% of fiction imports and 67% of feature films registered as of American origin in France.

3.6. EUROPEAN FILMS INTERNATIONALLY

According to the Tendances du Marché Mondial du Film European films are even less successful to travel outside the European borders- globally. In USA European films account for the 4.7% of the market share (the number grew during the last years) and co-produced US- European accounted for 9.8% of the American film market.⁷⁹ In other countries European movies are placed in the “Other films” category, therefore, it is not easy to measure at what extent do European production account for the market share and

⁷⁷ André Lange, The financial situation of television companies in the European Union (1999- 2004), European Audiovisual Observatory, Council of Europe, Strasbourg, September, 2005, p. 4.

⁷⁸ <http://www.obs.coe.int/about/oea/pr/a02vol15.html>

⁷⁹ Tendances du marché mondial du film, Focus 2005. Observatoire Européen de l’audiovisuel. Marche du film, p. 10.

at what extent, for example, Asian or African movies account in the given market share of “Other films” category. In Canada other films (non- national and not American) account for 6 % of the market.⁸⁰ In Australia they comprise for 7.7% (5.1% of them for UK) of the market share.⁸¹ In Russian Federation other films account for 7.0% of the market share.⁸² In China other films (non- national) which could also be American, European, Asian movies) accounts for 45% of the market share.⁸³ In India European movies account for 8% of the market.⁸⁴ In Japan other (non- national) films account for 62.5 of the market, but it is well known, that for other films Japanese approximately by 90% prefer American films.⁸⁵ In South Korea other movies (non national and non US) account for 4.6% of the market share. Consequently, European movies in Europe account for 26.5% of the total market share in the film sector.

European Commission tries to encourage promoting European films at a supranational level. European union Media Programme, European Film Promotion, European coordination of film festivals (ECFF) as well as Europa Cinemas and Media Salles activities together with various databases creations (Lumiere, Korda, etc.) try to foster European films distribution within Europe as well as globally.⁸⁶

⁸⁰ Ibid., p. 14.

⁸¹ Tendances du marché mondial du film, Focus 2005. Observatoire Européen de l’audiovisuel. Marche du film, p. 18.

⁸² Ibid., p. 45.

⁸³ Ibid., p. 48.

⁸⁴ Ibid., p. 49.

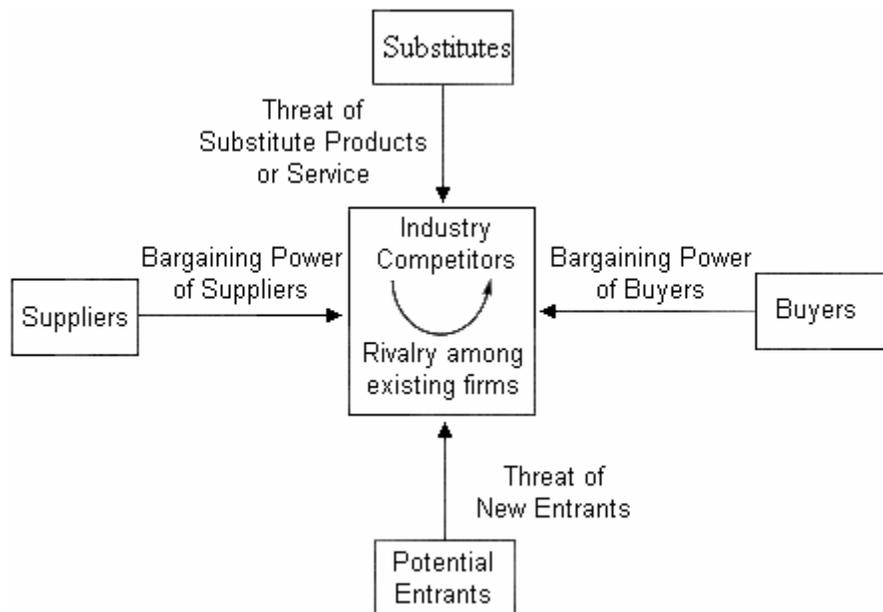
⁸⁵ Ibid., p. 50.

⁸⁶ T. Hoefert de Turégano, “Public support for the international promotion of European films”, European Audiovisual Observatory, February 2006, p. 4.

4. COUNTRY COMPARISON BY THE PORTER'S FIVE FORCES MODEL

The Porter's five- forces model is a systematic tool diagnosing the principal competitive measures in a market and assessing how strong and important each one is. Moreover, it is the most widely used technique of competition analysis. Therefore, the elements for the analysis were used according to the theory provided in this book.⁸⁷ For the summaries of these elements' impact on the competitive environments in film distribution and exhibition sectors see the Annex I. III. "Country comparison summary by the Porter's five forces model in film distribution sector" and Annex I. IV. "Country comparison summary by the Porter's five forces model in film distribution sector".

*Figure 5: The five-forces model of competition: Analytical tool for analyzing the competitive environment*⁸⁸



⁸⁷ Arthur A. Thompson, Jr., A.J. Strickland III., "Crafting and executing strategy"; McGraw-Hill Irwin, Twelfth edition, p. 79- 94.

⁸⁸ Robert M. Grant, "Contemporary strategy analysis"; Blackwell publishing, Firth edition, p. 104.

The analysis was made for the film distribution and film exhibition sectors within the chosen countries for the analysis: United Kingdom, France and Denmark. These countries were chosen, because the United Kingdom and France are the leaders in film distribution and exhibition sectors in Europe. The country of Denmark was chosen, because a smaller European country's analysis was useful in order to gain a broader understanding about these sectors' situation in Europe. Moreover, the factor, that the Author studies at Lund University, which is very close to the capital of Denmark-Copenhagen allowed to gain more efficiency in the empirical research.

4.1. FILM DISTRIBUTION SECTOR

Degree of rivalry

According to the Porter's five forces theory in pursuing a competitive advantage competition (not competition based on pricing of services or goods) firms can choose either to creatively use the channels of distributions (using vertical integration) or using a channel that is novel to the industry. Moreover, the exploitation of relationship with suppliers could be used.⁸⁹

In film distribution industry all such kind of competition towards obtaining competitive advantage is used and is definitely not a new phenomenon. The presence of vertical integration might take the form of a system of common ownership or of contractual provisions. In either case, coordination of production, distribution and exhibition backward and forward are the result, which replace or supplement the decisions that existed when competitors in these industries were acting more independently. Though, vertical relationships might be efficiency enhancing, since they have the advantage for the companies ensuring the better co- ordination of production and distribution decisions, they might also create concentration, barriers to market entry, result for more market power, make sure that their films will be exhibited, and in other ways to create disadvantages for rival companies and squeeze the competition from independent producers and exhibitors. Therefore, the margin between such vertical integration

⁸⁹ Arthur A. Thompson, Jr., A.J. Strickland III., "Crafting and executing strategy"; McGraw-Hill Irwin, Twelfth edition, p. 82-83.

improving efficiency and the one, which have a negative effect on competition could be more debatable in regards of the present industry's economic situation.

Moreover, with the technological innovations these vertical integrations extend and make it more complex with sometimes inextricably linked ownership of, for example, several film distribution sectors (cinema, video, television, etc.).⁹⁰

The vertical integration also could be backward- for example, television companies may want to control film production not because of wish to extend their profit base, but in particular to obtain a competitive advantage. By obtaining priority over its competitors the producer channel captures its competitors' audience and competes with video, moreover, it might also bring more competition between television and cinema, to the extent that the integrated producer show relatively new films on television. Meanwhile, non- integrated producers or television companies might be adversely affected. Such control of film production by television companies may benefit the integrated film producers, but it may also lead to the exclusion of certain producers who do not make films considered suitable for television audiences. It might also lead independent producers to be employed by major groups and, therefore, to lose their independence.

Moreover, the film producer's and a television network's integration might foreclose other television networks from access to the integrated film producer's films. But this should be of a little consequence if there remains a significant number of independent producers whose films are available to other networks. Such attitude applies to the analysis of access to television and other means of exhibition.⁹¹

According to the Porter's five forces model the intensity of competition can moreover be measured by:

- *Competition intensifies as the number of rivals increases and as competition become more equal in size and capability*

In United Kingdom there were 56 film distribution companies (3 of them account for 59% share of the market)⁹² in France there are 106 film distribution companies (3 of them

⁹⁰ Organisation for economic co-operation and development "Competition policy and film distribution", 1996, Paris, p. 9.

⁹¹ Ibid., P. 8- 10.

⁹² UK Film Council Statistical yearbook 2004/05, p. 35

accounted for 36.9% of the market)⁹³ and in Denmark there are 17 distributors (3 of them account for approximately 75% of the market share) in 2004⁹⁴. The Concentration Ratio was used to measure the industry concentration; therefore the three largest firms' percentage of market share was taken.

Table 6: Horizontal concentration in film distribution sector in the analysed countries

	UK	France	Denmark
Main player	UIP	Warner Bros	UIP
Market share (%)	29.8	14.8	26
Player II	Warner Bros	UIP	Sandrew Metronome
Market share (%)	14.7	11.2	25
Player III	Buena Vista International	Pathé distribution	Nordisk
Market share (%)	14.5	10.9	24
Total for three main players			
Market share (%)	59	36.9	75

The horizontal concentration phenomenon is more common in small countries, where usually one company, or a group of companies, tends to control nearly all the market. Therefore, this could be seen in Denmark, which is smallest of the analyzed countries and where three major distributors comprise for almost 75% of the market (in terms of number of admission market share). In United Kingdom, there is also a high degree of horizontal concentration of 59%. Though, here the market is substantially larger. The major player there comprises for 29.8% of the market, which makes the market to be almost monopolistic (only if the market share does not exceed 30 %- the nature of the market is considered to be more oligopolistic).⁹⁵ Therefore, as it could be seen the margin

⁹³ http://www.cnc.fr/d_stat/bilan2004/pdf/7-distribution.pdf

⁹⁴ Danish Film Institute, Facts and figures, 2005. p. 5

⁹⁵ <http://www.quickmba.com/strategy/porter.shtml>

is almost crossed. The extent of horizontal integration is lower and is least out of the analyzed countries in France, where the proportion of the market controlled by three main players is 36.9%. What is different from the exhibition concentration here is that the two major companies are not French players, but American ones. Generally, in film distribution sector there is much higher dominance of the American companies. Only Pathé distribution, Sandrew Metronome and Nordisk are owned by Europeans (in the analyzed countries' - locals). In Denmark with only few companies holding a large market share the situation is considered to be also notably competitive (closer to monopoly).⁹⁶

A high concentration ratio (market share held by the largest firms) indicates that the film distribution sector in the analysed countries is concentrated.⁹⁷ Especially, a small number of firms and almost a 100% market share taken by the major three firms indicate that the sector is very highly concentrated and therefore, competitive (as it is the case in Denmark with 17 distribution companies and three of them accounting for the 75% of the total film distribution market share in the country). In UK the situation in competition is also somewhat similar with 56 distribution companies present and three of them accounting for 59% of the total film distribution sector market share. Meanwhile, the situation of many companies equal in size and capability indicates of fiercest competition out of the analysed countries in France with 106 distribution companies present and concentration of three of them by 36.9%.

According to the Porter's five forces theory, the *slow market growth might also influence companies to fight for market share more intensively*. The market growth at the European market at the moment is particularly notable in the new EU member states (for example, in Latvia cinema attendance grew by 45% in 2004).⁹⁸ Whereas, in the analysed countries, particularly, in 2004 in UK there was a highest cinema admission level for 32 years, at € 171.3 million (2.87 per inhabitant)⁹⁹, up by 2.4% when comparing with 2003, which made UK to have the second largest admissions figure after France (€ 194.8

⁹⁶ Arthur A. Thompson, Jr., A.J. Strickland III., "Crafting and executing strategy"; McGraw-Hill Irwin, Twelfth edition, p. 79- 94.

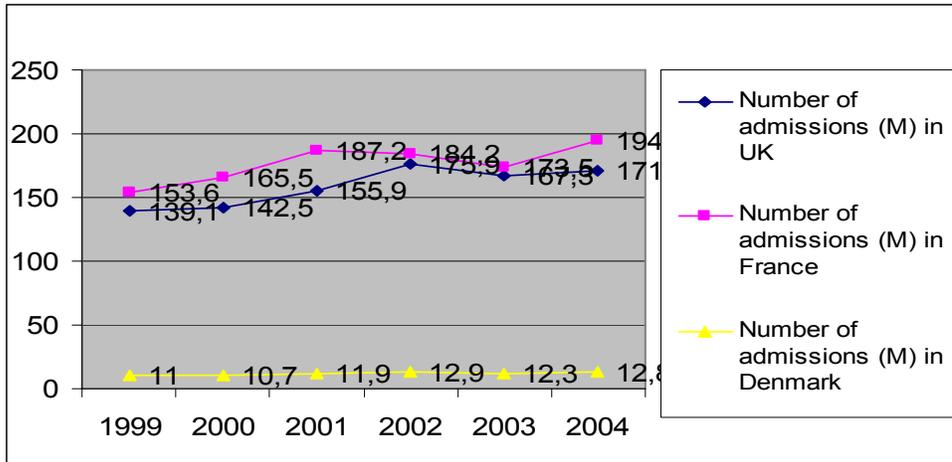
⁹⁷ Arthur A. Thompson, Jr., A.J. Strickland III., "Crafting and executing strategy"; McGraw-Hill Irwin, Twelfth edition, p. 79- 94.

⁹⁸ Tendances du marché mondial du film, Focus 2005. Observatoire Européen de l'audiovisuel. Marche du film, p. 21.

⁹⁹ Ibid., p. 39.

million) a total unequalled since 1984 and an increase 12.3%¹⁰⁰ in relation to 2003 (average admission per inhabitant was 3.13).¹⁰¹ Denmark whereas had € 12.8 million cinema admission level in 2004, which was the second highest (was higher in 2002) for decades¹⁰². The total box office receipts were € 1 229 million in UK¹⁰³, € 1 054 million in France¹⁰⁴ and € 105.2 million (up by 7.6% when comparing with 2003) in Denmark¹⁰⁵.

Figure 6: Number of admissions (€ M) in United Kingdom, France and Denmark



¹⁰⁰ Ibid., p. 23.

¹⁰¹ Ibid., p. 39.

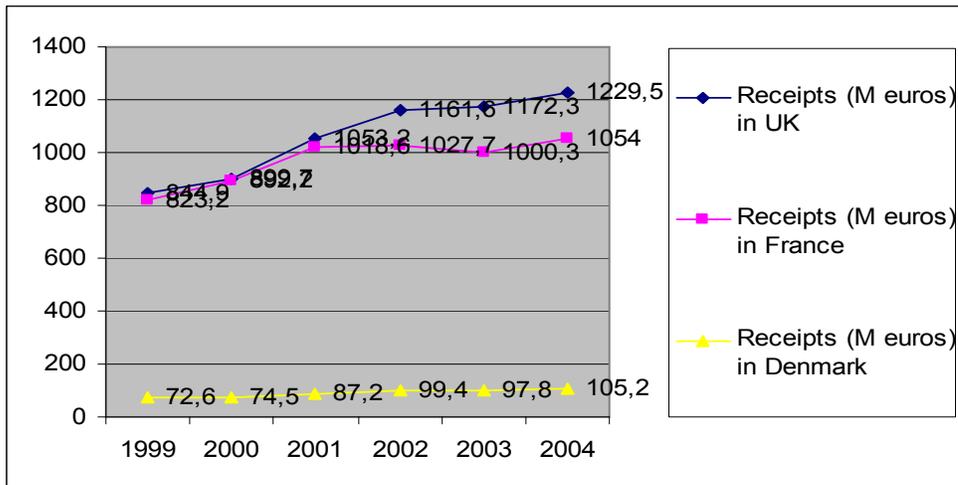
¹⁰² Ibid., p. 42.

¹⁰³ http://www.cnc.fr/d_stat/fr_d.htm

¹⁰⁴ Tendances du marché mondial du film, Focus 2005. Observatoire Européen de l'audiovisuel. Marche du film, p. 35.

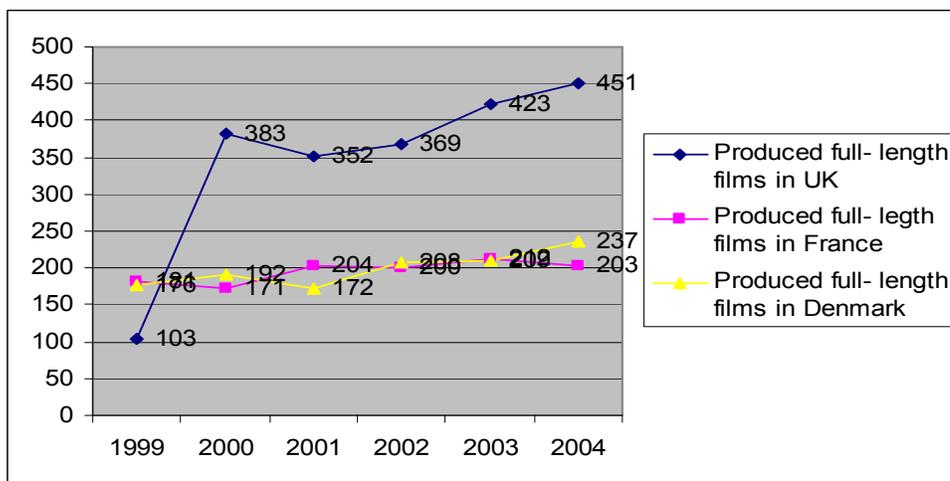
¹⁰⁵ Danish Film Institute, Facts and figures, 2005, p. 9.

Figure 7: Box- office receipts (€ M) in United Kingdom, France and Denmark



In 2004 there were 451 films produced (including films entirely financed and made by American companies) in United Kingdom, 203 in France and 237 in Denmark.

Figure 8: Number of produced full- length films in United Kingdom, France and Denmark



In France 560 films were distributed (an increase of 9.6% since 2003) in 2004¹⁰⁶, in UK 518 films were distributed¹⁰⁷ (an increase by 8%)¹⁰⁸ and in Denmark number of films released in 2004 was 651 (an increase by 3.4% since 2003)¹⁰⁹.

Therefore, knowing the percentages of growth the implication could be made for the more fierce competition present in UK (for example, when comparing the growth in films distributed by 9.6% and the growth in admission number by 2.4%). As a result of that much lower growth within the admission numbers film distribution companies do not have to compete for obtaining distribution rights for movies too much, but they fiercely have to compete in order to have their films exhibited.

Whereas in France, the situation is different, since the number of films distributed grew by 8% and the admissions grew by 12.3% therefore, the situation to have their films exhibited does not seem to be problematic, meanwhile there is stronger competition in acquiring the film distribution rights for the movies, which should be profitable. Additionally, it could be a consequence of the lack of films produced in France, which could be distributed, when for example, looking at the number of produced movies in France, it could be seen that this country had the least number of produced full-length movies out of the analysed countries.

In Denmark the situation with growth of 3.4% of films distributed and an increase of 4.1% in cinema admissions may lead to the implication, that the competition in sector is quite balanced.

- Rivalry is stronger when customer's costs to switch brands are low

Customer's (cinemas) costs to switch brands are lowest in France where vertical integration is not so much present and where is a highest number of distribution companies (106) out of the analysed countries. Meanwhile, the growth in film distribution sector by 8% and growth in cinema admissions by 12.3% shows that the competition for switching film distribution companies should not be that flexible.

Rivalry in UK is also impacted by a very minor vertical integration percentage of 1.5-2% and quite a number of film distribution companies. However, the high horizontal

¹⁰⁶ http://www.cnc.fr/d_stat/bilan2004/pdf/7-distribution.pdf

¹⁰⁷ UK Film Council Statistical yearbook 2004/05, p. 35

¹⁰⁸ UK Film Council Statistical yearbook 2003/04, p. 27

¹⁰⁹ Danish Film Institute, Facts and figures, 2004, p. 6.

concentration within the industry of 59% comprising by three largest players show that the customer flexibility is also not that broad.¹¹⁰

The competition extent in Denmark in film distribution sector is presented with 17 distribution companies and three of them comprising for 75% of the total market. Moreover, the vertical integration present of three companies' 51% market share at the distribution level and 12.9% of their market share in exhibition level makes the situation in Denmark least competitive, because customer's costs to switch film distribution companies would be high.

- Low levels of product differentiation normally impacts higher level of competition. However, brand identification, on the other hand, tends to constrain competition.

More than 80% of the UK's distribution sector is still accounted by the US majors. Major distributors include Buena Vista International, Twentieth Century Fox Film Co, Columbia Tri- Star Films, UIP and Warner Bros. Independent distributors are Artificial Eye, Downtown Pictures, Entertainment, Feature Film Company, Metro Tartan, Momentum, Pathé and Redbus. Some of these latter companies specialize in foreign-language films or American independents. The major distributors very rarely acquire low budget UK features, therefore, the most likely candidates for distributing low budget British films are Metrodome and Optimum Releasing.¹¹¹ UK independent distributors are small, and find it hard to represent a slate of commercially successful films and invest in the required P&A and the adequate information systems needed. Moreover, since most of the UK films are financially backed by television, their distributors are often left with no television rights to sell.¹¹²

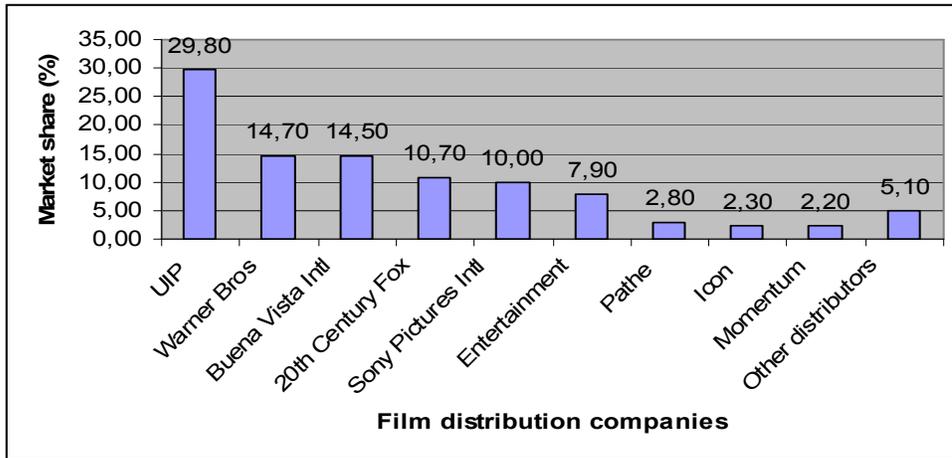
The situation when American companies own 80% of the film distribution sector indicates that there is not a very broad variety of product (distributed film) differentiation, because majority of them only distribute American movies. Though, UIP also distribute European and national movies in the country too. Pathé distributes national, European and American independent movies. To sum up the product differentiation exists, but it is really not at a large extent, since many companies are involved in variety of products, even though they specialize in particular ones.

¹¹⁰ See page 155.

¹¹¹ A filmmaker's guide to exhibition and distribution, BFI, p.32.

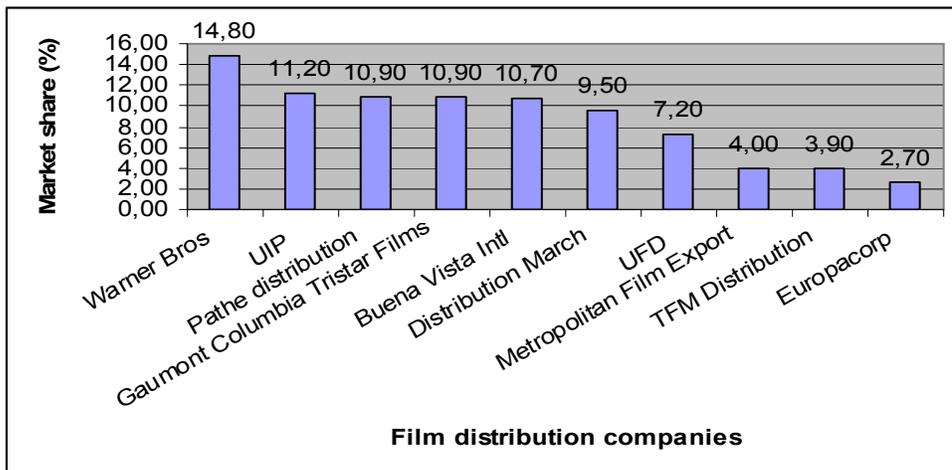
¹¹² culturw.gov.co.uk.film.pdf p.7-8

Figure 9: Market shares of film distribution companies in United Kingdom and Ireland (2004)



Major film distribution companies in France were Warner Bros, UIP, Pathé distribution, Gaumont Columbia Tristar Films and Buena Vista International.¹¹³ Pathé and Buena Vista International distributed quite a majority of national films, as well as foreign European. Therefore, in France product differentiation seems to be more obvious, which is mostly for historical reasons with the state aid issues (American majors and independents). For this reason, likely, the competition could be more serious in this sector in this particular country.

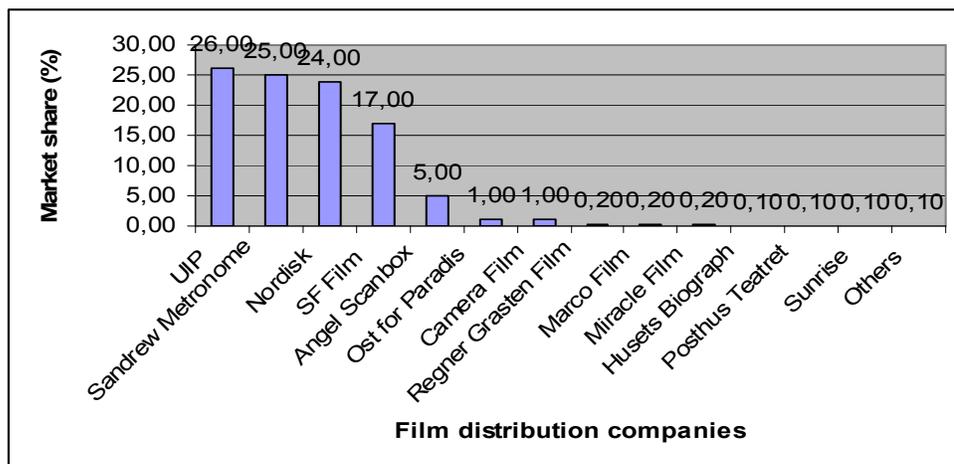
Figure 10: Market shares of film distribution companies in France (2004)



¹¹³ http://www.cnc.fr/d_stat/bilan2004/pdf/7-distribution.pdf

The five key players mostly dominate the film distribution sector in Denmark: SF Film, Nordisk, Sandrew Metronome, UIP and Angel Films. They account for approximately 97% of the distribution market.¹¹⁴ There seems that American major company only owns UIP. According to the Danish Film Institute, cinema and marketing coordinator Pernille Munk Skydsgaard¹¹⁵ and the data she showed about the box-office admissions this company only distribute mainstream American films. Whereas Nordisk company is the major distributor of Danish films and also some of the mainstream American. It is the biggest Danish company with a long history and experience, though at present the Sandrew Metronome company ex- director Loke Havn tries to create a new distribution company. The new distribution company already has the major production companies (Zentropa, Nimbus) ready to be a part of the company (before Nordisk distributed their movies). Therefore, the danger seen for Nordisk is substantial, because this way they will lose a very large share of their distributed movies, and, according to the Danish Film Institute, cinema and marketing coordinator Pernille Munk Skydsgaard they probably will then distribute mostly American mainstream films. Another major company Sandrew Metronome distribute Danish films, some European and also American ones. Therefore, the product differentiation is not so much present in Denmark, which should lead to an implication of higher levels of competition when looking at it from this perspective.

Figure 11: Market shares of film distribution companies in Denmark (2004)



¹¹⁴ Danish Film Institute, Facts and figures, 2005, p. 5.

¹¹⁵ Interview held at the Danish Film Institute, Gothersgade 55, Copenhagen, 3rd floor. 25th of April.

- *High exit barriers impact a high costs on abandoning the product, therefore, the companies must compete.*

There is no such exit barriers for the film distribution companies, except for the film distribution rights for the acquired films and the vertical integration they can be involved into. Therefore, since the highest level of vertical integration is in Denmark the exit barriers should be highest for the companies operating in that country.

Supplier power

Buyer- supplier relationships mean film distribution and film production companies' relationship.

- *Film production companies are powerful since they usually are involved in vertical integration with film distribution companies.* Especially, such practice of vertical integration is popular among film production and exhibition companies. But there is also a vertical integration present between film production and film distribution companies in the analysed countries, such as Nordisk with Nordisk film distribution in Denmark, Paramount and Universal with UIP in UK, Warner Bros with Warner bros distribution in France.

There were 181 film production companies (56 film distribution companies) associated with films shot in the UK or co- productions involving the UK in 2003.¹¹⁶ In France there were 135 film production companies (106 film distribution companies) in 2004¹¹⁷. In Denmark there were around 20 film production companies (17 film distribution companies).¹¹⁸ Therefore, it could be seen, that in UK the number of film production companies is approximately triple of the number of film distribution companies. Consequently, the implication of competitive pressures stemming from supplier bargaining powers seems to be not fierce and more favourable for film distribution companies.

Whereas in France the number of film production companies is a little higher than the number of film distribution companies, which may lead to the implication, that there is not so much competitive pressure present from the supplier bargaining powers.

¹¹⁶ UK Film Council Statistical yearbook 2003/04, p. 68.

¹¹⁷ <http://www.unifrance.org/actu/info.asp?CommonUser=&langue=21002&actu=305>

¹¹⁸ Danish Film Institute, Facts and figures, 2005, p. 7.

In Denmark situation is balanced with 20 film production companies and 17 film distribution companies which might show the supplier bargaining power as not a very competitive pressure. Though, UIP and Nordisk (two of the three largest film distribution companies) are vertically integrated with film production companies. Therefore the supplier bargaining power is more substantial.

- *The costs of switching suppliers* for the film distributors is not really an issue, especially in those countries, where the number of film production companies is much higher than the film distribution companies (such as UK). Though, vertical integration should be taken into account, which does not create a flexible situation to switch suppliers.

The other element of the *supplier force power is if customers are powerful*. Therefore, this is definitely an issue in film distribution sector, where cinema production companies are quite well vertically integrated with film exhibition companies (Pathé, Nordisk, etc.). The vertically integrated exhibition companies might impose some informal requirements for specific companies' films, or be willing to operate those ones more, which would definitely enforce to act buyers in some particular way, maybe sometimes distorting competition and not allowing the independent film production companies to gain the same possibilities to have their movies distributed. Moreover, since most of the UK films are financially backed by television, their distributors are often left with no television rights to sell.¹¹⁹ Though, French and Danish film productions are also backed by televisions.

Barriers to entry

There does not seem to be eminent official barriers for entry into the film distribution market in any of the analyzed countries. And in UK some independent producers even create a film distribution company in order to market their particular film. A difficulty of entering the market, especially the one which is saturated with film distribution companies (as it is in France) might be the pre-established relationships of a present film distribution companies with film production and film exhibition companies. The regulations for the minimum exhibition periods, clearance periods, following hierarchy in

¹¹⁹ culturw.gov.co.uk.film.pdf p.7-8

film distribution (cinema, video and finally television) might seem to be a barrier for some companies willing to enter the market.¹²⁰

Moreover, there is really a low level of threshold in order to get involved with film distribution business.

On the other hand, the *organizational (internal) economies of scale* create the entry barriers for the companies who want to get seriously involved with film distribution business (not to distribute only one of their own film), because in the markets (in UK, France and Denmark) there already exists a large majors (Warner Bros, UIP, Buena Vista International, etc.) benefiting from film distribution economies of scale (securing the rights of distribution) with large market shares in the country and moreover, internationally. It is particularly prominent in US owned companies (such as UIP, Warner Bros, 20th Century Fox) which benefit from such economies of scale.¹²¹

- Overhead costs of distribution process are spread over a large number of films;
- Large volume of advertising undertaken by major distributors result in considerable leverage over the pricing of advertising space in various media;
- Large volume of distributed films results in considerable bargaining power over the exhibitors, possibly resulting in preferential release dates, terms of trade;

Since 80% of the UK companies are American, who possess such internal economies of scale and know-how the level of competition and the entry barriers could be highest in this country.

Moreover, the barriers for entry are where *vertical integration* of film distributors and film exhibitors is present.¹²² Therefore it is notably dominant in Denmark (Nordisk, Sandrew Metronome, etc.), which could create a situation distorting fair competition for the new film distribution companies not involved in the integrated network. The situation of informal and somewhat vertical integration of film distribution companies is present in France as well (Gaumont, Pathé, MK2, etc.). It is the least present in UK (Pathé, Redbus, etc.).

¹²⁰ Organisation for economic co-operation and development, "Competition policy and film distribution", 1996, Paris, p. 7.

¹²¹ Anne Jäckel, "European Film Industries" BFI.2003. p. 93.

¹²² See page 155.

The barriers to exit the business are least common in film distribution sector. It is not very much an issue of *specialized assets*, of *high exit costs*, but it could be the issue of *interrelated businesses*, which would make the exit more complicated. The companies, that are vertically integrated with their businesses (film production, film distribution, film exhibition) might still want to keep one of their integrated businesses even though it might be not very economically successful. They might leave a not very successful business filiation running in order to have their own distribution channels, suppliers, buyers (create competitive advantage) and co- ordinate them in their most likable way and to save costs and save profits within the company.

Threat of substitutes

In the Porter's five forces model, a threat of substitute products refer to products in other industries, which is in film distribution sector could be when television companies finance film production and therefore obtain rights to distribute and show the movie in the television (common practise in UK, Denmark). Somewhat a substitute for film distribution companies could be considered a film production company, which creates a film distribution company in order to distribute their own made film. Since the barriers of entry are so low, almost anybody could create a film distribution company. Moreover, a very serious elements of film distribution business substitutes are a film distribution through Internet, piracy, and similar illegal options. Subsequently, digital distribution and legal film distribution through the Internet are becoming more and more discussed issues.

Buyer power

- *The power of buyers is the influence that customers have on a producing industry.*

Film exhibition companies have a notable impact on the distribution companies in those countries where the growth of distributed films is higher than the growth of the admissions, therefore, the situation of buyers is stronger. Additionally, according to the numbers mentioned in the degree of rivalry analysis the most competitive situation is in the UK, then it is moderate in Denmark and little in France.

- *Buyers are powerful if they are concentrated- few buyers with significant market share.*

Horizontal concentration is not so much present in buyer sector (film exhibition) as it is in film distribution sector. In the UK the largest three exhibitors control 63.4% of the cinema screens in the country (39.6% of cinemas in the country), in France- 11.31% (7.2% of cinemas in the country) and in Denmark 36.9% (12.3% of cinemas in the country). The more concentrated the exhibition sector is- the more powerful the buyers of the film distribution companies' products are. Therefore, it could be seen, the buyers- film exhibition companies should be most powerful in UK, secondly in Denmark and lastly in France.

4.2. FILM EXHIBITION SECTOR

Degree of rivalry

Companies in the film exhibition sector also do not really compete on prices, but more by trying to create competitive advantages. This sector has undergone significant changes, such as the trend towards the grouping of independent cinemas within a small number of either national or regional cinema circuits.¹²³ This development was mostly impacted by modernization of the existing cinemas and the appearance of cinema complexes. New complexes should have comfortable auditoria with large screens, offer easy access and parking, and be well served with shops, restaurants and other similar services.¹²⁴

Moreover, the practice of vertical integration is also not a new phenomenon in this area. Vertical integration phenomenon is present when the same company- owner carries out distribution and exhibition activities. The major distribution companies (particularly the US majors) can have direct links (subsidiaries or a majority share) or indirect links with the major exhibitors. In order to determine the level of vertical integration it is necessary primarily to define the degree of independence of the different companies. Regrettably, it is not easy to measure the extent of indirect vertical integration.

¹²³ Organisation for economic co-operation and development, "Competition policy and film distribution", 1996, Paris, p. 5.

¹²⁴ Ibid., p. 5.

Although, some US owned companies (Walt Disney International, Time Warner Entertainments) are more interested in optimizing the profits of distribution activity, than in supplying the cinemas owned or programmed by the group.

Table 7: Distribution companies directly involved in vertical integration with exhibition companies

	Principal distributors involved in exhibition	Combined market share at distribution level	Combined market share at exhibition level
United Kingdom	Redbus, Pathé ¹²⁵	~ 5%	~1.5%
France	Pathé, Gaumont, UFD ¹²⁶	29%	~8%
Denmark	Nordisk, Sandrew Metronome, Ost for Paradis, Husets Biograph, Regner Grasten, Posthus theatret ¹²⁷	51%	12.9%

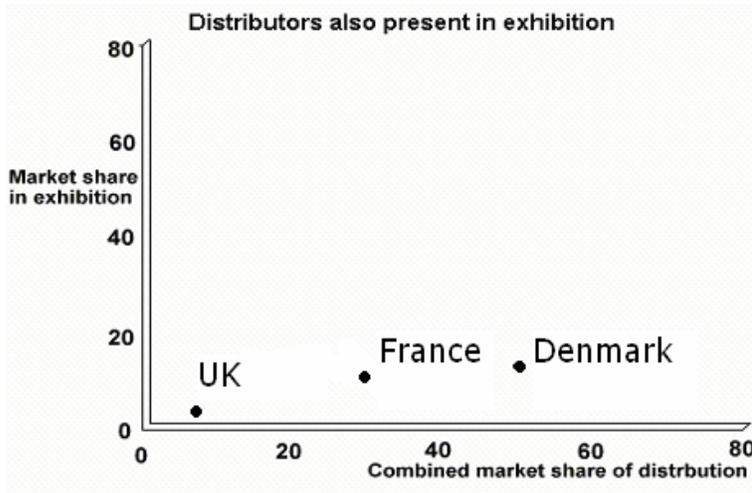
Therefore, as it could be seen the highest extent of vertical integration is present in the smallest country of Denmark (51% in distribution sector, and 12.9% in exhibition sector). This could be explained by a little number of market players, which already have a very large share of the market within the distribution area. In France distributors involved in distribution take 29% of the market and in exhibition they account for approximately 8% of the market share. In UK companies directly involved in vertical integration account for 5% of the distribution market and comprise approximately 1.5% of the exhibition market share.

¹²⁵ Telephone interview with John Wilkinson, Chief Executive of Cinema Exhibitors' Association LTD in UK, held on the 12th of May, 2006.

¹²⁶ Email from Susan Newman, Analyst (Department of Information on markets & financing) European Audiovisual Observatory, received on 4th of May, 2006.

¹²⁷ Danish Film Institute, Facts and figures, 2005, p. 5.

Figure 12: Distributors also present in exhibition in United Kingdom, France and Denmark



According to the Porter's five forces model the intensity of competition can moreover be measured by:

- *A larger number of firms increase rivalry among companies because they must compete for the same customers and resources.*

There is a large number of companies operating in film exhibition business, in UK, for example, 269 companies are involved in film exhibition business.¹²⁸ The most dense concentration and high competition among the three largest film exhibition companies is in UK with 63.4% of the total cinema screens and 39.6% of cinemas owned and operated by Terra Firma (Odeon and UCI) and Cine- UK (including UGC) and Vue. The concentration of the three largest companies (Euro Palaces, UGC, CGR) in France is 11.31% of total cinema screens and 7.2% of cinemas in the country. Moreover, France has the largest number of screens in Europe, therefore, the competition in this sector is also considered to be high. In Denmark the market share of cinema screens held by three largest film exhibition companies (Nordisk film, Sandrew Metronome and Cinemaxx) is 36.9% and the percentage of the cinemas owned and operated is 12.3%, therefore competition among these ones and the other film exhibition companies is at the average level.

¹²⁸ UK Film Council Statistical yearbook 2004/05, p. 63.

Table 8: Horizontal concentration of the cinema exhibition (number of screens controlled)

	UK	France	Denmark
Main player	Terra Firma (Odeon and UCI)	EuroPalaces	Nordisk Film
Number of cinemas	127 ¹²⁹	86 ¹³⁰	15
Number of screens	924 (27.6%)	599 (11.3%)	96 (25.3%)
Player II	Cine-UK (includes UGC)	UGC	Cinemaxx
Number of cinemas	75 ¹³¹	37 ¹³²	3
Number of screens	787 (23.5%)	357 (6.7%)	28 (7.4%)
Player III	Vue	CGR	Sandrew Metronome
Number of cinemas	54	30	2
Number of screens	409 (12.2%)	377 (7.1%)	16 (4.2%)
Total for three main players¹³³			
Number of cinemas	39.6	7.2	12.3
Number of screens	2120 (63.4%)	1333 (11.31%)	140 (36.9%)

Horizontal concentration is more common in small countries where usually one company, or a group of companies tend to control nearly all the market.¹³⁴ Therefore, this could be seen in Denmark, which is the smallest out of the analyzed countries and where three major exhibitors comprise for almost 37% of the market (in terms of screen market share). In United Kingdom, there is a very high degree of horizontal concentration by 63.4%. Though, here the market is substantially larger. Moreover the major player in the

¹²⁹ <http://www.ofc.gov.uk/Business/Mergers+EA02/Decisions/Undertakings+in+lieu/Terra.htm>

¹³⁰ <http://www.ketupa.net/pathe.htm>

¹³¹ <http://www.ofc.gov.uk/Business/Mergers+EA02/Decisions/Undertakings+in+lieu/Blackstone3.htm>

¹³² <http://www.ugc.fr/AffichePage.jgi?ALIAS=groupeugc/11a.0>

¹³³ European cinema yearbook “Concentration in cinema exhibition in 2004”.

¹³⁴ http://www.mediasalles.it/whiteboo/wb1_2_1.htm

country does not exceed 30 % of the market, which is by nature more oligopolistic. The extent of horizontal integration is lower in France, where the proportion of the market controlled by the three main players is only 11.31%. However the three main circuits are French companies. Whereas, a high level of competition seems to be in UK (competition present among the three of similar size largest, and for the other smaller companies with a little market share left to share). High level of competition is in France with a large number of firms similar in size and capabilities. And the moderate competition level in Denmark.

- Slow market growth impacts companies to fight for market share.

The admission numbers previously mentioned in the film distribution Porter's five forces analysis could also be used to measure the market growth in film exhibition sector.

The number of films distributed grew by 9.6% and the admission grew by 2.4% in UK, which should show that the competition to have their films exhibited is really fierce, whereas the growth potential for the industry is growing almost four times slower. And according to the Artificial Eye Film Company representative provided answers for the survey¹³⁵ were only confirming the implication *"Obstacles we face are competition from other distribution companies- the more films being distributed the harder it is to get cinemas to screen our films and hence find an audience for the films"*.

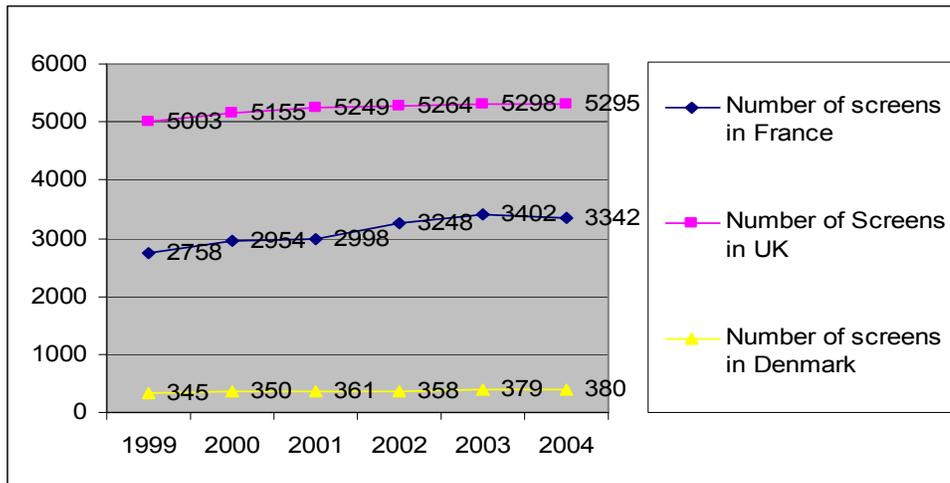
In France, the situation is somewhat balanced (number of films distributed grew by 8% and the admissions grew by 12.3%) and it seems that still there is some more available space for more movies to be distributed.

In Denmark the situation with an increase of 3.4% of the number of films distributed and an increase of 4.1% of cinema admissions could lead to the implication, that there is still some space for films to be distributed, or for similar number of presently distributed films to gain higher profits.

Moreover, the market growth could be also analyzed by the growth in the number of screens. For example, in 2004 in UK the number of screens reached 3 342 screens, in France- 5 295 and in Denmark 380.

¹³⁵ See Annex I.I. "Survey on film distribution".

Figure 13: Number of screens in UK, France and Denmark



- *High fixed costs result in an economy of scale effect, which increases rivalry as well.*

Fixed costs of running a cinema make competition for exhibiting films (preferably, the ones which attract cinema visitors) present always. Therefore, in those countries where the extent of admissions is higher than the extent of distributed films (France), the competition in order to obtain films for exhibition is fiercer. In UK the situation is adverse, where distributors compete fiercely in order to secure their distributed films' exhibition in cinemas, whereas film exhibition sector does not seem to have problems to have their fixed costs covered (unless they choose unsuccessful movie and similar issues). Moreover, the major cinema chains in UK are not likely to show a film, which was not released by a major distributor. The programmers may show films not released by major distributors, but these then should also achieve the same level of box office performance as more commercial features to keep a full time first run screen and smaller distributors are often unable to invest adequate resources in a marketing of film. According to the survey¹³⁶ answers by Julia Short (Verve Pictures), Dave Sheer (The Works UK Distribution) it is extremely hard then to get exhibitors to play films, that are non Studio product and don't have a big name in them. In Denmark the situation of distributed film and the admission growth is balanced, therefore, normally, the

¹³⁶ See Annex I.I. "Survey on film distribution".

competition arises not for obtaining films for exhibition, but for exhibiting the most profitable ones.

- Low switching costs also increases rivalry. When a customer can freely switch from one product to another there is a greater struggle to obtain customers.

For customers to switch cinema theatres is not too problematic, especially in big, capital cities, since there are many cinemas present. Although, transportation costs might be involved, moreover the prices of tickets might slightly differ as well. Moreover cinemas nowadays offer various extra facilities and entertainment elements (such as games rooms, sporting activities, cafeterias, etc.) in the cinema area in order to attract customer and to develop their loyalty. This they try to *differentiate their services offered and to reduce competition* with other cinema chains.

- However, brand identification, on the other hand, tends to constrain rivalry.

Moreover, the brand differentiation, for example cinema chains in France EuroPalaces are known for their artistic, high quality and conformability oriented cinema chain design and also more artistic (European, foreign, French national, American independent) films shown, therefore, the established image of some cinema chains (EuroPalaces, VUE, Odeon, etc.) constrains rivalry.

- High exit barriers impact a high costs on abandoning the product, therefore, the companies must compete.

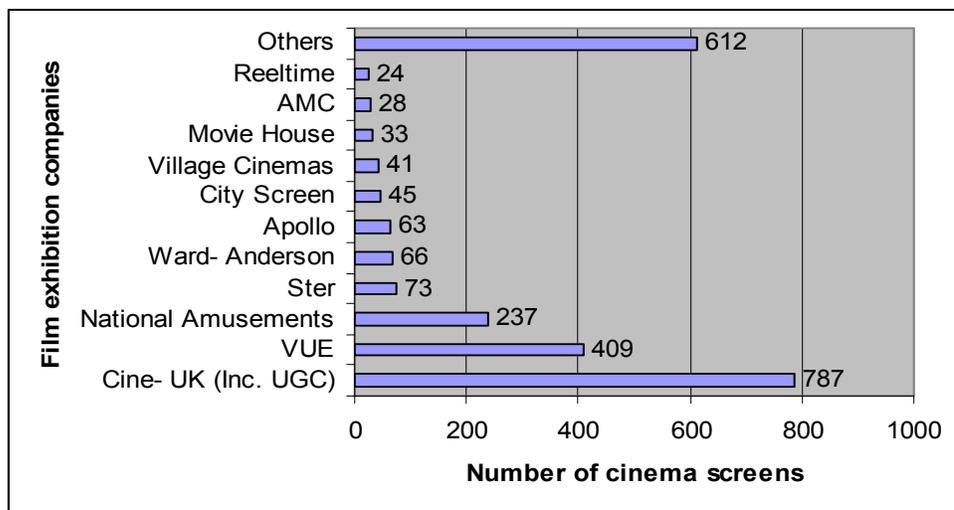
The exit barriers are mostly involved with the issue of closing down cinema. Particularly, the vertical integration among the firms, such as film distribution company owning film exhibition company create a barriers for the exit and unwillingness to loose their competitive advantage, overall operation management, profitability. The interdependency among them might make the exit more complicated.

- A diversity of rivals with different cultures, histories, philosophies make and industry unstable and the rivalry is volatile and can be more intense.

A diversity of rivals is present in cinema exhibition business, but mostly it varies from cinema circuits (mostly multiplexes) exhibiting American blockbuster films and some of involving big- titles national and foreign movies to independent, smaller cinema circuits exhibiting more artistic, either national or foreign movies. Therefore, competition within the diversity is present, but somewhat balanced.

In UK the 73% of screens were in multiplexes- that is purpose- built cinemas with five or more screens. And there was a growth by 4 multiplex sites and 40 screens, whereas of traditional cinemas 38 sites and 26 screens were closed.¹³⁷ The market is also becoming increasingly competitive as the prime sites become filled, and branding and luxury facilities are becoming increasingly important.¹³⁸ Independent chains are mostly based in London and include Zoo Cinemas, City Screen (Picture House and Curzon cinemas), and Mainline Pictures (Screen Cinemas).¹³⁹

Figure 14: Film exhibition companies and their number of cinema screens owned in United Kingdom, 2004



Whereas, in France there were 133 multiplexes present until 2006¹⁴⁰, which amount for the 6% of the cinematographic cinemas which generally accounts for approximately 48% of the admissions.¹⁴¹

The exhibition sector is not very concentrated with the ten top companies (in terms of admission) owning and running 1 896 screens, therefore accounting for the 35.8% of the whole of the active screens.¹⁴²

¹³⁷ UK Film Council Statistical yearbook 2004/05, p. 72.

¹³⁸ culture.gov.uk.film.pdf p. 8.

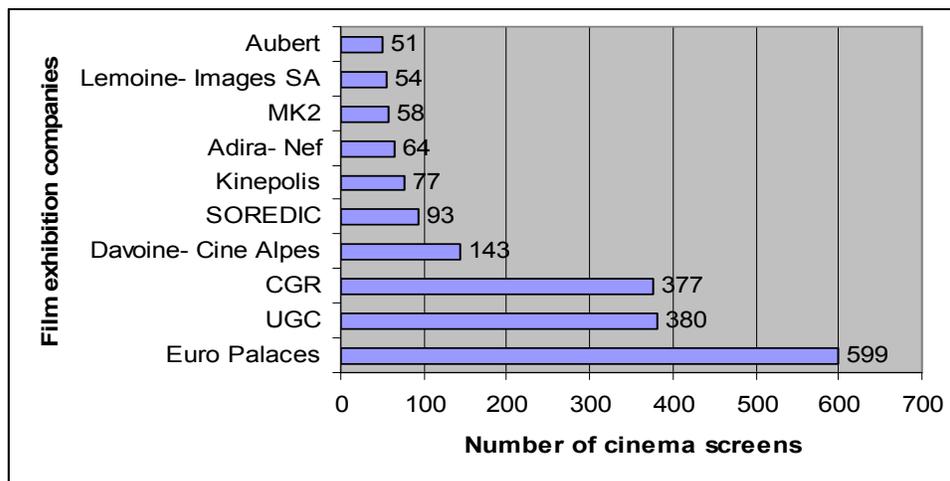
¹³⁹ A filmmaker's guide to distribution and exhibition, BFI p.30.

¹⁴⁰ http://www.fncf.org/web/index.php?id_cat=38&id_contenu=39&lang=lang1

¹⁴¹ http://www.cnc.fr/d_stat/bilan2004/pdf/8-exploitation.pdf, p.1.

¹⁴² http://www.cnc.fr/d_stat/bilan2004/pdf/8-exploitation.pdf, p.5.

Figure 15: Film exhibition companies and their number of cinema screens owned in France, 2004



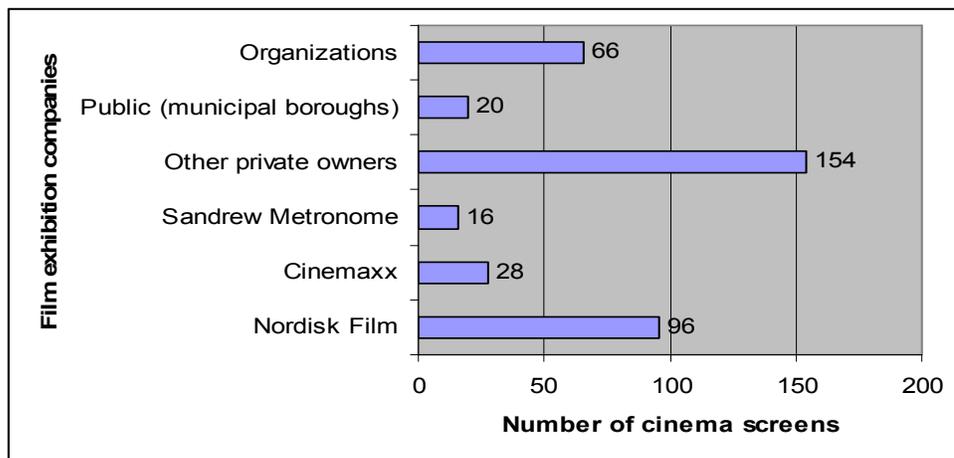
In Denmark there were 166 cinemas in 2003, and a 380 cinema screens in 2004 (an increase by 1 screen since 2003). There were 71 multiplexes within the country (42.8% of the total cinemas).¹⁴³

According to the Danish Film Institute, cinema and marketing coordinator Pernille Munk Skydsgaard¹⁴⁴ the exhibition sector situation in Denmark seems not to be problematic. Though, the art- house films showing cinema in Aarhus „Ost for paradise” is experiencing difficulties (though with Danish Film Institute financial support) when competing with multiplexes of Nordisk companies, where, in that town, they also now try to show more „arty“ films. Therefore, it becomes more problematic for „Ost for Paradise” to attract visitors.

¹⁴³ Danish Film Institute, Facts and figures, 2004, p. 10.

¹⁴⁴ Interview held at the Danish Film Institute, Gothersgade 55, Copenhagen, 3rd floor. 25th of April.

Figure 16: Film exhibition companies and their number of screens owned in Denmark, 2004



Therefore, as it could be seen the diversity is present in all the countries within the sector, but it has been developing as such historically for a long period of time (majors and independents). Therefore competition is present, but it is nothing too much new for the industry.

Supplier power

Buyer- supplier relationships between the cinemas and film distribution companies.

- *Credible forward integration threat by suppliers*

The practice of cinema circuits acquiring cinema distribution companies is not common, - normally the integration is adverse.

- *Suppliers are concentrated*

Film distribution companies are normally more concentrated than film exhibition companies. It is also the situation in the analyzed countries, where three largest film distribution companies obtain from 37% (in France) to 75% (in Denmark) of the total film distribution market. Moreover, the number of film distribution companies in France is 106, in UK 56 and in Denmark 17. Therefore, it seems, that in UK the situation is most competitive (horizontal concentration is 59%) and out of the analyzed countries it is least competitive in France.

Barriers to entry

In film exhibition business there are no official notable barriers for market entry, except having financial assets to buy or build a cinema. Additionally, an *organizational (internal) economies of scale* issue might arise, since the present film exhibition companies can acquire film exhibition rights and spread them among several cinema circuits they own.

Moreover, due to the high power of major exhibition companies, and particularly multiplexes chains the entry barrier arises on the ability to acquire the rights to exhibit popular first run films.¹⁴⁵

Moreover, the customer brand loyalty might be an issue before entering the film exhibition market, since some cinema circuit chains have their own image, additional services provided, are very well located, therefore, this might also create a barriers for the new cinema exhibition companies to enter the market and be successful when entered.

Moreover, the established relationship with film distribution companies and sometimes the vertical integration phenomenon and a somewhat restriction to distribution channels also create barriers for the market entry.

Threat of substitutes

Considering, that first run films are exhibited only in cinemas, do consumer consider older films (or other forms of entertainment) available on other media, as close substitutes? Despite of continuous advancements in home entertainment technology, however, the cinema continues to be a popular form of entertainment. As long as the first run films are exhibited only in cinemas, a good argument for first run exhibition as a distinct product market could be stated.¹⁴⁶

Generally, the substitutes for the cinema exhibition business is a possibility to watch films on television, video (VHS, DVD) and through the Internet.

In UK 153 million videos and DVDs were rented in 2004 (an average of approximately six per household) with an average value of € 4.34. 99% of rental transactions were

¹⁴⁵ Organisation for economic co-operation and development, "Competition policy and film distribution", 1996, Paris, p. 8.

¹⁴⁶ Ibid., p. 6.

feature films.¹⁴⁷ 234 million VHS and DVD videos were sold in 2004, with a total market value of € 3 859 million. DVD sales continued to show impressive growth, with sales volumes increasing by 35% in 2003. Film represented a 92% share of the market of VHS and 82% on DVD. There was a rapid growth in the sector, especially on DVD sales.¹⁴⁸

In France in 2004 there was € 1.96 billion spent for the purchases of videotapes. The expenditure for the video therefore rose by 16.9% when compared with 2003. The cinema takes the greatest part of the revenue of the video edition. The video film sales generated € 950.7 million in 2004, that is to say 10.4% of more than in 2003 (€ 861.1 million). The DVD accounted for € 1.84 billion in 2004, that is to say 94.2% of the market. The purchases of DVD increased by 30.4% when compared to 2003 whereas the purchases of VHS further declined. The videocassettes accounted for € 114.2 million of revenue in 2004, that is to say a growth by 53.4 % when compared to 2003.¹⁴⁹

In Denmark video sales of VHS and DVD were € 21.6 million in 2004 (€ 24.7 million in 1998). The rentals of VHS and DVD were € 107.3 million in 2004 (€ 56.1 million in 1998). Finally, the total value of home video market was € 128.9 million in 2004 (€ 80.8 million in 1998). According to the Association of Danish Video gram Distributors approximately 96% of the Danish video market is comprised by the members: Nordisk Film, Scanbox Entertainment, Paramount Home Entertainment, Universal Pictures, Buena Vista Home Entertainment, SF Film and Sandrew Metronome¹⁵⁰

Therefore, as it could be seen the highest extent of rivalry from substitutes of film exhibition in cinemas could be seen in UK, then followed by France and finally by Denmark.

2,237 films were shown on terrestrial channels (BBC1, BBC2, ITV1, Channel 4, Five) in 2004, which is down by 4% since 2003 (an average of over just six films per day). Out of them 509 (23%) were UK films, and 60 (2.7%) were foreign language films.¹⁵¹ Around 2.3 million people watched each film on peak time TV (down from 2.8 million in 2003), compared to average number of audiences for the top 50 films at the cinema of 1.9

¹⁴⁷ UK Film Council Statistical yearbook 2004/05, p. 62.

¹⁴⁸ UK Film Council Statistical yearbook 2004/05, p. 64.

¹⁴⁹ http://www.cnc.fr/d_stat/fr_d.htm

¹⁵⁰ Danish Film Institute, Facts and figures, 2005, p. 11.

¹⁵¹ UK Film Council Statistical yearbook 2004/05, p. 69.

million. Multi-channel television accounted for about 26% of the UK television audience in 2004.¹⁵²

In 2004 the average French watched a TV for 3 hours 24 minutes per day (20 minutes more than in 2003). Though only 70 hours are spend on watching films that 6.4% of the total television watching per year.¹⁵³ There were totally 1029 films shown on the seven main French TVs (TFI, France 2, France 3, Arte, France 5, M6, Canal+), with a 53.9% of them being of French origin (411 movies), 34.1% being of American origin (260 movies) and 11.3% of them being European (86 movies).¹⁵⁴

The total TV audience in Denmark is 5.2 million. Totally there were 136 films¹⁵⁵ shown on 3 major Danish terrestrial channels (DR1, DR2, TV2) in 2004. Average number of films seen by each Dane on public service TV in 2004 was 12 movies. The average share of audience for the feature film was 8%. When looking at what kind movies are shown on Danish TV's the Danish film reviewer Ole Michelsen could be stated: "They show mainstream as well as old Danish films and old American films, and that's just fine with me. But there is not one channel specialized in European film culture or Indian or Asian film culture. Maybe in time and with digitalization, it'll become reality one day. [...] I think there would be only a very small percentage of the Danes would be in the audience. But it would be really nice to have access to such films".¹⁵⁶

According to the Danish Film Institute, cinema and marketing coordinator Pernille Munk Skydsgaard¹⁵⁷, DR1 shows mainstream films, DR2 shows more artistic movies, TV2 created a new channel TV2 Film meant only for showing films.

Therefore, as it could be seen the competition from television company produced films is not that substantial, mostly it is because of the hierarchy of film distribution and the regulated periods a film should stay in a particular form of media. This is the most important element lowering the threat of substitute competition. But the highest extent of competition from substitutes arises in UK (both in video and television sectors), then France and finally in Denmark at a very slight level.

¹⁵² UK Film Council Statistical yearbook 2004/05, p. 69.

¹⁵³ http://www.cnc.fr/d_stat/bilan2004/pdf/2-filmsalaTV.pdf, p.1.

¹⁵⁴ http://www.cnc.fr/d_stat/bilan2004/pdf/2-filmsalaTV.pdf, p.5-6.

¹⁵⁵ Includes repeats of some film.

¹⁵⁶ Mette Madsen, "Wherever I lay my hat", An interview with Ole Michelsen, 25th of April, 2001.

¹⁵⁷ Interview held at the Danish Film Institute, Gothersgade 55, Copenhagen, 3rd floor, 25th of April.

Buyer power

Film business is such, that customers have a very significant power and where word-of-mouth plays a major role¹⁵⁸. Customer whether likes film or not. Therefore, all production companies try to produce movies, which are expected to be liked by final customers. Distribution companies also try to distribute movies, which they expect would increase their revenue and attract enough expected admissions. American companies have a long history of analyzing the final customers' needs and producing films, which are most likely to attract high numbers of admissions (not culturally bias, with special effects, good story, usually easily understood by everybody). Therefore American movies comprise the highest percentages of films seen with an average of approximately 70% of the national market share in European countries. Secondly, national movies normally attract admissions and only then other foreign national movies follow. Definitely, cinemas, like all other businesses choose films which they assume should be most profitable, although cinemas which obtain state aids, European funding are more willing to distribute movies which might not comprise such high numbers of admissions.

Buyers are somewhat in a weak position where there is not a very large number of cinemas in the area; therefore, the cost of transportation is highly involved (*switching costs*). Moreover, *buyers are sometimes also fragmented* (some like American blockbuster movies, multiplex cinemas and some like more artistic, different movies in smaller cinemas) therefore, none of them have a significant influence on the ticket price.

¹⁵⁸ Michael Solomon, Gary Bamossy, Søren Askegaard, "Consumer behavior", A European perspective. Financial times, Prentice Hall, 1999, p. 281.

5. STRATEGIC ANALYSIS OF MAJOR EXHIBITION AND DISTRIBUTION COMPANIES

5.1. EUROPEAN EXHIBITION MAJOR- EUROPALACES

EuroPalaces subsidiary was created in 2001, when the groups Gaumont and Pathé joined their network of the movie theatres in one company. In 2004 the EuroPalaces had 750 screens in France, Switzerland, Netherlands and Italy. The turnover of its sales was 408 million.¹⁵⁹ The exhibition company is known for being very modern, high quality design sensitive (recently the designer Christian Lacroix was involved in designing new cinemas in Paris).¹⁶⁰ The rarest resources of the company are: being a subsidiary of European blockbuster movies' distribution company Pathé and also Gaumont. The most inimitable resources of the company are dense concentration within France, first- mover advantage for renowned high- quality design, “artistic touch” orientation. The company is highly oriented towards employee quality and constant development, therefore, the geocentric approach of the company towards human resource management is also suitable. The Porter strategy¹⁶¹ used is geographically averagely dispersed strategy (because approximately 85% of their cinemas are in France), but they still operate in few other European territories and the low coordination of activities is present, because the exhibition sector has such a specificity to be low coordinated, because of the physical distance. The Bartlett & Goshal strategy¹⁶² used is transnational, because the company tries to centralize most of their core values, activities, but exhibition sector is such, that some of the resources have to be decentralized.

¹⁵⁹ <http://fr.wikipedia.org/wiki/EuroPalaces>

¹⁶⁰ <http://www.pathe.fr/site/core.php?page=1.1.1.2.1&PHPSESSID=850e7ba1996590d9a861deff8eaa0773>

¹⁶¹ Porter, M.E., “Changing patterns of international competition”, California Management Review, Vol. 28 Num. 2 (1986).

¹⁶² Bartlett & Goshal 2000, Chapter 3. Building Strategic Capabilities: The competitive Challenge.

5.2. NON- EUROPEAN EXHIBITION MAJOR- THE VILLAGE ROADSHOW

The Village Roadshow company, created in 1954 is the largest non- European company operating Europe in the exhibition sector, and is ranked number four in Europe. The company, which has its headquarters in Australia operates in 8 other countries as well: Austria, Czech Republic, Greece, Italy, United Kingdom as well as Fiji, New Zealand, Singapore. In total company has 126 cinemas, 1 042 cinema screens and 22 5021 screens.¹⁶³ In Europe company has 49 cinemas and 483 cinema screens. The company has its core businesses in cinema exhibition, theme parks, radio, film distribution and film production. In European countries Greece, Czech, UK Village Roadshow have 100% ownership of their subsidiaries' cinemas. In Italy they have a 45% stake, together with other 45% owned by Warner Bros, and 10 % by locals.¹⁶⁴ Most of cinemas are owned in Italy 13 (in 2003), then 6 in UK, 4 in Greece and 2 in Czech Republic. The numbers of cinema screens in 2003 are: 139 in Italy, 53 in UK, 44 in Czech Republic and 22 in Czech Republic. Gross box office in 2003 in Europe was 404, 027 and operating revenue was 568, 004.¹⁶⁵ The company has a large history, which allowed them to develop professionalism, and especially in multiplexes area (they were one of the first companies in the world to start building multiplexes).¹⁶⁶ The most valuable and hard to imitate resources are the company's ability to join cinema with "entertainment destination" venue. Moreover, the company's activities, starting from film production, distribution, exhibition, radio, amusement parks, etc. allow them to build competitive advantages when co- operating them. The international coverage, financial strength creates rare resources for the company. The Village Roadshow uses geographically dispersed type of Porter's strategy (number of domestic companies operating in their home country) with low coordination of activities, which is, as already mentioned above, because of the specificity of the exhibition sector. The company uses polycentric approach, when analyzing the international management style, because when headquarters are so far away

¹⁶³ <http://www.villageroadshow.com.au/pdf/Global%20Screens%20January%202006.pdf>

¹⁶⁴ http://www.villageroadshow.com.au/pdf/10256%20Village_part%203.pdf, p. 6.

¹⁶⁵ http://www.villageroadshow.com.au/pdf/10256%20Village_part%203.pdf, p. 107.

¹⁶⁶ http://www.villageroadshow.com.au/profile/company_history_introduction.asp

from Europe and their geographical coverage is very widely spread (Europe, Asia, Australia, etc.) it is better to adopt such, more locally sensitive approach. The Bartlett & Goshal strategy used is Multinational, also for the reasons mentioned in the latter sentence.

5.3. EUROPEAN DISTRIBUTION MAJOR- PATHÉ

The Société Pathé Frères was founded in Paris, France in 1896 by brothers Charles, Emile, Theophile and Jacques Pathé. Nowadays Pathé is one of major European distribution companies, mainly specializing in distributing European films by renowned producers, or artistic movies produced by few American independents. The sectors in which Pathé operates today are cinema (production, distribution to theatres and homes, international management catalogue of more than 500 films, movie theatres) and cable and satellite (Télé Monte Carlo, Comédie, cuisine.tv, Voyage).¹⁶⁷ The major of revenues gained are from theatres (53%), then movies (43%) and then television (4%). Most of the revenues are comprised in France (79%), then UK (10%) and then the other (11%).¹⁶⁸

In 2004 company distributed 18 movies in France and 18 in the UK. The annual turnover was € 332 million.

The company considers itself as innovative, independent, diverse, high quality oriented.¹⁶⁹ The company's participation in film production, distribution, exhibition, TV sectors created valuable resources for it, because of the tighter co- operation among these. The resources which are hard to imitate are: ownership of EuroPalaces cinema circuit, as well as old history, very high quality professionalism, established relations with European producers. The organizational strengths are a variety of not too many projects, which are clearly managed and organized with the highest quality attitude being assured. The company's type of the Porter's strategy used is geographically averagely concentrated (towards global strategy) with high coordination of activities. The Bartlett & Goshal strategy used is global, because company tries to centralize core values, activities among the countries they operate. Though, Pathé mostly operates only in France and UK

¹⁶⁷ <http://en.wikipedia.org/wiki/Pathé>

¹⁶⁸ http://www.pathe.fr/medias/bank_file/rapports_annuels_pathe/RA_PATHE_%202004_%20VA.pdf

¹⁶⁹ http://www.pathe.fr/medias/bank_file/Pathé%20Rapport%20Annuel%202004.pdf

there is no more serious need to differentiate marketing strategies and similarly. The international management style is geocentric, since there are not so much differences among France and UK and the company tries to assure the highest quality and development of their employees.

5.4. NON- EUROPEAN DISTRIBUTION MAJOR- UNITED INTERNATIONAL PICTURES

United International Pictures (UIP) is one of the world's leading film distribution companies, which is jointly owned by Paramount and Universal. It is based in London and has offices in 34 countries, is represented in 23 other countries, and does business in approximately 200 others.¹⁷⁰ The company therefore, distributes Paramount and Universal, also Dreamworks as well as acquires films made by independent producers locally, regionally and internationally. Because of their size and willingness for undertakings in Europe, UIP had to make various compromises with European Commission, in order to have those undertakings allowed. The most valuable and rare resources of the company are economy of scale and scope as well as being owned by major American film production companies. The most inimitable resources are being owned by major US production companies as well as various inter- relations with industry professionals during training activities of the company (an issue they had to take in order to be allowed to do undertakings in Europe), etc. The type of Porter strategy used is geographically concentrated and high coordinated, because UIP uses pure global strategy for distributing their films. The type of Bartlett and Goshal strategy used is Global. The Ethnocentric approach is present in international management style, because when using global strategy, having all resources centralized, there is not much need to cater to local differences.

¹⁷⁰ www.unicorp.com

Figure 17: Porter's dimensions of international strategies in the analysed major European and non-European companies

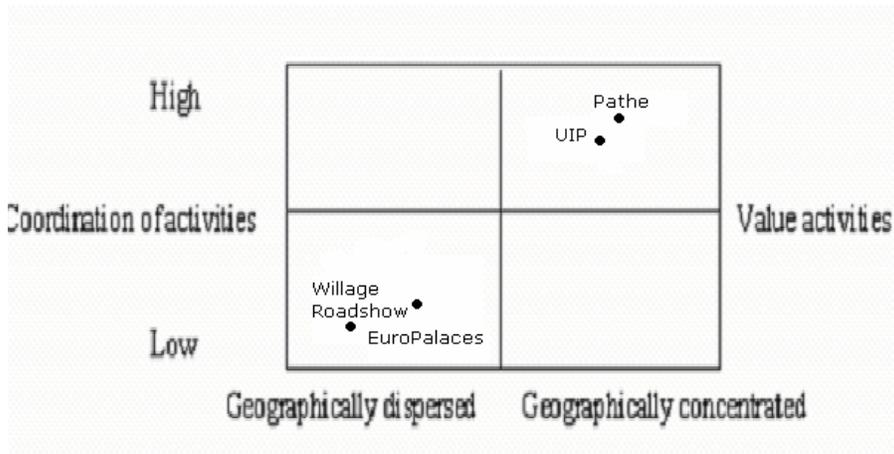
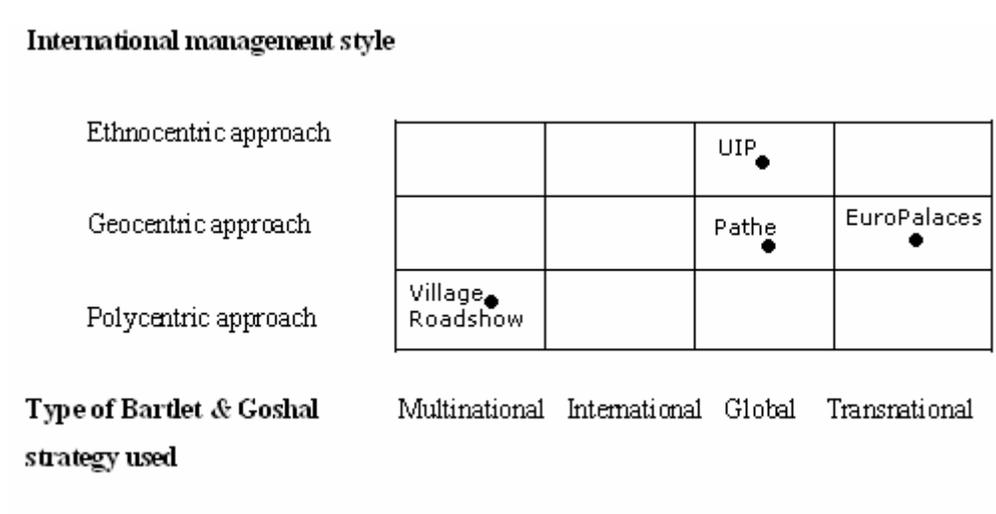


Figure 18: Bartlett & Goshal strategies and International management styles used in major European and non-European companies



6. CULTURAL REASONS FOR EUROPEAN FILMS NOT TO TRAVEL WITHIN THE EU

6.1 THE ANALYSIS OF THE AMERICAN DOMINANCE IN THE FILM SECTOR IN THE EU

The American movie industry dominates in the world cinema sector. Even though, it does not make most movies it is the only one that reaches every market in the world. For example, the market share of American movies in the European Union was about 73% in 2000. In Canada, 96% of all movies shown in the theatres are foreign and again mostly American. Even in Japan, America accounts for more than half of the film industry. In contrast, foreign movies represent only a tiny fraction of the American movie market, with a share of less than 3%. This is probably because the Europeans are much more culturally diverse, and are also known for being more geocentric, polycentric when evaluating other cultures, as compared to Americans, who are much more self bias.¹⁷¹

The American movies are of more global attitude, not too much customized, not culturally bias products, also much more easily marketed, distributed and therefore, obtains much more of the European box-office admissions. American companies are also highly organized (from production to the exhibitor activities and they operate in huge American market and have a number of subsidiaries within various European countries), therefore they also have much higher financial assets, which allows them to exploit and allow spending money for various marketing techniques, use various marketing tools for penetrating into a market.

Moreover, Americans usually make fewer movies than Europeans, but the figures show that 404 American films in 2000 achieved over 5 million admissions in Europe and the USA combined, a level attained by only 40 European films. This figure should also have been achieved with a help of their professional marketing and the amount of money spent on it. Therefore, the American major film distribution, marketing companies get biggest

¹⁷¹ Anne Jäckel, "European film industries" BFI. p. 8.

profits in Europe with few movies (20/80 syndrome)¹⁷². Therefore, it is unfortunate that the European film industry is finding it so difficult to benefit from the intended advantages of the Single Market, a system that should facilitate comparison between the American and European markets.

6.2. THE CULTURAL CONSTRAINTS, HISTORICAL BACKGROUND FOR EUROPEAN MOVIES' DISTRIBUTION AND EXHIBITION

WHY European films do not travel easily? ¹⁷³

Observations:

- People are travelling more
- People are learning more languages
- Borders dissolve (Schengen)
- Increased EU schemes supporting European films
- Races integrate
- Workforce relocate easier
- Growing cultural curiosity

BUT

Still audiences are reluctant towards seeing European films

Europe vs USA

- A small generalization
- In an auteur- driven production process (Europe) they create the films that can obtain financial support
- In an industrial production process (USA) they create the films that can get an audience¹⁷⁴

WHY?¹⁷⁵

¹⁷² 20% of the films take 80% of the box-office.

¹⁷³ "Film industry marketing stages from the film script till film's distribution in the market'. The seminar held by Loke Havns. 2005 09 09. Media training forum. Vilnius, Lithuania.

¹⁷⁴ "Film industry marketing stages from the film script till film's distribution in the market'. The seminar held by Loke Havns. 2005 09 09. Media training forum. Vilnius, Lithuania.

Some valid explanations

- **Once a European film takes off from home it loses its marketability**

Marketability is:

Based on a well known book

Sequel

Cast

Director/ Producer/ Label

Soundtrack/ Musical

Link to television

Success abroad

Subject etc.

Local films always have a certain degree of marketability

- **mainstream turn into art-house**
- **the well know becomes un-known (American have majority of stars)**
- **Sometimes it even loses its playability**

The films ability to create recommendation (word-of-mouth) in the widest possible segments

The importance of a good script (!)

- **The language barrier**

Also the reasons why European films don't travel could be explained by this:¹⁷⁶

- Kids are raised on American TV series
- PC and electronic games speak English
- English is still 1st foreign language in schools
- University teaching is widely held in English
- Increased penetration of US and British TV channels
- European films are perhaps too up market and too auteur driven
- No European star power (low marketability).

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

6.3. IMPORTANCE OF THE LANGUAGE

Language has a strong influence on our world- views and definitely has impact on shaping our individual and collective behaviour. Moreover, in most European countries there is much stronger emphasis than there is in the USA on grammatical appropriateness, and correct pronunciation,¹⁷⁷ therefore when distributing and marketing movies there comes the dubbing and subtitling costs.

All movies that are not shot in a language native for the specific territories where they are to be released will need to be dubbed or subtitled. While a good dub or subtitling will not be sufficient to rescue a poor film, poor dubbing or subtitling certainly should hamper the performance of any film. Too often, distributors allocate not enough money for this purpose and sales agents or producers deliver inferior materials, such as poor-quality magnetic soundtracks, which can postpone a film's eventual release, lead to increased costs, and negatively affect a film's box- office potential.¹⁷⁸

In some European territories, the practice of dubbing prevails, in others, subtitling is preferred. In Europe, films are mostly dubbed in Italy, France, Spain and Germany, for both cultural and economic reasons. Whereas, in France, Spain, and Germany subtitled films are generally used in their key cities' art house cinemas. In the smaller territories, such as the Benelux countries, Greece, and Portugal, the costs of dubbing are prohibitive, therefore, subtitling practise is a norm. In these countries, the dominance of English-language films is even larger than in countries where dubbing prevails.¹⁷⁹

Moreover, the importance of the language play a role in film titles, that are one of the main tools in marketing campaigns. When marketing films between European territories, word- for- word translation of a title rarely works.

International distributors need to use little creative thinking when it comes to adapting titles for different markets, as the case of *Gazon maudit* (Josiane Balasko 1995 France) illustrates. The film is a comedy about the disrupting effect which the appearance of a lesbian has for the title of a chauvinist male- dominated couple. The film's title works

¹⁷⁷ Jean-Claude Usunier "Marketing across cultures", Third edition. Financial times, Prentice Hall, p.195

¹⁷⁸ John Durie, Annika Pham, Neil Watson. Silman-James "Marketing and selling your film around the world", A guide for independent filmmakers. Press, Los Angeles. p.121.

¹⁷⁹ Ibid., p.121.

well on many levels in French, but it is also known as an old slang term referring to public hair. In Spanish, a direct translation (*Felpudo Maldito*) has the same meaning as the French expression – a type of grass that men must keep off. In Italy, the title was translated as “*Shame it Had to be a Woman*” and in Germany, it was translated into a “*One Woman for Two*”. The film marketers for the film reported that, in anglo- phone territories, Balasco was understood to have insisted at one stage that the English-language title should include the word “lesbian”, a recipe for certain death in the US, but distribution company Miramax came up with the more ambiguous *French Twist*, also to be used for the UK. The strategy worked well, for *Gazon maudit*, which was one of the most successful French-language exports of the mid-1990s.¹⁸⁰ There are also other examples of a film title translations, such as *Nixon* (1995) became *The big liar*, *Boogie nights* (1997) became *His powerful device makes him famous*, *As good as it gets* (1997) became *Mr. Cat Poop* and etc.¹⁸¹

6.4. CONCLUSION

The emerging economically valuable global, modern culture is often confused with the convergence of local cultures, leading to an incorrect description and apprehension of the globalisation phenomenon. Significant elements of local cultures are still visible in the European and global landscape: such as languages, writing systems, religions and relational patterns. Culture bonds are strong for a products or services when there is much investment for consumer’s cultural, national background and their identity in consumption.¹⁸²

Even though American movies dominate in the European audiovisual sector, their marketing techniques are very well adapted and spread among the countries (through their subsidiaries and direct or indirect vertical integration, horizontal concentration) where the film is planned to be exhibited. For the European distributors, the film marketing is still somewhat a new concept and because of lower financial assets, lack of marketing knowledge, not emphasizing the importance of it, strong financial and know-

¹⁸⁰ Anne Jäckel, “European film industries” BFI. P.97.

¹⁸¹ Rhiannon Guy “The moviegoer’s companion”, A think book, p.24.

¹⁸² Jean-Claude Usunier, “Marketing across cultures”, Third edition. Financial times, Prentice Hall, p. 148.

how competition with American major companies play a very important role for their lack of success within the EU single market in audiovisual sector. Moreover, the cultural differences within the EU are much broader, than sometimes the differences (family relation patterns, religion, organization of everyday life- in regards of meals, social, family and business life- tend to be quite heterogeneous) with the USA (especially the ones displayed within the film sector). Moreover, the language content, which is also a major constituent of the cultural content of a product¹⁸³ plays an important role creating borders for distributing films across borders.

¹⁸³ Ibid., p. 148.

7. CONCLUSION

The distributed European films market fragmentation is tried to be reduced by the European Community's audiovisual policy. Various financial supports offered for distribution and exhibition of European films across borders is presently and successfully enhancing the internationalisation of the sector. The European Community competition laws, dealing with film distribution and exhibition sectors try to monitor, that the competition would not be distorting, or it would allow some exemptions for film distribution and/ or exhibition company's dominance to be made during the economical downturn in the sector, as it was showed with the UIP and Cecchi Gorri- Safin cases. Horizontal concentration and vertical integration present, despite its efficiency enhancing effects, profitability should also be closer monitored, that the small and medium companies offering not blockbuster American movies could also respectively compete in the market.

Generally the European legal environment tries to protect medium and smaller companies within the sectors and enable them to be competitive with majors, if not in economic, then in cultural terms and with European and/ or national state aid. There are also some legal issues left at the national levels, such as the coordination of censorship, minimum exhibition periods, clearance periods, which could be considered to be standardized in the future, together with the enforcement of copyright to fight video, Internet piracy, which should lead to a less fragmented European single market.

The competitive situation varies from country to country, as it was showed by the country comparison analysis, which is a fact not notably signaling about the single European market. For example, in UK there is very little extent of vertical integration, though horizontal concentration both in distribution and exhibition sectors is high. With approximately 80% of the companies being of American origin and being among those highly horizontally concentrated the obstacles for minors, independent companies to compete are created. The supplier power in distribution sector is little, whereas in exhibition sector it is high. Moreover, the admission growth in this country has been the least (of only 2.4% since 2003), although the number of distributed films grew at much

larger extents. Therefore, such findings indicate about a very competitive environment in the country and the dominance of the American companies (one is very close to the margin, which could nearly define this company as a monopoly in film distribution sector). Empirical research, which was made only confirmed these findings.

In France vertical integration is slightly higher than in UK, though the horizontal concentration in both sectors is notably lower than in other two analysed countries. Although, findings by the Porter's five forces model indicate that the larger the number of competitive firms in similar size and capabilities the fiercer competition is, as it is the case in France. The growth of films distributed was much less than the admission growth therefore, the competition for having film exhibited was little and the bargaining power of suppliers for exhibitors played a more substantial role.

In Denmark the extent of vertical integration was highest as well as horizontal integration in both sectors, which makes a competition among those three notable, and leaves a very little market share for the other remaining companies, creating fierce competition among them. Moreover, the empirical research showed that the requirement for minimum film exhibition periods for longer than 4 weeks (in UK from 2 to 4 weeks) indicated that this longer period of time required to exhibit a movie, might be a competition distorting factor for smaller cinema chains with few screens, which would normally want to exhibit films for shorter periods of time (until they still receive admissions). Furthermore, the growth of films distributed and admission growth was in balance, thus, this element does not really suit to determine the level of competition. Consequently, the legal and the present competitive environment for the smaller companies in Denmark seem to be least favourable. The changes in this issue within the sector might thus come with the newly created distribution company vertically integrated with major Danish production companies aiming to distribute national movies previously distributed by the major Nordisk company.

The similarities in the analysed countries and in Europe that were seen were, that cinema visitors are mostly willing to see American films. This could also be a result of preferred only the culturally unbiased, not too artistic product, but also for the specificities of cinemas showing such films. These are usually modern multiplexes, involving various additional entertainment activities and strategies to build customer

loyalty. Although, the analysis of the countries showed that the cinema visitors have moderate power for the exhibition and distribution companies, because customers are fragmented with a majority preferring American films, but with some customers preferring more artistic cinemas, films and more willing to see national, or even foreign movies.

The American film success in Europe was also discussed, considering the issues of pre-historical background of American audiovisual products' presence in Europe, of the language issue perspective, of a broad range of vertical integration and horizontal concentration present together with economy of scale and scope.

The analysis of the top European and non- European major companies was made by the types of Porter, Bartlett & Goshal strategies, resources and international management styles used. Keys to success in film exhibition business seem to be either artistic design orientation (EuroPalaces), or multiplexes with the idea of "entertainment destinations" with various additional entertainment activities involved (Village Roadshow). If the parent company has very broad international presence Bartlett & Goshal multinational strategy used is more beneficial. Whereas, if the company's geographical presence is more concentrated the transnational strategy is used (with core values, know-how centralized and others, which are more beneficial as such, being not centralized).

In film distribution the most successful companies use global strategy and are geographically dispersed and have highly coordinated activities by the type of Porter strategy used. Ethnocentric approach is used by American major (as it is mostly used with their products too, except from marketing techniques) and the geocentric approach by European major company Pathé. European major has innovative, flexible approach and well established relationship with producers. Whereas, the non- European major compete by the economy of scale and scope.

Both sectors try to cover as larger geographical areas as possible, they also try to use vertical integration at a large extent.

To sum up, the film distribution and exhibition market is not very much integrated, mostly it is because of the differences in vertical integration and horizontal concentration within the sectors. Though, majority of the legal issues are well integrated at the European community level and try to encourage fair competition and film distribution

across their national borders. Furthermore, the lack of European single market is influenced by a long historical American major companies' presence and their know-how, economies of scale and scope possessed. Film viewers' impact on the market is moderate, since they are fragmented and the major strategies used by the major companies created a situation of the movies that are shown and consequently shaped out European audiovisual culture. Moreover, cultural differences, language issues also play a role in this variety present within the EU.

I. APPENDIXES

I. I. Surveys on film distribution and exhibition



Survey on Film Distribution

All the information provided will be treated by strict confidentiality and will not be shared by third parties.

Please do not forget to save the document before sending it back.

1. What is the name of your distribution company?

2. Since when does your company operate?

3. What is your position in the company?

4. You consider your company to be:
 - Major company in the market*
 - Independent*
 - Art-house, specialized films company*
 - Average company in the market*
 - Other, please explain*

5. What kind of films does your company mostly distributes? (you can check few, which your company mostly distributes)
 - American films*
 - European blockbuster films (P.Almadovar, Lar von Trier, other famous renowned producers films)*
 - European films*
 - British films*
 - Other films, please explain*

6. Approximately how many films does your company distribute per year?
7. Does your company have their parent company abroad? If yes, - where?
8. Does your company have branches, subsidiaries in other European countries? If yes, -where?
9. If your company have subsidiaries in other European countries, approximately, how many movies, do you distribute to those countries per year?
10. Does your company own any cinemas in the country?
11. Does your company faces any legal obstacles to compete in the market? If yes, please explain what kind? (e.g. minimum exhibition periods, alignment practises, cinemas do not want your distributed movies, etc.)
12. Do you see any obstacles, except cultural differences, for European films to travel within Europe?

Thank you very much for your help and time.

Please save this document and return it to the sender in form of an attachment.



Survey on Film Exhibition

All the information provided will be treated by strict confidentiality and will not be shared by third parties.

Please do not forget to save the document before sending it back.

13. What is the name of your exhibition company?

14. Since when does your company operate?

15. What is your position in the company?

16. You consider your company to be:

- Major company in the market*
- Independent*
- Art-house, specialized films company*
- Average company in the market*
- Other, please explain*

17. What kind of films does your company mostly exhibits? (it is possible to check few, which your company mostly exhibits)

- American films*
- European blockbuster films (P.Almadovar, Lar von Trier, other famous renowned producers films)*
- European films*
- British films*
- Other films, please explain*

18. Approximately how many films does your company exhibits per year?

19. Does your company have their parent company abroad? If yes, - where?

20. Does your company have branches, subsidiaries in other European countries? If yes, -where?

21. Does your company is owned by a distribution company? If yes, - what is the name of the owner company?

22. Does your company faces any legal obstacles to compete in the market? If yes, please explain what kind? (e.g. minimum exhibition periods, alignment practises, distributors do not want to supply your cinemas with movies, etc.)

23. Do you see any obstacles, except cultural differences, for European films to travel within Europe?

Thank you very much for your help and time.

Please save this document and return it to the sender in form of an attachment.

I. II. Porter analysis of film distribution and exhibition in the EU

Porter analysis of film distribution and exhibition in EU				
Sectors	Exhibition sector		Distribution sector	
Owner Companies	Pathé and Gaumont	Village Roadshow Limited	Pathé	Paramount Pinctures (owned by SBC corporation) and Universal Studios (owned by NBC Universal)
Chosen companies' parent country	France	Australia	France	USA
Identified major companies	<i>EuroPalaces</i>	<i>Village Roadshow</i>	<i>Pathé</i>	<i>UIP</i>
Nat mkt share	11.3%			0,18%
Number of cinemas in Europe/ Number of films distributed	76	130 (49 of them in Europe)	18	42 in UK
Number of screens in Europe	750	1 100 (483 of them in Europe)		
No. Countries sold	4 (France, Netherlands, Switzerland, Italy)	8	4	34
Turnover	€ 408 M		€ 332 M	
Number of admissions	€ 51.2 M	€ 76 M globally		
Type of Bartlett & Goshal strategy	Transnational	Multinational	Global	Global
Type of Porter strategy	Geographically averagely dispersed & low coordinated	Geographically dispersed & low coordinated	Geographically concentrated & highly coordinated	Geographically concentrated & low coordinated

Most valuable resources	Modern cinemas, very high quality design (designers, such as Christian Lacroix involved in designing cinemas), ownership by European blockbuster film company Pathé. Compatability within the French culture of design, preference for more artistic movies.	Long history and was one of the first to introduce multiplexes. The creation of the idea "entertainment destinations" (including games, real action amusement options within the cinema, etc.).	Independence, high quality, diversity, innovation. Participation in film production, distribution, exhibition, tv sectors.	Strong financial assets, being owned by US major production companies. As well as geographical coverage. Economy of scale and scope.
Most rare resources	Being a subsidiary of Pathé and Gaumont (major European leaders in production and distribution) allows tight relations among them and European blockbuster film reception.	Long history, professionalism of multiplex culture. Aim to be the world's highest quality cinema circuits. Orientation towards continuous expansion.	Flexibility, innovation, profound diversity. Ownership of EuroPalaces cinemas.	Economy of scale and scope. Being owned by major American companies producing most successful movies for distribution around the world.
Most inimitable resources	Assurance for obtaining the major European films from renowned producers, dense concentration within France.	Financial assets, long history, professionalism, international coverage.	Ownership of EuroPalaces cinema circuits, old history, professionalism, established relations with producers.	Economy of scale and scope as well as financial assets, professionalism, various inter-relations with the distribution professionals training, etc. sectors.
Organisational Strengths	Smaller company with efficient flexibility.	High quality orientation. Viewing cinemas also as a "entertainment destinations". Multiplex culture.	Variety of not too many projects, clearly organized and managed with high quality.	Economy of scope and scale.
HRM strengths	Overall quality orientation for employees.	Emphasis on highly qualified employees.	Training on quality orientation, loyalty of employees.	Orientation towards highly qualified employees.
Int. Mgmt style	geocentric	polycentric	geocentric	ethnocentric

I. III. Country comparison summary by the Porter's five forces model in film distribution sector

PORTER'S FIVE FORCES	Countries and level of competition		
	United Kingdom	France	Denmark
COMPETITORS			
1. Concentration among three largest	Average to high	High	High
2. The number of firms similar in size, capabilities	High	High	Moderate
3. Growth of films distributed and growth in admission	High	Little	Moderate
4. Box- office receipts	Little	Moderate	Moderate
5. Customer's flexibility to switch to competitors	Little to moderate	High	Very little
6. Product differentiation	Moderate	Little to moderate	Moderate to high
SUPPLIER POWER			
1. Numbers of film production and distribution companies	Little	Moderate	Moderate to high
2. Extent of vertical integration (both: film production companies with film distribution companies and film production companies with film exhibition companies)	Very little	Little	High
POTENTIAL ENTRANTS			
1. Organizational economies of scale	High	Little to moderate	Moderate
2. Vertical integration	Very little	Little	High
SUBSTITUTES			
1. Very low barriers to create a distribution company; Internet, illegal distribution, piracy	Little to moderate	Little to moderate	Little to moderate
BUYERS			
1. Growth of films distributed and growth in admission	Fierce	Little	Moderate
2. Horizontal concentration	High	Little	Moderate

I. IV. Country comparison summary by the Porter's five forces model in film exhibition sector

PORTER'S FIVE FORCES	Countries and level of competition		
	United Kingdom	France	Denmark
COMPETITORS			
1. Vertical integration	Little	Little	Moderate
2. Horizontal concentration and the number of companies	High	High	Moderate
3. Growth of films distributed and growth in admission; growth in number of screens	High	Little	Moderate
4. High fixed costs and economy of scale effects	Little to moderate	High	Little to moderate
5. Customer's flexibility to switch to competitors and service differentiation, brand loyalty	Moderate	Moderate	Moderate
6. Exit barriers	Little	Little	Moderate (because of vertical integration)
SUPPLIER POWER			
1. Horizontal concentration and number of companies	High	Little	High
POTENTIAL ENTRANTS			
1. Organizational economies of scale, brand loyalty	High	Moderate	Moderate
2. Vertical integration	Little	Little	Moderate
SUBSTITUTES			
1. Video and television	Moderate	Little	Little
BUYERS			
1. Fragmented buyers, switching costs	Moderate	Moderate	Little to moderate

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