

Movie distribution report

Business



Movie Distribution Industry Group 7 Market Overview The market analyzed in this report is the distribution sector of the movie industry. In order to focus the scope of this report we are specifically looking at the distribution of films to movie theaters in Canada and the United States, and distinguishing the roles of movie producers and distributors. It should be noted that home video viewing is also a large part of the movie distribution market, but is too dispersed and complex to include in this report.

Figure 1 – Market Share of Film Distributors (USA & Canada) Figure 1 – Market Share of Film Distributors (USA & Canada) In movie distribution the top six firms gross eighty percent of total revenues. The top grossing firms based on 2010 numbers listed from highest to lowest are: Warner Bros. , Paramount Pictures, 20th Century Fox, WaltDisney, Columbia Pictures, and Universal Pictures (see Figure 1)1. Much of the discussion will revolve around the processes of these six main distributors.

Cost StructureIn order to gain an understanding of the cost structure for movie distribution, it is important to briefly discuss the structure of the movie industry. At first, a script and rights to produce a film are purchased by a production company. Second a distributor will buy the license to distribute the film. For most large production films, the distributor provides most, if not all, of the funding for the production. This practice transfers most of the risk to the distributor, but also gives the distributor rights to more of the profit. After the film has been produced, the distributor will screen the movie for buyers that represent the theatres.

Next, the distributor will work with the theatres on a lease agreement to bring the film to their screens. Finally the consumer buys a ticket and views the film^{2, 3}. With this understanding of film distribution, we will now take a look at the breakdown of costs for a distributor. The largest portion of costs are the licensing fees, accounting for 32.4% of revenues. These are variable costs as they depend on the deals that distributors strike with the producers.

The second biggest percentage of revenues goes to marketing at 16.3%.

The distributors are responsible for marketing movies in order to drive demand. Another 14% of the revenues go to producers as royalties. These costs are rising due to the fact that producers are doing more in-house distribution and can bargain for higher royalties.

Packaging, shipping and other physical distribution costs account for 6.5% of revenues. These are expected to drop dramatically over the next five years as distributors make the transition to digital transfer to theatres. Fixed costs including rent, depreciation, administrative costs, utilities make up 11.5% of revenues.

Wages make up much of the remainder at 15.9%. The remaining revenue is profit at 3.6%⁴. Figure 2 – Movie Distribution Industry Fixed Costs

The largest opportunity that distributors are looking to exploit is the transition to digital transfer, currently making up more than 40% of the screens in US and Canada⁵. This number will continue to grow rapidly in the coming years and will allow distributors to reduce the 6.

5% of revenues that is currently spent on shipping films to theatres⁶. With net profits of 3.6%, there is huge potential to increase earnings. IBIS One of <https://assignbuster.com/movie-distribution-report/>

the largest threats to distributors is the producers attempt to create in-house distribution for their movies, made possible by digital transfer⁷. This will force distributors to pay more in royalties and marketing in order to prove to the producers that they provide value. With royalties already taking up 14% of revenue, distributors will need to prevent royalties from rising any higher.

Market Demand Drivers In the last few years there have been several significant shifts in the demographics of moviegoers. Also there has been a rapidly increasing cost for movie tickets. The availability of substitutes to movie attendance is also increasing. On a positive note there has been new technology introduced that has allowed for an increase in price and demand. It will be helpful to examine these demand drivers to understand where the market is headed. One of the largest shifts in moviegoer demographics has been in race.

In 2010 the Hispanic population purchased 351 million tickets versus 300 million in 2009, the only demographic segment that increased in 2010. All other races decreased their movie attendance⁸. This will have an impact on the types of movies that theatres are interested in licensing from the distributors. (MPAA) There has also been a significant shift in the age level of moviegoers. In 2009 18-24 year olds attended an average of 8. movies a year.

In 2010 that number dropped to an average of 7. For 25 – 39 year olds in 2009 the average attendance was 4. 3 movies per year and in 2010 it increased to 5. 0 movies per year⁹. This represents a shift to an older

population of moviegoer, which will be another factor in the theatres demand for content from the distributors.

(MPAA) One of the biggest threats to the movie industry over the last few years has been the increase in theatre substitutes. The internet has introduced both legal and illegal ways to watch movies at home. It is estimated that 24% of the world's internet traffic has participated in illegal downloads of copyrighted material. It is also estimated that films (35. 2% of downloads) are the 2nd most popular type of content behind pornography (35. 8%)¹⁰.

Numerous legal movie sites have also started in the last few years including, iTunes, Amazon, Netflixstreaming and Hulu to name a few. Not to mention that cable networks are offering On Demand movies for their subscribers. As watching movies at home becomes more convenient, it will make the distributors job of attracting people to the theatre more challenging.

MPAA) One of the largest opportunities in the movie industry over the last couple of years has been the introduction of new technology 3D films. 3D films allow theatres to charge higher prices due to increased demand for 3D films. In 2009 3D films made up 11% of box office revenue. In 2010 it was up to 21% of box office revenue¹¹. It should be noted that the higher price paid for 3D films in 2010 is the reason that the industry maintained its earnings.

Movie attendance dropped from 1. 42 billion in 2009 to 1. 34 billion in 2010¹². Competitive SituationThe competitive situation facing movie distributors looks to be challenging over the next few years. Examining the future key costs and demand factors are important to understanding

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profitability of distributors. The majority of the costs are in licensing and marketing the film.

Distributors can pay much smaller licensing fees if the film costs less to produce. It should be noted that six out of ten films lose money. Distributors need to better understand the factors that make films succeed. They also need to be smarter in spending their marketing dollars on the new forms of media to create buzz for films¹³. The distributors that will be able to control these costs will remain profitable.

We have seen that there have been major shifts in the demographics in moviegoers. This will challenge distributors to pick films that meet the demand of a new market segment. The price of a movie ticket has increased over 17% in the last 5 years¹⁴. Hispanic households, the fastest growing moviegoer market segment, have the second lowest average income¹⁵. Distributors, who directly affect the price of movie tickets, will need to make sure that they are not pricing themselves above the changing make up of the moviegoers. This is an extremely important factor taking into account the decline of moviegoers in the last year.

The level of entry threat to the top six distributors is not very high. It would take a huge amount of funding and industry connections to truly mount a legitimate threat to any of the market leaders. Conversely there are many opportunities for small budget films to find distribution on the Internet that can further exacerbate the problem of movie going substitutes. As seen in this report there are major opportunities and threats that face the movie distribution industry over the next few years. The future profitability of

distributors will be determined by their ability to reduce variable costs and leverage new technologies (such as 3D) while combating movie attendance substitutes, changing movie going demographics, and rising royalty costs.

In summary we don't believe that the distribution business will remain as profitable in the future mainly due to substitutes, in particular the internet and On Demand films. Bibliography 1 " Market Share for Each Distributor in 2010". The Numbers/Nash Information Services. 2011.

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