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Film Council

**Specialised Exhibition and Distribution
Strategy**

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Whilst the information contained in this report is given in good faith a prospective investor must satisfy themselves as to the accuracy of all matters on which they intend to rely.

All estimates provided in this report are indicative. Whilst these estimates are provided using the best available information and judgement of KPMG professionals, KPMG accepts no liability for any actions, opinions or views which are based on or relating to any such information contained in this report or relating to the Film Council's use of the report.

1 Executive Summary

1.1 Introduction

If a vision of access for all to a wide range of films is to be realised, significant and well-targeted intervention in the specialised cinema sector needs to take place. Specialised cinema exists to satisfy niche audiences, and also to meet the desire of audiences to see a wide range of films, at a variety of cinemas or other locations. Typically venues exhibit a majority of specialised films and often are driven by a broad educational remit. The free market will not deliver a sustainable specialised sector nor fulfil the many important public policy objectives associated with the sector. Indeed, owing to the economics of specialised cinema, from distribution through exhibition, through to the small but loyal audience itself, there is a real danger that the sector, left to its own devices, could spiral into decline.

Direct intervention is crucial in order to generate change within the sector at a structural level and to meet vital cultural, social and educational objectives

Availability of specialised cinema

While all citizens of the UK, wherever they live, have access to a wide range of television and radio broadcasts, many of which represent the diversity of cultures of the nations and regions and various demographic groups, the same cannot be said of the cinema experience. Not only are there major gaps in provision (e.g. in rural areas), but of the 692 cinemas in the UK, only around 13% (93 cinemas with at least 6 screenings per week) can be defined as specialised. Owing to the prevalence of the multiplex model, and the small scale of specialised venues, in terms of screens, specialised represent less than 7% of the total. A combination of demographic trends and cultural change yields a specialised audience today of less than 6% of the total cinema-going public.

While there has been a significant reversal of the downward trend in cinema-going since the 1980s, this has bred an audience that views, generally, Hollywood films

Arguably, the product most widely available, the Hollywood fare, provides a relatively narrow range of material for viewing. Furthermore, it has been stated that there has been a trend towards the exclusion of so much world cinema in the UK, that this is seen as a mark of cultural and educational shame by other European countries.

Yet, Government is committed to media literacy as a part of an education to which every person in the 21st century is entitled. Moving image is now as central to young people's cultural and intellectual development as traditional print, and, recognising this, the DCMS published in 2001 a 'Media Literacy Statement'. This endorses one of the conclusions in the report, *'Making Movies Matter'* (bfi, 1999): "critical and creative moving image skills will be a key element of literacy in the 21st century."

Much educational work of excellent quality has been established by specialised cinema venues. But there is not access for all throughout the UK nor is there provision of consistently high quality product. Overall provision is ad hoc, uncoordinated and under-funded.

1.2 Key constraints

Over a hundred specialised films are given theatrical release in the UK each year. Crucially, however, these films are not widely shown, the number of prints available is often limited and the cinema runs can be short.

Subtitled material is still a relative rarity with the exception of major cross-over successes

Therefore, the effective availability of specialised film is constrained by a number of factors including:

- the size and characteristics of the audience – the audience is small, older, dominated by socio-economic group ABC1 and under-represented by ethnic minorities and disadvantaged groups;
- the economics of the specialised distribution sector – there are only a small number of key players who distribute specialised films theatrically, through video and through other media such as television. Average turnover and margins of specialised distributors are significantly lower than the mainstream players. Box office and terrestrial broadcast rights are generally low for specialised films yet print and advertising costs are no cheaper, pro-rata, than for mainstream films;
- the economics of the specialised exhibition sector – there is a large number of small players, many of them operating on a stand-alone basis. There is a shortage of specialised screens and a shortage of prints. Margins are lower than in the non-specialised sector due to higher staff costs and lower concession profits, and stand-alone cinemas with 1-2 screens are not generally viable without subsidy.

1.3 Market failure and public policy objectives

There are two broad categories of rationales for intervention – those that relate to the need to intervene for cultural and social reasons, and those that relate to weaknesses in the economics of the sector.

One key area where market failure is rife is moving image education. Without intervention in the market, no educational infrastructure which both develops a coherent network between venues, and links in with moving image educational work taking place in other settings, will emerge. The provision of education will remain ad hoc, and public policy objectives such as improving moving image education and the development of an informed and appreciative audience in the UK will not be fulfilled. Examples of other market failures/structural weaknesses identified in the sector include:

- specialised films not being picked up by distributors for exhibition;
- a declining trend in specialised film being shown on free-to-air television;

- a shortage of specialised screens;
- market structure – fragmented in both exhibition and distribution.

The result of these failures is that a less than socially/culturally desirable number of specialised films are shown and viewed by a very narrow and small audience

Consequently, addressing market failure in the specialised sector in the most simplistic terms means to ensure that films are available, and released/broadcast to the public, that otherwise would not be seen.

In deciding the appropriate policy response for the execution of the study we are guided by the

following principles:

- maximise impact;
- maximise sustainability;
- minimise secondary distortions;
- maximise additionality;
- support current reforms.

1.4 A need for change

Government has set the Film Council a number of important cultural, social and educational goals, including:

- improve education about the moving image;
- extend and improve access to film culture and film heritage, serving the diverse geographical needs of the UK's nations and regions, and recognising the differing needs of rural, suburban and metropolitan locations;
- support and encourage cultural diversity and social inclusiveness;
- promote and encourage use of digital technology.

The specialised cinema sector is the obvious setting for achievement of these goals.

In tandem with this, the Film Council has been charged with the difficult and challenging task of making a step change in the specialised cinema sector, with making a real difference. Fundamental to this change is the promotion of the interests of the audiences in the UK and the realisation of the Film Council's key vision, namely that everyone in the UK ultimately should have access to specialised cinema. It is recognised that that this vision, together with sustainability can only be achieved over a number of years and success will be predicated on, amongst other things, a flourishing and diverse exhibition sector, a fuller reflection of the cultural diversity of the UK, improved distribution and exhibition of a broader range of films, a more film-aware audience, and improved audience access to the UK's film heritage and history.

One of the identified weaknesses of the UK film industry is a failure to draw upon and reflect the full cultural and social diversity of the UK

Underpinning the Film Council's vision of universal access to specialised cinema are a number of key objectives:

- develop a robust and sustainable UK specialised exhibition and distribution infrastructure;
- ensure that the widest range of British, European and World cinema is screened across the UK;
- broaden and increase UK audiences;
- develop an informed and appreciative audience for film in the UK;
- maximise the potential offered by new technologies such as e-cinema;
- work in association with public and private sector partners to deliver best value for money;
- complement other Film Council strategies.

In developing a medium-term strategy for the sector, the recognition that distribution, exhibition, and the audience are intrinsically linked is a crucial point. Measures targeted at each of these facets are important but cannot be undertaken in isolation if long term sustainability is to be achieved. A strategy that enables more films to be distributed but ignores exhibition and the audience is unlikely to induce a sustainable impact on the sector. A coherent strategy that targets all links in the chain is required. For these reasons, we believe that one organisation, the Film Council, should take the lead in all our strategic recommendations.

A coherent strategy that targets all links in the specialised cinema value chain is required

We have assisted the Film Council in identifying the best way forward by developing a number of key recommendations based on our study of the sector using a combination of desk research, extensive industry consultation, analysis and modelling.

1.5 Key recommendations

We have considered a wide range of possible interventions. Some are rejected de facto as we consider they are either politically unachievable (e.g. reduced VAT rates for cinema tickets) and/or are inefficient and lead to secondary distortions (e.g. quotas) and therefore do not represent value for money.

The core aspects of our recommended strategy are:

- Distribution:
 - strengthen the sector via a selective print and advertising (P&A) subsidy for theatrical distribution;
 - increase availability of the product (television, public libraries, videos/DVDs);
- Exhibition:
 - increase provision (more venues and screens) via a capital investment strategy;

- strengthen provision – facilitate the circuit model;
 - plug key gaps – education, diversity and rural areas (education strategy, audience development initiatives and e-cinema);
 - develop an appropriate provision of educational services (education strategy);
 - ensure improved provision of facilities for people with disabilities and those with visual or hearing impairment (capital investment strategy);
 - increase the range of films shown – serving the needs of children, ethnic minorities, gays and lesbians and disadvantaged groups across the UK (capital investment strategy and audience development initiatives);
- Place moving image education high on the political agenda - a new educational dimension to the overall strategy for specialised cinema;
 - Exploit the benefits of new technology - a capital investment fund for e-cinema;
 - Harness a series of complementary measures to support the above.

We discuss each of these in brief.

1.6 **Distribution strategy**

By targeting and assisting the media through which specialised film is delivered, the Film Council can drive the creation of a strong and sustainable distribution infrastructure.

We have assessed and recommended measures which will help strengthen all forms of distribution of specialised film, enabling wider availability and hence greater audience for specialised product.

The key tenet of our strategy for distribution is the introduction of targeted P&A assistance. We consider this to be the most efficient and cost-effective way to assist this sector and develop a robust and healthy theatrical distribution sector. We recommend an annual expenditure of £1m. This should be targeted at films of a specialised nature. The distributor will apply to the Film Council to request that a film they are to release be considered eligible for the scheme. This measure will reduce risk for distributors and widen the number of films released as well as the number of prints that these films are released on.

The introduction of a P&A fund will result in a stronger and more effective specialised distribution sector

However, it is crucial that other forms of distribution are also addressed. To this end, we also believe that a number of other measures should be undertaken to ensure the prosperity of the specialised film distribution sector.

The Film Council should advocate to the DCMS measures which would lead to an increase in the number of specialised films broadcast on terrestrial public service broadcaster channels. The cultural influence and reach of television is universally recognised and leveraging this access mechanism is key to developing an educated and appreciative audience. Alongside this, we recommend that the Film Council

explores possible partnerships with the new digital public service channels such as BBC4.

The Film Council should also maintain a watching brief of broadband to ensure opportunities in this exciting and rapidly changing delivery mechanism are not missed.

We also recognise the important work undertaken by *bfi* Collections in the distribution of niche specialised product, particularly on video and DVD. Furthermore, its position as a key supplier of film societies is fundamental to the maintenance and development of a loyal and educated film audience. The *bfi* should continue to be supported in its activities in this sphere. The Film Council should also continue to act as a key liaison point between distributors and the EU through the Media Desk. Finally, we also recommend that the Film Council should work with Local Authorities and *re:source* to encourage wide availability of specialised product in libraries.

The combination of these measures will enable the Film Council to leverage its role in the film industry to create a strong distribution sector serving an educated and appreciative audience.

1.7 **Exhibition strategy**

Our recommended strategy for exhibition is to increase provision (more screens, more venues), to strengthen provision (the circuit model), to plug key gaps (rural areas, education, diversity), to ensure provision of a certain level of educational services at all specialised venues, to ensure that all specialised venues provide facilities that benefit people with disabilities, and to ensure that a wide range of specialised film is shown to children, ethnic minorities, gays and lesbians and disadvantaged groups. If everyone in the UK ultimately is to have access to specialised film, then this has to be a medium to long term strategy. There is no immediate solution. There are however a number of measures that could be developed in the near future, including:

- a high profile announcement of the proposed ACE capital expenditure of £15m on specialised cinema provision in England – this can be a role model for the Arts Councils of Scotland, Wales and Northern Ireland to consider. The announcement of the availability of the fund will inject excitement amongst existing players and encourage new entrants. It should also increase the public's awareness of specialised cinema;
- a high profile announcement of a nationally branded circuit proposal.

Over the longer-term, the aim should be for the new specialised circuit to be perceived as one of the key cinema brands

We make recommendations for capital expenditure of £15m to be spent on the specialised cinema infrastructure in England. This clearly is just a small step towards universal access and does not address the provision gaps in Scotland, Wales and Northern Ireland.

We have identified the gaps in provision and

significant levels of under-provision throughout the UK. New provision based on the successful circuit model will be most likely to succeed in attracting and building new audiences for specialised film.

New Provision We have identified the top 10 locations for new cinema provision in England. The assessment for Arts Council of England capital grants should include transparent and specific education criteria (i.e. applications will need to include a proposal for specific educational services). Access for people with disabilities should also be included, as should a commitment for diverse programming and reaching out to diverse audiences. Innovative technical solutions (e.g. for people whose sight or hearing is impaired) should be encouraged, with the potential for additional public sector funding.

A total of £10m in Arts Council of England capital expenditure, together with at least 100% matching funding, should be able to fit out ten (3 or 4 screen) specialised cinemas

Additional screens Specialised cinemas with 1-2 screens are almost never viable (especially when operating as stand-alones) without ongoing public subsidy. In addition, audiences are poorly served as specialised films which could be held over (as there is ongoing audience demand for them) have to be shunted out because of prior bookings. In England, £3.0 million of ACE capital funding could build up to seven additional screens in specific locations with the assistance of partnership funding.

Virtual Circuit The Film Council should facilitate the formation of a virtual circuit. A pre-requisite for the award of ACE Lottery capital grants for new provision and additional screens should be membership of the virtual circuit. In addition, the Film Council should persuade existing cinemas and their funding stakeholders of the benefits of a virtual circuit:

- more efficient cost base – particularly in programming, administration, finance and marketing;
- increased bargaining power in negotiations with cinema advertising companies, resulting in higher revenues;
- increased bargaining power with distributors resulting in more effective release schedules;
- increased purchasing power with concession suppliers, allowing the cinemas to realise higher margins on their concession sales.

The Film Council should incentivise specialised cinema operators to join the virtual circuit. Incentives should include education provision, training or marketing for the newly formed circuit

In addition to the financial benefits, the cinemas in the new virtual circuit could also benefit from:

- common branding;
- knowledge sharing of best practice;
- efficiencies in devising audience development initiatives.

A body should be charged with overseeing the

formation and development of the circuit.

Film Societies There is a perception that the needs of the voluntary sector are not often acknowledged or addressed by exercises such as this. Film Societies are facing a pressing need to upgrade equipment from 16mm to DVD. In order to foster the continued survival of the Film Society movement and enable societies to attract new members, we recommend that an amount of capital should be reserved for Film Societies (or ideally consortia of Film Societies) to apply for funding for upgrading to digital equipment. We understand that the typical cost would be around £10,000 per set of equipment. In England £50,000 would provide part funding for 5 such sets of equipment.

1.8 Education strategy

This review offers the Film Council the opportunity to compose a new vision for moving image education in the UK and to realise the vision by proposing a fresh approach centrally and in the regions.

Education enhances people's enjoyment and understanding of film. Moving image education is also fundamental to the long-term development of the audience. Our proposed capital strategy for exhibition will apply education criteria for grant award. However, this in isolation will not suffice if a vision of access to moving image education for all is to be realised.

The Film Council should drive the formation of a new strategy and lead communications at the highest level. The strategy should include:

- securing a specific proportion of the Government's education spend for moving image education. A total of £1m per annum is required for education provision at existing specialised cinemas, together with £250,000 for training of Education Officers;

There needs to be investment in the system, rather than ad hoc funding for projects. This needs to be long-term financial investment to develop an educational infrastructure which both develops a coherent network between venues, and links in with moving image educational work taking place in other settings

- co-ordinating and streamlining the roles of the various organisations involved at the national level;
- ensuring that all publicly funded cinemas have a transparent and measurable educational remit;
- addressing serious gaps in provision – the South West and the North of England (excluding Tyneside), Wales, Scotland (outside the Central Belt) and Northern Ireland;
- adopting a phased approach, initially targetting resources at the under 25s;
- ensuring a balance between practical and analytical work;
- developing a consistent definition of moving image education insofar as is possible, setting quality standards and evaluation process;

- co-ordinating the “professionalisation” the role of film education officer at venues and developing new accountability arrangements;
- fostering a ‘collegiate educational culture’ which needs to be built up at three levels: local, regional and national;
- ensuring that the education strategy has an e-strategy element, enabling, amongst other things, distance learning.

1.9 E-cinema strategy

While significant penetration of digital technology in cinemas is unlikely for at least 5 and possibly 10 (or even 20) years away, the Film Council should act as a champion for digital technology. This role should include making the case to the relevant government departments for example, extensive encourage broadband penetration, liaison with the DfES, DTI and NESTA, and co-ordinating current trials and initiatives, essentially conducting a “watching brief”.

A proportion of the capital fund should be ring-fenced to support digital distribution and exhibition initiatives - a “Digital Innovation Fund”

This would support digital distribution and exhibition initiatives, with priority given to those with the ambition, imagination and energy to use cost-effective new technology to deliver material to new audiences, especially in deprived urban and rural areas. Alliances with educational initiatives (e.g. Excellence in Cities, Educational Action Zones) should be encouraged wherever possible.

We propose that £1.5m to £2.0m is used for this purpose over the period of 5 years and a target spend of between £0.8m to £1.0m in total over the first three years. The effectiveness of the fund should be reviewed after one year.

The Film Council has to ensure that the UK is at the forefront of cinema technology to ensure early realisation of the potential benefits of e-cinema. The Film Council should:

- encourage the use of e-Cinema for screenings of a diverse range of materials. The potential of e-cinema could be harnessed to meet the over-arching objectives of social inclusion, cultural diversity etc;
- facilitate more cohesive, UK-wide initiatives by bringing together a small group of exhibitors to discuss collaboration through a “Virtual Network”;
- maximise opportunities for radical experimentation using the widest possible range of technologies. “Let a thousand flowers bloom” in the full knowledge that some will wilt quickly;
- consider using e-cinema technology as a means of plugging key gaps in provision e.g. rural areas.

Complementary measures

The Film Council should also:

- facilitate more communication – amongst distributors and exhibitors and between the mainstream and specialised sectors. This should be led from the Regional and National Screen Agencies. The aim of this role is to ensure that best practice lessons are shared, duplication is minimised, films are marketed effectively, and that multiplexes exploit specialised film effectively;
- monitor and review audience development initiatives including education–ensuring dissemination of the reasons for success and failure; monitoring and review of audience development initiatives; co-ordinating detailed, regular market and audience research; providing training;
- move towards incentive-based subsidies - in the long term an incentive structure would encourage venues to become more viable. Therefore less subsidy would be needed to survive freeing up the public funds for spending on activities in other parts of the film industry.

1.10 **About this report**

This report has three major sections - Part I - the background, Part II – the strategy, and Part III - the evidence. In addition, there are 6 appendices, and 3 separate reports on education (by CELSI), e-cinema (by Neil Watson and Richard Morris) and international case studies (by Olsberg/SPI and Kern European Affairs).

If the reader wishes to understand the detailed background to the sector, they should read Part III in addition to Part I and Part II. For those interested in our recommendations for the way forward only, Part II is sufficient.