

KPMG – Main Report

Part I – Background to the study

# 1 Introduction

## 1.1 Background to the study

The film industry in the UK is currently buoyant and prospects for growth in the long term are good. Recently there has been a general upward trend in the number of films shown within the UK, with growth in box office attendance particularly strong over the 1990s. The film and video industry currently supports around 33,000 jobs, and from the 367 theatrical films released in 2000, attendances and box office revenues totalled 143 million and £621 million respectively.

But while the overall position of the UK film industry is encouraging, there are pockets which are performing less well. A report by the Department of Culture, Media and Sport in 1998 entitled ‘A Bigger Picture’ identified a number of weaknesses such as a lack of a distribution infrastructure and concluded that “although the UK produces good films, the full commercial benefits do not often accrue”. It also stated that Government should establish structures that would provide “a coherent strategy for the development of the film industry”.

Subsequently, the Film Council was created on 1<sup>st</sup> April 2000. It has since been pursuing policies to achieve the following two overarching objectives:

- developing a sustainable UK film industry;
- developing a film culture in the UK by improving access to, and education about, the moving image.

Government has also 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;
- improve the quality of British Films and ensure they receive appropriate exposure.

The Film Council published its launch document ‘Towards a Sustainable Film Industry’ on 2<sup>nd</sup> May 2000, which set out the broad thrust of an initial strategy. The statements in this document relevant to specialised<sup>1</sup> distribution and exhibition include “a failure to draw upon and reflect the full social cultural diversity of the UK” and “a UK distribution sector which does not prioritise British films”. The findings of ‘A Bigger Picture’ and the statements contained in

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<sup>1</sup> See Section 2.3 for a definition of specialised film.

‘Towards a sustainable film industry’ suggest that there is the potential for more, and better quality, UK backed films and by implication specialised films.

The Film Council, together with Scottish Screen, appointed KPMG to undertake a comprehensive study of specialised exhibition and distribution in the UK, and to advise on ways of developing those activities in order to fulfil the above overarching objectives and Government goals.

## 1.2 **Study objectives**

The strategic vision for UK specialised exhibition and distribution is to make a step change in the size and shape of the sector over the next 5 years. To fulfil this vision this study has focused on meeting the Film Council’s key objectives in this area, as follows:

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

This study is part of a wider package of work covering e-cinema, education and international case studies, the findings of which feed into the strategic vision of a step change in the specialised sector. The text for these studies are presented in Annexes B1, B2 and B3.

Another prime objective for the study is to identify and evaluate the types of intervention which the Film Council can undertake in the specialised film sector, in the light of the underlying economic principles of why Government should intervene in particular markets.

## 1.3 **Our approach to the study**

The approach to the study comprised two distinct phases. The first phase involved mapping the current state of specialised exhibition and distribution. The second phase focused on strategy development with the overarching aim of developing the sector in relation to the objectives defined above.

### 1.3.1 Phase I: Mapping the size and shape of the specialised sector

Our approach to the first phase of the study consisted of the following tasks:

- desk review of existing research on specialised film and the wider cinema industry. Key documents used as a starting point were the *bfi* review of supported cinemas, the London Economics report into the specialised sector, and Dodona Research into the cinema sector<sup>2</sup>;
- analysis of economic operating models and other statistical data available on both specialised and mainstream sectors;
- a wide consultation process, involving a mixture of face-to-face and telephone interviews of exhibitors and distributors, both in the specialised and mainstream sector, together with a large number of interviews with other interested parties such as trade associations, funding organisations and key stakeholders;
- a postal survey of exhibitors, distributors and other stakeholders in the sector. This survey was used to complement the direct consultation exercise in order to elicit a wider range of views from the backbone of the industry. Information on the scope and the findings from the questionnaire is provided in the Appendix A3;
- industry consultation days. Key players and other stakeholders were invited to discuss and debate the issues together in two separate half day forums. Industry views were also given to us at the Film Council/KPMG seminar undertaken during the Cambridge Film Festival.

The depth of the consultation programme is illustrated in Figure 1-1. The overall response rate, at around 60%, is high. KPMG contacted around 250 people/organisations in total.

**Figure 1-1: KPMG consultation programme**

	Face-to-face	Telephone	Additional questionnaire only <sup>1</sup>	Total
Distributor	11	8	3	22
Exhibitor	15	12	13	40
Distributor / Exhibitor	5	0	0	5
Interested Stakeholders	15	31	34	80
<b>Total</b>	<b>46</b>	<b>51</b>	<b>50</b>	<b>147</b>

Note: <sup>1</sup> Most of the face-to-face and telephone interviewees also filled in a questionnaire.

<sup>2</sup> A list of the publications reviewed for this study is included in Appendix A5.

### 1.3.2 **Phase II: Strategy development**

Part two of the study is focused on developing a strategy for specialised exhibition and distribution. The terms of reference sets out the following three phases to the strategy development:

- develop a medium to long term cinema exhibition strategy for the UK, taking into account the strengths and weaknesses of the stand-alone exhibitor and the circuit operating models and developing strategies to develop the audience;
- design of a cinema exhibition Capital strategy investment and funding scheme for the award of £15 million over 5 years as part of the Arts Council of England Arts Capital Programme;
- back distribution, through an analysis of the strengths and weaknesses of a print and advertising fund, together with an assessment of other possible options.

Part of the process in evaluating these phases of work included:

- a vision strategy workshop to discuss specific options, and revisit the objectives of the study and the strategic vision for the sector;
- appraisal of discrete intervention options, through the use of high level financial modelling and quantitative analysis;
- testing and further development of the emerging strategy and specific options with the Film Council Working group and our internal panel of experts;
- review and further development of the findings and recommendations of the complementary studies specialised studies, education, e-cinema and international case studies, undertaken in parallel with this overall strategy.

An important part of the overall approach is the overarching principle of why public money should be used to intervene in any market. A discussion on this is provided in Section 3.2.

## 1.4 **Structure of the report**

The report is structured into three main parts; background to the study (part one), the strategy (part two) and the evidence (part three). In addition to Part I (the background) if the reader wishes to understand the detailed background to the sector, they should read Part III in addition to Part II. For those interested in our recommendations for the way forward, Part II is sufficient.

Below we provide an overview of the contents of each section:

#### Part I: Background to the study

- Section 2 introduces the study (this section). This details the background to the study and considers the study's objectives. This section also introduces our approach to the study and the structure of the report that follows.
- Section 3 is an overview of the specialised sector. This section discusses what a specialised film is and provides a detailed definition of a specialised film. A brief overview of Part III is also provided, giving a brief description of the availability of, audience for, distribution and exhibition of and investment in specialised cinema in the UK.

#### Part II: The Strategy

- Section 4 provides an overview of our strategy for the specialised sector in the UK. The economic rationale for intervention is discussed in this section. This section also presents the recommended strategy for exhibition, distribution, the audience and availability in the specialised sector.
- Section 5 considers the key differences between the stand-alone and circuit operator, the strengths and weaknesses of each model and the particularly services which are appropriate to perform centrally.
- Section 6 presents a medium to long term cinema exhibition strategy, including the design of a cinema exhibition funding scheme for the award of up to £15 million over five years for cinema venues in England. This section also discusses refurbishment, new provision and the process for award of cinema exhibition funding.
- Section 7 contains our recommended measures for encouraging the development of specialised distribution. Specifically, it considers the case for a selective print and advertising fund. Other measures to assist the distribution of specialised film are also discussed as is the context of EU distribution support.

#### Part III: The Evidence

- Section 8 provides an overview of the specialised audience. It considers the profile of the general cinema audience in comparison with the specialised cinema audience. This section also presents audience development initiatives and the size and potential of new markets for specialised cinema.
- Section 9 presents a detailed analysis of the availability of specialised film on theatrical release. It considers the size of the specialised sector, the composition of the sector and key trends in audience admissions.
- Section 10 provides an assessment of the availability of specialised film across other media and platforms. Specifically, this section details the availability of

specialised film across the TV sector, the video retail and rental sector and specialised film handled by DVD and other media.

- Section 11 reviews the cultural and economic anatomy of specialised exhibition. This section considers the size and scope of the sector; an analysis of the key players and economic operating models for specialised exhibition. Constraints and opportunities affecting the sector are also covered.
- Section 12 reviews the economic and cultural anatomy of the distribution of specialised film. This section considers the size and scope of the sector; an analysis of the key players and economic operating models for specialised distribution. Constraints and opportunities affecting the sector are also discussed.
- Section 13 reviews public and private investment in specialised exhibition and distribution. This section details the Film Council/*bfi* supported venues; Arts Councils and European Commission MEDIA funding. Public Sector regeneration schemes and private sector funding are also considered. This section also covers constraints and opportunities affecting the sector.

In addition, there are 6 appendices, and 3 annexes which are separate reports on education, e-cinema and international case studies.

The appendices to this study contain:

- working definition for specialised cinema and specialised film (Appendix A1);
- membership of Specialised Exhibition and Distribution Working Group (Appendix A2);
- questionnaires' findings (Appendix A3);
- organisations involved in the consultation process (Appendix A4);
- a bibliography (Appendix A5);
- databases of theatrical, video, TV, internet on-line distributors and exhibitors (Appendix A6);
- exhibition financial operating model (Appendix A7);
- a glossary of key acronyms (Appendix A8).

There are three annexes to this study (contained in separate reports) which cover:

- e-cinema, by Neil Watson and Richard Morris (Annex B1).
- education, by the Centre for Education Leadership and School Improvement (Annex B2);
- international case studies, by Olsberg/SPI and Kern European Affairs (Annex B3).

## 2 Overview of the specialised sector

### 2.1 Introduction

In this section we provide a brief overview of the specialised sector. We commence here by describing viewpoints on what constitutes specialised film followed by a working definition of specialised film and cinema. We then consider availability, the audience, distribution, exhibition, and investment in relation to specialised film. Analysis and supporting evidence that underpins this summary is provided in Sections 8-13.

### 2.2 What is specialised film and cinema?

There are already a variety of different definitions of specialised film, depending on the particular study examined. The following are a sample from our literature review<sup>3</sup> and consultation programme which illustrate the fundamental characteristics of a specialised film:

- a film whose language, form or subject matter tends to result in it obtaining only a limited release;
- a film which has a cultural objective;
- a film which is initially targeted and/or marketed at a niche market;
- a film which is released with less than 50 prints;
- films which have lower budgets than average;
- films which are often critically acclaimed;
- films which normally reach a more limited market than mainstream releases (e.g. classics); or
- films which may not have a wide or global appeal or may address a specific section of the community.

Specialised films typically include art-house, classics, foreign language films, 'Bollywood' and most English language films produced outside the US. Most of the above definitions can be broadly grouped into the following themes:

- commerciality. Specialised films are generally viewed as less profitable than other films, and even unprofitable by some commentators;
- content. Specialised films generally appeal, or are targeted to, a narrow community, demographic or group; or
- release. Specialised films generally have a limited release.

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<sup>3</sup> See Appendix A5 for bibliography.



Any strategy needs to take into account these underlying characteristics of a specialised film. The general nature of the above criteria is important. Not all specialised films will have a limited release, not all specialised films are targeted to a specific group. It is crucial that any definition captures this variance by not being too narrow and by being sensitive to variety in meaning, in different geographical locations and at different points in time. More importantly, we consider that any emphasis on commerciality should be avoided as this creates negative perceptions of the sector.

## 2.3 Definition of specialised cinema and film

Definitions will not suit everyone's taste as there is likely to be considerable disagreement between different people on what constitutes a specialised film. Some individuals will view one film as 'specialised' while others could view the same film as 'mainstream'.

For the purposes of this study, we have defined specialised films, which maybe of feature-length or 'shorts', fact or fiction. They normally fall into one or more of the following categories:

- Films which engage with current aesthetic, political, social and cultural issues, and seek to encourage their audiences to become similarly engaged.
- English language films that, because of the creative originality of their form or content challenge audience expectations, emotionally, aesthetically or intellectually.
- UK minority indigenous language films particularly those that, because of the creative originality of their form or content, challenge audience expectations, emotionally, aesthetically or intellectually.
- Foreign language films particularly those that, because of the creative originality of their form or content, challenge audience expectations, emotionally, aesthetically or intellectually.
- Films where ethnicity, sexual orientation or disability are important factors for makers and/or audiences.
- Classic films that reappear in cinema repertories over the years.
- Archive films, because of their place in the history of cinema, or because of their relevance to a particular community of interest or geographical community.
- Films that appeal to children or other underserved audiences, including those that, because of the creative originality of their form or content, challenge expectations, emotionally, aesthetically or intellectually.

Specialised cinema exists to satisfy the desire of audiences to see a diverse range of films, at a variety of cinemas or other locations. Specialised venues are often

driven by a broad educational remit and may offer discrete education activities. Typically they exhibit a majority of specialised films.

## 2.4 Availability

In terms of the number of films given theatrical release, the availability of specialised film is not constrained and it is approximately in the UK equal to the number of ‘mainstream’ films released. Approximately 50% of the films released in 1999 could be viewed as specialised, and therefore, on one level the potential availability of specialised product is quite high<sup>4</sup>. Crucially however, although these specialised films are released, they are not widely shown, the number of prints available is often limited and the cinema runs are short. Moreover, audience figures for specialised films currently are small, which suggests that effective availability of specialised films is low.

The actual availability of specialised film is constrained by a number of factors including:

- the size and characteristics of the audience;
- the economics of the specialised distribution and exhibition sectors;
- recent changes in the economics of the television markets;
- the structure of the video rental and retail markets;
- the level of investment in the sector.

## 2.5 The audience

The audience for specialised cinema is small; we estimate that it represents between 3% and 6% of the total cinema going market in the UK<sup>5</sup>.

In terms of demographics, specialised cinema currently appeals more to a much older age group when compared directly to the general cinema audience profile. A total of 57% of the specialised cinema market is accounted for by the over 35s compared to only 33% in the general cinema market<sup>6</sup>.

The young market (under 25s) has been in long term decline as a proportion of the total market, while all other age groups have increased their relative share. The specific changes in the share of the market by age group over the 1987-97 period are as follows<sup>7</sup>:

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<sup>4</sup> KPMG analysis of theatrical releases in 1999; using the full working definition of specialised film outlined in Section 2.3. For more detailed analysis see Section 8.3.

<sup>5</sup> KPMG estimates see Section 8.3.

<sup>6</sup> Source: Pearl and Dean, see Section 7.3.

<sup>7</sup> Study of the Specialised Cinema Sector, London Economics and Dodona Research (March 1997). See Section 7.3.1.

- under 25s: declined from 47% to 29%;
- 25-34 age group: increased from 29% to 34%;
- 35-44 age group: increased from 12% to 17%;
- over 45 age group: increased from 10% to 22%.

The audience for cinema (specialised and general) is dominated by socio-economic class ABC1 which accounts for 70% of the specialised market and 66% of the general cinema audience<sup>8</sup>. Considering that the ABC1 group only accounts for 51% of the total population, this means the ABC1 group has a slightly greater than average propensity to go the cinema (both specialised and general).

Ethnic minorities comprise 7% of the British population. 57% of the ethnic minority population is of Asian origin, and some research has shown that Asians in the UK are five times more likely to go to the cinema than white people. Other research suggests that African-Caribbeans and South Asians are almost twice as likely to visit the cinema in a month than the general population<sup>9</sup>. However, ethnic minority audiences are not well represented in the current specialised cinema audience – this is a key area for potential growth.

## 2.6 Distribution

We have identified 18 key players who distribute specialised films theatrically, through video and through other media such as television<sup>10</sup>. The average turnover of specialised distributors is 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.

There are three main types of distributor that participate in the specialised film market – niche, mixed and mainstream. Niche distributors distribute almost entirely specialised films, mixed distributors distribute a range of mainstream and specialised films and mainstream distributors distribute primarily mainstream features. The key niche players include Artificial Eye and Blue Dolphin. The *bfi* is also a key supplier in this (niche) market, in particular its supply to film societies (16m) and also in 35mm, video and DVD, as 16mm is very nearly non-viable. The *bfi* also distributes films which it has a distribution licence for.

Prints and advertising (P&A) is the largest cost for distributors, up to 90% for small distributors and around 50% for large distributors<sup>11</sup>. Revenues are derived from theatrical exhibition, video, broadcast and other sources. Margins for specialised distributors tend to be relatively low.

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<sup>8</sup> Source: Pearl and Dean, see Section 7.3.

<sup>9</sup> Surrey Social and Market Research, British Film Institute Black and Asian Film Research.

<sup>10</sup> Source: KPMG, see Section 8.2, 10 and Appendix A6.

<sup>11</sup> Source: KPMG survey of distributors.

The key issues for the distribution sector are lack of specialised screens; the high cost of P&A; and low broadcast revenues.

Many of the problems in the distribution sector also affect the exhibition sector. The high cost of prints means that there is often a shortage for exhibitors. Some exhibitors interviewed suggested that they were unable to obtain prints of the films that they wanted when they were released. Some films also do not achieve theatrical exhibition or achieve only very limited theatrical release. These are either not released at all or are released directly onto video format. Those films released directly onto video format or with limited release obviously do not benefit from the advertising associated with theatrical release.

## 2.7 Exhibition

There are 93 specialised cinemas in the UK<sup>12</sup> with at least six screenings per week, and a further 52 venues with a lower level of provision. The largest commercial players in the market are City Screen, Zoo Cinema Exhibition and Mainline, which between them operate 32 specialised cinemas (many of which play a mixture of specialised and intelligent mainstream films). Most of the other cinemas operate as stand-alone operations - there are 23 Regional Film Theatres (RFTs) which receive funding from the Film Council (albeit indirectly) and the majority of the remainder are subsidised by local authorities or arts organisations.

Specialised cinemas in the UK have an average of 1.8 screens per cinema<sup>13</sup>. This lack of screen space creates problems for distributors and exhibitors – many specialised films cannot realise their true box office potential as a result, as films that prove unexpectedly popular cannot remain on show as previously-booked replacement films have to take their place. 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.

We have also identified 47 cinemas which show Bollywood films (with approximately 58 screens devoted to these films). This audience has largely been developed by small-scale entrepreneurs and new entrants to the multiplex market. This demonstrates the strength of the commercial sector in bringing in new audiences and identifying a demand created by the UK's increasingly multicultural society. Most venues which play Bollywood material do not show significant quantities of other specialised material.

Non-specialised venues are playing a growing role in the exhibition of specialised films through film festivals, initiatives like *bfi @* Odeon and UCI, and an increasing willingness to programme more specialised material in multiplexes. Subtitled material is still a relative rarity with the exception of major cross-over successes. While it remains the case that specialised venues will tend to take more box office revenue than a multiplex showing the same title, multiplexes can

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<sup>12</sup> Source: KPMG, see Section 11.

<sup>13</sup> Source: KPMG, see Section 11.

achieve respectable figures, particularly when the cinemas demonstrate commitment to the specialised films.

We have identified a total of 64 film festivals operating throughout the UK (see list in Appendix A6). It has become increasingly common for established festivals (e.g. London Film Festival, Lesbian and Gay Film Festival and many others) to tour round venues, making most efficient use of prints and publicity material and helping to spread the overheads of organising the festivals. These can be broadly classified as location-based, themed and targeted.

The British Federation of Film Societies has 152 members and it estimates that there are 250-300 film societies operating in the UK. However, this total is fluid as many of the organisations are transitory in nature. These are fairly evenly distributed across the UK according to population density. In general, the members tend to be older people and films are shown on 16mm prints, although DVD and video is becoming increasingly important as the availability of 16mm decreases. The average film society has about 150 members and shows 20 screenings each year.

Two national organisations play key roles in supporting education surrounding film in the UK – the *bfi* and Film Education. Examples of the *bfi*'s work in this field are the education programmes supporting the London Film Festival on Tour and Drawn to be Wild. The Programme Unit of *bfi* Exhibition has also organised educational events for the London Lesbian and Gay Film Festival and Palestine at the Pictures. Film educators look to the *bfi* for professional advice and training. The other key national player in moving image education is Film Education. This organisation is funded from three main sources: cinema exhibitors, film distributors and the *bfi*. It aims to deliver what the classroom teacher needs – materials supporting educational study, both on and off line. In addition to the production of learning resources, Film Education provides in-service training for teachers, provides screenings (often free) for groups of young people, and organises special events, conferences and festivals (e.g. National Schools Film Week and March into Movies).

Specialised provision in Scotland is mainly concentrated in the highest population belt between Edinburgh and Glasgow. Specialised exhibition in Scotland is supported by Scottish Screen. In Northern Ireland, specialised exhibition is concentrated in Belfast with the Queen's Film Theatre. Londonderry has recently benefited from the development of the Nerve Centre which has a part-time cinema. Wales has a reasonable spread of provision of specialised cinema. There are at least six specialised cinemas in Wales.

The majority of specialised and non-specialised exhibitors consider that their customers would like to see more specialised film and that the audience for specialised film will grow in the next five years.

## 2.8 Investment

There are a large number of national and regional organisations (and schemes) which currently support specialised exhibition and distribution. Although this amount of interest in the sector is a key strength it could also be viewed as a potential weakness. Too many stakeholders can make the task of developing an overall strategy difficult, as each stakeholder has different objectives.

One of the key mechanisms responsible for investment in film are the new Regional Screen Agencies (RSAs). There are a total of nine agencies for each of the English regions and they provide strategic leadership and have overall responsibility for the funding development of film, video and the moving image. The Film Council (previously *bfi*) provides the source of funds to RSAs through an annual grant.

A new fund entitled the Regional Investment Fund for England (RIFE) has also been recently developed. This fund is expected to award £6 million per annum commencing in 2002. Each of the regions were asked in November 2000 to produce a business plan for film and moving image activity. The RIFE together with the creation of the RSAs will go along way to creating a more effective overall strategy as well as helping the regions to develop effective individual strategies.

Total revenue support to Film Council (previously *bfi*) supported venues accounts for between 6% and 129% of total earned (excluding subsidy) revenues, and between 15% and 132% of box office revenues<sup>14</sup>. This support is crucial to the survival of some specialised cinemas given that the profit margins of the RFTs are close to zero and in some cases non-existent. The Film Council (previously *bfi*) grant to RSAs accounts for the vast majority of this revenue support and is therefore the key stakeholder.

Our survey results indicate that the average revenue support per venue has remained broadly constant over the past few years, although the number of venues receiving support has increased slightly<sup>15</sup>.

On the capital side, around £40 million of Lottery proceeds has been spent by the four national arts councils over the 1995-2000 period<sup>16</sup>. While this is important, much of this investment was focused in 1996 at the start of the National Lottery, and has since declined significantly. Given that a number of gaps in specialised provision still exist, there is a considerable opportunity for more capital investment to be effective.

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<sup>14</sup> Source: KPMG analysis. See Section 12.2.

<sup>15</sup> Based on questionnaire returns from 12 exhibitors. Many exhibitors who returned a survey did not complete this particular question due to commercial sensitivity issues.

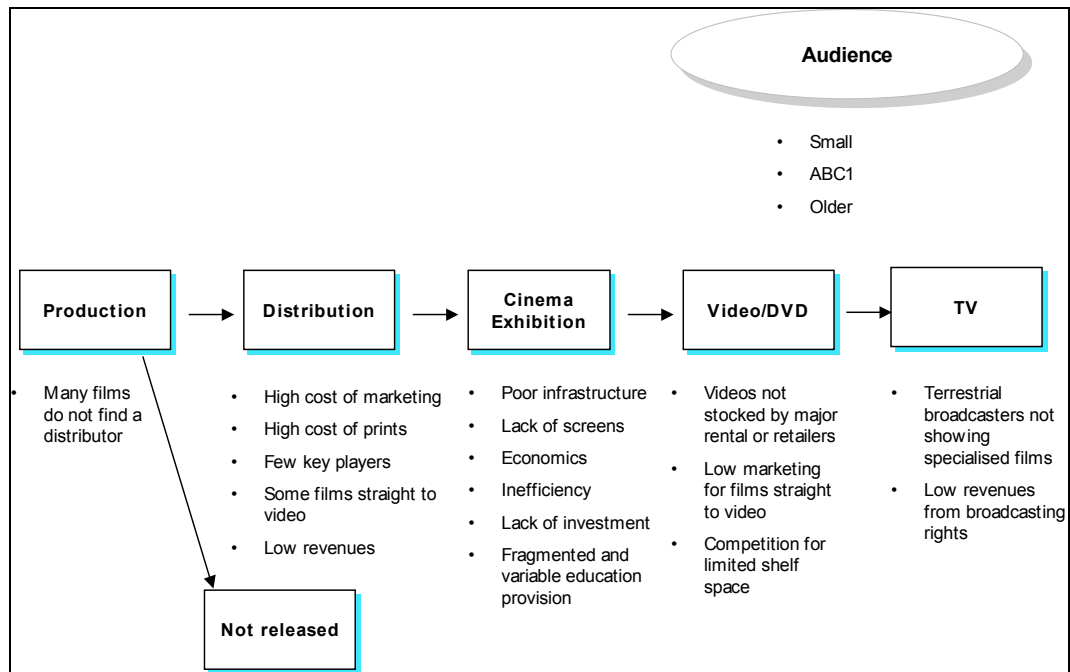
<sup>16</sup> Source: KPMG analysis of Lottery awards. See Section 12.6.

In terms of European assistance, the European Commission's MEDIA Programme is significant. Europa Cinemas is a valuable source of funds which support UK specialised cinemas, while the distribution support has had some beneficial impacts. There is also a general awareness of the importance of regeneration schemes (e.g. European Regional Development Fund and the Single Regeneration Budget) in developing areas, but particularly as a source of partnership funding.

## 2.9 Summary

A summary of the characteristics of the specialised sector is illustrated in Figure 2-1.

**Figure 2-1 Characteristics of the specialised sector**



## Part II – The strategy



## 3 A strategy for the specialised sector

### 3.1 Introduction

This section provides an overview of our recommendations for the medium-term strategy for strengthening the specialised sector in light of the structural weaknesses/market failures identified together with the public policy objectives. Detailed analysis underpinning our recommendations is set out in Section 4 and 6.

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. It should also be borne in mind that State Aid for cinema may be an issue considered by the European Commission's Competition Department.

A summary of the possible measures considered by us during the course of the study are set out in Figure 3-3, Figure 3-4 and Figure 3-5 at the end of this section.

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 – adopt the circuit model;
  - plug key gaps – rural areas, education and diversity (e-cinema, education strategy and audience development initiatives);
  - 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 children, ethnic minorities, gays and lesbians and disadvantaged groups (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.
- Work with existing structures (e.g. Regional Screen Agencies and Regional Investment Fund for England) to aid implementation of the wide ranging nature of strategy.

This strategy has been developed with the Film Council's key vision in mind, namely that everyone in the UK ultimately should have access to specialised cinema in one form or another. 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, proper 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.

Underpinning the Film Council's vision of universal access to specialised cinema are a number of key public policy 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.

Other Film Council goals most relevant to the specialised sector are:

- 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.

A move towards fulfilment of all these objectives underpins our recommended strategy.

First we consider the rationale for intervention in the specialised cinema sector in the first place, paying particular attention to the over-arching objectives relating to education, diversity and social inclusion. The discussion highlights that there are two broad categories of rationales – 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.

## 3.2 Rationale for intervention

### 3.2.1 General principles

The overriding principle enshrined in Government intervention is based on the objective that public funding is to compensate for market failure. In the arts, the arguments for market failure are widely accepted to be based around<sup>17</sup>:

- the positive externalities (benefits) from education, which could include in the context of this study, better understanding of film/moving image literacy, knowledge transfer to new audiences and conservation of existing resources for future generations;
- the reduction in imperfect information. The argument for this market failure is weaker but is generally based upon the presumption that the benefits of arts consumption are not fully appreciated by the wider public. This is where education has a significant role to play. In competitive efficient markets awareness is generally raised through marketing campaigns and advertising. However, in the arts this is difficult as many arts markets are small, very specialised and distinctly segmented (characteristics which are particularly endemic in the specialised cinema sector) and therefore mass advertising campaigns are often problematic;
- the “merit good” case. This yields the rationale for benevolent intervention by Government and coincides with the cultural rationale for Government support;
- the promotion of distributional objectives. The Government may intervene in a market for equity considerations, for example to reduce social exclusion through wider provision of the arts or through the provision of universal and affordable access.

The presence of market failure is therefore a critical point for intervention. However, the existence of a market failure is a necessary condition but not sufficient in and of itself to justify an intervention in the market. It must also be shown that the benefits outweigh the costs, and that the intervention does not introduce further potential market distortions.

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<sup>17</sup> Some examples taken from ‘Why Does Government Fund the Cultural Sector?’ Department of Culture, Media and Sport.

In deciding the appropriate policy response for the execution of the study (in addition to the public policy objectives defined above) we will be guided by the following principles:

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

### 3.2.2 Intervention in the specialised cinema sector

The rationale for intervention in the specialised film sector is therefore to correct for market failures/structural weaknesses identified. Any intervention must attempt to achieve the public policy objectives yet minimise negative secondary effects (i.e. avoid causing possible distortions in related markets). Left to its own devices, we consider that the specialised sector would continue at best as it is, and, more likely, given the economics and inherent weaknesses, could spiral into decline. It is unlikely that audiences would grow or broaden and many of the structural weaknesses identified – lack of specialised screens, inadequate exhibition of films and low revenues – are unlikely to be self-correcting. If a vision of specialised cinema for all is to be realised, it is imperative that intervention takes place.

One key area where market failure is rife is moving image education. While there is good educational practice at some specialised film venues, overall provision is ad hoc, uncoordinated and under-funded. 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 specialised sector include<sup>18</sup>:

- many 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.

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<sup>18</sup> More details are given in Figure 3-2, Figure 3-3 and Figure 3-4.

The result of these failures is that a sub-optimal 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 take steps to ensure that films are available, and released/broadcast to the public, that otherwise would not be seen. Concrete examples of what this means for a policy aim could include:

- specialised films which are currently not shown anywhere are now shown at the cinemas;
- specialised films which are shown at cinemas are now shown for longer periods and in a greater number of cinemas;
- specialised films aimed at underserved audiences are now shown at the cinemas.

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 the Film Council should take the lead in all our strategic recommendations.

### 3.3 **The Strategy: Distribution**

Our recommended strategy for distribution is to increase the audience for and availability of specialised cinema, and, hence, create a larger, more vibrant market for specialised distributors to operate in. This should be done by targeting all the media through which the audience access specialised cinema, and strengthening these media. We have assessed and recommended measures to strengthen theatrical, video and television distribution of specialised product.

For distribution we consider that targeted P&A assistance is the most efficient and cost-effective way to strengthen the sector. Direct intervention in related markets (e.g. video retail and television) is not recommended as we consider that this would be costly and inefficient. Each of these points is expanded below:

- intervention in the theatrical distribution market via a selective P&A subsidy for specialised film with an annual expenditure of £1m. This amount has been chosen as a suitable starting sum (see Section 6), if the scheme works well in practice, this sum could be increased in later years. A P&A subsidy will ensure that a greater (than otherwise would be the case) number of films are released for theatrical exhibition, that films released secure a larger number of prints and that films released receive a more effective level of advertising. It is also likely to decrease the level of risk for distributors, encouraging them to distribute films that might not otherwise gain a theatrical release. The study by Olsberg/SPI and Kern European Affairs reports that France, Denmark,

Australia, Spain and Canada all have selective P&A subsidy schemes which in Europe, operate in conjunction with EU funding. A distributor applies to the Film Council requesting that a specialised film they are to release be considered eligible for the scheme.

- advocating the DCMS to explore whether more specialised films could be shown on terrestrial public service broadcaster channels (BBC). The public service broadcasters have a public service remit which could be leveraged to encourage the broadcasters to show more specialised films. (It may also be worthwhile seeking support from Channel 4, although DCMS has approved its Film Four channel, in part as it has a remit to support the specialised film sector. Over the longer term, once specialised films have been shown on this subscription service they will be transmitted on the terrestrial service.)
- explore possible partnerships with new digital public service channels (e.g. BBC 4). The Film Council should work with BBC4 to ensure that a wide range of specialised films are screened. This would take advantage of the new multichannel environment and increase the audience and availability of specialised films.
- continued support to *bfi* Collections. *bfi* Collections provides an extremely important “safety net” role whereby it acquires the rights for video/DVD for films that otherwise would not get released again in the media. *bfi* Collections should continue in this capacity, supporting the distribution of niche specialised film in the UK. Its position, in that it does not compete with commercial distributors, is very important in ensuring the widest range of both repertory and new specialised product is available to a wide audience. Furthermore, its role in supply of product to film societies is crucial to the development of an informed and loyal audience for specialised cinema in the UK.
- Film Council to promote specialised film representation in libraries. The Film Council should work with Local Authorities to encourage libraries to stock a wide range of specialised product. Although the market share for public libraries is quite small, they may have a role in increasing the availability of specialised film, such as stocking World Cinema. This is likely to be a much more economically efficient method of intervening, than subsidising commercial video operators in the rental and retail sector. The use of mobile libraries may also help in areas of the UK which are poorly served by cinemas (such as rural areas) and in reaching socially excluded, elderly and people with disabilities. However, this is a potentially huge task and the feasibility of this would need to be tested in association with key partners such as *re:source*, the Local Government Association and *bfi* National Library.
- the Film Council should maintain a watching brief of events in the Broadband field to ensure that opportunities for specialised film access through this mechanism are not ignored. Broadband delivery in the UK is still in its infancy, with only 1% of homes with some form of broadband access. However, with the advent of broadband cable, the increasing take up of ADSL and BT's

delivery of content over its telephony network, there will be an opportunity in the future for specialised film delivery over video on demand.

- the Film Council should continue to act as a key liaison point, through the MEDIA Desk, ensuring UK distributors gain maximum funds from EU distribution support.
- other possible measures. Other possible interventions considered by us are discussed in Section 6.

### 3.4 **The Strategy: Exhibition**

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 a minimum provision of educational services to recognised standards 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 cinema is shown, serving the needs of the nations, the regions, 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 the nationally branded virtual circuit proposal and its associated benefits. Over the longer-term, the aim is for the new specialised circuit to be perceived as one of the key cinema brands;
- a move towards incentive based subsidies (see Section 3.9);
- increased targeted marketing by existing players to increase audiences (see Section 3.8);
- development of a coherent education strategy for the sector – commitment to such a strategy together with a broad outline of its objectives and components should be announced promptly by the Film Council. As stated in the CELSI report, there have been many studies on education and the moving image but no change has resulted. There is now an opportunity for the Film Council to begin to make a real difference (see Section 3.5).

Our proposed way forward for exhibition will maximise the number of successful exhibition outlets for specialised film. This will clearly address many of the weaknesses in the sector, and help to exploit best the exciting opportunities which

present themselves. It will go some way to filling serious gaps in provision, and in parallel with this, people with disabilities, and those with visual or hearing impairment, will enjoy improved levels of facilities.

This can be achieved through a combination of new provision to address some of the gaps in supply, and development of additional screens for specialised cinemas with only one or two screens to address the lack of screen space and accompanying problems. We also recommend that Film Societies, an important and efficient model for specialised film exhibition, should have the benefit of access to digital equipment. In combination with the Digital Innovation Fund (see Section 3.6), this presents some exciting opportunities for a real difference to be made particularly outside urban areas. We have made 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.

Existing stand-alone specialised cinemas should be encouraged to share knowledge and resources through a virtual circuit, ideally with the involvement of at least one commercial partner. We also recommend that best practice is shared between multiplexes, specialised stand-alones and specialised circuits.

We expand briefly on each element of the strategy below.

### 3.4.1 **New provision**

We have identified the gaps in provision and significant levels of under-provision throughout the UK (See Section 5.1). New provision based on the successful circuit model will be most likely to succeed in attracting and building new audiences for specialised film.

We have identified the top 10 locations for new specialised cinema provision in England (Section 5.4). A total of £10m in Arts Council of England capital expenditure, together with 100% matching funding, should be able to fit out ten (3 or 4 screen) specialised cinemas. If the number of specialised admissions which the area can support is greater than 100,000, then the cinema should break even without revenue subsidy. However, for an acceptable commercial return, closer to 150,000 admissions are required. Levels below this will require ongoing revenue support. These indicative capital costs are for fit-out only<sup>19</sup>.

Ongoing revenue support of £40,000 per annum would be required for the provision of education services in each venue. However, depending on locations, education costs may be shared with other venues, and other funders may be willing to contribute.

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<sup>19</sup> We understand that most cinema operators lease their premises, rather than buying them, and that lease premiums are not standard. Therefore, the fit-out costs are the only significant up-front cost borne by the cinema operator. (It should be noted that fit-out costs for renovating old cinemas may be much lower than these estimates, dependent on the amount of work required.)



The assessment for ACE 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.

The potential benefits from this strategy are estimated to be:

- increased audience of 1,500,000 admissions pa (based on 150,000 new admissions per venue<sup>20</sup>);
- associated box office revenues of £5.25 million (based on an average ticket price £3.50 excluding VAT);
- additional concession revenues of £1.3 million (based on 25% of box office);
- a more diverse audience being reached;
- increased education provision;
- increased access for people with physical disabilities and improved facilities for those with visual or hearing impairment.

### 3.4.2 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. Lack of screen space was identified as a constraint on exhibitors and distributors – this would therefore assist both sectors. However, screens should only be added where the location would support the relevant increase in the number of admissions.

In England, £3.0 million of ACE capital funding could build approximately seven additional screens in specific locations with the assistance of partnership funding. Similar criteria regarding diverse audiences, disabilities and innovative technical solutions should be applied. It would also further a number of the Film Council's objectives – particularly developing a more robust and sustainable infrastructure (distribution and exhibition), ensuring the widest range of cinema is screened, increasing audiences and maximising the potential of new technology.

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<sup>20</sup> This is a high-level estimate, based on our indicative operating model (see Section 11.5, Appendix A7) which shows a level of admissions of 142,500 for a three-screen specialised cinema, and 180,000 for a four-screen specialised cinema.

The potential benefits from this strategy are estimated to be<sup>21</sup>:

- increased audience of 245,000 admissions pa (from 10 screens with an average of 35,000 admissions pa<sup>22</sup>);
- associated box office revenues of £0.9 million pa (350,000 admissions at an average ticket price of £3.50);
- additional concession revenues of £0.2 million (averaging 25% of box office);
- a more diverse audience being reached;
- increased facilities for people with disabilities and those with visual or hearing impairment.

### 3.4.3 Virtual circuit

It is not legally possible for most of the stand-alone specialised cinemas to join a common-ownership circuit. However, it is possible to realise many of the benefits of a common-ownership circuit without having common ownership (cinemas which are programmed but not owned by City Screen and Zoo are good examples of this). Membership of a virtual circuit (where ownership is not transferred) should be encouraged amongst all stand-alone specialised cinemas. Ideally, the private sector would be involved in order to realise the maximum benefits. The Film Council should advocate the benefits of a virtual circuit to existing cinemas and their funding stakeholders to persuade them to join.

Such benefits of a “virtual circuit” include:

- 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.

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

- common branding;

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<sup>21</sup> See Section 4.2.5.

<sup>22</sup> This is a conservative estimate based on current average admissions per screen in full-time RFTs of approximately 41,000 and recognising that incremental screens will have a decreasing number of admissions (i.e. a second screen will not generate as many admissions as the first screen, and so on).

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

The cinemas could also be confident that the formation of a virtual circuit would further the key objectives discussed. These would represent the key incentives for stand-alone organisations to join a virtual circuit.

From our economic models of stand-alone and circuit specialised cinema operators, some high level assumptions may be made. The financial effect of persuading thirty stand-alone cinemas to join a circuit could be estimated as follows<sup>23</sup> (assuming twenty are one-screen and ten are two-screen):

- increased revenues of £0.16 million;
- decreased costs of £0.77 million;
- therefore, total financial benefits of £0.92 million.

Actual benefits realised may be more than this since some stand-alone specialised cinemas are not as efficient as our model. However, the savings are dependent on centralising functions such as programming, finance, administration and marketing, with limited local input.

These savings should be retained by the venues and reinvested in education provision, training or pooled for marketing expenditure – this would also provide a powerful incentive to join a virtual circuit.

There is a wide range of specialised exhibitors listed in Appendix A6, from exhibitors which screen several specialised films every day to the large number in the lower level of provision list which have less than six screenings per week. Some of those part-time venues have a lot to gain from being members of a virtual circuit, and this should be encouraged. Over time, with encouragement, marketing support and effective programming, some of those venues might evolve into full-time venues. The creation of a virtual circuit is a desirable outcome, and the Film Council should offer a range of (mostly financial) incentives to encourage that process. These could include:

- for a small part-time operation, assistance with the purchase of computer equipment to enable communication with other members of the virtual circuit, and more efficient and effective running of the business;
- for a one-screen independent, assistance with funding for education or training costs;

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<sup>23</sup> These figures are derived from Figures 5-1 and 5-2 of Appendix A7 where we set out indicative financial operating models for specialised cinemas. Increased revenues result from stronger negotiations with cinema advertising companies. Decreased costs result primarily from lower staff costs and lower cost of concession sales (arising from increased buying power). The model does not take account of any increase in attendances which might result from marketing initiatives, better programming decisions or the draw of a powerful brand.

- for a two-screen RFT, assistance with the capital costs of fitting out an additional screen.

We recommend that a body is given responsibility for overseeing the creation of the virtual circuit – this would begin with a review of the current portfolio of venues, and the incentives and likely costs which would be required to create the circuit.

#### 3.4.4 **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, therefore, £50,000 would provide part funding for 5 such sets of equipment.

### 3.5 **The Strategy: Education**

The development of this strategy for the specialised sector 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, through the Regional Screen Agencies.

The CELSI report suggests that with appropriate financial investment, specialised cinema could make a significant contribution towards encouraging current and new audiences to choose to see a wider range of films. Education enhances people’s enjoyment and understanding of film. Moving image education is also fundamental to the long-term development of the audience. The audience for specialised film is unlikely significantly to broaden in age group without direct intervention, especially as the specialised audience is “old” and the group for which there has been a significant downwards trend in attendance is the under 25s. Both formal education in schools, colleges and outside learning need to be incorporated into the overall strategy. Our proposed strategy for exhibition will apply education criteria for grant award. This in isolation, however, will not suffice if a vision of access to moving image education for all is to be realised.

The Film Council should set the overall strategic educational framework, based on the initial findings of the CELSI report and due consultation. The Film Council should take the lead in forming the strategy which should include:

- leading communication of the importance of moving image education not just as instrumental in achieving the audience objectives as part of the strategy for specialised exhibition and distribution, but also as a key input to realise other

public policy objectives ranging from social inclusion to media literacy, to the relevant national Government ministries – DCMS and DfES for the UK and the equivalent departments of the Northern Ireland, Welsh and Scottish Assemblies;

- ensuring that the importance of moving image education as a policy agenda is above and beyond that of long term provision at specialised venues. For example, ensuring that moving image education gains prominence as part of the national curriculum, and championing the promotion of the importance of moving image education more generally. Importantly, also, accepting that the distinction between specialised and mainstream product should not be a key driver of moving image education policy;
- securing a specific proportion of the Government’s education expenditure for moving image education. 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. Furthermore, given the key educational objectives of the Film Council, most publicly-funded film activity in the UK should include an educational component. A minimum of £1m per annum is required for the delivery of *quality* education at specialised venues, with a further £250,000 per annum earmarked for training of existing and future Education Officers. Government is committed to spending an extra £1bn on education over the next three years so now is an ideal time to present the case for additional funding;
- co-ordinating and streamlining the roles of the various organisations involved at the national level. Clear roles and responsibilities should be defined and monitored, and provision evaluated consistently. The Film Council should take the lead in driving co-ordination more generally to remove the fragmented nature of provision. The Film Council should drive the co-ordination of moving image education within the UK covering advocacy of moving image education, training, networking, research and development, development of strategic aims and best practice. The Regional Screen Agencies should reflect the Film Council’s regional strategy, and should have substantial responsibilities over deployment of resources;
- ensuring that all publicly funded cinemas have a transparent and measurable educational remit. The provision of educational services, however, by the specialised sector should have market based pricing (with provision paid for by the public sector). This should take the form of revenue funding and reimbursement for discounts. There is currently no consistency about the pricing of educational events. A UK-wide agreement for a pricing structure for educational events at venues might be a useful development;
- addressing serious gaps in provision – the South West and the North of England (excluding Tyneside), Wales, Scotland (outside the Central Belt) and

Northern Ireland – via the English Regional Screen Agencies and through liaison with appropriate bodies in the other nations

- adopting a phased approach initially targetting resources at the under 25s, to assist the specialised distribution and exhibition strategy, as the specialised audience in this age group has fallen significantly during the last decade;
- ensuring a balance between practical and analytical work (especially if the under 25s are to be targeted initially). The value of practical work is widely undervalued. Young, particularly new, audiences can be interested and motivated by practical work in film education. It is a powerful tool for promoting social inclusion;
- developing a consistent definition of moving image education insofar as is possible, setting quality standards and evaluation processes. There is no commonly shared definition of ‘education’ across the venues, or centrally: ‘educational provision’ is different from ‘audience development’ and ‘programme enhancement’. There should be a component of ‘progression’ in all educational programmes;
- initiating case studies to analyse the characteristics of effective moving image education at venues, using a version of the quality framework suggested in the CELSI report as there are few quality assurance procedures in place at venues related to educational activity;
- co-ordinating the “professionalisation” of the role of film education officer at venues. In addition, new accountability arrangements for education work at specialised venues through annual reporting requirements should be set up;
- fostering a ‘collegiate educational culture’ which needs to be built up at three levels: local, regional and national. Co-operation should cover such areas as training, production of resources, sharing of effective practice, planning of programmes;
- ensuring the inclusion of an e-strategy element for education. This will enable amongst others, distance learning.

### 3.6 **The Strategy: E-cinema**

Electronic cinema (“e-cinema”) is not simply a tool for reducing the cost of theatrical distribution and improving the quality of cinema exhibition. It describes the use of new technologies, primarily digital ones, which have the potential to deliver far-reaching changes to the ways in which we produce and consume moving images of all kinds.

While significant penetration of digital technology in cinemas is unlikely for at least 5 and possibly 10 (or even 20) years away, as recommended in the e-cinema report, the Film Council should act as a champion for digital technology. This role should include advocating the relevant Government departments (e.g. to encourage broadband penetration), liaison with the DfES, DTI and NESTA, and

co-ordinating current trials and initiatives, essentially conducting a “watching brief”.

In addition, we concur with Neil Watson and Richard Morris’s recommendation that a proportion of the capital fund should be ring-fenced to support digital distribution and exhibition initiatives – the “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 £1.5 to £2.0 million 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 the first year.

The Film Council should therefore 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. If the long-term potential of e-cinema is to be harnessed to meet the overarching objectives of Film Council policy (e.g. social inclusion and cultural diversity), more diverse materials should be included. E-cinema technology could facilitate the distribution and screening of a very diverse range of materials to communal audiences including documentaries, shorts, locally-produced digital material, archival material and live events. This plurality of material could attract a plurality of different audiences, many of whom might not patronise traditional “arthouse” or “specialised” cinemas (e.g. screenings of digitised material from local archives for older audiences, material of interest to particular ethnic groups, opportunities for guerrilla filmmakers to show their work).
- facilitate more cohesive, nationwide initiatives by bringing together a small group of exhibitors to discuss collaboration through a “Virtual Network” (e.g. digital exchange of materials, joint trials of projection equipment). At present, in the specialised sector, e-cinema is developing in a fragmented, piecemeal fashion driven by a handful of innovators (e.g. the Watershed, the Tyneside Cinema, the Nerve Centre) working to different agendas. This is a short-term opportunity for the Film Council to ensure future maximisation of the benefits of the new technology;
- maximise opportunities for radical experimentation using the widest possible range of technologies, given the prevailing uncertainties and the wealth of opportunities. This should be the Film Council’s priority for e-cinema over the medium-term (next 3-5 years) in respect of the ACE Lottery Capital programme. This could include for example digiBeta, HD, full digital projection using servers, a diverse range of material (e.g. theatrical features,

shorts, documentaries and archive footage) and a range of venues (cinemas, arts centres, theatres, schools) – with the possibilities of failure and rapid technological obsolescence acknowledged upfront. “Let a thousand flowers bloom” in the full knowledge that some will quickly wilt.

- consider using e-cinema technology as a means of plugging key gaps in provision e.g. rural areas. In many rural areas, the problem is not that specialised cinema is inaccessible, but that any form of cinema is inaccessible. While the increased portability of some digital projection equipment provides opportunities to reach those previously deprived of access to cinema, programming will need to include mainstream as well as more specialised material.

### 3.7 **The Strategy: Facilitating communication**

Many of the weaknesses in the sector can be summarised as an issue of communication:

- some multiplex cinema managers and staff do not support specialised films because they do not know how to, they do not realise the value of doing so, and they lack the specific knowledge about the films;
- distributors are not marketing their films as effectively as they could and not communicating enough with exhibitors who could work with them to effectively reach new audiences;
- there is significant duplication of tasks in some cases because of lack of sharing of knowledge and best practice.

There should be a role in the Regional and National Screen Agencies to facilitate such communication. These issues should be formally on the agencies’ agenda, especially as many of the Regional Screen Agencies are still forming their staffing structures and objectives.

There is already evidence that some liaison is being facilitated by the agencies as festivals have started to operate across a range of venues (in some cases, this predated the formation of the agencies). This should be extended and encouraged across a range of venues.

If specialised films are to work in multiplexes, support does need to be provided to staff on the ground. Mainstream circuits business is to concentrate on those mainstream films which bring in the majority of their revenue, and in many mainstream cinemas the staff have no experience of dealing with specialised film. Therefore one vision is of a “best practice coach” who would visit the cinemas to brief management and staff on upcoming films, and educate and inform the cinema staff and management on how to sell these films to the existing audience, as well as how to welcome new audiences (including audiences accustomed to specialised venues, who have not frequented multiplexes in the past).



A similar role could exist to facilitate sharing of knowledge and best practice between and among exhibitors and distributors. This could be through the facilitation of further regional exhibition consortia (which could be attended by distributors, or else feedback could be communicated to distributors).

Although some of these roles and objectives may be already enshrined in the Regional and National Screen Agencies, the Film Council should take an active role in encouraging this and defining specific targets and tasks, aiming to achieve consistency in approach between the agencies. Liaison between the agencies to agree on pan-regional approach to many of these issues would also be useful in ensuring consistency.

### 3.8 **The Strategy: Audience development**

Marketing strategies in most markets are primarily focused on building upon an existing customer base rather than broadening it (which is typically more expensive). This suggests that the optimum strategy in the context of specialised cinema is to build upon the current audience by targeting the over 35s and ABC1. However, this approach would fail to fulfil the Film Council's objective of broadening the audience. Therefore both to increase and broaden the audience is likely to require a number of complementary strategies. We therefore recommend:

- in the medium term increasing the audience by targeting the traditional audience base in areas where there is currently limited or no provision of specialised cinema;
- longer term strategy of broadening the audience. This would require more structural shift in the audience profile away from its traditional demographic towards greater range of age, socio-economic class and ethnic group. To fulfil this strategy will require new provision as well as new education initiatives and successful audience development initiatives.

In terms of audience development initiatives, there are already a multitude of audience development initiatives in place, namely:

- ongoing initiatives targeting specific demographic groups – the most common are weekday matinees for older people and Saturday matinees for children;
- initiatives targeting specific groups for specific programming – e.g. sending a mailshot to members of the Iranian community about a season of Iranian films;
- developing existing audiences – the most common methods are through membership schemes and mailing lists.
- broadening and increasing the audience. Development initiatives could redress the imbalance between the socio-economic class.

Building upon these activities, we recommend that the following key best practice points are implemented:

- sharing the reasons for success and failure, particularly between multiplexes, other exhibitors and potential exhibitors;
- continual monitoring and review of audience development initiatives;
- conducting detailed, regular market and audience research;
- providing training so that objectives are widely understood and results can be measured;
- thinking beyond the short term – ensuring product is available to bring back audiences who have been attracted by the initiative.

The Film Council should act as a champion for these values, and the Regional and National Screen Agencies have an important role to play in the facilitation of the process. A criterion for public capital funding requiring innovative, best practice audience development initiatives as evidence of ability to reach out to new audiences will also contribute to increased success.

A UK-wide initiative which the Film Council may wish to consider would be the appointment of a “youth champion” for specialised film. This would be particularly useful in attracting young people who have been under-represented in the audience for specialised film. It would be a high profile individual (or group of individuals) who could publicly advocate the attractions of specialised films. This initiative should be undertaken in conjunction with AIM and the Cinema Market Agency (CMA).

### 3.9 **The Strategy: Incentives**

When providing subsidy, accepted best practice principles are that the subsidy should be transparent, be flexible over time, encourage entrepreneurial behaviour through an incentive based structure, minimise dead-weight (by not supporting cinemas and activities which would otherwise survive) and have clear lines of responsibility and accountability.

Many of these principles already underpin the current regimes. However, the incentive based system is one principle which we consider is currently quite weak. A focus on this principle should make the regime more effective.

We propose a move away from a pure fixed payment of subsidy to one which is based on results. Payment by results could be captured by a variable and a bonus (performance related) element. Variable payments ought to ideally be based on numerical indicators which encourage positive change and are easy to understand and measure (e.g. number of specialised films, percentage of specialised films shown, increase in audience numbers, increased penetration of previously under-represented demographic groups or a combination of these). A bonus payment could be based on whether a venue achieves certain predetermined objectives

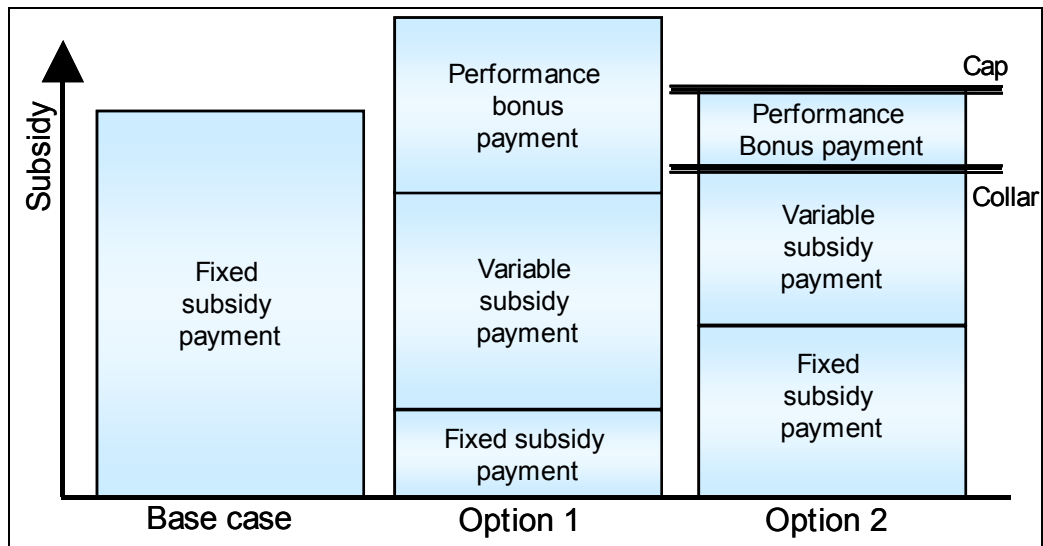
(such as a reaching a certain number of admissions to specialised film or the employment of an education officer). Simplicity of objectives is a key criteria here to avoid the bureaucracy often present in similar schemes.

Figure 3-1 illustrates the difference between the current regime (base case) and a performance based regime (option 1). Note that if the subsidy is made purely from the fixed element then this needs to be sufficient to cover costs. Whereas, the inclusion of variable and bonus related elements allows the fixed subsidy proportion to be reduced.

A key decision for this regime is the amount of focus on the variable and bonus elements compared to the fixed element. A truly radical and pure incentive regime would be based entirely on variable and bonus element and no fixed element. In these circumstances, the specialised cinema bearing most of the risk but it would also reap the reward for achieving results. However, this is unlikely to be appropriate for the specialised sector.

Instead, we propose (option 2) a mixture of fixed, variable and bonus payments together with the inclusion of an overall cap (maximum) and collar (minimum) to the subsidy. This will guarantee a certain minimum level of funding to the specialised venues but also offer an incentive to improve. In addition, by placing an overall cap on the maximum payment available it does not place undue funding risks on the Film Council. Effectively, this arrangement is about sharing the risk and rewards between the Film Council and the specialised venues.

**Figure 3-1: An incentive based subsidy mechanism**



Source: KPMG analysis

Implementation of this regime should be gradual. We propose a slow movement from a purely fixed element to one which is based on fixed, variable and bonus payments. In the long term an incentive structure would encouraged venues to

reduce their dependency on subsidy. This would ensure value for money by freeing up public funds for extending support for specialised exhibition and distribution in other areas (e.g. additional supported venues/screens, screens in rural areas and/or increased educational activity). The Film Council, in its leadership role for the film sector, should encourage all providers of subsidy to follow these principles. In particular, the Film Council should work closely with the Regional Screen Agencies to ensure that best practice subsidy principles are followed and that the above incentive regime is implemented.

Other measures which could be useful in creating more value for money for the public sector is to make better use of the private sector, particularly in relation to sponsorship. The private sector has traditionally focussed on film festivals and television films because they offer good benefits to sponsors. The Film Council should consider encouraging current private sector sponsors to widen their activity towards broader areas of the film sector such as specialised film and/or education activities. This may be difficult to implement as TV and festivals offer the private sector much greater opportunities in terms of product placement and press coverage.

### **3.10 Measuring the success of the strategy**

The critical success factor is that the capital exhibition strategy delivers the Film Council objectives. It is therefore crucial that a detailed evaluation of the projects funded should be taken in order to understand whether the strategic objectives are achieved economically, efficiently and effectively within the agreed policy framework.

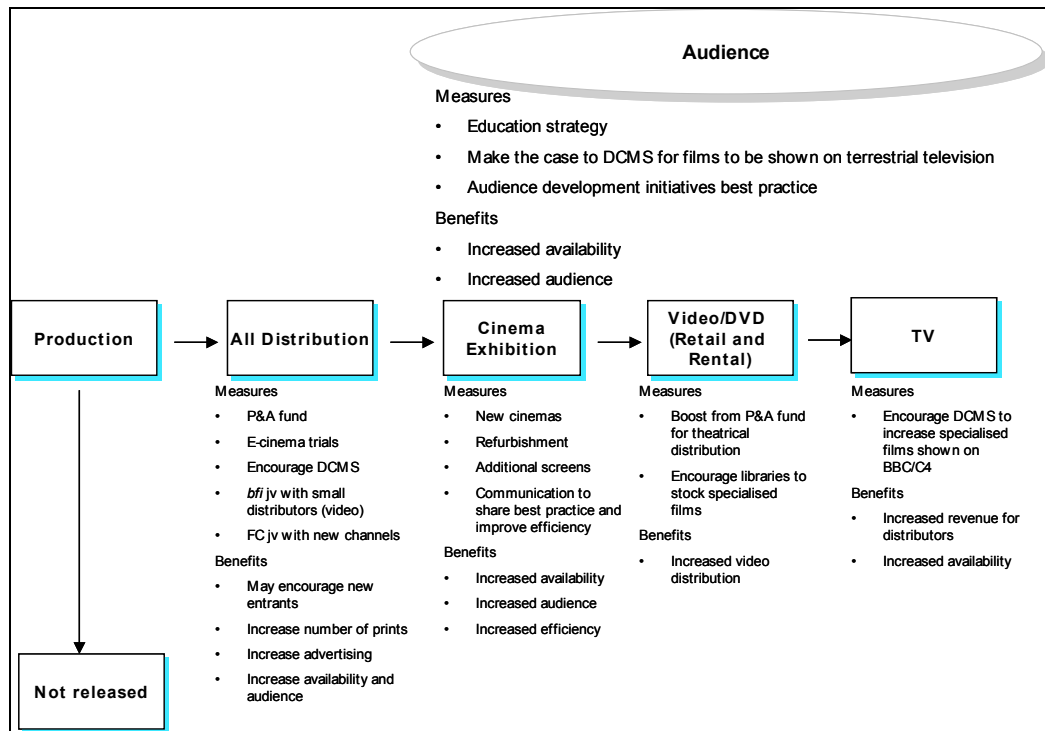
We recommend that a evaluation is undertaken to assess the strengths and weaknesses of particular projects and as a method for fine tuning the awards process in the future. The timing of the evaluation should be 3-4 years after the award of the funds. In order to measure success through this evaluation it is essential that the base line (current) statistics are defined in order that the impact of the exhibition capital investment strategy can be measured quantitatively through the consideration of a number of indicators, pre and post project. Typical measurement could include the specialised audience by region, by age and/or by socio-economic groups.

As well as this full scale detailed evaluation, it is also crucial to review on an ongoing basis whether the Film Council objectives and the eight strategic assessment criteria are being fulfilled (see Section 5.5.3). These are the underlying conditions for the award of funds from the cinema exhibition capital investment scheme and, therefore, it is imperative that these are vigorously appraised.

### 3.11 Summary

Our proposed strategy and associated benefits are summarised in Figure 3-2. While a detailed description of market failures/structural weaknesses identified in the specialised sector are given in Figures 4-2 to 4-4 overleaf.

**Figure 3-2 Overview of strategy for specialised sector**



**Figure 3-3: Possible interventions in the distribution sector**

<b>Market failure/structural weakness</b>	<b>Possible intervention</b>	<b>Secondary effects</b>	<b>Comments</b>	<b>FC<sup>1</sup> objectives</b>
Dominance of major distributors	Quotas or levies	Increased availability of specialised films	Quotas or levies, while they implemented abroad, are judged politically unachievable and economically inefficient. We do not recommend this measure.	2, 3
Low box office revenues	P&A fund	Increased video and TV revenues	Also assisted by extra screens for specialised films. This will reduce risk for distributors and increase availability	1, 2, 3, 4, 6
High print costs	P&A fund	See above	A P&A fund would increase availability by allowing more prints	1, 2, 3, 4, 6
High advertising costs	P&A fund	See above	A P&A fund would increase the audience through increased marketing	1, 2, 3, 4, 6
Few companies of any scale and a large number of small companies	P&A fund	See above	May encourage new entrants due to lower risk	1, 2, 3, 4, 6
Many films not picked up	P&A fund	Increased revenue and awareness through theatrical distribution	Primary concern is not lack of supply of films. P&A funds are likely to encourage increased numbers of films getting distribution.	1, 2, 3, 4, 6
Many films have no or very limited theatrical release and so are largely accessed through video	P&A fund	Increased revenue and awareness through theatrical distribution	More specialised videos likely to be stocked by major retailers and rental companies as awareness will increase.	1, 2, 3, 4, 6
Structure of video retail market	Direct intervention through quotas and levies	Increased revenue from video	Unlikely to be a viable option. Government is unlikely to impose quotas on commercial entities. Film Council could sponsor space in major video chains as an alternative to increase availability of videos in the rental market. The Film Council could also encourage libraries to stock more specialised films.	1, 3, 4
Low broadcast rights	Minimum guarantee for broadcast rights	Increased revenue from broadcast	Government intervention unlikely. Broadcast rights would be assisted by greater demand from the sector.	3, 4, 6
Few films shown on terrestrial television	Advocating DCMS for quotas and levies	More films shown on C4 and BBC	BBC and Channel 4 have public service remit, this is less stringent for Channel 3 and 5. Although quotas are unlikely to be imposed, pressure from the Government on C4 and BBC to show more specialised films should be pursued.	1, 3, 4, 5, 6
Poor exhibition infrastructure/lack of screens	Investment in exhibition	Increased audience and box office for films	Key issue for distribution is the lack of screens, hence, short runs for films. This measure would help overcome this.	1, 2, 3, 4, 5, 6
Lack of public subsidy/bureaucratic system	Increased investment and less bureaucratic system Film Council to act as a liaison point for EU funding	P&A fund will assist revenues for distributors and reduce risk	EU subsidy is not taken by many UK distributors. This can be partly attributed to the overly bureaucratic system. Any UK subsidy needs to be less bureaucratic to achieve the desired results. The Film Council through the UK MEDIA Desk should also act as a key liaison point for UK distributors seeking EU distribution funding.	1, 3, 6

*Note: <sup>1</sup> Film Council Objectives are numerically defined in Section 1.2.*

**Figure 3-4: Possible interventions in the exhibition sector**

<b>Market failure/structural weakness</b>	<b>Possible intervention</b>	<b>Secondary effects</b>	<b>Comments</b>	<b>FC objectives</b>
Dominance of major exhibitors which do not show much specialised product	Quotas (proportion of specialised film to be shown in all cinemas). Levy on all ticket sales which is reinvested in specialised exhibition. Encouragement of best practice from non-specialised exhibitors showing specialised films.	The introduction of a levy will increase ticket prices and is, hence, likely to reduce demand for specialised films.	Quotas and levies, while they are implemented abroad, are judged politically unachievable in the UK and economically inefficient.  Non-specialised exhibitors are showing an increasing willingness to show specialised product. Encouragement of best practice would help to maximise the chances of that product working well in a multiplex environment.	1, 2, 3
Gaps in supply	Public support for new provision in areas which are underprovided for specialised exhibition.	May increase competition for existing non-specialised venues Will assist distributors – additional box office and ensuing video revenue	Effective use of public funds. Tender will be open to any company which can demonstrate commitment to specialised film.	1, 2, 3, 4, 6
Limited number of screens	New provision, and additional screens for 1-2 screen venues. Encouragement of exhibition of specialised films in non-specialised venues (sharing best practice).	Will assist distributors – share of larger box office revenues. More screens to show their films.	Will assist exhibitors – more flexibility in programming allows best exploitation of successes, allowing specialised films to reach their box office potential.  In attaining partnership funding, RFTs might benefit from private sector assistance. While this might compromise some of their independence, if they could be persuaded that the overall effects would be beneficial, and that the private sector partner had similar cultural objectives, a more effective organisation could result.	1, 2, 3, 6
Lack of capital investment	New capital investment. Creation of more viable models will allow ongoing investment. Refurbishment of existing screens and concession areas.	Capital investment in exhibition will assist distributors who have more high quality venues bringing in larger audiences for their films.	Refurbishment of existing screens will not achieve step change in audiences, and should be a secondary priority.  Some venues could use some investment in their concession areas which would help to make them more viable businesses. However, the benefits are again marginal, and this should be a secondary priority.	1, 2, 3, 5, 6

**Figure 4-4b: Possible interventions in the exhibition sector (cont.)**

<b>Market failure/structural weakness</b>	<b>Possible intervention</b>	<b>Secondary effects</b>	<b>Comments</b>	<b>FC objectives</b>
Economics	Encouragement of central negotiation for stand-alones will help achieve better margins. Refurbishment of concession areas may assist some specialised venues to become more viable. Removal of VAT on ticket sales.		May encounter resistance from other stakeholders who would prefer local economy to be supported. As above, benefits are not significant enough to justify significant investment. This is viewed as politically unacceptable.	1, 6
Lack of marketing support	Regional Screen Agencies to facilitate better communication and liaison between exhibitors and distributors. Operate as a circuit.			1, 3, 4, 6
Stand-alone operations – inefficiencies			Can encourage more efficiencies through some centralised services.	1, 3, 6
Existence of RFTs in certain areas	Sharing of best practice will allow all specialised venues to operate to high standards. Incentivise subsidies.			1, 6
Investment – many stakeholders, lack of incentives, lack of coherence			Best use of public funds, ensures delivery of objectives.	1, 6
Failure to attract new audiences	Sharing of best practice audience development initiatives. Ability to attract new audience segments will be a criterion for awards.			1, 3, 4, 6
Duplication/lack of communication	Regional screen agencies to facilitate further communication and sharing of knowledge and best practice. Incentivise subsidies (see above) and encourage partnerships with private sector.		Possible of regional specialisation	6
Lack of entrepreneurial experience				1, 6



**Figure 3-5: Possible interventions in other parts of the specialised sector**

<b>Market failure/structural weakness</b>	<b>Possible intervention</b>	<b>Secondary effects</b>	<b>Comments</b>	<b>Film Council Objectives</b>
Education lack of coherent strategy	Financial investment in education. FC should set the strategic educational framework, based on the initial findings of the CELSI report.	Encouragement of current and new audiences to choose to see a wider range of films.	Improved engagement with and knowledge of film appreciation and knowledge transfer to the new audiences.	3, 4, 6
Excluded audiences (ethnic minorities, people with disabilities)	Include appropriate criteria in capital funding scheme Film Council act as champion for best practice audience initiatives along with the Regional and National Screen Agencies.	Encouragement of new excluded audiences. Improved communications on other issues.		3, 4, 6
Small niche audiences	Audience development initiatives – best practice to be shared and implemented. Inclusion of a criterion relating to new audiences for assessment of funding applications.	Broadening and increasing the audience will assist exhibition and distribution.		3, 4, 6

# 4 Backing the exhibitor: Stand-alone specialised cinemas vs circuits

## 4.1 Introduction

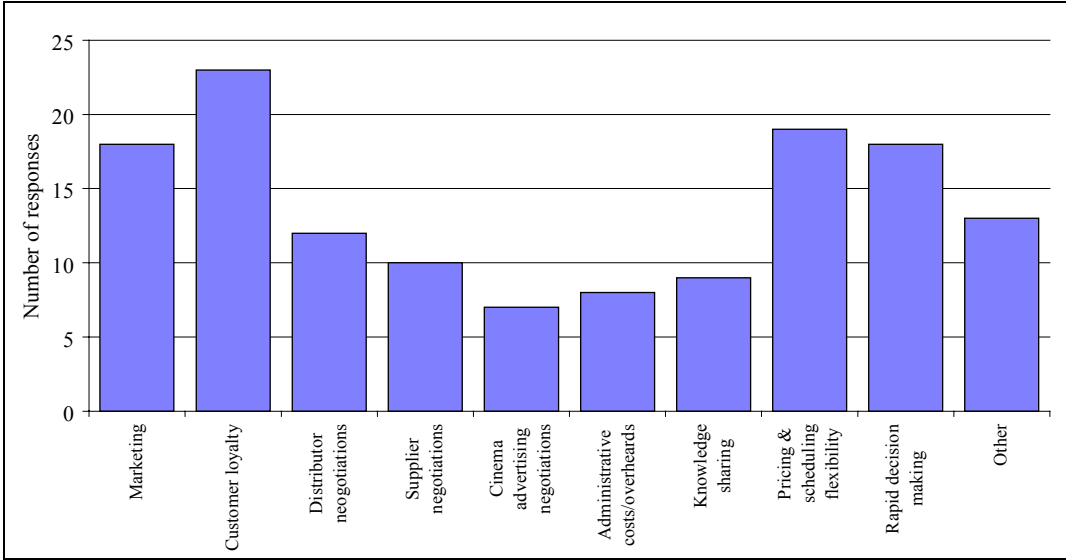
In this section, we outline some of the key differences in the stand-alone and circuit operator models. We explore the strengths and weaknesses of each model and consider which services are appropriate to perform centrally.

## 4.2 Stand-alone specialised cinema

### 4.2.1 Strengths of operating as a stand-alone specialised cinema<sup>24</sup>

Figure 4-1 sets out the advantages of operating as a stand-alone cinema as perceived by those operators who responded to our survey. A majority of stand-alone operators stated marketing, customer loyalty, flexibility in pricing and rapid decision making to be the key advantages.

**Figure 4-1: Advantages of operating as a stand-alone cinema**



Source: KPMG survey

Stand-alone cinemas can successfully establish themselves with an “independent” feel, which operators consider to be attractive to the specialised film audience – hence the perceived customer loyalty. The issue of control over all aspects of the business to such operators is clearly important, particularly marketing, pricing, programming and scheduling.

<sup>24</sup> These responses can be compared directly to those from stand-alone operators in Appendix A3, Figures 3-11 and 3-12 where both sets of responses are set out in full.

Other stated advantages included:

- unique ambience;
- ability to invest in training and development;
- ability to collaborate with local partners;
- ability to undertake educational activities.

#### 4.2.2 **Weaknesses of operating as a stand-alone specialised cinema**

Most stand-alone operators do not consider there are significant weaknesses of operating in this way. However, some weaknesses did emerge during our discussions.

These included economic factors – stand-alones obviously do not enjoy the benefits of economies of scale. Stand-alones also suffer a lack of profile with distributors which can result in them being neglected or their interests being overlooked (e.g. for print availability and priority for publicity material).

Compared to circuits, stand-alones generally cannot negotiate as good terms with distributors or with trading partners such as concession suppliers and cinema advertising companies.

They may also lose out on the ability to share knowledge effectively with other cinemas.

### 4.2.3 Operating model

We outline the assumptions underlying our model in Section 11.3.5. This is based on a given level of admissions to a stand-alone cinema outside London with between one and four screens. It does not include the cost of education provision, which is dealt with in Section 5.6.

**Figure 4-2: Operating model of stand-alone specialised cinema**

No of screens	1	2	3	4
<b>Total number of admissions per cinema</b>	<b>57,500</b>	<b>105,000</b>	<b>142,500</b>	<b>180,000</b>
<i>Revenues</i>				
Box office	£201,250	£367,500	£498,750	£630,000
Concession revenues	£50,313	£91,875	£124,688	£157,500
Screen advertising	£12,075	£22,050	£29,925	£37,800
Other	£5,273	£9,629	£13,067	£16,506
<b>Total revenue</b>	<b>£268,910</b>	<b>£491,054</b>	<b>£666,430</b>	<b>£841,806</b>
<i>Costs</i>				
Film hire	£86,538	£158,025	£214,463	£270,900
Marketing	£35,000	£36,750	£38,588	£40,517
Cost of concession sales	£27,672	£50,531	£68,578	£86,625
Staff costs	£126,000	£154,000	£196,000	£224,000
Utilities/Other	£112,000	£144,000	£176,000	£208,000
<b>Total costs</b>	<b>£387,209</b>	<b>£543,306</b>	<b>£693,628</b>	<b>£830,042</b>
<b>Operating profit/loss</b>	<b>-£118,299</b>	<b>-£52,253</b>	<b>-£27,198</b>	<b>£11,764</b>
Operating margin	-44%	-11%	-4%	1%

As can be seen, the overheads of such an operation are so high, that it is extremely difficult to realise a positive operating margin. Additional revenue from extra screens assists, but its effect is slightly offset by the increase in staff, utility and other costs.

### 4.2.4 Requirements for subsidy

As can be seen from the model, a stand-alone specialised cinema does not appear to be a particularly attractive business if viewed commercially. On this basis, only in the following circumstances could a stand-alone specialised cinema be run as a viable business without subsidy:

- the cinema would require three or four screens, allowing some of the economies of scale accruing from extra screens.
- the cinema would need to be operating in an area to support a level of admissions indicated in the model, or ideally slightly higher. (See Section 5.1

for an indication of the factors which influence the potential number of admissions.)

Even in these circumstances, the model only shows a small operating loss or a very slim operating profit before tax and financing charges. Clearly, there is not sufficient margin to support any significant debt servicing. Therefore it is most likely that public support would be required for capital costs.

In all other circumstances, the stand-alone specialised cinema is running at an operating loss, indicating a need for ongoing revenue subsidy.

#### 4.2.5 **Measures to strengthen stand-alone specialised cinemas**

##### *Additional screens*

As can be seen from the indicative model, one to two screen stand-alone cinemas are not viable businesses without significant ongoing subsidy. In addition, audiences are poorly served as specialised films which could be held over (as there is ongoing audience demand for them) are forced out because of prior bookings. One method of strengthening stand-alones would be to increase the number of screens, enabling some level of economies of scale. In doing so, it is important to consider whether the catchment area of the stand-alone will support the additional attendances required to justify the additional screens.

Additional screens would address a number of problems:

- they would help to address the pressing problem of lack of screen space, therefore assisting the distribution sector;
- they could allow some of the stand-alone specialised cinemas to become more economically viable;
- they could allow more programming flexibility, enabling cinemas best to exploit successful specialised films;
- new screens could be provided with equipment such as high quality video projectors.

It would also further a number of the Film Council's objectives – particularly developing a more robust and sustainable infrastructure (distribution and exhibition), ensuring the widest range of cinema is screened, increasing audiences and maximising the potential of new technology.

The cost of building an additional screen will vary considerably and is dependent on many factors, not least the nature of the current building, and available space. Multiplex venues assume a cost of approximately £0.5 million for an additional screen. Specialised venues are more expensive due to more sophisticated

projection equipment and high quality interiors<sup>25</sup>, so we estimate an approximate cost of £0.8-0.9 million per additional screen. We recommend up to £3.0 million of Arts Council of England capital funding should be spent building around seven additional screens with the assistance of partnership funding. Criteria regarding generation of diverse audiences, provision of facilities for people with disabilities and innovative technical solutions should be applied as a condition of grant award (see Section 5.5.3 for more detail on the criteria for capital applications). The potential benefits from this strategy are estimated to be:

- increased audience of 245,000 admissions pa (from seven screens with an average of 35,000 admissions pa<sup>26</sup>);
- associated box office revenues of £0.9 million pa (245,000 admissions at an average ticket price of £3.50<sup>27</sup>);
- additional concession revenues of £0.2 million (averaging 25% of box office);
- a more diverse audience being reached;
- increased facilities for people with disabilities and those with visual or hearing impairment.

One issue to be addressed is the nature of the partnership funding. Given the financial position of many of the stand-alone specialised venues, traditional funding routes (such as bank loans) are unlikely to be available. It is possible that some of the venues will find other public sector or charitable partners willing to contribute to the costs. Commercial operations may be willing to invest in return for some increased influence and return from the venues. Within the restrictions of the venues' organisational structures, this possibility should not be discounted.

### *Refurbishment*

This is discussed in Section 5.3.

### *Centralise functions*

Our financial model (see Section 11.3.5) indicates that cinemas operating as part of a circuit are more economically viable than stand-alone cinemas. One of the contributing reasons is the increased efficiency from sharing functions including programming, management, marketing and administration. There is further discussion of the appropriateness of sharing functions and the degree to which they should be shared in Section 4.3.6.

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<sup>25</sup> This is based on “best practice” from successful specialised operators. Examples would include fully-carpeted auditoria. Some existing venues may not have been fitted out to these high standards, or a lack of investment may have caused a deterioration in standards.

<sup>26</sup> This is a conservative estimate based on current average admissions per screen in full-time RFTs of approximately 41,000 and recognising that incremental screens will have a decreasing number of admissions (i.e. a second screen will not generate as many admissions as the first screen, and so on).

<sup>27</sup> Net of VAT.

We also consider some of the obstacles to current stand-alones operating as a circuit in Section 4.3.7. However, these need not prevent membership of a virtual circuit as described in Section 4.3.8, which could realise many of the benefits of an actual circuit, while not conflicting with existing legal and political barriers. Such a circuit would enable sharing of knowledge and resources. It should be emphasised that RFTs form a minority of stand-alone specialised cinemas, and that this sharing of knowledge and resources should be encouraged strongly amongst all stand-alone specialised operators. This will ultimately lead to a more robust and sustainable specialised exhibition sector.

#### *Incentivise subsidised cinemas*

Although, as noted above, RFTs form a minority of stand-alone specialised cinemas, they presently receive some of their funding (indirectly) from the Film Council. Therefore the Film Council is in an ideal position to influence these cinemas. As suggested in Section 3.9, it would be helpful to move over time to a combination of fixed, variable and bonus payments, in order to give an incentive to improve the service provided.

To simplify the administration of the scheme, variable payments should be based on numerical indicators which encourage the correct behaviour but are also easy to understand and measure (e.g. number of specialised films, percentage of specialised films shown, increase in audience numbers, increased penetration of previously under-represented demographic groups or a combination of these). The bonus payment could be based on whether a venue achieves certain objectives (e.g. education provision). These objectives will need to be simple to avoid undue bureaucracy.

The Film Council, in its leadership role for the film sector, should encourage all providers of subsidy to follow best practice subsidy principles, but particularly the Regional Screen Agencies which its funds directly.

### **4.3 The circuit model**

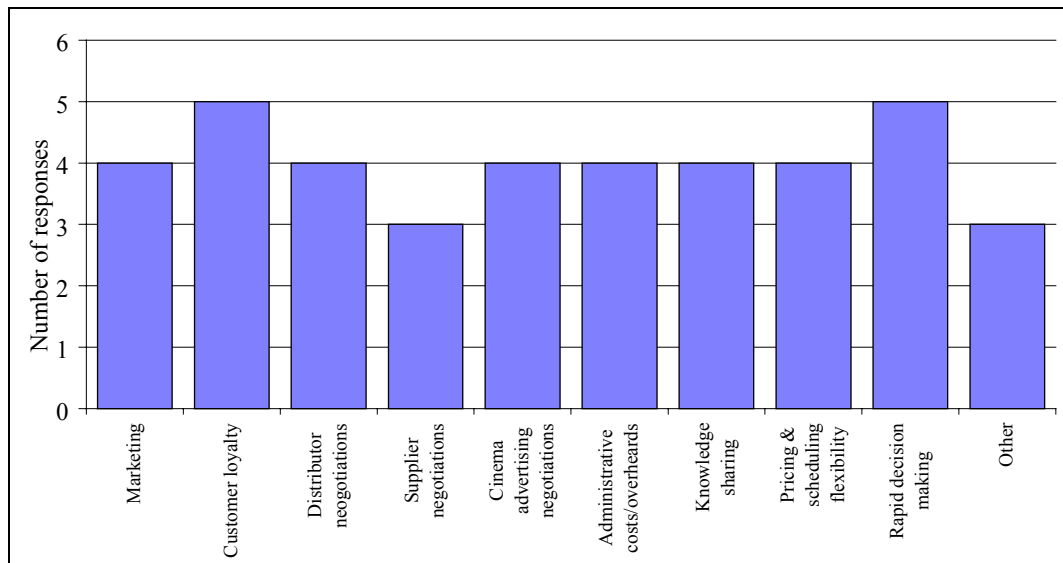
#### **4.3.1 Strengths of operating as a circuit<sup>28</sup>**

Figure 4-3 sets out the advantages of operating as part of a circuit as perceived by circuit operators who responded to our survey. Customer loyalty and rapid decision making was stated as the most popular advantages of operating circuit.

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<sup>28</sup> These responses can be compared directly to those from stand-alone operators in Appendix A3, Figures 1-11 and 1-12 where both sets of responses are set out in full.

**Figure 4-3: Advantages of operating as a circuit**



Source: KPMG survey

Interestingly, the two strengths of this model which most operators consider relevant are customer loyalty and rapid decision making. Stand-alone cinema operators considered their customers are loyal because of their independent nature, but this indicates that customers can also be loyal to a circuit. This partly reflects the effect of consistent branding, which the majority of specialised circuits use to some extent<sup>29</sup>, and the commercial mainstream circuits use to considerable effect. It also reflects the high (and consistent) standards insisted upon by circuit operators. Rapid decision making reflects the fact that these are lean commercial enterprises and they have not become embroiled in bureaucracy.

Scale achieves a number of things. It gives a certain amount of power when negotiating with trading partners. These include:

- distributors – a circuit can sometimes obtain better terms or a better release pattern (or simply secure the film in the first place);
- Cinema Advertising Companies – as discussed in Section 11.5.2, circuits can negotiate more attractive terms;
- other suppliers (including concessions) – the buying power which comes from operating a circuit enables more competitive deals to be struck.

It also enables internal economies of scale (e.g. administration, finance, marketing) and knowledge sharing.

<sup>29</sup> Note that Zoo does not use consistent branding throughout its circuit. Although Zoo was formed relatively recently, the companies from which it was formed did not use prominent consistent branding. Going forward, Zoo has not yet decided whether to use consistent branding. City Screen uses its Picture House branding in most, but not all, of its owned cinemas, and none of its managed cinemas.



#### 4.3.2 **Weaknesses of operating as a circuit**

The loss of independence is what most stand-alone operators fear. Unsurprisingly, no circuit operators subscribed to that viewpoint. Even more so than among the stand-alone operators, circuit operators do not consider there to be any significant weaknesses of the circuit model. However, it could be argued that operating as a circuit allows less flexibility, and results in homogeneity in programming and general choice.

Most circuits (especially specialised ones) grow from a stand-alone operation. Dynamic stand-alones have an important role to play in ensuring the continued diversity of the sector. If all were to become part of one large circuit, it could prove more difficult for a new entrepreneur to enter the sector and shake up the existing market place.

#### 4.3.3 **Optimal size**

In our consultation process, there was no agreement on the optimal size for a circuit. Rather, a more important factor was how well the circuit was run. Any size of circuit, no matter how small, offers some economies of scale over a stand-alone model. No cinema circuit in the UK considered that it had reached a stage where it was encountering diseconomies of scale. It was generally agreed that the larger the circuit, the greater its bargaining power with suppliers and trading partners (although the status of individual sites may give a smaller circuit disproportionate power).

One specialised cinema circuit indicated that each additional cinema in their circuit added around £25,000 to central overheads, and it was not judged that there were any step changes (e.g. if going from a circuit of five cinemas to six cinemas suddenly required a whole new team of staff). Separate office space may be required for Head Office staff, but if this is the case, this should be compensated by lower office space requirements at the cinema sites. However, cinemas may not recognise these savings as it may prove difficult to find a useful purpose or earn income from redundant space. Therefore, as an alternative, it is also possible to divide “Head Office” responsibilities between circuit sites – so for example, one site would do all the central marketing for the circuit, while another might do all the finance function support. In this scenario, existing office space within cinemas is being effectively utilised, wherever possible.

#### 4.3.4 **Operating model**

We outline the assumptions underlying this model in Section 11.3.5. This is based on a given level of admissions to a cinema operating as part of a circuit outside London with between one and four screens. As before, this does not include the cost of education provision (see Section 5.6).

**Figure 4-4: Operating model for a cinema operating as part of a circuit**

No of screens	1	2	3	4
<b>Total number of admissions per cinema</b>	<b>57,500</b>	<b>105,000</b>	<b>142,500</b>	<b>180,000</b>
<i>Revenues</i>				
Box office	£201,250	£367,500	£498,750	£630,000
Concession revenues	£50,313	£91,875	£124,688	£157,500
Screen advertising	£16,100	£29,400	£39,900	£50,400
Other	£5,353	£9,776	£13,267	£16,758
<b>Total revenue</b>	<b>£273,016</b>	<b>£498,551</b>	<b>£676,604</b>	<b>£854,658</b>
<i>Costs</i>				
Film hire	£86,538	£158,025	£214,463	£270,900
Marketing	£30,000	£31,500	£33,075	£34,729
Cost of concession sales	£22,641	£41,344	£56,109	£70,875
Staff costs	£112,000	£140,000	£182,000	£210,000
Utilities/Other	£112,000	£144,000	£176,000	£208,000
<b>Total costs</b>	<b>£363,178</b>	<b>£514,869</b>	<b>£661,647</b>	<b>£794,504</b>
<b>Operating profit/loss</b>	<b>-£90,162</b>	<b>-£16,318</b>	<b>£14,957</b>	<b>£60,154</b>
Operating margin	-33%	-3%	2%	7%

#### 4.3.5 Requirements for subsidy

It can be seen from the model that a specialised cinema operating as part of a circuit is a more viable business proposition than a stand-alone specialised cinema. In most cases, a specialised cinema with at least two screens, operating as part of a circuit, can operate without ongoing subsidy. However this model does not include cost of education provision<sup>30</sup> (see Section 5.6)

However, as noted above, the profit streams are not sufficient to finance fully the capital costs of the cinema, and public assistance is required.

#### 4.3.6 Degree of centralisation

##### *Programme services*

Some degree of centralisation of film programming and booking is essential to realise some of the benefits of operating as a circuit – negotiations with distributors generally, and establishing a coherent release strategy which works for both distributors (efficient use of prints) and exhibitors (showing the films at the best time to take advantage of press, marketing and word-of-mouth build-up, and keeping them for long enough).

<sup>30</sup> It includes central overheads as described in Section 11.5.3.

The larger mainstream circuits have almost completely centralised this function, and commercial specialised circuits have centralised it to an extent (often with a booker looking after a group of cinemas within the circuit), with additional input from cinema managers – reflecting the belief that local markets are likely to have different tastes.

The RFTs have centralised programme services to an extent via the *bfi*, but the economies are not fully realised, as the *bfi* acts more as a liaison between the distributors and the RFTs – many RFTs insist on programming autonomy.

The appropriate model for a specialised cinema circuit appears to be centralised but with room for local input.

### *Marketing*

As noted in the model, circuits realise economies of scale in their marketing costs. There is a similar situation as for programme services, with the importance of local marketing recognised. Central marketing can be of great importance to large circuits with press tie-ins but this is less true of the specialised cinema circuits, which are not large enough to take advantage of such large-scale promotions, and may not use the same branding throughout the circuit<sup>31</sup>. However, there are definitely efficiencies which can be achieved in the production of promotional material and placing of press advertising, together with the design of overall marketing strategy.

Central marketing spend in a circuit should be restricted to salary costs and production of marketing material which can be used across the circuit. All other marketing spend (which in practice is quite limited) should be undertaken by local cinema management.

### *Education*

Since much education activity involves building relationships with local contacts, the majority of venues consider that education activity should be largely decentralised. Among the commercial operators which undertake education activity, this is also a result of funding realities – often they have managed to obtain (local) funding for local education provision, but have not secured support for a central education post.

There are obviously benefits from shared knowledge and common goals facilitated from a central support role, but this need not be within a particular company. It could be through Regional Screen Agencies or a national body such as Film Education or the *bfi*.

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<sup>31</sup> See note 29.

### *Administration*

Administration is most efficiently performed fully centralised – this is consistent with our questionnaire and interview findings from those cinemas which are already operating as a circuit. Administration would include functions such as finance, management accounting, payroll and data management. This assumes that adequate and timely management information is available to local staff and that reporting requirements are not unduly burdensome.

### *Management services*

The nature of a circuit implies central management, although the degree of devolution of decision-making to local managers will vary. Mainstream circuits devolve less decision-making than the commercial specialised circuits. Many circuits incentivise their cinema managers with rewards linked to targets such as admissions and spend per head.

#### 4.3.7 **Legal issues regarding the formation of a circuit from existing stand-alone specialised cinemas**

There are obstacles to the legal constitution of a circuit from existing stand-alone specialised cinemas. The RFTs (in common with many other stand-alone specialised exhibitors) are mostly set up as autonomous charitable trusts<sup>32</sup>. They are funded from a variety of sources including:

- Film Council (via Regional Screen Agencies);
- other National Agencies;
- Regional Arts Boards;
- Local authorities;
- MEDIA Programme (Europa Cinemas).

The terms under which the charitable trusts have been established vary, but in their current form, it is unlikely that the cinemas could be legally “merged” into a circuit. The interests of the many other funding stakeholders (e.g. local authorities who want to maintain control and current levels of employment in their area) could also prevent the formation of a circuit.

The many independent specialised cinemas which do not receive Film Council funding, but which receive public funding from other sources, face similar issues.

In order for existing stand-alone specialised cinemas to join a common-ownership circuit, each cinema would need to disestablish itself and sell its assets (assuming it owns them) on to the new legal entity. The new legal entity is also likely to

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<sup>32</sup> 19 of the RFTs operate as independent charitable trusts, and the remainder are under the control of a local authority or educational establishment. See Section 11.3.4 for more details.

encounter significant problems with restrictive covenants (e.g. that a building may only be used for charitable purposes).

However, as noted in Section 4.3.8, this need not prevent these cinemas coming together to form a “virtual” circuit.

It should be noted however that our consultation findings indicated a very strong preference amongst many stand-alone operators to maintain their independence.

#### 4.3.8 **Formation of a circuit from existing stand-alone cinemas**

In order to create a UK-wide circuit of specialised cinemas, it would be necessary to persuade enough of the existing stand-alones to “join” the circuit to give a sufficient degree of UK coverage. According to our research there are approximately 59 stand-alone specialised cinemas (with at least six screenings per week) in the UK (including 21 RFTs)<sup>33</sup>.

##### *Joining the circuit*

As mentioned above, it is not legally possible for most of the stand-alone specialised cinemas to join a common-ownership circuit. The driving force behind the circuit is also likely to face political obstacles from existing stakeholders in local Government and arts organisations. There is also a risk of the emergence of a vociferous lobby of existing stand-alone operators determined to keep their independence. The political obstacles may be negated if the Film Council can persuade the stakeholders of the strength of its vision.

Regarding the legal obstacles, it should be possible to realise many of the benefits of a common-ownership circuit without having common ownership (cinemas which are programmed but not owned by City Screen and Zoo are good examples of this). Such benefits of a “virtual circuit” are similar to those enjoyed by a “real” circuit (as briefly described in Section 4.3.1). They include:

- more efficient cost base – particularly in programming, administration, finance and marketing<sup>34</sup>. This is primarily through savings in staff costs;
- increased bargaining power in negotiations with cinema advertising companies, resulting in higher revenues;
- increased bargaining power with distributors resulting in more effective release schedules. However, if a significant number of stand-alone cinemas join the virtual circuit, the effect of this will be lessened. Specialised distributors are already circulating their limited number of prints round the existing group of specialised cinemas. Simply because those cinemas are operating together will not necessarily make it more economically viable for the distributors to create

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<sup>33</sup> See Appendix A6 for a full list.

<sup>34</sup> It should be noted that in some venues, administration costs connected with the cinema accrue to larger organisations (e.g. arts centres). For mixed use/multi-media venues, it may not be appropriate to centralise all these functions – this should be considered on a venue-by-venue basis.

more prints, unless these cinemas operating together can achieve a much higher level of admissions. What this may achieve is a more effective and efficient release programme making best use of the available prints;

- increased purchasing power with concession suppliers, allowing the cinemas to realise higher margins on their concession sales.

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

- common branding<sup>35</sup>. A virtual circuit would create an opportunity for national marketing and audience development campaigns, and could significantly raise the profile of the specialised cinema sector;
- knowledge sharing of best practice;
- efficiencies in devising audience development initiatives.

The cinemas operators could also be confident that the formation of a virtual circuit would further objectives such as developing a sustainable specialised exhibition and distribution infrastructure, ensuring the widest range of cinema is shown across the UK, broadening and increasing audiences, developing an informed and appreciative audience for film, maximising the potential offered by new technology and delivering best value for money. These are discussed in detail under the heading “Incentives”, below.

#### *Revenue increases and cost savings*

From our economic models of stand-alone and circuit specialised cinema operators, some high level assumptions may be made.

The financial effect of persuading thirty stand-alone cinemas to join a circuit could be estimated as follows<sup>36</sup> (assuming twenty are one-screen and ten are two-screen):

- increased revenues of £0.16 million;
- decreased costs of £0.77 million;
- therefore, total financial benefits of £0.92 million.

Actual benefits realised may be more than this since some stand-alone specialised cinemas are not as efficient as our model. However, the savings are dependent on centralising functions such as programming, finance, administration and marketing, with limited local input. It should also be noted that there is

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<sup>35</sup> Although the value of branding is uncertain. See previous comments re Zoo and City Screen, note 29.

<sup>36</sup> These figures are derived from Figures 5-1 and 5-2 of Appendix A7 where we set out indicative financial operating models for specialised cinemas. Increased revenues result from stronger negotiations with cinema advertising companies. Decreased costs result primarily from lower staff costs and lower cost of concession sales (arising from increased buying power). The model does not take account of any increase in attendances which might result from marketing initiatives, better programming decisions or the draw of a powerful brand.

considerable variation in the current level of provision (in terms of screenings per week) among the stand-alone specialised cinemas listed in the appendix. Some smaller venues may not be able to pare down costs much further (although they would still have much to gain from membership of a virtual circuit), and others which form part of larger mixed arts venues may not be able to realise all the financial benefits described.

Savings or revenue benefits realised could be retained by the cinemas to be invested in education provision or training, or pooled with other members of the virtual circuit to invest in marketing. This would also provide a powerful incentive to join the virtual circuit.

### *Incentives*

The key decision makers are going to be the Board of Directors of each organisation. Since membership of the virtual circuit is going to involve some ceding of control, there will have to be strong incentives to persuade the Boards to buy into such a plan.

In addition to the financial incentives described above, the objectives of the stand-alone cinemas are likely to be consistent with many of the Film Council's objectives. The Board members will need to be persuaded that membership of a virtual circuit will help to achieve these objectives. The reasons a virtual circuit could help to achieve these objectives are, to take each of them in turn:

- ***develop a robust and sustainable UK specialised exhibition and distribution infrastructure*** – it is in every specialised cinema's interest to develop a robust and sustainable infrastructure throughout the UK. It is a virtuous circle – the healthier the sector, the more specialised films will be available (to more people), the higher audience admissions will be. The economic arguments are strong. The more outlets which form part of a strongly-branded virtual circuit, the higher the audiences, the healthier the distribution sector – more prints could be produced, more could be spent on marketing (further increasing the potential audience admissions), more films could be acquired (ones which are currently too risky and do not get picked up);
- ***ensure that the widest range of British, European and World cinema is screened across the UK*** – Board members may be concerned about the range of film which will be shown in their venues. A common theme from our consultation with stand-alone independent cinemas is that their independence allows them to programme an extremely broad range of cinema, tailored towards the needs of local audiences. There is a general fear of “dumbing down” with programming across a circuit reduced to the lowest common denominator of specialised film (many of the smaller titles being ignored). The Film Council would need to offer reassurance about this, possibly facilitating an agreement of a minimum number of titles to be shown in each cinema (obviously this would vary from cinema to cinema – current numbers could be used as a starting point for the negotiation), and a commitment to accept local

input into film booking decisions. Something would also need to be done to continue to nurture the areas of expertise which have been developed in individual stand-alone specialised cinemas, since it is likely that the services of all these programmers would no longer be required. One solution could be to retain those which have particular areas of expertise as bookers for a number of members of the circuit (by analogy, City Screen has a number of bookers each overseeing a group of cinemas), reporting to the “Head Office” of the virtual circuit. There are also strong arguments that by improving the infrastructure as mentioned above, distributors are more likely to take on riskier films, increasing the range of cinema available;

- ***broaden and increase UK audiences*** – a powerful brand could help to assist an increase in audiences in specialised venues, especially if the brand is enhanced through marketing. (The effect of this should not be overstated though, since our consultation process found that as a rule, films drive audiences, not cinemas – and many stand-alone cinemas feel that their “independent” brand (not linked to a circuit) is one of their unique selling points.) The sharing of knowledge of best practice audience development initiatives across the virtual circuit should also help to broaden and increase audiences. The strategy as a whole, with criteria for capital grants linked to reaching out to new audiences, should result in some innovative audience development initiatives, which could usefully be shared with other venues;
- ***develop an informed and appreciative audience for film in the UK*** – education is a cornerstone of the strategy for specialised film described in Section 3, just as many stand-alone venues regard education as absolutely fundamental to their organisation. Membership of a virtual circuit must not curtail a venue’s educational activities. This strategy is aimed at improving educational provision across the board. A commitment by the Film Council to invest in education, which would directly benefit the stand-alone venues joining the virtual circuit (e.g. through training of education officers) would help to alleviate concerns, and encourage venues to participate;
- ***maximise the potential offered by new technologies such as e-cinema*** – sharing knowledge of e-cinema experimentation, and possibly in some cases sharing equipment across a virtual circuit could offer a powerful incentive to join. Existing stand-alones might not be able to justify (or afford) any significant level of experimentation, but if, through a virtual circuit, they could participate, this might be appealing. Ultimately, harnessing the potential offered by e-cinema, which in the long-term could revolutionise specialised exhibition, is in every operator’s interest. If a Digital Innovations Fund was set up, it would be a condition of award that a cinema applicant was a member of the virtual circuit<sup>37</sup>;

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<sup>37</sup> All applicants would not need to satisfy this requirement, only those which operate as cinemas. The nature of the Digital Innovations Fund would be to encourage applications from cinemas and also those investing in portable equipment or other models which differ from conventional cinemas.



- ***work in association with public and private sector partners to deliver best value for money*** – inefficiencies do not represent best value for money. Most funding stakeholders will recognise this. If the same (and the Film Council could argue, improved) service can be provided more efficiently, then there is an obligation to try to maximise the efficiency;
- ***complement other Film Council strategies*** – the Film Council’s overall strategy for specialised film will be consistent with its other strategies. These strategies are also likely to be consistent with the objectives of the existing stand-alone organisations.

These would represent some of the key incentives for stand-alone organisations to join a virtual circuit.

As stated, there is a wide range of specialised exhibitors listed in Appendix A6, from exhibitors which screen several specialised films every day to the large number which have less than six screenings per week. Some of those part-time venues have a lot to gain from being members of a virtual circuit, and this should be encouraged. Over time, with encouragement, marketing support and effective programming, some of those venues might evolve into full-time venues. The creation of a virtual circuit is a desirable outcome, and the Film Council should offer a range of (mostly financial) incentives to encourage that process. These could include:

- for a small part-time operation, assistance with the purchase of computer equipment to enable communication with other members of the virtual circuit, and more efficient and effective running of the business;
- for a one-screen independent, assistance with funding for education or training costs;
- for a two-screen RFT, assistance with the capital costs of fitting out an additional screen.

We recommend that a body is given responsibility for overseeing the creation of the virtual circuit – this would begin with a review of the current portfolio of venues, and the incentives and likely costs which would be required to create the circuit.

#### 4.3.9 **Different forms of a virtual circuit**

The Film Council could use the power of the arguments and incentives stated above to persuade as many as possible of the stand-alone specialised cinemas to join this virtual circuit. In this scenario, it would be important to make the case to both the cinemas and the funding stakeholders.

It is possible that some of those cinemas will adopt a wait-and-see attitude – they will join if it becomes apparent that it is in their best interests to do so. In this case, the Film Council could still go ahead with a virtual circuit of those cinemas which wished to participate. As the strength of the brand grew and the other

advantages of membership of the virtual circuit became more apparent, more cinemas could choose to join.

An RFT-only circuit, without the involvement of the private sector, is unlikely to achieve many of the outcomes described in Section 4.3.8. Without the private sector experience, an RFT-only circuit may simply add a layer of bureaucracy onto existing structures. The value of branding the RFTs coherently in the absence of any other members of the virtual circuit is not likely to be significant.

Having stated that, we do not consider there to be a “break point” for the viability of the circuit. We understand from existing operators that any size of circuit, well-run, can realise economies of scale for the operators. No UK operator considers they have begun to encounter diseconomies of scale, so we would recommend that the virtual circuit encompasses as many members as possible.

#### **4.3.10 Methods of developing and increasing circuits**

All of the commercial specialised cinema circuits are considering opportunities for expansion. As was demonstrated in the economic model outlined in Section 4.3.4, these circuits require capital assistance to establish new cinemas with which to grow their circuits. The capital investment strategy, detailed in Section 5.2, sets out the most effective method of giving this capital assistance.

These new cinemas could be used as an incentive to encourage private sector involvement in a virtual circuit. It could be required that new venues developed with funds awarded under the Capital Investment Strategy were members of a virtual circuit. Similar requirements could be attached to funding for additional screens for existing stand-alone specialised cinemas.

#### **4.3.11 How to achieve buy-in**

Following this report, there are likely to be some changes in the funding arrangements for RFTs. It is also likely that every organisation’s wish-list of solutions will not be implemented in full – this is true of all cinemas, publicly-funded or not.

It is imperative, in order to achieve the Film Council’s objectives, that existing operators are encouraged to collaborate with the recommendations flowing from this report. To this end, we have conducted an extensive consultation process through interviews and questionnaires, including a symposium day which provided an opportunity for members of the industry to contribute further towards the shaping of the strategy.

There are no catch-all solutions, and a matrix of solutions which address many of the weaknesses in the sector and build on many of the opportunities for the sector, should help to achieve a broad consensus of support for the strategy.

Overarching requirements to achieve buy-in should be that applications for funding are open to all interested parties which can demonstrate they fulfil the criteria discussed in Section 5.2. Also, changes which will have a significant effect on individual cinemas (e.g. the modification of subsidy provision) should be phased in carefully over time.

#### 4.4 **Summary**

In considering the development of the specialised sector in the future, there are three options which the Film Council could consider:

- stand-alone specialised cinemas;
- cinemas which are extensions to existing circuits;
- cinemas which are part of a new circuit.

The economic models clearly militate against small stand-alones in favour of circuits, which are more viable businesses, and therefore more likely to contribute to a sustainable infrastructure. There are other benefits to operating as part of a (real or virtual) circuit – these were discussed in Sections 4.3.1 and 4.3.8. The arguments between an entirely **new circuit** (the Arts Council inviting single bids for the provision of cinemas in a number of locations corresponding to its priority locations as described in Section 5.1) versus **extensions to an existing circuit** are more complicated as illustrated in Figure 4-5.

**Figure 4-5: New circuit vs extensions to existing circuits**

New circuit	Extensions to existing circuits
<ul style="list-style-type: none"> <li>■ More potential for marketing and publicity blitz around new “Lottery-supported” circuit. Could create a new brand.</li> </ul>	<ul style="list-style-type: none"> <li>■ Publicity about a new “Lottery-supported” circuit might not be wholly positive in tone. Value of branding is uncertain. In any case, extensions to existing circuits could still be branded as part of a virtual circuit.</li> </ul>
<ul style="list-style-type: none"> <li>■ There is the potential for a new operator to reach out beyond the audiences which existing specialised cinemas have reached.</li> </ul>	<ul style="list-style-type: none"> <li>■ There are existing players who are extremely willing to participate, whereas operators of necessary calibre might not come forward to operate a new circuit.</li> </ul>
<ul style="list-style-type: none"> <li>■ Opening up the market to a new operator could allow the creation of a new imaginative business model which has not been tried before in the UK. It would also create more competition in the specialised market, helping to drive up standards.</li> </ul>	<ul style="list-style-type: none"> <li>■ Existing players have a proven track record, whereas there is a higher risk of failure when dealing with an unknown quantity. This could lead to embarrassment for the Film Council, a request to “bail out” an underperforming business or ultimately, the failure to achieve the Film Council’s aims.</li> </ul>
<ul style="list-style-type: none"> <li>■ A new circuit with a freshly established Head Office would be entirely focussed on the success of the new circuit.</li> </ul>	<ul style="list-style-type: none"> <li>■ Extensions to existing circuits can take advantage of further economies of scale, whereas a new circuit would have to establish a new Head Office with the associated costs.</li> </ul>
<ul style="list-style-type: none"> <li>■ A high-profile new circuit might find it easier to attract private funding.</li> </ul>	<ul style="list-style-type: none"> <li>■ Given the lower risk and proven track record, existing operators might find it easier to attract private finance.</li> </ul>

One of the most important factors is the reaction of likely applicants. Three commercial companies currently operating specialised cinemas (City Screen, Mainline and Zoo) have all indicated that they would prefer to have applications for individual sites considered on a merit basis, rather than be invited to bid for a package of sites in locations determined by the Film Council’s priorities. They all indicated that it makes more sense to let the market decide (albeit tempered by the criteria on which the applications will be judged which could give priority to current areas of under-provision), particularly since cinema development is an opportunistic business. There would be a risk of cinemas being situated in sub-optimal locations within preferred towns or cities, simply to satisfy the requirement to have new provision in that town or city.

On balance, it would appear that extensions to existing circuits will be more likely to achieve the Film Council Working Group’s objectives. However, we strongly advocate an open competition for funding, leaving it to the market to decide. Further details are set out in Section 5.2. All applicants could be encouraged, or required, to join part of a virtual circuit, as described in Section 4.3.8. The consequences or requirements of membership of that virtual circuit could be

considered on a venue by venue basis. The commercial specialised cinema circuits have already centralised many of their functions to maximise efficiency.

## 5 **Backing the exhibitor: A cinema exhibition capital investment strategy**

### 5.1 **Introduction**

The Arts Council of England has ring-fenced £15 million for cinema exhibition in England over the next three to five years. This section:

- considers how best this fund can be applied through new provision, refurbishment and/or redevelopment, and the various methods of doing so;
- identifies the top 10 locations for new specialised cinema provision in England, and priorities for Scotland, Wales and Northern Ireland;
- examines the appropriate design of a cinema exhibition funding scheme bearing in mind the above issues;
- evaluates a series of complementary investment measures to go with this fund (investment in education provision and review of the role of the *bfi*);
- describes a number of additional possible measures recommended by other studies and during the consultation process, which have not been recommended as key to this strategy.

This report is also relevant to Scotland, Wales and Northern Ireland, and we do not wish to start from the presumption that public money must be spent, therefore in considering how to fund the recommendations, we consider various options. It is also important to consider whether there will be any revenue funding consequences flowing from capital funding recommendations.

### 5.2 **New provision**

In terms of new provision, the analysis in this section covers:

- costs and benefits of new provision;
- the appropriate size of new cinemas;
- funding strategy.

5.2.1 **Costs and benefits of new provision**

The capital costs of new provision are discussed in Sections 11.5.3. They are summarised in Figure 5-1.

**Figure 5-1: Capital costs of new provision<sup>38</sup>**

Number of screens	1	2	3	4	5
Capital Cost	£899,375	£1,248,938	£1,498,625	£1,748,313	£1,998,000
Private contribution	n/a	n/a	£119,659	£481,234	£616,174
Private share	n/a	n/a	8%	28%	31%

The private contribution is calculated as the amount a private sector investor would be willing to invest in the project given the ongoing operating profit stream. It is assumed that an investor would be willing to invest up to eight times the annual operating profit. Of course, investors may be willing to invest more than this (particularly if the company has some security to offer). Equally, given the uncertainty and risk inherent in the specialised sector, investors may not be willing to invest so much. The balance of the capital cost will need to be obtained from other public sources.

The benefits of new provision are that it will directly satisfy several of the Film Council Working Group’s objectives:

- it should help to develop a robust and sustainable UK specialised exhibition and distribution infrastructure. Through creating more screen space, and allowing specialised films to reach larger audiences, it will assist in the creation of a sustainable distribution infrastructure. By building on successful models of specialised film exhibition, it will create a more durable exhibition infrastructure which is not as dependent on subsidy.
- it should ensure that the widest range of British, European and World cinema is screened across the UK. Through attaching conditions to the capital grants, and a thorough assessment of the applications, the Film Council will have assurance that the new provision will show the range of film which the Film Council expects. By using new provision to fill the gaps in specialised cinema exhibition which we identified in Section 5.1 it will ensure that more of the UK audience has an opportunity to enjoy these films.
- it should broaden and increase UK audiences. Gap-filling new provision, by its nature, will increase UK audiences for specialised product. Through attaching conditions and thorough assessment of applications, the Film Council will be able to ensure that the providers of this new provision are able to reach out beyond the core specialised film audience, and in particular, to attract the demographic segments we have identified in Section 11.7.2 as key

<sup>38</sup> Based on circuit cinema outside London with standard level of admissions.

opportunities. In addition to reaching out to ethnic minorities, additional criteria relating to provision for people with disabilities and those with visual or hearing impairment (such as physical access for people with disabilities and facilities like induction loops and audio description services) should also be added to ensure that new provision at least equals, and preferably exceeds, the standards of existing provision. There are 8.5 million disabled people in the UK, and one in four people is disabled or is close to someone who is disabled<sup>39</sup>, so this provides an additional opportunity to increase and broaden the audience, and it will service an important constituency which arguably has been inadequately provided for in the past.

- it should help to develop an informed and appreciative audience for film in the UK. By the presence of a specialised cinema in an area which has not had one before, there is potential to help to develop an informed and appreciative audience through imaginative marketing, audience development and programming. If an educational remit is added to the conditions for funding this would be further enhanced.
- it could maximise the potential offered by new technologies such as e-cinema. At relatively low cost, the Film Council can ensure that the new provision makes appropriate use of new technology (e.g. high quality video projectors).

This vision of new provision shows the Film Council and Arts Councils working in association with public and private sector partners to deliver best value for money.

The potential benefits from this strategy are estimated to be:

- increased audience of 1,500,000 admissions pa (based on 150,000 admissions per venue<sup>40</sup>);
- associated box office revenues of £5.25 million (based on an average ticket price £3.50<sup>41</sup>);
- additional concession revenues of £1.3 million (based on 25% of box office);
- a more diverse audience being reached;
- increased education provision;
- increased access for people with physical disabilities and improved facilities for those with visual or hearing impairment.

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<sup>39</sup> DfEE, Disability Discrimination Act 1995, An Introduction for Small and Medium-sized Businesses, 1999.

<sup>40</sup> This is a high-level estimate, based on our indicative operating model (see Section 11.5, Appendix A7) which shows a level of admissions of 142,500 for a three-screen specialised cinema, and 180,000 for a four-screen specialised cinema.

<sup>41</sup> Net of VAT.



### 5.2.2 **Size of cinema**

The cinemas could be:

- Single screen;
- Miniplexes (two to five screens);
- Multiplexes (more than five screens).

There is insufficient evidence to conclude whether the specialised multiplex model is viable in the UK market, and to determine the effect it would have on the existing specialised sector. It appears to have been successful in Canada, South Africa and Australia, and the fact that a number of parties are considering this option for the UK suggests that it merits further consideration.

Single screen specialised cinemas, as was demonstrated by the model, are not viable as the overhead costs necessitate significant subsidy to keep the business afloat.

As mentioned previously, cinemas with one to two screens are also constrained in their film bookings, which in turn makes them less viable businesses.

Therefore the most appropriate size of new provision would appear to be a miniplex with at least three screens, assuming the catchment area is sufficient to support such a cinema.

Applications for assistance with specialised multiplexes should also be considered, but evidence should be sought from the applicant as to the basis for their business model, and the effect on existing provision, if any. See Section 5.2 for further details.

### 5.2.3 **Funding strategy**

In encouraging new provision, the Film Council could consider the following funding options:

- fully funded by the public sector;
- co-financed by the public and private sector;
- fully funded by the private sector;

The further funding options are:

- capital subsidy only;
- revenue subsidy only;
- a combination of capital and revenue subsidy.

Bearing in mind the Film Council's objective to "work in association with public and private sector partners to deliver best value for money", we have concentrated

on solutions which make best use of Film Council and Arts Council of England funds, with maximum potential for partnership involvement. The economic models demonstrate how difficult it is to set up a specialised cinema without capital assistance. However, they also demonstrate that it is possible to have an ongoing business which does not require revenue subsidy, depending on audience size.

Therefore the most economically sustainable option would appear to be capital costs co-financed by the public and private sector, but no ongoing revenue subsidy for new cinemas apart from education funding. This will ultimately contribute to the Film Council's first stated objective of a robust and sustainable specialised exhibition sector.

There should be some ongoing subsidy specifically for education activities as discussed in Section 5.6. Also, if the Film Council wishes actively to pursue rural and local cinema provision, it should be aware of the ongoing revenue consequences. These locations will not support levels of admissions necessary to make an operation economically viable without subsidy.

Therefore, a balance needs to be struck between the desired breadth of provision and the availability of public funds. It may be that some of the locations the Film Council favours (because of gaps in specialised provision and desires for rural and local provision) cannot support the 100,000-150,000 admissions necessary to make a specialised cinema viable. In these circumstances, some ongoing revenue subsidy is likely to be required, although it should be linked to incentives as described in Section 4.2.5. Alternatively, in the longer term, e-cinema may provide a solution to specialised provision in areas where a specialised cinema is not viable. This vision is of good quality digital projection in a temporary exhibition space. As time progresses, equipment will inevitably be better quality and cheaper. Issues of print availability should not be an issue (at least in terms of the cost of print production) if digital cinema takes full hold. As discussed in Neil Watson and Richard Morris's e-cinema report, however, this is not a certain outcome, and it is unlikely in the short to medium term.

### **5.3 Refurbishment and redevelopment**

Our analysis of typical refurbishment costs at UK cinemas indicates that the average cost per screen is around £45,000 to £50,000. These figures include refurbishment of the public areas within a cinema including the reception but are calculated on a per screen basis. Assuming an average of 250 seats per screen, this would indicate a typical refurbishment cost of between £180 and £200 per seat.

Our discussions with cinema operators indicate that refurbishment of cinemas is often undertaken to maintain the level of admissions and public interest in the

facility. The “return on investment” is often regarded as unmeasurable. This is because any noticeable fluctuations in box office revenues after the refurbishment are usually attributable to the quality of film releases or external influencing factors such as the weather or holidays.

There could be educational benefits to refurbishment. For example, if new equipment is installed for viewing films at the same time (e.g. projectors capable of showing DVDs) then this could enhance the range of education services (e.g. screenings led by a tutor which can be interrupted and rewound) which the cinema is able to provide. Funding could also be used to refurbish areas of the cinema to turn them into user-friendly educational suites.

In terms of refurbishment to improve concession/non-box office revenues in subsidised cinemas, we noted seven RFT venues which are currently underperforming the industry average of concession sales (25% of box office). Assuming they could all increase to that level, this would generate a total of £170,000 additional revenue (£85,000 operating profit assuming 50% cost of sales) helping these operations to become more viable. Over seven venues, the amount is not large enough to justify significant levels of investment. It is also uncertain whether these venues have physical space for facilities necessary to generate this revenue.

Therefore we consider that refurbishment should be a secondary consideration, although within that priority should be given to applications for refurbishment which could benefit the provision of educational activities.

## 5.4 Possible locations for new provision

This section identifies the top 10 locations for new specialised cinemas in England and the priorities for Scotland, Wales and Northern Ireland.

### 5.4.1 Overview of approach

A detailed spreadsheet model has been developed to provide rigour to the process of prioritising locations. The model contains statistics on the top 100 locations (in terms of population size) in England, Scotland and Wales<sup>42</sup>, and for each location potential demand is assessed together with supply side variables to determine the priorities. This approach is based on work commissioned by the *bfi* titled ‘Review of *bfi* Cinema Exhibition Funding Relationships’, undertaken by JR Inglis and S Todd, Media Arts and Consultants (July 2000).

There are two stages to the model as illustrates Figure 5-2. The first stage involves separating locations into those with and without specialised cinema in order to identify locations with gaps, and to identify locations with the greatest potential to

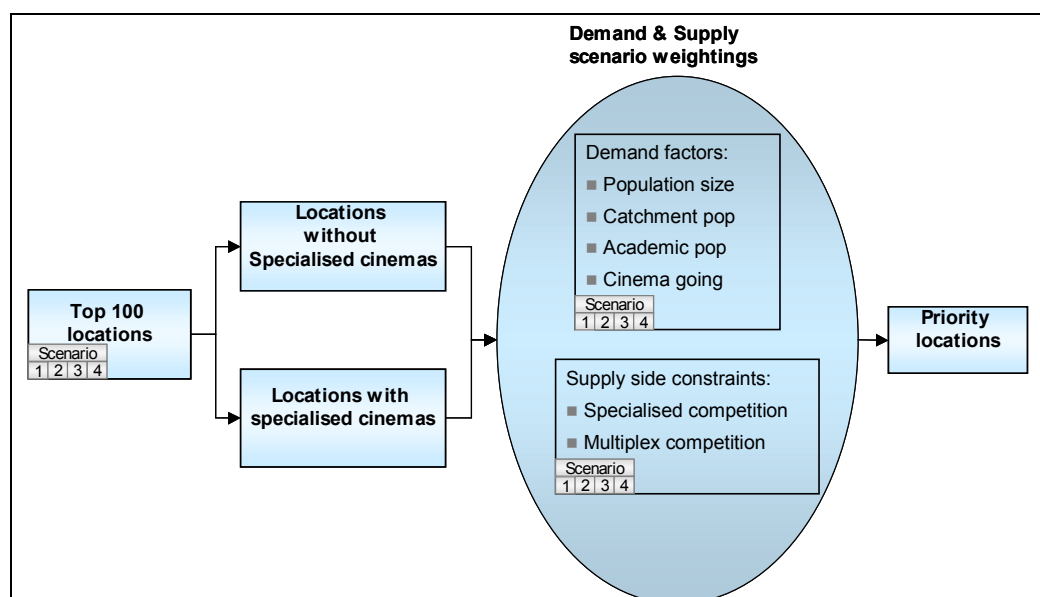
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<sup>42</sup> Modelling approach excludes Northern Ireland as consistent demand and supply side data could not be collected.

increase the audience for specialised cinema. The second stage of the model then ranks (separately for each of these two classifications) the priorities based on a potential demand assessment taking into account supply side constraints.

Although both demand and supply factors will have a very important bearing on whether a location is commercially suitable for development, by far the most important constraining factor is availability of suitable sites or properties. Given that these usually appear on the market in an ad-hoc fashion, the future availability of suitable sites can not be predicted with any degree of certainty. Furthermore, any eventual provision in certain locations will have to be carefully weighed against counter proposals in other locations through, at the very least, a detailed feasibility study, demand assessment and investment appraisal. Both these factors can not be included in the analysis and, as a consequence, the priority locations identified should be viewed as no more than broadly indicative.

**Figure 5-2: The structure of the location model**



#### 5.4.2 Demand and supply factors

The following indicators capture demand:

- town/city population. The core population indicator which measures the potential demand for mainstream and specialised cinema;
- population catchment. Included as a supplement to town population. This is a widely used indicator with most new cinema developments requiring a minimum population within a 20 minute drive time. We have increased the drive time area to 30 minutes to reflect the increased propensity of people to travel further to specialised cinema (with added weight given to populations close to the actual cinema provided by the town population);

- heavy cinema goers. This indicates areas of high demand for cinema. Although there is a slight drawback with this factor – heavy cinema goers are likely to be in areas which already have high levels of cinema provision, so this just maps current provision rather than identifying new potential. This indicator is based on catchment population and so when used the weight applied to catchment population has been reduced accordingly;
- academic population. This captures the higher propensity that students and academic staff have for going to cultural events;
- propensity to go to arts venues. This is measured by the ACORN classification<sup>43</sup> and is a proxy for specialised cinema going. As the above variables indicate areas which have potential for general cinema provision, the ACORN classification has been added to take into account propensity to go to the specialised cinema;
- the proportion of the population accounted for by ethnic minorities. This is used to indicate the potential for cinema/screens targeted at Black and Asian (Bollywood) audiences.

Supply side constraints considered in the model are competition from other specialised and/or mainstream cinemas. The extent of competition from general cinemas will have a significant impact on the viability of the business. A facility exists in the model where locations are excluded from the model outright if they have very high multiplex concentration (e.g. exclusion of the ten locations which have the largest concentration of general screens per population).

A number of scenarios have been developed to show the range of possible priority locations (see Figure 5-3). These are based on different applications of weights to the above demand and supply factors, the relationship between supply and demand (i.e. the competition effect), and whether particular locations are excluded totally from the model (e.g. if there is very high concentration of general cinemas).

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<sup>43</sup> ACORN groups breakdown the population into lifestyle/consumer groups.

**Figure 5-3: Key demand/supply weighting assumptions**

<u>Location Model Assumptions</u>	<u>Gaps in provision</u>						<u>Areas with no specialised cinemas</u>					
	Sc A1	Sc A2	Sc A3	Sc A4	Sc A5	Sc A6	Sc B1	Sc B2	Sc B3	Sc B4	Sc B5	Sc B6
	Base case	With catchment pop.incl.	Med competition impact	High competition impact	Ethnicity factor incl.	Ethnicity (no bwood) & med	Base case	With catchment pop.incl.	Med competition impact	High competition impact	Ethnicity factor incl.	Ethnicity and med comp
<b><u>Demand weightings:</u></b>												
Town/City pop size	50%	30%	30%	30%	30%	30%	50%	30%	30%	30%	30%	30%
CACI pop catchment	0%	20%	20%	20%	10%	10%	0%	20%	20%	20%	10%	10%
TGI Heavy Cinema Goers	10%	10%	10%	10%	0%	0%	10%	10%	10%	10%	0%	0%
Academic pop	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
ACORN Index	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
Ethnicity Index	0%	0%	0%	0%	20%	20%	0%	0%	0%	0%	20%	20%
Total Demand	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
<b><u>Demand/Supply side relationship</u></b>												
Demand weighting relative to supply	20%	20%	50%	100%	20%	50%	20%	20%	50%	100%	20%	50%
<b><u>Supply side factors</u></b>												
Specialised competition	75%	75%	75%	75%	75%	33%	0%	0%	0%	0%	0%	0%
Multiplex competition	25%	25%	25%	25%	25%	33%	100%	100%	100%	100%	100%	100%
Bollywood competition	0%	0%	0%	0%	0%	33%	0%	0%	0%	0%	0%	0%
<b><u>Exclude:</u></b>												
Locations with specialised cinemas	-	-	-	-	-	-	Yes	Yes	Yes	Yes	Yes	Yes
Locations without specialised cinemas	Yes	Yes	Yes	Yes	Yes	Yes	-	-	-	-	-	-
Locations with Bwood screens	-	-	-	-	-	Yes	-	-	-	-	-	Yes
Top x? towns with high multiplex concentration	10	10	10	10	10	10	0	0	0	10	0	0

### 5.4.3 The rationale for selecting the priority locations

The output of the model (see Figure 5-4) is a list of top locations in the UK for a number of scenarios. We consider that the output from this location model should be supplemented with a number of additional qualitative inputs to identify the final list of priorities. These additional inputs include:

- how locations are affected by the application of different weighting criteria;
- qualitative input from our consultation process;
- a sensible and coherent group location strategy;
- locations which are likely to fulfil the Film Council's objectives of increasing and broadening the audience;
- locations which are likely to receive best value for money;
- work undertaken by *bfi* report on the top 10 priority locations<sup>44</sup>.

There are a number of reasons for this approach. First, the different scenarios mitigate against faulty data weighting and show the sensitivity of the analysis to different criteria. Each scenario produces a slightly different set of priority locations. The results need to be interpreted carefully to test whether the final list of priority locations chosen hold up well to different weighting criteria.

Secondly, and perhaps the most important issue, is whether new cinema build should be focused in areas with gaps, or areas, which show greatest potential. The argument for suggesting that new cinema provision should be located in areas which already have an established (albeit very limited) audience for specialised cinema hinges on the premise that it is easier, and less risky, to create additional specialised audiences (over the short term) in already successful areas.

The alternative argument for focusing on gaps is based on the argument that the market failure is greater in these areas. The drawback of this approach is that these areas are likely to be more risky. Moreover, we have found that many of the top 100 locations have access to a specialised cinema or screen (see Appendix A6). For the remaining locations where gaps exist, it is arguable whether a specialised cinema could be viable, without a significant level of revenue support. We therefore do not propose that the priority locations should be focused on these gaps. Instead, we focus the priorities those locations with greatest potential (e.g. locations which are significantly underprovided in terms of specialised screens per population).

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<sup>44</sup> Review of *bfi* Cinema Exhibition Funding Relationships, Commissioned by the British Film Institute; JR Inglis & S Todd, Media Arts & Consultants (July 2000).

Figure 5-4: Location model results

		<b>Gaps in provision of specialised cinemas</b>						<b>Areas with no specialised cinemas</b>					
		Sc A1	Sc A2	Sc A3	Sc A4	Sc A5	Sc A6	Sc B1	Sc B2	Sc B3	Sc B4	Sc B5	Sc B6
Base case		With catchment pop incl.	Med competition impact	High competition impact	High competition impact	Ethnicity factor incl.	Ethnicity (no bwood) & med comp	Base case	With catchment pop incl.	Med competition impact	High competition impact	Ethnicity factor incl.	Ethnicity and med comp
1	London	London	London	London	London	London	Coventry	Middlesb'gh	Middlesb'gh	Middlesb'gh	Worthing	Slough	Slough
2	Glasgow	Glasgow	Glasgow	Glasgow	Glasgow	Birmingham	Nottingham	Watford	Watford	Worthing	Middlesb'gh	Middlesb'gh	Middlesb'gh
3	Birmingham	Birmingham	Birmingham	Birmingham	Birmingham	Leicester	Northampton	Worthing	Slough	Sunderland	Sunderland	Watford	Watford
4	Edinburgh	Edinburgh	Edinburgh	Coventry	Glasgow	Glasgow	Oxford	Guildford	Worthing	Winchester	Folkestone	Wycombe	Worthing
5	Bristol	Manchester	Coventry	Liverpool	Luton	Manchester	Southpton	Slough	Guildford	Watford	Colchester	Blackpool	Wycombe
6	Manchester	Leeds	Liverpool	Cardiff	Manchester	Coventry	Liverpool	Harrogate	Wycombe	Colchester	Winchester	Worthing	Colchester
7	Liverpool	Bristol	Leeds	Leicester	Coventry	Coventry	Poole	Colchester	Winchester	Slough	Doncaster	Guildford	Blackpool
8	Leeds	Liverpool	Cardiff	Nottingham	Nottingham	Nottingham	Aberdeen	Winchester	Portsmouth	Harrogate	Harrogate	Winchester	Winchester
9	Nottingham	Nottingham	Nottingham	Northampton	Wolverhampton	Wolverhampton	Lancaster	Wycombe	Harrogate	Folkestone	Warrington	Colchester	Harrogate
10	Sheffield	Sheffield	Sheffield	Sheffield	Edinburgh	Edinburgh	Leeds	Portsmouth	Colchester	Warrington	Darlington	Portsmouth	Sunderland
11	Cardiff	Southampton	Leicester	Leeds	Oxford	Oxford	Brighton	Chelmsford	Chelmsford	Portsmouth	Newcastle-Lynn	Harrogate	Portsmouth
12	Southampton	Cardiff	Bristol	Bradford	Bradford	Bradford	Plymouth	Cheltenham	Bracknell	Wycombe	Swansea	Huddersfield	Folkestone

Source: KPMG location model



Finally, the model considers the merits of each location individually which is a limitation of the location model. We consider that the priority locations should be based on a coherent group location strategy, by consideration of how each location relates to others as part of an overall strategy, rather than the merits of individual locations in isolation. For example, a geographical spread across the regions and nations of the UK is considered to be an important qualitative factor to bring into the analysis. Not only will this address the Film Council's objectives of increasing and broadening the audience for specialised cinema, it could also reduce the level of risk by spreading the capital investment and the use of public funds.

The final list of top 10 priority locations for new specialised cinemas in England and the priorities for Scotland, Wales and Northern Ireland is summarised in Figure 5-5 together with the rationale.

**Figure 5-5: Priority locations for specialised cinemas in England**

Locations	None or underserved	Rationale for selection
Birmingham	Greater potential	Location has large population with no RFT. Ranks high across most scenarios and was recognised in consultation programme as underserved. Holds up well to the crucial competition test (Scenario A3 and A4).
Coventry / Leicester	Greater potential	Location combines consistent ranking with high position under ethnicity scenarios. Therefore opportunity for new specialised cinema to broaden audience via Black and Asian development initiatives
Liverpool	Greater potential	Location has high population with no RFT. It generally ranks in the top 10 across many of the scenarios, particularly under the high competition test scenario. Recognised in consultation programme as underserved. However, a venue operated by City Screen (the FACT centre) is due to open next year – the location should not be viewed as a priority if this venue operates as a specialised cinema.
Leeds	Greater potential	Location ranks high across many of the scenarios. Has no RFT and recognised in consultation programme as underserved. However, there is high competition from other general cinemas which could be a cause for concern (i.e. it does not enter ranking list under Scenario A4).
London	Greater potential	Location always ranked very high in the location model. A traditional and safe location to secure revenues for part of a circuit and/or to grow existing audience base. However, there may currently be over concentration in the West End and exact location within London would need careful consideration.
Nottingham	Greater potential	Location has strong potential to increase existing audience, but also to combine with ethnicity angle where it scores highly (Scenario A5, A6). Note that some funding is already in place for a specialised venue in Nottingham.
Guildford or High Wycombe or Slough	No spec cinema	Commuter belts towns around London all received high ranking in Location model, similar to the location analysis advice given to the <i>bfi</i> . We recommend that only one of these locations should eventually be chosen to avoid undue concentration of new cinema provision in a particular areas of England. Availability of suitable locations in these areas may be an issue.
Chelmsford or Colchester or	No spec cinema	As above. But slightly different location.
Middlesborough	No spec cinema	The consultation programme revealed that to develop a specialised cinema in this type of location would be challenging. Nevertheless it has been consistently ranked high in the model (and with ethnicity angle). Therefore test bed opportunity to broaden audience development into wider regions.
Watford	No spec cinema	Location has high catchment population and all the ingredients similar to the existing audience base. It was also recommended in the work undertaken for the <i>bfi</i> . However, does not perform well when competition impact is included in model.

Source: KPMG location model

**Figure 5-6: Priority locations for specialised cinemas in Scotland, Wales and Northern Ireland**

Locations	Gaps / under-provision	Rationale for selection
Glasgow (Scotland)	Greater potential	Ranks very high and consistently in the location model. Edinburgh has similar rankings under some scenarios, but does not hold up particularly well when competition is considered. However, a new UGC multiplex which has recently opened in Glasgow is planning to show specialised film on some screens, may change mean that the gap in provision is filled in the near future.
Edinburgh (Scotland)	Greater potential	Ranks high in terms of potential demand. However, it begins to drop down the list when competition from specialised and other cinemas is taken into account.
Aberdeen (Scotland)	Greater potential	Location model ranks Aberdeen as having lower potential than Glasgow and Edinburgh. But it could become a priority, depending on the amount of funding made available.
Cardiff (Wales)	Greater potential	In the quantitative location model, Cardiff enters the top 10 locations when competition from other cinemas is taken into account (Scenario A4).
Belfast (N Ireland)	Greater potential	It seems that Queens Film Theatre is not capturing all of the potential demand for specialised films in the city, and consequently, there could be scope for an additional cinema.

*Source: KPMG location model*

## 5.5 Design of a cinema exhibition capital investment strategy

This section examines the appropriate design of a cinema exhibition funding scheme for the award of up to £15 million for cinema venues in England over five years.

### 5.5.1 Aims and objectives

The overall objective of the capital strategy is to meet the Film Council's objectives described in Section 1.2. There are, however, a number of priorities set out in the strategy above which are particularly applicable to the design of the cinema exhibition capital investment strategy. These include:

- new provision (based on the circuit model) and additional screens in areas of England which are currently underprovided;
- encouragement of best practice via Regional Agencies;
- an educational strategy which develops new audiences and encourages the existing audiences to see a wider range of films;
- increasing the audience for specialised cinema and broadening the audience base (e.g. ethnic minorities, people with physical disabilities, those with visual or hearing impairment);
- application of innovative technical solutions through e-cinema.

We have devised the capital strategy with the above objectives in mind. In addition, and perhaps the most important consideration in devising the strategy, is the applicability to Scotland, Wales and Northern Ireland. Although the capital strategy is about the award of £15 million of funds within England, the strategy has been designed to be easily transferred to the rest of the UK.

### 5.5.2 Application

The starting point for the design of the cinema exhibition funding scheme is the ACE Arts Capital Programme (ACP). Application to the ACP is currently a two stage process.

- stage one – application to the programme. This is a light touch application process where the bidder is required to provide a short description of the project, its broad objectives, organisational details and an outline of the project costs. Success at this stage will then be admission to the programme.
- stage two – application for funding. This follows admission to the programme and requires a full proposal to be submitted covering a wide range of issues (e.g. business plan, costings and marketing plans). A rigorous methodology is then employed to assess formally assess the project against eight criteria.

This two stage process has been recently introduced as a result of feedback from bidders on the ACP between 1995-2000. The criticism pointed to the extensive

amount of resources which were required to mount a full scale bid, particularly as many bids were unsuccessful. The intention with the two stage process is to do most of the sifting of applications in stage one with bidders only required to submit a detailed business plan when they are admitted to stage two. As bidders stand more chance of receiving an award in stage two, the overall risk-reward balance is more equitable.

The problems experienced in the Arts Capital Programme over the 1995-2000 period have therefore been largely addressed. However, the following observations are likely to be of importance in constructing an application process relevant to the cinemas exhibition funding scheme:

- timing of the application process. Building of cinema venues is often opportunistic, largely dependent on when property becomes available. An application process which is subject to rigid deadlines is therefore problematic. We therefore recommend, where feasible, that applications (potentially stage one) can be made on an ongoing process;
- length of decisions process. ACE currently approves/rejects project funding on a 6 to 9 month application turnaround. This maybe of concern in the cinema exhibition sector where a quick turnaround to secure property when it becomes available is needed. The scope for shortening this turnaround time, however, may be limited due to the large amount of documents (e.g. business plans, marketing strategy) which need to be reviewed as part of the bid assessment.

A key issue to resolve is whether public funding should be provided to aid companies in developing a business plan, particular in relation to preparation of a detailed feasibility study. We consider that the in most cases, the costs of these investigations could be borne by the capital investment fund, rather than being funded by the cinema operators themselves. This will be particularly the case in more risky locations for new provision.

Another key issue is the total level of financial assistance for each location. Particular applications will clearly be influenced by the state of the commercial property market in a specific location. For example, £1 million from the Film Council matched with a further £1 million of private money will probably be sufficient to fit out a property in many circumstances. On the other hand, this sum may be inadequate in more buoyant property markets such as Birmingham, Leeds or Watford where there may be acquisition costs<sup>45</sup> and easily convertible properties may be scarce. Take-up will depend on the precise location within any given city, and on the state of the overall, regional and specific city property market at the time of application.

Following our discussions however, we are confident that the existence of the grant of this size will encourage a significant number of applications from the commercial end of the specialised cinema market. What is harder to predict will

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<sup>45</sup> Most cinema circuits lease the majority of their premises.

be the geographic spread and the speed of take up, which will depend on external variables which it will not be possible for the Film Council to influence within the budgets discussed. It will be important to monitor the progress of the scheme; it may well be that the scheme will have to be modified in the light of detailed experience to achieve the desired strategic impact.

### 5.5.3 Assessment criteria and process

The current method for assessing applications for ACE capital Lottery funds is based upon eight criteria. These are described in Figure 5-7.

We do not recommended any major changes to the above as the ACE methodology is a tried and tested process for awarding funds and has generally been well received by applicants (particularly after the recent application changes).

**Figure 5-7: ACE assessment criteria**

Assessment criteria:
1. Public benefit (incl. maximum access for disabled people)
2. Financial viability and quality of management
3. Partnership support
4. Quality of design and construction
5. Quality of creative activities planned, including education
6. Relevance of the project to local, regional and national plans
7. Involvement of artists, craftspeople, film & video makers
8. Quality of plans for marketing and for developing audiences

*Source: ACE Arts Capital Programme; KPMG analysis*

We do, however, suggest that the Film Council’s objectives should be included application pack<sup>46</sup>. In addition, to enable some of the eight criteria described above to be strengthened in particular areas, we also recommend that the additional emphasis in the application pack should be placed in the following areas:

- emphasis on ‘accessibility to disabled people’ criteria, including provision of facilities for those with hearing or visual impairment. Priority should be given to locations which are currently under provided with regard to specialised

<sup>46</sup> Changes to the Application pack relates to ‘Priorities for the Arts Capital Programme’ (page 3) and ‘Our Strategic Objectives’ (page 15).

exhibition. The applicant should be able to demonstrate there is no negative effect on existing specialised provision (1: public benefit);

- priority should be given to applications where there is a larger proportion of match funding (3: partnership support);
- cinema must show more than 50% specialised films and must have education provision (5: quality of artistic activities);
- audience development should be based upon broadening the audience, therefore include diversity criteria (8: quality of plans for marketing).

These changes will aid prospective bidders towards designing exhibition projects which particularly meet the objectives of the Film Council.

#### 5.5.4 **Monitoring and evaluation**

A crucial part of the specialised exhibition strategy is the efficient use of public funds. To ensure value for money it is therefore important to review how projects have fared over time. We therefore consider that all projects which receive funding should be reviewed at a later date. A review will provide a valuable insight into the strengths and weaknesses of particular projects and a method for fine tuning the assessment criteria for any future award process. We recommend that the timing of the evaluation should be 3-4 years after the award of the funds.

The critical issue for the evaluation is to understand whether the capital exhibition funds have been used economically, efficiently and effectively to help achieve the Film Council's objectives for specialised cinema.

The first stage of the evaluation which needs to be completed before the award of funds is to define the baseline (current) statistics (i.e. the critical success factors). Compilation of core statistics pre and post project can be used with ease to calculate value for money measures. The critical success factors should focus on whether, and how, audiences have been increased and broadened (e.g. specialised audience by region, by age and by socio-economic group).

Once the baseline statistics have been defined and agreed, we recommend the following steps are undertaken in the evaluation:

- process evaluation. This would involve analysis of different criteria by which the success or failure of the process could be judged. These might include, the speed of the process, the cost of the process, expressions of satisfaction from relevant parties, levels of satisfaction among partner organisations and comparison of initial and final views on the process;
- strategic evaluation. The strategic evaluation should as a minimum review whether the eight strategic assessment criteria are being met, assess whether

the objectives of the overall strategy are being met, and, if not, assess whether the application process needs to be modified;

- qualitative evaluation. Interviews with stakeholders, project managers and sponsors will be useful to confirm the wider benefits of the projects. Topics to cover include whether the project would have gone ahead without capital assistance, what positive benefits the project has generated, how the project fitted in with local strategies, and whether the project is sustainable;
- case study evaluation. We recommend that a number of projects are signalled out for a more detailed evaluation. Care will need to be taken to ensure that the sample is representative. The results from the sample could be aggregated, where appropriate, to provide an overall estimate of smaller project impacts.

### 5.5.5 **Promotion and PR**

In terms of promotion and PR of the cinema exhibition funding scheme, an aggressive or customer focused marketing strategy, is unlikely to be required. Many of the stakeholders will already be aware of the funding programme through contact with the Film Council and from the consultation programme.

Promotion and PR should therefore revolve around a more traditional marketing approach. Among the key components of the strategy is likely to include:

- press conference launch;
- advertising in the trade press;
- mail shots to exhibitors;
- publishing on the Arts Council of England and Film Council web sites.

## 5.6 **Investment in educational provision**

A consistent finding from our consultation process was that commercial companies will not undertake significant education provision without public subsidy. There is insufficient tangible benefit (at least within an acceptable timeframe) to justify the investment, and margins are already tight.

CELSI's report<sup>47</sup> of film and moving image education relating to specialised cinema indicates that the costs of providing education vary widely between venues.

CELSI has advised us that for a given venue, the most expensive cost for education provision is staffing – an education officer's salary costs are estimated at approximately £30,000. A further £10,000 pa would be required to fund education events during the year.

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<sup>47</sup> Annex B1.



Assuming that education officers are provided at twelve major venues in the UK, and a further twelve are peripatetic, or responsible for more than one venue, the amounts required per annum are set out in Figure 5-8:

**Figure 5-8: Education costings**

	Annual Cost (£)
Education officer – 24 @ £30,000	720,000
Budget per venue – 24 @ £10,000	240,000
<b>Total</b>	<b>960,000</b>

Source: CELSI

This is considered to be the total annual operating cost – the Film Council does not directly need to pay for all of this amount. Partnership funding from education authorities, arts agencies and socially-aware companies may be forthcoming. There may also be a cost of building improvements at venues (e.g. to facilitate practical education work).

CELSI emphasises:

- there is a need for investment in the sector, not more money for projects;
- the claim for financial investment can only be justified if it is matched by a commitment from venues to the development of quality assurance procedures for their educational provision;
- there also needs to be a substantial investment in the training of existing and future Education Officers – approximately £250,000 per annum. This would address one of the problems highlighted in the CELSI report, which is the inconsistency in quality of current education provision.

## 5.7 The role of *bfi* Exhibition Services

In this section, we assess the contribution of the *bfi* Exhibition to the effectiveness of specialised cinemas. A full explanation of the range of services provided by the *bfi* regarding specialised exhibition is in Section 11.3.5. In addition to its running the National Film Theatre, this department’s services include:

- film festivals;
- touring programmes/temporary distribution;
- programming and booking;
- marketing support;
- education.

Other services include advocacy, training (both directly and through the provision of bursaries), development (through seminars, conferences and publications) and

advice and assessment for the Arts Council of England on Lottery funding applications.

The most significant of these services to the Regional Film Theatres (RFTs - see Section 11.3.4) are the programming services. Some of the RFTs (e.g. Edinburgh Filmhouse) have secured autonomy and expressed satisfaction with the results of doing so (better communication with distributors and more control).

Among the majority of RFTs which still use the services of the *bfi*, many expressed a preference to enter a formal alliance with a commercial partner such as City Screen for the booking of first-run product. This concept was first floated in the form of the “Europa Alliance” between City Screen and nine of the most successful RFTs in 1999 but the Alliance did not progress as anticipated<sup>48</sup>.

Some of the comments on the *bfi* from our consultation process were:

- “there is a lack of clear policy but some very good individuals.” The perception of a lack of clear policy may arise from the way the *bfi* is structured. Two different departments within the *bfi* are involved in distribution – they have different departmental objectives and financial targets to work towards. The *bfi* is currently going through the process of an internal review looking at how to resolve such conflicts;
- “variable quality. Feel there is a confusion of purpose.” Regarding the quality issue, the *bfi* argues that it has entered service level agreements with each of the RFTs, and that it is delivering that service. The confusion of purpose again reflects the *bfi*’s internal conflicting objectives;
- “sometimes invaluable, sometimes (less so) paternalistic.” There may have been something of a history of paternalism, particularly when the *bfi* was both funding and providing services. The *bfi* sees itself as having a strategic UK-wide responsibility to broaden the range of cinema and audiences. There will always be a balance to be struck between commercial and cultural concerns. When the *bfi*’s balance is slightly out of step with an individual venue’s this may be perceived as paternalism;
- “out of touch with regional audiences.” “an operating tension between the needs of the centre and the needs of the regions.” The *bfi*, like many London-based organisations, is acutely aware of the need to reflect the needs of the nations and regions of the UK. It makes strenuous efforts in this respect, supporting regional initiatives and touring programmes and seasons which have been initiated by regional venues. These comments underline the need for the *bfi* to maintain vigilance in this area;

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<sup>48</sup> There are divergent views on the reasons for the Alliance failing to progress as anticipated. Some of the RFTs claim that the *bfi* was obstructive, but the *bfi* argues that all RFTs were free to make their own choices, and that the main reason for lack of progress was the RFTs being unwilling to cede programming power.

- “inefficient and under-resourced.” The *bfi* claims that its exhibition department has maintained and extended its services while surviving on a reduced subsidy, so it strongly refutes inefficiency. In common with many public sector organisations, the *bfi* could, if given more resources, increase the range and extent of services it provides.

While a review of the role of the *bfi* is beyond the scope of this study, the perceptions of some are that the *bfi* does not always meet the (perhaps unrealistic) expectations of exhibitors, or that its messages do not reach its customers (primarily the RFTs) effectively.

## 5.8 Possible measures: the Cinema Exhibitors’ Association Proposal

The Cinema Exhibitors’ Association submitted a draft proposal for the allocation of some of the Lottery funds being made available by the Arts Council of England to introduce soft subtitles and audio description to cinemas in the UK. Below, we summarise the key points of the proposal, and assess the strengths and weaknesses of the proposal with particular regard to the Film Council’s objectives. This proposal does not have unanimous support amongst exhibitors, but all the members of the Executive Board of the CEA support it. They believe this would be worthwhile expenditure that would fulfil many of the aims of the Film Council’s remit.

### 5.8.1 Summary of key points of proposal

- every cinema in the UK would have at least one screen equipped with audio description and soft-subtitling equipment;
- Arts Council of England funds would pay for the equipment (estimated at £8,500 to £9,000 per site including installation);
- cinemas in England would contribute 10-15% of the cost of the equipment towards a fund which would be used to purchase equipment for cinemas in Scotland, Wales and Northern Ireland, enabling full provision across the UK;
- equipped screens would have at least one audio-described and soft-subtitled performance per week;
- each exhibitor would make a screen available for an allocated number of days per year (7 days were suggested) for Film Council-nominated (specialised) films.

At a high level the CEA has estimated the cost to the Arts Council of England as approximately £6 million (for equipment and installation in one screen in 700 sites). The CEA considers that this proposal would widen the choice of film in all cinemas as well as improving access for people with visual or hearing impairment.

### 5.8.2 Strengths of the proposal

- it would dramatically increase access to film for people with visual or hearing impairment. The UK would lead the world in such provision. (At present, up to seven hard-subtitled prints of a film are produced for the UK);
- the facilities could also be used for non-English language films – this could help to expand the circulation of foreign-language films which would otherwise require the production of subtitled prints (original prints could be reused from domestic territories). This would also reduce costs for the distribution sector;
- soft-subtitling could also be used to provide subtitles in UK minority languages, assisting in reaching out to new audiences;
- by linking supply of the equipment to a requirement to show Film Council-nominated films for a certain number of days per year, this would ensure UK coverage for a wide choice of film. The CEA suggests one screen per site for seven days per year where the cinema is up to three screens, with some increase for cinemas of four screens or more;
- requiring exhibitors to pay a contribution into a fund for provision in Scotland, Wales and Northern Ireland would demonstrate the commitment of exhibitors;
- setting the level of contribution at 10-15% would ensure wide buy-in. The CEA argues that smaller operators could not afford to provide matching funding;
- commencing this now would ensure that the Film Council and the exhibitors were not simply reacting to legislative pressure. The Disability Discrimination Act 1995 does not require such provision until 2004 (and even then, it is arguable that such provision is a “different service”, and is therefore not required).

### 5.8.3 Weaknesses of the proposal

- the Arts Council normally requires at least matching funding. Under this proposal, it would be funding the full cost of the equipment and installation. However, exhibitors would be making a contribution towards the cost of the equipment. The CEA also argues that the value that the exhibitors would be giving up in turning their screens over to specialised product for, as is suggested, seven days per year should also count as a contribution towards the cost of the equipment;
- while this provides a solution to access for people with hearing or visual impairment, it does not provide a long term solution to the provision of specialised film. After five years, under the CEA’s draft proposal, the equipment would become the property of the exhibitor, and the exhibitor would no longer be under any obligation to show Film Council-nominated programming;

- seven days per site per year is very unlikely to achieve a step-change in specialised cinema provision. Most cinema operators which show specialised films emphasise that it is important to show commitment in order to build the audience for specialised film. It is going to be extremely difficult to build an audience for specialised film if such material is only being shown seven days per year in a cinema. It is also possible that the Film Council-nominated programming will simply replace existing specialised programming (most cinemas will show films which could be classified as specialised for at least one week per year) or that the cinema will only release seven “quiet” days per year when the cinema would be unlikely to be doing much business anyway;
- it is possible that the courts will interpret the Disability Discrimination Act 1995 as requiring cinema exhibitors to provide such equipment. In this scenario, where such expenditure is inevitable, the Arts Council funds are simply decreasing the costs for exhibitors – there is no concept of additionality.

#### 5.8.4 **Conclusion**

While the draft proposal has a great deal of merit in increasingly facilities for people with visual or hearing impairment throughout the UK, we do not consider that it will achieve a step-change in the provision of specialised film. Although it will assist the exhibition sector as a whole, it will not significantly assist the development of a robust and sustainable specialised exhibition sector. While it will assist in ensuring that a wide range of cinema is shown across the UK, the piecemeal approach (e.g. seven days per site per year) is unlikely to achieve a significant increase in the audience for specialised film.

We recommend that the Film Council considers this proposal very carefully, but that it should do so outside the aegis of the specialised cinema working group.

### 5.9 **Possible measures: fiscal and other measures**

The following measures could be used to strengthen the overall exhibition and distribution sector:

- VAT exemption;
- levy on ticket sales;
- grants for specialised exhibitors;
- an alternative distribution circuit.

#### 5.9.1 **VAT exemption**

Exempting cinema tickets from VAT would lower ticket prices, encouraging more people to attend cinemas. This in turn would make cinema exhibition (and distribution) more profitable, and enable investment in, for example, higher quality facilities or education provision. However, we understand that the

government has made it clear that no further special exemptions will be made, so this is not a realistic option to consider.

### 5.9.2 **Levy on ticket sales**

A reintroduction of the “Eady” levy, the proceeds of which would be invested in specialised film, is another possible intervention. Such a system is part of a package which works effectively in France. It would increase ticket prices (possibly deterring people from attending the cinema at all) and it would be anathema to the vast majority of the cinema industry. Such a levy would appear to be politically impossible in the UK, and there are strong economic arguments against the use of levies.

### 5.9.3 **Grants for specialised exhibitors**

The Olsberg/SPI report recommends<sup>49</sup> grants for specialised exhibitors. The aim of grants for specialised exhibitors would be to secure and support a certain number of screens throughout the UK which would show specialised films. Olsberg/SPI’s proposal would concentrate funding outside London, and prioritise independent cinemas, rather than multiplexes. In effect, the payment would be to secure a quota in each cinema (a stated percentage of its screenings and seat availability). We consider that the package of measures which we propose for distribution and exhibition, which will make specialised film more widely available, and which will ultimately bring in new audiences to see specialised film, would be more effective than such a grant/quota system. We also consider that the administrative burden, and the long-term funding obligations arising from the system are significant disadvantages of such a system.

### 5.9.4 **An alternative distribution circuit**

The Olsberg/SPI report recommends an alternative distribution circuit. Canada has a volunteer-based alternative distribution circuit, the Toronto Film Circuit. The circuit encourages the creation and operation of local community-based groups which book films into conventional venues and organise grass-roots marketing for screenings. This model has been very successful in Canada, although it relies on certain sociological attributes of Canada – the middle class cultural aspirations of smaller communities, the interest in and disposable income to socialise around a cultural event, the easy availability of multiplexes for most communities, the absence of any state supported exhibition venues – which do not necessarily apply to the same extent in the UK. We consider that the voluntary sector has a very important role to play in the exhibition of specialised film in the UK, but that Film Societies (which already generate 1 to 1.5 million admissions per annum) are best placed to play that role.

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<sup>49</sup> These recommendations are summarised in Section 1.4 of the Olsberg/SPI report.

## 5.10 Recommendations

In relation to Backing the Exhibitor (Section 4 and 5) our recommendations are summarised as follows:

- new provision would be best provided through extensions to existing specialised circuits. However, we would encourage an open competition, and membership of a virtual circuit could be encouraged (or required);
- additional screens for stand-alone specialised cinemas. Again, membership of a virtual circuit could be encouraged or required;
- membership of a virtual circuit (where ownership is not transferred) should be encouraged amongst all stand-alone specialised cinemas. The private sector must be involved if the maximum economic benefits are to be realised. The Film Council should advocate the benefits of a virtual circuit to existing cinemas and their funding stakeholders;
- incentivising subsidised cinemas – creating a service relationship, and moving towards a combination of fixed and variable payments. The Film Council should encourage all providers of subsidy to follow these principles;
- refurbishment of existing specialised screens and concession areas should be a secondary priority; applications with a strong business or educational case, however, should be considered on merit;
- the Film Council should consider whether rural or local cinema provision (or provision which cannot support the necessary number of admissions to make it viable) would be sustainable in the long term. In the longer term, e-cinema may provide an alternative solution to provision in such areas.

### *How the combination of these recommendations will meet the Film Council's objectives*

The benefits of these recommendations are that they will directly satisfy all of the Film Council's objectives:

- **it will help to develop a robust and sustainable UK specialised exhibition and distribution infrastructure.** It is in every specialised cinema's interest to develop a robust and sustainable infrastructure throughout the UK. It is a virtuous circle – the healthier the sector, the more specialised films will be available (to more people), the higher audience admissions will be. The economic arguments for operation within a **virtual circuit** are strong. Our model suggests that many specialised cinemas cannot operate without subsidy, but if existing specialised cinemas can operate more efficiently, this would free up some of this subsidy to be used across more sites. This would increase the number of outlets for specialised film in the UK, and make all of them less dependent on subsidy. The more outlets, the higher the audiences, the healthier the distribution sector – more prints could be produced, more could be spent on

marketing (further increasing the potential audience admissions), more films could be acquired (ones which are currently too risky and do not get picked up); Through creating more screen space (through **new provision** and **additional screens**), and allowing specialised films to reach larger audiences, it will assist in the creation of a sustainable distribution infrastructure. By building on successful models of specialised film exhibition (specialised cinemas circuits), it will create a more durable exhibition infrastructure. **Film societies** form an important part of the infrastructure of the sector – assisting them to upgrade their equipment will help to ensure their survival and growth. **Facilitating communication** will minimise duplication and enable the sharing knowledge and best practice;

- **it will ensure that the widest range of British, European and World cinema is screened across the UK.** Through attaching conditions to the capital grants, and a thorough assessment of the applications, the Film Council will have assurance that the **new provision** will show the range of film which the Film Council expects. By using new provision to fill the gaps or areas of under-provision in specialised cinema exhibition which we have identified, it will ensure that more of the UK audience has an opportunity to enjoy these films. **Additional screens** will enable individual cinemas to broaden the range of film they show, through more programming flexibility. A **virtual circuit** with guarantees about the range of film and local input into programming would ensure a wide range of cinema. There are also strong arguments that by improving the infrastructure as mentioned above, distributors are more likely to take on riskier films, increasing the range of cinema available. **Film societies** would no longer be reliant on the dwindling range of 16mm films available. **Facilitation of communication** would help to ensure that specialised films were shown in non-specialised venues, further broadening the range of cinema screened across the UK;
- **it will broaden and increase UK audiences.** Gap-filling **new provision**, by its nature, will increase UK audiences for specialised product. Through attaching conditions and thorough assessment of applications, the Film Council will be able to ensure that the providers of this new provision are able to reach out beyond the core specialised film audience, and in particular, to attract the demographic segments we have identified in Section 7 as key opportunities. In addition to reaching out to various audiences such as children, ethnic minorities, additional criteria relating to provision for people with disabilities and those with visual or hearing impairment (such as physical access for people with disabilities and facilities like induction loops and audio description services) should also be added to ensure that new provision at least equals, and preferably exceeds, the standards of existing provision. There are 8.5 million disabled people in the UK, and one in four people is disabled or is close to someone who is disabled<sup>50</sup>, so this provides an additional opportunity to increase and broaden the audience, and it will service an important

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<sup>50</sup> DfEE, Disability Discrimination Act 1995, An Introduction for Small and Medium-sized Businesses, 1999.



constituency which arguably has been inadequately provided for in the past. The same criteria can be applied to applications for **additional screens**, which in themselves should increase audiences, as cinemas are able to programme more flexibly. The **virtual circuit** strategy, which would allow subsidy to be used across more venues in the UK, would undoubtedly increase audiences through additional provision. A powerful brand could also help to assist an increase in audiences in existing specialised venues, especially if the brand is enhanced through marketing. The sharing of knowledge of best practice innovative audience development initiatives across the virtual circuit should also help to broaden and increase audiences – this would be enhanced by **facilitation of communication**;

- **it will help to develop an informed and appreciative audience for film in the UK.** By the presence of a specialised cinema (**new provision**) in an area which has not had one before, there is potential to help to develop an informed and appreciative audience through imaginative marketing, audience development and programming. If an educational remit is added to the conditions for funding this would be further enhanced. Education is a cornerstone of our strategy for specialised film, just as many stand-alone venues regard education as absolutely fundamental to their organisation. Again, membership of a **virtual circuit** must not curtail a venue’s educational activities. This strategy is aimed at improving educational provision across the board. A commitment by the Film Council to invest in education, which would directly benefit the stand-alone venues joining the virtual circuit (e.g. through training of education officers) would help to alleviate concerns, and encourage venues to participate;
- **it could maximise the potential offered by new technologies such as e-cinema.** At relatively low cost, the Film Council can ensure that the **new provision** and **additional screens** make appropriate use of new technology (e.g. high quality video projectors). Sharing knowledge of e-cinema experimentation, and possibly in some cases sharing equipment across a **virtual circuit** could offer a powerful incentive to join. Existing stand-alones might not be able to justify (or afford) any significant level of experimentation, but if, through a virtual circuit, they could participate, this might be appealing. Ultimately, harnessing the potential offered by e-cinema, which in the long-term could revolutionise specialised exhibition, is in every operator’s interest;
- **these recommendations see the Film Council and Arts Councils working in association with public and private sector partners to deliver best value for money.** Inefficiencies do not represent best value for money. Most funding stakeholders will recognise this. If the same (and the Film Council could argue, improved) service can be provided more efficiently, then there is an obligation to try to maximise the efficiency. All of our recommendations for funding would necessitate the involvement of public and private sector partners.

## 6 **Backing distribution**

This section assesses the strengths and weaknesses of the possible measures that could be undertaken to assist the specialised film distribution sector.

### 6.1 **Selective Print and Advertising fund**

Prints and advertising are two of the key cost items for specialised distributors. For small distributors they equate to up to 90% of costs and for large distributors up to 50%. This is discussed at greater length in Section 11. Moreover, they are a key driver of revenue for exhibition and hence video and television as they drive exposure of the film to the audience. We recommend that up to £1 million of Film Council Lottery funds should be allocated to a selective P&A fund each year.

Such a fund would be designed to encourage distributors to acquire more specialised films and to release them more widely, and with a greater marketing spend. This would provide UK cinema audiences with access to a broader range of films, enhance access to specialised films in parts of the UK which are currently under-served, and increase the audience for specialised cinema.

Two possible options for further consideration are set out below. In either case, it is suggested that the Film Council should consult with distributors on appropriate levels of support for individual films.

#### 6.1.1 **Option A**

A selective scheme which provides an upfront subsidy to support P&A costs. A distributor who had acquired a specialised film would apply to the Film Council for financial support toward the P&A costs of releasing the film in the UK. Support could be made available for secondary P&A expenditure (i.e. to support broadening the release of a film which had demonstrated real promise), as well as costs associated with initial release.

#### 6.1.2 **Option B**

A selective, performance-based reward scheme. This would provide a reward to distributors based on levels of UK box-office success achieved with specialised films. If a film was declared eligible for the scheme, and achieved a certain level of success, a reward would be triggered. It is proposed that the reward could be used by the distributor to support the future acquisition of a specialised film or the P&A costs of releasing a subsequent specialised film.

Such a scheme delivers benefits in two ways; distributors would be encouraged to acquire films which might be considered eligible for the scheme, and if that first

film performed sufficiently well, they would also have additional money to support the acquisition/release of a subsequent specialised film.

### 6.1.3 **Eligibility for the Schemes**

#### *The Distributor*

Either scheme would be open to any UK-based distributor.

#### *The Films*

A film that met one or more of the definitions of a specialised film would be potentially eligible for support under either of the schemes.

### 6.1.4 **Strengths**

There are a number of strengths associated with a selective print and advertising fund. These can be divided into two categories: arguments for support for P&A in general and arguments specifically for selective assistance.

#### *Arguments for distribution support*

A key issue for the distribution sector is that a large proportion of specialised films are unable to attain sufficient distribution. Many films are unable to gain any theatrical distribution and others are unable to get wide enough distribution or long enough runs to reach the potential audience.

We discuss in detail the characteristics of the specialised distribution sector in Section 10. This indicates that many distributors are financially constrained and hence cannot afford to produce sufficient prints or advertising. Thus, they may be unable to realise the maximum potential revenues from the film. There is a direct link between marketing expenditure and revenue for films, although this is a complex relationship subject to many variables. Providing assistance with the costs associated with print and advertising would strengthen the sector. It would increase the number of prints which would allow a greater release for the films and would increase the profile of the film through increased advertising, hence, increasing the audience. Therefore, greater availability and a larger audience would increase the revenues for the film from exhibition, and in turn video/DVD and television. The latter two may increase due to the advertising effect delivered by theatrical release. Hence, distributors would have increased revenue and would then be able to invest more in the next film.

A robust scheme of distribution support might also attract new entrants into the sector. This may increase the number of players active in the sector which is currently relatively small and may encourage distributors to distribute films that would not currently gain a theatrical release, hence, increasing the range of specialised films available in the exhibition sector.

A P&A fund, by increasing the amount of advertising and profile of the films with the audience, would increase audience demand for specialised films. This would facilitate wider and longer releases for the films. This could also have the longer term effect of encouraging the mainstream exhibitors to make more screens available for specialised films. This would enable customers to view the films who would not necessarily visit a specialised cinema.

#### *Strengths of a Selective P&A fund*

There are numerous strengths associated with the implementation of a selective P&A fund. Primarily, P&A funds are proven to be successful in assisting the distribution sectors in other countries. The French support system is a good example of this. In France, distributors are supported through an automatic support scheme and a selective support scheme.

The French automatic support scheme relates to films that have been previously approved by the CNC. The support is linked to a film's box office performance. Each film generates funding for its distributor for five years commencing at the first public screening of the film. The funding may be used for production investment, a pre-sale agreement or for costs specifically relating to distribution such as production of prints. Distributors must invest at least £75,808 in the film to qualify. This scheme provides a strong incentive for distributors to handle European films rather than US films. A similar scheme, with funding given to films that have qualified through a preliminary selection process could be implemented in the UK.

The French selective support scheme is granted as a subsidy to a distributor for the distribution of a film or to a programming plan. Around 150 films are supported by selective aid each year. Examples of films assisted by this support mechanism in 2001 include Jean-Luc Godard's *Eloge de l'Amour* and Ken Loach's *Navigators*. The maximum amount of aid that a film can receive is £15,088; the average aid received is £11,316. The French support system is discussed at greater length in Olsberg/SPI and Kern European Affairs' report in Annex B3.

There are also examples of P&A funds in other countries. Australia offers an ad hoc P&A loan operated by the Film Finance Corporation. It responds to each specific film's case and does not have stringent pre-determined parameters for the loan. This scheme has been operational since 1990 and has supported 10 films. Amounts of the loan range from £10,794 to £75,186 and the loans have generally been awarded on the judgement that the film has the ability to "break out" and recoup financially. The loan is provided on a "last in, first out" basis and carries an interest rate that is 1-2% above base rate.

Canada, through Telefilms, also supports distribution. This funding takes the form of subsidies of minimum guarantee payments and of marketing costs. However, it has latterly been recognised that support for minimum guarantee

payments was not an effective method of supporting the Canadian sector but instead resulted in an inflation of film acquisition costs. Hence, the emphasis is being shifted to concentrate on support for marketing costs.

Denmark operates a selective programme of support for distribution. This is granted through a subsidy and depends on the number of released copies. Support can be granted to a single film or to a slate of three films, up to a total annual budget of £183,522. The decision whether to grant a subsidy is based on the quality of the film and the distributor's ability to promote the film in Denmark. If two copies of the film are released, a subsidy of £6,673 is granted; if over three copies are released, support of up to £10,009 is granted. To qualify for this support, 50% of the subsidy must be spent on marketing, promotion and PR activities.

Spain also operates a selective distribution support scheme. This is aimed to stimulate the distribution and exploitation of European films with "quality and distinct artistic value". The ICAA (the Spanish National Cinema Authority) may subsidise up to 50% of print costs, subtitling and promotion costs required for distribution in Spain. Maximum support is £37,327 per film and average support is £9,938.

The Olsberg/SPI and Kern European Affairs' report has found that support for distribution is generally regarded by recipients as effective but it does not necessarily act as an influential determinant of their actions. In other words, distributors are generally pleased to be receiving funding without acknowledging that funding affects their business decisions in a substantial way. France is the exception. Here there is, among other measures, an automatic distribution support mechanism which decreases at 200,000 admissions and is generally regarded by distributors as effective in reducing their risk of acquiring specialised product, compared to US films. There is also in France support aimed at the distributors of specialised films, although policy is increasingly shifting towards support of the film distributed rather than support for distributors.

A selective P&A fund also allows greater control over the types of films receiving assistance. This allows for more additionality to be achieved by the scheme. This is especially important given the difficulty surrounding the definition of films as specialised or non-specialised. This level of discretion is also necessary for this scheme to be funded by Lottery money.

Furthermore, a selective P&A fund would assist in the fulfilment of a number of the Film Council's objectives: to 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; work in association with public and private sector partners to deliver best value for money.

### 6.1.5 Weaknesses

There are several weaknesses also associated with implementing a selective P&A fund.

#### *Substitution risk*

There is a risk that this scheme will just substitute distributors' expenditure on prints and advertising. This would not improve the availability or audience for film because it would not significantly change the existing level of expenditure. There are measures which can be implemented to guard against this risk. Certainly, linking subsidy to previous box office success to provides an incentive for distributors to invest in their films, and having a minimum expenditure level for qualification would assist.

#### *Cost*

The more selective the subsidy scheme is, the less uncertainty is likely to be a problem. However, there are issues surrounding implementing an overly selective scheme. There will also be costs incurred by the implementation and management of the scheme. It is also difficult to find the balance between providing meaningful support for films and being able to support enough films for the fund to have any significant impact on the sector.

#### *Administration*

Although both selective schemes and automatic schemes may require differing levels of administration, a selective scheme with complex eligibility criteria could require a large amount of administration to enable it to be managed successfully. A highly complex scheme is likely to require a great deal of management time from the Film Council and also from the distributors applying for support. As has been seen with EU distribution support, a complex application system for support acts as a disincentive for distributors. This needs to be avoided for such a scheme to achieve its objectives in the UK. The eligibility criteria must be straight forward and easily judged. The Film Council should ensure transparency and simplicity in the scheme.

#### *Potential bias*

Decisions will be challenged – just as they are whenever judgement is exercised. This is an inevitable feature of discretion and one all grant administrators are familiar with. For the scheme to well regarded and successful in the UK film industry, those taking decisions need to have credibility within the sector.

## 6.1.6 **Benefits of the scheme**

### *Reduction of risk for distributors*

Investment in prints and advertising is a key expenditure for distributors and, hence, is a key risk associated with distributing films. A prints and advertising fund distributed retrospectively, based on the box office performance of the film, would provide insulation against risk for distributors. This would encourage distributors to take on films which would otherwise be unlikely to gain a theatrical release.

### *Increased availability of films*

This fund, by increasing the expenditure on prints and advertising, is likely to increase the availability for films, especially in combination with support for the exhibition sector. A greater number of films are likely to be distributed on a greater number of prints

### *Growing the audience for specialised films*

By proactively targeting specialised films aimed at children with an educational content, this will assist in developing a more discerning cultural palate in our next generation of cinema goers. Hence, growing a more sustainable specialised sector audience.

## 6.2 **Alternative measures**

There are a number of alternative measures that could be implemented to assist the distribution sector.

### 6.2.1 **Video/DVD distribution marketing subsidy**

An alternative measure for assisting the distribution sector is to intervene in the video/DVD distribution of specialised films. This could be achieved through direct intervention to increase the number of specialised films stocked by rental chains and retailers or through a subsidy to assist marketing for video/DVD distribution, or subsidy to acquire video/DVD rights.

A marketing subsidy for video/DVD distribution would be achieved in a similar manner to support for theatrical distribution by assisting single films or slates of films. It is likely that this subsidy would be considerably less per film than the P&A subsidy for films for theatrical release. Some films have not secured a theatrical release or only secure limited theatrical release. These may be re-releases or new features. A key example of this is Metro Tartan which acquires world cinema for release in the UK. The film often does not achieve a theatrical release, sometimes because it has been unsuccessful in the US and, hence, goes straight to video. In addition to the films that go straight to video, many critically

acclaimed examples of world cinema are not widely distributed on video or DVD. This is largely because much of specialised film video distribution is conducted by theatrical distributors who concentrate on new specialised film and films which have gained a theatrical release. A scheme to subsidise video/DVD marketing would assist this the dissemination of films which are released directly onto video format.

### *Strengths*

Films which do not gain any or very little theatrical release do not benefit from the advertising and profile gained by a theatrical release. Hence, they are less likely to gain a widespread video release or to be stocked by the major video rental and retailing chains. They require investment in advertising to raise their profile to allow access to a wider audience.

Video rental chains such as Blockbuster stock a disproportionately small amount of specialised films. This is an issue in itself as video is a key revenue stream for distributors. However, this is compounded when the films do not benefit from a theatrical release as they are even less likely to be stocked by such chains and hence reach their potential audience. By raising the profile of these films, through increased advertising or marketing for these films, such chains would have a greater incentive to carry these titles.

There is already EU support through the MEDIA programme for video/DVD distribution. The loan varies according to the number of works which make up the catalogue (£24,845 for at least five works and £62,112 for a minimum of ten works). This support amounts to £2,546,584, 950 releases and 87 video companies in total.

### *Weaknesses*

Marketing support for video distribution is a potentially costly measure. Information on the video distribution sector is scarce and it is difficult to ascertain exactly how many specialised films are released on video each year and how much reach they have. Hence, the cost of assisting this sector is an unknown factor.

Furthermore, the audience for specialised film is most likely to be developed through encouraging a greater audience for specialised film in the cinema. Exhibition is the key to encouraging video distribution and broadcasting revenues for specialised distributors. If a greater audience can be encouraged to visit specialised cinemas and see specialised films, improved video distribution is likely to be a consequence.

### *Conclusions*

Although this measure would assist the video distribution of specialised films, we consider that the best method to promote films with a video release is to improve



the possibility of securing a theatrical release. Any Film Council investment would be best directed at P&A in the theatrical release of films rather than towards marketing for video distribution.

#### 6.2.2 **Direct intervention in retail and rental for video**

The Film Council could make the case to Government to set quotas for specialised films for the major retailers and rental chains.

We consider this to be an inefficient method which would not represent value for money. Our recommended P&A measures, possible television ventures together with the strategy for exhibition should improve the position of specialised film within the video retail/rental markets.

#### 6.2.3 **Direct intervention in the television market**

There has been a marked decrease in the demand for specialised film from terrestrial broadcasters. This means that fewer films are being shown and distributors are receiving lower revenue per film than ten years ago. This is adversely affecting the economics of specialised distribution. Although Channel 4 has recently launched the Film Four channel, this has comparatively few subscribers and does not have the reach of the free-to-air terrestrial channels. Moreover, due to the relatively low number of subscribers channels such as Film Four cannot afford to pay high rates for broadcasting rights to films. The Film Council could make the case to the ITC and DCMS to impose quotas for specialised films on one or all of the terrestrial broadcasters, to make them show specialised films. However, quotas are an inefficient mechanism and distort the market. It would be preferable to make a well argued case for increased television transmission of specialised films.

#### 6.2.4 **Advocating increased television transmission of specialised films**

As discussed in Section 9.2 fewer specialised films are being shown on terrestrial television than ten years ago. Television is a key medium for access to the consumer. The Film Council could encourage DCMS and the broadcasters to show more specialised films on terrestrial television.

##### *Strengths*

The public service remit of a number of broadcasters is a good leverage point to encourage more specialised films to be shown on terrestrial television. Both the BBC and Channel 4 have strong public service remits which include clauses on educational and cultural programming. Channel 4 is required in its remit to:

- have a distinctive character of its own, and cater for the interests not served by other channels;
- provide a diverse service, including news, current affairs, education, religion and multicultural programmes;

- place educational material, especially, at the heart of the schedule;
- encourage a large and diverse independent production industry, and production outside London;
- play a central role in the UK film industry.

This central role remit is one angle which the Film Council could use to encourage Channel 4 to show more specialised films. Note that Channel 4 already has a significant involvement in production and in television distribution through Film Four. The provision of educational material should be linked to the appropriate take-up by regional cinemas and others.

By not showing specialised films, it could be argued that they are neglecting their public service remit. It is unlikely that the commercial operators, who have less stringent public service obligations, such as the ITV channels, Channel 5 and the pay television operators would be unduly influenced by Government. The remit for Channel 5 requires:

- 51 per cent of programming must consist of original productions and commissions;
- 51 per cent must be of European origin;
- 25 per cent must be independent commissions;
- there must be a minimum of 11 hours per week of news programming;
- 61 hours per week of programming must be subtitled for those with impaired hearing.

The Broadcasting Act 1990 requires ITV to provide the following genres: news, current affairs, religion, children's and regional programmes. In addition Channel 3 licences commit the regional ITV companies to ensuring a network schedule which appeals to a wide variety of tastes and interests, with many programmes of high quality.

Television is an incredibly powerful medium for reaching new audiences. Television is present in 98% of homes and for a specialised film to achieve even small audiences, would mean that many more people are likely to see it than at the cinema. If a greater supply and range of high quality specialised films were available on free-to-air terrestrial television, this would assist in developing the long term audience for specialised films and may feed through to the theatrical exhibition sector.

### *Weaknesses*

The likelihood of success for this measure is an unknown quantity. It is possible that the public service broadcasters could argue that their public service obligation is fulfilled by their current programming schedule.

Channels such as ITV and Channel 5 do not have as stringent public service obligations, as detailed in the previous section. Hence, it is unlikely they would be influenced to do significantly more, especially given the nature of the current broadcasting landscape (see Section 9).

### *Conclusions*

The Film Council should not make the case to the Department for Culture, Media and Sport for an increase the number of specialised films on Channels 3 and 5, particularly, as the economics of the sector suggests a move away from positive programme obligations due to the high level of competition from other players.

#### **6.2.5 Public partnerships with new digital public service channels**

The increasing number of households with digital pay television and the roll out of free-to-air digital services provide an opportunity for the Film Council to leverage, to gain access to a greater audience for specialised films. The Film Council could work with BBC4 to ensure that a wide range of films are screened on this channel, given the arts and culture theme. This would give access to specialised films to a greater number of people than would see them at the cinema. This could increase broadcasting revenues to distributors due to the increased demand for specialised films. It is also likely to broaden the audience for specialised film, as a greater number of viewers will have access.

The President of the European Council of Audiovisual Ministers, Richard Miller, has recently announced plans for a European Cinema channel. The pan-European channel would feature European films, film education programming and experimental work as well as generic 'Euromovie' magazine programmes. This may provide an opportunity for the Film Council to work with the EU to develop a pan-European specialised film channel.

#### **6.2.6 A publicly funded and managed distributor**

A large number of critically acclaimed specialised films do not achieve distribution in the UK, outside festivals each year. This is part due to the individualistic nature of the distribution sector. Although, it is inevitable that the decision over which film a company distributes will be a personal decision, the industry might benefit from a non-commercial body, distributing those critically acclaimed films which would otherwise not find a distributor. This could be an extension of the theatrical and video/DVD distribution handled by the *bfi*. This is discussed in Section 10.

### *Strengths*

The introduction of a public entity distributing specialised films (on a greater scale than the *bfi* or as an extension of the *bfi*'s activities) could increase the

availability of specialised film, allowing a greater range to be shown in cinemas. It would also strengthen the production sector.

This would also assist film societies by making more films available on alternative formats, possible through *bfi*'s existing activities. The *bfi* provides an important role in distribution, distributing films which would not be acquired by commercial distributors. The smaller distributors without a video/DVD distribution arm could joint venture with the *bfi* to provide video/DVD distribution.

### *Weaknesses*

This measure could distort the market, providing unnecessary competition for distributors who already have difficulty in sufficiently screening their films.

This would be a potentially expensive exercise which would not improve the commerciality and sustainability of the sector. A non-commercial distributor could be subject to inefficiencies and high levels of bureaucracy that would not be present in a distributor which was subject to competitive pressures.

Moreover, it is possible that the reason many of these films are not acquired by distributors is that the audience for them is not large enough to sustain a theatrical release. Providing distribution for the sector, could distort the sector and increase supply when demand cannot sustain it. Furthermore, the key issue in the sector is not a constraint in the supply of specialised films. It would be ineffective to increase supply when there are insufficient screens at present to give adequate releases to the current number of specialised films distributed.

Increasing the *bfi*'s role in the sector presents concerns about a possible overlap and intervention with the commercial distributors. The *bfi* should not be placed in a position where it could be a competitor to commercial distributors as the reaction from the private sector to this would be likely to be poor.

### *Conclusions*

Many distributors consulted stated that it is more important to strengthen the theatrical exhibition sector and the current releases of specialised films than to increase the supply. Film Council funding would be better spent in improving this than investing in the supply of more specialised films. By increasing the number of screens and improving the economic viability of specialised distributors, greater demand for specialised films from distributors is likely to occur. Furthermore, increasing the activities of the *bfi* would potentially place the *bfi* in a position where it would be more likely to compete with existing commercial distributors.

### 6.2.7 **E-cinema implementation**

The implementation of e-cinema would necessarily reduce costs for the distributor by removing print costs. However, the technology is still in its infancy and is unlikely to become a mass market proposition for a number of years. Furthermore, the issue exists as to who would pay for the implementation of this equipment as the burden of expense lies with the exhibitor, whereas the benefit lies with the distributor. At present, the quality of the product is such that it is unlikely to be an issue in the near future.

Once delivery of films is digitised, there is no requirement to strike prints, which cost in the region of £1,500 each, thereby enabling significant cost savings on releases. With digital the incremental cost of extra “copies” is minimal in physical (DVD) form. And if the film is delivered via cable or satellite the only extra cost is the cost of delivery.

This could be particularly beneficial to independent distributors handling specialised theatrical product, where the cost of prints accounts for a proportionately higher slice of the P&A budget than it does for a mainstream distributor, since the smaller distributor will have a very modest advertising spend.

Extra copies of a film can be put into the market place or withdrawn at a moment's notice. If a film proves successful in its first week, it becomes immensely easier and cheaper to distribute more copies the following week. The inverse applies if the film performs below expectations.

In a more radical scenario, it becomes possible to conceive of a situation in which the traditional patterns of distribution start to breakdown altogether. Why should films run for fixed periods defined in weeks, if one product can be substituted for another at the click of a mouse?

E-cinema is discussed at length in Neil Watson and Richard Morris's report, which is included in Annex B2.

### 6.2.8 **Local marketing in conjunction with distributors**

Greater allegiances between specialised distributors and exhibitors would assist both parties in increasing audiences and, hence, revenues for specialised films. In our survey, some distributors suggested that their marketing material was underused in cinemas, whereas, some exhibitors suggested that insufficient marketing material was produced by distributors. Local exhibitors have a wealth of information about their audience and this could be leveraged to efficiently and cost-effectively target marketing.

## 6.2.9 **Integration and co-operation between exhibitors, distributors and producers**

Many of the large scale, mainstream distributors such as Warner and Columbia are vertically integrated with the US major production houses and some of the specialised distributors also fund production such as Blue Dolphin. Some of the specialised distributors, such as Artificial Eye, are also integrated with exhibition. Increasing integration and co-operation both vertically and horizontally could assist the specialised distribution sector. Horizontal integration or co-operation could assist the specialised distributors in negotiations with major exhibitors or suppliers of advertising and other materials.

## 6.3 **EU distribution support**

### 6.3.1 **The context of EU distribution support**

Any measures taken by the Film Council to support the specialised film distribution sector need to be in the context of existing EU distribution support measures. It is important to avoid duplication of resources and to ensure additionality. An analysis of EU support is in Section 12.4.

### 6.3.2 **Summary of EU distribution support**

MEDIA Plus operates both an automatic and selective scheme to support the distribution of European films outside their country of origin. The automatic scheme is dependent on the box office income of the film. The aim is to encourage and reward commercially successful EU films. A subsidy is given to the distributor which must be reinvested in P&A or rights acquisitions for subsequent releases. The subsidy is limited to 700,000 admissions. The selective scheme has a budget of £7,453,416 and provides maximum funding per distributor and per film of £94,168. This support is reimbursable and can cover up to 50% of the P&A budget for a film.

### 6.3.3 **Lessons from EU distribution support**

There are a number of key lessons to be learnt from the experience of EU distribution support. Importantly, the process of acquiring EU support is perceived as overly complex and unwieldy by distributors. It acts as a disincentive for distributors to undertake the effort needed to acquire it. It is key to the success of any Film Council scheme that it is more easily accessible to small-scale distributors who do not necessarily have the resources to expend on lengthy application processes.

EU support in the UK is also concentrated on a relatively small number of companies. Any Film Council scheme needs to be more widely available to any company investing in the distribution of specialised film. It is important to encourage the distribution of specialised material at all levels.

There also needs to be some guarantee that the Film Council will sustain its level of support to allow distributors to decrease their risk levels, allowing them to invest in films which may not normally gain distribution or are less likely to be a commercial success. If there is uncertainty about the sustained support it is less likely to be of assistance to the sector.

The Film Council should continue to act as a key liaison point, through the UK MEDIA Desk, ensuring UK distributors gain the maximum funds available from EU distribution support.

#### **6.3.4 Recommendations from EU distribution support**

Building upon the MEDIA programme distribution support is also a measure which will significantly strengthen the market. Analysis shows that the automatic support mechanism has been quite successful in changing the strategy of some distribution companies to focus more on non-national films. A number of UK distributors have been assisted by this programme, although many are excluded.

As the majority of specialised films are not highly successful at the box office, they are unlikely to be greatly assisted by the automatic support mechanism. Furthermore, British films and films from the Rest of the World are not assisted by EU support. For this reason, it may be preferable to concentrate support away from European, non-national films.

#### **6.3.5 Olsberg-SPI and Kern European Affairs recommendations**

KPMG has considered the Olsberg-SPI and Kern European Affairs recommendation for a semi-automatic distribution support scheme. Although there are many merits to this scheme, KPMG has decided to reject this scheme in favour of a selective P&A fund. This is for a number of reasons. Primarily, this scheme would act as a subsidy for expenditure on distribution but would not be linked to any tangible expenditure such as spending on prints. This would not be viable for the Film Council to introduce. Furthermore, a fund operated from Lottery funds would have to be selective. The level of subsidy recommended is also considered to be too high to have a tangible effect on a sufficient number of films to create any step change in the economics of the sector.

Another potential initiative suggested by the Olsberg-SPI and Kern European Affairs report is to mirror the French system where broadcasters are required to invest 0.2% of their turnover in theatrical distribution. As stated in the report, such measures are likely to be beyond the immediate remit of the Film Council. Furthermore, such a measure is unlikely to be introduced in the UK as broadcasting regulation moves away from impositions on programming and expenditure towards a lighter touch regime.

Canada's volunteer-based alternative distribution circuit, the Toronto Film Circuit, has also been suggested as a possible model that could be adopted in the

UK. This circuit, by encouraging the creation of local community-based groups which book films into conventional venues, could be applicable to areas of the UK that could not support a specialised cinema. Although this is, potentially, a measure that could be adopted in the UK, more consideration would have to be given to the feasibility of this venture and the possible opportunities for its adoption in the UK.

### 6.3.6 Meeting the Film Council's objectives

#### *How the combination of our recommendations will meet the Film Council's objectives*

The benefits of these recommendations are that they will directly satisfy all of the Film Council Working Group's objectives:

- **it will help to develop a robust and sustainable UK specialised exhibition and distribution infrastructure.** A strong specialised distribution sector is at the core of a robust specialised cinema sector. The introduction of a selective P&A fund will improve the economics of the sector for those distributors operating within it. This will have the dual effect of increasing the number of films distributed and increasing the marketing and availability of these films. Thus, this will allow a wider audience to have access to these films. Furthermore, actions to encourage a greater release of specialised films on television will both increase the availability, and hence audience, and improve the revenues to specialised film distributors.
- **it will ensure that the widest range of British, European and World cinema is screened in the UK.** The introduction of a selective P&A fund in conjunction with measures to assist the exhibition sector in the UK will create a more robust infrastructure for specialised cinema. Through increasing the number and availability of specialised films distributed in the UK and increasing the number of venues at which they will be shown will create an environment where the widest range of British, European and World cinema is screened in the UK.
- **it will broaden and increase UK audiences.** The key premise behind KPMG's recommendations for the specialised distribution sector in the UK is to increase availability of specialised product and hence broaden and increase UK audiences. This will certainly be achieved by the introduction of a selective P&A fund. Measures such as encouragement of public service broadcaster channels to show more specialised films and joint ventures with new digital public service channels will increase the exposure of UK audiences to specialised product and hence broaden and increase audiences. Furthermore, efforts to ensure that specialised film is adequately represented in libraries across the UK will allow an audience who may not previously have had access to specialised film, greater access.



- **it will help to develop an informed and appreciative audience for film in the UK.** Increasing the representation of specialised film in libraries and on free-to-air television will by increasing the availability of specialised product, create an audience more aware and hence appreciative of film in the UK. This is likely to create a broader audience, more disposed to viewing more specialised product.
- **it could maximise the potential of new technologies such as e-cinema.** The recommendation that the Film Council maintains a watching brief on developments in the Broadband field will allow the Film Council to be well placed to exploit these opportunities when they arise. Broadband offers a potentially powerful solution to broadening the audience for and extending the availability of specialised film.
- **these recommendations see the Film Council and Arts Council working in conjunction with public and private sector partners to deliver best value for money.** It is in the best interest of both the Film Council and the private sector to maximise value for money from any investment, to ensure the specialised sector is improved. All of our recommendations would involve the Film Council working in conjunction with public and private sector partners.

## 6.4 Recommendations

### 6.4.1 Selective P&A fund

We recommend the introduction of a selective P&A fund for theatrical distribution. This would have an annual budget of £1 million. Selection would be based on the specialised nature of the film, potential box office and a proven commitment to the development of the specialised film sector by the distributor. Preference may be given to those films ineligible for EU subsidy; those films appealing to children with an educational element and those films aimed at ethnic minorities or people with disabilities.

### 6.4.2 Marketing fund for video/DVD distribution

We recommend that the Film Council does not invest in a marketing fund for video distribution. Film Council funds would be best directed towards theatrical distribution.

### 6.4.3 No direct intervention in the video rental/retail markets

We consider that this is an inefficient method and would not represent value for money. There is a role for the Film Council to ensure specialised product is represented in libraries and is included in education provision.

#### 6.4.4 **No direct intervention in the television broadcasting market**

Any direct intervention would be likely to be via quotas. We consider this to be an inefficient method and would not represent value for money.

#### 6.4.5 **Assistance from DCMS for television schedules**

We recommend that the Film Council should seek support from DCMS to encourage BBC and Channel 4 to show more specialised films than at present. We do not recommend that quotas should be sought as they are inefficient.

#### 6.4.6 **Explore public partnerships with new digital channels**

We recommend that the Film Council should investigate the possibility of a joint venture with BBC Worldwide, BBC4 or other similar body. This would be introduced with the aim of promoting the image and increasing the audience of specialised film in the UK.

#### 6.4.7 **Continued support to *bfi* collections**

*bfi* Collections provides an extremely important “safety net” role whereby it acquires the rights for video/DVD for films that otherwise would not get released again in the media. *bfi* Collections should continue in this capacity, supporting the distribution of niche specialised film in the UK. Its position, in that it does not compete with commercial distributors, is very important in ensuring the widest range of both repertory and new specialised product is available to a wide audience. Furthermore, its role in supply of product to film societies is crucial to the development of an informed and loyal audience for specialised cinema in the UK.

#### 6.4.8 **Film Council to promote specialised film representation in libraries.**

The Film Council should work with Local Authorities to encourage libraries to stock a wide range of specialised product. Although the market share for public libraries is quite small, they may have a role in increasing the availability of specialised film, such as stocking World Cinema. This is likely to be a much more economically efficient method of intervening, than subsidising commercial video operators in the rental and retail sector. The use of mobile libraries may also help in areas of the UK which are poorly served by cinemas (such as rural areas) and in reaching socially excluded, elderly and people with disabilities. However, this is a potentially huge task and the feasibility of this would need to be tested in association with key partners such as *re:source*, the Local Government Association and *bfi* National Library.

- 6.4.9 **The Film Council should maintain a watching brief of events in the Broadband field to ensure that opportunities for specialised film access through this mechanism are not ignored.**

Broadband delivery in the UK is still in its infancy, with only 1% of homes with some form of broadband access. However, with the advent of broadband cable, the increasing take up of ADSL and BT's delivery of content over its telephony network, there will be an opportunity in the future for specialised film delivery over video on demand.

- 6.4.10 **The Film Council should continue to act as a key liaison point, through the MEDIA Desk, ensuring UK distributors gain maximum funds from EU distribution support.**

- 6.4.11 **No publicly funded distributor**

We consider that this would be an inefficient use of Film Council resources, to extend the *bfi*'s existing work. The Film Council would be better placed to assist the distribution sector in the measures detailed previously.

## Part III – The Evidence

## 7 The Audience

### 7.1 Introduction

This section maps the profile of the audience for specialised cinema. We therefore:

- describe the key indicators of the size and shape of the commercial sector. To place the specialised sector into context it is essential first to understand the key issues and trends in the overall audience;
- illustrate the profile of the current specialised cinema audience by analysing characteristics such as age, socio-economic class, ethnicity, gender and through a comparison with the general audience;
- review different types of audience development initiatives, which have aimed to attract new audience segments, and identify case studies of best practice which could potentially be taken forward in the future;
- identify the size and potential of new market segments for specialised cinema in terms of areas of the UK where demographics indicate strong potential.

Profiling the audience in this section supports the methodology used in Section 5.1 which identifies priority locations for new provision. Locations were identified through the development of a quantitative model which ranks the potential demand by location taking into account factors such as absolute population numbers, demographic profiles and socio-economic characteristics of specialised cinema goers as well as other factors.

### 7.2 Profile of the general<sup>51</sup> cinema audience

#### 7.2.1 Key characteristics of the general audience

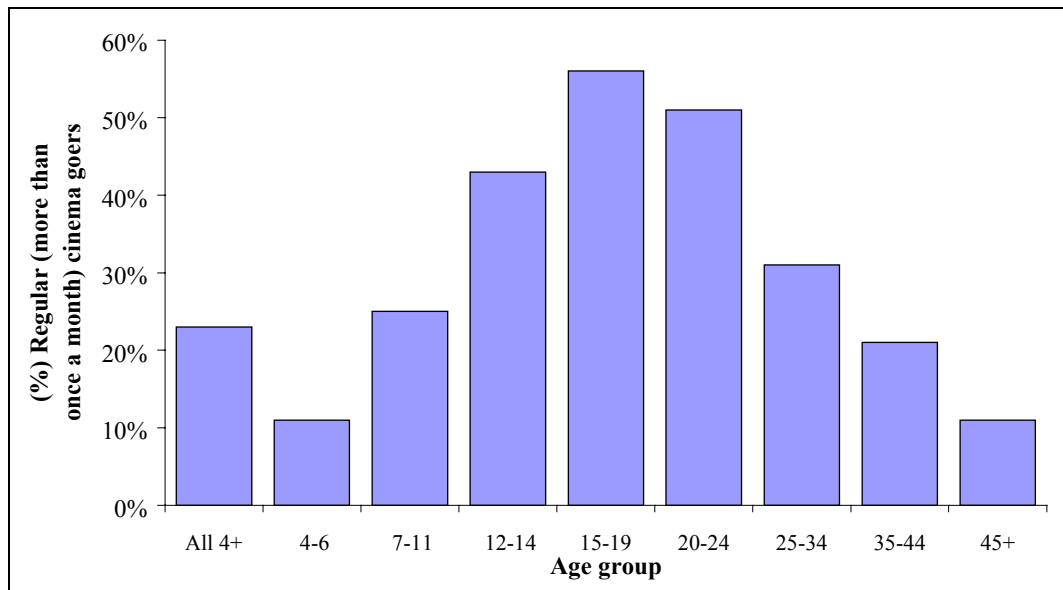
The annual Cinema and Video Industry Audience Research (CAVIAR) provides the most reliable and widely used evidence on the characteristics of the general audience.

In terms of age, the key market segments are teenagers (15-19) and young adults (20-24). The CAVIAR survey (2000) estimates that 56% and 51% of these groups regularly (more than once a month) go to the cinema. The figures for another category of cinema goers (do you ever go?) is more consistent across age groups, although this indicator represents a much smaller proportion of the total cinema going audience.

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<sup>51</sup> Note the general audience refers to all cinema goers (i.e. both mainstream and specialised).

**Figure 7-1: Profile of general cinema audience by age (2000)**



Source: CAVIAR 18 (2000)

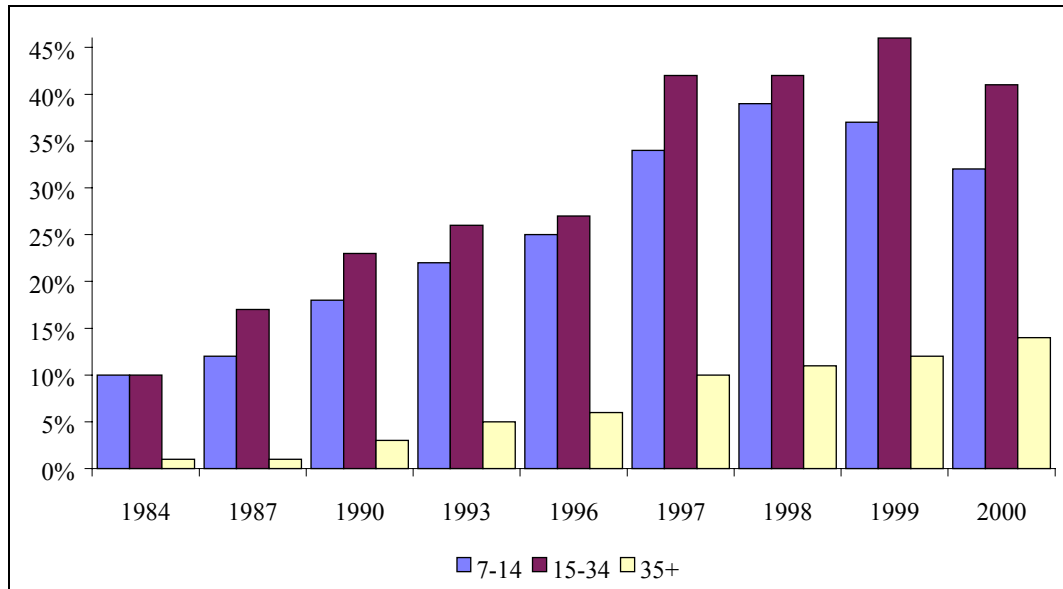
### 7.2.2 Key trends in the profile of the general cinema audience

Over the past 10-15 years, there has been a significant increase in the audience numbers with cinema attendance almost doubling. A CAVIAR survey (2000) reports that the proportion of the population which ‘ever goes’ to the cinema increased from 60% to 86% over the past 10 years. Clearly, more people are going to the cinema and are going more frequently.

The main driver on the demand side has been increasing numbers in the 15-34 age group. The proportion of this age group which regularly goes to the cinema rose from 10% (1984) to 41% (2000). More recently however, the propensity of this group to regularly go to the cinema has remained broadly static, suggesting that this market segment is close to saturation point.

The fastest growth segment is the 35 plus age group, with the proportion of the age group regularly going to the cinema increasing from 1% to 14% over the 1994-2000 period. All of these trends are summarised in Figure 7-2.

**Figure 7-2: Long term trends in the penetration rate of ‘regular cinema going’ by broad age group (1984-2000)**



Source: CAVIAR

A more detailed analysis of trends in the audience profile by age group is shown in Figure 7-3 using data starting from 1995. The following are the key trends to note over the 1995-2000 period:

- the 45+ age group experienced the fastest growth of 10.8% per annum;
- the 35-44 group also experienced strong growth;
- the 18-24 and 25-34 age groups have declined in relative terms.

**Figure 7-3: ‘Regular’ cinema going audience by age group (1995-2000)**

Age group	Cinema audience (%)							UK population (million 2000)
	1995	1996	1997	1998	1999	2000	Growth (%)	
15-17	9%	10%	11%	11%	13%	10%	+2.1%	2.18
18-24	35%	31%	29%	28%	27%	27%	-5.1%	4.97
25-34	30%	29%	29%	29%	27%	24%	-4.4%	8.87
35-44	14%	16%	16%	15%	17%	19%	+6.3%	8.96
45+	12%	14%	15%	17%	16%	20%	+10.8%	23.27
All 15+	100%	100%	100%	100%	100%	100%	-	

Source: Carlton Screen, ONS

Trends in gender and socio-economic class since 1995 have been more stable (see Figure 7-4) than changes in the age composition. ABC1 has fluctuated between the narrow range of 65% to 68% over the 1995-2000 period. The male/female split has been in the 48% to 52% range.

In theory, the C2DE group, which is approximately equal in size to the ABC1 group, but is less than half its size in terms of regular cinema attendance is a potential opportunity for growth. However, the amount of disposable income available for leisure activities within this group is likely to be limited, and coupled with the lower propensity of this group to go to arts events, the overall potential audience is likely to be constrained.

**Figure 7-4: ‘Regular’ cinema going audience by gender and socio-economic class (1995-2000)**

Age group	Cinema Audience (%)						UK Population (million 2000)
	1995	1996	1997	1998	1999	2000	
Male	51%	51%	49%	51%	52%	48%	29.30
Female	49%	49%	51%	49%	48%	52%	30.20
ABC1	67%	68%	67%	66%	66%	65%	29.72
C2DE	33%	32%	33%	34%	34%	35%	29.78
AB	32%	33%	31%	29%	31%	32%	-
C1	35%	35%	36%	37%	35%	33%	-
C2	16%	16%	18%	17%	18%	20%	-
DE	17%	16%	15%	17%	16%	15%	-

Source: Carlton Screen, ONS

Overall, the above analysis shows that the general audience has broadened in terms of age but has been static in terms of gender and socio-economic class.

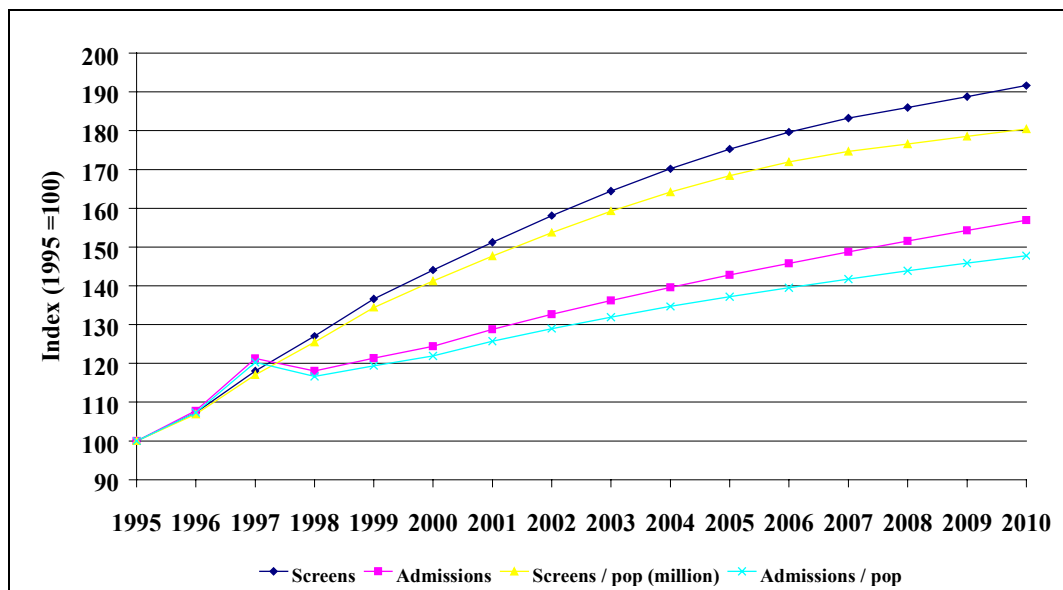
### 7.2.3 Projections of the general cinema audience

The cinema industry in the UK has been growing significantly over the past decade in terms of a broad range of indicators, such as audience admissions, box office revenues and number of screens. Investment in the construction and development of new multiplexes is the key supply-side driver behind this growth.

These trends are expected to continue (as illustrated in Figure 7-5) with the number of screens in 2010 expected to be nearly double the 1995 level. Admissions are not expected to grow as fast compared to screens, although the increase from 142.5 million in 2000 to 180 million by 2010 should still be considered as buoyant growth.



**Figure 7-5: Trends and forecasts of the general cinema market (1995-2010)**



Source: *Global Film, Exhibition and Distribution, Informa Media Group (May 2001)*

The key issue which affects the cinema sector growth over the long term is when the UK market is expected to reach saturation. Some commentators expect the market to reach saturation within the next 5 to 10 years. While other analysts argue that the UK has a long way to go, pointing to the low cinema attendance per capita compared to other countries. Per capital cinema attendance in the UK is 2.4 which is significantly lower than the US (5.5), Ireland (3.4), Australia (4.3), Spain (3.3), Canada (3.6)<sup>52</sup>.

Competition from other forms of leisure activities is also a key factor influencing how the cinema audience develops over the longer term. With the proliferation in the number and range of leisure activities which can be undertaken, from both indoor (games, internet, video, DVD) and outdoor activities (sports, holidays etc.), the pressure on individuals' leisure time is increasing.

There could however be some positive long-term trends which counteract this. Lifestyle changes such as the change in household/family composition and the growth in more flexible working patterns are likely to have some positive impact on leisure time, and hence the audience for specialised cinema. Perhaps the most important household change is the trend towards having children later in life. All the evidence on cinema audiences suggest that the commencement of a family severely curtails cinema attendance. This trend could therefore be one of the reasons behind some of the changes in cinema attendance.

<sup>52</sup> See report 'Specialised Exhibition and Distribution, International Case Studies' by Olsberg SPI for a more detailed discussion, Annex (B3).

## 7.3 Profile of specialised cinema audience

This section illustrates the audience profile for specialised cinema. Available information on the characteristics of the specialised cinema audience profile is limited. Our analysis has therefore drawn on a number of sources including:

- publicly available audience research from niche market research companies (Pearl and Dean, Carlton Screen, Dodona);
- audience research obtained from specific exhibitors;
- data and information from a wide variety of reports<sup>53</sup>;
- the results from our survey;
- the conclusions from our interview programme with exhibitors, distributors and other interested parties.

### 7.3.1 Age profile

Specialised cinema currently appeals more to a much older age group when compared directly to the general cinema audience profile. Over 57% of the specialised cinema market is accounted by the over 35s compared to only 33% in the general cinema market.

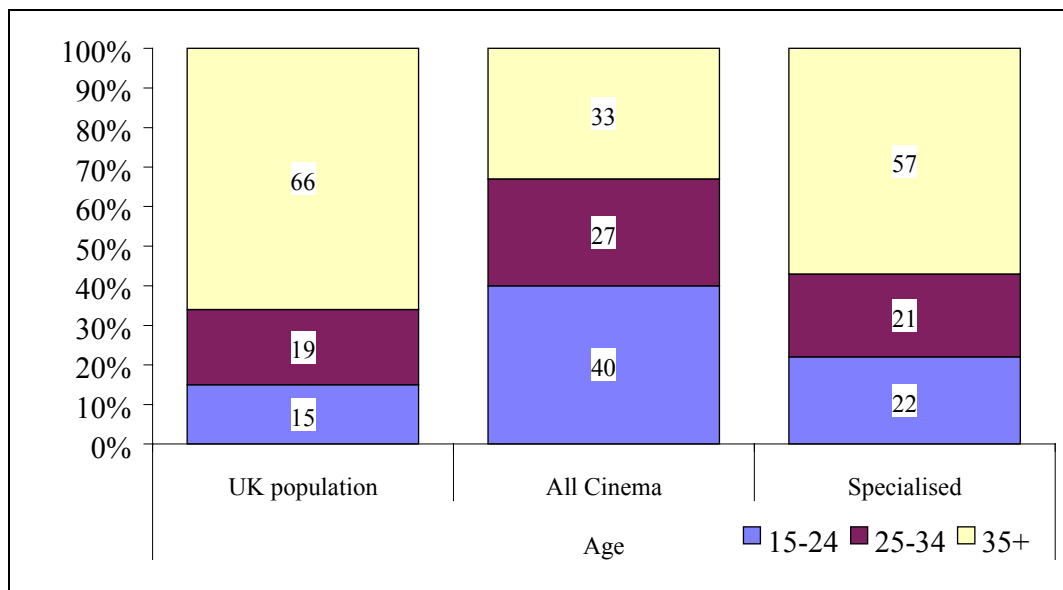
However, the over 35s group is under-represented when the overall UK population is taken into account (66% of the population is over 35). The propensity to go to the cinema is actually highest for the 15-24 age group with a value of 1.1 and 1.5<sup>54</sup> for specialised and general cinema respectively. A full picture of the differences by age group is shown in Figure 7-6.

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<sup>53</sup> Appendix A5 contains a full list of publications reviewed for this study.

<sup>54</sup> Propensity (1.5) by age group is calculated as the proportion of cinema going population (22%) divided by the proportion of the overall population (15%).

**Figure 7-6: Age profile for all and specialised cinema goers (2000)**



Source: Peal and Dean.

Nevertheless, the poor representation of the young in the specialised audience is striking. More importantly, the young market (under 25s) has been in long term decline as a proportion of the total market, while all other age groups have increased their relative share. The specific changes in the share of the market by age group over the 1987-97 period are as follows<sup>55</sup>:

- under 25s: declined from 47% to 29%;
- 25-34 age group: increased from 29% to 34%;
- 35-44 age group: increased from 12% to 17%;
- over 45 age group: increased from 10% to 22%.

Mapping these figures and age groups on to later research from CAVIAR suggests that these trends have continued from 1997 to 2000. The under 25s age group has fallen further to 22% (2000) whereas the older age group (combined 35-44 and 45+ age group) increased from 39% to 57% of the total specialised cinema audience<sup>56</sup>.

### 7.3.2 Socio-economic class

The audience for cinema (specialised and general) is dominated by socio-economic class ABC1 accounting for 70% of the specialised market and 66% of the general cinema audience. Considering that the ABC1 group accounts for 51%

<sup>55</sup> Study of the Specialised Cinema Sector, London Economics and Dodona Research (March 1997).

<sup>56</sup> Care should be taken in interpreting these figures as the 2001 figures (CAVIAR) are from a different source than the 1997 figures (London Economics).

of the total population, this means the ABC1 group has a greater than average propensity to go the cinema (both specialised and general). Figure 7-7 illustrates the differences. This slant of specialised cinemagoers towards ABC1 (compared to the general population) was confirmed by the results of our survey.

**Figure 7-7: Socio-economic profile for all and specialised cinema goers**



Source: Pearl and Dean

### 7.3.3 Gender

The gender profile of both specialised and general cinema is broadly neutral, appealing to both males and females in roughly equal terms (based on the average of CAVIAR and Dodona research). Estimates from a number of sources of the gender split are shown in Figure 7-8. CAVIAR shows a slight skew towards males in both the general and specialised audience. Whereas Dodona shows an equal split for general cinema, but slightly in favour of females in the specialised sector. Our survey of exhibitors indicated that females were more likely than males to go to see specialised cinema.

**Figure 7-8: Gender profile of the specialised and mainstream cinema audience (2000)**

Indicator	Source	Male	Female
Population	ONS	49.0%	51.0%
General	CAVIAR	51.0%	49.0%
Specialised audience	CAVIAR	55.0%	45.0%
General	Dodona	50.0%	50.0%
Specialised audience	Dodona	46.0%	54.0%
<b>General</b>	<b>Average</b>	<b>50.5%</b>	<b>49.5%</b>
<b>Specialised audience</b>	<b>Average</b>	<b>50.5%</b>	<b>49.5%</b>

Source: CAVIAR, Dodona<sup>57</sup>, KPMG

<sup>57</sup> Reported in 'Study of the Specialised Cinema Sector' London Economics (March 1997).

#### 7.3.4 **Ethnicity**

Ethnic minorities account for 7% of the UK's population (25% of the population in London) and therefore are an important potential audience where needs or preferences should be catered for. The recent success of Bollywood films (which appeal mainly to a sub-segment of the ethnic minorities in the UK – they do not generally appeal to Black audiences) gives an indication of the scale and potential of this sector. Consideration of the top 20 Foreign Language films released in the UK, Indian films accounted for 34% and 41% of the box office in 1999 and 1998 respectively. Ethnic minorities are clearly an important potential audience, whose needs and preferences must be taken into account in the development of cultural policy.

In terms of audience development strategies, initiatives are generally targeted towards appealing to culturally diverse audience. Black and Asian cultural exhibition is generally confined to specific cultural film festivals. These festivals require funding and support from film funding bodies in order to be successful in realising their potential to attract and retain new audiences for specialised film. Some specific examples of festivals and initiatives are:

- Birmingham International Film and TV Festival – this was established in 1985 and has grown to be one of the UK's most significant moving image festivals. Specialised strands include Movie Mahal – an internationally recognised focus on South Asian film;
- Black Pyramid, formed in Bristol in 1993, aims to initiate, develop, promote and produce innovative Black media, while maximising opportunities for the training and education for its members and participants. The organisation, in collaboration with Watershed Media Centre, runs the annual Black Pyramid Film Festival. Its aim is to raise the profile of Black film releases, expand the core audiences for black films produced in the region, and target and develop new audiences. It intends to display the range and variety of films across the globe made by black people or with a black perspective;
- Africa at the Pictures is a festival of African cinema which shows a range of moving image and invites African filmmakers, European film industry executives, commissioning editors for television and experts on digital technology to take part. Africa at the Pictures is held at the ICA, Barbican and Cine Lumiere in London, and then goes on tour around the UK.

#### 7.3.5 **Disabled audiences**

Another important audience group is the disabled. Disabled people account for a significant proportion of the population, but in relation to audience admissions are under represented.

The Government reports that there are over 8.5 million disabled people in the UK, with considerable collective spending power. One in four people is disabled or

close to someone who is , so providing adequate facilities for the disabled makes good business sense, and could provide a real opportunity for growing audiences.

One of the key issues relates to access – many exhibitors have inadequate facilities, which has the effect of limiting the disabled audience for specialised film. The Disability Discrimination Act 1995 will impose new duties on service providers such as independent cinemas from 2004. Already:

- since December 1996, it has been unlawful for service providers to treat disabled people less favourably than other people for a reason related to their disability;
- from October 1999, service providers have had to make reasonable adjustments for disabled people, such as providing extra help or making changes to the way they provide their services.

The new obligations under Part III of the Act mean that from 2004, service providers will also have to consider making reasonable adjustments to the physical features of their premises to overcome physical barriers to access.

The Act protects the rights of a wide range of people with sensory, mental or physical disabilities. This includes “people who use wheelchairs, blind and partially sighted people, deaf people, people with arthritis, people with long-term illnesses and people with learning disabilities”.

Many specialised cinemas will need to make adjustments to physical features of their buildings to allow access for the disabled. These improved premises will present a real opportunity to develop and grow this audience segment.

New technology also presents an opportunity, where techniques aimed at the visually or hearing-impaired audience could be very useful in increasing accessibility to specialised film. A more detailed discussion of disability access and investment is given in Section 11.

Already some venues are involved in pioneering initiatives which have broadened access considerably. Examples include:

- Deaf Film and TV Festival at the Light House in Wolverhampton. The main focus of the festival is to celebrate all the deaf people working within film, video and television, but people without hearing impairment are also welcome to join in the activities. All live events have on-stage interpretation by British Sign Language (BSL) interpreters;
- BSL interpreted screenings at the Metro in Derby. In late 1998, Metro took a decision to set up a programme of BSL interpreted screenings. These have grown in popularity and Metro has obtained sponsorship for the events. Metro’s work with the deaf community is now a core part of the cinema’s activity.

### *Audio Description*

In recent years the audio description of films has been an area of increasing interest and concern.

Several venues have introduced audio described films to audiences, with Watershed in Bristol at one time employing an in-house describer and Chapter in Cardiff promoting the use of scripts and equipment to other venues.

However, the costs involved in a single organisation staging an audio described film are extremely high and the logistics complicated. On-going additional funding is required to maintain momentum and build audiences and in the absence of this it has become increasingly difficult to deliver this work on a consistent basis.

Recent developments in digital technology offer potential opportunities for tackling this and DTS is working on a system which would allow both audio descriptions and subtitles in several languages to be placed on disc and distributed with the film print. This is currently being tested at several sites across the UK but in terms of titles is entirely confined to big budget Hollywood fare. This is a complex area requiring collaboration on the part of production companies, distributors and exhibitors as well as a comprehensive audience development programme. Further work should be carried out to examine the issues around both subtitling and audio description using DTS and a national strategy should be developed to take advantage of this technology whilst ensuring audiences for the full diversity of cinemas and films are able to benefit.

#### 7.3.6 **Cinema Facilities**<sup>58</sup>

The quality of facilities is increasingly becoming an important part of the cinema experience. A majority of the general cinema audience experiences film within a multiplex-type environment. Given that multiplexes tends to offer an homogenous cinema going experience, while specialised cinemas have an independent flavour, this is a significant differentiator between the mainstream and specialised audience.

Some research suggests that existing specialised cinema goers are more tolerant of older venues and and/or lower quality facilities, which are considered part of the cultural experience<sup>59</sup>. Furthermore, the older age group tends actively to seek out independent cinemas with more individual character, and dislikes multiplexes. The character of independents is therefore one of the positive points for people who frequently visit specialised cinemas.

However, developments in the multiplex sector are also having some adverse impacts on the specialised sector. Multiplexes often have greater choice within

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<sup>58</sup> See Section 11 on exhibition issues for a more detailed discussion.

<sup>59</sup> If new audiences are to be attracted, they may not be tolerant of such facilities.

one building plus associated leisure activities often exist in adjacent buildings. Seating, sound and picture of a high standard is also becoming the norm, putting pressure on independents to invest where their facilities are falling below this standard.

Investment in new technology is a crucial issue in the medium to long term for all types of cinemas. The development and application of new technologies should in the future enable the wider distribution of specialised cinema, and consequently produce a much larger and more diverse audience than in the past. Improved technical provision and general facilities could also be a key enabler of the education strategy (as discussed in Section 3.5). The question of when in the future these facilities are likely to be available is crucial.

## **7.4 Audience development initiatives**

This section illustrates different types of audience initiatives in place and some case study examples. Audience development initiatives have two distinct objectives, first to develop further existing market segments and, secondly, to attract a new market segment. We examine some of the issues for both of these types of initiatives in this section.

Many of the exhibitors we consulted regarded audience development initiatives as absolutely central to their businesses. They are frequently viewed as an integral part of a cinema's marketing strategy, and also, where the cinema provided education activities, linked to the cinema's education mission. Many of the initiatives have very similar characteristics, and we have grouped them together in this way.

Although some operators stated that the costs and benefits of any new initiative were always assessed, and others expressed willingness to move in that direction, it appears that relatively little assessment is taking place, and there is no agreement on the method for such assessment. This is partly because the benefits of an initiative are often a lot less tangible (and measurable) than the costs, and sometimes because the objectives of a given initiative have not been clearly set out up front.

### **7.4.1 Ongoing initiatives targeting specific demographic groups**

Initiatives targeting older people and children appear to be the most common audience development initiatives. City Screen, Zoo, Mainline, Odeon and the Showroom in Sheffield are some of the cinemas which have off-peak screenings for older people. This works well for the cinemas which are filling seats at an off-peak time (usually weekday matinee), and attracting an audience who might be less willing to visit the cinema when it is filled with a general cinema-going audience. Tickets are usually discounted, and complimentary tea and biscuits often provided - it is about providing a safe environment for older people to watch films. Product is often chosen which will appeal to older people, but it is not



necessarily specialised. These initiatives aimed at older people appear to be consistently successful in achieving good audiences. However, there is not much evidence to suggest that these initiatives are successful in persuading those customers to return to the cinema for a regular screening.

Children's Saturday matinees are also very common. Cine-UK, the Broadway in Nottingham, Zoo and Odeon are among those which undertake this initiative. Programming is generally not specialised; indeed, RFTs which try to programme specialised product for children's matinees complain about the lack of availability of such product. Tickets are discounted and sometimes include a package of concessionary product (e.g. popcorn and drink). A "kids' club" atmosphere is generally promoted. These initiatives also appear to be generally popular and successful at attracting loyal customers. Most operators view this as a longer-term audience development initiative, building up the cinema-going habit in a new generation.

One much more unusual initiative runs at the Clapham Picture House, one of the City Screen venues. This is a "mothers and babies' club" which runs on a weekday afternoon. Normally local authority guidelines prevent very young children being brought into cinemas, but City Screen has obtained permission from the London Borough of Lambeth to run this initiative. City Screen is very proud of this initiative which has successfully brought in an audience which might previously have been excluded – particularly young single mothers. The company views this as part of its work reaching out to the community, and as with many of these initiatives, it is not profit-making. Films shown are not usually specialised, and one issue the cinema faces is certification – this obviously restricts the films which can be shown. Getting the mothers and babies' club off the ground took a lot of management time and effort, due to the negotiations with the local authority, and the need to persuade it and its advisors that the babies would not be harmed in any way by the experience. Therefore this may restrict the possibility of transferring this initiative to other venues.

#### **7.4.2 Initiatives targeting specific groups for specific programming**

These initiatives are where a cinema identifies programming which is particularly likely to appeal to a specific demographic group, and the cinema actively targets that group using methods such as direct mail. These are often (but not always) one-off programmes or a season or festival of programmes. Discounts are occasionally offered, but often a large proportion of the marketing spend on these initiatives is on simply reaching the target audience to inform them of the programming. These initiatives in particular are aimed at bringing new audiences through the door and hopefully persuading them to return in future.

An interesting example is the "Test Drive Run Lola Run" project which ran at the Manchester Cornerhouse (an RFT). This led on from a general Arts About Manchester initiative which aimed to utilise a certain proportion of tickets for an arts event which remain unsold. The idea is to review the current audience

profile, identify underrepresented groups with high potential and then target those groups. *Run Lola Run* is an energetic foreign language film which was judged likely to appeal to young people – who are currently underrepresented in the specialised cinema audience, but show high potential (given their propensity to attend cinema in general). The cinema used a direct mail promotion inviting young people to register their interest on a database. They would receive a free ticket for *Run Lola Run* and receive 50% discount on subsequent ticket purchase. Cornerhouse also made a special effort to make the experience pleasant and unthreatening by having a Welcome Desk for first-time attendees. The project was judged successful in attracting young people in to see a specialised cinema, but there was not a great deal of success in attracting them back for subsequent visits. Cornerhouse attributes this to the lack of specialised product appealing to young people which was available in the following months.

An example of a successful initiative which did not rely on a discount incentive was at the Riverside Cinema in Hammersmith. Having examined the ethnic mix of its catchment area, the Riverside programmed a short season of six to eight Iranian films. A simple flyer was created and posted to a mailing list of the Iranian community in Hammersmith, obtained from a locally-operating Iranian group. The cinema obtained strong attendances for the season of films, for relatively little outlay, and is considering how to repeat such an initiative. The cinema does not know if any of the audience have subsequently returned, but the initiative was judged successful on its own merits, achieving good box office for a group of specialised films which would not necessarily have been strong performers.

Cine-UK has been extremely successful in attracting Asian audiences for Bollywood product. The company states that it regularly takes more than 50% of the (not insignificant) UK box office for individual Bollywood films, and Bollywood success has been instrumental in keeping some of its cinemas at or near the top of the list of the best performers in the UK. In much the same way as the Riverside, but on a larger scale, Cine-UK looked at the ethnic mix of the catchment areas of its Cineworld cinemas. The company was also looking for a niche to exploit which would differentiate it from its competitors. It took a chance by playing Bollywood product when demand was uncertain, and went outside the mainstream media to reach the Asian audience (working alongside the distributors who have minimal advertising spend, profile was raised in niche publications appealing to the Asian audience). Through showing long-term commitment to the product (and therefore the audience) Cine-UK has successfully developed a large and loyal audience for Bollywood films.

### 7.4.3 **Developing existing audiences**

Many of the cinemas we consulted (particularly those which show a majority of specialised product) have invested considerable effort and resources in actively seeking to further develop existing audiences. The most common methods are:

- membership schemes;
- mailing/Email lists.

Email lists have a cost advantage over traditional mailing lists, but obviously many people still do not have access to email. There is also considerable variation in the quality of content and presentation of email bulletins (and indeed of the websites which complement the email bulletins).

Most membership schemes have an annual fee (under £20) which frequently includes a free ticket, some ongoing discounts, and ancillary benefits such as competitions and forums. It will often include membership of a mailing list for the monthly programme for the cinema.

Most cinemas which operate these schemes judge them successful in building up customer databases and building customer loyalty.

#### 7.4.4 **Best practice**

Audience development initiatives appear to be most successful when best practice ideas (reasons for success and failure) are shared. Forums are often a good way to bring groups together to discuss audience development initiatives and what would work in a particular region of the UK. Audience development initiatives can extend beyond the “event” itself to pre and post marketing and awareness initiatives. Success of initiatives appears to depend upon a number of factors:

- conducting detailed, regular market and audience research;
- undertaking continuous campaigns to increase awareness and support the shorter term initiatives. Fully integrated campaigns with support for on-line initiatives and global influence;
- addressing the barriers to attendance which the research and ongoing audience feedback reveals;
- making best practice marketing and initiative information widely available and open to continuous development;
- providing training to ensure initiatives are a success, everyone understands the objectives and can measure results;
- ensuring that subsequent product is available to bring back audiences who have been attracted by the initial initiative – thinking beyond the short term, and having consistency in programming.

In order for development initiatives to be successful (particularly with young people), they must use various delivery mechanisms (not necessarily just existing exhibition methods) and use and harness new available technologies. They also work most effectively when targeted at a specific segment with a long term objective and when the cinema seeks continuous feedback from that segment.

## 7.5 Size and potential of new markets

This section identifies the size and potential of new markets for specialised cinema where current or future demographics indicate strong potential. To determine these new markets we have considered the following in our analysis:

- analysis of existing age structure by area to ascertain the bias for or against certain age groups in different locations;
- projections of the age structure over time, to indicate the broad potential of different age groups such as children (6-17), young (18-24) and old people (60+);
- expected change in population by area to show which have the best overall growth potential;
- socio-economics factors such as ethnicity to ascertain the potential market, and how this differs across different locations.

A high level evaluation with respect to regional locations is given in this section below. Recommendations focused on specific locations likely to support new provision of specialised cinema are given in Section 5.1. Note that age and socio-economic factors are only one of many factors which are of important in evaluating potential. For example, the effect of having children is likely have a significant impact on cinema attendance. Audience development strategies such as “mothers and babies’ club” should therefore not be dismissed.

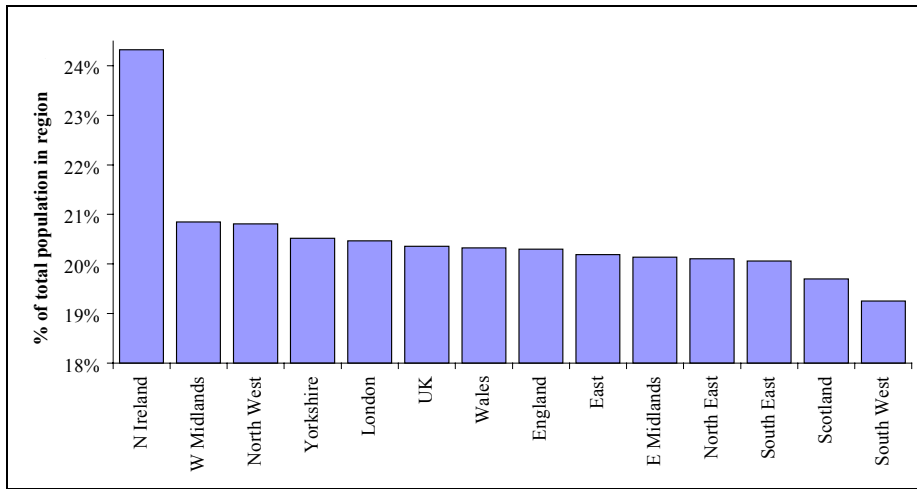
### 7.5.1 Analysis of region by age group

An analysis of the regions of the UK which indicate strong potential for certain demographic groups has been undertaken in this section. Figure 7-9 to Figure 7-11 ranks each of the regions in the UK by the proportion of the population accounted for by children (0-15), young people (aged 16-24) and old people (60+) respectively.

The rationale for this analysis is that regions with high rankings of certain age groups are likely, in the first instance, to be best placed to develop new markets. For example, if the objective is to broaden the specialised audience by appealing to older people, it is sensible to start with new build and audience development initiatives in the South West of England. While if the objective is children, Northern Ireland might be a better place to roll-out the strategy.

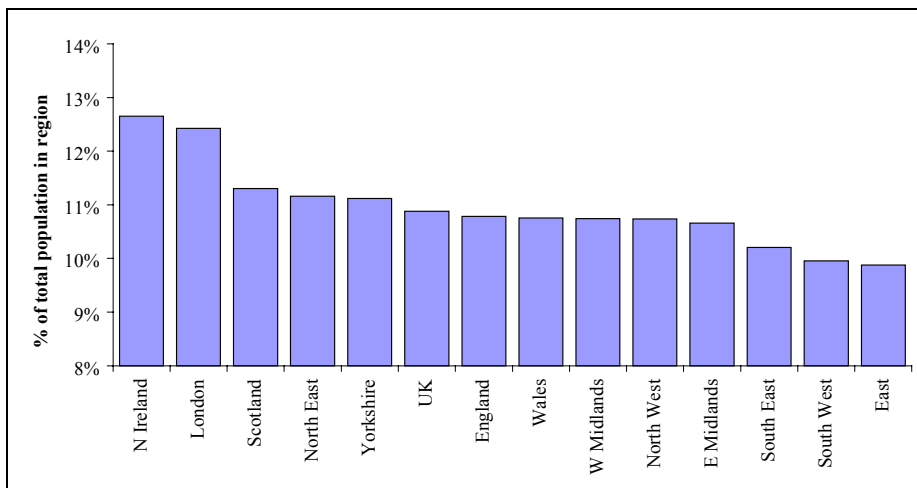
In short, an understanding of regional age demographics by region is useful for a number of elements of the exhibition strategy. It feeds into the process for deciding the locations for new build and can be use to decide where to test and/or targeting new audience development strategies.

**Figure 7-9: Regions which show potential for children (aged 0-15)**



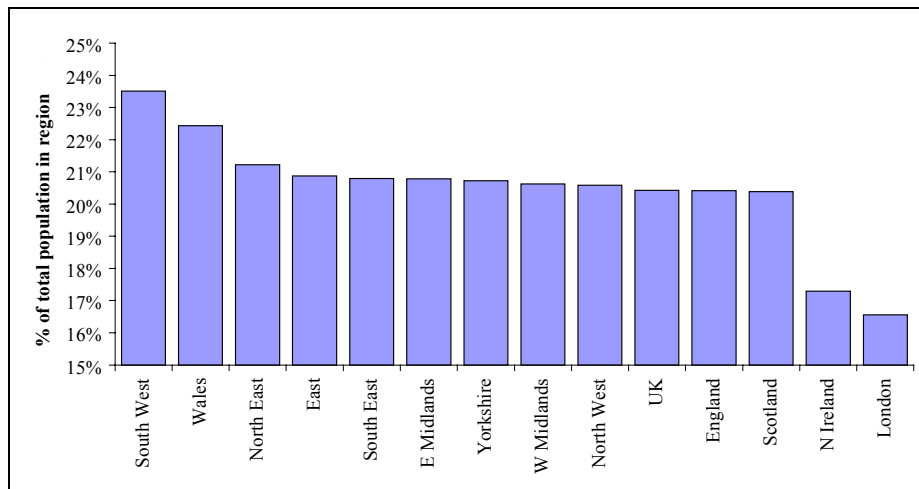
Source: ONS

**Figure 7-10: Regions which show potential for young people (aged 16-24)**



Source: ONS

**Figure 7-11: Regions which show potential for older people (aged 60+)**

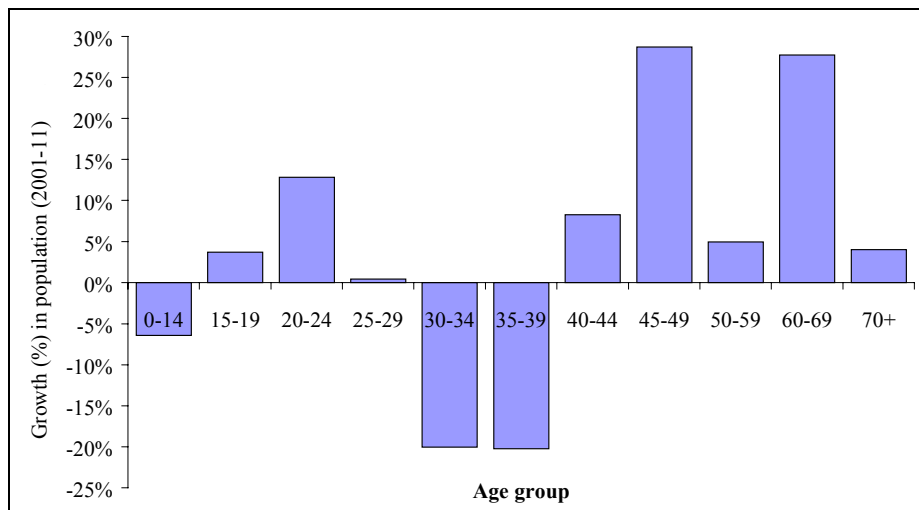


Source: ONS

### 7.5.2 Population projections by age

Age groups which are projected to increase by the most are the 45-49 and the 60-69 age groups with 10 year growth rates of 28.7% and 27.7% respectively. The 30-39 age group is expected to decline significantly. Figure 7-12 summarises the expected change in the population of other age groups.

**Figure 7-12: Age band with greatest population growth potential (2001-11)**



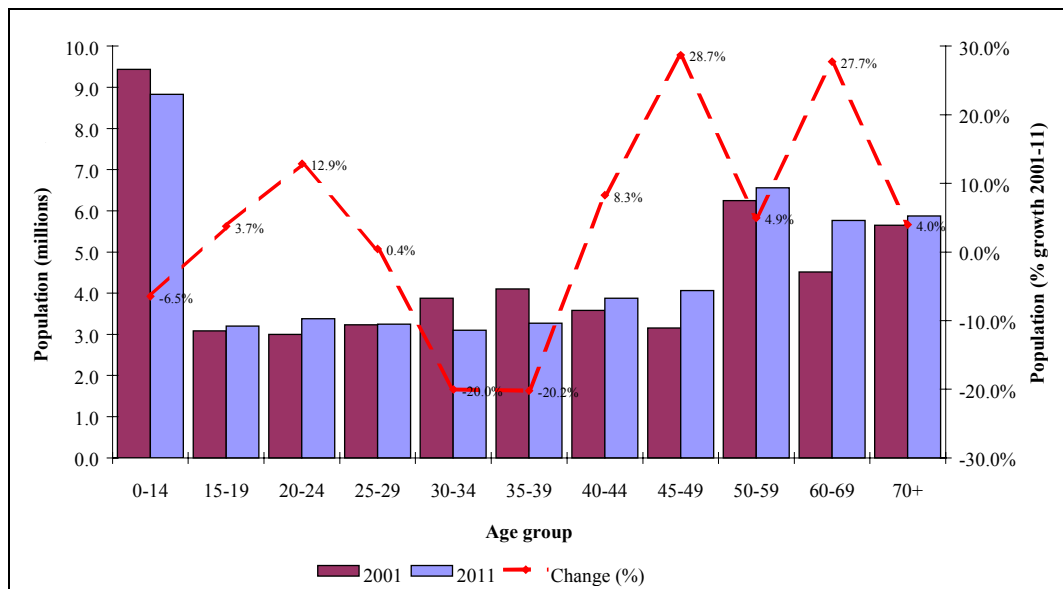
Source: Population projections; Office for National Statistics

These demographic projections indicate a strong potential for the over 40s market. As the existing audience profile for specialised cinema is skewed towards the over 35s, a strategy which targets the existing core audience of over 35s would be sensible. A strategy which reinforces this demographic effect should therefore

increase the specialised audience over time but would do little to broaden the specialised audience profile.

The 20-24 age group also shows potential in demographic terms, with the age group expected to increase by 12.9%. Given that this group has a high propensity to go to the cinema this is particularly advantageous. For the younger age groups, the demographics are less encouraging. A strategy which targeted children (0-14) would need to be very effective to increase the audience in order to counteract the negative demographics trends which reduce this market segment by 6.4% over the next 10 years. The expected change in population for all of the age groups is plotted against the current level of population in Figure 7-13.

**Figure 7-13: Population projections by age band (2001 – 2011)**



Source: ONS

### 7.5.3 Population projections by location

The overriding factor which influences audience levels at cinemas is the level of population within a certain catchment area, which is typically measured by the population within a 30 minute drive time.

Population levels are also dynamic and change significantly over time. It is therefore also important to consider projections of population levels into the future. Figure 7-14 shows expected changes in the population of the top 100 towns (cities). Locations which are expected to increase by the largest amount are typically:

- located in the South/South East, predominately London commuter-belt towns;
- around average in terms of population size (ranging from 80,000 to 200,000);

- less densely urbanised (i.e. ‘new towns’).

**Figure 7-14: Towns with greatest population growth potential (10 year growth rates)**

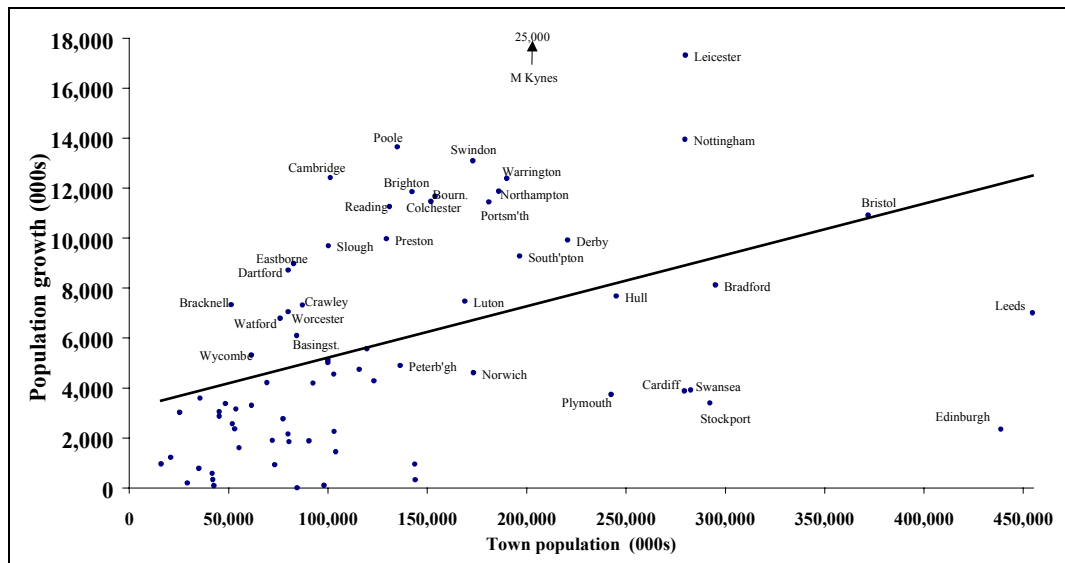
Group	Pop growth (%)	Name of town (city)			
Top 10	8.9% to 14.7%	<b>Milton Keynes</b> <b>Bracknell</b> <b>Slough</b>	<b>Cambridge</b> <b>Chichester</b> <b>Dartford</b>	<b>Eastbourne</b> <b>Poole</b>	<b>Winchester</b> <b>Watford</b>
11-25	6.4% to 9.0%	<b>Worcester</b> <b>High Wycombe</b> <b>Reading</b> <b>Crawley</b>	<b>Brighton</b> <b>Preston</b> <b>Bournemouth</b> <b>Colchester</b>	<b>Swindon</b> <b>Basingstoke</b> <b>London</b> <b>Hereford</b>	<b>Folkestone</b> <b>Warrington</b> <b>Northampton</b>
26-50	2.9% to 6.3%	Portsmouth Tunbridge Wells Leicester Harrogate Kidderminster Stratford Upon Avon Truro	Guildford Worthing York Nottingham Loughborough Ipswich	Southampton Chelmsford Derby Scarborough Exeter Luton	Oxford Peterborough Stevenage Huddersfield Hull Bristol
51-90	-1.9% to 2.8%	Bradford Taunton Bath Lancaster Norwich Lincoln Basildon Canterbury Cheltenham Plymouth	Leeds Cardiff Newport Swansea Wrexham Carlisle Stockport Perth Stirling Blackpool	Edinburgh Inverness Bolton Darlington Halifax Barrow-in Furness Coventry Paisley Birmingham Sheffield	Chester Durham Glasgow Shrewsbury Stockton-on-tees Wolverhampton Newcastle Upon Tyne Aberdeen Wakefield Doncaster
Bottom 10	-7.0% to -2.5%	Salford Newcastle Under Lyme Manchester	Dundee Sunderland Middlesbrough	Liverpool Mansfield	Harlow Grimsby

Source: Sub-national population projections; Office for National Statistics (1998)

As well as consideration of expected growth rates in population, it is also important to consider the growth in actual numbers of people. Figure 7-15 therefore plots population against projected growth for those towns which are expected to grow. The named towns are ones with particularly high population and/or high growth projections.



**Figure 7-15: Town population against population growth**



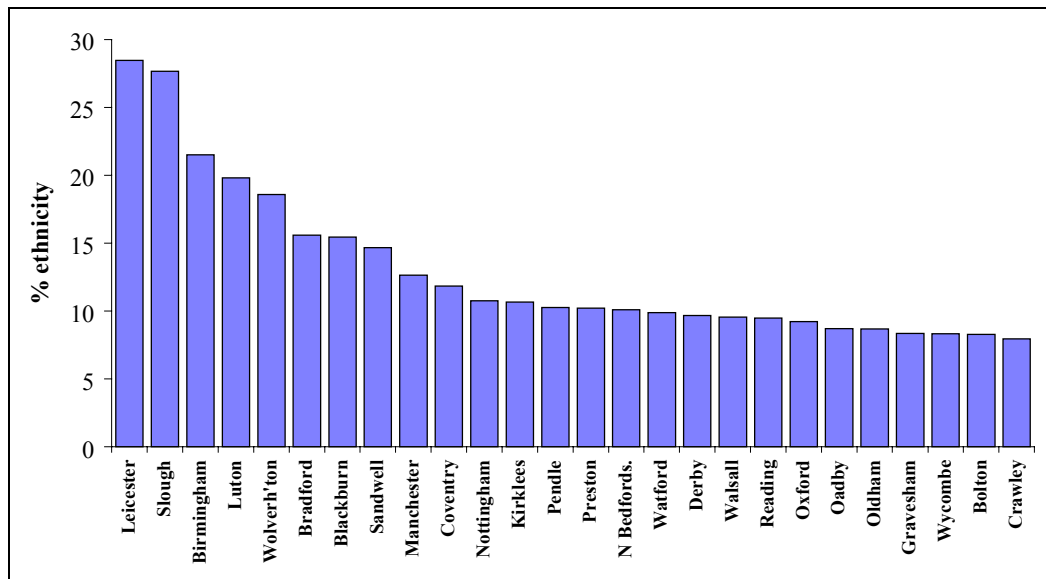
Source: Population Census data, Office for National Statistics (1991).

#### 7.5.4 Ethnicity

Ethnic minorities<sup>60</sup> account for a significant proportion of the population as described above. However there are wide differences across different areas as illustrated in Figure 7-16. The five locations (excluding London) which have the highest ethnic make up are Leicester (28.5%), Slough (27.7%), Birmingham (21.5), Luton (19.8%) and Wolverhampton (18.6%).

<sup>60</sup> Ethnic minorities are defined as non-white consistent with ONS data collection. The ethnic group covered are Black Caribbean, Black African, Black other, Indian, Pakistani, Bangladeshi, Chinese, other Asian, and other non-white.

**Figure 7-16: Towns with high concentrations of ethnic minorities**



Source: Population Census data, Office for National Statistics (1991)

## 7.6 Constraints and opportunities

The audience for specialised cinema differs from the average cinema audience. The key differences relate to individual characteristics such as age ethnicity, and location of cinemas. Specifically, the audience for specialised cinema is concentrated on the over 35s and on ABC1.

Recommendations to increase and broaden the audience should take into account the following opportunities:

- age demographics which indicate strong potential for the over 40s. The over 35s are a major proportion of the specialised audience (57%) and therefore a key opportunity (increasing the audience);
- age demographics which indicate strong potential for the 20-24 age group. An age group which has a high propensity to go to the cinema, but underrepresented (increasing the audience);
- high levels of ethnicity in certain locations, which are currently not supplied by specialised cinema (increasing and broadening the audience);
- audience development initiatives aimed at the further development of niche markets such as people from ethnic minorities and those with disabilities (increasing and broadening the audience);
- audience development initiatives which seek to redress the imbalance between the socio-economic class ABC1s and C2DE (to broaden the audience);

- the clear educational aspect of much audience development (developing an informed and appreciative audience for film).

Key constraints to consider are the concentration of the specialised audience, which is dominated by over 35s and ABC1. Reliance on a very narrow demographic is quite risky. Trends in age demographics towards older people also work against the objective of broadening the audience in terms of age. A strategy to broaden the specialised audience in terms of age will need to be very effective to counteract negative overall demographics.

## 8 Availability of specialised film on theatrical release

### 8.1 Introduction

This section maps the availability of specialised film on theatrical release covering:

- the current size of the sector in terms of audience admissions and how this relates to the whole cinema sector;
- the composition of the specialised sector in terms of type of film released;
- trends in key indicators of specialised film, namely box office revenues by nationality, audience admissions for non-US films and non-national European films.

The full working definition of specialised film provided in Section 2.3 is very useful in setting out our vision for which films are specialised and which films need to be promoted. However, it is less useful in collecting reliable and robust data due to the subjective nature of some of its definitional components. The criteria means that one film may be specialised for some people, but entirely mainstream for others (e.g. *Crouching Tiger Hidden Dragon*).

In the sections which follow we sometimes use proxies to describe specialised film as this allows analysis of statistics and longer term trends to be undertaken on a more consistent and robust basis. Examples of proxy indicators used are language, country of origin, whether the film is released by distributors other than the big 6 distributors of US films or whether the film is outside the UK top 10 in terms of box office.

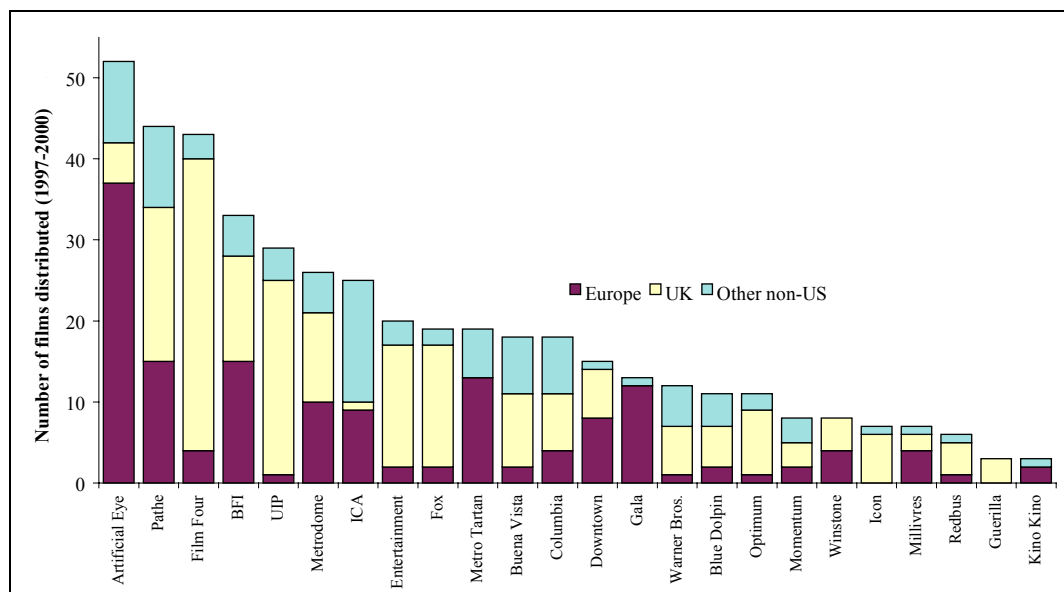
### 8.2 Theatrical distribution of specialised film

The aim of this section is to identify the key distributors of specialised film in terms of the number of titles distributed and then analyse the degree to which these distributors concentrate wholly or partly on the specialised field as part of their business model. This is undertaken through a detailed review of all films (around 1,200) released between 1997 and 2000. The number of UK, European and other non-US films is used to determine the relative scale of involvement in the specialised sector, whereas the proportion of non-US films distributed is used to characterise the degree of reliance on specialised film.

Figure 8-1 shows the number of non-US films released (UK, foreign language and European films) over the past four years by distributor. All distributors which have released 2 or more non-US films since 1997 are included. The top 5 distributors in terms of number of non-US specialised films released are Artificial Eye, Pathe, Film Four, *bfi* and UIP.

The type of film released is significantly different by distributor. UIP, for example, predominately concentrates on UK films. Artificial Eye distributes mainly European films and *bfi* releases are mainly reissues.

**Figure 8-1: Number of UK, foreign language and European films released by Theatrical distributor (1997-2000)**

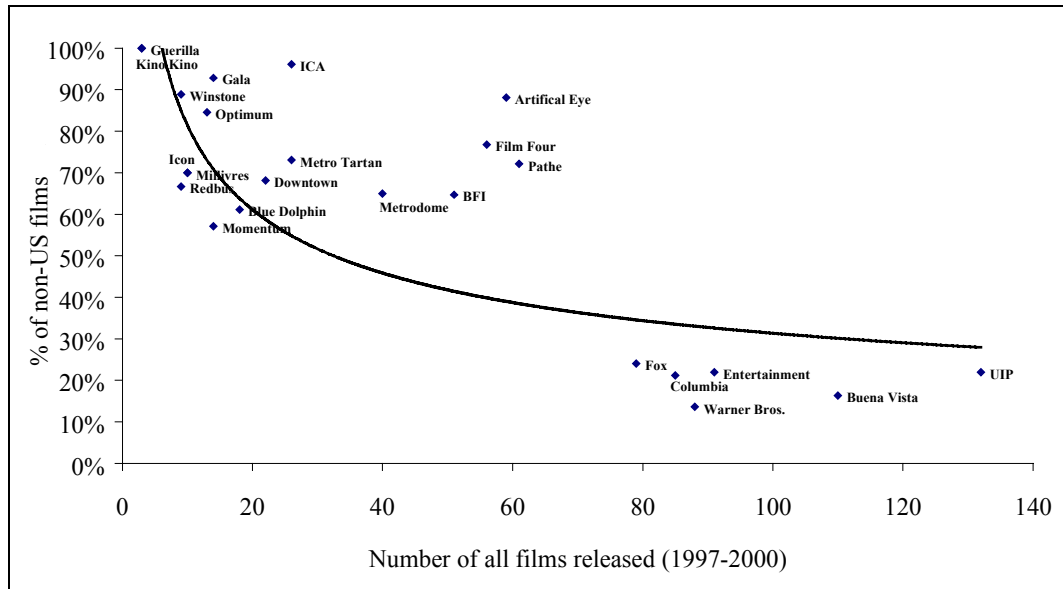


Source: Screen Finance, 1997-2000

As well as the number of films released by theatrical distributors, it is also important to consider the extent to which a distributor is wholly or partly operating in the specialised sector.

The relative extent to which different theatrical distributors are involved in the specialised sector is captured (see Figure 8-2) by plotting the proportion of non-US films (an indication of specialised film) each theatrical distributor has released in the UK against the total number of films released. There are 18 distributors where the proportion of non-US films released is above 50%. These could be viewed as the key “niche” players in the distribution sector.

**Figure 8-2: Theatrical distributors operating in the specialised arena (1997-2000)**



Source: Screen Finance

It should be noted that most distributors at some stage in their history have released a UK, European or other non-US film. They all could therefore be viewed as operating in the specialised sector to differing extents. While we do not consider this to be a relevant classification, for the purposes of the study we have included a full list of theatrical distributors for completeness (see Appendix A6).

### 8.3 The size of the specialised sector

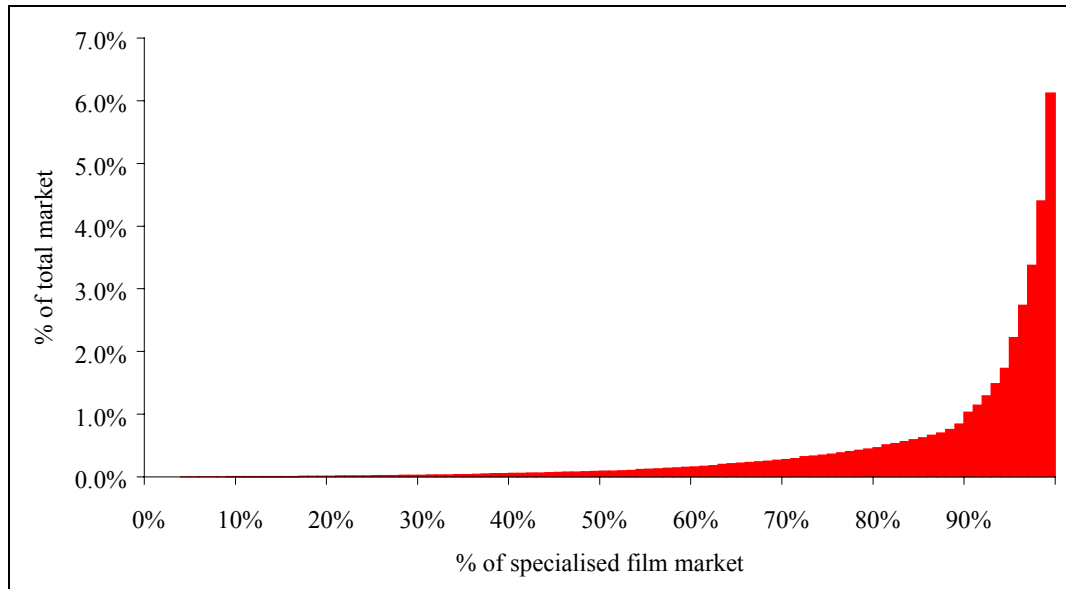
Approximately 50% of the films released in 1999 could be viewed as specialised<sup>61</sup>. On one level therefore, the *potential* availability of specialised product is high. However, the number of prints produced is often limited and cinema runs are short<sup>62</sup> which means that although these films are exhibited theatrically, they are not widely shown.

Moreover, audience numbers for specialised films are small, which suggests that the effective availability of specialised films is low. This is confirmed by detailed analysis of around 400 films released in 1999. Figure 8-3 plots the cumulative audience admissions for individual specialised films. Overall, the total audience for specialised films is estimated to be between 6 million and 8 million admissions p.a. which represents around 4% to 6% of the market.

<sup>61</sup> KPMG analysis of theatrical releases in 1999 (source: *bfi* Handbook 2001) using the full working definition of specialised film given in Section 2.3.

<sup>62</sup> More information on these issues is discussed in the Exhibition section (Section 11).

**Figure 8-3: The size of the specialised sector – Cumulative audience numbers by specialised films released in 1999**



Source: European Audiovisual Observatory; KPMG analysis

Crucially, the precise market size of the specialised sector is dependent on whether a few successful specialised films are included. Taking out these ‘cross over’ films significantly reduces the market share of specialised product. For example, if *East is East* (the film with the largest audience in the sector of 2.4 million p.a.<sup>63</sup>) is not viewed as specialised, this significantly reduces the market share of the sector to 4.4%.

Of course specialised films should not be excluded from the sector purely because of commercial success. But the analysis clearly indicates that a small number of successful specialised films have an undue influence on the size of the sector. The common characteristic of the specialised market is very low audience admissions, with around half having less than 10,000 admissions.

#### 8.4 Composition of the specialised sector

Analysis of the nationality of film released is also useful for understanding the composition of the specialised sector, as well as validating the size of the specialised sector estimated in the above section. Although the nationality of a film does not explicitly capture specialised film, it does provide a reasonable approximation. US films released by the big 6 distributors<sup>64</sup> are generally viewed as mainstream. There is also a consensus that many successful UK films are not specialised or at least on the margins of the specialised sector. Foreign language

<sup>63</sup> Source: European Audiovisual Observatory.

<sup>64</sup> The big 6 distributors are Warner Brothers, UIP, Entertainment, Columbia, Buena Vista and 20th Century Fox. Figure 8-2 described the market which these distributors are engaged in.

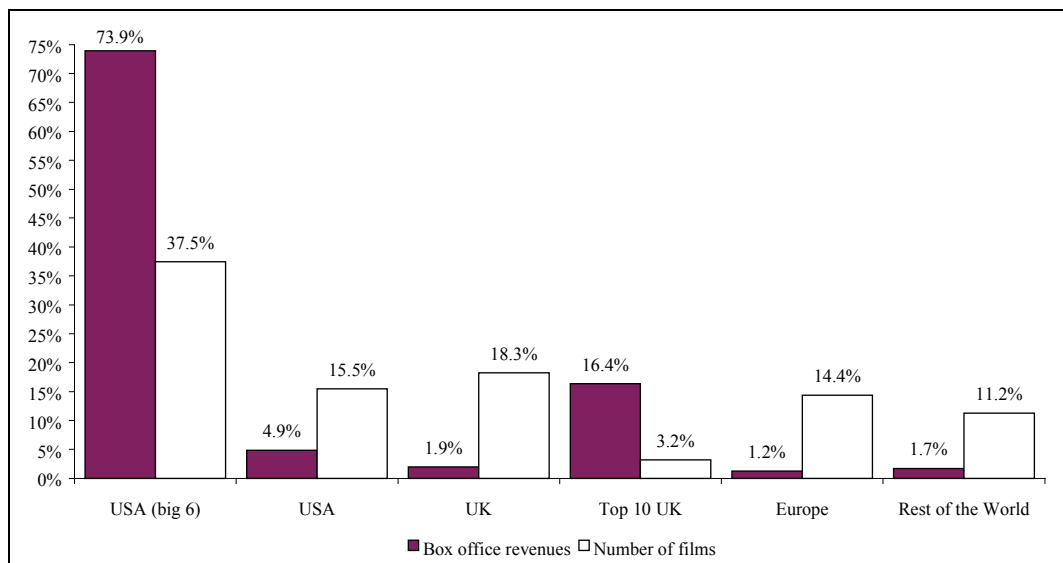
films released in the UK on the other hand are almost universally accepted to be specialised.

#### 8.4.1 Total box office revenues

Therefore, removing US films and successful UK films (i.e. assumed to be top 10 UK films) from the data provides a good indication of the size and shape of the specialised sector. As shown in Figure 8-4, an average of 4.9% of box office revenues over the 1997-2000 period are accounted for by non-US films and UK films outside the top 10. This rises to 9.7% when US films (other than those released by the big 6 distributors) are included. The market size share the specialised sector is likely to be within these two ranges as the some of the US non-big 6 films (i.e. mostly US independent) will be specialised.

The corresponding figures for number of theatrical films released are 43.9% and 59.3% respectively. Therefore this analysis adds weight to the conclusion that market share of specialised films is low, although the number of films *potentially* available is not low.

**Figure 8-4: Box office revenues (1997-2000) by film origin**



Source: Screen Finance

#### 8.4.2 Average box office revenues

The primary aim of this section is to examine differences in average box office figures between films of different nationalities. This has been undertaken by comparing average box office figures for 1,254 films released between the 1997-



2000 period<sup>65</sup> as summarised in Figure 8-5. The analysis shows the big 6 distributors of US films and the UK top 10 dominate the market.

Box office figures over time are also given in the table. Analysis of these figures suggest that the size of different segments has been broadly consistent over the past four years, with two notable exceptions. Box office figures for UK (top 10) releases each year are quite erratic and for European (foreign language) have fallen from an average value of £362,000 per release in 1997 to £83,000 in 2000.

This latter point is an important trend to highlight since European foreign language films are an important segment of the specialised sector. The decrease in the average audience does not imply that demand for European films has fallen. Given there has been a significant rise in the number of releases of European films from 29 in 1997 to 57 (1999) and 50 (2000), a more plausible explanation is that more European films are being shown but for shorter runs. Note that trends in averages are interesting but should be treated with caution as average audience admissions figures often vary significantly from year to year due to the impact of a small number of relatively successful films.

**Figure 8-5: Average box office revenues (and numbers of films) by country of origin (1997-2000 in 2000 prices)**

Country of origin	Average box office revenue £ 000s per film (number of theatrical films released)				
	1997	1998	1999	2000	1997-2000
USA (big six distributors)	3,250 (108)	4,155 (117)	3,646 (120)	3,550 (125)	3,656 (470)
USA other (excl big six distributors)	615 (55)	241 (55)	852 (46)	702 (38)	582 (194)
UK (top 10 only)	13,516 (10)	4,220 (10)	9,862 (10)	10,419 (10)	9,504 (40)
UK (excl top 10)	231 (56)	90 (49)	183 (67)	275 (57)	198 (229)
European	362 (29)	132 (44)	146 (57)	83 (50)	160 (180)
Other	380 (19)	121 (52)	180 (30)	509 (40)	279 (141)
Total	1,988 (277)	1,707 (327)	1,822 (330)	1,921 (320)	1,854 (1,254)

Source: Screen Digest, KPMG analysis

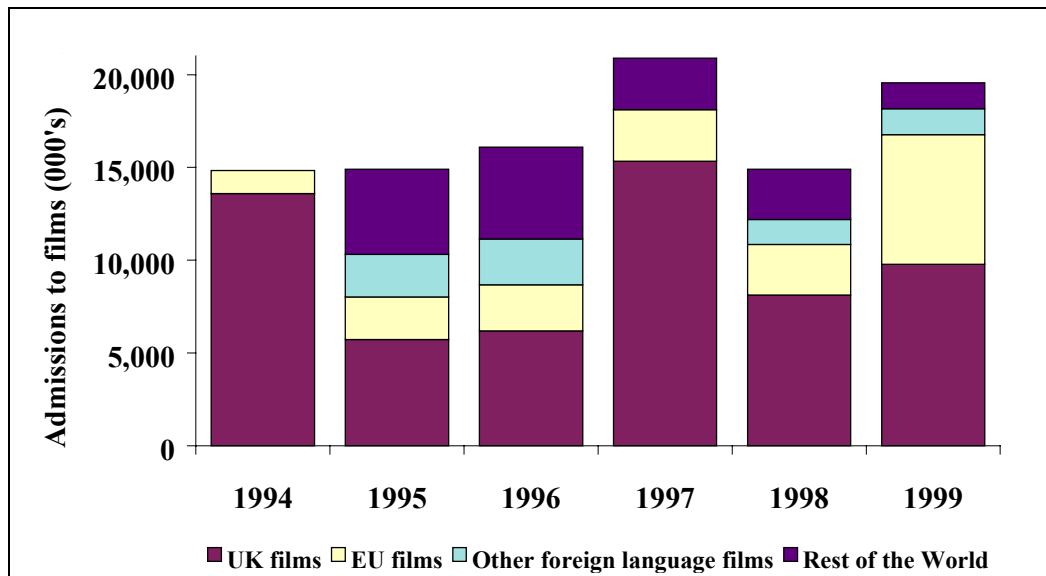
<sup>65</sup> Source: Screen Digest. Note that the *bfi* Handbook quotes a slightly higher number of films released (i.e. 1,006 over the 1997-9 period). However, associated box office revenues for most of these films is not provided and so robust analysis can not be undertaken.

## 8.5 Key trends in audience admissions

### 8.5.1 Audience admissions for non-US films

This section examines the trends in type of and volume of audience admissions for specialised film. Figure 8-6 shows the audience admissions by country of origin of film. This breakdown gives an indication of the approximate size of the market as each type of film can be broadly classified into being specialised or not. Given that the total audience admissions in 1999 was around 140 million, this chart shows that audience admission to non-US films since 1993 has been rising slightly but is erratic from year to year.

**Figure 8-6: Audience admissions for non-US films (1993 - 1999)**



Source: *bfi handbook (1995-2000)*

### 8.5.2 Audience admissions for non-national European films

Figure 8-7 shows the longer term trends in the box office admissions for non-national European films (an important segment of specialised film). Admissions for non-national films in the UK are low compared to other countries. In fact the UK in 1997 had the lowest penetration of admission in the whole of this sample, with only 1.5% of admission to non-national European films. This compares with 7.5% for France, 11.5% (Germany), 14% (Spain) and 12.9% (Italy).

Clearly there may be a cultural bias where there is a greater propensity for non-English speaking countries to view sub-titled or dubbed films than the UK. Conversely, there may be a greater enthusiasm for English-speaking UK films in the UK than elsewhere in Europe. Whatever the reason, the low penetration of non-national European films is striking.

**Figure 8-7: Box office admissions for non-national European (NNE) films by European country (1990-1997)**

	Total of box office admissions (in millions)								Total of NNE box office admissions (in millions)							
	90	91	92	93	94	95	96	97	90	91	92	93	94	95	96	97
France	121.8	117.5	115.4	132.7	124.4	130.1	136.6	148.1	6.9	11.8	5.4	5.8	10.8	11.1	8.5	11.1
Germany	132.0	119.9	105.9	130.5	132.8	124.5	132.9	143.1	7.4	4.8	6.6	4.4	8.6	6.3	11.8	16.5
UK	97.4	100.3	103.6	113.2	124.0	114.9	123.8	138.9	2.2	3.7	1.5	0.8	1.9	1.6	3.3	2.1
Spain	78.5	79.1	83.3	87.7	89.1	94.6	104.3	101.5	12.6	15.8	11.0	8.9	15.1	13.5	12.3	14.2
Italy	90.7	88.6	83.6	92.2	98.2	90.7	96.5	100.4	7.3	12.0	11.9	9.1	13.0	12.5	12.1	12.9
Belgium	17.1	16.5	16.6	19.2	21.2	19.2	21.2	22.1	3.3	2.4	3.2	3.2	3.4	4.0	5.7	5.0
Netherlands	14.6	14.9	13.7	15.9	16.0	16.4	16.8	18.1	0.7	0.4	0.4	0.8	1.1	1.2	0.7	1.9
Denmark	9.6	9.2	8.7	10.2	10.3	8.8	9.9	10.8	0.6	0.4	0.3	0.5	0.7	0.7	1.5	1.4
Finland	6.2	6.0	5.4	5.8	5.6	5.3	5.5	5.9	0.8	0.8	1.4	1.2	1.1	0.6	0.9	1.1
Luxembourg	0.5	0.6	0.6	0.7	0.7	0.7	0.8	1.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.3
Total 10 countries	568.4	552.6	536.7	608.1	622.4	605.3	648.2	690.0	42.0	52.3	41.7	34.8	55.9	51.6	56.9	66.6

Source : MEDIA II programme Mid-term evaluation (1998)

## 8.6 Summary

This section has described the size and shape of the specialised sector. The key findings are:

- the specialised sector has a diverse set of characteristics in relation to nationality, content and style of film, existing to satisfy niche audiences and the desire of audiences to see a wide range of films;
- the overall size of the sector is small with an audience share of between 3% and 6% of the total market depending on the year and indicator used. The 6% ceiling represents around 8 million admissions in 2000;
- the size of the sector has remained broadly constant over the past decade, although the figures from year-to-year are erratic reflecting the impact of a small number of relatively successful films.

## **9 Availability of specialised film on other mediums**

### **9.1 Introduction**

This section maps the availability of specialised film to audiences across other media/platforms, including television and video outlets, in order to identify constraints and opportunities.

The analysis is segmented into the following sectors:

- TV distributors which is further broken down into terrestrial and non-terrestrial (satellite, cable and digital);
- video distributors (retail and rental);
- other forms of distribution such as DVD, Internet (on-line), public library and mail order.

### **9.2 Specialised film in the TV sector**

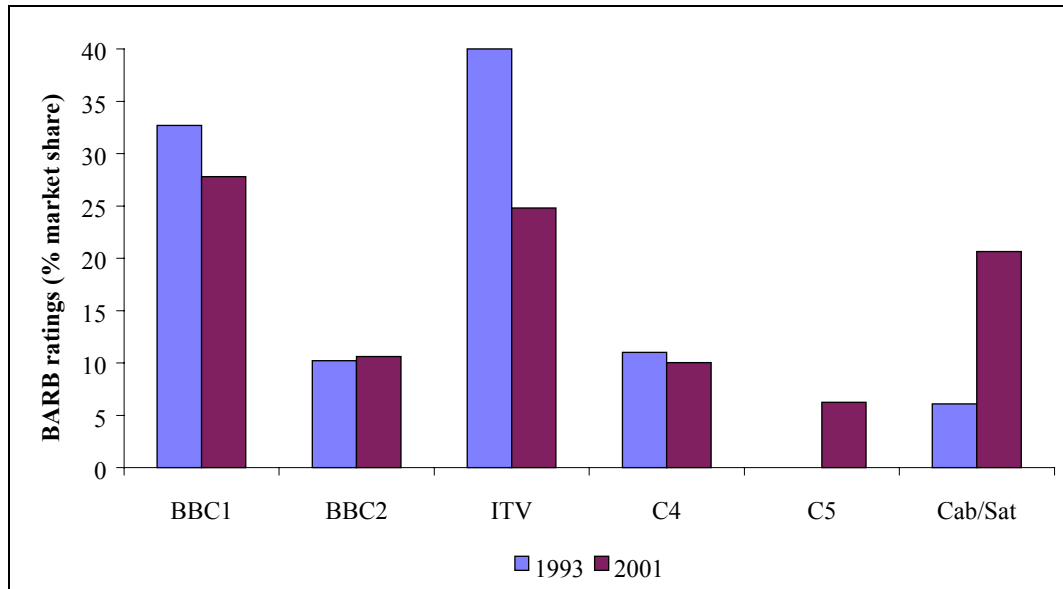
This section analyses the specialised film content of UK terrestrial broadcasters' TV schedules, exploring trends in volume and audience ratings of specialised film broadcasts. To understand the availability of specialised film on both terrestrial and non-terrestrial TV, it is important to first understand the key drivers, trends and issues which are facing the sector, and then whether they have particular relevance to specialised film.

#### **9.2.1 The economics of the television market**

The biggest change in the TV market over the past few years has been the dramatic increase in channels, particularly since the introduction of digital television in 1998 with companies such as BSkyB, ntl and Telewest offering an increased number of channels and ITV digital entering the market.

This increase in the number of channels has led to increased availability of all forms of content, and a shift in viewers from free-to-air to pay-TV. These trends are expected to continue. However, there have been some drawbacks. The viewer is increasingly spreading viewing across a larger number of channels and mediums. Ratings for all channels, but particularly terrestrial channels, have therefore come under pressure as consumers spread their viewing around ('fragmentation of the viewer'). The change in viewing habits is summarised in Figure 9-1.

**Figure 9-1: Comparison of viewing shares on terrestrial and non-terrestrial channels (1993 and 2001)**



Source: BARB (September 2001); bfi Handbook (1993)

The ‘ratings war’ is exacerbated by the current slow down in advertising revenues. Although this is likely to have only a short term impact (as the media/broadcast industry expected to emerge from the current downturn by 2002-03) it will put pressure on the commercial channels over the next few years. As a consequence of these factors, broadcasters are currently very focused on ratings, and therefore are likely to have a limited appetite to spend time on developing ‘niche’ products such as specialised film.

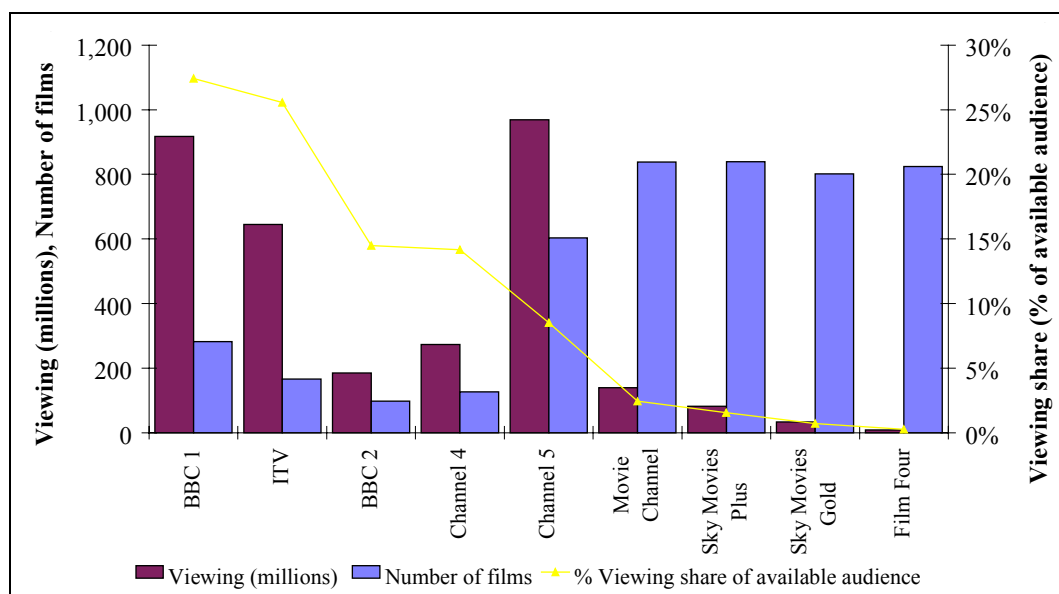
### 9.2.2 Audience ratings on terrestrial and non-terrestrial television sectors

Total audience ratings for all films are significantly lower on non-terrestrial channels than terrestrial channels. Figure 9-2 illustrates the essential difference between films shown on terrestrial TV with those shown on non-terrestrial channels. The terrestrial channels have much higher audience ratings (2.3 million) for all films compared to non-terrestrial channels (80,000). Total viewing on terrestrial channels was 3.0 million compared to 260,000 for non-terrestrial. Furthermore, the total number of films shown was 1,300 (terrestrial) and 3,300 (non terrestrial).

Although Channel 4 has historically shown many foreign language films, since the creation of its new digital channel FilmFour, it has reduced the specialised content on Channel 4. Although FilmFour shows the most foreign language films, the average BARB ratings are very low (0.01 million), which means total viewers

are much lower than other channels. FilmFour draws a negligible viewing share<sup>66</sup> and a low subscriber base of 435,000<sup>67</sup>. Part of the problem may be due to scheduling, with foreign films given ‘graveyard slots’.

**Figure 9-2: Availability of film and audience demand by selected terrestrial and non-terrestrial channels (2000-01)**



Source: BARB data (August 2000 to July 2001)

### 9.2.3 Terrestrial TV

Competition for ratings, advertising and viewing fragmentation is having an effect across all broadcasters, but is in particular impacting on the terrestrial broadcasters who are experiencing threats to their traditional market dominance.

BBC 1 and BBC 2 have shown specialised films historically but the trend for scheduling this type of product has been falling due to the new competitive pressures identified above (although precise trends are difficult to substantiate). Channel 4 has also been historically strong in the number of foreign language films shown. But since the creation of its new digital channel FilmFour, it has reduced the specialised content to encourage people to subscribe to the new channel. Out of all of these terrestrial channels, none of the top 20 rated films for the years 1993-1999 were specialised, with the majority of top rating films being US blockbusters<sup>68</sup>.

<sup>66</sup> Example figures for weekend ending 8 July show how small the Film Four viewing share is. Sky Premier received a total of 2.2%, Sky Moviemax (1.6%), Sky Cinema (0.6%) and FilmFour (0.0%).

<sup>67</sup> Source: New Media Markets (September 2001).

<sup>68</sup> KPMG analysis of *bfi* handbook.

Where specialised films are shown on the terrestrial channels, they generally are not given peak-time slots. European Audiovisual Observatory (EAO) analysis of films broadcast on UK terrestrial free-to-air television found that *“Non-national films are rarely given prime-time slots and usually find themselves at the tail-end of viewing time slots. This is why non-national films suffer erratic results and often attract audience under the channel’s normal average”*.

Clearly, lower viewing figures are a direct consequence of non-national films being shown outside the prime. However, there is no evidence to substantiate the degree to which audience figures would increase if the same films were moved to prime time slots.

#### 9.2.4 Non-terrestrial TV

Availability of specialised film on the non-terrestrial platform is restricted by the lack of subscribers as described above. Subscriber numbers are significant but still well short of terrestrial TV. SkyDigital and ITV digital have 5.3 million and 1.135 million respectively (as at end June 2001). Cable companies are also building share with ntl having 0.95 million digital subscribers and 1.37 million analogue subscribers by July 2001. Telewest had 564,000 digital subscribers and 837,000 analogue subscribers by July 2001.

The race to acquire subscribers is also focusing the attention of non-terrestrial broadcasters on mainstream type content. However, over the longer term there is much more potential for this sector as access becomes more widespread. Pay TV which has a current penetration of 40% is currently expected to reach 59% of homes by 2005 and 72% by 2010<sup>69</sup>. Satellite and cable penetration are forecast to increase from a current penetration rate for satellite of 22% to 29% (2005) and for cable from 15% to 20% (2005).

FilmFour currently broadcasts a mixture of specialised and non-specialised films on its main channel. Further, since April 2001 FilmFour has introduced two new specialised film channels, namely FilmFour World which centres on foreign language titles and FilmFour Extreme which screens films with controversial titles. This contrasts with the standard pay TV film subscription channels (e.g. Sky Premier, Sky Cinema, Sky Moviemax) which concentrate on showing recent US blockbusters. FilmFour is available for an extra subscription fee above standard non terrestrial subscriptions and currently has 435,000 subscribers<sup>70</sup>.

The viewing figures for FilmFour have been disappointing in comparison to the traditional subscription film channels. During 2001, FilmFour’s highest rating films generally draw in less than 50,000 viewers, whereas Sky Premier records close to one million.

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<sup>69</sup> KPMG estimates.

<sup>70</sup> Source: New Media Markets (September 2001).

We have analysed FilmFour viewing figures to ascertain whether foreign language films are more or less popular than other films<sup>71</sup>. As foreign films are almost exclusively viewed as being specialised film, this provides a good indication of the viewing demand. Figure 9-3 shows that average audience ratings for foreign language films are slightly lower than the overall average. It is also interesting to note that a significant proportion (12%) of films on FilmFour are foreign language.

**Figure 9-3: Audience ratings for FilmFour by content**

Type of film	Foreign language	All films
Number of films broadcast	100	825
Total viewing (million)	1.0	9.0
Average viewing (000s)	9.7	10.7

Source: BARB ratings

To summarise, the supply of specialised films on non-terrestrial channels such as FilmFour is significant, but actual audience levels are very low.

### 9.2.5 Comparison of availability across European countries

The availability of specialised film on UK terrestrial television has not only fallen in recent years as described above, but is at a lower level than other European countries. The reasons for this are twofold. First, the number of broadcasts of all types of film is much lower than in other European countries. Secondly, the type of films broadcast on UK terrestrial television are inherently non-specialised compared to other European countries.

According to the EAO report the total number of films broadcast on UK terrestrial free-to-air television in 1999 was 2,456 films which is considerably lower than the number broadcast in other countries. 10,000 films were broadcast on German terrestrial TV, 5,000 in Italy and 4,500 in Spain, although more than France which broadcast around 1,200.

Figure 9-4 shows the proportion of European (non-national) films broadcast by different countries. The UK, at 8.7%, is the lowest of the other seven countries in the sample, and the proportion of US film broadcasts is the second highest after the Netherlands. Domestic films on the other hand are quite widely broadcast in the UK with a market share of 23.8% which is higher than most other countries, only France (39.6%) and Italy (34.5%) shows more domestic films

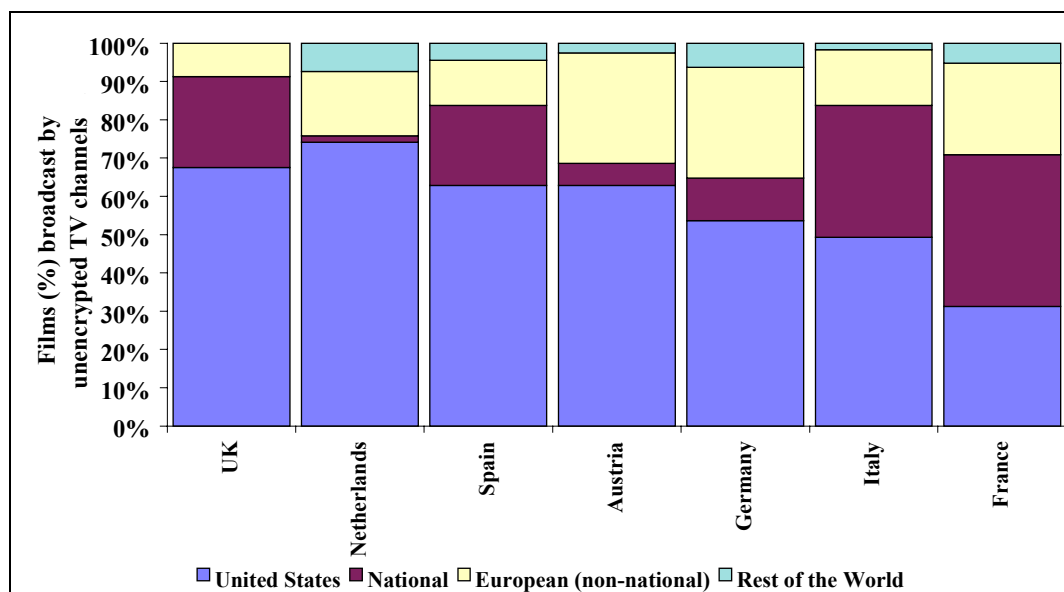
The cultural bias in the UK towards English language films is likely to be the main reason for the differences between the UK and the rest of Europe. However, there may also be further factors which have an impact. In the UK, there is a range

<sup>71</sup> The analysis could only be undertaken for Film Four as this channel is the only one which broadcasts a sufficient number of foreign language films to allow a robust analysis to be undertaken.



of other competing forms of programmes such as drama, TV films and serials<sup>72</sup>, which means that the available scheduling for films, and particularly specialised films, is constrained. The difference in market structure could also be another factor. European countries generally have more free-to-air channels. For example Germany has 13, Italy has seven and the Netherlands has eight compared to the five channels in the UK, although other European countries such as Spain and France are broadly comparable.

**Figure 9-4: Nationality of films by free-to-air TV channels by country**



Source: *European films on European television*, European Audiovisual Observatory (2000)

It is also interesting to note the relationship between box office revenues and audience ratings for non-national films. EAO<sup>73</sup> undertook a cross-country comparative analysis of box office and television audience figures. EAO found that, in terms of the ratio of television to box office audiences, significant differences between countries existed in the sample of seven (as above) countries.

### 9.2.6 Constraints and opportunities

The television market has been undergoing significant change over the past few years. Although this has led to higher availability through an increase in the number of channels, and therefore the range and depth of different content available, there have been some negative consequences which are significantly constraining specialised film on terrestrial TV in the short term. These include:

- an increase in household penetration of pay TV;

<sup>72</sup> European films on European televisions

<sup>73</sup> European Films on European Television

- a greater range of products which has fragmented the viewing audience (e.g. total viewing on non-terrestrial channels has increased from 6% in 1993 to around 20% by 2001 and is expected to increase further – see Figure 9-1). The wider range of choice available reduces audience ratings for any one particular programme;
- competition for ratings, and the pressure to move towards low risk, high audiences;
- a fall in advertising revenues, which has added to the short term pressures.

Multi-channel digital broadcasting is, therefore, a possible opportunity for specialised films<sup>74</sup>. Since its introduction in 1998, the medium has allowed an increase in the number of specialised films to be broadcast on non terrestrial niche channels such as FilmFour. But in terms of effect, and raising the profile of specialised film, any effort should be targeted towards sectors which has the greatest potential and maximum impact. Clearly in the short term, this is likely to be terrestrial TV rather than non-terrestrial.

It is crucial to understand the potential audience by different mediums in devising an appropriate strategy. As the broadcasting of a specialised film on terrestrial television has a much larger impact in terms of audience reach than its theatrical release this is a key opportunity for increasing and broadening the audience for specialised film. Even a very low audience rating of less than 1 million per broadcast would put the audience reach much higher than almost all theatrical audiences for specialised films.

### 9.3 Specialised film in the video retail sector

This section reviews the specialised films handled by video retail outlets. The amount of information available for specialised films released on video is limited and, apart from the most successful videos, information available for specific titles is patchy<sup>75</sup>.

We have therefore analysed the overall market, making inferences about how the issues affect specialised product. When combined with the interview findings, a compelling statement of availability of specialised film in video retail can be made.

#### 9.3.1 Video distributors

Distributors of video retail products are summarised in terms of market share by volume in Figure 9-5. It shows that there is less dominance of the major operators in the video retail market than in the theatrical film sector. In volume terms the

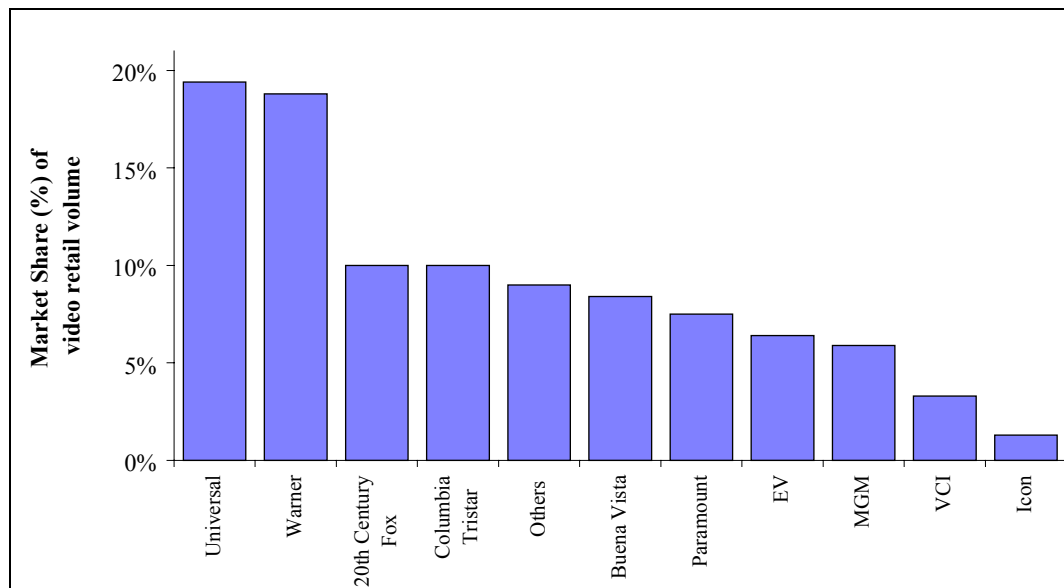
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<sup>74</sup> Digital Terrestrial was launched in Nov 1998, Digital Satellite in Oct 98 and Digital Cable over Autumn-Winter 1999.

<sup>75</sup> A full list of the reports reviewed, website sources and the organisations contacted is given in Appendix A5.

top 6 distributors in the video retail market have a combined market share of 74% compared to only 47% in the theatrical. (Although the figures rise to 87% in the theatrical market in value terms (box office revenues).)

**Figure 9-5: Video retail market by distributor (2000)**



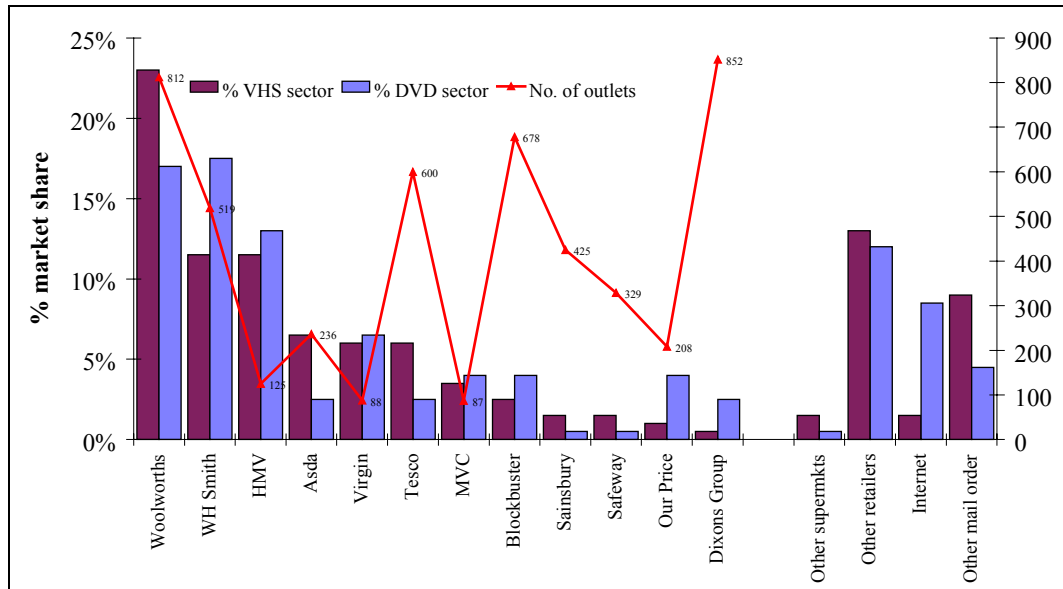
Source: BVA Handbook

### 9.3.2 Key constraints and opportunities

There are a large number of sites which stock video for both rental and retail, estimated to be around 4,950 in 2000. Generally, availability of videos for retail is therefore extremely high as ease of accessibility to these outlets is extremely high.

Many video retail outlets are controlled by general retailers such as Woolworth's and WH Smith as shown in Figure 9-6. A small number of national retail chains dominate the video sales. This market structure is a key constraint which could restrict the supply of specialised film as these companies tend not to stock specialised titles. This chart therefore indicates that the availability of specialised product is likely to be quite low.

**Figure 9-6: Market share (%) of video/DVD retail market and outlets by retailer (2000)**



Source: BVA Yearbook

However, there is a small but significant number of independent players in the market. There is also strength in distribution channels such as the Internet and mail order which have a market share of 1.5% and 8.5% for Internet video and DVD distribution respectively and 13% and 12% for mail order distribution of video and DVD respectively. Other retailers are also important with a market share of around 14%.

These channels are particularly important to the specialised film sector. A key issue for stockists of video is to try and get quick turnover of shelf products, which heavily biases products in general retail stores to ones with high sales (turnover) potential. Internet and mail order distributors are more able to stock low turnover or niche products. The potential importance of the Internet channel to specialised film is also likely to increase as distribution through the Internet becomes more widespread.

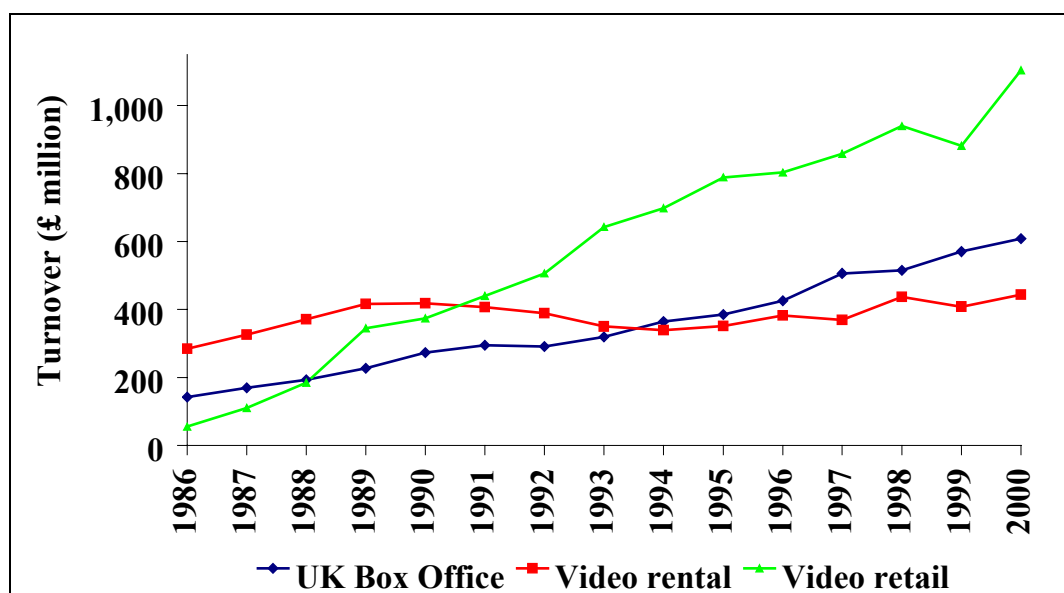
Given that the specialised sector for theatrical films has been estimated to total less than 6%, there is certainly scope for the niche operators (which represent up to 25% of the total market) to satisfy any current market demand for specialised film in the video retail sector and perhaps any future growth which stems from increasing and broadening the audience for theatrical films.

The analysis therefore shows that a number of smaller independent (niche) operators have potentially a large role. We can therefore infer that the availability of specialised film in the video retail sector is unlikely to be as overly restricted as the theatrical market.

Another key opportunity is growth. Video retail is also the largest segment of the video market. Turnover of the video industry totalled nearly £1.55 billion in 2000 with the majority of this revenue originating from the video retail market with a turnover of £1,104 million compared to £444 million in the rental market. The video retail market has also experienced the most promising growth area over the longer term with a compound annual average growth rate (CAGR) of 11.4% over the past 10 years compared to 0.3% p.a. growth for video rental income and 8.3% p.a. growth for box office revenue (see Figure 9-7).

Feature film had the largest percentage share of the video retail sector in 2000, accounting for 56% of the market in volume terms, compared to 15% and 21% for children's and TV video respectively<sup>76</sup>. It has also been one of the main drivers behind recent growth in the sector, rising from 52% to 56% over the 1998-2000 period.

**Figure 9-7: Comparison of trends in video and box office**



Source: BVA Handbook (2001)

In short, the market for video retail has grown significantly, and is expected to grow in the future. The biggest opportunities for specialised films in the video retail sector are likely to lie in outlets such as mail order and the Internet. Through these channels there is less of a problem of trying to achieve high utilisation of video retail (quick turnover of shelf products), which is a key driver of the type and films which are stocked at commercial operators such as Woolworths.

<sup>76</sup> Figure include DVD sales.

### 9.3.3 **Measures to strengthen the market**

The above arguments suggest that availability of specialised film through video retail in terms of the market structure, constraints and opportunities are favourable when compared to theatrical distribution. There seems to be, therefore, little need for any intervention in the video retail market, as it is difficult to see where a market failure exists, which is exclusive to the video retail market.

There are also unlikely to be additional constraints which significantly affect video distribution over and above those identified in the theatrical film sector. Moreover, if Government interventions are introduced into the theatrical films sector (for educational purposes for example) then the intervention is also likely, to some extent impact, to indirectly on the video retail market.

Overall there is unlikely to be much of a role for the Film Council to intervene in the video retail market directly as the cost in is likely to be uneconomical.

One area where the market could be strengthened is by assisting the distribution of specialised films which do not get a theatrical release. The market failure in this instance is not corrected by action in the theatrical arena. The arguments for and against this type of intervention are discussed in Section 6.2.1

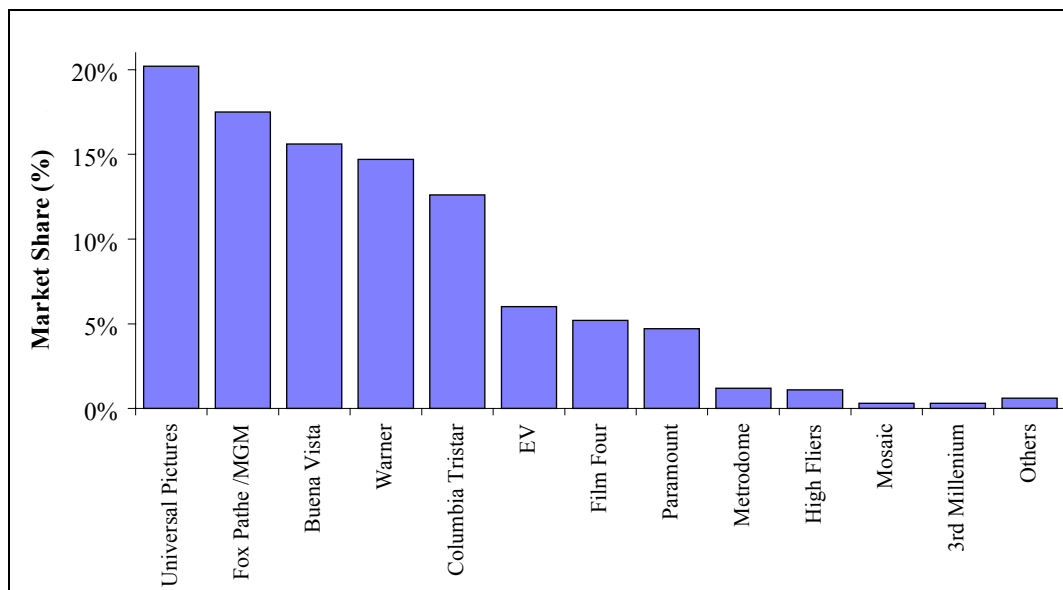
## 9.4 **Specialised film in the video rental sector**

This section reviews the specialised films handled in the video rental sector rental, and the trends in volume and type of output.

### 9.4.1 **Video rental distributors**

In terms of the key distributors in the video rental sector, the following chart summaries the position in 2000. The major six players in the video rental sector account for 86% of the market in volume terms. This dominance of the market by a smaller number of distributors is considerably higher than both the theatrical and video retail.

**Figure 9-8: Key distributors in the video rental sector**



Source: BVA Handbook

#### 9.4.2 Key constraints and opportunities

Specialised films are currently not stocked to a great extent by video rental outlets. Based on a survey of 130 specialised films released in 1999, we identified only around one-third as currently being stocked by Blockbuster<sup>77</sup>. Although this survey has drawbacks in so far as not capturing the availability over time, it does, at least, suggest some degree of weakness in the sector.

Another constraint is the strength of mainstream operators, with large video rental chains such as Blockbuster, Apollo and other rental outlets dominating the sector. Other constraints which affect the availability of specialised film on video rental are as follows:

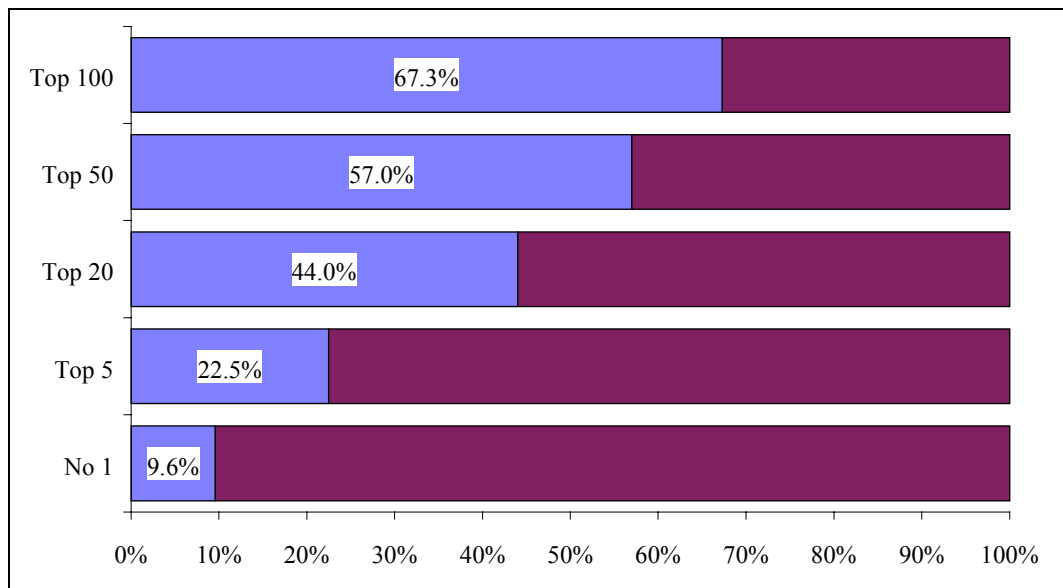
- pressure to have high utilisation of film titles at video outlets. The video rental business is a space intensive business. There is an inducement for video rental outlets to stock films with high turnover as space is at a premium, and little incentive therefore to stock anything other than the most successful films. Videos which have a lower demand such as specialised films are therefore adversely affected.
- revenue sharing agreements which have recently become popular. These agreements which have recently become much more widespread, is viewed as having a significant impact on the range of titles offered in the video retail sector. This agreements allows outlets to access the top titles at lower trade prices, in return for giving a proportion of the revenues to the video distributor.

<sup>77</sup> KPMG analysis of specialised videos currently (July 2001) available using the full working definition of specialised film given in Section 2.3.

The proportion of the market accounted for by big titles has increased as a consequence<sup>78</sup> although the longer term impact of the practice is still unclear.

- the concentration of the market on successful titles. Figure 9-9 shows the market is dominated by a few successful titles. Around two-thirds of annual turnover in the market is accounted for by the top 100 films and approximately 40% of the 500 rental titles released in 2000 failed to even make an appearance in the weekly top 100<sup>79</sup>. Most importantly, there were no specialised films in the annual top 100 films. These findings suggest that the specialised video rental industry is similar to theatrical film and so is likely to have similar overall demand as a proportion of the total market.

**Figure 9-9: Top titles share of rentals (2000)**



Source: BVA Yearbook 2001

### 9.4.3 Measure to strengthen the market

In the video rental business, the economics of the business work against specialised film, and therefore there is little incentive for video rental companies to stock niche videos.

This constraint is a particularly difficult one to alleviate in relation to specialised film, as the cost of incentivising outlets to stock particular videos is not economical, particularly as videos have a short-life span. Care must, therefore, be taken in the development of any strategy to strengthen the sector in this area. In particular, direct intervention is likely to lead to escalating costs and is therefore best avoided. Furthermore, theatrical exhibition is the best driver for video rental due to the level of marketing this creates.

<sup>78</sup> BVA Yearbook (2001).

<sup>79</sup> Source: Rental Monitor quoted in BVA Handbook.



Alternative measures such as encouraging specialised cinemas to retail/rent video themselves are likely to be more economic. However, the impact of this is likely to be extremely limited.

One particular strength of video could be in the educational sector. Video allows much better interaction between tutor and pupil than cinema, as video films can be stopped and rewound to aid learning.

## 9.5 Specialised film handled by DVD and other mediums

This section briefly reviews the specialised film handled by other mediums, namely:

- the DVD market;
- public libraries.

### 9.5.1 The DVD market

A total of £264 million in turnover came from the DVD retail market in 2000<sup>80</sup>. This turnover is much smaller than the video sector and therefore of lesser importance at present. However, the DVD market is still in its infancy and is expected to grow fast, which is a major opportunity for the future. Turnover has grown exponentially since DVD started to have widespread release from 1998 growing from £3.2 million in 1998 to £68 million and £264 million in 1999 and 2000 respectively. The corresponding figures for hardware sales are 23,000 (1998), 206,000 (1999) and 823,000 (2000), producing a total penetration of 5% (or 1.1 million ) of TV households by the end of 2000.

On one level the availability of film on DVD is significantly less than video as only 1,149 titles were released (2000) on DVD compared to 1,838 titles on VHS. This means that the DVD retail sector covers around 63% of the video retail market.

Turnover in the DVD market is around 17% of the video market. This means that the number of titles for a given revenue on DVD is significant higher than video. In other words, the DVD market is less volume-based and therefore is more likely to be able to supports niche low volume products. Specialised film is therefore well placed to build upon this market characteristic.

In volume terms, 82% of DVD sales are feature film compared to only 56% in the video retail market. This difference is also replicated in terms of new titles released where feature films account for around two-thirds of the market compared to only 45% for video retail<sup>81</sup>. Given that DVD is already a popular

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<sup>80</sup> Source: BVA Yearbook.

<sup>81</sup> BVA Yearbook (2001).

format for film, this is obviously a key opportunity for specialised film to exploit in the future.

DVD sales are concentrated in the South East, which reflects the higher wealth/income which a DVD owner typically has. This is consistent with the audience admissions for specialised films being concentrated in London and the South East. Finally, the demographics and the socio-economic class for DVD owner is consistent with the profile of the audience for specialised film. Like the audience for specialised film, DVD owners are more likely to be ABC1, although those buying DVD tend to be more focused on under 35s in contrast to the specialised audience which is more concentrated on over 35s.

In terms of the type of outlets, the DVD market has much greater use of the Internet channel. The Internet accounts for 8% of total DVD sales in 2000 compared to only 1.5% in the video retail market (see Figure 9-6). This is significant as the Internet was identified earlier as a key channel for developing the specialised sector.

#### 9.5.2 **Public libraries**

There is a distinct lack of data on video lending within public libraries, particularly in terms of the volume by genre or title. The number of videos issued in UK public libraries between 1999-00<sup>82</sup> was 12.6 million, which is small considering the total number issued by other outlets was 186 million<sup>83</sup>. The number issued was slightly up on previous years of 11.1 million in 1997-8 and 12.5 in 1998-9.

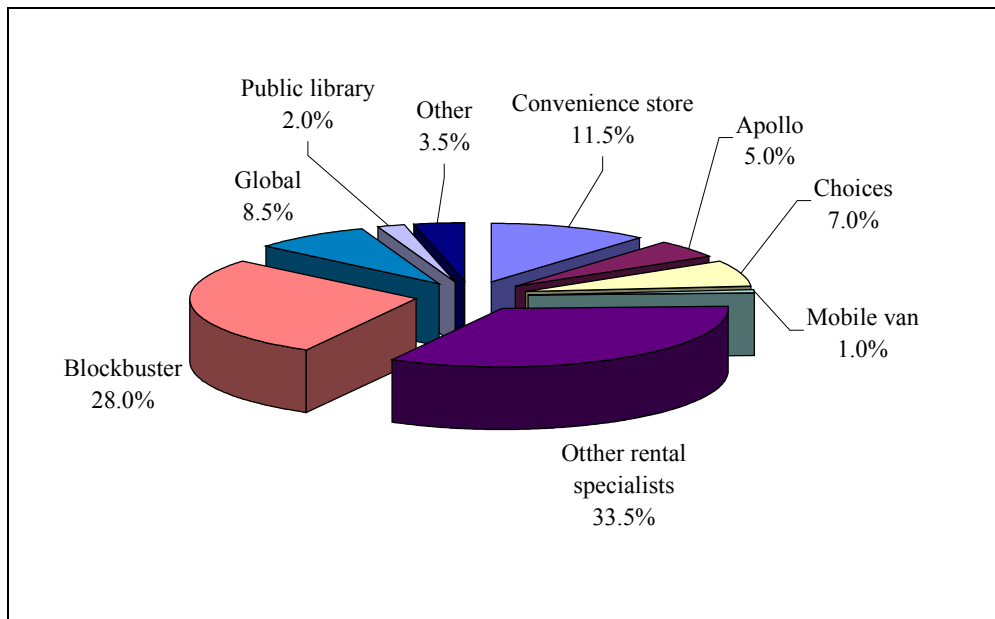
In terms of the content of video supplied within libraries content is generally in line with operators in the commercial arena. There are a small proportion of specialised films but it is mainly focused on commercial hits, but overall the content is more focused towards sports, fitness and education videos.

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<sup>82</sup> Loughborough University Statistics Unit.

<sup>83</sup> Source: BVA Handbook.

**Figure 9-10: Source of rental by outlet (2000)**



Source: BVA Handbook

### 9.5.3 Measures to strengthen the market

Although the market share for public libraries is quite small, they may have a role in increasing the availability of specialised film, such as stocking World Cinema.

Encouraging public libraries to increase availability is likely to be a much more economically efficient method of intervening to increase availability, than subsidising commercial operators.

The use of mobile libraries may also help in areas of the UK which are poorly served by cinemas (such as rural areas) and in reaching socially excluded, elderly and people with disabilities.

With respect to DVD, similar measures to those suggested for the video sector are also likely to apply, such as stocking DVD at cinemas and encouraging video in the achievement of the education strategy.

## 10 **Distribution: Cultural and Economic Anatomy**

### 10.1 **Introduction**

This section examines the cultural and economic anatomy of the distribution of specialised film, identifying constraints and opportunities. The distribution sector for specialised film is defined as those companies that supply specialised film for exhibition, for video release or through other media.

### 10.2 **Size and scope of sector**

There are several key characteristics of the distribution sector which indicate both constraints and opportunities.

#### 10.2.1 **Theatrical Distributors**

We have identified 16 main theatrical distributors of specialised films (illustrated in Figure 8-2). There are also many more distributors (around 60) which have participated in the UK specialised film market with varying degree in the last 5 years. But as most of these are not currently active, we do not consider this to be a relevant classification. We have, however, included the full list in Appendix A6 for completeness.

There are three key types of participant: niche operators which primarily distribute specialised film; mixed operators which distribute both specialised and mainstream films; and mainstream operators which may occasionally distribute specialised film.

##### *Niche Operators*

Niche operators, usually small independent distributors, primarily distribute specialised films. These tend to operate on lower margins than larger distributors and some receive EU funding. These companies distribute a varied mix of specialised film. Some concentrate more heavily on foreign language film, while others focus on British made films. The varied mix of film portfolios in the industry is due to the independent and individualistic stance of the majority of the key players. A key example of a niche operator is Artificial Eye, which is discussed in Section 10.4.2.

##### *Mixed Operators*

There are a number of all output or mixed distributors participating in the specialised film sector. These companies' portfolios will generally consist of between 20% and 50% films of a specialised nature. The other films distributed tend to be cross over films or mainstream films of a more "intelligent" nature. Key examples of this type of distributor include Pathe and Momentum Pictures.

### *Mainstream Operators*

These distributors primarily distribute mainstream films but may occasionally handle specialised films. They are typically US based and vertically integrated with the major studios. The types of specialised film they will distribute are likely to be UK or US independent. The distributors are UIP, Columbia Tristar, Warner Bros, Buena Vista and Twentieth Century Fox. In addition, Entertainment is the leading UK independent mainstream distributor.

#### **10.2.2 Video Distribution**

We have identified 42 video/DVD film distributors. As with theatrical distribution, the majority of these concentrate on mainstream films, occasionally distributing specialised film. The majority of theatrical specialised film distributors have a video distribution arm, and these are the key players who distribute specialised films on video/DVD. Some of the smaller, niche distributors do not have a video distribution arm.

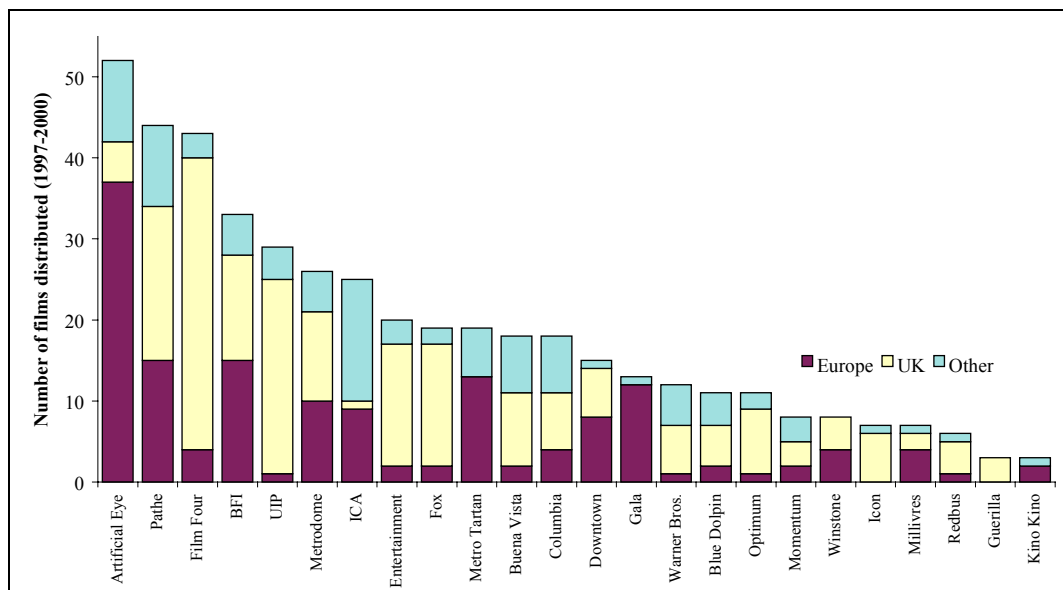
#### **10.2.3 Internet Distribution**

Internet distribution is still in its infancy in the UK. This can be achieved in two key ways: video streaming through the Internet; or Video-on-Demand (VOD) through the ADSL network. There are very few companies using video streaming in the UK, due to the slow download times for multimedia. There are three key players offering VOD in the UK, Yes TV (which has recently signed a deal to provide services for Kingston Communications), Kingston Communications and Video Networks; of these Video Networks is the most advanced. Video Networks is discussed in greater length in Section 10.5.4.

#### **10.2.4 Summary**

Although there are numerous players operating in the specialised distribution market, most specialised films are handled by a relatively small number of companies. This is illustrated in Figure 10-1.

**Figure 10-1: Specialised films released by distributor 1997-2000**



Source: Screen Finance, 1997-2000

There are approximately 16 distributors which concentrate on the distribution of specialised films. The companies do not tend to have similar characteristics. They range in size from global to local players; some are independent whereas others are owned by exhibitors or production companies; many are vertically integrated and also operate cinemas. The distribution company Hollywood Classics owns the rights to many classic films. There is therefore no typical specialised film distributor. However, a number of issues associated with the sector face all the key players.

### 10.3 Demand for specialised films

One of the key comments from distributors surveyed is that there are no constraints in the supply of specialised films. There is sufficient product to meet the demand for specialised film in the sector.

#### 10.3.1 Mainstream distributors

UIP, Buena Vista International, Columbia, Fox and Warner Bros are the key mainstream distributors that also distribute specialised films. These companies distribute very few, and hence have very low demand for, European foreign language specialised films. On average, such mainstream distributors distributed one or two European films in the past 4 years. However, they are more likely to distribute UK films, although not all of these can strictly be termed specialised.

A mainstream distributor distributing, for example, 30 films each year, is likely to distribute approximately five or less specialised films. Hence, demand from mainstream distributors is low. However, many mainstream distributors surveyed expressed the view that specialised films are important to their film portfolio. The

reason given was typically not financial but instead for either reasons of personal choice or for maintaining the credibility of the company by allowing a broad portfolio to be offered.

### 10.3.2 Specialised distributors

The majority of specialised films are released by either niche or mixed distributors. However, for these distributors their demand is constrained by their ability to show specialised films. The lack of screens on which specialised films can be credibly shown, results in a constraint on the possible number of films that specialised distributors can handle each year. Most specialised distributors handle a mixture of UK, US and foreign language material. However, some niche distributors concentrate on niche segments of the market such as French language or Asian films. The *bfi* and ICA both receive DCMS sourced revenue funding.

## 10.4 Analysis of key players

When assessing the key players it is most relevant to consider the two key types: those who distribute all types of film but have a commitment to specialised film and those whose portfolio consists primarily of specialised film.

### 10.4.1 All Output Distributors

#### *Pathe Distribution*

Pathe states that it distributes between 25 and 30 films each year, of which approximately 50% are specialised films. Specialised film is considered to be very important to its distribution portfolio for both commercial and non-commercial reasons. Pathe's parent company is a privately owned, Paris based company. Pathe also operates in the video/DVD market. For video/DVD rental, it operates a joint venture with Twentieth Century Fox Home Entertainment, under the name Fox Pathe Home Entertainment. For video/DVD retail, it has a sales and distribution agreement with Twentieth Century Fox Home Entertainment. The key types of specialised film that Pathe distributes are foreign language and US/UK independent films. On the education side, Pathe works extensively with Film Education and stated that around 20% of its titles have a strong educational dimension. Pathe's 2000 releases included: *Sleepy Hollow*; *the Darkest Light*; *Topsy Turvy*; *Love's Labours Lost*; *Asterix and Obelix*; *Earth*; *En Plein Coeur*; *House!*; *the Virgin Suicides*; *La Fille sur le Pont*; *Honest*; *The Barber of Siberia*; *Kikujiro*; *Chicken Run*; *Essex Boys*; *There's Only One Jimmy Grimble*; *Nurse Betty*; *Memento*; *It Was an Accident*; *The Escort*; and *Les Destinees Sentimentales*. Pathe had a turnover of £50.8 million in 2000.

#### *Momentum Pictures*

Momentum states that it distributes approximately 20 films each year, of which half are specialised in content. As a distributor it strives for a distinctive independent balance. It is a UK based, wholly owned subsidiary of Alliance

Atlantis Communications, a Canadian company. Momentum also operates in the video/DVD distribution sector for specialised films.

#### 10.4.2 **Niche Distributors**

##### *Artificial Eye*

Artificial Eye distributes, on average, 13 films each year, of which all are specialised films. Hence, specialised film is key to its portfolio. It is a UK based independent company which has been an important part of the UK specialised film distribution industry for a number of years. The majority of the films it handles are foreign language films. Artificial Eye also has a video/DVD distribution arm. Alongside the film distribution activity, Artificial Eye also has two cinemas. These have three screens and 1,215 seats. In these cinemas, 85% of the films shown are specialised films. These cinemas operate as a circuit, with centralised marketing and film booking and semi-centralised administration and educational activities.

##### *Blue Dolphin*

Established in 1980, Blue Dolphin is one of the leading independent film distributors in the UK. It currently handles theatrical, DVD and video distribution for the MGM/UA archive. There is also a production arm with three films in development. On average, Blue Dolphin distributes five to six specialised films each year.

#### 10.4.3 ***bfi* Collections**

The British Film Institute operates in the theatrical, non-theatrical and video/DVD distribution market. The Collections Department of the *bfi* (which incorporates the national film and TV archive) aims to widen access to the heritage of films and television programmes held within *bfi* Collections, and to broaden the range of films available to UK audiences through acquiring contemporary and historical titles to augment those Collections.

The *bfi* selects its films based on the following criteria:

- cultural diversity - the *bfi*'s three areas for cultural diversity development are black and Asian filmmaking, gay and lesbian and disability. These are integral to acquisitions, with a target of 20% of output;
- British cinema and television;
- historical material – with an emphasis on silent film, and non-fiction filmmaking;
- world cinema;
- short films;



- education – core work from the canon of film and television history which are unavailable for research and teaching;
- children/ family audience material.

#### *Non-theatrical distribution*

The *bfi* is, along with Filmbank, one of the main suppliers of material to UK film societies. It supplies on a range of formats such as 16mm, 35mm, BetaSp, and video/DVD. Approximately 20 titles are released in to this market each year, both contemporary and historical material.

#### *Theatrical distribution*

The *bfi* presents international tours and special event screenings of restorations and new prints from within its archival Collections. Most of these prints are one-off, highly specialised materials only suitable for specialised cinemas, such as the NFT, with appropriately trained staff and correct technical specifications. Such screenings produce only income from handling charges as box office goes to the rightsholder, so there is no income for print replacement of these key titles from the canon.

To broaden access the *bfi* invests in theatrical distribution, releasing approximately 10 titles per year. The *bfi* does not compete with UK distributors for product, but invests in rights to key titles in its Collections for revival in multiple prints appropriate for wide theatrical use. It also acquires historical and contemporary titles (see above selection criteria) to augment its donated collections. Films play in around 140 independent venues across the UK, and where appropriate technically, in 200 mainstream and circuit halls.

#### *Video distribution*

The *bfi* publishes around 24 titles/ compilations each year, available mail order, through all major retail outlets, as well as specialist websites and specialist bookshops/ museums. Specialist archival titles/ compilations are cross-subsidised by world cinema releases, with theatrical used to gain as locomotive to gain editorial and sales on video. In 2000, the *bfi* sold 89,834 videos.

## 10.5 Economic operating models

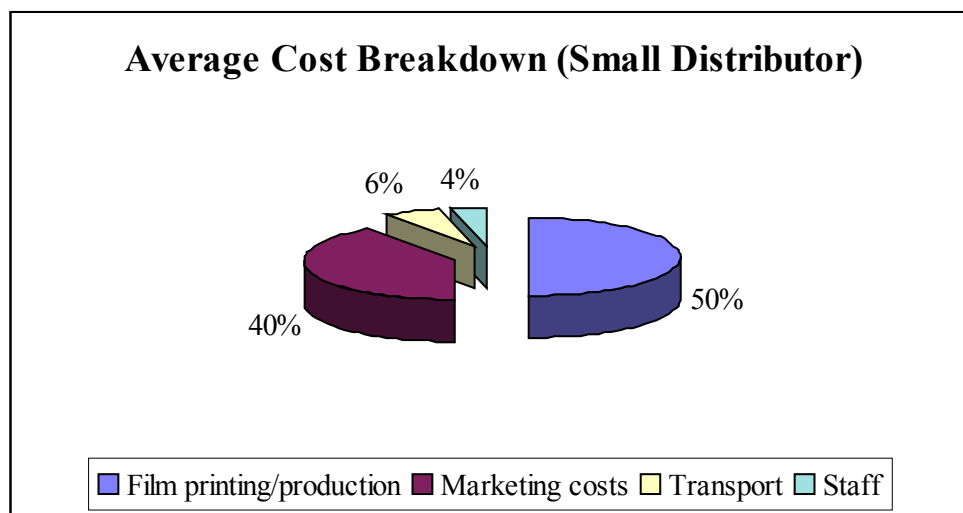
### 10.5.1 Characteristics of small scale specialised distributors

A small scale distributor which focuses on specialised film is one which distributes between one and 15 films each year, of which the majority will be of a specialised nature.

#### *Costs*

The Figure 10-2 illustrates the average cost breakdown for a small distributor, based on the evidence of a typical distributor from our industry survey.

**Figure 10-2: Breakdown of costs for small distributor**



For a small distributor, 90% of costs are associated with the printing and marketing a film. This is largely because the scale of operations is considerably smaller than larger distributors, so, staff costs and other costs are a much lower proportion of total costs. Due to the scale of operations, acquisition costs are subsumed into film printing/production. This indicates that assistance with prints and advertising would greatly assist such small producers. This breakdown should be considered as indicative as many distributors (both small scale and large scale) measure their costs and revenues on a film by film basis, hence, this example may not be relevant for all distributors.

#### *Revenues*

Of the six small scale film distributors surveyed, all commented that 100% of their revenue comes from theatrical film rentals. The majority of companies do not have a video/DVD arm and find it difficult to sell rights to broadcasters. Hence, theatrical distribution is intrinsic to the success of the business. Revenues for these companies are up to £1 million each year.

### Financial Structure

Of those small scale film distributors surveyed, all commented that 100% of their capital funding is derived from commercial sources. The two main areas sources are bank loan or venture capital. However, these distributors are eligible for EU funding assistance, and could be strengthened by this. The majority of these companies operate at a loss and have a high ratio of debt to equity.

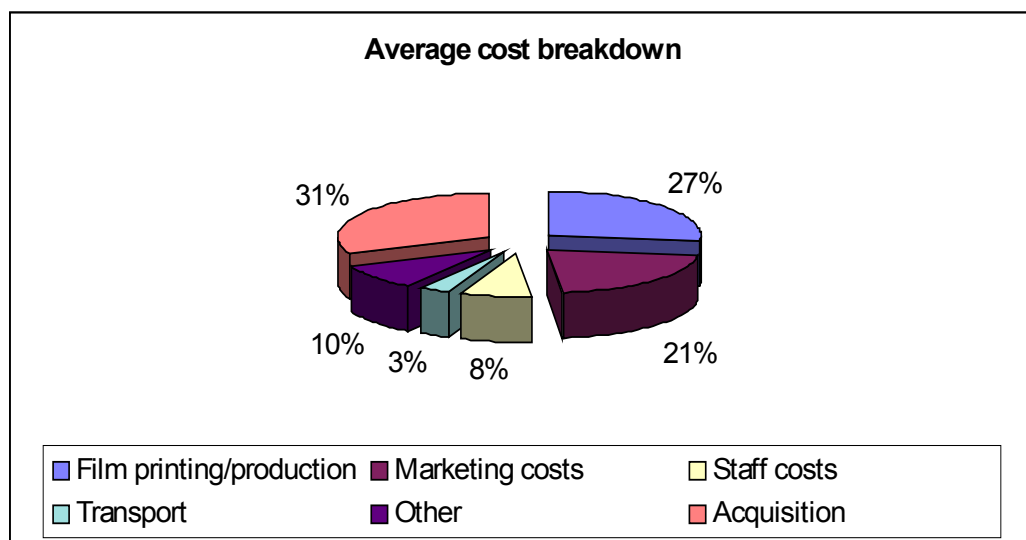
#### 10.5.2 Characteristics of large scale specialised distributors

Large scale distributors are those that distribute more than 15 specialised films each year. Many also distribute some mainstream films, often as a means to funding the distribution of specialised films.

#### Costs

The Figure 10-3 illustrates the average cost breakdown for a larger distributor.

**Figure 10-3: Breakdown of costs for larger distributor**



This cost breakdown is representative of large scale specialised distributors. Film printing and marketing (P&A) are the key costs of these distributors, representing around 50% of total costs. Due to the larger scale of the operations, costs are broken down in a more granular manner. In the small scale operators model, acquisition is subsumed into film printing/production costs. For larger scale operators other costs such as staffing are greater due to the scale of the operation.

In absolute terms, in comparison with mainstream distribution, marketing tends to be a much lower cost for specialised film, and this is directly related to the potential box office. However, it remains one of the most important and variable

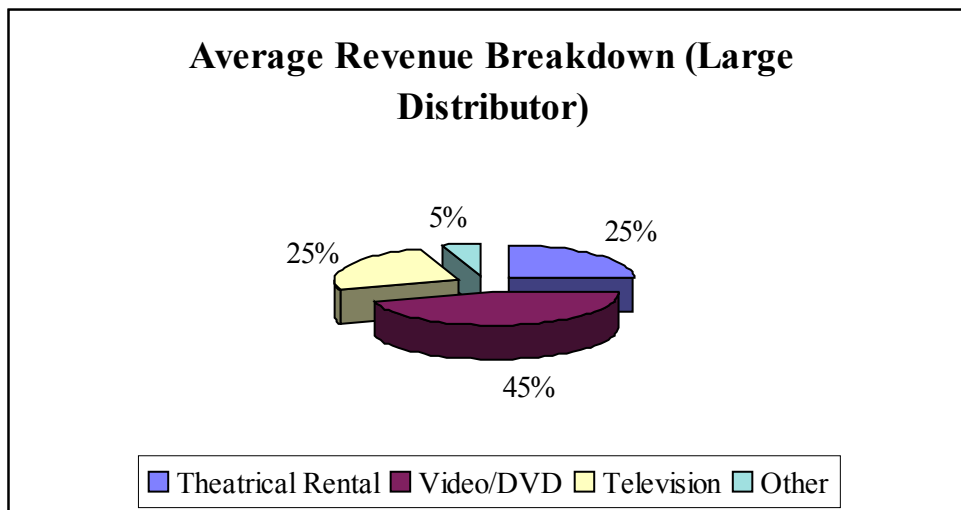
cost items. This is because it is highly influential on the possible revenue earned by a film.

Example cost items include: to make a trailer for a film can cost upwards of £20,000-25,000 and £5,000 to make posters. Hence, when most specialised films do not take more than £200,000, and most of those will take considerably less, £40,000 for P&A is normally the maximum. However, this does vary greatly, a recent foreign language release had £600,000 P&A spent in an attempt to make it a box office success.

### *Revenue*

Specialised films rarely take more than £200,000 at the box office, although revenues vary greatly, especially in the case of cross over hits. Distributors receive their percentage of revenue on agreed “break/nut” figures for each screen, hence, the box office result directly impacts the film hire revenue share the distributor receives. However, regional bookings for specialised films often have fixed terms (e.g. 35% at the Regional Film Theatres). Most large scale distributors also have a video/DVD arm. The revenue breakdown for an average large scale distributor is illustrated in Figure 10-4 (derived from a consensus of six respondents).

**Figure 10-4: Breakdown of revenues for larger distributor**



Due to the short release of most specialised films, video/DVD revenue is very important to the revenue of distributors as the majority make a loss on their theatrical activity. However, this does not detract from the importance of theatrical distribution as this gives impetus to video and television releases.

### *Financial structure*

As with small scale distributors, large scale distributors are generally entirely commercially funded. Many are public limited companies. However, some do receive up to £100,000 of EU funding. Similarly to small scale specialised distributors, the majority surveyed operate at a loss and are heavily indebted, hence, necessitating the existence of public support for this sector.

#### **10.5.3 Video Distributors**

As has been discussed in Section 9, the video distribution market is diverse and there is little publicly available information about video distribution of specialised film. Video distributors also earn rentals from commercial cinemas and from RFTs. For new specialised films, the majority of video distribution is handled by theatrical distributors, although there are a number of stand alone distributors. The importance of video distribution to theatrical distributors is referred to in Section 8.2.

#### **10.5.4 Internet Distribution**

Internet distribution can be defined as video streaming over the Internet or provision of on-demand services via DSL.

The main players in the UK currently are Video Networks with its Home Choice service, Yes TV and Kingston Communications.

Of these, Video Networks, is the largest player with circa 15,000 subscribers. A constituent part of this service, FilmChoice, offers over 1,000 movies on a pay-per-view basis, with prices from £1.99 to £3.49 for a 24 hour period during which customers can watch the film as many times as they wish. The economic model employed by Video Networks has come under a great deal of scrutiny recently. Video Networks has moved aggressively into rolling out its service despite admitting it is losing significant sums on each subscriber added. Each customer costs Video Networks nearly £1,000 and generates £40 for connection, £20/month for always on Internet access, which only a third of subscribers have signed up to, and between £25 and £30/month for other Video Networks services such as VOD. Hence, it is questionable whether this is a sustainable business model. YesTV has recently signed a deal with Kingston Communications to provide services over the DSL network in Hull.

Broadband access is currently in 1% of UK homes. This is due to the high cost associated with both ADSL and cable modems. However, this cost is likely to come down over time. DSL and broadband cable will provide opportunities for video on demand services to reach a greater number of homes, and, hence, provides an opportunity to increase the audience for specialised films. BT has recently applied for a non-exclusive delivery licence to provide television and multimedia services over its telephone network and could be a potential provider

of video on demand. Telewest and ntl: may also provide opportunities for specialised film on demand through broadband cable.

## **10.6 Constraints**

To consider the possible measures to strengthen the sector it is first necessary to look at the constraints and opportunities that characterise the sector.

### **10.6.1 Small number of key players**

A key characteristic of the sector is that it is dominated by a relatively small number of companies. Hence, decisions in the sector are made by a number of key individuals who often choose films based on personal judgement. Therefore, many films may find it difficult or impossible to gain theatrical release.

### **10.6.2 Opportunity for subsidy for distribution**

The sector is not characterised by a high degree of funding for UK distribution and the EU subsidy system is perceived as overly bureaucratic system. Hence, distributors do not receive the same level of support as the exhibition sector. For small scale distributors for whom P&A is a large cost, this may constrain their ability to grow the audience for their films. There is, therefore, an opportunity to strengthen the distribution sector through some form of public subsidy. This is also discussed in Section 10.3.2.

### **10.6.3 Poor exhibition infrastructure**

One of the key constraints expressed by distributors is the poor exhibition infrastructure. It is perceived that specialised cinemas tend to be of poorer quality than their mainstream counterparts, as discussed in Section 4.2.5, hence not attracting a more mainstream audience to see specialised films. This issue is compounded by the perceived lack of screens for specialised films. Distributors surveyed noted that the lack of screens results in a situation where specialised films cannot get sufficient runs to allow the film to be successful. Specialised films tend to build audiences through word of mouth and critical acclaim, hence, there is a great need to allow long runs to reach the potential audience. This is further exacerbated by the lack of moveover screens, especially in London, due to large operators increasingly demanding day and date releases.

### **10.6.4 Broadcasters acquisition of television rights**

A further issue that is constraining the specialised distribution sector is the issue of broadcasters acquiring rights to films. In recent years, the sum paid by broadcasters for the right to show specialised films has decreased significantly, a situation worsened by the almost complete cessation of terrestrial broadcasters acquiring foreign language films. This has an adverse effect on the economics of distributing specialised films, as the majority of specialised films have low box office revenues, and broadcasting rights revenues constitute an important revenue

stream. These low revenues make it difficult for distributors to afford the high cost of film marketing which is intrinsically linked to the success of a film.

#### **10.6.5 Marketing**

Although marketing is a significant cost, there are opportunities to be exploited in local marketing in conjunction with local exhibitors as they have a wealth of knowledge about their customers and can market effectively. Furthermore, effective marketing does raise the audience for films.

#### **10.6.6 Supply of specialised films**

Distributors are not constrained by a lack of supply of specialised films. This presents an opportunity to distribute more specialised films, if the demand and screens are available. Moreover, there is a loyal existing audience for specialised films. If the exhibition infrastructure was improved, the opportunity exists to increase attendances by and grow this loyal audience.

#### **10.6.7 New channels for distribution**

Further opportunities will be presented by new distribution channels such as Internet distribution and the emergence of new channels such as BBC4. This will allow distributors to exploit their rights over new media and earn extra revenue to fund marketing and print production, as well as the acquisition of new films. E-cinema may also present opportunities to strengthen the sector.

## 11 Exhibition: Cultural and Economic Anatomy

### 11.1 Introduction

Specialised exhibition is a concept which enjoys a broad degree of recognition in the industry. A minority of cinema operators question whether there is (or should be) a specialised sector, but in our consultation process there was broad acceptance of the definition of a specialised film and the existence of a specialised exhibition sector.

In this section, we outline the size and scope of the sector and profile the key players. We also examine the economics of specialised exhibition, leading on to a broader review of the key constraints on and opportunities for the sector. We consider the current and potential demand for specialised film as it is perceived by operators.

### 11.2 Size and scope of sector

We have identified 93<sup>84</sup> specialised cinemas in the UK with more than six screenings per week, i.e. those where at least 50% of the films shown are specialised. Those 93 cinemas have 166 screens, making an average of 1.8 screens per cinema. This is significantly lower than the average number of screens for all 692 cinemas in the UK which currently stands as 4.0<sup>85</sup>. We have also identified a further 52 venues which offer a lower level of provision. A database of all these venues is included in Appendix A6.

The geographical spread of the sector is set out in Section 11.4.

#### 11.2.1 Key players

Three commercial companies, City Screen, Zoo and Mainline, between them operate 32 of the cinemas we have identified as specialised, with 61 screens. (They also operate seven other cinemas<sup>86</sup> which we have not included as specialised because the majority of their programming appears to be of a mainstream nature.) Another important segment of the market is the group of cinemas which received financial support from the *bfi*, and now receive support from the Film Council via Regional Screen Agencies – the “Regional Film Theatres” (“RFTs”). There are 23 RFTs. (The Film Council also supports the *bfi* National Film Theatre and the ICA in London.) Each operates as an independent charitable trust and receives funding from a variety of sources.

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<sup>84</sup> Although six screenings per week might not always be considered full-time, it denotes a certain level of provision - specialised programming is available at these cinemas more or less every weekend (the primary cinema-going time). A minimum of six screenings per week is also a useful base which can be built upon.

<sup>85</sup> *bfi* Handbook 2001

<sup>86</sup> City Screen venues in Stratford East London and Ely; Zoo venues in Letchworth and Peckham; Mainline venues in Reigate, Winchester and Walton.



Profiles of the key players are in Section 11.3

### 11.2.2 Asian cinema

In recent years, there has been a growing popularity of Asian cinema, notably the genre known as “Bollywood”. Bollywood films attract demographic segments which have been traditionally under-represented in the specialised cinema audience. The films are usually shown in their original language (mostly Hindi) without subtitles<sup>87</sup>. The audience for Bollywood films was largely developed in the commercial sector by relatively small-scale entrepreneurs and dynamic companies (such as Mohan Sharma who operates six screens<sup>88</sup>, Piccadilly Cinemas which has 13 screens<sup>89</sup> and Safari Cinemas which operates five screens<sup>90</sup>) and new entrants to the multiplex market keen to establish new audiences (notably Cine-UK, which operates the Cineworld circuit of cinemas). Although many Bollywood films might appeal to mainstream tastes, the segment is important in an overview of specialised cinema exhibition for a number of reasons:

- it demonstrates how new audiences can be brought into cinema through innovative programming;
- it provides an example of how the UK’s increasingly multicultural society has created a demand for cinema which did not previously exist;
- the marketing success of Bollywood films is a model from which existing specialised exhibitors may be able to learn. Relatively little is spent on the promotion of these films, yet many reach very large audiences. Underground, word-of-mouth campaigns have proven very successful with tightly targeted marketing spend in niche media<sup>91</sup>;
- the established distribution circuit for Bollywood material could be used to reach those new audiences with a broader range of specialised film;
- the growth of Bollywood was spearheaded by the commercial sector. How can the rest of the specialised sector learn from this? How can the entrepreneurial

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<sup>87</sup> Recently, more prints of Bollywood films have been produced with English subtitles to facilitate cross-over, and also reflecting the fact that younger generation British Asians may no longer understand their parents’ or grandparents’ native language. However, one Bollywood operator indicated that the traditional Bollywood audience was highly resistant to English subtitles, receiving more complaints about the presence of subtitles, rather than requests for subtitles when they were absent.

<sup>88</sup> EMD Cinemas in Walthamstow and Gravesend. These sites were purchased from Odeon with restrictive covenants preventing the cinemas showing English language films. Since the covenants were lifted, the cinemas show more mainstream English language film than Bollywood.

<sup>89</sup> Birmingham and two venues in Leicester.

<sup>90</sup> Croydon and Harrow.

<sup>91</sup> Word-of-mouth campaigns have worked well for Bollywood because of areas with concentration of population with similar tastes. This will not necessarily be the case for other communities.

spirit which facilitated Bollywood's growth be harnessed for other genres of specialised film?.

We have presented a list of cinemas which play Bollywood material in Appendix A6. It is appropriate to classify these cinemas separately because most cinemas which play Bollywood material do not show significant quantities of other specialised material. Similarly, most of the cinemas which we have identified as specialised in Appendix A6 do not show any significant quantities of Bollywood product.

### 11.2.3 Non-specialised venues

Any discussion of specialised exhibition must also recognise the important (and growing) role played by "mainstream" cinemas in the exhibition of specialised titles. As well as specific initiatives such as *bfi @ Odeon* and *bfi @ UCI* which have enabled the *bfi* to programme specialised films in multiplex environments, there are increasing numbers of film festivals which operate (at least partly) in multiplex environments (e.g. the Lesbian and Gay Film Festival at UCI Filmworks in Manchester, the Greenwich Film Festival at UCI Filmworks, the Belfast Film Festival at Warner Village and UGC, and the Edinburgh Film Festival at seven venues including two RFTs and the UGC and Odeon).

The *bfi* initiatives at Odeon and more recently at UCI have yet to make a significant impact on broadening the audience for specialised film. Of the two, *bfi @ UCI* appears to be more successful, mainly owing to a coherent press campaign involving News International. Management of both circuits are committed to the projects. They believe that they will only work if they demonstrate this ongoing commitment by persisting with the schemes – even if audience numbers do not always meet expectations.

As many cities in the UK have become "over-screened" due to aggressive expansion plans by major multiplex circuits, all cinema operators are looking for ways to grow their audiences – both by reaching out to new people who would not previously have attended these venues, and by encouraging their patrons to return more often. One key method of doing this is to broaden the range of film available and encourage people to watch a broader range of material. As the terms offered by distributors on US blockbusters have become increasingly harsh (and the shelf-life of these films increasingly short, with audiences often dropping off very quickly after the first fortnight) all cinemas are interested in the potential of specialised film. Since its acquisition of the Virgin circuit of cinemas, UGC, in particular, has indicated that it intends to have a strong commitment to specialised film. In addition to UGC's specialised venue at Haymarket, it has been trying to integrate more specialised material into all its sites, with mixed success<sup>92</sup>.

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<sup>92</sup> Some, e.g. *Amelie*, which could be classified as cross-over specialised films have fared well, while others, e.g. *Elvis That's the Way It Is*, did not live up to expectations.

Foreign language product (with notable exceptions such as *Crouching Tiger Hidden Dragon*, *Amelie* and *Life is Beautiful*) is still very rarely exhibited in multiplex environments but the large cinema circuits do appear willing to experiment with a number of specialised titles, particularly US independent films.

#### 11.2.4 Film festivals

We have identified a total of 64 film festivals operating throughout the UK (see list in Appendix A6). It has become increasingly common for established festivals (e.g. London Film Festival, Lesbian and Gay Film Festival and many others) to tour round venues, making most efficient use of prints and publicity material and helping to spread the overheads of organising the festivals.

There is a broad range of festivals operating throughout the UK. They could be broadly classified into:

- location festivals – examples include the London Film Festival, Bath Film Festival and Harwich Film Festival. Such festivals do not usually have an over-arching theme, but instead are focused on bringing a range of film to a specific town or city<sup>93</sup>. They are designed to showcase a wide range of mostly new feature films. Many of these films will be premiering at the festival, and many may never receive a standard release outside the film festival circuit. There will often be sub-sections of each festival which will include films sharing a common theme – e.g. New British Films at the London Film Festival. These festivals can vary from relatively small and local to major international festivals attracting visitors from around the world.
- themed festivals – these festivals may be themed by the type of film (e.g. short films, documentaries, animation), the subject matter (e.g. the Human Rights Watch International Film Festival or the Food Film Festival), genre (e.g. comedy or thriller) or origin (e.g. French Film Festival).
- targeted festivals – these festivals are often targeted at specific groups of people (e.g. young people, gays and lesbians, Jewish people, black people) although they will be open to all. The programming at such festivals is therefore usually themed to appeal to the target audience. Consequently, the distinction between themed festivals and targeted festivals is blurred.

Many festivals will be open to the public but still have a significant industry presence, as they may represent the first opportunity for people working in the industry to see much of the material. Some festivals (e.g. Raindance Film Showcase and Market) will be more industry-focussed than others. Many festivals have an educational dimension, with significant programme support and accompanying educational activities.

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<sup>93</sup> It should be noted that this does not prevent these festivals touring or using venues in other cities, e.g. the London Film Festival goes on tour each year, and one of the venues used by the Edinburgh International Film Festival is the Glasgow Film Theatre.

As noted above<sup>94</sup>, film festivals are increasingly playing in a wider range of venues, enabling the widest audiences to be reached. Festivals can be useful marketing tools (they help to generate publicity for the venue) and can help audience development (bringing in new audiences to see a broad range of film). In particular, when held across a range of venues they can assist in facilitating crossover of audiences. For example, the Belfast Film Festival 2001 was held in Warner Village, UGC and Queen's Film Theatre (an RFT). Festivals such as this provide an opportunity for the specialised cinema audience (which as set out in Section 8 does have some contrasting characteristics to the general cinema audience) to go to see films in non-specialised venues. The presence of the festival (and the accompanying publicity) in the non-specialised venue may also help to remove some of the barriers preventing the general cinema audience visiting local specialised venues.

There has not been sufficient audience research to substantiate these findings, which were forthcoming from a number of sources in our interview programme. However, these operations (across venues) do appear to have been successful in terms of increased attendances.

#### *Film Societies*

The British Federation of Film Societies has 152 members and it estimates that there are 250-300 film societies operating in the UK. However, this total is fluid as many of the organisations are transitory in nature.

The societies are fairly evenly distributed according to population density; with about 45% being based in the South of England, just over 12% in the North of England, close to 20% in the Midlands, almost 15% in Scotland and 8% in Wales. Each society forms its own objectives as to the type of film society it wants to be with fees, types of films, member numbers and meeting frequency being very varied throughout the UK.

Members tend to be older people, and films are generally shown from 16mm prints. DVD and video are becoming increasingly important as the number of 16mm prints available decreases.

The BFFS estimates that a typical film society will have around 150 members and 20 screenings per year (Film Societies' years generally run from September to April meeting once a fortnight). Some societies may be much more active (e.g. Edinburgh University which has around 300 members and shows up to eight double-bills a month). Guests are also welcome to many film societies.

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<sup>94</sup> See Section 11.2.3.

Although there are no reliable statistics available, assuming 300 film societies screening to 150 people 20 times a year, film societies would create almost one million admissions each year<sup>95</sup>.

Pressing issues facing film societies are the costs of conversion to digital equipment, and the availability of DVDs for non-theatrical exhibition (there are two main sources in the UK – Film Bank and the *bfi*). This is discussed further in Section 10.

#### *Other exhibition venues*

There are many other venues which are not cinemas per se, but show specialised film occasionally. Examples include art galleries (e.g. Tate Modern), IMAX cinemas (e.g. *bfi* London IMAX), museums (e.g. Imperial War Museum), concert halls (e.g. Belfast Waterfront Hall). In rural areas, special interest groups organise screenings of material of particular interest to them in non-standard venues such as town halls. The role of mobile cinema operators such as Screen Machine (which brings film to the Highlands and Islands of Scotland) should also be noted – they are particularly effective at increasing availability of film in remote rural areas which could never support a cinema.

### **11.3 Analysis of key players**

#### **11.3.1 City Screen**

##### *Background*

City Screen was founded by Lyn Goleby and Tony Jones in 1989. The company has grown from developing and owning one cinema to now owning<sup>96</sup> a circuit of 12 cinemas and managing a further 10 cinemas. In total, City Screen has control of some 43 screens throughout the UK, the largest of any specialised exhibitor in the UK.

The cinemas under its control are a mixture of traditional town / city centre cinemas such as the Phoenix cinema in Oxford as well as new-build cinemas including the Stratford Picture House. A list of the cinemas is shown in Figure 11-1. Many of the operations are in locations with a high student population as well as in areas associated with a high provision of cultural facilities, including theatres. City Screen has avoided locating in areas that would put them into direct competition with any existing Film Council/*bfi*-supported RFTs.

City Screen is a commercial organisation and as such has invested significantly in the development of its circuit. However, it has also received significant financial assistance from regional partnerships and local authorities in the form of grants or

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<sup>95</sup> Chief Executive of the Film Council, John Woodward, recently stated that the number of admissions could be as high as 1,500,000.

<sup>96</sup> In common with most specialised operators, City Screen generally leases its premises. In this context, owning denotes the level of control – it is more than a management contract.

subsidies. For example, the Stratford Picture House in Stratford-Upon-Avon was developed with the assistance of a grant from the Local Council as well as an Arts Council of England Lottery grant.

City Screen is continuing to expand its circuit of cinemas and is currently on-site constructing a 3-screen cinema as part of a £70 million regeneration development in Liverpool's city centre Ropewalk area. The development is due to open in September 2002. A further seven sites for future development are still being explored, including Birmingham and Leeds, but we are not aware of any schemes that have been submitted for planning.

#### *Scale and scope of operation*

Figure 11-1 details the names and locations of cinemas within the City Screen circuit as well as those that are managed and programmed by the company. The bulk of the cinemas are located in the South-East of England.

**Figure 11-1: City Screen venues**

<b>Cinema Name</b>	<b>Location</b>	<b>No. of Screens</b>
<b><i>Owned<sup>97</sup></i></b>		
Arts Picture House	Cambridge	3
City Screen	York	3
Clapham Picture House	Clapham, London	4
Duke of York's Premier Picture House	Brighton	1
Exeter Picture House	Exeter	2
Harbour Lights Picture House	Southampton	2
King Street Picture House	East Grinstead	2
Maltings Cinema	Ely	1
Phoenix Picture House	Oxford	2
Stratford Picture House	East London	4
Stratford Picture House	Stratford-upon-Avon	2
The Belmont	Aberdeen	3
<b><i>Programmed by City Screen</i></b>		
Campus West Theatre	Welwyn Garden City	1
Curzon Mayfair	Mayfair, London	1
Curzon Soho	West End	3
Haverhill Arts Centre	Haverhill	1
Metro	West End	2
Minerva Movies (seasonal opening)	Chichester Festival Theatre	1
The ARC <sup>98</sup>	Stockton-on-Tees	1
The Dukes Playhouse	Lancaster	1
The Electric	West End	1
The Little Theatre	Bath	2
<b>Total Cinemas</b>	<b>22</b>	<b>43</b>

Source: City Screen

<sup>97</sup> See note 96 – owned denotes level of control. It should be noted for example that the Belmont in Aberdeen is owned by the Local Authority.

<sup>98</sup> We understand that The Arc has recently gone into receivership and its future as a specialised cinema is in doubt.

### *Nature of product*

Exhibiting specialised film is described as the core ethos on which the company has been built and City Screen sees this as its core differentiator to the typical UK multiplex circuits. City Screen cinemas generally show a mix of specialised and more mainstream product, and the mix varies depending on the location. For example, at its Cambridge and Brighton cinemas, the mix of films is typically more specialised and is driven by demand from the local population.

Four of the venues owned by City Screen (Brighton, Cambridge, Oxford and York) and three of those programmed by it (Curzon Mayfair, Curzon Soho and Metro) are members of the Europa Cinemas Network.

City Screen considers that film festivals are important to preview or highlight titles, and to contribute to the originality of venues; they are very “overhead-heavy” but useful to the specialised industry. City Screen runs the Cambridge Film Festival and is also involved with the Brighton Jewish Film Festival and the Raindance Kids’ Film Festival at the Clapham Picture House.

### *Education activities*

City Screen supports educational work at thirteen venues – responsibility is largely delegated to local film education officers with a wide remit. City Screen has made great efforts to make links with external partners, including educational agencies. The company has set out clear objectives for its educational work; further details can be found in the CELSI report on Education. City Screen applies for project support for education activities where possible.

### *Operating Performance*

According to the latest financial reports available for City Screen as a group (1999), the company achieved a gross operating profit in the region of £1.1 million. Total net operating profit for that year was £357,332. While total revenues were not reported in the 2000 accounts, to provide an indication of the company’s turnover levels, in 1997 City Screen achieved a total turnover of over £4.0 million.

## **11.3.2 Zoo Cinema Exhibition**

### *Background*

Zoo Cinema Exhibition (“Zoo”) is based in London. The company, which is headed by Clare Binns, is relatively new having taken over the management of the Oasis and Film Network circuits as well as the Richmond Filmhouse over the last year.

The company now manages a circuit of 11 cinemas, totalling 27 screens. The majority of the existing sites are in London and the surrounding areas. Zoo has

one cinema, the Cameo in Edinburgh, which directly competes with an RFT, the Filmhouse.

Zoo is planning to expand its circuit, and is actively seeking new sites (which it will own and manage). Zoo’s strategy is to develop five more cinemas of three to five screens, either as new-build or by refurbishing existing suitable buildings over the next five years. No locations have been announced as yet.

*Scale and scope of operation*

Zoo’s current circuit is set out in Figure 12-2.

**Figure 11-2: Zoo Cinema Exhibition venues**

Cinema Name	Location	No. of Screens
Ritzy	Brixton	5
David Lean Cinema	Croydon	1
Phoenix	East Finchley	1
Cameo	Edinburgh	3
Greenwich Cinema	Greenwich	3
Everyman	Hampstead	1
Henley Cinema	Henley	2
Broadway	Letchworth	3
Gate	Notting Hill	1
Premiere	Peckham	6
Richmond Filmhouse	Richmond-Upon-Thames	1
<b>Total Cinemas</b>	<b>11</b>	<b>27</b>

Source: Zoo Cinema Exhibition

*Nature of product*

Zoo programmes a mixture of specialised and more mainstream films across its venues. We understand that Zoo has a strong commitment to specialised film and is strongly involved in promoting these types of films at its venues, although it also recognises the need to show mainstream products, particularly popular films that can attract large crowds.

One of the cinemas programmed by Zoo, the Gate in Notting Hill, West London, is a member of the Europa Cinemas Network.

Zoo judges film festivals to be very important to its business – they attract new audiences, help to brand a cinema (establishing a point of differential from the competition), raise its profile and enable interaction with the local community. Some of the festivals Zoo is involved with include Resfest (a digital film festival), the Human Rights Watch International Film Festival (which runs at four of its venues), and festivals focussing on Black and Asian films.



### *Education activities*

Zoo aims to reach the widest possible audience by programming educational events, film seasons and festivals, special events, short films, and world cinema matinees, in conjunction with its programme of regular art house and quality mainstream products. Zoo has a centrally-based Education Officer, who works with cinema managers and outside agencies to develop audiences, promote a wider appreciation of film culture and provide background material in support of both the regular programme and special screenings. Zoo's activities in this area are discussed further in the CELSI report on Education.

### *Operating Performance*

Given the recent formation of the company, there are no accounts for Zoo. However, accounts for Oasis Cinemas (1999) provide an indication of the operating performance of Zoo. Box office revenues at Oasis Cinemas totalled £3.34 million in 1999. Net operating profit, after cost of sales and operating costs totalled £31,000 before tax and interest. This equates to less than one per cent of operating revenues.

## 11.3.3 **Mainline**

### *Background*

Mainline, headed by Romaine Hart, operates the Screen Cinema circuit. Mainline has a total of six cinemas based in London and the South East as identified in Figure 12-3.

The company has been operating for over 30 years, beginning with one cinema and gradually acquiring existing cinema operations building its circuit up to its current size. The company has focused on acquiring existing cinema developments and refurbishment rather than new-build operations.

### *Scale and scope of operation*

The "Screen" cinemas range from one to two screen developments containing small but adequate concession sales areas as well as licensed bars at the majority of locations. In total, Mainline owns and operates 10 screens across the circuit.

We understand that Mainline has identified one target site for the development of a further cinema to increase the size of the circuit to seven locations and that there is interest in several other potential sites. However, no announcements have been made of the location of these sites or the time-scales of development.

**Figure 11-3: Mainline venues**

<b>Cinema Name</b>	<b>Location</b>	<b>No. of Screens</b>
Screen at Reigate	Reigate	2
Screen at Walton	Walton	2
Screen at Winchester	Winchester	2
Screen on Baker Street	Baker Street, London	2
Screen on the Green	Islington, London	1
Screen on the Hill	Havistock Hill, London	1
<b>Total Cinemas</b>	<b>6</b>	<b>10</b>

*Source: Mainline*

#### *Nature of product*

Mainline programmes a mixture of mainstream productions and specialised film, but will include a greater proportion of more mainstream products at certain locations, where the audience for specialised material is smaller.

From our discussions with Mainline, it was evident that specialised film is very important as a product for them and the company sees itself as a “specialised” or “alternative” circuit, not an “arthouse” circuit.

None of the Mainline venues is a member of the Europa Cinemas Network.

Mainline hosts the Jewish Film Festival at the Screen on the Hill in North London. Romaine Hart considers that this has been very successful in bringing in wide audiences.

#### *Education activities*

Mainline does not employ any education officers, but it does offer some free screenings for schools, and also programmes seasons of films and classic cinema which have an educational dimension.

#### *Operating Performance*

Mainline generated a total turnover of £3.57 million in 1999 across all of its six cinemas. After cost of sales and operating expenses, the company achieved a net operating profit (before interest and tax) of £68,000, equivalent to 1.9% of total turnover.

### **11.3.4 Regional Film Theatres**

#### *Background*

“Regional Film Theatres” is the collective name given to a group of independent cinemas outside London which were built using public money, and receive annual funding support from the Film Council through Regional Screen Agencies

(previously the *bfi*) and, generally, from other funding partners too. Many of the Regional Film Theatres (RFTs) were opened in the 1960s and 1970s, and they were often located wherever partnership funding could be obtained. This meant that they were located in a somewhat haphazard way, and certain large cities (e.g. Leeds, Liverpool) have never had an RFT. The cinemas do not operate as a circuit, although most of them use centralised booking services provided by the *bfi*. The majority of the cinemas operate as independent charitable trusts, and the remainder are under the control of a local authority or educational establishment. Five venues are linked to educational establishments, and many of them form part of larger multiple arts venues. There are RFTs in England, Scotland, Wales and Northern Ireland – there are 23 RFTs in the UK, 19 of which have more than six screenings per week (totalling 35 screens). (The ICA and *bfi* National Film Theatre in London also receive support.)

#### *Scale and scope of operation*

The 23 Regional Film Theatres throughout the UK are shown in Figure 11-4. In total, these theatres have 39 screens. The typical number of screens at Regional Film Theatres is between one and three screens.

**Figure 11-4: Regional Film Theatre venues**

Theatre/Cinema Name	Location	No. of Screens
Queens Film Theatre	Belfast	2
Pictureville	Bradford	2
Watershed Media Centre	Bristol	2
Cinema 3	Canterbury	1
Chapter Arts Centre	Cardiff	2
Barn Theatre	Dartington	1
Metro Cinema	Derby	1
Dundee Contemporary Arts Theatre	Dundee	2
Filmhouse	Edinburgh	3
Glasgow Film Theatre	Glasgow	2
Hull Screen	Hull	1
Ipswich Film Theatre	Ipswich	2
Adam Smith Theatre	Kirkaldy	1
Phoenix Arts Centre	Leicester	1
Cornerhouse	Manchester	3
Tyneside Cinema	Newcastle-upon-Tyne	2
Forum Cinema	Northampton	1
Cinema City	Norwich	1
Broadway Media Centre	Nottingham	2
Showroom Cinema	Sheffield	4
Strode Theatre	Somerset	1
MacRoberts Arts Centre	Stirling	1
Stoke Film Theatre	Stoke-on-Trent	1
<b>Total</b>	<b>23</b>	<b>39</b>

Source: Individual Theatres & *bfi*

The RFTs had a total of 1.4 million admissions in 1999-00. They account for approximately 20-25% of the admissions for specialised film in the UK.

### *Nature of product*

The RFTs are strongly associated with the concept of specialised cinema and it is their objective to increase the exposure of these films to the current cinema going audience as well as other non-cinema goers. The RFTs distinguish themselves from the mainstream multiplex venues by showing almost exclusively specialised films. The RFTs emphasise the educational dimension to much of their programming, as well as a responsiveness to local needs.

Several RFTs also initiate festivals and tours. Some of the best known include the Sheffield International Documentary Festival, Brief Encounters (a short film festival in Bristol), the Bradford Animation Festival and the French Film Festival in Edinburgh. Many of the venues participate in festivals shared with other venues (e.g. the Edinburgh International Film Festival and the International Film Festival of Wales).

Thirteen<sup>99</sup> of the RFTs are members of the Europa Cinemas Network.

### *Education activities*

Many of the RFTs stated that education was absolutely crucial to their mission, and they emphasise their educational activities as a point of differential from commercial organisations, and as a justification for their subsidy. Educational work often includes practical work, and can include educators going out from the venues, e.g. into schools.

In general terms, the educational programmes at the long-established RFTs are the most comprehensive on offer, and some have created a strong 'house style'. There is, nevertheless, considerable variation in the apparent status of education within the RFT group. Very few have guaranteed budgets over a period of time. Some see critical work as their mainstay, others are experimenting more with practical work.

The education activities of the RFTs are described further in the CELSI report on Education.

### *Operating Performance*

In 1999-00, the sixteen of the RFTs had gross revenues (box office, concessions and screen advertising) totalling approximately £6.8 million. Almost half of those revenues flowed from the top three venues: Bristol Watershed Media Centre, Edinburgh Filmhouse and Manchester Cornerhouse. All the venues in total

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<sup>99</sup> Belfast, Bradford, Bristol, Cardiff, Edinburgh, Glasgow, Ipswich, Leicester, Manchester, Newcastle-upon-Tyne, Norwich, Nottingham and Sheffield.

received subsidies of approximately £2.0 million; 36% of those subsidies were from the *bfi*/Film Council and a further 13% came from the Northern Ireland Film Commission and Scottish Screen (to Belfast, Glasgow and Edinburgh). The total subsidy per admission is approximately £1.40<sup>100</sup>.

Further analysis of the RFTs' financial affairs is in Section 13.

### 11.3.5 The *bfi*'s role in specialised exhibition

The *bfi* is the UK-wide agency, publicly funded, with responsibility for encouraging the arts of film and television, and conserving them in the national interest. Its corporate objectives are:

- to encourage greater interest in the history and heritage of the moving image by making it widely available to everyone throughout the UK;
- to ensure that the UK's moving image history and heritage and related items are available for future generations to enjoy by caring for our collections to the highest possible standards;
- to improve the quality and quantity of information on moving image culture available throughout the UK by being the most accessible and authoritative knowledge resource in the UK.

The *bfi* has a number of specific roles relevant to specialised exhibition, in addition to programming the RFTs as mentioned in section 11.3.4. Most of these fall within the remit of the *bfi* Exhibition department.

#### *National Film Theatre*

The National Film Theatre (NFT) on the South Bank in London is owned by the *bfi*. The NFT is the UK's National Cinematheque, and it positions itself as "The Essential Cinema". Its exhibition policy covers the whole of world cinema from its inception up to the present day. It has three screens, and in the year 2000-01, the NFT had 211,000 admissions and received a subsidy of £1.2 million (grant-in-aid from the Film Council). This results in a subsidy of approximately £5.78 per admission. For most of the year, the NFT will have one screen devoted to material that otherwise would not be distributed in the UK. It has a large number of members, and research in 1999<sup>101</sup> showed that 50% of attendees were members. The same research showed that 91% of attendees fell within the ABC1 social classification. The range of films shown at the NFT is demonstrated by the number of titles shown in a year (610 in 2000-01 – this compares to 200 to 400 in a typical RFT).

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<sup>100</sup> See Section 12.2.

<sup>101</sup> *bfi Exhibition* audience research.

### *Film festivals*

Two of the most significant events in the Exhibition department's year are the London Film Festival and the London Lesbian and Gay Film Festival at the NFT. These also go on tour to a number of venues around the UK (6 and 28 respectively). All tours are open to booking by any cinema and regularly play at City Screen and Zoo sites and occasionally at *bfi @ Odeon* and *bfi @ UCI* sites.

### *Touring programmes/temporary distribution*

The *bfi* also facilitates the touring of festivals originated in the RFTs and other specialised venues. Examples of touring festivals include:

- Viva! Manchester Spanish Film Festival (16 sites);
- Human Rights Watch International Film Festival (16 sites);
- Sheffield International Documentary Film Festival (14 sites).

The *bfi* will occasionally make a deal with a sales agent to arrange for distribution and exhibition of a film which would otherwise not be picked up by a commercial distributor in the UK. Following its showcase exhibition at the NFT, it will be toured to various venues which have agreed to show it. A recent example is the French film *Ressources Humaines (Human Resources)* which played at 28 sites in total.

In a similar fashion, seasons of films originated by *bfi* Exhibition will be offered to venues around the UK. One of the most high-profile recently was the season of classic Jean-Luc Godard films which toured round 24 sites in the UK. Another programme, *Drawn to be Wild*, went to 43 sites. Again, the *bfi* will administer touring programmes originated by other venues, e.g. the ICA's *Palestine* at the Pictures.

The *bfi* also occasionally books films to specialised cinemas on behalf of a commercial distributor (e.g. *Lagaan* which was shown at 18 specialised venues via *bfi* Exhibition).

### *Programming and booking*

As mentioned previously, the *bfi* provides full programming and booking services to a number of cinemas. The RFTs are free to choose whether to use the *bfi*'s services in this regard, and some (e.g. Edinburgh Filmhouse) have chosen to opt out. However, our consultation revealed that, particularly in the past when the *bfi* was providing funding in addition to services, some of the RFTs did not consider they were in practice free to do so.

Major cinemas still in receipt of the *bfi*'s services include Nottingham, Cardiff, Manchester, Glasgow, Sheffield, Newcastle and Bristol, and the *bfi* also provides these services to many smaller venues (including some cinemas which are not RFTs).

The *bfi* also has involvement with major commercial circuits – through *bfi @ Odeon*, eight Odeon sites are programmed with weekly specialised/crossover titles. The Times sponsors *bfi @ UCI*, which brings weekly specialised/crossover titles, preview screenings and seasons to 34 sites in the UCI circuit.

#### *Programme advice*

The *bfi* currently has a rapidly expanding mailing list of more than 200 sites which are informed about its tours and services. Sixty sites are also contacted through weekly emails. Programming advice is also provided to numerous sites including:

- Cinema City, Norwich;
- Edinburgh Filmhouse;
- Pictureville Bradford;
- QFT, Belfast.

#### *Marketing support*

The *bfi* produces printed publicity materials for many of the touring programmes and titles described above, and works with the venues on expanding their distribution through media partnerships both locally and nationally. Materials can include leaflets, posters and press advertising. All *bfi*-initiated tours are also supported by pages on its website. A number of national promotions have also been initiated, including ticket offers on *guardianunlimited.co.uk* and with *Empire* magazine.

The *bfi* sources and provides archive stills and posters for the venues in receipt of its full programming services. The *bfi* also holds Marketing Forums and training days for regional venues where issues can be discussed and ideas initiated.

#### *Exhibition Development Unit*

The Exhibition Development Unit of *bfi* Exhibition takes the lead in developing the specialised exhibition sector across the UK. Its role includes:

- training initiatives;
- organising conferences/seminars on key issues such as developing film festivals and the role of cinema in regeneration;
- writing/commissioning useful publications;
- advising the Film Council and the Arts Council of England on policy matters relating to specialist cinema exhibition, in particular the capital infrastructure;
- disseminating best practice and offering a consultancy/advisory service to the sector on a range of matters such as capital projects, business development, staffing and marketing.

### *Relationship with the RFTs*

We sought feedback on the *bfi* during our consultation process. The results of this are in Section 5.7.

#### 11.3.6 **Education**

Two national organisations play key roles in supporting education surrounding film in the UK – the *bfi* (primarily through *bfi* Education) and Film Education. More detail is included in the CELSI report on education.

##### *bfi*

Both the Exhibition and Education departments of the *bfi* have aims relevant to promoting access to and appreciation of the best of British and world cinema. Specifically, Education Projects (part of *bfi* Education) has the following five objectives:

- to offer events and resources to schools and lifelong learners;
- to identify and research issues relating to moving image education and the use of moving image resources by schools, and by children and young people in the informal sector;
- to offer teachers a high level of in-service training and distance learning support for moving image education;
- to raise the profile of moving image education in educational institutions and relevant Government bodies;
- to develop partnerships both within and beyond the *bfi* which help to develop, promote and encourage image education.

As part of a publicly funded agency, *bfi* Education is understood to have a UK-wide responsibility for the strategic development of moving image education.

Examples of the *bfi*'s work in this field are the education programmes supporting the London Film Festival on Tour and Drawn to be Wild. The Programme Unit of *bfi* Exhibition has also organised educational events for the London Lesbian and Gay Film Festival and Palestine at the Pictures. Film educators look to the *bfi* for professional advice and training.

The Film Council funds and the education work of the *bfi* and is responsible for monitoring this work.

##### *Film Education*

The other key national player in moving image education is Film Education. This organisation is funded from three main sources: cinema exhibitors, film distributors and the *bfi*. It aims to deliver what the classroom teacher needs – materials supporting educational study, both on and off line. In addition to the



production of learning resources, Film Education provides in-service training for teachers, provides screenings (often free) for groups of young people, and organises special events, conferences and festivals (e.g. National Schools Film Week and March into Movies). Film Education has created a wide network of national and international partnerships, from both the commercial and the education sector, to develop the quality and breadth of its work. It has been involved with innovative work in the production of multimedia resources.

The perception of many working in educational activity at specialised venues is that Film Education provides support related to mainstream film, while *bfi* Education provides support related to specialised film. Though *bfi* Education and Film Education have different funding arrangements and different roots, their roles are complementary, and there have been recent signs of closer co-operation between the organisations.

## 11.4 Specialised exhibition across the UK

### 11.4.1 Geographic spread of specialised cinema provision across the UK

The maps on the following pages set out the spread of specialised cinema<sup>102</sup> provision across the UK together with population density. This gives an indication of how well specialised cinema provision matches the spread of the general population. The database of specialised cinemas is set out in Appendix A6.

**Figure 11-5: Specialised cinemas in the UK (at least 6 screenings per week)**

**Error! Unknown switch argument.**

**Figure 11-6: Population density of the UK by postcode sectors**

**Error! Unknown switch argument.**

As can be seen from these maps, the spread of specialised cinemas does broadly reflect the population concentration throughout the UK. We consider further analysis of gaps and under-provision in Section 5.1.

### 11.4.2 Scotland

Specialised provision in Scotland is mainly concentrated in the belt of population between Edinburgh and Glasgow. The RFTs which are based in Edinburgh and Glasgow are the two most successful of all the RFTs in terms of audience admissions. Between them they account for around 300,000 admissions each year – one quarter of the budgeted admissions for all RFTs for 2000-01. Edinburgh Filmhouse has performed well in maintaining its audience levels despite competition from Zoo's Cameo, and an increasingly competitive general cinema

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<sup>102</sup> Cinemas with at least six screenings per week.

marketplace in the city. The presence of the extensive Edinburgh International Film Festival in the city (and also in Glasgow, as one of its venues is the Glasgow Film Theatre) no doubt assists in raising the profile and attraction of specialised film in Scotland.

Aberdeen should be an attractive location for a specialised cinema, being a relatively wealthy city with a high student population and strong population density. For many years, efforts to bring specialised cinema to Aberdeen were not realised. The Belmont (refurbished with public money) finally opened in September 2000, and it has been leased to City Screen. City Screen also receives funding support from Scottish Screen to enable the Belmont to undertake educational activity and book a broad range and depth of programming. The Belmont has not as yet achieved the audience levels expected of specialised cinemas in Scotland (these expectations are due to the phenomenal success of the Glasgow and Edinburgh venues).

Geographic coverage is clearly an issue in Scotland. The maps demonstrate that there are large areas of Scotland with low population density – and therefore no access to a specialised cinema. The Screen Machine is a partial solution to this issue – it is a lorry which unpacks to become a cinema with more than 100 seats. It was constructed loosely based on the French Cinemobile model at a cost of approximately £0.65 million. It tours round the Highlands and Islands of Scotland, regularly attracting strong audiences, operating at around 50% capacity. Its ongoing subsidy (from Scottish Screen, Hi-Arts and local authorities) is around £56,000 per annum, which equates to a subsidy of around £3 per ticket. While this project is clearly broadening the choice available to many people in Scotland, the material which is being shown is mostly mainstream. There is a general difficulty about awareness of film amongst people who have never had access to cinema before. As yet, the demand for specialised film has been miniscule.

Scottish Screen is the body responsible for developing, encouraging and promoting every aspect of film, television and new media in Scotland. Working with the Scottish Executive, its mission is to establish Scotland as a major screen production centre and project Scotland's culture to the world. Its aims include to:

- develop world class production business in Scotland;
- attract major productions to Scotland;
- champion a culture of investment in screen industries;
- nurture and develop talent and audiences;
- preserve and present Scottish screen production;
- encourage and support international outlook;
- drive screen policy from school to statute.

Scottish Screen's support of specialised exhibition includes funding support for specialised cinemas in Scotland (e.g. it is the largest funding stakeholder in

Filmhouse and Glasgow Film Theatre), initiatives such as Screen Machine, film societies and the Edinburgh International Film Festival.

#### 11.4.3 Northern Ireland

Belfast, despite a dense population, increasing gentrification and high student population, has just one specialised cinema with two screens. The Queen's Film Theatre (QFT) was established in the 1970s, and currently attracts 70,000 to 80,000 admissions each year. It is one of the less well-equipped RFTs, with an extremely limited concession sales area, and no café or bar. Its location (off-street, up an alley) is not ideal.

The QFT is the only full-time specialised cinema in Northern Ireland. Northern Ireland's second largest city, Derry, has recently benefited from the development of the Nerve Centre. The Northern Ireland Film Commission describes the Nerve Centre as "one of the most dynamic and innovative multi-media centres in the British Isles". The Oscar-nominated centre is housed in a building containing edit suites, rehearsal and recording studios, in-house animation and film production companies as well as a performance venue, bar, coffee house and Derry's first purpose-built specialised cinema. However, the cinema operates on a part-time basis only.

The Northern Ireland Film Commission (NIFC) is the body responsible for the development of the film industry, and film culture, in Northern Ireland. It was established in 1997, and its mission is to "contribute to the development of a sustainable film industry in the UK and in Ireland; and ... develop film culture in Northern Ireland by improving access to, and education about, the moving image."

Supporting this mission, the NIFC has six main objectives including education. The NIFC will promote the development of cultural cinema and will encourage the study of the moving image and convergent technologies in Northern Ireland.

Currently, the NIFC provides funding support to the QFT and the Nerve Centre, in addition to festivals such as Cinemagic (a film festival for young people) and the Belfast Film Festival.

#### 11.4.4 Wales

Wales does not have the same level of remoteness and dispersal of population as Scotland, and it appears to have a reasonable spread of provision of specialised cinema. Chapter, the two-screen RFT in Cardiff, attracts approximately 70,000 admissions each year. Chapter sees itself as the "National Film Theatre" of Wales, and it takes an active role in developing the film sector – production, exhibition and education – across Wales. Welsh language considerations make the role of specialised film in Wales particularly important. The Welsh language film *Hedd Wyn* was Oscar-nominated because it had a life as a cinema title – this was facilitated by Chapter.

None of the specialised cinema circuits have any venues in Wales. Other specialised cinemas in Wales (which do not receive Film Council/*bfi* support) include:

- Aberystwyth Arts Centre;
- Clwyd Theatr Cymru, Mold;
- Talliesin Arts Centre, Swansea;
- Theatr Mwldan, Dyfed;
- Theatr Arduwy, Harlech.

Sgrîn, the media agency for Wales, was formed in 1997, and is the primary organisation for film, television and new media in Wales. It is responsible for the formulation of a strategic vision for the development of the industrial and cultural aspects of these industries to their full potential in Wales. As part of Sgrîn's initial strategy it identified eight main areas of inter-related activity. Exhibition is one of those key areas. In the document "Exhibition – the Way Forward" in 1999, it laid out the following objectives:

- to attempt to ensure that the public in all areas of Wales has access to programmes of mainstream and cultural cinema within 40 minutes' drive time or via the public transport network;
- to highlight productions of relevance to Wales, specifically by ensuring they are distributed and exhibited;
- to engage with exhibitors on a more regular basis, with a view to improving dialogue between exhibitors and interested parties.

It currently seeks to meet these objectives through a number of measures including ongoing funding support for specialised cinemas (e.g. Chapter), and also through the provision of a Cinema Exhibition Support Fund. Applications (for up to £1,000) are invited from all cinemas, although the applicant must be implementing or seeking to implement a "cultural" programming policy. Subsidy is offered particularly for film education projects, special programmes and joint touring packages.

Sgrîn also supports Wales Cinema Day and the International Film Festival Wales in Cardiff. The festival aims to "bring the best of world cinema to Wales and the best of Welsh cinema to the world" and it also includes the award of the largest short film prize in Europe, the D M Davies Award.

#### 11.4.5 **England**

As would be expected from its population size, England has the lion's share of specialised cinema provision in the UK. There are, however, some gaps or areas of under-provision – these are discussed further in Section 5.1.

The head offices of the specialised cinema circuits City Screen, Zoo and Mainline are all based in the South-East of England, and their circuits are also predominantly concentrated there. In terms of Bollywood provision, again the vast majority of venues showing Bollywood films are in England (there are none in Northern Ireland or Wales).

Many of the festivals and key venues are discussed in Section 11.2. The most successful English RFTs in terms of audience admissions are the Manchester Cornerhouse and the Sheffield Showroom, each exceeding 100,000 admissions in 1999-00. The most prestigious festival is the London Film Festival, now in its 45<sup>th</sup> year. The *bfi* is also based in England (and the NFT is located on London's South Bank) – details are in Section 11.3.5.

There are Regional Screen Agencies being established within each of the nine English regions:

- Eastern;
- East Midlands;
- London;
- North East;
- North West;
- South East;
- South West;
- West Midlands;
- Yorkshire and the Humber.

The role of the various agencies in funding specialised exhibition is discussed in Section 12.

## 11.5 Economic operating models

### 11.5.1 Introduction

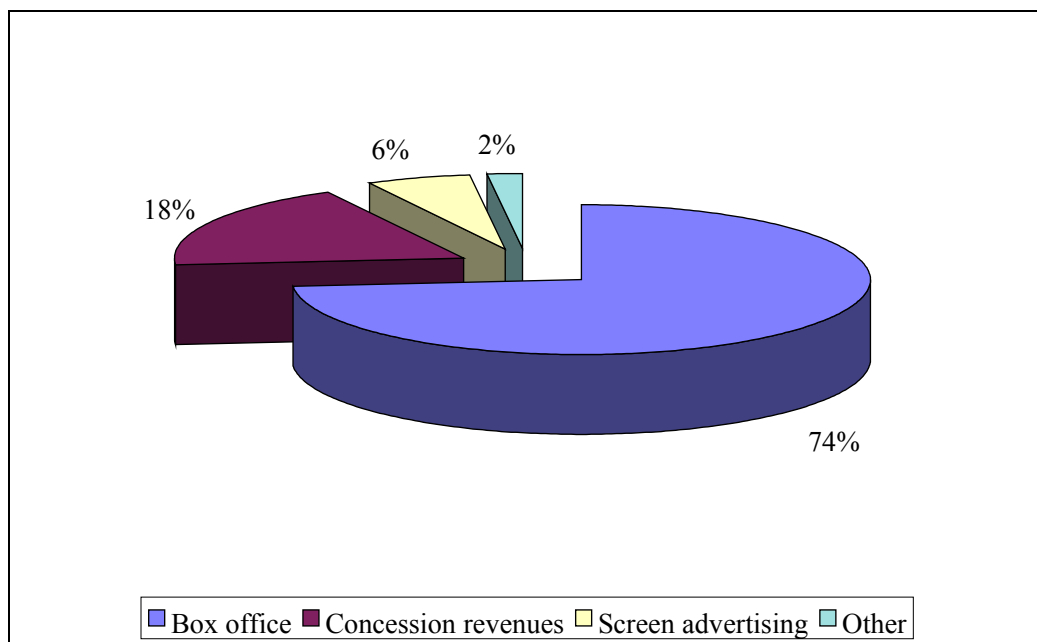
In order to demonstrate the circumstances under which specialised cinemas operate, and in order to understand in which circumstances a specialised cinema is viable without subsidy, we have constructed an indicative operating model. Our assumptions are drawn from a number of sources including our surveys and interviews, industry reports, financial accounts and third party information. The model and assumptions have also been revised following further feedback from industry sources. This model does not include education costs (or revenues), as these are not consistently provided across venues, and there is little agreement about the extent of provision. Also, education costs will generally require public assistance, even in a successful commercial company. This is discussed in more detail in Section 5.2. It should be stressed that this is an indicative model. Of

course, there could be endless variations – however, feedback from industry sources suggests that the figures within the model are reasonable.

### 11.5.2 Revenues

Figure 11-7 shows the breakdown of revenues in a 3-screen specialised cinema, operating as part of a circuit, outside London. The subsequent text explains how we arrived at these proportions, and a number of different scenarios are modelled in Appendix A7.

**Figure 11-7: Breakdown of revenues in a 3-screen specialised circuit cinema outside London**



#### *Box office*

This is the key driver of much of a cinema’s revenues and costs. The average number of admissions per screen per annum in the UK is 48,240<sup>103</sup>. This includes admissions to multiplex cinemas as well as smaller independent cinemas. To get some impression of box office in specialised venues, we reviewed statistics from the RFTs. Our analysis of admissions to RFTs indicates an average per screen (in the full-time venues) of approximately 41,400 – although four cinemas exceeded 50,000 admissions per screen and the Glasgow Film Theatre exceeded 70,000. For the purpose of our model, we have assumed that the cinema is a high quality operation and capable of exceeding some of the RFT cinemas in terms of admissions. We understand that commercial specialised cinema circuits also aim to operate on higher screen averages than this, exceeding 50,000 per screen.

<sup>103</sup> Dodona Cinemagoing 9.

Therefore, we have assumed an average admissions per screen in the order of 52,500. The attendances have also been flexed in the model to reflect the attractiveness of an area (high urban density, high academic population etc). We have therefore assumed a range of admissions between 47,250 and 57,750 per screen.

Our research indicates that there is a decline in average admissions per screen as the number of screens increases (partly because those additional screens contain less seats). We have reflected this trend in our model and have assumed that admissions per screen decline by approximately 2,500 per additional screen<sup>104</sup>.

The average ticket price at all cinemas in the UK was £4.08<sup>105</sup> in 2000 (this and all other references to average ticket price are net of VAT). This includes ticket prices at London's West End cinemas where the average price was in the region of £7.00<sup>106</sup>. The average ticket price at Film Council/*bfi*-supported venues is closer to £3.00. This is likely to reflect the location of the majority of the Film Council-supported venues (i.e. outside London) and possibly by the perceived quality of some of the fabric of the venues. We understand that average ticket prices for some commercial specialised cinemas are closer to £4 outside London, and £5 within London. Therefore, within our model, we have assumed an average ticket price of £4.50 for locations within London and £3.50 for locations outside of London. These prices broadly reflect the regional variations across cinemas in the UK.

#### *Concession revenues*

Concessions revenues are assumed to total 25 per cent of box office revenues. This equates to an average spend per head of £0.88 to £1.13 (depending upon the average ticket price) which is consistent with the average concession spend at all UK cinemas of £0.98<sup>107</sup>. This is also consistent with information gathered from our survey, where cinemas which replied had concession revenues averaging 26% of box office.

#### *Screen advertising*

Proceeds from screen advertising have been assumed to total between six and eight per cent of box office revenues. This is in line with the information gathered from our survey, where screen advertising revenues totalled between four per cent and 11 per cent. The average equated to seven per cent of box office revenues. There was an observable differential between circuits and stand-alone operations, as it seems that circuits can negotiate a slightly better deal with the cinema advertising companies. Therefore in our model, stand-alone cinemas' screen

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<sup>104</sup> Industry sources indicated that this decline was reasonable taking into account the decreasing number of seats in each additional screen.

<sup>105</sup> Dodona Cinemagoing 9

<sup>106</sup> Dodona Cinemagoing 9

<sup>107</sup> Dodona Cinemagoing 9

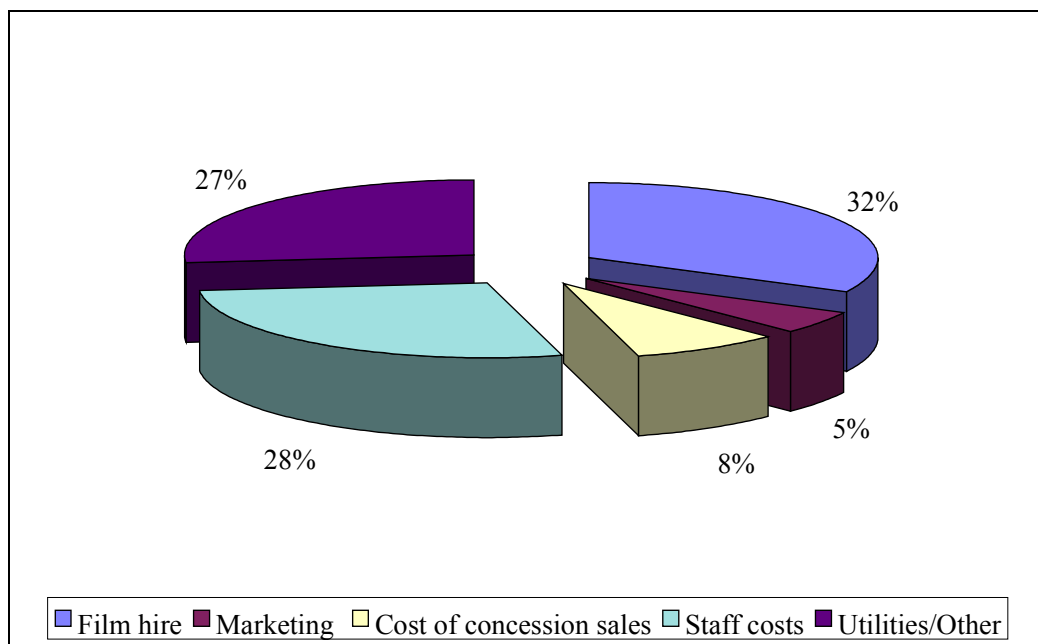
advertising revenue is six per cent of box office and circuits' screen advertising revenue is eight per cent of box office.

A small proportion of revenue (2%) is presumed to accrue from various sundry sources. This may be from membership fees or venue hires, for example, and there is some potential for a greater achievement than this in high quality venues. Two per cent is consistent with the findings from our survey.

### 11.5.3 Costs

Figure 11-8 shows the breakdown of costs in a 3-screen specialised cinema, operating as part of a circuit, outside London. The subsequent text explains how we arrived at these proportions, and a number of different scenarios are modelled in Appendix A7.

**Figure 11-8: Breakdown of costs in a 3-screen specialised circuit cinema outside London**



#### *Film hire*

One of the largest operating costs for a cinema is film hire. Our analysis of film hire costs from cinema operators interviewed during our survey indicate that costs range from between 35 and 47 per cent of box office revenues. We have assumed a film hire cost of 43 per cent, which falls within these boundaries. This represents the average cost determined from a sample of our respondents including RFTs, independent specialised cinemas and all three of the commercial specialised cinema circuits.



### *Marketing*

Marketing costs for a cinema depend heavily upon the type of operation and upon the level of marketing carried out by the film distributors. Typically, as specialised film distributors have restricted P&A spend, more of the responsibility for effectively marketing a film falls on the specialised exhibitor. Economies of scale can be achieved within a circuit of cinemas. Stand-alone cinemas without the benefit of multiple locations tend to require greater marketing efforts in comparison. From discussion with cinema operators, we have assumed a base marketing cost of £30,000 for a one-screen cinema within a circuit and £35,000 for a stand-alone. This is assumed to increase by 5% with each additional screen – much smaller than the corresponding increase in revenues, demonstrating economies of scale within an individual cinema.

### *Cost of concession sales*

Cost of concessions sales in the specialised sector typically account for between 45 and 55 per cent of concession revenues. There are some economies of scale at cinemas within a circuit (usually through greater purchasing power) and in these instances, cost of sales can be towards the lower end of the range. Larger multiplex operators can make higher margins through selling large volumes of extremely high margin products such as popcorn and soft drinks. We have assumed that cost of concession sales for a stand-alone cinema and a circuit cinema will total 55 per cent and 45 per cent of concession revenues respectively.

### *Staff costs*

Staff costs also represent a significant proportion of operating expenditures for a specialised cinema. Staffing requirements at cinemas are typically satisfied using part-time staff and vary depending upon the size and number of screens as well as the additional services and activities offered on-site. From our survey of cinema operators and knowledge of the industry, we estimate that a typical specialised cinema would require approximately seven full-time equivalent staff members for a one-screen cinema, nine for a two-screen cinema, 12 for a three-screen cinema, 14 for a four-screen cinema and 17 for a five-screen cinema<sup>108</sup>. We have assumed that the average full-time equivalent staff level at a stand-alone cinema would be two higher than a circuit cinema where there would be some economies of scale. However, Head Office costs need to be included so we have allocated an additional full-time equivalent staff member per cinema in a circuit.

From our research, salaries at cinemas are typically below the UK average for full-time equivalent annual earnings and are more comparable to those within other leisure and tourism sectors including the hotel sector. Based on this and using the average annual earnings in 2000 for the hotel sector of £16,000 for the UK and £18,800 in London, we have applied an average salary of £14,000 for

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<sup>108</sup> As noted in Sections 4.2.3 and 4.3.4, this does not include the cost of education provision. These costs are considered in Section 5.6.

cinemas located outside London and £18,000 for cinemas in London (including related costs such as staff benefits and National Insurance).

At leading UK cinema circuits, staff costs equate to between 10 per cent and 23 per cent of box office revenues. At smaller circuit operations and independent stand-alone cinemas, staff costs typically equate to around one-third of box office revenues. In comparison, our projections for staff costs for a three-screen circuit cinema outside London equate to approximately 36 per cent of box office revenues. Our projections for a three-screen stand-alone cinema outside London total 39 per cent of box office revenues.

#### *Utility and Other costs*

Utility and Other costs (including rent) at the cinemas surveyed equated to between 18 per cent and 47 per cent of total operating expenditures, with the average costs totalling 31 per cent of total expenditures. We have assumed that Utility and Other costs combined will be between approximately 24 and 31 per cent of operating expenditures per annum. This is based on assuming a fixed Utility and Other cost of £48,000, irrespective of the number of screens built and then a further £32,000 cost per additional screen. A 25% premium is applied for Greater London<sup>109</sup>. No additional amount has been allowed for Head Office overheads, as any additional cost should be covered by the reduction in necessary office space at the cinema (where there are two less full-time equivalents). Alternatively, “Head Office” tasks can be divided between circuit sites (e.g. marketing could be run from one site, the finance function from another) – in such a scenario, there is no additional Head Office space requirement.

#### *Margins*

The operating profit margins vary significantly depending upon the scale of the development of the cinema and depending upon the nature of the operation, either as a stand-alone development or a circuit operation.

Figure 11-9 summarises the operating profit margins assuming the standard level of admissions stated above (all figures are based on operations outside London).

**Figure 11-9: Operating profit margins**

Cinema Model	1 Screen	2 Screens	3 Screens	4 Screens
Stand-alone	-44%	-11%	-4%	1%
Circuit	-33%	-3%	2%	7%

<sup>109</sup> This reflects that there will be some economies of scale, and also the premium which is payable within Greater London. The base figures and uplift were chosen to arrive at costs which fell within realistic boundaries indicated by our research. These figures (as with the whole model) were reviewed for reasonableness by industry sources.

This demonstrates clearly the financial benefits of the economies of scale achieved in a circuit operation.

### *Capital Costs*

Capital costs for cinemas are significantly affected by the location of the proposed cinema, its size and quality, as well as the equipment and other services provided within it. For the purpose of this analysis we have provided indicative costs based on discussions with quantity surveyors, cinema operators, capital cost Engineers and publications on building costs in the UK. Our analysis indicates that the typical range of fit-out costs range from £550 to £1,200 per square metre excluding VAT dependent upon the number of projectors and level of interior quality. The fit-out costs tend to be much higher at specialised cinemas based on the more expensive projection equipment required to show certain film types (e.g. archive films). A high quality experience (e.g. fully carpeted auditoria, quality ancillary areas) also necessitates a high level of spending on fit-out – we understand that commercial specialised cinemas spend in the region of £1 to 2m on cinema fit-out.

We have applied a costing ratio of 1.21 for developments within Greater London and between 0.89 and 1.00 for developments outside of London (as based on the BCIS Location Factors). This takes into account regional differences in construction and material costs including labour. The factor of 1.00 would equate to the costs of construction in the West Midlands.

We have assumed that a one-screen cinema would have a total of 250 seats (approximately 425 square metres), a two-screen cinema would have a total of 425 seats (722 square metres) and a three-screen cinema would have a total of 550 seats (935 square metres).

Assuming a fit-out cost of a base of £400,000 plus £1,175 per square metre, based on these sizes, the indicative fit-out costs of cinemas in the West Midlands would be as follows:

- £900,000 for a one-screen cinema;
- £1,250,000 for a two-screen cinema;
- £1,500,000 for a three-screen cinema;
- £1,750,000 for a four-screen cinema.

These estimates have been reviewed by specialised cinema operators, to ensure that they are credible. In certain cases (e.g. listed buildings) costs may exceed these estimates significantly. However, we understand that, in general, £2.0 million should be sufficient capital expenditure on a new specialised cinema. These costs are for fit-out only. We understand that most cinema operators lease their premises, rather than buying them, and that lease premiums are not standard. Therefore, the fit-out costs are the only significant up-front cost borne by the

cinema operator. It should be noted that fit-out costs for renovating old cinemas may be much lower than these estimates, dependent on the amount of work required.

### *Funding*

Commercial specialised cinemas generally receive funding on a project by project basis. Venture capitalists are generally not forthcoming with funds due to the relatively high risk for a relatively low return. Financing arrangements commonly include bank agreements, and sometimes tax-efficient investments such as sale and leaseback. For the purposes of our model, we have assumed that private backing will be forthcoming to an amount approximating eight times the level of earnings before interest, tax, depreciation and amortisation (the operating profit line in our model). We consider this in Section 5.2.

## 11.6 **E-cinema**

The single biggest issue in traditional exhibition is the issue of who pays for the installation of equipment. This remains unresolved and has inevitably become a further source of tension between distributors and exhibitors, two sectors which in the UK at least have historically been at loggerheads.

Crudely, the exhibitors argue that the distributors should pay most of the costs for the installation of equipment since they will be the main economic beneficiaries. The distributors appear reluctant to pay for equipment which will be installed in premises which they do not own or control.

While many mainstream cinemas will, in time, doubtless install expensive, top-of-the range digital equipment, other cheaper equipment for showing material digitally is already becoming available.

Some of this equipment will be far more portable than existing 35mm projectors. In principle, this will mean that a far wider variety of venues could be using for screening material than the traditional cinema – this could include for example arts and community centres, village halls, schools, colleges, hospitals and prisons.

Already projection from DVDs is replacing the traditional 16mm projection favoured by many film societies and clubs. Although there are limits on the size of screen that can be satisfactorily used for such projection (depending on the kind of projection technology being used) there is an opportunity here to deliver moving image material in many venues which have not previously shown films of this kind.

Although the demand for such equipment is difficult to predict at this stage, this has clear implications for any investment strategy since, in principle at least, cinemas are now no longer the only venues which are able to project films to a satisfactory standard.

## 11.7 Key constraints and opportunities

From our extensive consultation process, and drawing on existing research and reports concerning the sector, we consider the following to be some of the key constraints and opportunities for the specialised exhibition sector.

### 11.7.1 Key constraints

#### *Lack of screen space*

The average specialised venue has two screens. This prevents programming flexibility which is necessary to exploit best specialised film successes. Many operators relate experiences of taking off a film while there is still demand from audiences to see it, because of prior programming commitments. At the same time, it is important for venues to make and keep these commitments in order to maintain good relationships with distributors.

These problems are perceived to impact specialised film more so than mainstream film, which relies on word of mouth and slow-burn build up to create an audience for a film.

#### *Lack of capital investment*

There has been a significant amount of capital investment in multiplexes over the last decade. Cinema audiences have become accustomed to high-quality facilities, sound, screen, projection and stadium seating. Many specialised cinemas have not had the capital investment to compete, and have therefore relied on their programming choice to maintain their audiences in the face of better-equipped competition. The Arts Council of England Lottery Funds have gone some way to redressing this balance, but the amounts invested in cinema exhibition (excluding the one-off *bfi* London IMAX project) have not been sufficient to address the weaknesses of the sector (particularly since they have decreased in recent years - see Section 12.6). Operators have explained that attracting new audiences to venues which have been lacking necessary investment is very difficult.

#### *Economics*

As noted above, specialised cinemas have a slightly different economic model to mainstream cinemas. The two most significant contributing factors are:

- staff costs;
- concession revenues and margins.

The ratio of staff costs to box office is higher in specialised venues than in general cinemas. Specialised cinemas explain this as the need to invest in staff who can speak knowledgeably about films and relate to their audiences.

Mainstream venues sell high volumes of extremely high margin products such as popcorn and soft drinks. Specialised venues tend to sell lower volumes of products with lower margins.

The combined result (as noted in Section 13) is that specialised cinemas tend to operate on tighter margins than mainstream cinemas. This has implications for financing and the level of servicing of finance which is feasible.

#### *Lack of marketing support from distributors*

There is a perception amongst several specialised exhibitors that distributors are not always as effective at marketing a film as they could be, particularly in their methods of reaching new audiences.

Some stand-alone exhibitors also expressed frustration at the lack of traditional marketing support from distributors – delayed or missing trailers and promotional material were a common complaint.

#### *Failure to attract new audiences*

A survey of available audience research by the *bfi* showed that between 83% and 96% of attendees at RFTs had been there before<sup>110</sup>. While it is encouraging to see loyal audiences, this could suggest that the specialised sector (and RFTs in particular) is failing to attract new audiences in any significant numbers. Independent of the interpretation of the statistics, there is a strong feeling among exhibitors of the need to reach beyond the existing specialised audience.

#### *Duplication and lack of communication*

Many of the stand-alone specialised venues operate in isolation without much communication and exchange of information between venues. This results in inefficiencies and lack of sharing of best practice between venues.

#### *Lack of good business incentives*

In the subsidised sector, subsidies have been linked to cultural objectives rather than business performance. This has contributed to a perceived lack of commercial experience in publicly-funded venues by commercial operators and other consultees.

#### *Existence of RFTs*

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<sup>110</sup> British Film Institute, A review of Regional Film Theatre Market Data.

Due to the size of the specialised cinema audience, commercial specialised circuits are often reluctant to compete directly against existing RFTs. The only direct competition is in Edinburgh between Zoo's Cameo and the Filmhouse - where, incidentally, both cinemas have managed to grow audiences. (This should not necessarily be extrapolated to conclude that such competition would always have such a result. Edinburgh is cited as an anomaly with an abnormally high propensity for cinema and arts attendance, due in part to the presence of the Edinburgh Festival in the city.)

Commercial specialised circuits have proved to be an effective model both in terms of their economic viability and their attraction of new audiences. It is arguable that such a cinema might do better (in these terms) than an existing RFT in some towns, but the existence of that RFT is preventing the development of such a cinema.

### 11.7.2 Key opportunities

#### *Crossover hits*

Recent foreign language crossover successes *Crouching Tiger, Hidden Dragon* and *Amelie* have demonstrated the potential for specialised film in the UK. These films are important because:

- they have reached audiences who had previously not gone to see foreign language films. Therefore they have helped to dispel some of the prejudice around subtitled films;
- they have played successfully in a range of venues – from specialised through to a multiplex environment;
- they provide clear evidence of a demand for quality alternatives to US blockbusters.

In any period, there are always one or two examples of successful foreign language films, so it would be wrong to read too much into these recent successes. However, the magnitude of their success, and the commitment shown by the range of cinemas which showed them suggests that such genres can offer future opportunities.

#### *New models*

Specialised commercial circuits such as City Screen, Mainline and Zoo have demonstrated that it is possible to build a sustainable specialised exhibition business without ongoing public subsidy<sup>111</sup> (albeit often with the assistance of

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<sup>111</sup> While City Screen receives some ongoing public subsidy for a minority of its venues, the vast majority of commercial specialised cinemas operate without such subsidy.

initial capital subsidy). They have achieved this through creative, flexible programming<sup>112</sup>, attractive venues and reaching new audiences.

### *New venues*

This is a controversial subject, with wildly differing opinions emerging from our consultation. The majority of mainstream exhibitors (showing < 50% specialised films) consider that specialised films should be integrated with mainstream films in cinemas. The majority of specialised exhibitors consider that the best venue for exhibiting specialised films is in specialised cinemas, although a significant minority believe they should also be integrated with mainstream films in cinemas.

We consider that there is evidence that specialised films can attain good audiences in multiplex environments, although this does not necessarily mean that they will. Examples include the recent success of *Amelie* in a range of venues and the Lesbian and Gay Film Festival at the UCI Filmworks in Manchester. A common theme seems to be that when the venue and management demonstrate commitment to the product, it can succeed. However, there is as yet no evidence that more difficult material (i.e. specialised films which would not come near the description of “crossover”) will work well in non-specialised venues.

### *Film festivals*

As noted above, film festivals can play an important role in terms of:

- generating publicity for specialised films;
- generating publicity for all venues participating in the festival;
- attracting new audiences;
- facilitating crossover between cinema audiences.

### *Demographic opportunities*

For the existing audience, an increasingly middle-class and ageing population should favour specialised exhibition as these have to date been key characteristics of the audience for specialised film<sup>113</sup> (see Section 7.3).

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<sup>112</sup> The flexibility of the programming often includes showing some films which would be described as “intelligent mainstream”, i.e. they are not specialised – an RFT would not generally show such films, or would not generally show as many of them as a commercial specialised cinema. The mix in programming varies between venues, as noted in the profiles of the key players in Section 11.3.

<sup>113</sup> It is possible that the audience for specialised film is older than the general cinema audience simply because it has been the same audience going to specialised films for many years, and that audience is getting older. In this case, the general population becoming older will not make a significant difference to the audience for specialised film. However, recent trends with increasing sales of mid-market and broadsheet newspapers at the expense of tabloids, suggest that the changing demographics can present opportunities for the growth in consumption of more challenging media.



In terms of new audiences, teenagers make up a significant proportion of the general cinema audience but have traditionally been under-represented in the audience for specialised film. Similarly, some research<sup>114</sup> has shown that people of Asian origin are five times more likely to go to the cinema than white people. Other research suggests that African-Caribbean and South Asian people are almost twice as likely to visit the cinema in a month than the general population<sup>115</sup>.

Ethnic minorities (not just Asians) have also been under-represented in the audience for specialised film. This represents a real opportunity for audience development. The Film Council Working Group's objective to develop an informed and appreciative audience for film in the UK is also relevant in this context – there is a strong education dimension to the opportunities for audience development.

#### *Other opportunities*

Some other possible opportunities revolve around:

- level of expertise. There is a great deal of knowledge and expertise within the specialised sector which can be harnessed and shared – for example, the expertise in documentaries at the Sheffield Showroom and short films at the Bristol Watershed;
- expertise in local marketing. The corollary to the constraint which suggested that distributors are not always effective at reaching and attracting audiences is that there is a significant depth of expertise at a local level amongst specialised exhibitors about how to reach and attract audiences;
- unmet demand. As noted above, due to a lack of screen space, many specialised cinemas have to take off successful films when audiences would still like to come and see them. This unmet demand provides an opportunity to increase audiences for specialised films.

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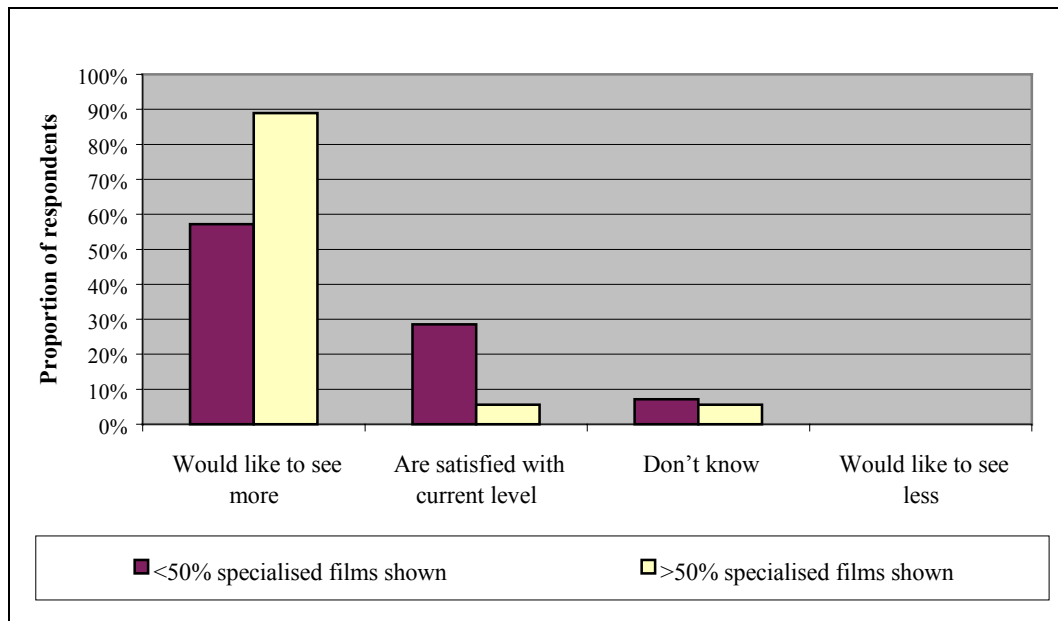
<sup>114</sup> Carlton/NRS

<sup>115</sup> Surrey Social and Market Research, British Film Institute Black and Asian Film Research.

## 11.8 Exhibitors' perception of current and potential demand

### 11.8.1 Current demand

**Figure 11-10 : Current demand for specialised film**

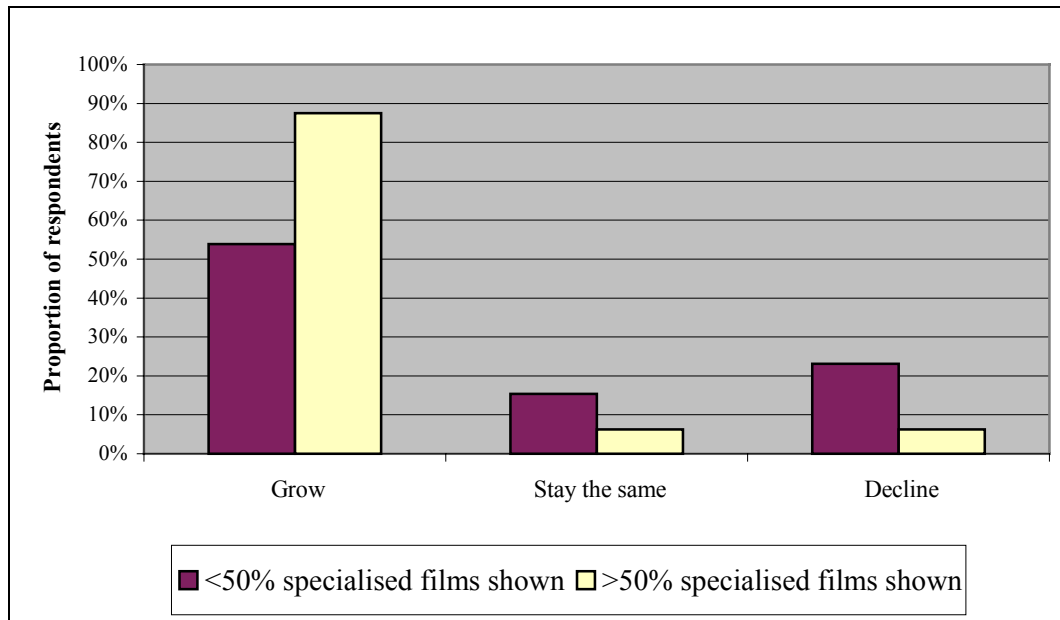


*Source: KPMG survey*

As can be seen from the Figure 11-10, a clear majority of the exhibitors we consulted (both specialised and non-specialised) consider that their customers would like to see more specialised films. This demand provides a real opportunity for operators in both sectors. The belief is strongest amongst those operating in the specialised sector. Just over a quarter of those operating in the non-specialised sector thought that their customers were satisfied with the current level. No respondents thought that their customers would like to see less specialised product.

## 11.8.2 Potential demand

**Figure 11-11: How the audience for specialised product will change in the next five years**



Source: KPMG survey

Three-quarters of the exhibitors we surveyed perceive that the audience for specialised films will grow over the next five years – and this again reflected a majority of those in both the specialised and the non-specialised sector. Having said that, nearly a quarter of the non-specialised operators consider that the audience for specialised product will decline. Some stated that it was likely to stay the same, but could grow if new sites could be financed. However, others stated that demographic conditions are likely to create a very healthy environment for the growth of the sector.

## 12 Investment and Subsidy

### 12.1 Introduction

This section collates and analyses the value and range of public and private investment in specialised exhibition and distribution in order to identify constraints and opportunities in the use of public sector resources.

#### 12.1.1 Government support to film

Since 1992, Government interest in film industry matters have been the responsibility of the Department of Culture, Media and Sport (DCMS) (formerly the Department of National Heritage (DNH)). This changed in 2000 with the creation of the Film Council which took over certain responsibilities from DCMS.

The level of support given by DNH/DCMS has declined through the 1990s from a high of £26.4 million in 1995-96 to £22.9 million 1998-99<sup>116</sup> a real decline of 19%. Figure 12-1 provides a breakdown of the organisations/activities these funds supported. However, overall funding for film has increased since 1995 as a result of funds from the National Lottery (depending on Lottery ticket sales) being made available. Public funding to film directed through the Film Council is expected to total £55 million for the 2000-01 year.

**Figure 12-1: Breakdown of direct Government support for film (1998-99)**

Organisation/activity	1998-99 (£million)
British Film Institute	£15.10
British Screen Finance	£2.00
European Co-production fund	£2.00
British Film Commission	£0.85
National Film and TV School	£2.10
Eureka AV and European Audiovisual Observatory	£0.26
Sector Challenge	£0.41
Other	£0.16
Total	£22.88

Source: *Cultural Trends, Profile of the Film Industry, David Hancock, Screen Digest*

#### 12.1.2 Structure for the analysis of investment and subsidy

Much previous analysis of film funding has focused on the above macro trends in terms of the overall level of support given to film. However, as most of the funding is directed towards production support, analysis at this level can give an unrepresentative view of support to the exhibition and distribution sector. We have therefore concentrated on getting a bottom-up view of the trends, based on information collected directly from supported cinemas, and from organisations

<sup>116</sup> Profile of the Film Industry, David Hancock, Screen Digest.

which fund cinemas and distribution. A key constraint in developing this view is the availability of data. Collection of such data is complicated for the following reasons:

- commercial sensitivities of the data. Many of the cinemas we contacted were not prepared to provide details of funding support due to the data being commercially sensitive;
- no central records body. No consistent and comparable data are regularly recorded by many funding organisations.

There is, however, a significant amount of data available on revenue support of the Film Council/*bfi* supported venues. We therefore start the analysis with a full evaluation of the value and type of revenue support given to these venues (Section 12.2).

This in then followed by a discussion of the value of support provided by the specific organisations (and schemes), separated into revenue support and capital investment, as follows:

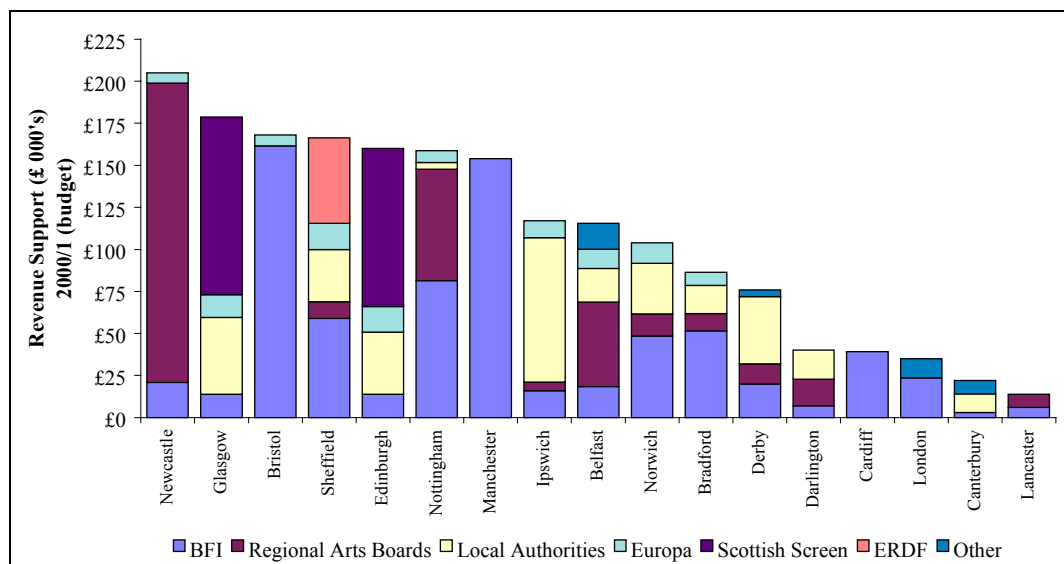
- Revenue support from:
  - regional arts organisation (Section 12.3). These include Regional Arts Boards (RABs), Regional Screen Agencies (RSAs) and Media Development Agencies (MDAs);
  - the European Commission (Section 12.4). In particular the MEDIA Programme;
  - the private sector (Section 12.5). Support is predominately from sponsorship of film festivals and television films
- Capital investment funding by:
  - the four national UK Arts Councils (Section 12.6). These are the Arts Council of England (ACE), Scottish Arts Council (SAC), Arts Council of Wales (ACW) and Arts Council of Northern Ireland (ACNI);
  - the *bfi* (Section 12.7). Until recently a capital fund was run to support the specialised sector;
  - urban regeneration schemes (Section 12.8). These include Single Regeneration Budget (SRB) and the European Regional Development Fund (ERDF).

## 12.2 Revenue support to Film Council/*bfi* supported venues

### 12.2.1 Revenue support by organisation

Figure 12-2 illustrates the relative importance of different stakeholders involved in supporting specialised cinema across a sample of 18 locations. This sample is based on *bfi* records (mostly RFTs). Revenue support in this context is defined as ‘cinema-only’ funding. This is important as some of the cinemas receive a significant amount of revenue support for non-cinema related activities.

**Figure 12-2: Revenue support by provider for a sample of Film Council/*bfi* supported venues (£ 000s)**



Source: *bfi Supported venues comparative data, 2000-01*

Figure 12-3 illustrates the average value of an award by funding organisation. Film Council/*bfi* awards the largest average amount of support of £43,400 per venue compared to £35,400 provided by RABs and £24,200 Local Authorities. Out of the £1,845 million of funds in the sample, a total of £740,000 originates from the Film Council/*bfi*, which represents 35.8% of total funding.

The figure provides an indication of the significance of each of the funding organisations. In particular, Local Authorities, with planned budgets for 2000-01 of £340,000 spend on the Film Council/*bfi*, is a significant provider of funds. Given that these 17 supported venues are a small sample of the number of specialised cinemas, the overall contribution by Local Authorities to the sector could be much more significant. However, it has not been possible to quantify the overall contribution which is made by Local Authorities due an absence of relevant data as explained above.

**Figure 12-3: Key indicators of revenue support for a sample of Film Council/bfi supported venues by providers (£ 000s)**

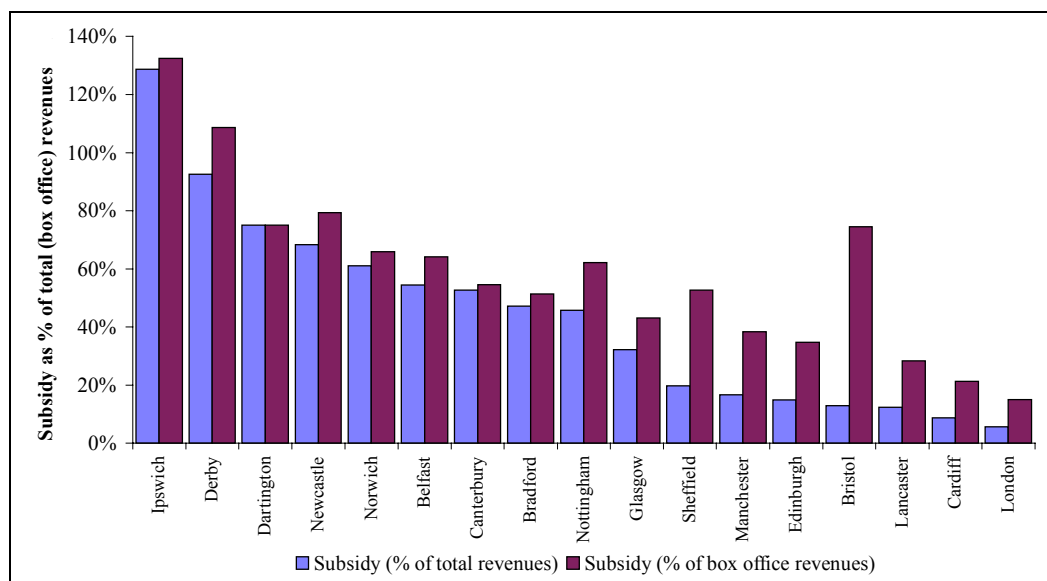
	Number of venues supported	Average support per venue	Total revenue support in sample	% of total supported
Film Council/bfi	17	43.4	740	40.1%
Local Authorities	14	24.2	340	18.4%
Regional Arts Boards	9	35.4	320	17.3%
Scottish Screen	2	99.9	200	10.8%
Europa	10	10.5	105	5.7%
Miscellaneous	6	23.3	140	7.6%
Total	66	32.5	1,845	100.0%

Source: bfi Supported venues comparative data, 2000-01

### 12.2.2 Importance of revenue support

Revenue support is crucial to the survival of specialised cinemas. Figure 12-4 shows that subsidy as a proportion of total revenues accounts for between 6% and 129% of total commercial (non-subsidy) revenues, and between 15% and 132% of box office revenues.

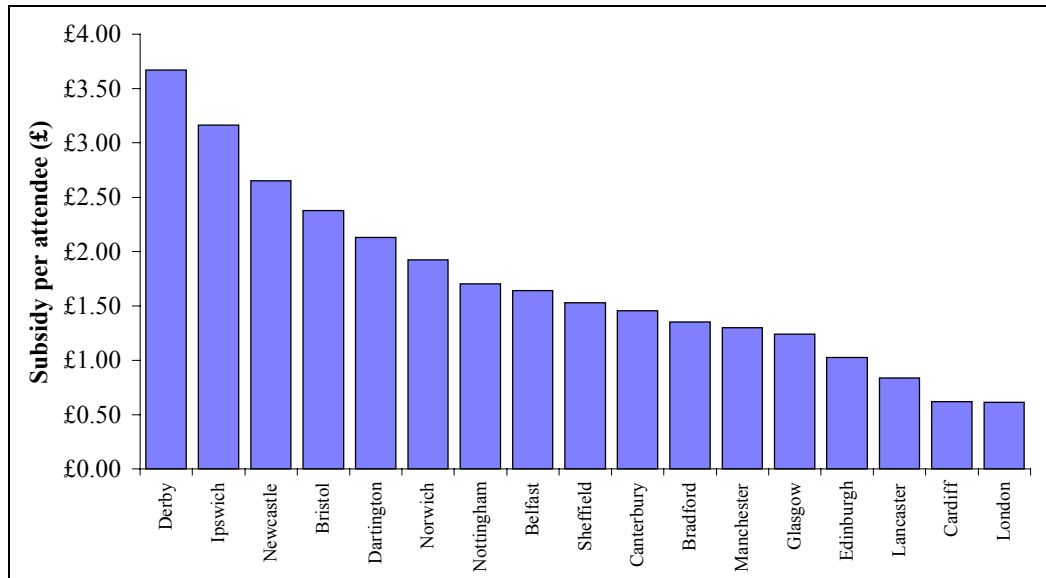
**Figure 12-4: Revenue support as a proportion of incomes (1999-00)**



Source: bfi Supported venues comparative data, 2000-01

There is a large difference between the amount of subsidy provided per attendee. Figure 12-5 shows the amount of revenue support is largest in Derby at around £3.70 per person. The average subsidy per cinema attendee is around £1.40 per attendee per annum, which equates to £266 per seat per annum.

**Figure 12-5: Revenue support per cinema attendee at Film Council/bfi supported cinemas (1999-00)**



Source: bfi Supported venues comparative data, 2000-01

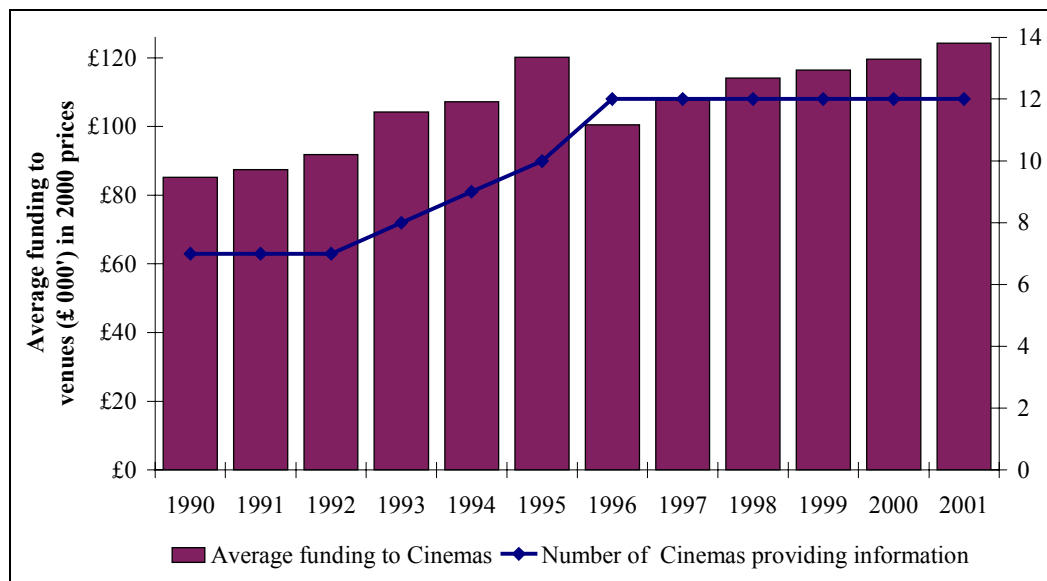
### 12.2.3 Key trends in revenue support

We have analysed the average revenue support funding to exhibition since 1990 through KPMG’s questionnaire of exhibitors. Figure 12-6 shows that the average amount of cinema-only revenue support given to venues has broadly remained unchanged in real terms since the mid-1990s. From the sample of questionnaire returns, public funding rose in real terms from £85,000 to £120,000 over the 1990-1995 period, fell slightly in 1996 and then gradually rose again to the current value of £125,000 per venue (figures quoted in 2000 prices).

The figure also shows a general increase in the number of venues which are receiving revenue support. This means total revenue support has increased significantly in real terms, despite average revenue support per venue remaining broadly constant. This finding should be treated with caution as some cinemas only provided more recent data on revenue support. We believe this is likely to be due to inadequate reporting rather than an absence of support. In addition, as already mentioned, many of the exhibitors who returned a survey did not complete this question due to reasons of commercial sensitivity.



**Figure 12-6: Trends in cinema only revenue support (1999-00)**



Source: KPMG survey

## 12.3 Revenue support: Regional funding organisations

The regional funding organisations which support film are discussed in this section. Key players which have an important role in the past are RABs and MDAs. However, regional structures are currently in state of flux with the development of new RSAs. Responsibility for exhibition support and development has now shifted from the RABs and MDAs to new RSAs. These issues are discussed in greater detail below.

### 12.3.1 Regional Arts Boards and Media Development Agencies

RABs and MDAs have made a valuable and significant contribution to specialised exhibition activity over the years through both project and revenue support for film festivals, full time cinemas, arts centres with a cinema programme and development work.

This investment programme benefited organisations in receipt of *bfi* revenue support (see Figure 12-2), but also supported to a range of exhibitors across the UK that were not in receipt of *bfi* funding e.g. Warwick Arts Centre, Cinelincs and the Cambridge Film Festival.

Whilst the level of support varied across the regions, monies accruing to both *bfi* funded and non-*bfi* funded organisations represents a sizeable investment in the thirty years since the regional arts funding system was established.

### 12.3.2 The changing face of regional funding: Regional Screen Agencies

RSAs have now taken over responsibility for the development of film and moving image from MDAs and RABs. These new agencies will become the key delivery mechanisms responsible for investment in film and are responsible for providing strategic leadership and funding development of film, video and the moving image.

ACE is also currently engaged in a project to restructure its relationship with the regions – currently ACE currently focuses its regional support through the RABs. ACE announced at the start of the summer, its intention to form a ‘new ACE’ which would merge the staff and activities of ACE and the RABs into a single organisation. In effect, the RABs would become branch offices of this ‘new ACE’.

Although the formation of RSAs has, largely, entailed the transfer of responsibility for exhibition support and development from RABs, the project to create ‘new ACE’ could also impact upon the context for public support for exhibition. Whilst the RABs as autonomous charitable companies could legitimately claim an interest in cinema exhibition independent of their relationship with ACE, ‘new ACE’ regional branch offices may not have that latitude, nor are they likely to employ specialist film/cinema staff.

The consequence for cinema exhibition is the transfer of around £1.6m currently spent by RABs on film from ACE and to the Film Council. Just under £600,000 of this relates to film activity (revenue and project grants), of which around a third is for cinema exhibition activity. The other £1m comprises corporate activity budgets, salaries and overheads currently expended by RABs on film activity.

### 12.3.3 Regional Investment Fund for England

Another key development in the regional context is the Regional Investment Fund for England (RIFE), which has been developed to co-ordinate grant-in-aid and National Lottery spending, to maximise the financial contribution from other bodies, and to strength the overall regional structure. The specific objectives of RIFE are to:

- develop a sustainable UK film industry: by developing the pool of creative skills and talent; developing entrepreneurial acumen and business clusters; and developing an industrial infrastructure;
- develop film culture in the UK by improving access to, and education about, film and the moving image: by ensuring that the public has access to a broader range of British and world cinema; opportunities for learning about film; access to the UK’s film heritage; and opportunities to participate in film production.

It has been created by combining pre-existing budgets for a range of film activity including the *bfi*’s former RFT and RAB grants. Additional funds, largely Lottery

derived, doubled the size of the RIFE budget to £6.15m. In 2002-03, the transfer of around £1.6m from ACE to the Film Council to allow for film activities previously carried out by RABs will further contribute to the total RIFE budget. As part of the process of making allocations from the fund, each of the nine English regions was asked to produce a business plan for film and moving image development activity, based on business plan guidelines issued by the Film Council (November 2000).

This year (2001-02) RSAs have undergone sometimes complex options appraisal and company formation processes. At the same time, grant-in-aid commitments were universally maintained on a 'no change' basis, whilst many areas of project development support were placed in limbo until successful Lottery delegation allowed access to enhanced funds for (for example) audience development or festival funds. As a consequence of these factors, 2001-02 was very much an interim year and, therefore, a fully accurate projection of the level of support from RIFE for exhibition is not available.

The grant-in-aid figures for 2001-02 do however show that exhibition activities benefited from 39% of RIFE spend, a total of £1,291,756. If money currently spent by RABs from ACE budgets is included, this rises to approximately £1.37m.

#### 12.4 **Revenue support: European commission MEDIA funding**

The MEDIA programme of the European Union is defined as a “set of funding support mechanisms aimed at strengthening the competitiveness of the European film, TV and new media industries and to increase international circulation of European audiovisual product”<sup>117</sup>. The original media programme (MEDIA I) consisted of 20 individual programmes, which ran between 1991 and 1995, with the aim to assist the sector in the move towards the single European market.

The emphasis of the programme then changed with the beginning of MEDIA II from 1996-2000, with a strategy concentrated on improving co-operation within the European industry. The 20 programmes were condensed into 3 separate areas of support, namely development, distribution and training. The budget for MEDIA II was £206 million (€ 310 million) over the five years<sup>118</sup>. Around € 265 million (£165 million) was set aside for development and distribution, and € 45 million (£28 million) for training<sup>119</sup>. The budget of the MEDIA II programme was 55% greater than the MEDIA I.

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<sup>117</sup> European Commission.

<sup>118</sup> Source: Cultural Trends.

<sup>119</sup> Commission Report on the results obtained under the MEDIA II programme (1996-2000) from 1/1/96 to 30/6/98.

### 12.4.1 Overview of support mechanisms

Total MEDIA II funding to the UK over the 1996 to 1999 period was £17.7 million. This consisted of training (£4.0 million), comprising script development (£13.0 million), distribution (£6.2 million) and exhibition promotion and marketing (£0.3 million).

Figure 12-7 highlights the specific mechanisms which form part of the wider MEDIA II programme. Assistance is usually given in the form of either grants or interest free loans. Key indicators of how much support is given is also shown.

**Figure 12-7: Description of types of MEDIA II distribution funding (projects between 1996 and 1997)**

Type of support	Description of mechanism	Key indicators
Selective support for distribution	<i>“Grants are made to distributors proportionate to cinema attendance in previous years non-national European films”</i>	644 projects were supported, consisting of 110 European films (distributed on average in 6 different countries each) and 158 European distributors
Automatic support for distribution	<i>“Loans are granted to groupings of at least three distributors from different countries for the distribution of one or more recent non-national film”</i>	143 distributors, 616 films  76.2 m paying audience (of which 54.2 m eligible).
Cinema networks	<i>“Specific funding is provided for the networking of cinemas showing European films”</i>	€ 7.5 million towards Europa Cinema, Media Salles and Eurokids network  Europa network in EU has 307 cinemas and 741 screens. Euro Kids Network has 250 Screens. Media Salles provides information and promotional activities
Video and multimedia	<i>“Loan varies according to the number of works which make up the catalogue (€40 000 for at least five works and €100 000 for a minimum of ten works).”</i>	Total funding of € 4.1 million .  950 releases, 87 video companies  Cassettes sales and rentals of 6.1 million and 100,000 respectively.  54% of titles are dramas, 27% children's / animation and 19% documentaries

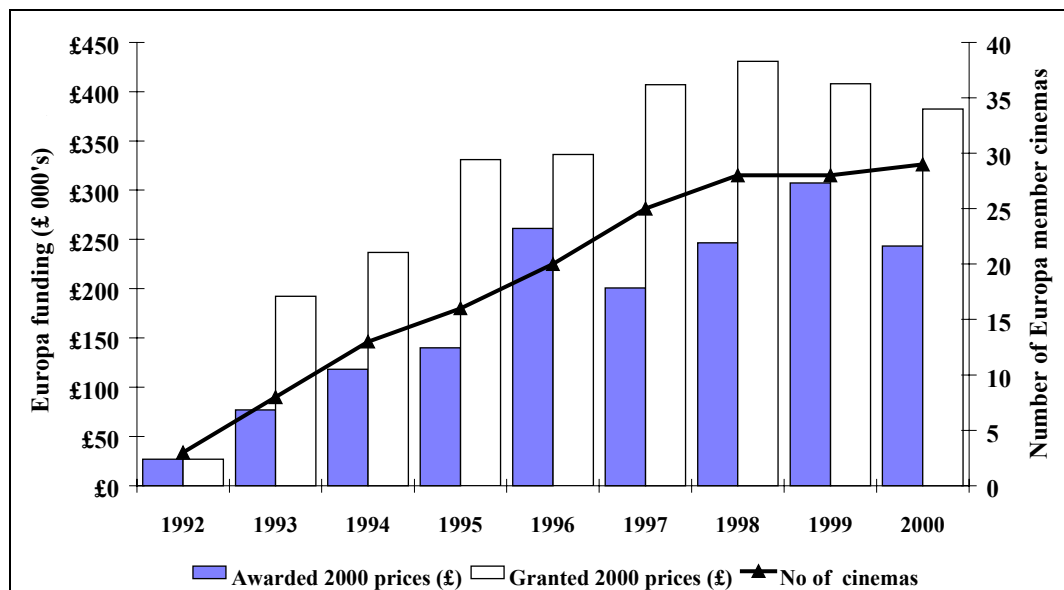
Source: Commission Report on the results obtained under the MEDIA II programme

### 12.4.2 MEDIA support to exhibition

Europa Cinemas is an organisation funded by the MEDIA Programme which directly supports cinemas across Europe. The objective of the organisation is to increase the number of screenings of European films in cinemas across Europe. Types of funding carried out by the agency are direct financial support to cinemas and for promotional and special events. The Europa network has 307 cinemas and 741 screens. It is responsible for 57% of screenings for European films and 35% of screenings for European films outside their national territory with total admissions of 4.2 million.

Figure 12-8 shows the amount granted<sup>120</sup> and the amount awarded<sup>121</sup> by Europa Cinemas to UK cinemas. The amount awarded per cinema in 2000 was around £8,400 with a total support to UK cinemas of around £240,000. Of this at least £105,000 has been directed towards the Film Council/*bfi* supported venues<sup>122</sup> (see Section 12.2). Since 1992 the amount of support given to Europa cinemas increased significantly, although since 1996 the level of support has been broadly constant.

**Figure 12-8: Europa Funding to UK cinemas over the 1992-2000 (£ 000s in 2000 prices)**



Source: Europa Cinemas

### 12.4.3 MEDIA support to distribution

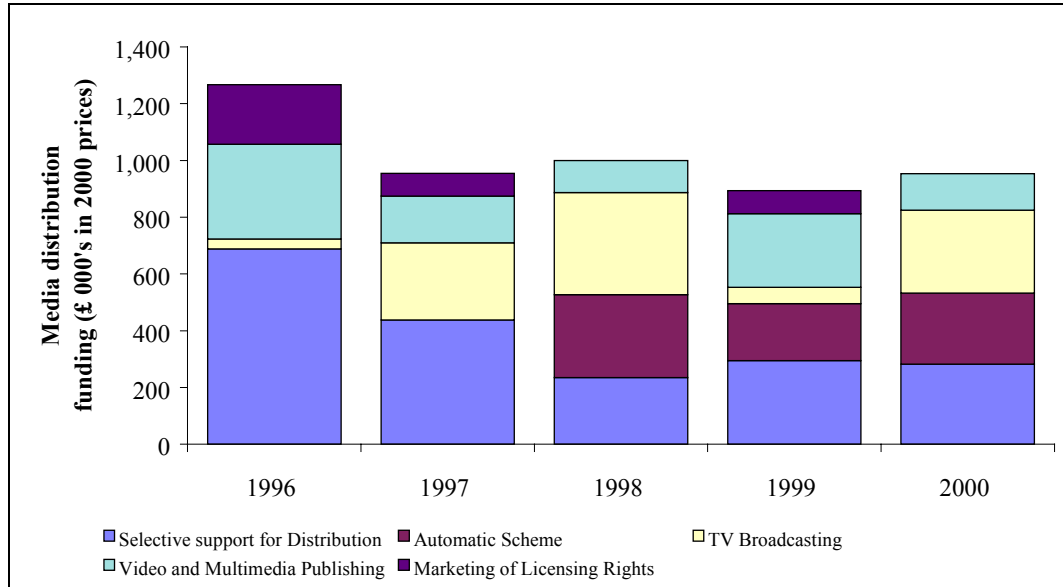
A breakdown of media funding to the distribution sector in the UK, by type of support, is given in Figure 12-9. The chart shows that in real terms the total amount of distribution funding has been broadly constant over the 1996-2000 period, apart from 1996 which was significantly above the average. In terms of the type of support, selective support has been dominant over the period, but by 2000 this declined in importance being roughly equal in size to automatic support.

<sup>120</sup> The maximum amount of financial support which UK cinemas members can receive based on the number of screens at Europa cinemas.

<sup>121</sup> The actual amount given to cinemas based on their results.

<sup>122</sup> Amount of funding which has been identified. A small number of *bfi* supported venues did not return their questionnaires.

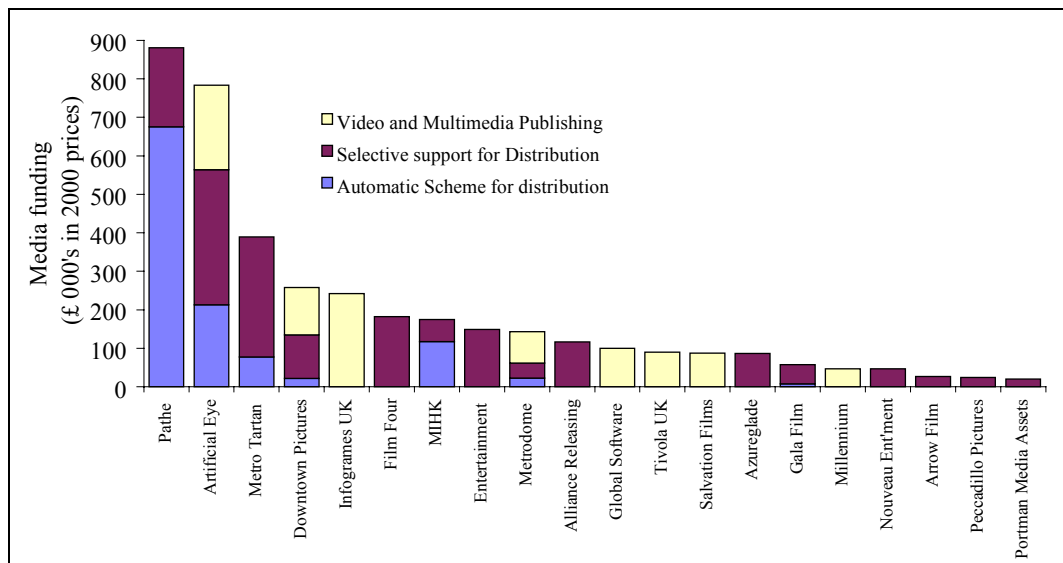
**Figure 12-9: Media distribution funding by type over the 1996-2000 period (£ 000s in 2000 prices)**



Source: UK MEDIA Desk. Note: Identified funding only, as information records from UK MEDIA Desk are incomplete.

In terms of the funding by company, UK distribution companies which receive MEDIA II funding are identified in Figure 12-10. Pathe and Artificial Eye receive the majority of MEDIA II funding.

**Figure 12-10: Media distribution funding by company over the 1996-2000 period (£ 000s in 2000 prices)**



Source: UK MEDIA Desk. Note: Identified funding only, as information records from UK MEDIA Desk are incomplete.

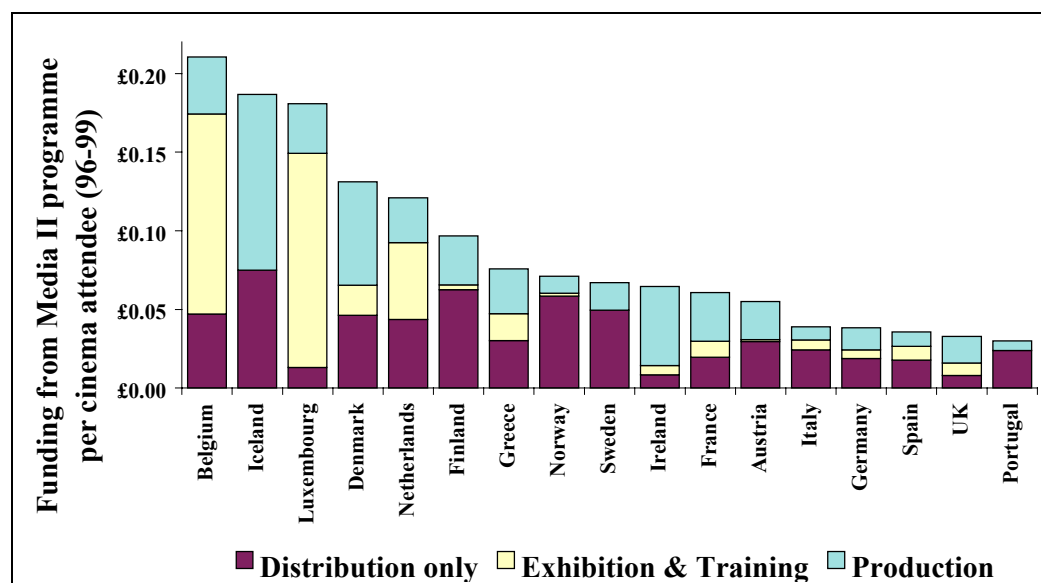
#### 12.4.4 EU cross-country comparison

Figure 12-11 shows how the total funding and distribution funding to the UK compares to other countries. The funding support has which has been normalised by the total number of cinema attendances between 1996 and 1999. Overall the UK receives much lower funding than most other EU countries.

To some extent this reflect the objectives of the MEDIA programme which is aimed at cross-border co-operation through the support of non-national films, rather than a failure of UK per se. The criteria used in allocating the MEDIA funds means that support is focused more towards countries with low national production capacity. Typically, low capacity is correlated with the size of the domestic market, which is why many of the countries which receive most funding per head are small in population.

In fact, “countries with a low production capacity have received a third of the amounts allocated by MEDIA II whereas they represent only 13% of investment in feature length production and 21-22% respectively of the GDP of the populations of countries participating in the Programme<sup>123</sup>”.

**Figure 12-11: Funding from Media II programme per cinema attendee (1996-1999)**



Source: UK MEDIA Desk; European Cinema Yearbook, Media Salles (2000)

#### 12.4.5 Effectiveness of the MEDIA programme

The actual impact of the MEDIA programme is difficult to quantify as it is not possible to estimate what would otherwise have happened. However, an indication

<sup>123</sup> Commission Report on the results obtained under the MEDIA II programme (1996-2000) from 1/1/96 to 30/6/98.

of the strength of the programme is given by the value of the funding. The MEDIA funding represents 0.5% of the total turnover in the European audiovisual sector which is small, although it is slightly higher at 0.95% for countries which have lower levels of production<sup>124</sup>.

More importantly, viewing this support in relation to profitability of companies means that the support is much more significant. For example, if profits account for 5–10% of gross turnover, the support begins to look more significant.

There is also a multiplier impact (or lever effect) of the funding support, which is particularly large in the distribution sector. It is estimated that for every € 1.0 of media funding, total funding in the distribution sector is 3.7. This is a significant multiplier.

#### 12.4.6 The MEDIA Plus programme

The MEDIA Plus programme commenced on 1 January 2001 and runs to 31 December 2005. With a budget of € 400 million (£240 million), MEDIA Plus supports distribution, exhibition, script development and training in screenwriting, business and new technologies of European audiovisual works. MEDIA Plus makes funds (57.5% of the total MEDIA budget) available to support the distribution of EU films outside their country of origin. There is an automatic and a selective support scheme.

The automatic support scheme works as a function of box office results. The aim is to reward films which are commercially successful. Distributors receive a direct subsidy, which they commit to reinvest in P&A or rights acquisition for subsequent releases. Subsidy requires the distributor to be European and is only available in relation to the distribution of non-national European films. This second criteria means that few distributors in the UK access this facility. MEDIA Plus also provides for selective support (with a budget of € 12 million per year, which equates to £7.5 million). Maximum funding per distributor and per film is € 150,000 (£93,000). This reimbursable advance can cover a maximum of 50% of the P&A budget. It becomes a subsidy when net receipts on the film are below a certain level. This system aims to foster the screening of European non-national films

Media Plus is highly important in encouraging commercially successful films, and, hence, strengthening the foreign language film sector in Europe. However, it is unlikely to support niche films of a highly specialised nature which might not have strong commercial foundations. This provides an opportunity for the Film Council to intervene and support distribution, without replicating the important work achieved by MEDIA Plus.

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<sup>124</sup> Identified as Belgium, Netherlands, Ireland, Austria, Norway, Sweden, Finland, Denmark, Luxembourg, Iceland, Portugal and Greece.



## 12.5 Revenue support: Sponsorship

The most extensive source for trends and information on private sector sponsorship to the arts is a survey carried out by 'Arts and Business' entitled 'Business Investment and the Arts'. We therefore use this publication to identify general trends in business sponsorship of the arts and the film sector.

### 12.5.1 Trends in sponsorship of film

Trend information is provided by the constant sample of business investment between 1993-94 and 1999-00 as replicated in Figure 12-12. The figure shows that the total amount of business investment in the arts increased from £38.3 million in 1993-94 to £78.1 million to 1999-00.

Adjusting for inflation the amount of investment has increased from £45 million to £78 million over the same period (2000 prices). This constant sample accounts for 58% of the business investment in 1999-00. The main driver behind the increase is the significant increase in capital projects, due mainly as a result of the Lottery. The changes are particularly impacted upon by changes in a small number organisations.

**Figure 12-12: Business sponsorship in the arts from 1993-94 to 1999-00 (millions)**

Type	93-94	94-95	95-96	96-97	97-98	98-99	99-00
General business	23.4	27.9	28.0	32.7	37.2	41.5	25.9
Corporate membership	7.2	8.9	8.4	8.3	8.4	7.2	8.7
Corporate donations	3.7	4.0	3.1	4.0	4.5	4.8	7.6
Sub-total	34.3	40.8	39.5	44.9	50.2	53.5	42.1
Capital projects	0.3	6.3	2.6	13.9	11.4	24.2	32.3
Sponsorship in kind	3.7	3.6	3.9	2.7	3.2	4.5	3.6
Total	38.3	50.7	46.0	61.5	64.8	82.2	78.1
<b>Total (adjusted for inflation)</b>	45.0	58.2	51.0	66.6	68.1	83.5	78.1

*Source: Arts & Business survey data 1999-00*

### 12.5.2 Trends in sponsorship in the film industry

In terms of the amount of business sponsorship in the specific area of film, Figure 12-13 shows that the amount given to film and video has increased, albeit slightly. The figures are for all investment in film and video, and therefore likely to indicate production, and mainstream cinema exhibition as opposed to specialised exhibition and distribution. Nevertheless the data are useful in identifying that the scale of sponsorship has been broadly constant since 1993-94.

**Figure 12-13: Total cash sponsorship for film 1993-94 to 1999-00 (millions)**

Type	Business
1993-94	4.732
1994-95	3.469
1995-96	4.249
1996-97	3.847
1997-98	5.875
1998-99	5.399
1999-00	5.717

Source: Arts & Business survey data 1999-00

The data indicate fluctuations due to a number of organisations leaving and joining the survey each year. Therefore the actual breakdown is probably more interesting. Figure 12-14 shows that film received a total of 10.6 million in 1999-00 which is a total of 8% of funding to the arts by businesses. In terms of the regional breakdown, most of the funding is directed into the London region which accounts for 65% of total investment in film/video and 74% of cash sponsorship.

**Figure 12-14: Business sponsorship for film 1993-94 to 1999-00**

Type	Spending (£ 000s)		Film as % of total
	Film / Video	All Arts	
General business sponsorship	2,456	55,933	4.4%
Corporate membership	182	10,259	1.8%
Corporate donations	3,078	11,756	26.2%
Capital projects	3,558	42,906	8.3%
Sponsorship in kind	1,305	10,570	12.3%
<b>Total</b>	<b>10,595</b>	<b>134,627</b>	<b>7.9%</b>

Source: Arts & Business survey data 1999-00

Sponsorship in the film industry is typically focused on film festivals and television films, with little spent on film production. Although the actual amount of funding which is directed towards specialised exhibition and distribution is not available, it is likely to be small apart from the funding to film festivals. Film festivals are very reliant on sponsorship by the private sector, particularly Banks and corporations. Examples include Barclays<sup>125</sup>, Kodak, Fuji Film and United International Pictures<sup>126</sup>. According to the 'UK Cultural Sector' the amount of funding directed towards individual films is not significant, due to the risks of individual films. Widening sponsors activity to other parts of specialised sector including education would be difficult, but could nevertheless bring benefits.

<sup>125</sup> All Industry Marketing for cinema in 1997 where £10 million was spent on promotional activities. Source: Profile of the Film Industry, David Hancock, Screen Digest which is replicated in 'The UK Cultural Sector'.

<sup>126</sup> Sponsorship of £100,000 to the London Film Commission (prior to the creation of the Film Council).

## 12.6 Capital investment funding: UK Arts Councils

This section describes the level of capital funding by the four Arts Councils in the cinema sector. It should be noted that there is a fundamental problem in quantifying the exact level of capital investment in the sector. Often support to cinema exhibition is part of a much larger scheme (i.e. an arts centre development or regeneration support for a region), while many funding organisations just report total funding in the film industry (which includes production). Thus the figures can sometimes be misleading and therefore should be treated with caution.

### 12.6.1 Background to the Arts Capital Programme

The National Lottery and the UK Arts Councils over the past five years (since the start of the Lottery) have provided significant capital funding for development of film.

Each of the four UK Arts Councils award a proportion of their resources on film. According to the Arts Council of England for example, out of total of £1,162 million spend on the arts, film (excluding production) received £40.7 million (1995-00) with a further £96.3 million spent on film production. (i.e. a share of 3.5% and 8.3% respectively)<sup>127</sup>.

The type of projects which are funded by the UK Arts Councils are dependent on whether they satisfy a number of criteria. These are described in Figure 13-15 for the Arts Council of England only.

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<sup>127</sup> Arts Council of England (Lottery Capital Awards) spending to date (1<sup>st</sup> February 2001).

**Figure 12-15: ACE assessment criteria**

<b>Assessment criteria:</b>	<b>The proposal will need to:</b>
1. Public benefit (incl. maximum access for disabled people)	- show the widest possible benefit for the public and for artists - show how the project will reach new audiences - be fully accessible to people with physical disabilities - incorporate facilities for those with hearing or visual impairment
2. Financial viability and quality of management	- prepare a detailed plan (timetable & budget) for managing the project - estimate the effect of the proposal on the wider business - prepare a business plan for the project (with detailed projections)
3. Partnership support	- secure partnership funding (usually) in excess of 50% of the overall costs
4. Quality of design and construction	- ensure the project is planned and design to a high standard - use fair and open procurement procedures - avoid the 'design and build' process
5. Quality of creative activities planned, including education	- show the impact on the quantity and quality of future programmes - show an increase in understanding, appreciation and enjoyment of film through educational activities - prepare a clear strategy for putting education programme into practice - demonstrate a clear link between education and core programme
6. Relevance of the project to local, regional, national arts plans	- show that local authorities and other bodies have been consulted and are supportive - fit in with plans of local arts groups and other bodies
7. Involvement of artists, craftspeople, film & video makers	- show involvement of artists, craftspeople, film & video makers (as consultants) in planning, designing or building of the project
8. Quality of plans for marketing and for developing audiences	- explain the plans for marketing and promoting the project to the widest audience - prepare a marketing strategy

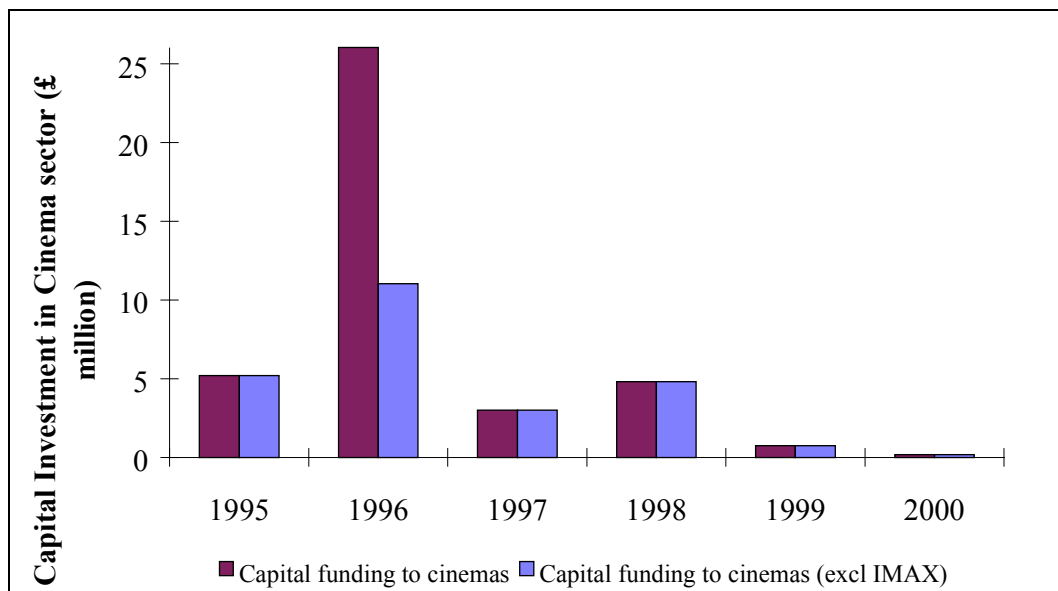
Source: ACE Arts Capital Programme; KPMG analysis

### 12.6.2 Trends in capital investment by Arts Councils

The capital funding by the UK Arts Councils has focused on the purchase of equipment, new building and refurbishment of existing buildings and commissioning feasibility studies.

Over the period 1995 and 2000 (round one of the ACE Arts Capital Programme) there has been a significant capital investment programme in cinemas. A total of around £40 million has been spent by the four Arts Councils as shown in Figure 12-16. However, much of this investment was focused in 1996 at the start of the National Lottery. A major proportion of the funding (£15 million) has been on one project, namely, the *bfi*-IMAX London flagship cinema. In short, capital investment was significant in 1996 and 1997, but has tailed off in recent years. The new capital investment budget of £15 million, described in Section 5.2, is an opportunity to alter this trend, although the magnitude of this fund is still much lower than the injection of public funds which occurred in 1996 and is therefore unlikely to meet fully the capital needs of the specialised sector.

**Figure 12-16: Capital investment funding for film by the four UK Arts Councils (£ million)**



Source: Lottery Awards Database (2001); KPMG survey of the four UK Arts Councils (ACE, SAC, ACW and ACNI).

The ACE Arts Capital Programme is now in its second phase, and a number of cinema projects have been recently admitted to the programme (see Figure 12-17). Overall the amount reserved totals around £8.6 million. The next step is a full evaluation of each of these projects against the formal criteria set out in Section 5.2.

**Figure 12-17: Examples of cinema projects admitted to the Arts Council of England Capital programme**

Description of project	Amount reserved (£)
Dorset County Council (Cinemobile)	£400,000
Derby City Council (Metro)	£2,500,000
Nottingham Broadway	£1,800,000
Doncaster Council (arts centre including 2 cinemas)	£2,000,000
Bristol Watershed	£900,000
Manchester Cornerhouse	£1,000,000

Source: ACE

### 12.6.3 Non-capital assistance by UK Arts Councils

Most of the Lottery funding by UK Arts Councils has been in the form of capital investment. Out of the £1.3 billion spent (between 1994-95 and 1998-99) by the four Arts Councils, around 88% was spent on capital grants<sup>128</sup>. Nevertheless there

<sup>128</sup> Table 16.6: The National Lottery, Sara Selwood, University of Westminster; The UK Cultural Sector (2000).

is still a significant amount of non-capital support (i.e. around £150 million) which flows into the arts sector. This is not strictly revenue support, as it is mainly one-off or short term awards rather than recurring support. For example, the ACE offers the following award programmes:

- Stabilisation programme, which focuses on assisting arts organisations to achieve long term creative and financial stability by reviewing their current business operations and developing strategy;
- Recovery programme, which is aimed at organisations experiencing financial difficulties, although help is sometimes given over the medium term.

In terms of the amount of this support which has been concentrated towards the specialised exhibition and distribution sector, there is little evidence that this is done to any significant degree. There are some case, however, where exhibition is receiving some support as part of a much wider package (e.g. arts centre development).

Examples of where the stabilisation and recovery programmes have been used by ACE in the exhibition sector (and for Arts Centres) is given in Figure 12-18. The table shows that the Cornerhouse in Manchester, for example received £25,000 in September 2000 to develop a “strategy for change”.

**Figure 12-18: Examples of awards given by ACE to cinemas and arts centres**

Organisation	Type	Fund Name	Award
Cornerhouse	Cinema	Main Stabilisation Programme	£25,000
Cinema City	Cinema	Pilot Stablisation Award	£453,272
Poole	Arts Centre	Stabilisation award	£1,800,000
Watermans	Arts Centre	Recovery award	£1,100,00
Battersea	Arts Centre	Recovery award	£500,000

Source: Lottery Awards Database (2001); Main Stabilisation Programme; [www.lottery.culture.gov.uk](http://www.lottery.culture.gov.uk).

## 12.7 Capital investment funding: the *bfi* capital fund

Until recently the *bfi* operated a capital fund of approximately £240,000 per annum that was used to partner funding from other capital investors including local authorities, development agencies, the private sector and latterly, the Arts Lottery.

Established in the late 1960s, this fund invested significant amounts of money in the specialised exhibition infrastructure and provided crucial leverage on numerous key projects including the Watershed in Bristol, the FACT Centre in Liverpool, Broadway in Nottingham, Sheffield Showroom, Harbour Lights in Southampton and Cornerhouse in Manchester.

This fund was also used provide loan capital to City Screen in relation to developments in Oxford and Exeter.

Following the restructuring of the *bfi* in July 1998 and the subsequent transfer of funding responsibilities from the *bfi* to the Film Council in April 2001 this capital fund ceased to operate.

## 12.8 **Capital investment funding: Regeneration schemes**

### 12.8.1 **Urban regeneration schemes**

There is a general awareness of the important role which urban regeneration has in the development of cultural activities, through public sector regeneration funds such as the European Regional Development Fund (ERDF) and the Single Regeneration Budget (SRB).

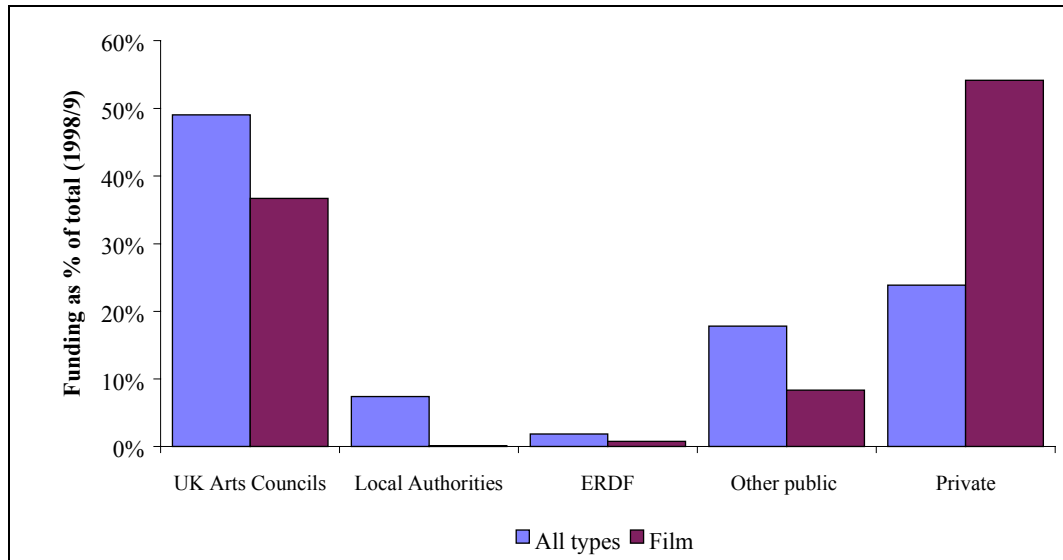
Support under these schemes, however, is often part of a much wider regeneration programme aimed at improving infrastructure and the development of the local economy. Although in these cases, it is difficult to determine the direct contribution made to the cinema development.

Cultural Trends sums up the position by stating that there is “*little evidence to show how much funding actually gets spent on culture in regeneration programmes even though regeneration spending was found to be the third most important source of UK central Government support for the cultural sector*”. A high level survey of undertaken by Cultural Trends of SRB estimated that the percentage of cultural expenditure by the fund in 1998-99 was 4.3% in England. Assuming a similar proportion for the rest of the UK, this would mean support of £95 million towards the cultural sector.

### 12.8.2 **Partnership funding**

Another area which ERDF and SRB is particularly valuable is as a source of partnership funding. This can be crucial in circumstances when projects are required to secure such funding (e.g. The ACE Arts Capital Programme requires partnership funding usually in excess of 50% of the overall costs). The types of partnership funding secured for projects in the film sector against all arts projects is given in Figure 12-19.

**Figure 12-19: Type of partnership funding for projects supported by the four UK Arts Councils (1998-99)**



Source: *Cultural Trends (2001)*

The amount of public funding which is secured in the film sector is much lower than average accounting for 27.1% of partnership funding (and 9.2% of total funding). The main reason is the strength of the private sector contribution of 85% of partnership funding and 47% of total funding. Overall the UK Arts Councils contribute roughly 50% of the total in the arts sector, but only 37% in the film sector.

## 12.9 Constraints and opportunities

### 12.9.1 The value of public sector contribution

Many organisations and stakeholders are currently involved in supporting the sector. On the revenue support side, Film Council/*bfi* currently has the most important role in underpinning the specialised sector, with revenue support towards the Film Council/*bfi* full-time network totalling £740,000. However, there are many other bodies, such as Local Authorities and Regional Arts Boards, which also play a vital role. A breakdown by source organisation of £4 million of (identified) revenue support is illustrated in Figure 12-20.



**Figure 12-20: Summary of identified revenue support in 2000 (£ 000s)**

Organisation	Identified support (£000s)
<b><i>bfi</i> supported network:</b>	
- Film Council/ <i>bfi</i>	£740
- Local Authorities	£340
- Regional Arts Boards	£320
- Europa cinemas	£105
- Other support	£340
<b>Total Revenue Support to <i>bfi</i> supported network</b>	<b>£1,850</b>
<b>Exhibition Media II support (Europa cinemas<sup>1</sup>)</b>	<b>£240</b>
<b>Distribution Media II support to</b>	
- Selective support to film	£280
- Automatic support to film	£250
- Support to TV, video and related marketing	£550
<b>Total Media II support to distribution</b>	<b>£1,080</b>
<b>Regional Arts Boards<sup>2</sup></b>	<b>£1,000</b>
<b>Total of above</b>	<b>£4,065</b>

Source: KPMG estimates from various sources

Note: <sup>1</sup> Includes support to *bfi* supported network of £105,000. <sup>2</sup> Identified support only.

It should be noted that total revenue support provided by local authorities is likely to be much higher than the above (Film Council/*bfi* network only) figures suggest. However, it is difficult to determine this total as figures are only provided for local authority expenditure in the whole arts sector rather than just the specialised film sector.

The figures for Local Authority contribution to the whole arts sector do, however, indicate that the level of support is likely to be significant. Local Authority expenditure on the whole arts sector totalled £175 million, and so even if only 3% of this flows into the sector<sup>129</sup>, this still represents a significant and important sources of funds, equating to around £7 million.

Overall, the value of the public sector contribution is best illustrated by comparing revenue support against turnover in the sector. Total box office figures for the specialised sector are not available, but can be estimated given that the specialised sector represents less than 8% in terms of screens and between 3% and 6% in terms of audience numbers. These proportions suggest that box office figures for the specialised sector are unlikely to be greater than £40 million, given total (2000) turnover in the industry is estimated to be £621.2 million. Comparing this turnover figure with the revenue support of £4 million illustrates how much financial assistances from the public sector is flowing into the sector, representing 10% of turnover.

<sup>129</sup> The proportion of the capital investment from the Regional Arts Boards which flows into the film sector (excluding production) is used as a proxy to illustrate rough orders of magnitude of support, although as described above, it has not been possible to identify exactly the support directed towards the sector.

A key opportunity for the sector is therefore the large number of stakeholders which are currently involved in supporting cinema. On one level this could be viewed as a strength in the depth of support which currently exists for supporting specialised cinema. However, it could also be viewed as a constraint. Too many stakeholders makes the task of developing an overall strategy difficult. This creates a problem as the correct incentives can not be created, as each stakeholder often has different objectives.

### 12.9.2 Regional structures

With the set-up of the Film Council and the current changes to the arts funding system, regional funding patterns are set to change radically. In particular, ACE is currently restructuring its relationship with the regions by merging the activities of ACE and RABs into a single organisation. This changed landscape, coupled with the creation of the Regional Screen Agencies, has raised a number of concerns, namely:

- lack of clarity about the strategic direction, grant management and assessment of a number of mixed art-form/art centre venues where cinema forms part of a diverse programme. In some instances the current grant will be split between ACE regional branch offices and RSA (as part of the £1.6m, above). In other instances the ACE regional branch offices may retain grant responsibility on the basis that cinema forms a comparatively minor part of the venue's programming time, or is not considered to form part of the grant supported activities of the venue. In such cases however the venue and its programme may nevertheless form a vital part of a locality or region's specialised exhibition capability.
- confused lines of responsibility for major capital projects. Responsibility for promoting and assessing capital Lottery grants will fall entirely within 'new ACE' and ACE regional branch offices (as described above) will have neither the interest nor expertise to champion cinema developments. Indirectly, as inheritors of the RABs, ACE regional branch offices will seek to play a lead role in championing the arts as a factor in urban regeneration, and as leading players in relations with local authorities on arts matters. As a result, specialised cinema may become sidelined in urban regeneration-led capital projects.

Another development in the regional context is the RIFE. There has in the past been a concern that there has been a lack of co-ordination of support within, and between, funding bodies, and therefore whether the strategy at the different regional levels was coherent. The creation of the RIFE, which assists each of the nine English regions to produce a business plan for film development activity, is a key opportunity to create a more effective overall strategy as well as better individual strategies for each of the regions.

### 12.9.3 Incentive based investment

Revenue subsidy is key to the survival of Film Council/*bfi* supported venues. Without this additional revenue stream many of the businesses would not be able to survive. Any change in investment will need to take this key constraint into account.

In examining whether investment and the existing subsidy mechanism should be reformed to strengthen the market, it is important to consider a number of principles which are commonly accepted to be best practice when providing subsidy. Specifically, a subsidy should:

- be transparent;
- be flexible over time;
- encourage entrepreneurial behaviour;
- minimise dead-weight, by not supporting cinemas and activities which would otherwise survive;
- have clear lines of responsibility and accountability.

Many of these principles already underpin the current regimes. However, one of the key constraints identified in the review of investment and the consultation programme is that subsidy has often been given on an historical basis rather than based on incentives. In other words, what is budgeted for next year is based solely on the current year, rather than on any incentive structure. There will, therefore, be strong reservations about changing such a well established system. An incentive based regime is one of the key strands of the strategy described in Section 3.4.

### 12.9.4 European funding

Another opportunity is to build upon the successes of the MEDIA programme. The MEDIA programme is currently broadly supported throughout the film industry as indicated by a survey of EU distributors<sup>130</sup>. The strength of the programme has been in the automatic support mechanism. This has changed distributors' strategy and incentivised them toward non-national European films. But there are some criticisms of how the programme is implemented. In particular, the results from the selective funding for the distribution of films are perceived to be poor, and do not impact on the overall strategy of European distributors. This suggests that automatic support has a more desirable effect on distributors' business strategy.

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<sup>130</sup> 58% of 99 distributors who responded to a survey on MEDIA II stated that "automatic funding had significantly or very significantly changed their work as distributors and 87.8% stated that this funding would be important or very important to their future work". Selective funding, however, was not so well received.

Building upon the MEDIA II distribution support is a measure which will significantly strengthen the market. The analysis showed that the automatic support mechanism has been quite successful in changing the strategy of some distribution companies to focus more on non-national films.

The automatic support mechanism is generally preferred as companies are able to include the incentive into projected cash flows. Whereas discretionary incentives tend to be discounted and treated as a windfall gain. The selective distribution support does, however, have positive benefits, as it is more cost effective as the amount can be kept to the minimum required to achieve the project going ahead. Both these distribution supports will significantly strengthen the market (see Section 6). MEDIA II is currently being reviewed in detail by the European Commission to enable better implementation of the Media Plus programme. A report is expected in early 2002, and its findings will be very useful in fine tuning the distribution support mechanism.