

## Chapter 1: Formal Film Distribution

### *Introduction*

Film distribution has recently migrated to the forefront of academic enquiry as the traditional modes and mechanisms of movie dissemination are allegedly being 'disrupted' by technological developments from the VCR to Video on Demand (VOD). The challenges and possibilities brought about by new forms of formal online distribution are considered in detail in chapter three and the growth of new forms of informal online distribution are examined in depth in chapters four and five. However, in order to understand these new developments and their possible implications, it is first necessary to explore the nature of the pre-existing models of distribution that these new modes and methods are said to be 'disrupting'. Therefore, this chapter will examine what this 'traditional' Hollywood structure of distribution is, how it functions, and, significantly, how it has hitherto maintained Hollywood's dominance over the global film industry.

Using the term 'distributor' when referring to the film industry has the potential to be quite misleading. These intermediaries might better be understood as publishers, but even that term does not go far enough to encapsulate the dominant role that distributors play within the film industry or indeed the varied nature of their activities.

As Alisa Perren notes:

Intellectual property attorneys, acquisitions executives, festival programmers, television schedulers, web technicians, and marketing assistants all could be identified as part of the distribution business. Importantly, distribution can be seen as taking place when "fan subbers" (i.e., amateur translators of movies

and television series who operate outside sanctioned industrial channels) upload content to torrents, when truck drivers transport comic books from warehouses to retail stores, and when tablet devices are shipped from online retailers to individual residences. Determining the full range of intermediaries involved in distributive processes, and the types of influence they exercise over content individually or collectively, thus becomes a central research challenge. (Perren, 2013, p. 170)

However, while acknowledging the wealth of people and activities that might come under this mantle, this particular chapter is concerned with the 'traditional' film distributor. That is, the company or 'arm' of a larger conglomerate that acquire the distribution rights to films (either before production or after production as a 'negative pick-up') and brings them to exhibitors. In doing so, such distributors do not just 'distribute' or 'publish' films, they also control the marketing of the film, they often have the power to dictate the final cut and they normally retain the intellectual property rights to each film they distribute.

From their job title, one might be forgiven for believing that film distributors are essentially middlemen or wholesalers, but while 'most industries have wholesalers, ...their role is almost always more narrowly defined than in the film industry' (Wasko, 2003, p. 84). Film distributors are certainly in charge of the practicalities of arranging exhibition arrangements with venues and of managing the logistics of getting films (as prints or in digital form) to film exhibitors. In basic terms, the theatrical distribution of a film involves such mundane tasks as 'licensing and booking in movie theatres, marketing through advertising and publicity, manufacturing release prints and delivering these prints to those theatres licensed to play the movie' (Blume, 2006, p. 336). However, the role of the distributor can also be much more extensive than this depending on at what point during film production the distribution deal is arranged.

One thing that distributors certainly do control is the marketing of the films that they distribute, and thus, they have the power to shape how potential audiences perceive a film even before it is released. Furthermore, if the film is financed by one of the major Hollywood studios then the way a film will be marketed is considered as soon as the project is given the 'green light' (Friedman, 2006, p. 284). At this point, executives in charge of marketing, distribution and consumer products all consider the script that is about to go into the pre-production stage to discover how the film might be positioned and what other revenue streams related to merchandising might be possible (Fellman, 2006, p. 364). Thus, as marketing is a consideration from the outset, it is not just about working out how best to promote this particular film, but about the marketing strategy reflexively shaping the product *during* production. As such, the distributor does not simply control the *ways* a film is marketed, but often they can dictate the final form of any given film whose rights have been acquired. As Janet Wasko suggests, the influence that film distributors can have on film production is extensive as 'often they are totally in control of a film, but even for other projects, they can influence script and title changes, casting decisions, final edits, marketing strategies, and financing of the film' (Wasko, 2003, p. 84). In this respect, within the Hollywood system at least, the distributor might have much more creative control over a film than audiences may imagine.

### *Global Film Distribution*

The distribution of film has long been an area of academic interest for those researching the film industry. However, work on distribution has often been hidden within larger studies of the film industry more generally. Furthermore, such industry studies have tended to focus almost exclusively on Hollywood and have been

predominantly concerned within two particular aspects of film distribution: the distribution deal and film marketing.

For instance, Janet Wasko's *How Hollywood Works* (2003) provides a detailed discussion of the process of film distribution and the types of distribution deals that are arranged in Hollywood. In the process, Wasko illustrates how 'Hollywood is dominated by a handful of companies that draw much of their power from film distribution' (2003, p. 59). Here Wasko is primarily concerned with explaining the distribution process and illustrating how creative accounting ensures that some profit participants never get paid. In doing so it is made clear that 'the distribution process is designed to benefit the distributors, but not necessarily production companies' (Wasko, 2003, p. 60). Wasko's work is invaluable for the latter part of this chapter when Hollywood's dominance through distribution is illuminated. However, her work does not examine why distribution deals are made for some films and not for others. Similarly, Allen J. Scott (2004) provides an interesting investigation into the functioning of Hollywood's distribution arm. However, he does not go any further than mapping the structure of *theatrical* distribution, a limitation he himself acknowledges when he points out that theatrical distribution is not where profits are to be made and that as far back as 2000, domestic sales and rentals of VHS brought in three times the revenue of domestic box office returns (Scott, 2004, p. 143). Thus, any consideration of theatrical distribution alone inevitably provides only a partial understanding of how formal film distribution functions.

Other work that considers distribution in detail makes an understandable pairing between distribution and marketing. For instance, in *Global Hollywood 2* (2004) Miller et al. suggest that before the 1948 Paramount Degree the whole of the film business was vertically integrated and thus single organisations could own companies dealing with all aspects of production, distribution and exhibition. However, after this ruling

'distribution became the locus of industry power, and film marketing began its inexorable move to the centre of industry activities' (Miller et al., 2001, p. 147). The authors go on to suggest that while distribution personnel are largely invisible, their activities are nonetheless extremely significant. Similarly, Tino Balio's section on film distribution within his book *Hollywood in the New Millennium* (2013) also focuses primarily on film marketing and like the aforementioned publications, his work highlights the importance of distribution within the Hollywood film industry, pointing out that it is distribution (and not production) that actually forms 'the principle business of the Hollywood majors' (Balio, 2013, p. 66). Significantly, Balio notes that within the Hollywood system marketing is a consideration *throughout* the production process and so, as has already been suggested, marketing is not something that is applied to the final film product, but is ultimately something that shapes the film during the production process (Balio, 2013, p. 70).

Again, while Balio's work gives interesting insights into how distribution works and the central place it holds within the film industry, such work sheds little light on the process of acquisition itself. It does not enlighten us regarding why certain films manage to get distribution deals and others do not. There are some non-academic publications that make inroads to this effect, but these tend to be written by single individuals within the film industry and so, while being useful and informative, there is still a lack of extensive academic research into this issue. One such non-academic publication that contains particularly detailed information on film distribution is Jason E. Squire's edited collection *The Movie Business Book* (2006) that contains chapters on both theatrical distribution by Daniel R. Fellman the president of Warner Bros. Pictures Domestic Distribution and Bob Berney the President of Newmarket Films, the distribution arm of Newmarket Capital Group. These chapters, in a similar manner to the aforementioned industry studies, tend to explain the detail of the distribution process and never examine *why* certain films are selected for release

while others are overlooked. As such I would contest that the matter of *how* films are selected for distribution has not been put under the scrutiny that other gatekeeping activities have been.<sup>1</sup>

Furthermore, previous studies of film distribution have had a perhaps understandable, but nonetheless limited, tendency to focus on how Hollywood distributes its own products. Indeed, Dina Iordanova suggests:

It is about time to acknowledge the new realities. A quarter of the world's most commercially successful films come from sources other than Hollywood; many are more profitable and bring higher per screen averages than the studio blockbusters. Not only are many more peripheral films being produced, many more of them are also seen and appreciated, due to the vitality of growing alternative channels of distribution (Iordanova, 2010, p. 24).

Thus, we must cease looking at the channels of distribution as discrete entities if we want to get a complete picture of how film circulates transnationally. Iordanova suggests that 'in most cases the focus has been on a single distribution channel that, for the purpose of convenience, is taken out of its complex context' (Iordanova, 2010, p. 25). One notable exception to this tendency is Janet Harbord's *Film Cultures* (2002). Here Harbord provides a detailed examination of the sites of distribution, exhibition, official competition and marketing, across which, she argues, the *value* of a film is created. However although Harbord avoids the pitfalls that concern Iordanova, her work does not consider those methods of dissemination that exist outside the formal and sanctioned sites of the film industry (in other words, piracy) (2002, p. 2). Work that does attempt to bridge such a boundary is the 2002 book chapter by Janet Wasko that discusses traditional distribution, piracy and new forms of digital distribution. Here Wasko makes the point that even though the technology

is changing rapidly it is still unclear what the future of digital exhibition and distribution will be (2002, p. 195). As chapter three of this very volume will attest, it would seem that well over a decade later that the situation is still somewhat uncertain.

The work of Ramon Lobato on 'subcinema' might be seen to be the most apt response to Jordanova's request thus far. According to Lobato:

Subcinema is a loose way of *conceptualizing* certain forms of film culture, which are incompatible with more familiar paradigms (Hollywood cinema, art cinema, national cinema, independent cinema etc.). It is not a bullet-proof taxonomic category, but rather an attempt to think seriously about kinds of film production and consumption, which don't show up on other maps. (2007, p. 117)

Lobato's discussion is intriguing, but as the author admits, it only breaks the surface of the area and anticipates further lines of enquiry into those channels of distribution that are critically ignored (2007, p. 119). As such, Lobato's more recent work *Shadow Economies of Cinema* (2012) pushes this project further by providing a more detailed study of film dissemination. Perhaps the most valuable contribution that this publication has made to the study of distribution is in terms of the lexicon of this particular area of interest. Lobato proposes the terms 'formal' and 'informal' when referring to a range of different dissemination practices, thus avoiding the celebratory or pejorative connotations of binary opposites like legal/illegal. Therefore, by providing new terminology and examining the range and scope of informal film distribution practices, in what Perren describes as a 'distribution-from-below' approach (Perren, 2013, p. 169), Lobato has moved this area of study away from

examining discrete channels of (primarily formal) distribution and towards an exploration of the 'complete context' of distribution that Jordanova earlier called for.

Indeed, Lobato is not alone in expanding the remit of this growing area of interest. The work of Julia Knight and Peter Thomas (2012) and Erika Balsom (2014) has done much to counter the dominance of discussions of Hollywood within the academic study of film distribution by considering the distribution and exhibition of artists' cinema. However, their work, while immensely valuable and rich, primarily focuses on the distribution of relatively specialist filmmakers. As such, there is still space for further work that explores the kinds of independent distribution that take place in the space between Hollywood blockbusters and artists' films.

The development of new technologies of dissemination has precipitated a change in the way that film distribution has been examined so that 'much of the recent discussion has been on the likely impact of new technologies on the circulation of content' (Perrin, 2013, p. 167). In this area it has been Stuart Cunningham, in his work with both Dina Jordanova (2012) and Jon Silver (2013), that has potentially made the most significant contribution to the study of how distribution is being 'disrupted' by recent developments. This work will be covered in more detail in chapter three, but at this point it is worth noting that while the traditional distribution landscape discussed within the current chapter has undoubtedly been influenced by recent technological changes, I would urge caution to those who might describe these developments as a 'revolution'. Indeed, while the media landscape is always shifting to a certain extent, there are many who wish to protect their interests by enabling the continuation of the status quo.

Furthermore, we must not get distracted by the spectacle of the 'new' and thus fall back into the trap of considering only discrete entities of media distribution. Focusing



on the digital nature of distribution can be limited because it ignores the fact that there is invariably a physical manifestation of distribution. As Perren notes, 'notwithstanding industry rhetoric about the decline of physical media (e.g., DVDs, CDs), distribution practices have substantive material consequences' (2013, p. 170) as data must be transmitted via cables or stored within vast server farms.

While the study of distribution is far from underserved, there is nonetheless a lack of communication between studies in this growing area (Crisp and Gonring, 2015; Perren, 2013, p. 165). As the above discussion attests, film distribution is receiving more academic attention in recent years but work in this area has hitherto focused on examining the structure of the industry rather than scrutinising how individuals negotiate and navigate their position within that structure. As such, the case studies of distribution practices that are presented throughout this book go some way to addressing this imbalance in the field.

However, while the focus on Hollywood within distribution studies has undoubtedly been pervasive, this is potentially an inescapable bias given the power that the major Hollywood Studios wield. As such, this sector of the film industry cannot and should not be ignored. Indeed, my suggestion is that while it has been hitherto afforded an undue emphasis, the practices of Hollywood should rightly still be part of more holistic investigations of how films circulate worldwide. This is in no small part because, arguably, the structure of Hollywood (where all aspects of film production, distribution and exhibition come under the control of a few major transnational corporations) allows them to secure and perpetuate their dominance of the global film industry (Miller et al., 2004, p. 116). The following section will discuss this structure in order to illuminate how it allows Hollywood to maintain their pre-eminence over the film industry more generally.

## *Hourglasses & Windows: How Hollywood Dominates the Film Industry*

Distributors are largely invisible to the general film going public despite the fact that they exert a powerful influence on the films that audiences actually get to see. Harold Vogel observes that 'unlike in marketing for laundry soaps or sodas or cigarettes, a distributor's brand name doesn't matter much (with the possible exception of Disney); no one goes specifically to see a film distributed by Fox instead of, say, Paramount' (2006, p. 141). That is not to say that audiences have never heard of many of the major distributors like Sony Pictures Releasing and Buena Vista International (UK distributors for Disney), but if the major Hollywood studios are renowned for anything it is as *producers* of motion pictures rather than as their distributors. However, it is actually within the distribution sector of the film industry where money is to be made and where power can be leveraged.

As Vogel has suggested

Ownership of entertainment distribution capability is like ownership of a toll road or bridge. No matter how good or bad the software product (i.e. movie, record, book, magazine, TV show, or whatever) is, it must pass over or cross through a distribution pipeline in order to reach the consumer. And like at any toll road or bridge that cannot be circumvented, the distributor is a local monopolist who can extract a relatively high fee for the use of his facility. (Vogel cited in Balio, 2013, p. 11)

Thus, I would suggest that the metaphor of an 'hourglass effect' (Deuze, 2007, p. 211) that has been used in relation to employment within the cultural industries,<sup>2</sup> might also be transposed to the nature of the Hollywood model of film distribution. That is, while a great number of film production companies exist (albeit housed within

or contracted by larger conglomerates) a small number of distributors reside at the centre of the hourglass controlling distribution to audience at the bottom of the structure. For instance, within the domestic market, usually considered to be the United States and Canada, the 'major studios completely control the theatrical distribution arena, consistently earning more than 95% of market share. In international territories, films released by the major studios control anywhere from 45% to 90% of the box office on a country-by-country basis, with an overall average of about 65%' (Blume, 2006, p. 336).

So, while previous academic studies have established that distribution is key to financial return and dominance within the film industry (Balio, 2013; Miller et al., 2004; Wasko, 2003), we must examine in more detail exactly *why* this is the case. In other words, what specific aspects of formal film distribution enable Hollywood to maintain their dominance of distribution and thus the global film industry more generally? In answer to this question it is proposed that it is the manner of the arrangement of film distribution deals, the structure of release windows, control over marketing, and protection from risk through membership of parent transnational conglomerate corporations, that combine to enable the Hollywood studios to maintain and preserve their privileged position. However, despite their power, the major studios are all too aware of the fragility of this situation and the threats posed by the new kids on the block, for instance, Netflix and Hulu (see chapter three) and the exponential growth of online film piracy (see chapter four).

### The Distribution Deal

The extent of the power that distributors have over the final film and the way that it is marketed is largely dictated by the distribution contract that is made between the producers and the distributors.<sup>3</sup> Distribution deals vary and while there are some

standardised factors, the organisation of a deal will depend on the levels of power enjoyed by the various participants, but also 'when and how a film commodity becomes associated with one of the major distributors' (Wasko, 2003, p. 86). If a deal is made at the script stage then what is referred to as a PFD (production, financing and distribution) agreement is made (Kravit, 2006, p. 199); whereas a distribution deal agreed after production is typically called a 'negative pick-up'. Significantly, Kravit suggests that distribution is the 'heart of the PFD agreement' (Kravit, 2006, p. 204) as this contract defines the allocation of gross receipts, that is, how the film's gross profits are divided amongst the interested parties. This agreement states the distributor's fee for releasing the film in various territories: typically 30% in the domestic market (Picker, 2006, p. 169), rising to 40% to 45% in overseas markets (with some exceptions, for example, the UK, where the fee is 35%, largely because subtitling and dubbing are not needed) (Kravit, 2006, p. 204). This 'fee' is the cost for the distributor's services, but the distributor then also makes charges on top of this for other associated distribution costs, for instance, prints, advertising, interest, taxes and so on. It is important to note that the distributor's fee and their costs are always charged out of the gross.

Of course, distributors are not the only players that have considerable clout within the negotiation of the distribution deal. Some above the line talent (typically well known and influential producers, directors and sometimes actors), will be able to negotiate 'gross-receipts participation deals'. In this case, the gross participants are given a percentage of the film's gross, but significantly, this is typically only *after* all the distributor's fees and costs have been paid (Garey, 2006, pp. 124–125). Thus, such gross participation deals are invariably not from the 'true' gross, but from the gross minus the distributor's fees and costs (which can be considerable). There are then various other types of participation deal and money may be received from the 'first dollar'<sup>4</sup>, after an agreed figure has been reached, or when 'a multiple of the negative

cost is reached' (Picker, 2006, p. 170). As such the term 'gross participation' can be misleading because when the 'gross' is reached is not fixed but is subject to complex negotiations between distributors, exhibitors and profit participants.

However, the major Hollywood studios do not finance all of the films produced each year and so the distribution arms of the major studios also often distribute films they did not finance. If the distributors wish to acquire the distribution rights to a film then they might be willing to pay the negative cost (or more) to secure such rights. If the producer does not need to cover the negative costs (because they have secured, for example, foreign pre-sales) then they can engage in the 'rent-a-system' approach, in other words they can 'hire the studio as a pure distributor on a reduced distribution fee basis' (Garey, 2006, p. 125). As a filmmaker it is ultimately better financially to raise your own production financing because if you do not ask the studio to take on any risk then you are able to negotiate a more favourable distribution deal (Garey, 2006, p. 125) – not to mention the fact that you will have retained creative control of the project. Ideally such deals would also include a 'guarantee' from the studio towards prints and advertising. Such a 'guarantee is very important because the commitment of exploitation money frequently indicates the seriousness of the distributor's intent. Even the best film is not going to be successful if it's advertised poorly or inadequately promoted' (Garey, 2006, p. 124). However, of course, if a filmmaker raises their own finances they may be able to negotiate a better financial deal but there is no guarantee that they will be able to make a deal at all and so while a potentially lucrative strategy, the filmmaker in this instance is shouldering much more risk than the distributor.

Returning to PFD deals, it is through such arrangements, where, according to Miller et.al., there are assurances that one third of production costs will be returned no matter how well the film actually performs at the box office (2004, p. 296), that the

distributor's investment is always protected. This is achieved through the levying of a range of fees, fronting the costs of particular activities and then charging interest on those upfront costs. The distribution fee covers the fixed costs for the distribution (for example, staff, offices and so on) and 'the fee is charged for the distributor's efforts in soliciting play dates, booking the picture, and collecting rentals' (Wasko, 2003, p. 92). In effect this seems to be the fee for the distributor's services and these are 'paid before any distribution expenses, production costs, or other charges, and before most profit participants' (Wasko, 2003, p. 92). Thus, by assuring that their own charges and costs are recouped first, the distributor can make sure that they are always paid before any of the other parties involved.

Once the distributor's fees and costs have been paid, and all the gross participants have received their share, the remainder is often called the 'net producer's share'. However, with PFD deals, this amount has to be used to repay the loan that funded the film in the first place. Often provided by the distributor, such a loan will incur both a fee and interest. Once such loans and interest have been repaid (typically to the distributor), then profits are split between the distributor and producer. The division of such funds can provide as much as a 50/50 split for the producer but it is more usual for 80/20 division of these monies in the distributor's favour.

Furthermore, the distributor also receives a particularly high share of home video revenues because distribution contracts are drawn up to ensure that shares returned to the profit participants from this lucrative ancillary markets are artificially low. Thus, 'worldwide home video represents the largest difference between the studio's profit and the amount reported to the talent participants in the film' (Blume, 2006, p. 341). This arrangement is a hangover from the early days of home video when the major studios were only 'dipping their toe' in the water of this new venture and so wanted to mitigate the risks that they might face. Thus, 'the initial royalty rate set by distributors

for titles priced for the rental market was 20% of the gross sales, leaving the distributor with 80% of gross sales to cover their costs and earn a profit' (Blume, 2006, p. 340). Such a system enabled the major distributors to move into home video whilst being sure they could cover the expensive costs associated with VHS production and distribution in the early days of this format. However, as costs decreased and thus profits increased, the share that went back to the profit participants did not rise to reflect this change (Blume, 2006, p. 340).

Furthermore, not only do distribution deals ensure that the distributor gets paid, recoups their costs (with interest) and pays as little as possible to profit participants, the agreement also ensures that it is the distribution company that owns the intellectual property rights to the film. Indeed, each distribution deal contains:

relatively standard provisions covering the ownership of the picture, the right of the financing entity to copyright it, the right to distribute the picture in all media worldwide (including the Internet), the right to settle or file lawsuits and the right to settle with exhibitors and other licensees. This group of provisions is intended to state that the financing studio, not the filmmakers, is the owner of the picture, although the filmmakers are entitled to certain financial interests.' (Kravit, 2006, pp. 205–206)

Despite the fact that the public tend to view people like directors, producers, musicians, writers and other 'creative' individuals as authors of their works, it is invariably the publisher or distributor who actually owns the intellectual property and thus has the capacity to decide how, when (and indeed whether) media content is released. While audiences might associate movie stars or directors with particular films, those individuals invariably have few (if any) intellectual property rights pertaining to that film. Indeed, it is not uncommon for the rights to entire film

catalogues to be purchased wholesale and completely detached from the original filmmakers. As Picker identifies, 'the library of United Artists pictures from the late fifties to the early seventies...is not longer related to anyone who had any involvement in making those movies; it's in the hands of money people who paid for the rights to that library' (2006, p. 173). Indeed, while in everyday discussions of copyright we might perceive ownership and authorship to be synonymous, in reality, intellectual property rights are about the ability to exploit something for profit and not about designating the legal 'author' of a work. Thus, by making sure that it is the distributors (and not the filmmakers) who maintain those rights, the distributors perpetuate the situation whereby control over distribution is at the heart of profit-making within the film industry.

#### Marketing, Release Strategies and Windows

As has been established, the distribution deal and IP agreements give the 'distributor the right to decide how, where and when [a] film is distributed, how it is advertised, promoted etc.' (Wasko, 2003, p. 86). So, the PFD agreement will commonly stipulate that the distributor also has the right to market the film in any way they see fit and that they get to decide on the manner of the film's release strategy. There is often an obligation in the agreement to consult with the producer and director (and sometimes the stars) on these matters but it is the distribution company that has ultimate control over the marketing, advertising and release strategy of any film they acquire for distribution.

Until quite recently motion pictures were released sequentially on different platforms and adhered to a rather rigid release schedule. Typically a film was released theatrically first before becoming available sequentially on cable pay-per-view (PPV), VHS/DVD/Blu-ray, premium television and terrestrial television. Again, it is the



distribution deal that stipulates the length of release windows in different media though 'holdbacks', that is contractual agreements that 'prevent release in subsequent media' until a certain amount of time has passed (Blume, 2006, p. 334). Thus, while different mediums have their own position within the windowed system, the length of time that a film will spend within each window can vary considerably. The release window system was created by the film industry to ensure that the maximum amount of profit can be made on each platform 'with a minimum of cannibalisation from one market to the next' (Blume, 2006, p. 334). While, the time scales of these windows have reduced over recent years, the theatrical release of a film (however brief) has traditionally been the first opportunity for audiences to see a film.<sup>5</sup>

A number of release tactics are employed for different films in different territories to enable particular films to achieve maximum financial returns but there are broadly three strategies for the theatrical release of feature films. The most common strategy is a 'wide' release pattern where a film opens simultaneously on 700-3,000+ theatres. Such a strategy is, according to Fellman, the president of Warner Bros. Pictures Domestic Distribution, necessary because the high costs of producing and marketing a film almost always require a wide release to maximise the return' (2006, p. 366). Obviously, such a strategy is not suitable for all films, and certainly is not employed by distributors that do not have the marketing budgets of a company like Warner Bros. In such instances a 'limited' release (in 50-700 theatres) might be more appropriate. This type of release allows films to be targeted at specific niche audiences. If there is some concern about whether a film might find an audience, or if a theatrical release is necessary to enable other promotional activities to kick in (for example reviews in newspapers and magazines), then an 'exclusive' or 'platform' release might be an alternative release strategy. In this instance a film is released in maybe just one or two theatres in major cities and then the film is booked into more

cinemas (or not) based on the initial performance in its exclusive run. In recent years films have also enjoyed releases simultaneously on multiple platforms and this is also something that seems (at present) to be confined to films that are released according to a 'limited' or 'exclusive' strategy.

It must be acknowledge that while theatrical is the *first* of the release windows it is 'not necessarily the most lucrative' (Squire, 2006, p. 3). Indeed, the point when the theatrical market ceased being the major bread winner, was, according in Squire, marked in '2000 when universal's hit *The Mummy* grossed more in its first week of US home-video release than in its first week in theatrical' (2006, p. 8). Assuming a film's release adheres to the typical sequential windowed release strategy outlined above, the next state after theatrical release in cinemas is retail/rental home video. While the term 'home video' might seem anachronistic in some senses, it is also a useful term to encapsulate the release of films into the home market on a variety of constantly changing formats, from VHS to DVD to BluRay. While Hollywood's initial resistance to home video has become almost legendary, it has long been acknowledged that far from killing the film industry, the home video market ushered in a new era of prosperity for Hollywood and now home video can represent 'the largest single source of worldwide revenue' (Blume, 2006, p. 334).

As films make more money in the 'home video' window than they do at the box office, one might enquire why it is necessary to release films in cinemas at all. However, the answer to this question (at least for the time being) is that the theatrical release serves the important function of setting 'the value for the markets that follow' (Wasko, 2003, p. 88). According to Blume, at present, the theatrical release remains 'the key to the profitability of a feature film' more generally as 'a successful theatrical box office performance will help define and increase the value of later revenue streams such as home video and pay and free television, as well as consumer-product

opportunities generated from merchandising and licensing of the characters and their likenesses' (2006, p. 335). Thus, even if theatrical is not the most directly lucrative of markets, releasing a film in this manner first attaches a certain prestige to a film and serves to raise its profile so that it can keep generating profit within all of the subsequent windows. Without a theatrical release and the marketing potential and promotional hype that accompanies this, the assumption is that a film would not go on to make as much profit within the subsequent release windows because the film's reputation would not have first been established in the legitimised theatrical realm.

For instance, according to Blume, 'pay television revenue for a film is directly related to its box office performance' (2006, p. 342). Back in 2006, the pay-TV window might begin up to eight months after a film's theatrical release (Blume, 2006, p. 341) however this window has again significantly reduced in recent years. For instance, the time it takes for a film to come out on DVD in the UK has reduced from an average of 27 weeks in 1999 to an average of 17 weeks in 2012 (The Cinema Exhibitor's Association, 2012). It is further important to note that films are 'licensed to television and cable channels, not sold' (Fellman, 2006, p. 368) and so the distributors retain the rights to films throughout all of the release windows. For these revenues, the distributor would license a third party to negotiate with the cable operator. In this instance too, the distributor would see most of the profits a typical split being 10% to the 3<sup>rd</sup> party, 45% to cable operator and 45% to the distributor. Thus, alongside the PFD agreement, subsequent contracts that allow the distributor to exploit their intellectual property rights in different markets are drawn up so as to provide maximum returns for the distributor.

### Marketing and Conglomeration

Along with the nature of contractual distribution agreements, the fact that film distributors are in charge of the marketing of films enables them to perpetuate their significant position of influence. Control over marketing allows Hollywood to maintain their dominance for two central reasons: first, the significant amount of capital that they can invest into marketing means that Hollywood's films are promoted widely; secondly as the costs of production rise, generally only films with extensive marketing budgets are able to generate enough 'buzz' to receive significant box office returns. Because of the nature of the typical distribution deal, 'the average film has to generate a vast amount [of money] just to break even' (Dekom, 2006, p. 101). So, because so many people have to be paid before a film can be said to be in profit, films have to reach as wide an audience as possible in order to maximise the film's profit potential. Consequently, there has been a rise in blockbusters and a veritable arms race in terms of film budgets to secure those sought after box office revenues. As such, the majors have created a system whereby they are the only ones who have the financial liquidity to 'finance and market motion pictures worldwide on their own and on a consistent basis' (Balio, 2013, p. 87). Thus, increasing amounts of capital are required to achieve returns in a famously risky business.

One way that the majors protect themselves from the financial risks inherent in the film business is by being part of larger multimedia conglomerates. The ownership of such companies is subject to change but just as an illustration of the levels of convergence that has taken place in this sector in recent years: as of 2011 Paramount was a subsidiary of Viacom Incorporated, Columbia of Sony Pictures Entertainment, 20<sup>th</sup> Century Fox of News Corporation, Universal of Vivendi, and Warner Bros. of the Time Warner AOL company. The major Hollywood studios oversee their films through pre-production, production, distribution, and exhibition before finally generating profits in a multitude of ancillary markets (Doyle, 2013, p. 108). This, the media economist Gillian Doyle suggests, is one of the major reasons

that independent filmmakers have trouble getting their films exhibited at all (2013, p. 113). The status of the majors as one of many interests of multinational corporations, and their control over product from conception to consumption, allows them to absorb some of the high levels of risk that are said to accompany film production and distribution. Hollywood has the ability to bankroll large productions regardless of whether they will be a success, safe in the knowledge that one blockbuster will make up for the losses of multiple films (Doyle, 2013, p. 108).

Thus, there are a number of reasons that the Hollywood distributors are able to maintain their dominance. As powerful, financially secure members of large multinational conglomerates, these companies are able to agree distribution deals that favour themselves above all other parties. These deals ensure that the distributor's costs and fees (often with interest) are returned regardless of box office success. Furthermore, these arrangements stipulate that it is the distributors who own the intellectual property rights for all of the films that they distribute. They are also granted rights to market films in whichever way they see fit and release films using whatever strategy they choose. As production budgets continue to rise, marketing budgets race to keep up and films are released on as many screens as possible simultaneously. As such release strategies become commonplace, only companies with significant levels of financial capital and the security of parent companies with diversified interests can compete as global film distributors.

### *Conclusion*

This chapter has outlined the traditional model of Hollywood film distribution in order to illustrate how this structure has enabled Hollywood to ensure that studio-distributed films are the most widely seen and the most profitable, both in the domestic market and globally. Financial risk is managed through arranging PFD

deals that ensure that the distributor gets paid before the other profit-participants and, furthermore, this contract ensures that it is the distributor who retains intellectual property over the film and associated merchandising rights; a strategy that further ensures that the distributor is the main financial beneficiary of all profits. As the Hollywood studios are also part of larger transnational conglomerates, they have the financial clout to release and market films widely and expensively, relying on an economy of scale to mitigate against the increased risks this can bring. By retaining control over marketing and copyright and by making contractual arrangements that guarantee that the distributors costs are returned regardless of whether a film turns a profit or not, the Hollywood distribution structure ensures that the film distributor is remarkably influential and also protected from the vicissitudes of the market.