Press Release

Digitisation of cinemas leads to wider choice for the audience

Amsterdam, 15 May 2014

Since 2012, all cinemas in the Netherlands are digitised. The switch from 35mm to digital cinema - a switch that has been invisible to the public - has had a major impact on the operations and management of cinemas and film distributors. On behalf of EYE, and in cooperation with the Dutch Exhibitors Association (Nederlandse Vereniging van Bioscoopexploitanten, NVB) and the Dutch Distributors Association (Nederlandse Vereniging van Filmdistributeurs, NVF), the Netherlands Film Research Foundation has examined the effects of digitisation on the market. The study is a follow-up on the baseline survey that was conducted by the Netherlands Film Research Foundation 2 years ago.

The Film Research Foundation has found that digitisation has led to a larger number of screenings per screen (+16 %). This applies to all types of cinemas, from small art house cinemas to large cinema groups. Many cinemas have extended their opening hours in recent years. This offers movie-goers a wider choice of films at any given time. Digital cinema has been able to facilitate this increase as digitisation is allowing more programming flexibility, both in terms of logistics and finances.

Another significant effect of digitisation is the increase in the number of prints in which a film is released. In particular, independent distributors are releasing more prints when they premier their films, because the economies of scale weigh heavier for them than for major distributors. This means that Dutch and European films – which are mainly released by independent distributors – have premiered with considerably more prints since the digitisation. In addition to more prints, more film titles have been released as well. More screenings, more titles and more prints lead to a wider choice for the audience.

In general, however, digitisation has not had significant effects on the operations of the film industry. This is mainly due to the financing system that has had digitisation made possible: the Virtual Print Fee (VPF). According to the interviewed representatives of the industry, the future remains very uncertain. What will happen when the VPF no longer governs the release and programming strategies of distributors and exhibitors? It is feared that the diversity of films offered will then come under greater pressure.

For further information on the report by the Netherlands Film Research Foundation (*Stichting Filmonderzoek*), contact info@filmonderzoek.nl. A management summary is available in English: www.filmonderzoek.nl/english/digital-cinema-research.

Note to editors:

See attachment for an English management summary. For more information, please contact Jorien Scholtens (researcher for the Netherlands Film Research Foundation): jorien@filmonderzoek.nl or +31 (0)20-4266119

Management summary Follow-up Study Digital Cinema

The effects of the digitisation of the Dutch distribution and exhibition networks

The *Follow-up Study Digital Cinema* maps the current effects of the digitisation of the Dutch distribution and exhibition networks. The study is a follow-up on the report from 2012 by the Netherlands Film Research Foundation (Stichting Filmonderzoek), which served as a baseline. Both the release and programming strategies and the logistical and technical management were again examined closely. Through an analysis of data from the years 2010 through 2013, trends and developments were identified using key indicators such as the number of prints in which a film is released and the number of screenings and premiers per cinema. In addition to this data analysis, interviews were conducted with 10 representatives of the industry, in which these representatives were asked about their experiences with digitisation.

The study was carried out by the Netherlands Film Research Foundation on behalf of EYE in cooperation with the Dutch Exhibitors Association (Nederlandse Vereniging van Bioscoopexploitanten, NVB) and the Dutch Distributors Association (Nederlandse Vereniging van Filmdistributeurs, NVF).

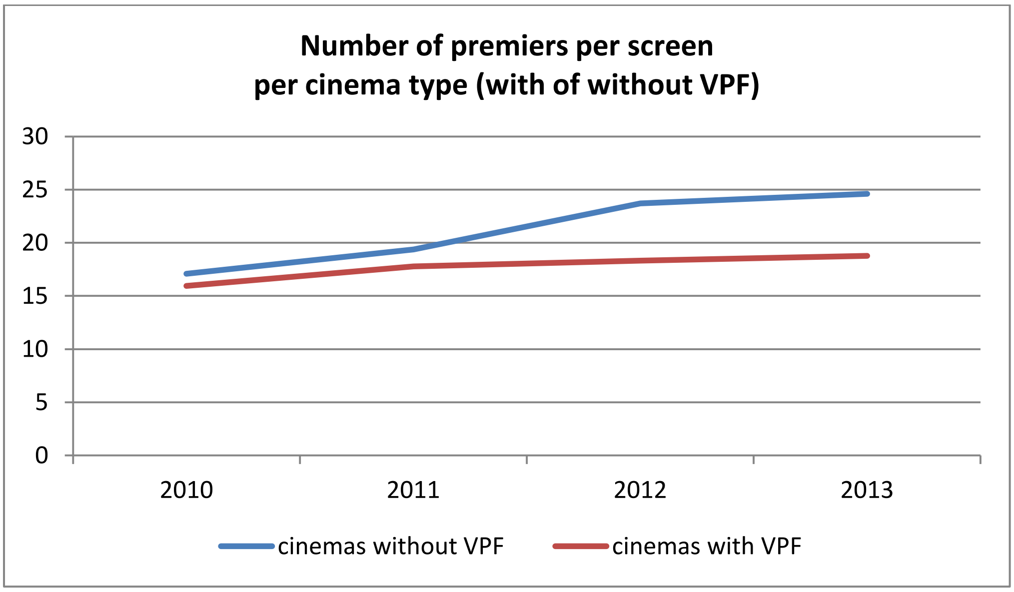
In 2013 the Netherlands had 30 million cinema admissions and a box-office of 249 million Euros. This is a moderate growth (+1,8%) after strongly increased admissions in 2011. The market share of national films is 21% en the Netherlands had 1,8 admissions per capita. The number of Dutch cinema screens has increased since 2010 with 6%. The Netherlands has been 100% digitised since 2012.

VPF maintains the system that was in place prior to digitisation

The study shows that digitisation has not yet had significant effects on release and programming strategies. The conclusion may be drawn that, until now, release and programming patterns are more affected by the type, number and quality of film offerings than by digitisation. The VPF system – (Virtual Print Fee) a system in which the distributor pays a fee per print to contribute to the purchase of digital equipment – can be considered the cause of this, since it raises impediments similar to those of the 35mm era.

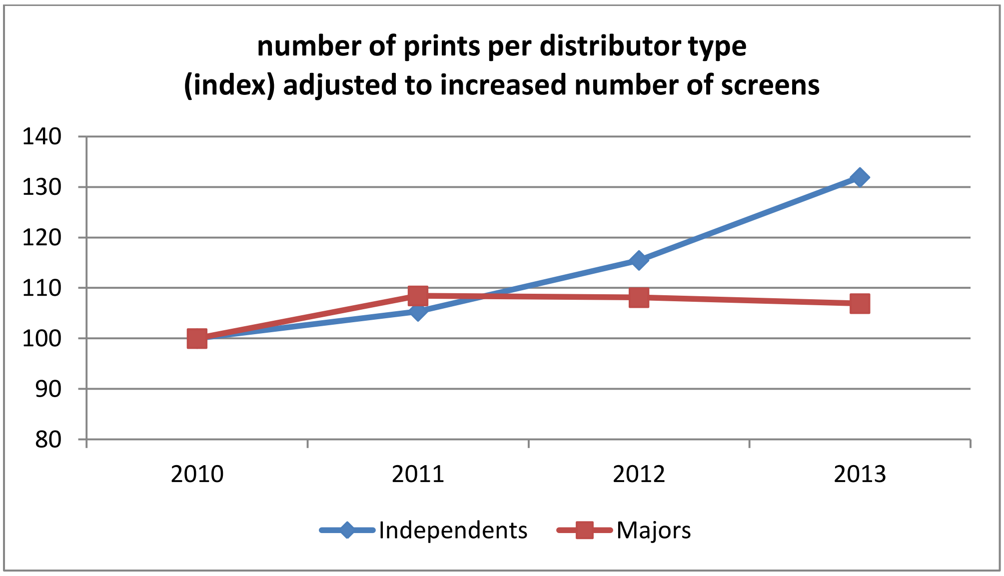
VPF-free cinemas had more premieres; the number of second-run theatres has stayed the same

The impediments caused by the VPF primarily affected the set number of premieres. It was expected that second-run theatres could show premiere screenings. This is not the case. Furthermore, cinemas at which distributors do not need to pay a VPF were able to have more premiere screenings. However, the number of weeks between national and local premieres in second-run theatres declined.



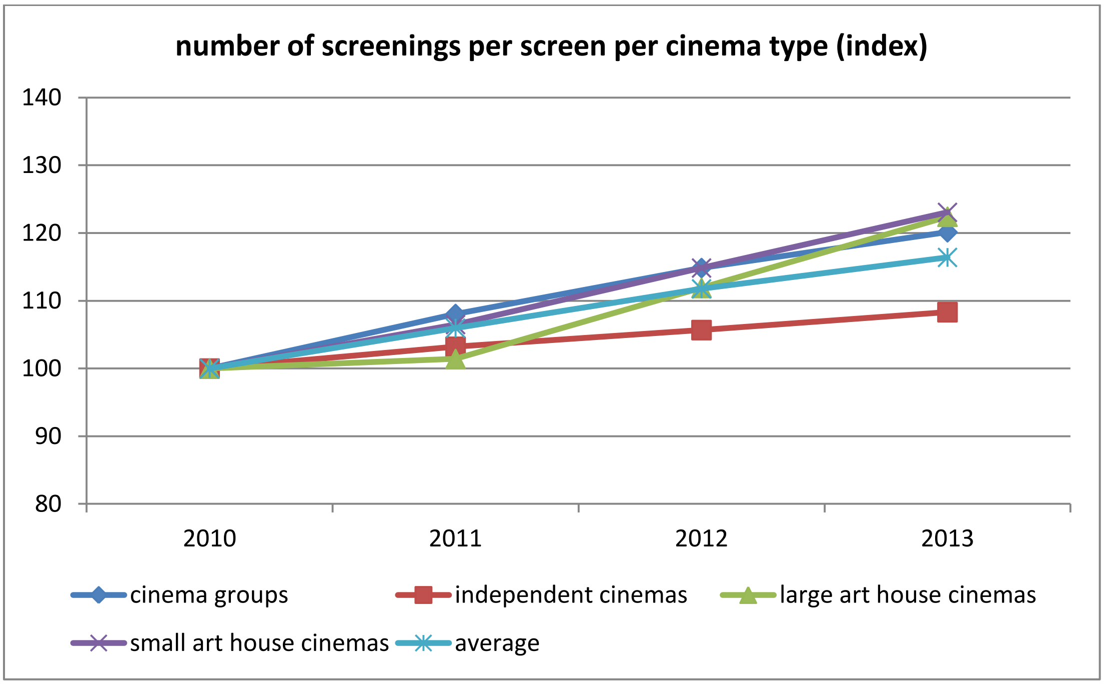
Independent distributors have released more prints on the market, while the number of prints from major distributors has remained the same

The number of prints has increased (+12%). In 2013, in particular, titles premiered with more prints than before. The increase is due primarily to independent distributors releasing more prints. This is also reflected in the strong increase in number of prints with regard to larger Dutch releases, European films and films from other countries outside the United States. Independent distributors release more prints because the cost advantage of doing so weighs heavier for them than for major distributors.



Growing number of screenings at all types of cinemas

Another noticeable change is the increase in the number of screenings at all types of cinemas and in all regions (+16%). In cinemas and art house cinemas especially, this is a direct effect of digitisation, as the number of screenings increased sharply once the digitisation had taken place.



Increase in diversity of offerings

The number of new film titles has increased since 2010. Digitisation has facilitated this increase. Cinemas have started to screen a larger number of titles, while large art house cinemas have been able to have more premiere screenings. The number of screenings per title has not increased, i.e. more screenings are taking place of different titles. The diversity of the films offered has thus increased.

Qualitative diversity not under pressure from digitisation

While diversity has increased with regard to quantity, qualitative diversity has come under pressure, particularly within the arthouse segment. This is not a direct effect of digitisation, but is due rather to the financial crisis, spending cuts and higher overhead costs as a result of the professionalization of art house cinemas. As a consequence, distributors and cinemas are opting for “safe choices”, thus commercialising the offerings. Currently, this is not yet evident, but as soon as the VPF system has ended, the interviewees expect smaller and more artistic releases to come under greater pressure.

Digitisation facilitates new strategies of which art house cinemas and small releases could benefit

Digitisation creates flexible programming as it lowers financial and logistical barriers. This prevents titles from having to be screened at a fixed time of the day. Furthermore, it makes it easier to use additional prints, given the increase in the total number of prints. Experience has shown that this offers more freedom to art house cinemas in particular and results in a better audience reach. In addition, shared sprints, joint bookings and initiatives such as one-time premieres at second-run theatres, for example, offer various possibilities to counter the impoverishment of the offerings.

Management: more knowledge sharing and automation can reduce workload

Both the results from the data analysis and the interviews show that the VPF as yet maintains the way in which distributors and exhibitors determine their strategies. Business models remain the same and negotiations have not changed. On the other hand, the logistical implementation of the distribution of prints has changed dramatically, resulting in an increase in flexibility, but also often in a higher workload. Automating the generation of distribution keys (KDM) and a database for registration numbers of the new equipment would resolve this. Such applications are currently being tested. More knowledge should also be shared among exhibitors about technical malfunctions and the deployment of technical personnel, as experiences differ significantly between cinemas.

Uncertainties after recoupment and the expiry of the life span of equipment

One point of concern is the fear of distributors that increasing numbers of prints and titles can lead to oversupply and a higher intensity of screen use. All interviewees expect that the market will change significantly once the VPF system has ended, because there will be fewer financial restrictions on the number of prints. This may have a positive effect - greater freedom with regard to programming, more premieres - or a negative effect – increasing fight for screen time for small releases and less diversity in small cinemas. In general, there are almost no well-defined ideas regarding the end of the warranty period and life span of the new equipment. There is still a lot of uncertainty in this respect. More insight can be obtained through continued monitoring of trends and developments, and through more extensive research into future scenarios in response to digitisation.